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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)

**REVISION OF CAP FOR CONTINUING CONNECTED TRANSACTIONS UNDER THE
CURRENT TRANSPORTATION SERVICE FRAMEWORK AGREEMENT
REVISION OF CAP FOR CONTINUING CONNECTED TRANSACTIONS UNDER THE
CURRENT MUTUAL COAL SUPPLY AGREEMENT
ENTERING INTO MUTUAL COAL SUPPLY AGREEMENT
ENTERING INTO MUTUAL SUPPLIES AND SERVICES AGREEMENT
ENTERING INTO CHINA DATANG COAL SUPPLY FRAMEWORK AGREEMENT
ENTERING INTO TIANJIN JINNENG COAL SUPPLY FRAMEWORK AGREEMENT
ENTERING INTO JIANGSU GUOXIN COAL SUPPLY FRAMEWORK AGREEMENT
ENTERING INTO TRANSPORTATION SERVICE FRAMEWORK AGREEMENT
ENTERING INTO SHAANXI COAL TRANSPORTATION COAL SUPPLY FRAMEWORK
AGREEMENT
AND
PROPOSAL FOR GENERAL MANDATE TO REPURCHASE A SHARES AND H SHARES**

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



A letter from the Board is set out on pages 6 to 46 of this Circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on page 47 of this circular. A letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 49 to 75 of this circular.

Notices convening the AGM and the H Shareholders' Class Meeting, together with reply slips and forms of proxy for use at the said meetings, will be despatched by the Company to the Shareholders as soon as practicable in accordance with the Hong Kong Listing Rules.

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DEFINITIONS

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

“A Share(s)”	the domestic shares issued by the Company to domestic investors denominated in RMB and which are listed on the Shanghai Stock Exchange;
“A Share Repurchase Mandate”	the general mandate to exercise the power of the Company to repurchase A Shares not exceeding 10% of the number of A Shares in issue as at the date of passing the proposed resolution(s) approving the A Share Repurchase Mandate at the AGM, the A Shareholders’ Class Meeting and the H Shareholders’ Class Meeting, details of which are set out in the notice of the AGM and the notice of the H Shareholders’ Class Meeting;
“A Shareholder(s)”	holders of A Share(s);
“A Shareholders’ Class Meeting”	the class meeting of the A Shareholders to be convened and held by the Company;
“AGM”	the annual general meeting of the Company to be convened and held by the Company;
“Articles of Association”	the articles of association of the Company, as amended, modified or otherwise supplemented from time to time;
“associate”	has the meaning ascribed thereto under the Hong Kong Listing Rules;
“Board”	the board of Directors;
“Chenjiagang Power”	Jiangsu Guohua Chenjiagang Power Co., Ltd (江蘇國華陳家港發電有限責任公司), a limited liability company established by the Company and Jiangsu Guoxin in the PRC and a subsidiary of the Company;
“China Datang”	China Datang Corporation (中國大唐集團公司), a solely state-owned corporation established in the PRC;
“China Datang Coal Supply Framework Agreement”	the China Datang Coal Supply Framework Agreement dated 12 March 2010 entered into between the Company and China Datang;
“China Datang Group”	China Datang, its subsidiaries and associates;
“Company”	China Shenhua Energy Company Limited (中國神華能源股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, the H shares of which are listed on the Hong Kong Stock Exchange;

DEFINITIONS

“Company Law”	the Company Law of the People’s Republic of China;
“CSRC”	China Securities Regulatory Commission;
“Current China Datang Coal Supply Framework Agreement”	the Coal Supply Framework Agreement dated 25 September 2007 entered into between the Company and China Datang;
“Current Tianjin Jinneng Coal Supply Framework Agreement”	the Coal Supply Framework Agreement dated 20 September 2007 entered into between the Company and Tianjin Jinneng;
“Current Jiangsu Guoxin Coal Supply Framework Agreement”	the Coal Supply Framework Agreement dated 21 August 2007 entered into between the Company and Jiangsu Guoxin;
“Current Mutual Coal Supply Agreement”	the Mutual Coal Supply Agreement dated 23 March 2007 entered into between the Company and Shenhua Group Co;
“Current Mutual Supplies and Services Agreement”	the Mutual Supplies and Services Agreement dated 23 March 2007 entered into between the Company and Shenhua Group Co;
“Current Shaanxi Coal Transportation Coal Supply Framework Agreement”	the Coal Supply Framework Agreement dated 27 March 2009 entered into between the Company and Shaanxi Coal Transportation;
“Current Transportation Service Framework Agreement”	the Transportation Service Framework Agreement dated 18 December 2009 entered into between the Company and Taiyuan Railway Bureau;
“Dingzhou Power”	Hebei Guohua Dingzhou Power Co., Ltd (河北國華定洲發電有限責任公司), a limited liability company established by the Company, Hebei Provincial Construction Investment Corporation and Datang Hebei Power Generation Co., Ltd in the PRC;
“Director(s)”	the director(s) of the Company;
“Fugu Energy”	Shan Meihua Group Fugu Energy Investment Co Ltd (陝煤化集團府谷能源投資有限公司), a limited liability company incorporated in the PRC;
“Group”	the Company and its subsidiaries;
“H Share(s)”	the overseas-listed foreign invested share(s) in the Company’s share capital, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange;

DEFINITIONS

“H Share Repurchase Mandate”	the general mandate to exercise the power of the Company to repurchase H Shares not exceeding 10% of the number of H Shares in issue as at the date of passing the proposed resolution(s) approving the H Share Repurchase Mandate at the AGM, the A Shareholders’ Class Meeting and the H Shareholders’ Class Meeting, details of which are set out in the notice of the AGM and the notice of the H Shareholders’ Class Meeting;
“H Shareholder(s)”	holders of H Share(s);
“H Shareholders’ Class Meeting”	the class meeting of the H Shareholders to be convened and held by the Company;
“Hebei Datang”	Datang Hebei Power Generation Co., Ltd (大唐河北發電有限公司), a limited liability company established by China Datang in the PRC;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited;
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Independent Board Committee”	an independent board committee of the Board comprising all the independent non-executive Directors;
“Independent Financial Adviser”	China Merchants Securities (HK) Co., Limited, a corporation licensed to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders;
“Independent Shareholders”	Shareholders who are not required to abstain from voting on the relevant resolution(s) to be proposed at the AGM under the Hong Kong Listing Rules;
“Jiangsu Guoxin”	Jiangsu Guoxin Asset Management Group Company Limited (江蘇省國信資產管理集團有限責任公司), a company incorporated in the PRC with limited liability;
“Jiangsu Guoxin Coal Supply Framework Agreement”	the Coal Supply Framework Agreement dated 12 March 2010 entered into between the Company and Jiangsu Guoxin;

DEFINITIONS

“Jiangsu Guoxin Group”	Jiangsu Guoxin, its subsidiaries and associates;
“Latest Practicable Date”	30 March 2010, being the latest practicable date prior to the issuance of this circular for ascertaining certain information contained herein;
“Mandatory Provisions”	the Mandatory Provisions for the Articles of Association of Companies Seeking a Listing outside the PRC;
“Mutual Coal Supply Agreement”	the Mutual Coal Supply Agreement dated 12 March 2010 entered into between the Company and Shenhua Group Co;
“Mutual Supplies and Services Agreement”	the Mutual Supplies and Services Agreement dated 12 March 2010 entered into between the Company and Shenhua Group Co;
“PRC”	the People’s Republic of China;
“Prospectus”	prospectus of the Company dated 2 June 2005 published by the Company, in accordance with the Hong Kong Listing Rules, at the time of its listing;
“RMB”	Renminbi, the lawful currency of the PRC;
“SAFE”	State Administration of Foreign Exchange of the PRC;
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time;
“Shaanxi Coal”	Shaanxi Coal Chemical Group Co Ltd (陝西煤業化工集團有限責任公司), a limited liability company incorporated in the PRC;
“Shaanxi Coal Transportation”	Shaanxi Province Coal Transportation and Sales (Group) Co Ltd (陝西省煤炭運銷(集團)有限責任公司), a limited liability company incorporated in the PRC;
“Shaanxi Coal Transportation Coal Supply Framework Agreement”	the Coal Supply Framework Agreement dated 12 March 2010 entered into between the Company and Shaanxi Coal Transportation;
“Shaanxi Coal Transportation Group”	Shaanxi Coal Transportation and its subsidiaries;
“Shanghai Listing Rules”	the listing rules of the Shanghai Stock Exchange;
“Share(s)”	ordinary share(s) of RMB1.00 each in the share capital of the Company including A Share(s) and H Share(s);
“Shareholder(s)”	the shareholder(s) of the Company including A Shareholder(s) and H Shareholder(s);

DEFINITIONS

“Shenhua Group”	collectively, Shenhua Group Co and its subsidiaries (excluding the Group);
“Shenhua Group Co”	Shenhua Group Corporation Limited (神華集團有限責任公司), the controlling shareholder of the Company as defined under the Hong Kong Listing Rules;
“Shuohuang Railway”	Shuohuang Railway Development Co Ltd (朔黃鐵路發展有限責任公司), a company incorporated in the PRC with limited liability and a subsidiary of the Company;
“Taiyuan Railway Bureau”	Taiyuan Railway Bureau (太原鐵路局), a company incorporated in the PRC with limited liability;
“Taiyuan Railway Bureau Group”	Taiyuan Railway Bureau and its subsidiaries;
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers and Share Repurchases;
“Tianjin Jinneng”	Tianjin Jinneng Investment Company (天津市津能投資公司), a state-owned corporation established in the PRC;
“Tianjin Jinneng Group”	Tianjin Jinneng, its subsidiaries and associates;
“Tianjin Jinneng Coal Supply Framework Agreement”	the Coal Supply Framework Agreement dated 12 March 2010 entered into between the Company and Tianjin Jinneng;
“Transportation Service Framework Agreement”	the Transportation Service Framework Agreement dated 12 March 2010 entered into between the Company and Taiyuan Railway Bureau;
“Yulin Shenhua”	Yulin Shenhua Energy Co Ltd (榆林神華能源有限責任公司) a limited liability company incorporated in the PRC and a subsidiary of the Company.

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:

Zhang Xiwu

Ling Wen

Non-executive Directors:

Zhang Yuzhuo

Han Jianguo

Independent Non-executive Directors:

Huang Yicheng

Anthony Francis Neoh

Gong Huazhang

Registered Office:

Shenhua Tower

22 Andingmen Xibinhe Road

Dongcheng District

Beijing, PRC

1 April 2010

To the Shareholders

Dear Sir or Madam,

**REVISION OF CAP FOR CONTINUING CONNECTED TRANSACTIONS UNDER THE
CURRENT TRANSPORTATION SERVICE FRAMEWORK AGREEMENT
REVISION OF CAP FOR CONTINUING CONNECTED TRANSACTIONS UNDER
THE CURRENT MUTUAL COAL SUPPLY AGREEMENT
ENTERING INTO MUTUAL COAL SUPPLY AGREEMENT
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ENTERING INTO TRANSPORTATION SERVICE FRAMEWORK AGREEMENT
ENTERING INTO SHAANXI COAL TRANSPORTATION COAL SUPPLY FRAMEWORK
AGREEMENT
AND
PROPOSAL FOR GENERAL MANDATE TO REPURCHASE A SHARES AND H SHARES**

INTRODUCTION

Reference is made to the announcements made by the Company on 12 March 2010 on the proposed revision of annual caps for certain existing continuing connected transactions and on entering into agreements for new continuing connected transactions.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with (1) further information in relation to the proposed revision of annual caps for certain existing continuing connected transactions and further information in relation to the new continuing connected transactions, the recommendation from the Independent Board Committee and the recommendation from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, and (2) information in relation to the proposed general mandate to repurchase A Shares and H Shares.

REVISION OF CAP FOR CONTINUING CONNECTED TRANSACTIONS UNDER THE CURRENT TRANSPORTATION SERVICE FRAMEWORK AGREEMENT

As disclosed in the announcement dated 18 December 2009 of the Company, the Company has entered into the Current Transportation Service Framework Agreement with Taiyuan Railway Bureau. In accordance with the Hong Kong Listing Rules, the Company has been monitoring all of its transactions carried out pursuant to the Transportation Service Framework Agreement.

With the continued development of the Group, and based on estimates of demand and operating conditions, the Directors expect that the existing annual cap of the Current Transportation Service Framework Agreement will not be sufficient for the Group's requirements.

The Directors therefore propose that the existing annual cap in respect of the provision of railway transportation and related services by the Taiyuan Railway Bureau Group to the Group under the Current Transportation Service Framework Agreement be revised for the year ending 31 December 2010.

The Current Transportation Service Framework Agreement

Date

18 December 2009

Parties

The Company and Taiyuan Railway Bureau

Continuing transaction

Pursuant to the Current Transportation Service Framework Agreement, the Taiyuan Railway Bureau Group has agreed to provide railway transportation and related services to the Group subject to the terms and conditions therein.

LETTER FROM THE BOARD

Term and termination

The Current Transportation Service Framework Agreement is effective from 18 December 2009 and will end on 31 December 2010.

Price Determination

Pursuant to the Current Transportation Service Framework Agreement, transportation fee payable by the Group shall be determined in accordance with the following pricing policy:

- (a) price prescribed by the state, if applicable;
- (b) where there is no state-prescribed price but there is a state-guidance price, then the state-guidance price; and
- (c) where there is neither a state-prescribed price nor a state-guidance price, the market price.

Annual caps

With the continued development of the Group, and based on estimates of demand under, and operating conditions, the Directors expect that the existing annual cap for the year ending 31 December 2010 will not be sufficient for the Group's requirements. The Directors therefore propose that the existing annual cap in respect of the provision of railway transportation and related services by the Taiyuan Railway Bureau Group to the Group under the Current Transportation Service Framework Agreement be revised for the year ending 31 December 2010.

The original annual caps for the period from 23 September 2009 to 31 December 2009 and the year ending 31 December 2010 and the revised annual cap proposed by the Company for the year ending 31 December 2010 are as follows:

Transactions	Period from 23 September 2009 to 31 December 2009		Year ending 31 December 2010	
	<i>Proposed</i>		<i>Proposed</i>	
	<i>Original cap</i> (RMB million)	<i>revised cap</i> (RMB million)	<i>Original cap</i> (RMB million)	<i>revised cap</i> (RMB million)
Transaction fee paid and/or to be paid by the Group to the Taiyuan Railway Bureau Group for transportation and related services provided by the Taiyuan Railway Bureau Group	1,300	No revision proposed	2,600	7,000

LETTER FROM THE BOARD

The aggregate transaction amounts under the Current Transportation Service Framework Agreement for the period from 23 September 2009 to 31 December 2009 and the period from 1 January 2010 to 31 January 2010 are within the above existing annual caps and are set out as follows:

Transactions	Period from 23 September 2009 to 31 December 2009 <i>Aggregate transaction amount (RMB million)</i>	Period from 1 January 2010 to 31 January 2010 <i>Aggregate transaction amount (RMB million)</i>
Transaction fee paid by the Group to the Taiyuan Railway Bureau Group for transportation and related services provided by the Taiyuan Railway Bureau Group	approximately 1,118	approximately 322

The reasons for revising the annual cap for the year ending 31 December 2010 are primarily due to the estimated expansion in operation and business growth of the Group, the economic outlook of the PRC, the estimated continued development of the Group and internal assumptions of future coal production capacity of the Group.

In particular, it is expected that there will be substantial increase in the production and sale of coal by the Group mainly due to increase in unit price for coal, and continued increase in coal production capacity of the Group. Further, the Group is expected to increase coal sale and generate better economic returns through enhanced and increased transportation services.

The Company has determined the proposed revised annual cap for the year ending 31 December 2010 based on past transaction figures and taking into account the reasons set out above.

Implementation agreements and payment

Members of the Group may, from time to time and as necessary, enter into separate implementation agreements for each specific transaction contemplated under the Current Transportation Service Framework Agreement with members of the Taiyuan Railway Bureau Group. Each implementation agreement will set out the specifications for the transaction. The implementation agreements provide for the provision of transportation and related services as contemplated by the Current Transportation Service Framework Agreement, as such, they do not constitute new categories of connected transactions. Any such implementation agreement will be within the bounds of the Current Transportation Service Framework Agreement and the annual caps.

LETTER FROM THE BOARD

All payment for the purchase of coal pursuant to the Current Transportation Service Framework Agreement is made and/or will be made in cash.

General

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, there is no other transaction (other than those carried out pursuant to the Current Transportation Service Framework Agreement) entered into between the Group and the Taiyuan Railway Bureau Group and its ultimate beneficial owners within a 12 months period from the date of this circular or otherwise related, which would, together with transactions under the Current Transportation Service Framework Agreement, be regarded as a series of transactions and treated as if they are one transaction under Rules 14A.25 of the Hong Kong Listing Rules.

Connected Transaction and Hong Kong Listing Rules Implications

Taiyuan Railway Bureau is a substantial shareholder of Shuohuang Railway, a subsidiary of the Company and Taiyuan Railway Bureau is therefore a connected person of the Company under the Hong Kong Listing Rules. Therefore, the Current Transportation Service Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

In respect of the proposed revised annual cap under the Current Transportation Service Framework Agreement, certain applicable percentage ratios (as defined under Rule 14A.10 of the Hong Kong Listing Rules) are more than 2.5%. Therefore, in addition to complying with the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, Independent Shareholders' approval will be required pursuant to Rule 14A.48 of the Hong Kong Listing Rules. The Company will seek approval from the Independent Shareholders at the AGM and comply with other requirements under the Hong Kong Listing Rules.

Background to and Reasons for Entering Into the Current Transportation Service Framework Agreement and its Benefits to the Company

The Current Transportation Service Framework Agreement was entered into with a view to secure coal transportation service for the Group, which will in turn enhance the Group's coal production business and competitiveness and thereby, generate better economic returns for the Group.

General

The Directors consider that the terms of the Current Transportation Service Framework Agreement and the proposed revised annual cap for the year ending 31 December 2010 are on normal commercial terms, fair and reasonable, and in the interest of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

Information Relating to the Parties

The Group

The Group operates an integrated coal-based energy business in the PRC, including coal production, transportation and sales as well as power generation. The Group also purchases thermal coal and purchases coal from third parties for coal blending and resale.

The Taiyuan Railway Bureau Group

Taiyuan Railway Bureau and its subsidiaries are principally engaged in railway transportation businesses.

REVISION OF CAP FOR CONTINUING CONNECTED TRANSACTIONS UNDER THE CURRENT MUTUAL COAL SUPPLY AGREEMENT

As disclosed in the announcement dated 26 March 2007 and the circular dated 30 March 2007 of the Company, the Company has entered into the Current Mutual Coal Supply Agreement with Shenhua Group Co. In accordance with the Hong Kong Listing Rules, the Company has been monitoring all of its transactions carried out pursuant to the Current Mutual Coal Supply Agreement.

With the continued development of the Group, and based on estimates of demand and operating conditions, the Directors expect that the existing annual cap of the Current Mutual Coal Supply Agreement will not be sufficient for the Group's requirements.

The Directors therefore propose that the existing annual cap in respect of the supply of coal by the Group to the Shenhua Group under the Current Mutual Coal Supply Agreement be revised for the year ending 31 December 2010.

The Current Mutual Coal Supply Agreement

Date

23 March 2007

Parties

The Company and Shenhua Group Co

LETTER FROM THE BOARD

Continuing transaction

Pursuant to the Current Mutual Coal Supply Agreement:

- (1) the Group has agreed to sell and supply coal to the Shenhua Group; and
- (2) the Shenhua Group has agreed to sell and supply coal to the Group.

Term and termination

The Current Mutual Coal Supply Agreement is effective from 1 January 2008 and will end on 31 December 2010. Upon its expiry, the Current Mutual Coal Supply Agreement may be extended, subject to compliance with requirements under the Hong Kong Listing Rules and agreement of the parties.

Price determination

Pursuant to the Current Mutual Coal Supply Agreement, the price of coal supplied is determined by reference to and in accordance with the prevailing market price. Further, unless the terms of sale offered by a third party are more favourable, a party shall purchase coal from the other party pursuant to the Current Mutual Coal Supply Agreement.

Annual caps

With the continued development of the Group, and based on estimates of demand under, and operating conditions in respect of the Current Mutual Coal Supply Agreement, the Directors expect that the existing annual cap for the year ending 31 December 2010 will not be sufficient for the Group's requirements. The Directors therefore propose that the existing annual cap in respect of the supply of coal by the Group to the Shenhua Group under the Current Mutual Coal Supply Agreement be revised for the year ending 31 December 2010.

LETTER FROM THE BOARD

The original annual caps for the three years ending 31 December 2008, 2009 and 2010 and the revised annual cap proposed by the Company for the year ending 31 December 2010 are as follows:

Transactions	Year ended		Year ended		Year ending	
	31 December 2008		31 December 2009		31 December 2010	
	<i>Original</i>	<i>Proposed</i>	<i>Original</i>	<i>Proposed</i>	<i>Original</i>	<i>Proposed</i>
	<i>cap</i>	<i>revised cap</i>	<i>cap</i>	<i>revised cap</i>	<i>cap</i>	<i>revised cap</i>
	(RMB million)	(RMB million)	(RMB million)	(RMB million)	(RMB million)	(RMB million)
Supply of coal by the Group to Shenhua Group	2,049.89	-	2,672.80	-	2,732.72	4,500
Supply of coal by Shenhua Group to the Group	7,860.45	-	8,088.49	-	8,312.38	No revision proposed

The aggregate transaction amounts under the Current Mutual Coal Supply Agreement for the two years ended 31 December 2008 and 31 December 2009 and from 1 January 2010 to 31 January 2010 are within the above existing annual caps and are set out as follows:

Transactions	Year ended	Year ended	Period from
	31 December 2008	31 December 2009	1 January 2010 to
	<i>Aggregate transaction amount (RMB million)</i>	<i>Aggregate transaction amount (RMB million)</i>	<i>31 January 2010</i> <i>Aggregate transaction amount (RMB million)</i>
Supply of coal by the Group to Shenhua Group	approximately 1,642	approximately 1,570	approximately 110
Supply of coal by Shenhua Group to the Group	approximately 4,730	approximately 3,445	approximately 32

The reasons for revising the annual cap for the year ending 31 December 2010 are primarily due to the estimated expansion in operation and business growth of the Group, the economic outlook of the PRC, the estimated continued development of the Group and internal assumptions of demand and operating conditions.

In particular, it is expected that there will be substantial increase in the sales and supply of coal by the Group to the Shenhua Group mainly due to (a) coal demand of power plants of the Shenhua Group, (b) expansion of Shenhua Group's business and increased coal demand due to the operations of power plants and coal to liquid projects of the Shenhua Group, and (c) estimated future coal price and continued increase in coal production capacity of the Group.

LETTER FROM THE BOARD

The Company has determined the proposed revised annual cap for the year ending 31 December 2010 based on past transaction figures and taking into account the reasons set out above.

Implementation agreements and payment

Members of the Group may, from time to time and as necessary, enter into separate implementation agreements for each specific transaction contemplated under the Current Mutual Coal Supply Agreement with members of the Shenhua Group. Each implementation agreement will set out the specifications for the transaction. The implementation agreements provide for the supply of coal as contemplated by the Current Mutual Coal Supply Agreement, as such, they do not constitute new categories of connected transactions. Any such implementation agreement will be within the bounds of the Current Mutual Coal Supply Agreement and the annual caps.

All payment for the purchase of coal pursuant to the Current Mutual Coal Supply Agreement is made and/or will be made in cash.

General

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, there is no other transaction (other than those carried out pursuant to the Current Mutual Coal Supply Agreement) entered into between the Group and the Shenhua Group and its ultimate beneficial owners within a 12 months period from the date of this circular or otherwise related, which would, together with transactions under the Current Mutual Coal Supply Agreement, be regarded as a series of transactions and treated as if they are one transaction under Rules 14A.25 of the Hong Kong Listing Rules.

Connected Transaction and Hong Kong Listing Rules Implications

Since Shenhua Group Co is a controlling shareholder of the Company, it is a connected person of the Company under the Hong Kong Listing Rules. Therefore, the Current Mutual Coal Supply Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

In respect of the proposed revised annual cap under the Current Mutual Coal Supply Agreement, certain applicable percentage ratios (as defined under Rule 14A.10 of the Hong Kong Listing Rules) are more than 2.5%. Therefore, in addition to complying with the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, Independent Shareholders' approval will be required pursuant to Rule 14A.48 of the Hong Kong Listing Rules. The Company will seek approval from the Independent Shareholders at the AGM and comply with other requirements under the Hong Kong Listing Rules.

LETTER FROM THE BOARD

Background to and Reasons for Entering Into the Current Mutual Coal Supply Agreement and its Benefits to the Company

The Group continues to sell coal to a number of power plants owned by the Shenhua Group and to certain subsidiaries of Shenhua Group Co which trade in coal, and receives in return payment on normal commercial terms. The Shenhua Group also continues to supply the Group with various types of coal for the purpose of coal blending and re-sale.

General

The Directors consider that the terms of the Current Mutual Coal Supply Agreement and the proposed revised annual cap for the year ending 31 December 2010 are on normal commercial terms, fair and reasonable, and in the interest of the Company and its Shareholders as a whole.

Information Relating to the Parties

The Group

The Group operates an integrated coal-based energy business in the PRC, including coal production, transportation and sales as well as power generation. The Group also purchases thermal coal and purchases coal from third parties for coal blending and resale.

The Shenhua Group

Shenhua Group Co is the sole promoter and a controlling shareholder of the Company. Shenhua Group Co and its subsidiaries are principally engaged in the coal liquefaction, coal based chemical processing business, coal production and power generation business as well as investment and finance activities.

ENTERING INTO MUTUAL COAL SUPPLY AGREEMENT

As disclosed in the announcement dated 26 March 2007 and the circular dated 30 March 2007 of the Company, the Company has entered into the Current Mutual Coal Supply Agreement with Shenhua Group Co. on 23 March 2007 to provide for the mutual supply of coal between the Group and the Shenhua Group, the term of which will end on 31 December 2010.

The Company has entered into a new Mutual Coal Supply Agreement with Shenhua Group Co on 12 March 2010. Pursuant to the Mutual Coal Supply Agreement, the Group has agreed to supply coal to the Shenhua Group and the Shenhua Group has agreed to supply coal to the Group. The Mutual Coal Supply Agreement will be effective from 1 January 2011.

LETTER FROM THE BOARD

Mutual Coal Supply Agreement

Date

12 March 2010

Parties

The Company and Shenhua Group Co

Continuing transaction

Pursuant to the Mutual Coal Supply Agreement:

- (1) the Group has agreed to sell and supply coal to the Shenhua Group; and
- (2) the Shenhua Group has agreed to sell and supply coal to the Group.

Term and termination

The Mutual Coal Supply Agreement is conditional on the Company's compliance of all announcement, shareholders' approval and other requirements under the Hong Kong Listing Rules in respect of the Mutual Coal Supply Agreement and is effective from 1 January 2011 and will end on 31 December 2013.

Price determination

Pursuant to the Mutual Coal Supply Agreement, the price of coal supplied is determined by reference to and in accordance with the prevailing market price. Further, unless the terms of sale offered by a third party are more favourable, a party shall purchase coal from the other party pursuant to the Mutual Coal Supply Agreement.

LETTER FROM THE BOARD

Past transactions

The aggregate transaction amounts under the Current Mutual Coal Supply Agreement for the two years ended 31 December 2008 and 31 December 2009 and the period from 1 January 2010 to 31 January 2010 are within the existing annual caps of the Current Mutual Coal Supply Agreement and are set out as follows:

	Year ended 31 December 2008 <i>Aggregate transaction amount (RMB million)</i>	Year ended 31 December 2009 <i>Aggregate transaction amount (RMB million)</i>	Period from 1 January 2010 to 31 January 2010 <i>Aggregate transaction amount (RMB million)</i>
Supply of coal by the Group to the Shenhua Group	approximately 1,642	approximately 1,570	approximately 110
Supply of coal by the Shenhua Group to the Group	approximately 4,730	approximately 3,445	approximately 32

Proposed annual caps

Based on estimates of demand and operating conditions in respect of the Current Mutual Coal Supply Agreement, assumed future business volume and growth of the Group, the Group's estimated future coal production capacity, future electricity demand and the economic outlook of the PRC and the Company's estimate on future coal prices, the Company proposes that the annual caps of the Mutual Coal Supply Agreement for the three years ending on 31 December 2011, 31 December 2012 and 31 December 2013, respectively, be set as follows:

	Year ending 31 December 2011 <i>Proposed cap (RMB million)</i>	Year ending 31 December 2012 <i>Proposed cap (RMB million)</i>	Year ending 31 December 2013 <i>Proposed cap (RMB million)</i>
Supply of coal by the Group to the Shenhua Group	6,600	7,000	7,500
Supply of coal by the Shenhua Group to the Group	11,000	13,000	16,000

In particular, the proposed annual caps of the Mutual Coal Supply Agreement for supply of coal by the Group to the Shenhua Group have been set taking into account the following factors: (a) increase in coal demand of the Shenhua Group due to commencement of operation of new power plants of the Shenhua Group; (b) expansion of Shenhua Group's business and coal to liquid projects, resulting in increased coal demand; and (c) estimated future coal price.

LETTER FROM THE BOARD

The proposed annual caps of the Mutual Coal Supply Agreement for supply of coal by the Shenhua Group to the Group have been set taking into account the following factors: (a) increase in business of the Group which will increase coal purchase by the Group from the Shenhua Group for coal blending; (b) increase in future coal sale of the Group which will increase coal purchase by the Group from Shenhua Group for resale; and (c) estimated future coal price.

Implementation agreements and payment

Members of the Group may, from time to time and as necessary, enter into separate implementation agreements for each specific transaction contemplated under the Mutual Coal Supply Agreement with members of the Shenhua Group. Each implementation agreement will set out the specifications for the transaction. The implementation agreements provide for the supply of coal as contemplated by the Mutual Coal Supply Agreement, as such, they do not constitute new categories of connected transactions. Any such implementation agreement will be within the bounds of the Mutual Coal Supply Agreement and the annual caps.

All payment made pursuant to the Mutual Coal Supply Agreement and its implementation agreements will be made in cash.

Connected Transaction and Hong Kong Listing Rules Implications

Since Shenhua Group Co is a controlling shareholder of the Company, it is a connected person of the Company under the Hong Kong Listing Rules. Therefore, the Mutual Coal Supply Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

In respect of the proposed annual caps under the Mutual Coal Supply Agreement, certain applicable percentage ratios (as defined under Rule 14A.10 of the Hong Kong Listing Rules) are more than 2.5%. Therefore, in addition to complying with the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, Independent Shareholders' approval will be required pursuant to Rule 14A.48 of the Hong Kong Listing Rules. The Company will seek approval from the Independent Shareholders at the AGM and comply with other requirements under the Hong Kong Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, there is no other transaction (other than those carried out pursuant to the Current Mutual Coal Purchase Agreement) entered into between the Group and the Shenhua Group and its ultimate beneficial owners within a 12 months period from the date of this circular or otherwise related, which would, together with transactions under the Mutual Coal Supply Agreement, be regarded as a series of transactions and treated as if they are one transaction under Rules 14A.25 of the Hong Kong Listing Rules.

LETTER FROM THE BOARD

Background to and Reasons for Entering Into the Mutual Coal Supply Agreement and its Benefits to the Company

The Group continues to sell coal to a number of power plants owned by the Shenhua Group and to certain subsidiaries of Shenhua Group Co which trade in coal, and receives in return payment on normal commercial terms. The Shenhua Group also continues to supply the Group with various types of coal for the purpose of coal blending and re-sale.

General

The Directors consider that the terms of the Mutual Coal Supply Agreement and the proposed annual caps are on normal commercial terms, fair and reasonable, and in the interest of the Company and its Shareholders as a whole.

Information Relating to the Parties

The Group

The Group operates an integrated coal-based energy business in the PRC, including coal production, transportation and sales as well as power generation. The Group also purchases thermal coal and purchases coal from third parties for coal blending and resale.

The Shenhua Group

Shenhua Group Co is the sole promoter and a controlling shareholder of the Company. Shenhua Group Co and its subsidiaries are principally engaged in the coal liquefaction, coal based chemical processing business, coal production and power generation business as well as investment and finance activities.

ENTERING INTO MUTUAL SUPPLIES AND SERVICES AGREEMENT

As disclosed in the announcement dated 26 March 2007 and circular dated 30 March 2007 of the Company, the Company has entered into the Current Mutual Supplies and Services Agreement with Shenhua Group Co to provide for the mutual supply of products and services between the Group and the Shenhua Group, the term of which will end on 31 December 2010.

The Company has entered into a new Mutual Supplies and Services Agreement with Shenhua Group Co on 12 March 2010. Pursuant to the Mutual Supplies and Services Agreement, the Group has agreed to supply products and provide services to the Shenhua Group and the Shenhua Group has agreed to supply products and provide services to the Group. The Mutual Supplies and Services Agreement will be effective from 1 January 2011.

LETTER FROM THE BOARD

Mutual Supplies and Services Agreement*Date*

12 March 2010

Parties

The Company and Shenhua Group Co

Continuing transaction

Pursuant to the Mutual Supplies and Services Agreement:

- (a) the Group and the Shenhua Group will share information networks at no costs to either party;
- (b) the Group has agreed to supply products and provide services to the Shenhua Group, including water supplies, rolling stock management, rail transportation, other related or similar production supplies or services; and
- (c) the Shenhua Group has agreed to supply products and provide services to the Group, including:
 - (i) production supplies: explosives, fuses, oil products, and other related or similar production supplies and services;
 - (ii) ancillary production services: security, logistics and support 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.

Term and termination

The Mutual Supplies and Services Agreement is conditional on the Company's compliance of all announcement, shareholders' approval and other requirements under the Hong Kong Listing Rules in respect of the Mutual Supplies and Services Agreement and is effective from 1 January 2011 and will end on 31 December 2013.

LETTER FROM THE BOARD

Price determination

Pursuant to the Mutual Supplies and Services Agreement, production supplies and ancillary services are provided substantially in accordance with the following pricing policy:

- (a) price prescribed by the state (including any price prescribed by any relevant local government), if applicable;
- (b) where there is no state-prescribed price but there is a state-guidance price, then the state-guidance price;
- (c) where there is neither a state-prescribed price nor a state-guidance price, the market price (including bidding price); or
- (d) 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.

Past transactions

The aggregate transaction amounts under the Current Mutual Supplies and Services Agreement for the two years ended 31 December 2008 and 31 December 2009 and the period from 1 January 2010 to 31 January 2010 are within the existing annual caps of the Current Mutual Supplies and Services Agreement and are set out as follows:

	Year ended 31 December 2008 <i>Aggregate transaction amount (RMB million)</i>	Year ended 31 December 2009 <i>Aggregate transaction amount (RMB million)</i>	Period from 1 January 2010 to 31 January 2010 <i>Aggregate transaction amount (RMB million)</i>
Production supplies and ancillary services by the Group to the Shenhua Group	approximately 508	approximately 559	approximately 46
Production supplies and ancillary services by the Shenhua Group to the Group	approximately 1,221	approximately 1,257	approximately 101

LETTER FROM THE BOARD

Proposed annual caps

Based on estimates of demand and operating conditions in respect of the Current Mutual Supplies and Services Agreement, assumed future business volume and growth of the Group, estimated future production capacity and business of the Group, general economic outlook of the PRC and the Company's estimate on future needs, the Company proposes that the annual caps of the Mutual Supplies and Services Agreement for the three years ending on 31 December 2011, 31 December 2012 and 31 December 2013, respectively, be set as follows:

	Year ending 31 December 2011 <i>Proposed Cap</i> (RMB million)	Year ending 31 December 2012 <i>Proposed Cap</i> (RMB million)	Year ending 31 December 2013 <i>Proposed Cap</i> (RMB million)
Production supplies and ancillary services by the Group to the Shenhua Group	4,600	7,300	8,600
Production supplies and ancillary services by the Shenhua Group to the Group	5,500	6,000	6,600

In particular, the proposed annual caps of the Mutual Supplies and Services Agreement for production supplies and ancillary services by the Group to the Shenhua Group have been set taking into account the following factors: (a) the coal mines of Shenhua Group for coal to liquid and coal chemical projects are expected to commence operation and production and this will increase the need for various production services provided by the Group to the Shenhua Group; (b) there is also expected to be substantial increase in railway transportation services and production services provided by the Group to the Shenhua Group resulting from the expansion of Shenhua Group's operations; and (c) it is also expected that the prices of raw materials and personnel costs will increase steadily, which will in turn increase fees payable under the Mutual Supplies and Services Agreement.

The proposed annual caps of the Mutual Supplies and Services Agreement for production supplies and ancillary services by the Shenhua Group to the Group have been set taking into account the following factors: (a) expansion of the Group's business which increases the need for purchase of explosives, fuel and related services from Shenhua Group, (b) technology upgrades and production expansion of coal mines of the Group resulting in increase in production supplies and ancillary production services provided by Shenhua Group; and (c) it is also expected that the prices of raw materials and personnel costs will increase steadily, which will in turn increase fees payable under the Mutual Supplies and Services Agreement.

LETTER FROM THE BOARD

Implementation agreements

Members of the Group may, from time to time and as necessary, enter into separate implementation agreements for each specific transaction contemplated under the Mutual Supplies and Services Agreement with members of the Shenhua Group. Each implementation agreement will set out the specific specifications for the transaction. The implementation agreements provide for the production supplies and ancillary services as contemplated by the Mutual Supplies and Services Agreement, as such, they do not constitute new categories of connected transactions. Any such implementation agreement will be within the bounds of the Mutual Supplies and Services Agreement and the annual caps.

All payment made pursuant to the Mutual Supplies and Services Agreement and its implementation agreements will be made in cash.

Connected Transaction and Hong Kong Listing Rules Implications

Shenhua Group Co is a controlling shareholder and the sole promoter of the Company and is therefore a connected person of the Company under the Hong Kong Listing Rules. Therefore, the Mutual Supplies and Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

In respect of the proposed annual caps under the Mutual Supplies and Services Agreement, certain applicable percentage ratios (as defined under Rule 14A.10 of the Hong Kong Listing Rules) are more than 2.5%. Therefore, in addition to complying with the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, Independent Shareholders' approval will be required pursuant to Rule 14A.48 of the Hong Kong Listing Rules. The Company will seek approval from the Independent Shareholders at the AGM and comply with other requirements under the Hong Kong Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, there is no other transaction (other than those carried out pursuant to the Current Mutual Supplies and Services Agreement) entered into between the Group and the Shenhua Group and its ultimate beneficial owners within a 12 months period from the date of this circular or otherwise related, which would be, together with transactions under the Mutual Supplies and Services Agreement, regarded as a series of transactions and treated as if they are one transaction under Rules 14A.25 of the Hong Kong Listing Rules.

Background to and Reasons for Entering into the Mutual Supplies and Services Agreement and its Benefits to the Company

As disclosed in the Prospectus, the 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 the Shenhua Group on an arm's-length basis to support the businesses retained by the Shenhua Group.

LETTER FROM THE BOARD

General

The Directors consider that the terms of the Mutual Supplies and Services Agreement and the proposed annual caps are on normal commercial terms, fair and reasonable, and in the interest of the Company and its Shareholders as a whole.

Information Relating to the Group

The Group operates an integrated coal-based energy business in the PRC, including coal production, transportation and sales as well as power generation. The Group also purchases thermal coal and purchases coal from third parties for coal blending and resale.

Information Relating to Shenhua Group

Shenhua Group Co is the sole promoter and a controlling shareholder of the Company. Shenhua Group Co and its subsidiaries are principally engaged in the coal liquefaction, coal based chemical processing business, coal production and power generation business as well as investment and finance activities.

ENTERING INTO CHINA DATANG COAL SUPPLY FRAMEWORK AGREEMENT

As disclosed in the announcement dated 2 January 2008 of the Company, the Company has entered into the Current China Datang Coal Supply Framework Agreement with China Datang to provide for the supply of coal by the Group to the China Datang Group, the term of which will end on 31 December 2010.

To provide for future coal supply to the China Datang Group, the Company has entered into a new China Datang Coal Supply Framework Agreement with China Datang on 12 March 2010. Pursuant to the China Datang Coal Supply Framework Agreement, the Group has agreed to sell and supply coal to the China Datang Group and the China Datang Coal Supply Framework Agreement will be effective from 1 January 2011.

China Datang Coal Supply Framework Agreement

Date

12 March 2010

Parties

The Company and China Datang

Continuing transaction

Pursuant to the China Datang Coal Supply Framework Agreement, the Group has agreed to sell and supply coal to the China Datang Group.

LETTER FROM THE BOARD

Term and termination

The China Datang Coal Supply Framework Agreement is conditional on the Company's compliance of all announcement, shareholders' approval and other requirements under the Hong Kong Listing Rules in respect of the China Datang Coal Supply Framework Agreement and is effective from 1 January 2011 and will end on 31 December 2013.

Price determination

Pursuant to the China Datang Coal Supply Framework Agreement, the price of coal supplied is determined by reference to and in accordance with the prevailing market price.

Past transactions

The aggregate transaction amounts under the Current China Datang Coal Supply Framework Agreement for the two years ended 31 December 2008 and 31 December 2009 and the period from 1 January 2010 to 31 January 2010 are within the existing annual caps of the Current China Datang Coal Supply Framework Agreement and are set out as follows:

	Year ended 31 December 2008 <i>Aggregate transaction amount (RMB million)</i>	Year ended 31 December 2009 <i>Aggregate transaction amount (RMB million)</i>	Period from 1 January 2010 to 31 January 2010 <i>Aggregate transaction amount (RMB million)</i>
Supply of coal by the Group to the China Datang Group	approximately 3,328	approximately 1,199	approximately 115

Proposed annual caps

Based on estimates of demand and operating conditions in respect of the Current China Datang Coal Supply Framework Agreement, assumed future business volume and growth of the Group, estimated future production capacity and business of the Group, general economic outlook of the PRC and the Company's estimate on future coal prices, the Company proposes that the annual caps of the China Datang Coal Supply Framework Agreement for the three years ending on 31 December 2011, 31 December 2012 and 31 December 2013, respectively, be set as follows:

	Year ending 31 December 2011 <i>Proposed Cap (RMB million)</i>	Year ending 31 December 2012 <i>Proposed Cap (RMB million)</i>	Year ending 31 December 2013 <i>Proposed Cap (RMB million)</i>
Supply of coal by the Group to the China Datang Group	4,300	4,600	4,900

LETTER FROM THE BOARD

Implementation agreements

Members of the Group may, from time to time and as necessary, enter into separate implementation agreements for each specific transaction contemplated under the China Datang Coal Supply Framework Agreement with members of the China Datang Group. Each implementation agreement will set out the specific specifications for the transaction. The implementation agreements provide for the sale of coal as contemplated by the China Datang Coal Supply Framework Agreement, as such, they do not constitute new categories of connected transactions. Any such implementation agreement will be within the bounds of the China Datang Coal Supply Framework Agreement and the annual caps.

All payment made pursuant to the China Datang Coal Supply Framework Agreement and its implementation agreements will be made in cash.

Connected Transaction and Hong Kong Listing Rules Implications

Hebei Datang is a substantial shareholder of Dingzhou Power, a subsidiary of the Company, and is therefore a connected person of the Company. China Datang holds 100% of the equity interest in Hebei Datang and is therefore also a connected person of the Company. Therefore, the China Datang Coal Supply Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

In respect of the proposed annual caps under the China Datang Coal Supply Framework Agreement, certain applicable percentage ratios (as defined under Rule 14A.10 of the Hong Kong Listing Rules) are more than 2.5%. Therefore, in addition to complying with the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, Independent Shareholders' approval will be required pursuant to Rule 14A.48 of the Hong Kong Listing Rules. The Company will seek approval from the Independent Shareholders at the AGM and comply with other requirements under the Hong Kong Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, there is no other transaction (other than those carried out pursuant to the Current China Datang Coal Supply Framework Agreement) entered into between the Group and the China Datang Group and its ultimate beneficial owners within a 12 months period from the date of this circular or otherwise related, which would be, together with transactions under the China Datang Coal Supply Framework Agreement, regarded as a series of transactions and treated as if they are one transaction under Rules 14A.25 of the Hong Kong Listing Rules.

Background to and Reasons for Entering into the China Datang Coal Supply Framework Agreement and its Benefits to the Company

The Group sells coal to the China Datang Group and receives in return payment on normal commercial terms. Therefore, the China Datang Coal Supply Framework Agreement is part of the Company's ordinary course of business and is in the interest of the Company.

LETTER FROM THE BOARD

General

The Directors consider that the terms of the China Datang Coal Supply Framework Agreement and the proposed annual caps are on normal commercial terms, fair and reasonable, and in the interest of the Company and its Shareholders as a whole.

Information Relating to the Group

The Group operates an integrated coal-based energy business in the PRC, including coal production, transportation and sales as well as power generation. The Group also purchases thermal coal and purchases coal from third parties for coal blending and resale.

Information Relating to China Datang

China Datang is one of the five large-scaled power generation enterprises in the PRC. China Datang's main business includes management of state-owned assets invested by the state and owned by China Datang, investment, construction and management of power energy projects, manufacturing and commissioning of electric power equipment, contracting and providing consultancy services on environmental protection projects and renewable energy development.

ENTERING INTO TIANJIN JINNENG COAL SUPPLY FRAMEWORK AGREEMENT

As disclosed in the announcement dated 23 December 2007 of the Company, the Company has entered into the Current Tianjin Jinneng Coal Supply Framework Agreement with Tianjin Jinneng to provide for the supply of coal by the Group to the Tianjin Jinneng Group, the term of which will end on 31 December 2010.

To provide for future coal supply to the Tianjin Jinneng Group, the Company has entered into a new Tianjin Jinneng Coal Supply Framework Agreement with Tianjin Jinneng on 12 March 2010. Pursuant to the Tianjin Jinneng Coal Supply Framework Agreement, the Group has agreed to sell and supply coal to the Tianjin Jinneng Group and the Tianjin Jinneng Coal Supply Framework Agreement will be effective from 1 January 2011.

Tianjin Jinneng Coal Supply Framework Agreement

Date

12 March 2010

Parties

The Company and Tianjin Jinneng

LETTER FROM THE BOARD

Continuing transaction

Pursuant to the Tianjin Jinneng Coal Supply Framework Agreement:

- (1) the Group has agreed to sell and supply coal to the Tianjin Jinneng Group; and
- (2) the Tianjin Jinneng Group has agreed to purchase coal from the Group.

Term and termination

The Tianjin Jinneng Coal Supply Framework Agreement is conditional on the Company's compliance of all announcement, shareholders' approval and other requirements under the Hong Kong Listing Rules in respect of the Tianjin Jinneng Coal Supply Framework Agreement and is effective from 1 January 2011 and will end on 31 December 2013.

Price determination

Pursuant to the Tianjin Jinneng Coal Supply Framework Agreement, the price of coal supplied is determined by reference to and in accordance with the prevailing market price.

Past transactions

The aggregate transaction amounts under the Current Tianjin Jinneng Coal Supply Framework Agreement for the two years ended 31 December 2008 and 31 December 2009 and the period from 1 January 2010 to 31 January 2010 are within the existing annual caps of the Current Tianjin Jinneng Coal Supply Framework Agreement and are set out as follows:

	Year ended 31 December 2008 <i>Aggregate transaction amount (RMB million)</i>	Year ended 31 December 2009 <i>Aggregate transaction amount (RMB million)</i>	Period from 1 January 2010 to 31 January 2010 <i>Aggregate transaction amount (RMB million)</i>
Supply of coal by the Group to the Tianjin Jinneng Group	approximately 802	approximately 779	approximately 23

LETTER FROM THE BOARD

Proposed annual caps

Based on estimates of demand and operating conditions in respect of the Current Tianjin Jinneng Coal Supply Framework Agreement, assumed future business volume and growth of the Group, estimated future production capacity and business of the Group, general economic outlook of the PRC and the Company's estimate on future coal prices, the Company proposes that the annual caps of the Tianjin Jinneng Coal Supply Framework Agreement for the three years ending on 31 December 2011, 31 December 2012 and 31 December 2013, respectively, be set as follows:

	Year ending 31 December 2011 <i>Proposed Cap</i> (RMB million)	Year ending 31 December 2012 <i>Proposed Cap</i> (RMB million)	Year ending 31 December 2013 <i>Proposed Cap</i> (RMB million)
Supply of coal by the Group to the Tianjin Jinneng Group	4,100	4,400	4,800

It is expected that there will be substantial increase in the sales and supply of coal by the Group to the Tianjin Jinneng Group mainly due to new power plants of the Tianjin Jinneng Group becoming operational, increase in unit price for coal, and continued increase in coal production capacity of the Group. Further, the Group is expected to generate better economic returns through its coal supply to the Tianjin Jinneng Group with increased annual caps.

Implementation agreements and payment

Members of the Group may, from time to time and as necessary, enter into separate implementation agreements for each specific transaction contemplated under the Tianjin Jinneng Coal Supply Framework Agreement with members of the Tianjin Jinneng Group. Each implementation agreement will set out the specifications for the transaction. The implementation agreements provide for the supply of coal as contemplated by the Tianjin Jinneng Coal Supply Framework Agreement, as such, they do not constitute new categories of connected transactions. Any such implementation agreement will be within the bounds of the Tianjin Jinneng Coal Supply Framework Agreement and the annual caps.

All payment made pursuant to the Tianjin Jinneng Coal Supply Framework Agreement and its implementation agreements will be made in cash.

Connected Transaction and Hong Kong Listing Rules Implications

Since Tianjin Jinneng is a substantial shareholder of Jinneng Power, a subsidiary of the Company, Tianjin Jinneng is a connected person of the Company under the Hong Kong Listing Rules. Therefore, the Tianjin Jinneng Coal Supply Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

LETTER FROM THE BOARD

In respect of the proposed annual caps under the Tianjin Jinneng Coal Supply Framework Agreement, certain applicable percentage ratios (as defined under Rule 14A.10 of the Hong Kong Listing Rules) are more than 2.5%. Therefore, in addition to complying with the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, Independent Shareholders' approval will be required pursuant to Rule 14A.48 of the Hong Kong Listing Rules. The Company will seek approval from the Independent Shareholders at the AGM and comply with other requirements under the Hong Kong Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, there is no other transaction (other than those carried out pursuant to the Current Tianjin Jinneng Coal Purchase Framework Agreement) entered into between the Group and the Tianjin Jinneng Group and its ultimate beneficial owners within a 12 months period from the date of this circular or otherwise related, which would, together with transactions under the Tianjin Jinneng Coal Supply Framework Agreement, be regarded as a series of transactions and treated as if they are one transaction under Rule 14A.25 of the Hong Kong Listing Rules.

Background to and Reasons for Entering into the Tianjin Jinneng Coal Supply Framework Agreement and its Benefits to the Company

The Group sells coal to a number of power plants owned by the Tianjin Jinneng Group and receives in return payment on normal commercial terms.

General

The Directors consider that the terms of the Tianjin Jinneng Coal Supply Framework Agreement and the proposed annual caps are on normal commercial terms, fair and reasonable, and in the interest of the Company and its Shareholders as a whole.

Information Relating to the Parties

The Group

The Group operates an integrated coal-based energy business in the PRC, including coal production, transportation and sales as well as power generation. The Group also purchases thermal coal and purchases coal from third parties for coal blending and resale.

The Tianjin Jinneng Group

Tianjin Jinneng is a state-owned corporation established in the PRC. The Tianjin Jinneng Group is principally engaged in investment, construction, operation and management of energy industry including electricity power, thermal power, gas power and renewable power.

LETTER FROM THE BOARD

ENTERING INTO JIANGSU GUOXIN COAL SUPPLY FRAMEWORK AGREEMENT

As disclosed in the announcement dated 23 December 2007 of the Company, the Company has entered into the Current Jiangsu Guoxin Coal Supply Framework Agreement with Jiangsu Guoxin to provide for the supply of coal by the Group to the Jiangsu Guoxin Group, the term of which will end on 20 August 2011. To synchronize the term of the transaction with the Company's financial year, the Company and Jiangsu Guoxin have agreed to terminate the Current Jiangsu Guoxin Coal Supply Framework Agreement on 31 December 2010 and enter into a new Jiangsu Guoxin Coal Supply Framework Agreement.

To provide for future coal supply to the Jiangsu Guoxin Group, the Company has entered into a new Jiangsu Guoxin Coal Supply Framework Agreement with Jiangsu Guoxin on 12 March 2010. Pursuant to the Jiangsu Guoxin Coal Supply Framework Agreement, the Group has agreed to sell and supply coal to the Jiangsu Guoxin Group and the Jiangsu Guoxin Coal Supply Framework Agreement will be effective from 1 January 2011.

The Jiangsu Guoxin Coal Supply Framework Agreement

Date

12 March 2010

Parties

The Company and Jiangsu Guoxin

Continuing transaction

Pursuant to the Jiangsu Guoxin Coal Supply Framework Agreement, the Group has agreed to sell and supply coal to the Jiangsu Guoxin Group subject to the terms and conditions therein.

Term and termination

The Jiangsu Guoxin Coal Supply Framework Agreement is conditional on the Company's compliance of all announcement, shareholders' approval and other requirements under the Hong Kong Listing Rules in respect of the Jiangsu Guoxin Coal Supply Framework Agreement and is effective from 1 January 2011 and will end on 31 December 2013.

Price Determination

Pursuant to the Jiangsu Guoxin Coal Supply Framework Agreement, the price of coal supplied will be determined by the parties at the time of the transaction by reference to prevailing market price.

LETTER FROM THE BOARD

Past transactions

The aggregate transaction amounts under the Current Jiangsu Guoxin Coal Supply Framework Agreement for the two years ended 31 December 2008 and 31 December 2009 and the period from 1 January 2010 to 31 January 2010 are within the existing annual caps of the Current Jiangsu Guoxin Coal Supply Framework Agreement and are set out as follows:

	Year ended 31 December 2008 <i>Aggregate transaction amount (RMB million)</i>	Year ended 31 December 2009 <i>Aggregate transaction amount (RMB million)</i>	Period from 1 January 2010 to 31 January 2010 <i>Aggregate transaction amount (RMB million)</i>
Supply of coal by the Group to the Jiangsu Guoxin Group	approximately 1,168	approximately 918	approximately 86

Proposed annual caps

Based on estimates of demand and operating conditions in respect of the Current Jiangsu Guoxin Coal Supply Framework Agreement, assumed future business volume and growth of the Group, estimated future production capacity and business of the Group, general economic outlook of the PRC and the Company's estimate on future coal prices, the Company proposes that the annual caps of the Jiangsu Guoxin Coal Supply Framework Agreement for the three years ending on 31 December 2011, 31 December 2012 and 31 December 2013, respectively, be set as follows:

	Year ending 31 December 2011 <i>Proposed Cap (RMB million)</i>	Year ending 31 December 2012 <i>Proposed Cap (RMB million)</i>	Year ending 31 December 2013 <i>Proposed Cap (RMB million)</i>
Supply of coal by the Group to the Jiangsu Guoxin Group	3,500	3,800	4,100

Implementation agreements and payment

Members of the Group may, from time to time and as necessary, enter into separate implementation agreements for each specific transaction contemplated under the Jiangsu Guoxin Coal Supply Framework Agreement with members of the Jiangsu Guoxin Group. Each implementation agreement will set out the specifications for the transaction. The implementation agreements provide for the supply of coal as contemplated by the Jiangsu Guoxin Coal Supply Framework Agreement, as such, they do not constitute new categories of connected transactions. Any such implementation agreement will be within the bounds of the Jiangsu Guoxin Coal Supply Framework Agreement and the annual caps.

LETTER FROM THE BOARD

All payment made pursuant to the Jiangsu Guoxin Coal Supply Framework Agreement and its implementation agreements will be made in cash.

Hong Kong Listing Rules Implications

Jiangsu Guoxin is a substantial shareholder of Chenjiagang Power, a subsidiary of the Company and as such, Jiangsu Guoxin is a connected person of the Company under the Hong Kong Listing Rules. Therefore, the Jiangsu Guoxin Coal Supply Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

In respect of the proposed annual caps under the Jiangsu Guoxin Coal Supply Framework Agreement, certain applicable percentage ratios (as defined under Rule 14A.10 of the Hong Kong Listing Rules) are more than 2.5%. Therefore, in addition to complying with the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, Independent Shareholders' approval will be required pursuant to Rule 14A.48 of the Hong Kong Listing Rules. The Company will seek approval from the Independent Shareholders at the AGM and comply with other requirements under the Hong Kong Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, there is no other transaction (other than those carried out pursuant to the Current Jiangsu Guoxin Coal Supply Framework Agreement) entered into between the Group and the Jiangsu Guoxin Group and its ultimate beneficial owners within a 12 months period from the date of this circular or otherwise related, which would be, together with transactions under the Jiangsu Guoxin Coal Supply Framework Agreement, regarded as a series of transactions and treated as if they are one transaction under Rule 14A.25 of the Hong Kong Listing Rules.

Background to and Reasons for Entering into the Jiangsu Guoxin Coal Supply Framework Agreement and its Benefits to the Company

The Group sells coal to the Jiangsu Guoxin Group and receives in return payment on normal commercial terms. Therefore, the Jiangsu Guoxin Coal Supply Framework Agreement is in line with the business of the Company and the interest of the Company.

General

The Directors consider that the terms of the Jiangsu Guoxin Coal Supply Framework Agreement and the proposed annual caps are on normal commercial terms, fair and reasonable, and in the interest of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

Information Relating to the Parties

The Group

The Group operates an integrated coal-based energy business in the PRC, including coal production, transportation and sales as well as power generation. The Group also purchases thermal coal and purchases coal from third parties for coal blending and resale.

The Jiangsu Guoxin Group

Jiangsu Guoxin is a PRC state-owned company and the Jiangsu Guoxin Group is principally involved in the operation, management, transfer, investment, business designation and assets restructuring of stated-owned assets.

ENTERING INTO TRANSPORTATION SERVICE FRAMEWORK AGREEMENT

As disclosed in the announcement dated 18 December 2009 of the Company, the Company has entered into the Current Transportation Service Framework Agreement with Taiyuan Railway Bureau on 18 December 2009 to obtain railway transportation and related services, the term of which will end on 31 December 2010.

In order to secure future railway transportation and related services, the Company has entered into a new Transportation Service Framework Agreement with Taiyuan Railway Bureau on 12 March 2010. Pursuant to the Transportation Service Framework Agreement, the Taiyuan Railway Bureau Group has agreed to provide railway transportation and related services to the Group subject to the terms and conditions therein and the Transportation Service Framework Agreement will be effective from 1 January 2011.

The Transportation Service Framework Agreement

Date

12 March 2010

Parties

The Company and Taiyuan Railway Bureau

Continuing transaction

Pursuant to the Transportation Service Framework Agreement, the Taiyuan Railway Bureau Group has agreed to provide railway transportation and related services to the Group subject to the terms and conditions therein.

LETTER FROM THE BOARD

Term and termination

The Transportation Service Framework Agreement is conditional on the Company's compliance of all announcement, shareholders' approval and other requirements under the Hong Kong Listing Rules in respect of the Transportation Service Framework Agreement and is effective from 1 January 2011 and will end on 31 December 2013.

Price Determination

Pursuant to the Transportation Service Framework Agreement, transportation fee payable by the Group shall be determined in accordance with the following pricing policy:

- (a) price prescribed by the state, if applicable;
- (b) where there is no state-prescribed price but there is a state-guidance price, then the state-guidance price; and
- (c) where there is neither a state-prescribed price nor a state-guidance price, the market price.

Past transactions

The aggregate transaction amounts under the Current Transportation Service Framework Agreement for the period from 23 September 2009 to 31 December 2009 and the period from 1 January 2010 to 31 January 2010 are within the existing annual caps of the Current Transportation Service Framework Agreement and are set out as follows:

	Period from 23 September 2009 to 31 December 2009 <i>Aggregate transaction amount (RMB million)</i>	Period from 1 January 2010 to 31 January 2010 <i>Aggregate transaction amount (RMB million)</i>
Transaction fee paid by the Group to the Taiyuan Railway Bureau Group for transportation and related services provided by the Taiyuan Railway Bureau Group	approximately 1,118	approximately 322

LETTER FROM THE BOARD

Proposed annual caps

Based on (i) assumed business volume of the Group, (ii) the Group's estimated coal production volume, and (iii) expected future electricity demand and the economic outlook of the PRC, the Company proposes that the annual caps of the Transportation Service Framework Agreement for the three years ending on 31 December 2011, 31 December 2012 and 31 December 2013, respectively, be set as follows:

Transactions

	Year ending 31 December 2011 <i>Proposed cap</i> (RMB million)	Year ending 31 December 2012 <i>Proposed cap</i> (RMB million)	Year ending 31 December 2013 <i>Proposed cap</i> (RMB million)
Transaction fee paid and/or to be paid by the Group to the Taiyuan Railway Bureau Group for transportation and related services provided by the Taiyuan Railway Bureau Group	8,100	8,600	9,300

Other than the Taiyuan Railway Bureau Group, the Group has also engaged and/or will engage transportation services of other transportation service providers for coal transportation in accordance with its business needs.

Implementation agreements and payment

Members of the Group may, from time to time and as necessary, enter into separate implementation agreements for each specific transaction contemplated under the Transportation Service Framework Agreement with members of the Taiyuan Railway Bureau Group. Each implementation agreement will set out the specifications for the transaction. The implementation agreements provide for the transportation and related services as contemplated by the Transportation Service Framework Agreement and as such, they do not constitute new categories of connected transactions. Any such implementation agreement will be within the bounds of the Transportation Service Framework Agreement and the annual caps.

All payment made under the Transportation Service Framework Agreement and its implementation agreements will be made by the Group in cash on a monthly basis.

LETTER FROM THE BOARD

Hong Kong Listing Rules Implications

Taiyuan Railway Bureau is a substantial shareholder of Shuohuang Railway, a subsidiary of the Company and Taiyuan Railway Bureau is therefore a connected person of the Company under the Hong Kong Listing Rules. Therefore, the Transportation Service Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

In respect of the proposed annual caps under the Transportation Service Framework Agreement, certain applicable percentage ratios (as defined under Rule 14A.10 of the Hong Kong Listing Rules) are more than 2.5%. Therefore, in addition to complying with the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, Independent Shareholders' approval will be required pursuant to Rule 14A.48 of the Hong Kong Listing Rules. The Company will seek approval from the Independent Shareholders at the AGM and comply with other requirements under the Hong Kong Listing Rules.

Background to and Reasons for Entering into the Transportation Service Framework Agreement and its Benefits to the Company

The Transportation Service Framework Agreement was entered into with a view to secure coal transportation service for the Group, which will in turn enhance the Group's coal production business and competitiveness and thereby, generate better economic returns for the Group.

General

The Directors consider that the terms of the Transportation Service Framework Agreement and the proposed annual caps are on normal commercial terms, fair and reasonable, and in the interest of the Company and its Shareholders as a whole.

Information Relating to the Parties

The Group

The Group operates an integrated coal-based energy business in the PRC, including coal production, transportation and sales as well as power generation. The Group also purchases thermal coal and purchases coal from third parties for coal blending and resale.

The Taiyuan Railway Bureau Group

Taiyuan Railway Bureau and its subsidiaries are principally engaged in railway transportation businesses.

LETTER FROM THE BOARD

ENTERING INTO SHAANXI COAL TRANSPORTATION COAL SUPPLY FRAMEWORK AGREEMENT

As disclosed in the announcement dated 27 March 2009 and circular dated 17 April 2009 of the Company, the Company has entered into the Current Shaanxi Coal Transportation Coal Supply Framework Agreement with Shaanxi Coal Transportation to provide for the purchase of coal by the Group from the Shaanxi Coal Transportation Group, the term of which will end on 31 December 2010.

To secure future coal supply, the Company has entered into a new Shaanxi Coal Transportation Coal Supply Framework Agreement with Shaanxi Coal Transportation on 12 March 2010. Pursuant to the Shaanxi Coal Transportation Coal Supply Framework Agreement, the Group has agreed to purchase coal from the Shaanxi Coal Transportation Group and the Shaanxi Coal Transportation Coal Supply Framework Agreement will be effective from 1 January 2011.

The Shaanxi Coal Transportation Coal Supply Framework Agreement

Date

12 March 2010

Parties

The Company and Shaanxi Coal Transportation

Continuing transaction

Pursuant to the Coal Supply Framework Agreement, the Group has agreed to purchase coal from the Shaanxi Coal Transportation Group subject to the terms and conditions therein.

Term and termination

The Shaanxi Coal Transportation Coal Supply Framework Agreement is conditional on the Company's compliance of all announcement, shareholders' approval and other requirements under the Hong Kong Listing Rules in respect of the Shaanxi Coal Transportation Coal Supply Framework Agreement and is effective from 1 January 2011 and will end on 31 December 2013.

Price Determination

Pursuant to the Shaanxi Coal Transportation Coal Supply Framework Agreement, the unit purchase price for coal shall be determined (1) through consultation between the parties by reference to the prevailing market price, and (2) by reference to the unit price of coal supplied by the Shaanxi Coal Transportation Group to power generation enterprises and the unit price of coal supplied by the Group to power generation enterprises.

LETTER FROM THE BOARD

Past transactions

The aggregate transaction amounts under the Current Shaanxi Coal Transportation Coal Supply Framework Agreement for the year ended 31 December 2009 and the period from 1 January 2010 to 31 January 2010 are within the existing annual caps of the Current Shaanxi Coal Transportation Coal Supply Framework Agreement and are set out as follows:

	Year ended 31 December 2009	Period from 1 January 2010 to 31 January 2010
	<i>Aggregate transaction amount (RMB million)</i>	<i>Aggregate transaction amount (RMB million)</i>
Purchase of coal by the Group from the Shaanxi Coal Transportation Group	approximately 513	approximately 96

Proposed annual caps

Based on estimates of demand and operating conditions in respect of the Current Shaanxi Coal Transportation Coal Supply Framework Agreement, assumed future business volume and growth of the Group, estimated future production capacity and business of the Group, general economic outlook of the PRC and the Company's estimate on future coal prices, the Company proposes that the annual caps of the Shaanxi Coal Transportation Coal Supply Framework Agreement for the three years ending on 31 December 2011, 31 December 2012 and 31 December 2013, respectively, be set as follows:

	Year ending 31 December 2011	Year ending 31 December 2012	Year ending 31 December 2013
	<i>Proposed Cap (RMB million)</i>	<i>Proposed Cap (RMB million)</i>	<i>Proposed Cap (RMB million)</i>
Purchase of coal by the Group from the Shaanxi Coal Transportation Group	6,000	6,400	7,100

Based on past coal purchase transactions conducted between the Group and the Shaanxi Coal Transportation Group, the Company is of the view that Shaanxi Coal Transportation is a reliable supplier offering high quality coal supply. As such, the Company has decided to source more coal from the Shaanxi Coal Transportation Group and to mandate Shaanxi Coal Transportation as one of its major coal suppliers.

LETTER FROM THE BOARD

Implementation agreements and payment

Members of the Group may, from time to time and as necessary, enter into separate implementation agreements for each specific transaction contemplated under the Shaanxi Coal Transportation Coal Supply Framework Agreement with members of the Shaanxi Coal Transportation Group. Each implementation agreement will set out the specifications for the transaction. The implementation agreements provide for the supply of coal as contemplated by the Shaanxi Coal Transportation Coal Supply Framework Agreement, as such, they do not constitute new categories of connected transactions. Any such implementation agreement will be within the bounds of the Shaanxi Coal Transportation Coal Supply Framework Agreement and the annual caps.

All payment for the purchase of coal by the Group from the Shaanxi Coal Transportation Group pursuant to the Shaanxi Coal Transportation Coal Supply Framework Agreement and its implementation agreements will be made by the Group in cash upon delivery.

Hong Kong Listing Rules Implications

Fugu Energy is a substantial shareholder of Yulin Shenhua, a subsidiary of the Company and Fugu Energy is therefore a connected person of the Company under the Hong Kong Listing Rules. Shaanxi Coal holds approximately 57% shareholdings of Fugu Energy and 100% shareholdings of Shaanxi Coal Transportation. Shaanxi Coal Transportation is therefore an associate of Fugu Energy and a connected person of the Company under the Hong Kong Listing Rules. Therefore, the Shaanxi Coal Transportation Coal Supply Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

Certain applicable percentage ratios (as defined under Rule 14A.10 of the Hong Kong Listing Rules) in respect of the proposed annual caps of the Shaanxi Coal Transportation Coal Supply Framework Agreement are more than 2.5%. Therefore, in addition to complying with the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, Independent Shareholders' approval will be required pursuant to Rule 14A.48 of the Hong Kong Listing Rules. The Company will seek approval from the Independent Shareholders at the AGM and comply with other requirements under the Hong Kong Listing Rules in respect of the Shaanxi Coal Transportation Coal Supply Framework Agreement.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, there is no other transaction (other than those carried out pursuant to the Current Shaanxi Coal Transportation Coal Supply Framework Agreement) entered into between the Group and the Shaanxi Coal Transportation Group and its ultimate beneficial owners within a 12 months period from the date of this circular or otherwise related, which would be, together with transactions under the Shaanxi Coal Transportation Coal Supply Framework Agreement, regarded as a series of transactions and treated as if they are one transaction under Rule 14A.25 of the Hong Kong Listing Rules.

LETTER FROM THE BOARD

Background to and Reasons for Entering into the Shaanxi Coal Transportation Coal Supply Framework Agreement and its Benefits to the Company

The Shaanxi Coal Transportation Coal Supply Framework Agreement was entered into with a view to secure future supply of coal to satisfy the Group's need, to expand the Group's electricity generation business and to enhance its competitiveness, which will in turn generate better economic returns for the Group.

General

The Directors consider that the terms of the Shaanxi Coal Transportation Coal Supply Framework Agreement and the proposed annual caps are on normal commercial terms, fair and reasonable, and in the interest of the Company and its Shareholders as a whole.

Information Relating to the Parties

The Group

The Group operates an integrated coal-based energy business in the PRC, including coal production, transportation and sales as well as power generation. The Group also purchases thermal coal and purchases coal from third parties for coal blending and resale.

The Shaanxi Coal Transportation Group

Shaanxi Coal Transportation and its subsidiaries are principally engaged in the sale and transportation of coal and related businesses.

PROPOSAL FOR GENERAL MANDATE TO REPURCHASE A SHARES AND H SHARES

A Share Repurchase Mandate

The Company Law (to which the Company is subject) provides that a joint stock limited company incorporated in the PRC may not repurchase its shares unless such repurchase is effected for the purpose of (a) reducing its registered share capital; (b) in connection with a merger between itself and another entity that holds its shares; (c) granting shares as reward to the staff of the company; or (d) the repurchase is made at the request of its shareholders who disagrees with shareholders' resolutions in connection with a merger or division. The Mandatory Provisions, which the Company has incorporated in its Articles of Association, provides that subject to obtaining the approval of the relevant regulatory authorities and compliance with its articles of association, share repurchases may be effected by a joint stock limited company listed outside the PRC for the purpose of reducing its share capital or in connection with a merger between itself and another entity that holds its shares or in circumstances permitted by law or administrative regulations.

LETTER FROM THE BOARD

PRC laws and regulations and the Shanghai Listing Rules permit shareholders of a PRC joint stock limited company to grant a general mandate to the Directors to repurchase A Shares of such company that are listed on the Shanghai Stock Exchange. Such mandate is required to be given by way of a special resolution passed by shareholders in general meeting and special resolutions passed by holders of domestic shares and overseas listed foreign shares in separate class meetings.

A special resolution will be proposed at the AGM, A Shareholders' Class Meeting and H Shareholders' Class Meeting to grant to the Directors the A Share Repurchase Mandate and H Share Repurchase Mandate, details of which will be set out in the notice of the AGM and the notice of the H Shareholders' Class Meeting. The A Shares which may be repurchased pursuant to the A Share Repurchase Mandate shall not exceed 10% of the number of A Shares in issue of the Company as at the date of passing of the resolution(s) approving the A Share Repurchase Mandate.

Both the A Share Repurchase Mandate and the H Share Repurchase Mandate would expire on the earlier of (a) the conclusion of the next annual general meeting of the Company following the passing of the relevant special resolution(s) at the AGM, A Shareholders' Class Meeting and H Shareholders' Class Meeting; (b) the expiration of a period of twelve months following the passing of the relevant special resolution(s) at the AGM, A Shareholders' Class Meeting and H Shareholders' Class Meeting; or (c) the date on which the authority conferred by the relevant special resolution(s) is revoked or varied by a special resolution of the Shareholders at a general meeting or by H Shareholders or A Shareholders at their respective class meetings.

The Company would like to draw the Shareholders' attention to the fact that, even if the A Share Repurchase Mandate is approved at the AGM, the A Shareholders' Class Meeting and H Shareholders' Class Meeting, the Company will still be required, under applicable PRC laws and regulations and the Shanghai Listing Rules, to seek additional, specific and prior approval from its Shareholders in general meeting by way of special resolution(s) for each repurchase of A Shares and to provide further information and details of such repurchase of A Shares in accordance with requirements under applicable PRC laws and regulations and the Shanghai Listing Rules. The Company will at all times comply fully with all applicable PRC laws and regulations and the Shanghai Listing Rules and seek additional, specific and prior approval from its Shareholders in general meeting by way of special resolution(s) for each repurchase of A Shares.

H Share Repurchase Mandate

The Company Law (to which the Company is subject) provides that a joint stock limited company incorporated in the PRC may not repurchase its shares unless such repurchase is effected for the purpose of (a) reducing its registered share capital; (b) in connection with a merger between itself and another entity that holds its shares; (c) granting shares as reward to the staff of the company; or (d) the repurchase is made at the request of its shareholders

LETTER FROM THE BOARD

who disagrees with shareholders' resolutions in connection with a merger or division. The Mandatory Provisions, which the Company has incorporated in its Articles of Association, provides that subject to obtaining the approval of the relevant regulatory authorities and compliance with its articles of association, share repurchases may be effected by a joint stock limited company listed outside the PRC for the purpose of reducing its share capital or in connection with a merger between itself and another entity that holds its shares or in circumstances permitted by law or administrative regulations.

PRC laws and regulations and the Hong Kong Listing Rules permit shareholders of a PRC joint stock limited company to grant a general mandate to the Directors to repurchase H shares of such company that are listed on the Hong Kong Stock Exchange. Such mandate is required to be given by way of a special resolution passed by shareholders in general meeting and special resolutions passed by holders of domestic shares and overseas listed foreign shares in separate class meetings.

As H Shares are traded on the Hong Kong Stock Exchange in Hong Kong dollars and the price payable by the Company upon any repurchase of H Shares will, therefore, be paid in Hong Kong dollars, the approval of the Beijing Administrative Office of SAFE will be required. Besides, the Company shall also carry out filings with the CSRC after the Company has repurchased its Shares.

In accordance with the requirements of the Articles of Association of the Company applicable to capital reduction, the Company will have to notify its creditors of the passing of the resolution for the reduction of the registered capital of the Company within 10 days after the passing of such resolution and also by way of the publication on a newspaper within 30 days after the passing of the resolution. Creditors then have a period of up to 30 days after the Company's written notification or if no such notification has been received, up to 45 days after the publication of the press announcement to require the Company to repay amounts due to them or to provide guarantees in respect of such amounts.

Accordingly, approval is being sought from the Shareholders for a general mandate to repurchase H Shares in issue. In accordance with the legal and regulatory requirements described herein, the Directors will convene the AGM, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting. A special resolution will be proposed at the AGM, A Shareholders' Class Meeting and H Shareholders' Class Meeting to grant to the Directors the A Share Repurchase Mandate and H Share Repurchase Mandate, details of which will be set out in the notice of the AGM and the notice of the H Shareholders' Class Meeting. The H Shares which may be repurchased pursuant to the H Share Repurchase Mandate shall not exceed 10% of the number of H Shares in issue of the Company as at the date of passing of the resolution(s) approving the H Share Repurchase Mandate.

Both the A Share Repurchase Mandate and the H Share Repurchase Mandate would expire on the earlier of (a) the conclusion of the next annual general meeting of the Company following the passing of the relevant special resolution(s) at the AGM, A Shareholders' Class Meeting and H Shareholders' Class Meeting; (b) the expiration of a period of twelve months

LETTER FROM THE BOARD

following the passing of the relevant special resolution(s) at the AGM, A Shareholders' Class Meeting and H Shareholders' Class Meeting; or (c) the date on which the authority conferred by the relevant special resolution(s) is revoked or varied by a special resolution of the Shareholders at a general meeting or by H Shareholders or A Shareholders at their respective class meetings.

An explanatory statement giving certain information regarding the H Share Repurchase Mandate is set out in Appendix I to this circular.

THE ANNUAL GENERAL MEETING

An AGM will be convened and held for the purpose of, inter alia, considering and approving:

- (1) by the Independent Shareholders, and by way of ordinary resolution(s), the revision of cap for continuing connected transactions under the Current Transportation Service Framework Agreement for the year ending 31 December 2010;
- (2) by the Independent Shareholders, and by way of ordinary resolution(s), the revision of cap for continuing connected transactions under the Current Mutual Coal Supply Agreement for the year ending 31 December 2010;
- (3) by the Independent Shareholders, and by way of ordinary resolution(s), the Mutual Coal Supply Agreement, the proposed annual caps in relation thereto and the transactions contemplated thereunder;
- (4) by the Independent Shareholders, and by way of ordinary resolution(s), the Mutual Supplies and Services Agreement, the proposed annual caps in relation thereto and the transactions contemplated thereunder;
- (5) by the Independent Shareholders, and by way of ordinary resolution(s), the China Datang Coal Supply Framework Agreement, the proposed annual caps in relation thereto and the transactions contemplated thereunder;
- (6) by the Independent Shareholders, and by way of ordinary resolution(s), the Tianjin Jinneng Coal Supply Framework Agreement, the proposed annual caps in relation thereto and the transactions contemplated thereunder;
- (7) by the Independent Shareholders, and by way of ordinary resolution(s), the Jiangsu Guoxin Coal Supply Framework Agreement, the proposed annual caps in relation thereto and the transactions contemplated thereunder;
- (8) by the Independent Shareholders, and by way of ordinary resolution(s), the Transportation Service Framework Agreement, the proposed annual caps in relation thereto and the transactions contemplated thereunder;

LETTER FROM THE BOARD

- (9) by the Independent Shareholders, and by way of ordinary resolution(s), the Shaanxi Coal Transportation Coal Supply Framework Agreement, the proposed annual caps in relation thereto and the transactions contemplated thereunder; and
- (10) by the Shareholders, and by way of special resolution(s), the A Share Repurchase Mandate and the H Share Repurchase Mandate.

The A Shareholders' Class Meeting will be convened and held for the purpose of considering and approving by the A Shareholders, and by way of special resolution(s), the A Share Repurchase Mandate and the H Share Repurchase Mandate. The H Shareholders' Class Meeting will be convened and held for the purpose of considering and approving by the H Shareholders, and by way of special resolution(s), the A Share Repurchase Mandate and the H Share Repurchase Mandate. Votes for all resolution(s) at the AGM, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting shall be taken by way of poll.

Pursuant to the Hong Kong Listing Rules, Shenhua Group Co and its associates will abstain from voting on resolution(s) in relation to the following at the AGM:

- (1) the revision of cap for continuing connected transactions under the Current Mutual Coal Supply Agreement for the year ending 31 December 2010;
- (2) the Mutual Coal Supply Agreement, the proposed annual caps in relation thereto and the transactions contemplated thereunder; and
- (3) the Mutual Supplies and Services Agreement, the proposed annual caps in relation thereto and the transactions contemplated thereunder.

Other than set out above and as of the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, there is no connected person of the Company, Shareholder and their respective associates with a material interest in the transactions to be proposed, considered and approved at the AGM required to abstain from voting at the AGM.

Notices convening the AGM and the H Shareholders' Class Meeting, together with reply slips and forms of proxy for use at the said meetings, will be despatched by the Company to the Shareholders as soon as practicable in accordance with the Hong Kong Listing Rules. Notice convening the A Shareholders' Class Meeting will be published by the Company by way of an announcement in accordance with the Shanghai Listing Rules and PRC laws and regulations.

LETTER FROM THE BOARD

RECOMMENDATION

Proposed revision of annual caps for existing continuing connected transactions and new continuing connected transactions

Based on the relevant information disclosed herein, the Directors, including all the independent non-executive Directors, believe that (1) the proposed revision of annual caps for the existing continuing connected transactions set out herein, and (2) the terms, proposed annual caps of and the transactions contemplated under the new continuing connected transactions set out herein are fair and reasonable, on normal commercial terms and in the interest of the Company and its Shareholders as a whole.

Accordingly, the Board recommends that the Shareholders vote in favour of all resolution(s) in relation to the proposed revision of annual caps for existing continuing connected transactions and new continuing connected transactions to be proposed at the AGM. As mentioned above, China Merchants Securities (HK) Co., Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders.

Having considered the advices given by the Independent Financial Adviser and the principal factors and reasons taken into consideration by them in arriving at their advices, the Independent Board Committee is of the opinion that (1) the proposed revision of annual caps for the existing continuing connected transactions set out herein, and (2) the terms, proposed annual caps of and the transactions contemplated under the new continuing connected transactions set out herein are fair and reasonable, on normal commercial terms and in the interest of the Company and its Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of all resolution(s) in relation to the proposed revision of annual caps for existing continuing connected transactions and new continuing connected transactions to be proposed at the AGM.

Your attention is also drawn to the letter from the Independent Board Committee set out on page 47, the letter from the Independent Financial Adviser set out on pages 49 to 75 and the other information set out in the appendices to this circular.

The A Share Repurchase Mandate and H Share Repurchase Mandate

The Directors consider that the A Share Repurchase Mandate and H Share Repurchase Mandate mentioned above are in the best interests of the Company and its Shareholders as a whole, and recommend that all Shareholders, A Shareholders and H Shareholders should vote in favour of the relevant resolutions to be proposed at the AGM, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting.

Yours faithfully,
By order of the Board
Huang Qing
Secretary to the Board of Directors



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)

1 April 2010

To the Independent Shareholders

Dear Sir or Madam,

**REVISION OF CAP FOR CONTINUING CONNECTED TRANSACTIONS UNDER THE
CURRENT TRANSPORTATION SERVICE FRAMEWORK AGREEMENT
REVISION OF CAP FOR CONTINUING CONNECTED TRANSACTIONS UNDER THE
CURRENT MUTUAL COAL SUPPLY AGREEMENT
ENTERING INTO MUTUAL COAL SUPPLY AGREEMENT
ENTERING INTO MUTUAL SUPPLIES AND SERVICES AGREEMENT
ENTERING INTO CHINA DATANG COAL SUPPLY FRAMEWORK AGREEMENT
ENTERING INTO TIANJIN JINNENG COAL SUPPLY FRAMEWORK AGREEMENT
ENTERING INTO JIANGSU GUOXIN COAL SUPPLY FRAMEWORK AGREEMENT
ENTERING INTO TRANSPORTATION SERVICE FRAMEWORK AGREEMENT
AND
ENTERING INTO SHAANXI COAL TRANSPORTATION COAL SUPPLY FRAMEWORK
AGREEMENT**

We have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, (1) the proposed revision of annual caps for the existing continuing connected transactions, and (2) the terms, proposed annual caps of and the transactions contemplated under the new continuing connected transactions, details of which are set out in the letter from the Board contained in the Circular, are fair and reasonable, on normal commercial terms and in the interest of the Company and its Shareholders as a whole.

Having considered the above and the advice of the Independent Financial Adviser in relation thereto as set out on pages 49 to 75 of this Circular, we are of the opinion that (1) the proposed revision of annual caps for the existing continuing connected transactions, and (2) the terms, proposed annual caps of and the transactions contemplated under the new continuing connected transactions are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms and in the interest of the Company and its Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of and approve all resolution(s) in relation to the proposed revision of annual caps for existing continuing connected transactions and new continuing connected transactions to be proposed at the AGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

Huang Yicheng

*Independent Non-executive
Director*

Anthony Francis Neoh

*Independent Non-executive
Director*

Gong Huazhang

*Independent Non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



48th Floor,
One Exchange Square,
Central,
Hong Kong

1 April 2010

China Shenhua Energy Company Limited
Shenhua Tower
22 Andingmen Xibinhe Road
Dongcheng District
Beijing, PRC

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**REVISION OF CAP FOR CONTINUING CONNECTED TRANSACTIONS UNDER THE
CURRENT TRANSPORTATION SERVICE FRAMEWORK AGREEMENT
REVISION OF CAP FOR CONTINUING CONNECTED TRANSACTIONS UNDER THE
CURRENT MUTUAL COAL SUPPLY AGREEMENT
ENTERING INTO MUTUAL COAL SUPPLY AGREEMENT
ENTERING INTO MUTUAL SUPPLIES AND SERVICES AGREEMENT
ENTERING INTO CHINA DATANG COAL SUPPLY FRAMEWORK AGREEMENT
ENTERING INTO TIANJIN JINNENG COAL SUPPLY FRAMEWORK AGREEMENT
ENTERING INTO JIANGSU GUOXIN COAL SUPPLY FRAMEWORK AGREEMENT
ENTERING INTO TRANSPORTATION SERVICE FRAMEWORK AGREEMENT AND
ENTERING INTO SHAANXI COAL TRANSPORTATION COAL SUPPLY FRAMEWORK
AGREEMENT**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the revision of annual caps in respect of the Current Transportation Service Framework Agreement and the Current Mutual Coal Supply Agreement for the year ending 31 December 2010 and the entering into of the Mutual Coal Supply Agreement, the Mutual Supplies and Services Agreement, the China Datang Coal Supply Framework Agreement, the Tianjin Jinneng Coal Supply Framework Agreement, the Jiangsu Guoxin Coal Supply Framework Agreement, the Transportation

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Service Framework Agreement and the Shaanxi Coal Transportation Coal Supply Framework Agreement (the “**Continuing Connected Transactions Agreements**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 1 April 2010 (the “**Circular**”) issued by the Company to the Shareholders, of which this letter forms part. The terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

This letter contains our advice to the Independent Board Committee and the Independent Shareholders as to whether or not (i) the Continuing Connected Transactions Agreements and the transactions contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole; (ii) the proposed revised annual caps in respect of the Current Transportation Service Framework Agreement and the supply of coal by the Group to the Shenhua Group under the Current Mutual Coal Supply Agreement for the year ending 31 December 2010 (the “**Revised Caps**”) and the proposed annual caps in respect of the Continuing Connected Transactions Agreements for the three years ending 31 December 2013 (the “**Annual Caps**”) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole; and (iii) whether the Independent Shareholders should vote in favour of the Continuing Connected Transactions Agreements and the transactions contemplated thereunder, the Revised Caps and the Annual Caps at the AGM.

BASIS OF OUR OPINION

In formulating our advice and recommendations, we have relied on the accuracy of the information and facts supplied, and the opinions expressed by the Company, its Directors and its management to us. We have assumed that all statements of belief and intention made by the Directors and the management of the Company in the Circular were made after due enquiry. We have also assumed that all information, representations and opinion made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true at the date of the AGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company, its Directors and its management, and have been advised by the Directors and the management of the Company that no material facts have been omitted from the information provided and referred to in the Circular.

In rendering our opinions, we have researched, analysed and relied on information from independent third party sources. We have assumed such information to be accurate and reliable and have not carried out any independent verification on the accuracy of such information. Such relevant information provides us with a basis on which we have been able to formulate our independent opinion.

We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted any form of in-

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depth investigation into the business affairs, financial position or future prospects of the Group or the counterparties of the Current Transportation Service Framework Agreement, the Current Mutual Coal Supply Agreement and the Continuing Connected Transactions Agreements, nor carried out any independent verification of the information supplied, representations made or opinions expressed by the Company, its Directors and its management.

PRINCIPAL FACTORS AND REASONS

In arriving at our opinions and recommendations, we have taken into consideration the following principal factors and reasons:

I. BACKGROUND

1. Background on the Current Transportation Service Framework Agreement, the Current Mutual Coal Supply Agreement and the Continuing Connected Transactions Agreements

Details of the background on the Current Transportation Service Framework Agreement, the Current Mutual Coal Supply Agreement and the Continuing Connected Transactions Agreements are set out in the Letter from the Board.

As set out in the Letter from the Board, the Company has entered into the Current Transportation Service Framework Agreement with Taiyuan Railway Bureau on 18 December 2009 and the Current Mutual Coal Supply Agreement with Shenhua Group Co on 23 March 2007. With the continued development of the Group, and based on estimates of demand and operating conditions, the Directors expect that the existing annual caps of the Current Transportation Service Framework Agreement and the supply of coal by the Group to the Shenhua Group under the Current Mutual Coal Supply Agreement for the year ending 31 December 2010 will not be sufficient for the Group's requirements. The Directors therefore propose that the existing annual caps of the Current Transportation Service Framework Agreement and the supply of coal by the Group to the Shenhua Group under the Current Mutual Coal Supply Agreement for the year ending 31 December 2010 to be revised.

The Company has, on 12 March 2010, entered into (i) the Mutual Coal Supply Agreement; (ii) the Mutual Supplies and Services Agreement; (iii) the China Datang Coal Supply Framework Agreement; (iv) the Tianjin Jinneng Coal Supply Framework Agreement; (v) the Jiangsu Guoxin Coal Supply Framework Agreement; (vi) the Transportation Service Framework Agreement; and (vii) the Shaanxi Coal Transportation Coal Supply Framework Agreement with (i) Shenhua Group Co; (ii) Shenhua Group Co; (iii) China Datang; (iv) Tianjin Jinneng; (v) Jiangsu Guoxin; (vi) Taiyuan Railway Bureau; and (vii) Shaanxi Coal Transportation respectively.

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As set out in the Letter from the Board, each of Shenhua Group Co, China Datang, Tianjin Jinneng, Jiangsu Guoxin, Taiyuan Railway Bureau and Shaanxi Coal Transportation is a connected person of the Company under the Hong Kong Listing Rules. Therefore, the Current Transportation Service Framework Agreement, the Current Mutual Coal Supply Agreement, the Continuing Connected Transactions Agreements and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

Certain applicable percentage ratios (as defined under Rule 14A.10 of the Hong Kong Listing Rules) in respect of the Revised Caps and the Annual Caps are more than 2.5%. Therefore, in addition to complying with the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, Independent Shareholders' approval will be required pursuant to Rule 14A.48 of the Hong Kong Listing Rules. The Company will seek approval from the Independent Shareholders at the AGM and comply with other requirements under the Hong Kong Listing Rules.

2. Background on the Group

Principal activities of the Group

As set out in the Letter from the Board, 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 thermal coal and purchases coal from third parties for coal blending and resale.

Financial information of the Group

Set out below are the financial information of the Group (prepared in accordance with International Financial Reporting Standards) for the three years ended 31 December 2009, as extracted from the annual report of the Company for the year ended 31 December 2009 (the “**2009 Annual Report**”) and the annual report of the Company for the year ended 31 December 2008 (the “**2008 Annual Report**”):

	Year ended 31 December		
	2009	2008	2007
	(RMB million)	(RMB million)	(RMB million)
	(audited)	(audited)	(audited)
Operating revenue	<u>121,312</u>	<u>107,133</u>	<u>82,107</u>
Profit from operations	<u>47,108</u>	<u>39,675</u>	<u>32,497</u>
Profit before income tax	<u>45,812</u>	<u>36,975</u>	<u>30,779</u>
Profit attributable to equity Shareholders	<u>31,706</u>	<u>26,641</u>	<u>20,581</u>

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As calculated from the above table, the Group's operating revenue amounted to approximately RMB82,107 million, RMB107,133 million and RMB121,312 million for the three years ended 31 December 2009 respectively, representing a compound annual growth rate ("CAGR") of approximately 21.6% during 2007 to 2009.

Set out below is the breakdown of revenue of the Group for the three years ended 31 December 2009 as extracted from the 2009 Annual Report and the 2008 Annual Report:

	Year ended 31 December					
	2009		2008		2007	
	(RMB million) (audited)	% to total operating revenue	(RMB million) (audited)	% to total operating revenue	(RMB million) (audited)	% to total operating revenue
Coal	85,754	70.7%	75,215	70.2%	56,246	68.5%
Railway	2,003	1.7%	1,950	1.8%	1,455	1.8%
Port	148	0.1%	82	0.1%	103	0.1%
Power	33,407	27.5%	29,886	27.9%	24,303	29.6%
Total	<u>121,312</u>	<u>100%</u>	<u>107,133</u>	<u>100%</u>	<u>82,107</u>	<u>100%</u>

The Group's revenue derived from the coal sector amounted to approximately RMB56,246 million, RMB75,215 million and RMB85,754 million for the three years ended 31 December 2009 respectively, representing a CAGR of approximately 23.5% during 2007 to 2009.

Coal production volume of the Group

According to the 2009 Annual Report and the 2008 Annual Report, the commercial coal production volume of the Group was approximately 158.0 million tonnes, 185.7 million tonnes and 210.3 million tonnes for the three years ended 31 December 2009 respectively, representing a CAGR of approximately 15.4% during 2007 to 2009. According to the 2009 Annual Report, increase in plan in 2010 against to accomplished in 2009 for commercial coal production of the Group was approximately 8.9%.

Coal sales volume of the Group

According to the 2009 Annual Report and the 2008 Annual Report, commercial coal sales volume of the Group was approximately 209.1 million tonnes, 232.7 million tonnes and 254.3 million tonnes for the three years ended 31 December 2009 respectively, representing a CAGR of approximately 10.3% during 2007 to 2009. According to the 2009 Annual Report, increase in plan in 2010 against to accomplished in 2009 for coal sales of the Group was approximately 7.0%.

Production capacity of the Group

According to the 2009 Annual Report, in 2009, the coal segment continued to expand its production capacity through the construction of new mines and technological upgrade of existing mines. Shendong Coal Group was established by the Company in 2009 through consolidation of Shendong Mines and Wanli Mines, which significantly improved the efficiency of every aspect of mine production, resource allocation, geological exploration, selection and processing, equipment maintenance and application of information technology in mines. It was also mentioned in the 2009 Annual Report that one of the major operating objectives of the Group is to accelerate the construction of new mines and progress of technological upgrade of those mines which have been put into production, and increase additional coal capacity with an aim to achieve steady growth of coal production.

3. Background on the counterparties to the Current Transportation Service Framework Agreement, the Current Mutual Coal Supply Agreement and the Continuing Connected Transactions Agreements

As set out in the Letter from the Board, Shenhua Group Co is the sole promoter and a controlling shareholder of the Company. Shenhua Group Co and its subsidiaries are principally engaged in the coal liquefaction, coal based chemical processing business, coal production and power generation business as well as investment and finance activities.

China Datang is one of the five large-scaled power generation enterprises in the PRC. China Datang's main business includes management of state-owned assets invested by the state and owned by China Datang, investment, construction and management of power energy projects, manufacturing and commissioning of electric power equipment, contracting and providing consultancy services on environmental protection projects and renewable energy development.

Tianjin Jinneng is a state-owned corporation established in the PRC. The Tianjin Jinneng Group is principally engaged in investment, construction, operation and management of energy industry including electricity power, thermal power, gas power and renewable power.

Jiangsu Guoxin is a PRC state-owned company and the Jiangsu Guoxin Group is principally involved in the operation, management, transfer, investment, business designation and assets restructuring of stated-owned assets.

Taiyuan Railway Bureau and its subsidiaries are principally engaged in railway transportation businesses.

Shaanxi Coal Transportation and its subsidiaries are principally engaged in the sale and transportation of coal and related businesses.

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II. OVERVIEW OF THE ECONOMY OF THE PRC AND THE COAL INDUSTRY IN THE PRC

1. Economy of the PRC

Set out below is the gross domestic product (“GDP”) of the PRC from 2004 to 2008:

	2004	2005	2006	2007	2008	CAGR
	(RMB billion)	(RMB billion)	(RMB billion)	(RMB billion)	(RMB billion)	(2004-2008)
GDP	15,987.83	18,321.74	21,192.35	25,730.56	30,067.00	17.1%

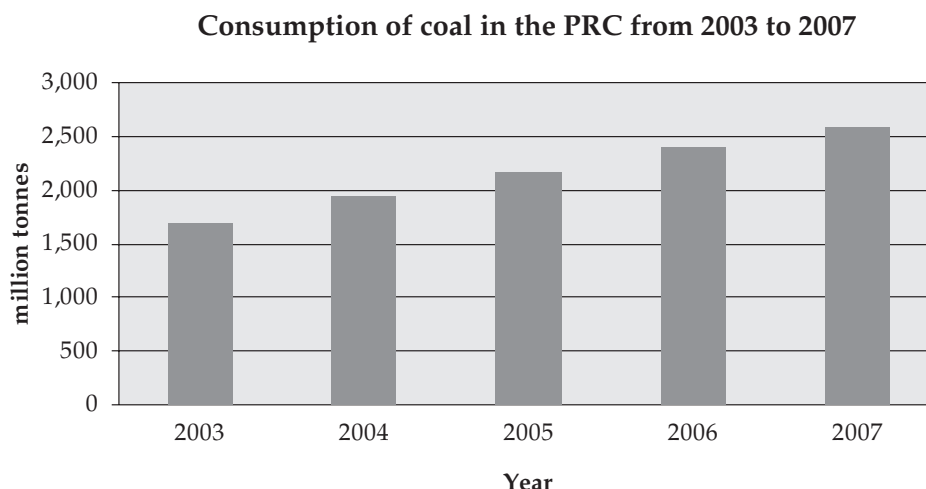
Source: China Statistical Yearbook 2009

As set out in the above table, GDP of the PRC grew from approximately RMB15,987.8 billion in 2004 to approximately RMB30,067.0 billion in 2008, representing a CAGR of approximately 17.1%.

According to a press release namely 《2010年中國經濟預測》 (Forecast on the PRC Economy 2010) dated 6 February 2010 published by 中國科學院預測科學研究中心 (Center for Forecasting Science, CAS), it is forecasted that the economy of the PRC will show a moderately increasing trend in 2010 and the growth rate of GDP in 2010 is expected to remain as approximately 10%.

2. Coal consumption in the PRC

Set out below is the consumption of coal in the PRC from 2003 to 2007:



Source: China Statistical Yearbook 2006 and China Statistical Yearbook 2008

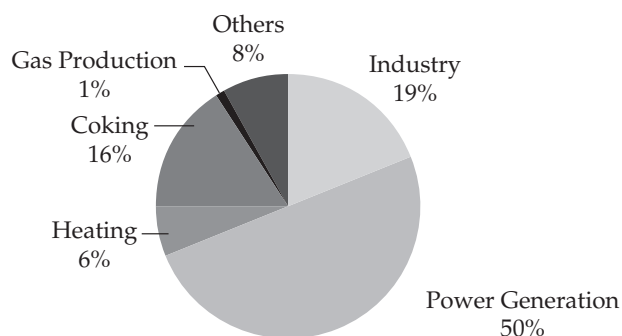
Based on China Statistical Yearbook 2006 and China Statistical Yearbook 2008, the consumption of coal in the PRC increased from approximately 1,692.3 million tonnes in 2003 to approximately 2,586.4 million tonnes in 2007, representing a CAGR of approximately 11.2% per annum.

According to an article namely 《2010年煤炭行業展望》 (Coal Industry Outlook 2010) dated 31 December 2009 posted on 國際煤炭網 (the website of international coal), it is expected that the increase in coal demand in the PRC in 2010 will at the range of 4% to 6%.

3. Coal consumption by usage and demand for electricity in the PRC

Set out below is the coal consumption by usage in the PRC for 2007:

Coal consumption by usage in the PRC for 2007



Source: China Statistical Yearbook 2008

Based on the diagram above, power generation is the major consumer of the national coal demand in the PRC, which accounts for approximately 50% of the total coal consumption in 2007. We noted that the remaining coal consumption are mainly derived from four other usages, such as industry, coking, heating and gas production.

According to an article namely 《中電聯發佈全國電力供需與經濟運行形勢分析預測報告》 (China Electricity Council announced the report on analysis and forecast on demand and supply of electricity with the economy in the PRC) dated 28 January 2010 posted on the website of 中國電力企業聯合會 (China Electricity Council), it was mentioned that according to 《全國電力供需與經濟運行形勢分析預測報告(2009-2010年度)》 (Report on analysis and forecast on demand and supply of electricity with the economy in the PRC, 2009-2010), the consumption of electricity in the PRC has been growing in 2009 and it is estimated that the growth in consumption of electricity in the PRC in 2010 will exceed that in 2009. It is estimated that the consumption in electricity in the PRC will increase approximately 9% in 2010 as compared with that in 2009.

4. Coal price

According to an article namely 《能源局：2010年煤炭業整合不影響供應》 (National Energy Administration: consolidation of the coal industry in 2010 will not affect the supply) dated 6 January 2010 posted on 中國證券報 (China Securities Journal), it was mentioned that according to the information released during the press briefing held by the National Development and Reform Commission, the National Energy Administration and the Shanxi Government, the coal supply in the PRC in 2010 will not be affected by the consolidation of the coal industry while the increase in coal price in 2010 will remain at a range of 5% to 8%.

5. Government policy towards the coal industry in the PRC

According to 《煤炭工業發展“十一五”規劃》 (Eleventh Five-Year Plan on the Development of Coal Industry) (the “Plan”) issued by 中華人民共和國國家發展和改革委員會 (National Development and Reform Commission) in January 2007, the PRC is the world’s largest producer of coal, accounting for approximately 37% of the global coal production volume. Coal is the major source of energy in the PRC, accounting for approximately 76% and 69% respectively of total primary energy production and consumption in the PRC. It is expected that coal will remain as a major and important source of energy in the PRC in the foreseeable future.

According to the Plan, the future development of the coal industry in the PRC is regulating coal production, constructing large coal mining bases, developing large scale coal enterprises, integrating and renovating small to medium-sized coal mines, closing down small coal mines with poor safety conditions, enhancing technology level and improving coal mining safety.

During the tenth five-year period, the coal production volume recorded an average growth of approximately 11% per year and the coal production volume amounted to approximately 2.2 billion tonnes in 2005.

According to the statistics in the Plan, mines with a total capacity of approximately 456 million tonnes are expected to be newly constructed during the eleventh five-year period. Moreover, mines with a total capacity of approximately 620 million tonnes will be in operation during the eleventh five-year period, of which mines with a total capacity of approximately 369 million tonnes is constructed during the ten five-year period and mines with a total capacity of approximately 251 million tonnes will be constructed during the eleventh five-year period.

III. THE REVISED CAPS

1. Reasons for the Revised Caps

Details of the reasons for the Revised Caps are set out in the Letter from the Board.

In view of (i) the revised annual cap for the Current Transportation Service Framework Agreement for the year ending 31 December 2010 caters for the expected increase in demand of the provision of transportation and related services by the Taiyuan Railway Bureau Group to the Group; and (ii) the revised annual cap for the Current Mutual Coal Supply Agreement for the year ending 31 December 2010 caters for the expected increase in demand of the supply of coal by the Group to the Shenhua Group, we concur with the Directors' view that it is fair and reasonable so far as the Independent Shareholders are concerned for the Group to revise annual caps for the Current Transportation Service Framework Agreement and the supply of coal by the Group to the Shenhua Group under the Current Mutual Coal Supply Agreement for the year ending 31 December 2010.

2. Basis for determining the Revised Caps

(i) The Current Transportation Service Framework Agreement

As stated in the Letter from the Board, the proposed revised annual cap in respect of the Current Transportation Service Framework Agreement was based on the past transaction figures, estimated expansion in operation and business growth of the Group, the economic outlook of the PRC, the estimated continued development of the Group and internal assumptions of future coal production capacity of the Group.

Past transaction figures

As set out in the Letter from the Board, the historical transaction amounts in respect of the Current Transportation Service Framework Agreement for the period from 1 January 2010 to 31 January 2010 was approximately RMB322 million. Based on the historical amount for the period from 1 January 2010 to 31 January 2010, the Directors expect that the existing annual cap of the Current Transportation Service Framework Agreement will not be sufficient for the Group's requirements.

Estimated expansion in operation and business growth of the Group, the estimated continued development of the Group and internal assumptions of future coal production capacity of the Group

We have discussed the future development plan of the Group with the management of the Company and the management of the Company advised that the volume of coal sold by the Group in 2010 will increase. This is due to (i) the expected increase in coal supply by the Shenhua Group to the Group

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for blending purpose in 2010; and (ii) the expected increase in the production capacity of the mines of the Group for the year ending 31 December 2010 through the construction of new mines and technological upgrade of existing mines as mentioned in the paragraph headed “Production capacity of the Group” in the section headed “Background on the Group” above and after taking into account of (i) the Group recorded a CAGR of approximately 23.5% for the revenue derived from the coal sector during 2007 to 2009 as mentioned in the paragraph headed “Financial information of the Group” in the section headed “Background on the Group” above; (ii) the Group recorded a CAGR of approximately 15.4% for the coal production volume during 2007 to 2009 as mentioned in the paragraph headed “Coal production volume of the Group” in the section headed “Background on the Group” above; and (iii) the Group recorded a CAGR of approximately 10.3% for the coal sales volume during 2007 to 2009 as mentioned in the paragraph headed “Coal sales volume of the Group” in the section headed “Background on the Group” above.

The management of the Company also advised that due to the location of some coal mines of the Shenhua Group that will increase the provision of coal to the Group for the year ending 31 December 2010 are situated in the area in which the Taiyuan Railway Bureau Group will provide transportation services, the Group will increase the usage of transportation and related services to be provided by the Taiyuan Railway Bureau Group for the year ending 31 December 2010 accordingly.

Moreover, the management of the Company advised that the Taiyuan Railway Bureau Group will increase the provision of transportation and related services to the Group in the future. Given the past cooperation with the Taiyuan Railway Bureau Group and the well-established railway network of the Taiyuan Railway Bureau Group, the Group will increase the usage of transportation and related services to be provided by the Taiyuan Railway Bureau Group for the year ending 31 December 2010.

According to an article namely 《國家發展改革委、鐵道部關於調整鐵路貨物運輸價格的通知》(Notice on price adjustment of goods transportation by rail issued by the National Development and Reform Commission and the Ministry of Railway) dated 11 December 2009 issued by 國家發展和改革委員會 (the National Development and Reform Commission) and 鐵道部 (the Ministry of Railways), the average national standard railway transportation fee for goods per tonne by each kilometer will increase approximately 7.3% with effective from 13 December 2009. Taking into account of the above factors and the expected increase in the unit price of the transportation services to be provided by the Taiyuan Railway Bureau Group in 2010, the management of the Company advised that the transaction amount in respect of the transportation and related services to be provided by the Taiyuan Railway Bureau Group for the year ending 31 December 2010 will increase accordingly.

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Economic outlook of the PRC

The management of the Company advised that the Group will be benefited from the positive outlook of the economy of the PRC and the coal industry as mentioned in the section headed “Overview of the economy of the PRC and the coal industry in the PRC” above. Thus the provision of transportation and related services by the Taiyuan Railway Bureau Group to the Group under the Current Transportation Service Framework Agreement for the year ending 31 December 2010 will increase accordingly.

Taking into account of (i) the past transaction figures; (ii) estimated expansion in operation and business growth of the Group, the estimated continued development of the Group and internal assumptions of future coal production capacity of the Group; and (iii) the economic outlook of the PRC, we consider the proposed revised annual cap in respect of the Current Transportation Service Framework Agreement for the year ending 31 December 2010 is fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

(ii) Supply of coal by the Group to the Shenhua Group under the Current Mutual Coal Supply Agreement

As stated in the Letter from the Board, the proposed revised annual cap in respect of the supply of coal by the Group to the Shenhua Group under the Current Mutual Coal Supply Agreement was based on the past transaction figures, estimated expansion in operation and business growth of the Group, the economic outlook of the PRC, the estimated continued development of the Group and internal assumptions of demand and operating conditions.

Past transaction figures

As set out in the Letter from the Board, the historical transaction amounts of the supply of coal by the Group to the Shenhua Group under the Current Mutual Coal Supply Agreement were approximately RMB1,642 million, RMB 1,570 million and RMB110 million for the two years ended 31 December 2008 and 2009 and for the period from 1 January 2010 to 31 January 2010 respectively. After taking into account of (i) the estimated expansion in operation and business growth of the Group and the estimated continued development of the Group; (ii) the

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economic outlook of the PRC; and (iii) the internal assumptions of demand and operating conditions of the Shenhua Group as mentioned below, the Directors expected the existing annual cap in respect of the supply of coal by the Group to the Shenhua Group under the Current Mutual Coal Supply Agreement for the year ending 31 December 2010 is likely to be exceeded.

Estimated expansion in operation and business growth of the Group and the estimated continued development of the Group

The management of the Company expected that the production capacity of the mines of the Group for the year ending 31 December 2010 will increase due to the increase in number of new mines and the increase in production capacity of the existing mines of the Group in 2010 through the construction of new mines and technological upgrade of existing mines as mentioned in the paragraph headed “Production capacity of the Group” in the section headed “Background on the Group” above and after taking into account of (i) the Group recorded a CAGR of approximately 23.5% for the revenue derived from the coal sector during 2007 to 2009 as mentioned in the paragraph headed “Financial information of the Group” in the section headed “Background on the Group” above; (ii) the Group recorded a CAGR of approximately 15.4% for the coal production volume during 2007 to 2009 as mentioned in the paragraph headed “Coal production volume of the Group” in the section headed “Background on the Group” above; and (iii) the Group recorded a CAGR of approximately 10.3% for the coal sales volume during 2007 to 2009 as mentioned in the paragraph headed “Coal sales volume of the Group” in the section headed “Background on the Group” above. Taking into account of the expected increase in production capacity of the mines of the Group for the year ending 31 December 2010 and the inclusion of transportation fee in the supply of coal to a power plant of the Shenhua Group from 2010, the management of the Company expected that the transaction amount in respect of the supply of coal by the Group to the Shenhua Group under the Current Mutual Coal Supply Agreement for the year ending 31 December 2010 will increase accordingly.

Economic outlook of the PRC

The management of the Company advised that the Shenhua Group will be benefited from the positive outlook of the economy of the PRC and the coal industry as mentioned in the section headed “Overview of the economy of the PRC and the coal industry in the PRC” above. Thus the supply of coal by the Group to the Shenhua Group under the Current Mutual Coal Supply Agreement for the year ending 31 December 2010 will increase accordingly.

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Internal assumptions of demand and operating conditions of the Shenhua Group

The management of the Company advised that they have discussed the production plan of the Shenhua Group with the management of the Shenhua Group and it is expected that the amount of coal supplied by the Group to the Shenhua Group in 2010 will increase, which is mainly due to (i) the expansion of the Shenhua Group's business and increased coal demand due to the new supply to an existing power plant of the Shenhua Group and commencement of operation of a new power plant of the Shenhua Group in 2010; (ii) new projects in relation to coal to liquid project and coal chemicals project commenced in 2009 and the management of the Company expected that the amount of coal supplied by the Group to the Shenhua Group will be increased in 2010; and (iii) the increase in unit price for coal in 2010. We have discussed with the management of the Company for the estimated increase in coal price in 2010 and noticed that it is in line with that mentioned in the paragraph headed "Coal price" in the section headed "Overview of the economy of the PRC and the coal industry in the PRC" as mentioned above. Thus the management of the Company expected that the transaction amount in respect of the supply of coal by the Group to the Shenhua Group under the Current Mutual Coal Supply Agreement for the year ending 31 December 2010 will increase accordingly.

Taking into account of (i) the past transaction figures; (ii) the estimated expansion in operation and business growth of the Group and the estimated continued development of the Group; (iii) the economic outlook of the PRC; and (iv) the internal assumptions of demand and operating conditions of the Shenhua Group, we consider the proposed revised annual cap in respect of the supply of coal by the Group to the Shenhua Group under the Current Mutual Coal Supply Framework Agreement for the ending 31 December 2010 is fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

IV. THE ANNUAL CAPS

1. Reasons for entering into the Continuing Connected Transactions Agreements

In view of (i) the past cooperation between the Group and the counterparties to the Continuing Connected Transactions Agreements; (ii) the supply of coal by the Shenhua Group to the Group under the Mutual Coal Supply Agreement, the provision of supplies and ancillary services by the Shenhua Group to the Group under the Mutual Supplies and Services Agreement, the Transportation Service Framework Agreement and the Shaanxi Coal Transportation Coal Supply Framework Agreement will facilitate the operations of the Group; and (iii) the supply of coal by the Group to the Shenhua Group under the Mutual Coal Supply Agreement, the provision of supplies and ancillary services by the Group to the Shenhua Group under the Mutual Supplies and Services Agreement, the China Datang Coal Supply Framework Agreement, the Tianjin Jinneng Coal Supply

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Framework Agreement and the Jiangsu Guoxin Coal Supply Framework Agreement will bring stable income to the Group, we concur with the Directors' view that each of the Continuing Connected Transactions Agreement has been entered into in the ordinary and usual course of business of the Company and is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

2. Basis of price determination of the Continuing Connected Transactions Agreements

Details of the price determination of the Continuing Connected Transactions Agreements are set out in the Letter from the Board.

In order to assess the fairness and reasonableness of the price basis under the Continuing Connected Transactions Agreements, we have reviewed the historical similar transactions between the Group and third parties and noticed that the price basis under each of the Continuing Connected Transactions Agreements is the same as the price basis under the historical similar transactions between the Group and third parties. Hence, we are of the view that the price basis under each of the Continuing Connected Transactions Agreements is on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

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3. Basis of determining the Annual Caps

(i) The Mutual Coal Supply Agreement and the Mutual Supplies and Services Agreement

The proposed annual caps in respect of the Mutual Coal Supply Agreement and the Mutual Supplies and Services Agreement for the three years ending 31 December 2013 are set out below:

	Year ending 31 December		
	2011	2012	2013
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Mutual Coal Supply Agreement			
Supply of coal by the Group to the Shenhua Group	6,600	7,000	7,500
Supply of coal by the Shenhua Group to the Group	11,000	13,000	16,000
Mutual Supplies and Services Agreement			
Production supplies and ancillary services by the Group to the Shenhua Group	4,600	7,300	8,600
Production supplies and ancillary services by the Shenhua Group to the Group	5,500	6,000	6,600

As set out in the Letter from the Board, the proposed annual caps in respect of the Mutual Coal Supply Agreement for the three years ending 31 December 2013 were based on estimates of demand and operating conditions in respect of the Mutual Coal Supply Agreement, assumed future business volume and growth of the Group, the Group's estimated future coal production capacity, future electricity demand and the economic outlook of the PRC and the Company's estimate on future coal prices.

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As set out in the Letter from the Board, the proposed annual caps in respect of the Mutual Supplies and Services Agreement for the three years ending 31 December 2013 were based on estimates of demand and operating conditions in respect of the Mutual Supplies and Services Agreement, assumed future business volume and growth of the Group, estimated future production capacity and business of the Group, general economic outlook of the PRC and the Company's estimate on future needs.

(a) *Supply of coal by the Group to the Shenhua Group under the Mutual Coal Supply Agreement and the provision of supplies and ancillary services by the Group to the Shenhua Group under the Mutual Supplies and Services Agreement*

Estimates of demand and operating conditions in respect of the supply of coal by the Group to the Shenhua Group under the Mutual Coal Supply Agreement and the provision of supplies and ancillary services by the Group to the Shenhua Group under the Mutual Supplies and Services Agreement

The management of the Company advised that two new projects of the Shenhua Group which are coal to liquid and coal chemicals projects commenced in 2009 and the management of the Company expected the scale of these two projects will increase from 2011 and this will increase the need for coal provided by the Group to the Shenhua Group. Moreover, due to new supply of coal to a power plant of the Shenhua Group in 2010, the need of coal from that power plant of the Shenhua Group will increase for the three years ending 31 December 2013 and will result in increasing supply of coal from the Group to the Shenhua Group. The management of the Group also advised that several new power plants of the Shenhua Group will commence operation in 2010 and 2011 and that will result in the increase of coal supply to those power plants by the Group. Therefore, the supply of coal for the three years ending 31 December 2013 by the Group to the Shenhua Group under the Mutual Coal supply Agreement will increase accordingly. The management of the Company advised that the annual increase in the coal price for the three years ending 31 December 2013 will be at a range of 5% to 8%, which is the same as the estimated increase in coal price for the year ending 31 December 2010 as mentioned in the paragraph headed "Coal price" in the section headed "Overview of the economy of the PRC and the coal industry in the PRC" above. Thus the transaction amount for the supply of coal by the Group to the Shenhua Group under the Mutual Coal Supply Agreement for the three years ending 31 December 2013 will increase accordingly.

Due to (i) the expected appointment of the Group by the Shenhua Group for the exploitation of and management of a mine of the Shenhua Group from 2011 to 2013; (ii) the expected substantial increase in transportation services provided by the Group to the Shenhua Group resulting from the expansion of the Shenhua Group's operation; (iii) the increase in rental and maintenance of

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coal mine equipment by the Group to the Shenhua Group due to the expected increase in number of new coal mines and production capacity of the mines of the Shenhua Group; and (iv) the prices of raw materials and personnel costs to be provided under the Mutual Supplies and Services Agreement will increase steadily, the Directors expected that the transaction amount in respect of the provision of supplies and ancillary services by the Group to the Shenhua Group under the Mutual Supplies and Services Agreement for the three years ending 31 December 2013 will increase accordingly.

The Group's estimated future coal production capacity

The management of the Company expected that the production capacity of the mines of the Group for the three years ending 31 December 2013 will increase due to the increase in number of new mines and the increase in production capacity of the existing mines of the Group in 2010 through the construction of new mines and technological upgrade of existing mines as mentioned in the paragraph headed "Production capacity of the Group" in the section headed "Background on the Group" above and after taking into account of (i) the Group recorded a CAGR of approximately 23.5% for the revenue derived from the coal sector during 2007 to 2009 as mentioned in the paragraph headed "Financial information of the Group" in the section headed "Background on the Group" above; (ii) the Group recorded a CAGR of approximately 15.4% for the coal production volume during 2007 to 2009 as mentioned in the paragraph headed "Coal production volume of the Group" in the section headed "Background on the Group" above; and (iii) the Group recorded a CAGR of approximately 10.3% for the coal sales volume during 2007 to 2009 as mentioned in the paragraph headed "Coal sales volume of the Group" in the section headed "Background on the Group" above. Thus the management of the Group expected that the supply of coal by the Group to the Shenhua Group under the Mutual Coal Supply Agreement for the three years ending 31 December 2013 will increase accordingly.

Future electricity demand and the economic outlook of the PRC

The management of the Company advised that the Shenhua Group will be benefited from the expected increase in future electricity demand in the PRC and the positive outlook of the economy of the PRC and the coal industry as mentioned in the section headed "Overview of the economy of the PRC and the coal industry in the PRC" above. Thus the supply of coal by the Group to the Shenhua Group under the Mutual Coal Supply Agreement and the provision of supplies and ancillary services by the Group to the Shenhua Group under the Mutual Supplies and Services Agreement for the three years ending 31 December 2013 will increase accordingly.

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Taking into account of (i) estimates of demand and operating conditions in respect of the supply of coal by the Group to the Shenhua Group under the Mutual Coal Supply Agreement and the provision of supplies and ancillary services by the Group to the Shenhua Group under the Mutual Supplies and Services Agreement; (ii) the Group's estimated future coal production capacity; and (iii) the future electricity demand and the economic outlook of the PRC, we consider the proposed annual caps in respect of supply of coal by the Group to the Shenhua Group under the Mutual Coal Supply Agreement and the provision of supplies and ancillary services by the Group to the Shenhua Group under the Mutual Supplies and Services Agreement for the three years ending 31 December 2013 are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

(b) Supply of coal by the Shenhua Group to the Group under the Mutual Coal Supply Agreement and the provision of supplies and services by the Shenhua Group to the Group under the Mutual Supplies and ancillary Services Agreement

Estimates of demand and operating conditions in respect of the supply of coal by the Shenhua Group to the Group under the Mutual Coal Supply Agreement and the provision of supplies and ancillary services by the Shenhua Group to the Group under the Mutual Supplies and Services Agreement

We have discussed the future sales plan of the Group for the three years ending 31 December 2013 with the management of the Company and the management of the Company advised that the volume of coal sold by the Group for the three years ending 31 December 2013 will increase. This is due to (i) the expected increase in the coal production capacity of the mines of the Group for the three years ending 31 December 2013 as mentioned below; and (ii) the purchase of coal from the Shenhua Group for the Group's coal blending, the management of the Company expected that the supply of coal by the Shenhua Group to the Group under the Mutual Coal Supply Agreement for the three years ending 31 December 2013 will increase accordingly. The management of the Company advised that the annual increase in the coal price for the three years ending 31 December 2013 will be at a range of 5% to 8%, which is the same as the estimated increase in coal price for the year ending 31 December 2010 as mentioned in the paragraph headed "Coal price" in the section headed "Overview of the economy of the PRC and the coal industry in the PRC" above. Thus the transaction amount for the supply of coal by the Shenhua Group to the Group under the Mutual Coal Supply Agreement for the three years ending 31 December 2013 will increase accordingly.

Due to (i) the increase in usage of oil and explosive to be provided by the Shenhua Group to the Group due to the increase in production capacity of the existing mines of the Group such as the mines of the Zhunge'er Mines; (ii) the continued expansion in operations by the Group as mentioned below; and (iii) expected increase in prices of raw materials to be provided by the Shenhua

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Group to the Group, particularly the explosive, fuel and oil for the exploitation of mines, and the personnel costs of the Shenhua Group, the management of the Company expected that the transaction amount in respect of the provision of supplies and ancillary services by the Shenhua Group to the Group under the Mutual Supplies and Services Agreement for the three years ending 31 December 2013 will increase accordingly.

Assumed future business volume and growth of the Group and the Group's estimated future coal production capacity

The management of the Company expected that the production capacity of the mines of the Group for the three years ending 31 December 2013 will increase through the construction of new mines and technological upgrade of existing mines as mentioned in the paragraph headed "Production capacity of the Group" in the section headed "Background of the Group" above and after taking into account of (i) the Group recorded a CAGR of approximately 23.5% for the revenue derived from the coal sector during 2007 to 2009 as mentioned in the paragraph headed "Financial information of the Group" in the section headed "Background on the Group" above; (ii) the Group recorded a CAGR of approximately 15.4% for the coal production volume during 2007 to 2009 as mentioned in the paragraph headed "Coal production volume of the Group" in the section headed "Background on the Group" above; and (iii) the Group recorded a CAGR of approximately 10.3% for the coal sales volume during 2007 to 2009 as mentioned in the paragraph headed "Coal sales volume of the Group" in the section headed "Background on the Group" above. Thus the management of the Group expected that the transaction amount in respect of the supply of coal by the Shenhua Group to the Group under the Mutual Coal Supply Agreement and the provision of supplies and ancillary services by the Shenhua Group to the Group under the Mutual Supplies and Services Agreement for the three years ending 31 December 2013 will increase accordingly.

Future electricity demand and the economic outlook of the PRC

The management of the Company advised that the Group will be benefited from the expected increase in future electricity demand in the PRC and the positive outlook of the economy of the PRC and the coal industry as mentioned in the section headed "Overview of the economy of the PRC and the coal industry in the PRC" above. Thus the supply of coal by the Shenhua Group to the Group under the Mutual Coal Supply Agreement and the provision of supplies and ancillary services by the Shenhua Group to the Group under the Mutual Supplies and Services Agreement for the three years ending 31 December 2013 will increase accordingly.

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Taking into account of (i) the estimates of demand and operating conditions in respect of the supply of coal by the Shenhua Group to the Group under the Mutual Coal Supply Agreement and the provision of supplies and ancillary services by the Shenhua Group to the Group under the Mutual Supplies and Services Agreement; (ii) the assumed future business volume and growth of the Group and the Group's estimated future coal production capacity; and (iii) the future electricity demand and the economic outlook of the PRC, we consider the proposed annual caps in respect of supply of coal by the Shenhua Group to the Group under the Mutual Coal Supply Agreement and the provision of supplies and ancillary services by the Shenhua Group to the Group under the Mutual Supplies and Services Agreement for the three years ending 31 December 2013 are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

(ii) The Transportation Service Framework Agreement

The proposed annual caps in respect of the Transportation Service Framework Agreement for the three years ending 31 December 2013 are set out below:

	Year ending 31 December		
	2011	2012	2013
	(RMB million)	(RMB million)	(RMB million)
Transaction fee paid and/or to be paid by the Group to the Taiyuan Railway Bureau Group for transportation and related services provided by the Taiyuan Railway Bureau Group	8,100	8,600	9,300

As set out in the Letter from the Board, the proposed annual caps in respect of the Transportation Service Framework Agreement were based on assumed business volume of the Group, the Group's estimated coal production volume and expected future electricity demand and the economic outlook of the PRC.

Assumed business volume of the Group

We have discussed the future sale plan of the Group for the three years ending 31 December 2013 with the management of the Company and the management of the Company advised that the volume of coal sold by the Group for the three years ending 31 December 2013 will increase. This is due to (i) the expected increase in coal supply by the Shenhua Group to the Group for blending purpose for the

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three years ending 31 December 2013; and (ii) the expected increase in the coal production volume of the Group for the three years ending 31 December 2013 as mentioned below. Thus the management of the Company expected that the provision of transportation and related services by the Taiyuan Railway Bureau Group to the Group under the Transportation Service Framework Agreement for the three years ending 31 December 2013 will increase accordingly.

The management of the Company also advised that due to the location of some coal mines of the Shenhua Group that will increase the provision of coal to the Group for the three years ending 31 December 2013 are situated in the area in which the Taiyuan Railway Bureau Group will provide transportation services, the Group will increase the usage of transportation and related services to be provided by the Taiyuan Railway Bureau Group for the three years ending 31 December 2013 accordingly.

Moreover, the management of the Company advised that the Taiyuan Railway Bureau Group will increase the provision of transportation and related services to the Group in the future. Given the past cooperation with the Taiyuan Railway Bureau Group and the well-established railway network of the Taiyuan Railway Bureau Group, the Group will increase the usage of transportation and related services to be provided by the Taiyuan Railway Bureau Group for the three years ending 31 December 2013.

The Group's estimated coal production volume

The management of the Company expected that the production capacity of the mines of the Group for the three years ending 31 December 2013 will increase through the construction of new mines and technological upgrade of existing mines as mentioned in the paragraph headed "Production capacity of the Group" in the section headed "Background on the Group" above and after taking into account of (i) the Group recorded a CAGR of approximately 23.5% for the revenue derived from the coal sector during 2007 to 2009 as mentioned in the paragraph headed "Financial information of the Group" in the section headed "Background on the Group" above; (ii) the Group recorded a CAGR of approximately 15.4% for the coal production volume during 2007 to 2009 as mentioned in the paragraph headed "Coal production volume of the Group" in the section headed "Background on the Group" above; and (iii) the Group recorded a CAGR of approximately 10.3% for the coal sales volume during 2007 to 2009 as mentioned in the paragraph headed "Coal sales volume of the Group" in the section headed "Background on the Group" above. Thus the management of the Group expected that the provision of transportation and related services by the Taiyuan Railway Bureau Group to the Group under the Transportation Service Framework Agreement for the three years ending 31 December 2013 will increase accordingly.

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Expected future electricity demand and the economic outlook of the PRC

The management of the Company advised that the Group will be benefited from the expected increase in future electricity demand in the PRC and the positive outlook of the economy of the PRC and the coal industry as mentioned in the section headed “Overview of the economy of the PRC and the coal industry in the PRC” above. Thus the provision of transportation and related services by the Taiyuan Railway Bureau Group to the Group under the Transportation Service Framework Agreement for the three years ending 31 December 2013 will increase accordingly.

Taking into account of (i) the assumed business volume of the Group; (ii) the Group’s estimated coal production volume; and (iii) the expected future electricity demand and the economic outlook of the PRC, we consider that the proposed annual caps in respect of the Transportation Service Framework Agreement for the three years ending 31 December 2013 are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

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(iii) The China Datang Coal Supply Framework Agreement, the Tianjin Jinneng Coal Supply Framework Agreement, the Jiangsu Guoxin Coal Supply Framework Agreement and the Shaanxi Coal Transportation Coal Supply Framework Agreement

The proposed annual caps in respect of the China Datang Coal Supply Framework Agreement, the Tianjin Jinneng Coal Supply Framework Agreement, the Jiangsu Guoxin Coal Supply Framework Agreement and the Shaanxi Coal Transportation Coal Supply Framework Agreement for the three years ending 31 December 2013 are set out below:

	Year ending 31 December		
	2011	2012	2013
	(RMB million)	(RMB million)	(RMB million)
Supply of coal by the Group to the China Datang Group	4,300	4,600	4,900
Supply of coal by the Group to the Tianjin Jinneng Group	4,100	4,400	4,800
Supply of coal by the Group to the Jiangsu Guoxin Group	3,500	3,800	4,100
Purchase of coal by the Group from the Shaanxi Coal Transportation Group	6,000	6,400	7,100

As set out in the Letter from the Board, the proposed annual caps in respect of the China Datang Coal Supply Framework Agreement, the Tianjin Jinneng Coal Supply Framework Agreement, the Jiangsu Guoxin Coal Supply Framework Agreement and the Shaanxi Coal Transportation Coal Supply Framework Agreement for the three years ending 31 December 2013 were based on estimates of demand and operating conditions in respect of the China Datang Coal Supply Framework Agreement, the Tianjin Jinneng Coal Supply Framework Agreement, the Jiangsu Guoxin Coal Supply Framework Agreement and the Shaanxi Coal Transportation Coal Supply Framework Agreement, assumed future business volume and growth of the Group, estimated future production capacity and business of the Group, general economic outlook of the PRC and the Company's estimate on future coal prices.

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Estimates of demand and operating conditions in respect of the China Datang Coal Supply Framework Agreement, the Tianjin Jinneng Coal Supply Framework Agreement and the Jiangsu Guoxin Coal Supply Framework Agreement

The management of the Company advised that the coal demand of the power plants of China Datang Group, Tianjin Jinneng Group and Jiangsu Guoxin Group to be provided by the Group are expected to increase for the three years ending 31 December 2013 after taking into account of (i) the historical performance of China Datang Group and Jiangsu Guoxin Group; (ii) the expected increase in installed capacity of the power plants of Tianjin Jinneng Group under the Tianjin Jinneng Coal Supply Framework Agreement; and (iii) the expected increase in future electricity demand in the PRC and the positive outlook of the economy of the PRC as mentioned in the section headed “Overview of the economy of the PRC and the coal industry in the PRC” above. Thus the demand for coal of China Datang Group, Tianjin Jinneng Group and Jiangsu Guoxin Group to be provided by the Group will increase for the three years ending 31 December 2013.

Estimates of demand and operating conditions in respect of the Shaanxi Coal Transportation Coal Supply Framework Agreement, assumed future business volume and growth of the Group and estimated future production capacity and business of the Group

The management of the Group advised that they have taken into account the sales plan and production capacity of the Group for the three years ending 31 December 2013 in determining the estimated quantity of coal under the Shaanxi Coal Transportation Coal Supply Framework Agreement. The management of the Company expected that the production capacity of the mines of the Group for the three years ending 31 December 2013 will increase due to (i) the increase in number of new mines of the Group for the period from 2011 to 2013; and (ii) the increase in production capacity of the existing mines of the Group and after taking into account of (i) the Group recorded a CAGR of approximately 23.5% for the revenue derived from the coal sector during 2007 to 2009 as mentioned in the paragraph headed “Financial information of the Group” in the section headed “Background on the Group” above; (ii) the Group recorded a CAGR of approximately 15.4% for the coal production volume during 2007 to 2009 as mentioned in the paragraph headed “Coal production volume of the Group” in the section headed “Background on the Group” above; and (iii) the Group recorded a CAGR of approximately 10.3% for the coal sales volume during 2007 to 2009 as mentioned in the paragraph headed “Coal sales volume of the Group” in the section headed “Background on the Group” above. The Company is of the view that Shaanxi Coal Transportation is a reliable supplier offering high quality coal supply and the Company has decided to source more coal from the Shaanxi Coal Transportation Group and to mandate Shaanxi Coal Transportation as one of its major coal suppliers, the management of the Group also expected that the supply of coal by Shaanxi Coal Transportation Group to the Group will increase accordingly as the coal supplied by Shaanxi Coal Transportation Group is a raw material for blending of coal of the Group.

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General economic outlook of the PRC

The management of the Company advised that China Datang Group, Tianjin Jinneng Group, Jiangsu Guoxin Group and the Group will be benefited from the positive outlook of the economy of the PRC and the coal industry as mentioned in the section headed “Overview of the economy of the PRC and the coal industry in the PRC” above. Thus the supply of coal by the Group to China Datang Group, Tianjin Jinneng Group, Jiangsu Guoxin Group and the supply of coal by Shaanxi Coal Transportation Group to the Group for the three years ending 31 December 2013 will increase accordingly.

The Company's estimate on future coal price

We have discussed with the management of the Company for the estimated increase in coal price for the three years ending 31 December 2013. The management of the Company advised that the annual increase in the coal price for the three years ending 31 December 2013 will be at a range of 5% to 8%, which is the same as the estimated increase in coal price for the year ending 31 December 2010 as mentioned in the paragraph headed “Coal price” in the section headed “Overview of the economy of the PRC and the coal industry in the PRC” above. Thus the transaction amount for the supply of coal by the Group to China Datang Group, Tianjin Jinneng Group, Jiangsu Guoxin Group and the supply of coal by Shaanxi Coal Transportation Group to the Group for the three years ending 31 December 2013 will increase accordingly.

Taking into account of (i) estimates of demand and operating conditions in respect of the China Datang Coal Supply Framework Agreement, the Tianjin Jinneng Coal Supply Framework Agreement and the Jiangsu Guoxin Coal Supply Framework Agreement; (ii) estimates of demand and operating conditions in respect of the Shaanxi Coal Transportation Coal Supply Framework Agreement, assumed future business volume and growth of the Group and estimated future production capacity and business of the Group; (iii) the general economic outlook of the PRC; and (iv) the Company's estimate on future coal price, we consider the proposed annual caps in respect of the China Datang Coal Supply Framework Agreement, the Tianjin Jinneng Coal Supply Framework Agreement, the Jiangsu Guoxin Coal Supply Framework Agreement and the Shaanxi Coal Transportation Coal Supply Framework Agreement for the three years ending 31 December 2013 are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

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RECOMMENDATION AND CONCLUSION

Having considered the above principal factors and reasons, we are of the opinion that (i) the Continuing Connected Transaction Agreements and the transactions contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole; and (ii) the Revised Caps and the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the Continuing Connected Transaction Agreements and the transactions contemplated thereunder, the Revised Caps and the Annual Caps at the AGM. We also recommend the Independent Shareholders to vote in favour of the Continuing Connected Transaction Agreements and the transactions contemplated thereunder, the Revised Caps and the Annual Caps at the AGM.

Yours faithfully,
For and on behalf of
China Merchants Securities (HK) Co., Limited
Tony Wu
Managing Director and
Head of Investment Banking Department

In accordance with the Hong Kong Listing Rules, this appendix serves as the explanatory statement to provide you with requisite information reasonably necessary to enable you to make an informed decision on whether to vote for or against the special resolution(s) to be proposed at the AGM, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting for the grant of the H Share Repurchase Mandate to the Directors.

SECURITIES REPURCHASE MANDATE

Reasons for Repurchasing H Shares

The Directors believe that the flexibility afforded by the H Share Repurchase Mandate would be beneficial to and in the best interest of the Company and its Shareholders. Such repurchases may, depending on market conditions and funding arrangements at such time, lead to an enhancement of the net asset value per share and/or earnings per share of the Company. Such repurchases will only be made when the Directors believe that such repurchases will benefit the Company and its Shareholders.

Registered Capital

As at the Latest Practicable Date, the registered capital of the Company was RMB19,889,620,455 comprising 3,398,582,500 H Shares of RMB1.00 each and 16,491,037,955 A Shares of RMB1.00 each.

Exercise of the H Share Repurchase Mandate

Subject to the passing of the relevant special resolution(s) set out in the notice of AGM, the special resolution(s) approving the grant to the Directors of the H Share Repurchase Mandate in the A Shareholders' Class Meeting and H Shareholders' Class Meeting respectively, the Directors will be granted the H Share Repurchase Mandate until the earlier of (a) the conclusion of the next annual general meeting of the Company following the passing of the relevant special resolution(s) at the AGM, A Shareholders' Class Meeting and H Shareholders' Class Meeting; (b) the expiration of a period of twelve months following the passing of the relevant special resolution(s) at the AGM, A Shareholders' Class Meeting and H Shareholders' Class Meeting; or (c) the date on which the authority conferred by the relevant special resolution(s) is revoked or varied by a special resolution of the Shareholders at a general meeting or by H Shareholders or A Shareholders at their respective class meetings ("Relevant Period"). The exercise of the H Share Repurchase Mandate is subject to relevant approval(s) of and/or filings with SAFE and/or any other regulatory authorities as required by the laws, rules and regulations of the PRC being obtained and/or carried out.

The exercise in full of the H Share Repurchase Mandate (on the basis of 3,398,582,500 H Shares in issue as at the Latest Practicable Date and no H Shares will be allotted and issued or repurchased by the Company on or prior to the date of the AGM, the A Shareholders' Class Meeting and H Shareholders' Class Meeting) would result in a maximum of 339,858,250 H Shares being repurchased by the Company during the Relevant Period, being the maximum of 10% of the total H Shares in issue as at the date of passing the relevant resolution(s).

Funding of Repurchases

In repurchasing its H Share, the Company intends to apply funds from the Company's internal resources (which may include surplus funds and retained profits) legally available for such purpose in accordance with the Articles of Association and the applicable laws, rules and regulations of the PRC.

The Company is empowered by its Articles of Association to purchase its H Shares. Any repurchases by the Company may only be made out of either the funds of the Company that would otherwise be available for dividend or distribution or out of the proceeds of a new issue of shares made for such purpose. Under PRC laws, H Shares so repurchased will be treated as cancelled and the Company's registered capital will be reduced by an amount equivalent to the aggregate nominal value of the H Shares so cancelled. The Company may not purchase securities on the Hong Kong Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Hong Kong Stock Exchange from time to time.

GENERAL

The Directors consider that there would not be a material adverse impact on the working capital and on the gearing position of the Company in the event that the H Share Repurchase Mandate is to be exercised in full at any time during the proposed repurchase period (as compared with the position disclosed in the latest published audited accounts contained in the annual report of the Company for the year ended 31 December 2009). However, the Directors do not propose to exercise the H Share Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels of the Company. The number of H Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by the Directors at the relevant time having regarded to the circumstances then prevailing, in the best interests of the Company.

The Directors have undertaken to the Hong Kong Stock Exchange that, so far as the same may be applicable, they will exercise the powers of the Company to make purchases under the H Share Repurchase Mandate in accordance with the Hong Kong Listing Rules, the Articles of Association and the applicable laws, rules and regulations of the PRC.

H SHARES PRICES

The highest and lowest prices at which the H Shares have been traded on the Hong Kong Stock Exchange during each of the twelve months preceding the Latest Practicable Date were as follows:

	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
2009		
March	18.96	13.40
April	23.05	16.82
May	26.20	21.90
June	29.75	24.10
July	33.70	24.55
August	34.70	29.20
September	36.80	30.20
October	36.55	32.30
November	40.10	34.80
December	39.40	36.55
2010		
January	42.00	32.65
February	34.50	30.60
March (up to the Latest Practicable Date)	35.50	30.85

H SHARE PURCHASED BY THE COMPANY

No purchase of H Shares has been made by the Company in the previous six months preceding the Latest Practicable Date (whether on the Hong Kong Stock Exchange or otherwise).

DISCLOSURE OF INTERESTS

If as a result of a share repurchase by the Company, a substantial shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a shareholder, or group of shareholders acting in concert, could obtain or consolidate control of the Company or become obligated to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

As at the Latest Practicable Date, Shenhua Group Co, whose interest in the Company is notifiable under Part XV (Disclosure of Interests) of the SFO, held directly or indirectly approximately 72.96% of the Company's total registered capital. In the event that the Directors exercised in full the power to repurchase H Shares in accordance with the terms of the H Share Repurchase Mandate proposed at the AGM, A Shareholders' Class Meeting and H

Shareholders' Class Meeting, the total interests of Shenhua Group Co in the total registered capital of the Company would be increased to approximately 74.23%. The Directors are not aware of any consequences which will arise under the Takeovers Code and/or any similar applicable law, as a result of any purchases to be made under the H Share Repurchase Mandate. Moreover, the Directors will not make share repurchase on the Hong Kong Stock Exchange if such repurchase would result in the requirements under Rule 8.08 of the Hong Kong Listing Rules not being complied with.

None of the Directors nor, to the best of their knowledge, having made all reasonable enquiries, any of their associates (as defined in the Hong Kong Listing Rules) presently intends to sell H Shares to the Company under the H Share Repurchase Mandate in the event that the H Share Repurchase Mandate is approved by the Shareholders and the conditions (if any) to which the H Share Repurchase Mandate is subject are fulfilled.

The Company has not been notified by any connected persons (as defined in the Hong Kong Listing Rules) of the Company that they have a present intention to sell any H Shares to the Company, or that they have undertaken not to sell any H Shares held by them to the Company in the event that the H Share Repurchase Mandate is approved by its Shareholders and the conditions (if any) to which the H Share Repurchase Mandate is subject are fulfilled.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Hong Kong 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 IN SHARES

As at the Latest Practicable Date:

- 2.1 none of the Directors, chief executive, supervisors or their respective associates had 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 Hong Kong 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 Hong Kong Stock Exchange;
- 2.2 none of the Directors, supervisors, proposed Directors or proposed supervisors of the Company has any direct or indirect interest in any assets which have since 31 December 2009 (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 were proposed to be acquired or disposed of by or leased to any member of the Group.

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 Shares of the Company

Name of shareholders	Capacity	Class of Shares	Nature of interest	Number of H/domestic shares held	Percentage in the relevant class of shares %	Percentage in total share capital %
Shenhua Group Co.	Beneficial owner	Domestic shares	N/A	14,511,037,955	87.99	72.96
JPMorgan Chase & Co.	Beneficial owner	H shares	Long position	337,767,490	9.94	1.70
	Investment manager		Short position	17,601,296	0.52	0.09
	Custodian		Lending pool	171,279,667	5.04	0.86
The Capital Group Companies, Inc.	Investment manager	H shares	Long position	169,960,025	5.00	0.85
Blackrock, Inc.	Interests of controlled corporation	H shares	Long position	229,785,392	6.76	1.16

Note:

The information disclosed is based on the information available on the website of the Hong Kong Stock Exchange.

4. EXPERT

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

Name	Qualifications
China Merchants Securities (HK) Co., Limited	A corporation licensed to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders

- 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 2009, 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 2009 (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, at any general meeting of shareholders, a resolution shall be decided on a show of hands unless otherwise required by the Hong Kong Listing Rules, or 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 ten 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 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.

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 or supervisor of the Company 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 Co or its subsidiaries:

Director/Senior management	Name of company	Position
Zhang Xiwu	Shenhua Group Co	Chairman
	Beijing Guohua Power Company	Chairman
Zhang Yuzhuo	Shenhua Group Co	Director and General manager
	China Shenhua Coal Liquefaction Company Limited	Chairman
	Shenhua International (Hong Kong) Company Limited	Chairman
	Shenhua Hulunbeier Coal Processing Company Limited	Executive Director
Ling Wen	Shenhua Finance Company Limited	Chairman

Director/Senior management	Name of company	Position
Han Jianguo	Shenhua Group Co	Deputy general manager
Hua Zeqiao	Shenhua Coal Trading Company Limited	Chairman

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.

- 8.3 none of the Directors or any of their respective associates has interests in the businesses, other than being a Director, 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 Hong Kong Listing Rules.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong from the date of this circular up to and including the date of the AGM.

- 9.1 the Articles of Association;
- 9.2 the Current Transportation Service Framework Agreement;
- 9.3 the Current Mutual Coal Supply Agreement;
- 9.4 the Mutual Coal Supply Agreement;
- 9.5 the Mutual Supplies and Services Agreement;
- 9.6 the China Datang Coal Supply Framework Agreement;
- 9.7 the Tianjin Jinneng Coal Supply Framework Agreement;
- 9.8 the Jiangsu Guoxin Coal Supply Framework Agreement;
- 9.9 the Transportation Service Framework Agreement;
- 9.10 the Shaanxi Coal Transportation Coal Supply Framework Agreement;
- 9.11 the letter from the Independent Board Committee as set out in this circular;
- 9.12 the letter from the Independent Financial Adviser, the text of which is set out in this circular; and
- 9.13 the written consent of the Independent Financial Adviser referred to in this Appendix.