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

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

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

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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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)**

#### **DISCLOSEABLE TRANSACTIONS, CONNECTED TRANSACTIONS AND PRICE-SENSITIVE INFORMATION ACQUISITIONS OF 100% EQUITY INTERESTS IN SHENDONG COAL AND SHENDONG POWER**

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



#### **Joint Financial Advisers**



A letter from the board of the Company is set out on pages 7 to 31 of this circular and a letter from the Independent Board Committee of the Company, containing its recommendation to the Independent Shareholders of the Company, is set out on pages 32 to 33 of this circular. A letter from China Merchants Securities (HK) Co., Ltd. containing its advice is set out on pages 34 to 47 of this circular.

A notice setting out the resolutions to be resolved at the extraordinary general meeting of the Company to be held at Island Shangri-la, Pacific Place, Supreme Court Road, Central, Hong Kong on 24 August 2007 at 9:00 am will be dispatched to the Shareholders together with this circular.

If you intend to attend the extraordinary general meeting, please complete and return the reply slip to the Investor Relations Department at 4th Floor, Zhouji Tower, 16 Ande Road, Dongcheng District, Beijing, the PRC, in accordance with the instructions printed thereon as soon as possible and in any event to later than 4 August, Saturday 2007. Whether or not you intend to attend the meeting, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible and in any event by not less than 24 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

10 July 2007

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## DEFINITIONS

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

“Acquisitions”	the acquisitions of (a) 100% equity interest in Shendong Coal; and (b) 100% equity interest in Shendong Power, by the Company from Shenhua Group;
“Acquisition Agreement”	the conditional agreement dated 30 June 2007 entered into between the Company and Shenhua Group for the Acquisitions;
“Board”	the board of Directors of the Company;
“Business Day”	any day (excluding a Saturday) on which banks in Hong Kong are generally open for business;
“CBRE”	CB Richard Ellis Limited, an independent property valuer;
“CICC(HK)”	China International Capital Corporation (Hong Kong) Limited;
“CEA”	北京中企華資產評估有限責任公司 (China Enterprise Appraisal Company Limited), a state-approved independent PRC valuer appointed by the Company to assess the value of Shendong Coal and Shendong Power;
“Company”	中國神華能源股份有限公司 China Shenhua Energy Company Limited, a joint stock limited company incorporated in the PRC, the H Shares of which are listed on the Hong Kong Stock Exchange;
“Deutsche Bank”	Deutsche Bank AG, Hong Kong Branch;
“Directors”	the directors of the Company;
“Effective Date”	the date the Acquisition Agreement shall become effective upon fulfillment of the conditions of the Acquisitions;
“EGM”	the extraordinary general meeting of the Company to be held on 24 August 2007 to consider and approve, among other things, the matters relating to the Acquisitions, including any adjournment in respect thereof;
“H Shares”	overseas listed foreign invested shares of par value of RMB1.00 each in the ordinary share capital of the Company, which are subscribed for and traded in HK dollars;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;

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## DEFINITIONS

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“HK\$”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong;
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Independent Board Committee”	A committee of the Board established for the purpose of considering the Acquisitions, comprising independent non-executive Directors who are independent of the Acquisitions;
“Independent Financial Adviser”	China Merchants Securities (HK) Co., Ltd.;
“Independent Shareholders”	Shareholders other than Shenhua Group and its associates, and who are not involved in, or interested in the Acquisitions;
“J. T. Boyd”	John T. Boyd Company, the Company’s independent international technical consultants. For qualifications, please refer to “Appendix II — Resource Assessment Report”;
“Joint Financial Advisers”	CICC(HK), Deutsche Bank and Merrill Lynch;
“King & Wood”	金杜律師事務所, King & Wood, PRC lawyers, the Company’s legal advisers on PRC law;
“Latest Practicable Date”	5 July 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange;
“Merrill Lynch”	Merrill Lynch Far East Limited;
“Mutual Coal Supply Agreement”	the agreement for the mutual supply of coal dated 24 May 2005 between the Company and Shenhua Group as revised and renewed on 23 March 2007;
“Mutual Supplies and Services Agreement”	the agreement for the mutual provision of production supplies and ancillary services dated 24 May 2005 and made between the Company and Shenhua Group as revised and renewed on 23 March 2007;
“PRC”	the People’s Republic China;
“Purchase Price”	RMB3,328.4901 million (equivalent to approximately HK\$3,414.56 million), the purchase price to be paid by the Company to Shenhua Group for the Acquisitions;
“RMB”	Renminbi, the lawful currency of the PRC;

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## DEFINITIONS

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“SASAC”	中華人民共和國國務院國有資產監督管理委員會， the PRC State-owned Assets Supervision and Administration Commission of the State Council;
“Shareholder(s)”	the shareholders of the Company;
“Share(s)”	share(s) of RMB1.00 each in the share capital of the Company;
“Shendong Coal”	神華集團神府東勝煤炭有限責任公司 Shenhua Group Shenfu Dongsheng Coal Company Limited, a limited liability company established in the PRC and, prior to completion of the Acquisitions, a wholly-owned subsidiary of Shenhua Group;
“Shendong Mining Area”	神東礦區 , Shendong Mining Area, the largest coal mining area of the Company. The Company currently owns and operates nine underground mines and one open-cut mine in the Shendong Mining Area which, with exception of Kangjiatan Mine, are located along sides the boundary between Shaanxi Province and Inner Mongolia Autonomous Region;
“Shendong Power”	神華神東電力有限責任公司 Shenhua Shendong Power Company Limited, a limited liability company established in the PRC and, prior to completion of the Acquisitions, a wholly-owned subsidiary of Shenhua Group;
“Shenhua Group”	神華集團有限責任公司 Shenhua Group Corporation Limited, the sole promoter and the controlling Shareholder holding approximately 81.21% of the total share capital of the Company;
“Shenhua Yangguang Power”	神華陽光神木發電有限責任公司 Shenhua Yangguang Shenmu Power Generation Co., Ltd., a non wholly-owned subsidiary of Shendong Power, which is owned as to 65% by Shendong Power and 35% by Yulin Yangguang Power Company Limited. Shenhua Yangguang Power owns and operates a 2x 135 MW coal residual stone power generation plant in Yulin, Shaanxi Province;
“Shenhua Yangguang Power and Chemicals”	神華陽光電力化工有限責任公司 Shenhua Yangguang Power and Chemicals Company Limited, a limited liability company established in the PRC, in which Shendong Power has a 30% equity interest and the remaining 35% and 35% equity interests are held by the Employees Shareholding Society of Shendong Power and Yuli Yangguang Power Company Limited, respectively. Shenhua Yangguang Power and Chemicals owns and operates a 2x25MW coal residual stone power plant and a 12500KVA calcium carbide furnace;

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## DEFINITIONS

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“Shenhua Yili”	神華億利能源有限責任公司 Shenhua Yili Energy Company Limited, a limited liability company established in the PRC, which is owned as 51% by Shendong Power;
“Tianlong Corporation”	神東天隆集團有限責任公司 Shendong Tianlong Group Corporation, a limited company established in the PRC. Tianlong Corporation is principally engaged in coal investment, coal mining and coal sales. Shendong Coal holds 20.5% equity interest of Tianlong Corporation, and an additional 4.5% equity interest is in the process of being transferred to the senior management of Tianlong Corporation in accordance with the relevant approval. The remaining 75% equity interest is held by the employees of Tianlong Corporation;
“Transfer Date”	the last day in the month when the Effective Date occurs;
“Valuation Date”	31 December 2006; and
“Yili Chemicals”	內蒙古億利化學有限公司 Inner Mongolia Yili Chemicals Company Limited, a limited liability company established in the PRC, in which Shendong Power has a 25% equity interest. The principal investment of Yili Chemicals is a PVC production plant in Erdos, the Inner Mongolia Autonomous Region.

*Note: Where amounts in Hong Kong dollars have been derived from Renminbi, such translations are for the convenience of the reader only, and except as otherwise indicated, have been made at the rate of RMB0.97479 to HK\$1. No representation is made that Renminbi amounts could have been or could be converted into Hong Kong dollars at this rate or any other rates or at all.*

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## GLOSSARY

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Term	Definition
“coal residual stone”	Mineral material of low economic value that is so intimately associated with coal that it must be mined with coal. Often removed by beneficiation at a coal preparation or washing plant.
“Indicated coal resource”	An indicated coal resource is that part of a coal resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence as defined by the JORC Code.
“JORC Code”	Australian Code of Reporting of Mineral Resources and Ore Reserves, effective since December 2004.
“LW mining or longwall mining”	A fully mechanised underground mining method in which the mining face is supported by a hydraulic shield while the coal is excavated by a shearer and then transported to the surface by conveyors. When mining of the longwall panel has been completed, the longwall system is moved to a new mining area. The key characteristics of longwall mining include high productivity, comparatively high reserve recovery rates, safety and reliability.
“Marketable reserve or marketable coal reserve”	The tonnages of coal reserves, at specified moisture and quality, available for sale after accounting for preparation plant yield. Marketable coal reserves are reported in terms of probable reserves or proved reserves.
“Measured coal resource”	A measured coal resource is that part of a coal resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence as defined by the JORC Code.
“MW”	One Megawatt equivalents to one million watts.
“Probable recoverable reserve”	Probable reserves under the JORC Code, which are the economically mineable part of an indicated coal resource, and in some circumstances, measured coal resource. They include diluting materials, and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

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## GLOSSARY

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“Proved recoverable reserves”

Proved reserves under the JORC Code, which are the economically mineable part of a measured coal resource. They include diluting materials, and allowances for losses which may occur when the material is mined and after accounting for preparation plant yield. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

“Recoverable reserves”

Proved and probable reserves prior to adjustment for preparation plant yield.



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## LETTER FROM THE BOARD

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# 中国神华能源股份有限公司

## CHINA SHENHUA ENERGY COMPANY LIMITED

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 1088)**

*Executive Directors:*

Chen Biting

Ling Wen

*Non-executive Directors*

Yun Gongmin

Zhang Xiwu

Zhang Yuzhuo

Han Jianguo

*Independent Non-executive Directors :*

Huang Yicheng

Anthony Francis Neoh

Chen Xiaoyue

*Registered office:*

Shenhua Tower

22 Andingmen Xibinhe Road

Dongchen District

Beijing, PRC

*Principal place of business  
in Hong Kong:*

Unit B, 60th Floor

Bank of China Tower

1 Garden Road

Central

Hong Kong

10 July 2007

*To the Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE TRANSACTIONS, CONNECTED TRANSACTIONS AND PRICE-SENSITIVE INFORMATION ACQUISITIONS OF 100% EQUITY INTERESTS IN SHENDONG COAL AND SHENDONG POWER**

#### **1. INTRODUCTION**

On 30 June 2007, the Board announced that the Company and Shenhua Group entered into the Acquisition Agreement, pursuant to which, Shenhua Group agrees to sell and the Company agrees to purchase, subject to fulfillment of certain conditions, the respective 100% equity interests held by Shenhua Group in Shendong Coal and Shendong Power. Upon completion of the Acquisitions, Shendong Coal and Shendong Power will be wholly-owned by the Company.

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## LETTER FROM THE BOARD

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As Shenhua Group is the controlling Shareholder holding approximately 81.21% of the total share capital of the Company, the Acquisitions constitute connected transactions of the Company for the purpose of the Listing Rules. As one of the percentage ratios, pursuant to the Listing Rules, applicable to the Acquisitions exceeds 5% but less than 25%, the Acquisitions also constitute discloseable transactions under the Listing Rules. In accordance with the requirements of the Listing Rules, the Acquisitions are subject to, among other conditions, the approval by the Independent Shareholders.

The EGM is therefore convened to obtain the approval of the Independent Shareholders for the terms of the Acquisition Agreement and the Acquisitions. Shenhua Group and its associates will abstain from voting at the EGM.

The Joint Financial Advisers (CICC(HK), Deutsche Bank and Merrill Lynch) have been appointed as the joint financial advisers to the Company in respect of the Acquisitions. The Independent Board Committee has been formed to consider the Acquisitions and the letter from the Independent Board Committee to the Independent Shareholders is included in this circular. China Merchants Securities (HK) Co., Ltd. has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Acquisitions and its letter of advice is also included in this circular.

The purposes of this circular are:

- (a) to provide you with further information relating to the Acquisitions;
- (b) to set out the letter of advice from Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders and the recommendation of the Independent Board Committee as advised by Independent Financial Adviser in respect of the Acquisitions;
- (c) to provide for your reference, the Resource Assessment Report prepared by J. T. Boyd, independent international technical consultants, on the coal resource and reserve estimations of Huangyuchuan Mine and the valuation report prepared by CBRE on the property interests of Shendong Coal and Shendong Power; and
- (d) to seek your approval of the ordinary resolutions in relation to the Acquisitions at the EGM.

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## LETTER FROM THE BOARD

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### 2. THE ACQUISITIONS

#### 2.1 Background Information

Shendong Coal and Shendong Power are wholly-owned by Shenhua Group.

As part of the restructuring of Shenhua Group in preparation for the listing of the Company in Hong Kong, all of the coal production and operating assets of Shendong Coal were transferred to the Company while assets relating to ancillary and public services have been retained by Shendong Coal. Shendong Coal is primarily engaged in coal residual stone power generation, supply of heat and water as well as the provision of property management, environmental protection, construction services, real estate development and, medical services to the operations of the Company in Shendong Mining Area, and coal investment. It has 8 wholly-owned subsidiaries, 1 non wholly-owned subsidiary and 2 affiliated companies.

At the time of the listing of the Company in Hong Kong, the major assets of Shendong Power were under development and were therefore not transferred to the Company. Currently, Shendong Power has 1 wholly-owned subsidiary, 2 non wholly-owned subsidiaries, and 2 affiliated companies. It is primarily engaged in construction and operation of coal residual stone power plants and operation of Huangyuchuan Mine.

#### 2.2 Acquisition Agreement

The Acquisition Agreement was entered into between the Company and Shenhua Group on 30 June 2007. The Acquisitions were negotiated and entered into on an arm's length basis and on normal commercial terms. A summary of the principal terms of the Acquisition Agreement is set out as follows:

##### 2.2.1 *Purchase Price*

Based on the valuation report prepared by CEA adopting the cost method, the value of 100% equity interest of Shendong Coal was RMB1,169.8939 million (equivalent to approximately HK\$1,200.15 million) and the value of 100% equity interest of Shendong Power was RMB2,158.5962 million (equivalent to approximately HK\$2,214.41 million) as at the Valuation Date, and the aggregate total valuation was RMB3,328.4901 million (equivalent to approximately HK\$3,414.56 million).

The Company and Shenhua Group have agreed and confirmed that based on the valuation report prepared by CEA, the Purchase Price of the Acquisitions is RMB3,328.4901 million (equivalent to approximately HK\$3,414.56 million). The Purchase Price will be funded by the existing cash balance of the Company.

In accordance with the Acquisition Agreement and effective from the Transfer Date, the Company shall become the owner of the entire equity interests in Shendong Coal and Shendong

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## LETTER FROM THE BOARD

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Power. Shenhua Group shall be legally entitled to or be liable for all economic gains or losses associated with such equity interests from the Valuation Date to the Transfer Date and the Company shall be entitled to or be liable for all economic gains or losses associated with such equity interests from the Transfer Date.

### *2.2.2 Major Terms*

The Acquisition Agreement shall become effective upon the fulfillment of the following conditions:

1. approval by the board of directors of Shenhua Group;
2. approval by the Board of the Company;
3. approval of the Acquisitions by the Independent Shareholders of the Company at the EGM;
4. record by SASAC of the valuation results; and
5. approval of the Acquisitions by SASAC.

### *2.2.3 Provisions for termination*

The Acquisition Agreement may be terminated at any time prior to the Effective Date, upon occurrence of any of the following:

1. upon the mutual agreement between the Company and Shenhua Group;
2. the Company elects to terminate the Acquisition Agreement,
  - (a) if any of the conditions of the Acquisition Agreement is not satisfied or fulfilled on or before 31 December, 2007; and
  - (b) upon the Company becoming aware of matters which have material adverse effects on Shendong Coal or Shendong Power or any of their respective subsidiaries or any of the representations, warranties or undertakings by Shenhua Group under the Acquisition Agreement is misleading, incomplete or inaccurate.

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## LETTER FROM THE BOARD

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### *2.2.4 Completion of the Transfer and Payment*

Pursuant to the Acquisition Agreement, Shenhua Group and the Company shall proceed to complete the sale and purchase of the entire equity interests in Shendong Coal and Shendong Power as follows:

1. Shenhua Group and the Company shall apply to the relevant Administration of Industry and Commerce for the registration of the entire equity interests in Shendong Coal and Shendong Power in favour of the Company as soon as possible from the Transfer Date (which is the last day in the month when the Effective Date occurs); and
2. The Company shall pay to Shenhua Group the Purchase Price within 10 Business Days from the Transfer Date.

### **2.3 Basis of Determination of the Purchase Price**

The Purchase Price was determined based on the respective valuations of Shendong Coal and Shendong Power and their respective subsidiaries as at 31 December 2006, the Valuation Date, as contained in the valuation report prepared by CEA. The respective value of the entire equity interests of Shendong Coal and Shendong Power and their subsidiaries as determined by CEA was RMB1,169.8939 million (equivalent to approximately HK\$1,200.15 million) and RMB2,158.5962 million (equivalent to approximately HK\$2,214.41 million), respectively, as at 31 December 2006.

## **3. INFORMATION RELATING TO SHENDONG COAL**

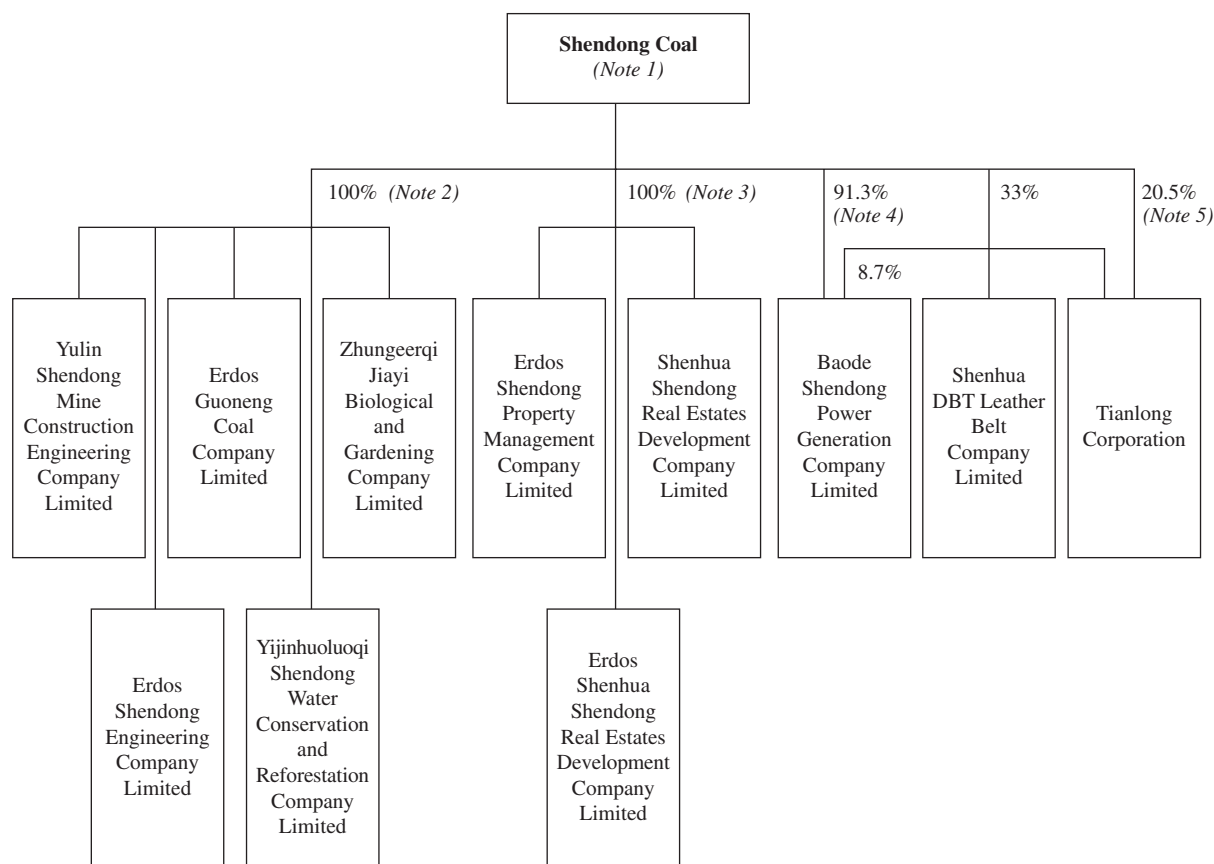
### **3.1 Overview**

Shendong Coal was established in the PRC on 21 February 1997 as a wholly-owned subsidiary of Shenhua Group. The registered capital of Shendong Coal is RMB215 million, which has been fully paid up.

Shendong Coal is primarily engaged in coal residual stone power generation, supply of heat and water as well as the provision of services ranging from property management, environmental protection, construction services, real estate development, medical services to the operations of the Company in Shendong Mining Area, and coal investment. It has 8 wholly-owned subsidiaries, 1 non wholly-owned subsidiary and 2 affiliated companies.

## LETTER FROM THE BOARD

A simplified organization chart of Shendong Coal upon the completion of the Acquisitions is as follows:



Notes:

1. The main business of Shendong Coal and its subsidiaries includes coal residual stone power generation, coal investment, provision of services ranging from comprehensive services, medical services, hotel, supply of heat and water, construction and property development and management services to the operations of the Company in Shendong Mining Area. It owns a hospital and a hotel which provide medical services and accommodation services to the operations of the Company in Shendong Mining Area. The acquisition of Shendong Coal will be reflected as a combination of entities under common control and accounted for in a manner of merger accounting in the financial statements of the Company.
2. This sector relates to the provision of comprehensive services, water supplying services, environmental protection, planting and construction services to the operations of the Company in the Shendong Mining Area.
3. Provision of property development and management services to the operations of the Company in the Shendong Mining Area.
4. Coal residual stone power generation business. The remaining 8.7% equity interest in Baode Shendong Power Generation Company Limited is held by Tianlong Corporation.
5. Tianlong Corporation is principally engaged in coal investment, coal mining and coal sales. It is majority owned as to 75% by the employees of Tianlong Corporation and as to 20.5% by Shendong Coal and an additional 4.5% is in the process of being transferred by Shendong Coal to the senior management of Tianlong Corporation.

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## LETTER FROM THE BOARD

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### 3.2 Assets to be acquired by the Company following the Acquisitions

Upon completion of the Acquisition Agreement, all the business of Shendong Coal relating to coal residual stone power generation, supply of heat and water, provision of services ranging from environmental protection, construction services, real estate development to medical services, as well as coal investment, will be injected into the Company. Brief descriptions of the principal assets to be acquired by the Company are as follows:

#### 3.2.1 *Power generation*

Baode Shendong Power Generation Company Limited is a non wholly-owned subsidiary of Shendong Coal, whose registered capital is RMB 230 million, which is contributed as to 91.3% by Shendong Coal and 8.7% by Tianlong Corporation, and whose total investment is RMB1,338 million. The total designed capacity of Baode Power Plant is 2 x 135MW. Its construction commenced in 2004 and power generation commenced in September 2006. Its power generated is mainly supplied to the Shanxi Power Grid. It uses the coal residual stones from the Company's mines, namely, Kangjiatan mine and Yujialiang mine in the Shendong Mining Area for power generation.

Name of holding company	Location	Percentage equity interest held by Shendong Coal	Current installed capacity	Nature of power plant
Baode Shendong Power Generation Company Limited	Baode, Shanxi Province	91.3%	2 x 135 MW	Coal residual stone power

#### 3.2.2 *Thermoelectricity plants*

Shendong Coal operates two small-scaled thermoelectricity generating plants, namely, the Daliuta plant in northern Shaanxi Province and the Shangwan plant in the Inner Mongolia Autonomous Region. The two plants have an aggregate installed capacity of 54MW. The Daliuta plant has been in operation since 1997 and has an annual installed capacity of 30MW. The Shangwan plant started operation in March 2006 and has an annual installed capacity of 24MW. The thermoelectricity plants are the core assets of Shendong Coal, which provide heat and electricity for the mining operations and the daily use of the staff of the Company in Shendong Mining Area. Shendong Mining Area is the largest and most productive mining group of the Company, which accounted for approximately 77% of the total coal production of the Company in 2006. Shendong Mining Area currently consists of nine underground mines and one open-cut mine.

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## LETTER FROM THE BOARD

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### ***3.2.3 Water supplying and comprehensive services***

Shendong Coal provides water supply service to Shendong Mining Area, including the supply of water for production and daily use, supply of hot water, sewage treatment and facilities maintenance. Shendong Coal is also engaged in providing comprehensive services, such as canteens, bathroom, dormitory services, hygiene services and public security services, to the staff of the Company in Shendong Mining Area.

### ***3.2.4 Environmental protection, planting service, engineering and construction services***

Shendong Coal provides environmental protection and planting services to the Company to mitigate the adverse impact of the operation of the Company on the environment in Shendong Mining Area. Such services include planting, piping, hedging, gardening and sale of relevant equipment. Such services are provided by two wholly-owned subsidiaries of Shendong Coal, namely, Yijinhualuoqi Shendong Mining Area Water Conservation and Reforestation Company Limited and Zhungeerqi Jiayi Biological and Gardening Company Limited.

Shendong Coal also provides ancillary construction services to the operations of the Company in Shendong Mining Area. Such services are provided by Erdos Shendong Engineering Company Limited and Yulin Shendong Mine Construction Engineering Company Limited, wholly-owned subsidiaries of Shendong Coal.

Erdos Guoneng Coal Company Limited, another wholly-owned subsidiary of Shendong Coal, is the holder of a valid coal sales licence. Pursuant to the Acquisitions, the coal sales licence will also be acquired by the Company.

### ***3.2.5 Property development and management services***

Shendong Coal also provides property development and management services to the staff of the Company in Shendong Mining Area. The property development services are provided by its two wholly-owned subsidiaries, namely, Shenhua Shendong Real Estates Development Company Limited in Shaanxi Province and Erdos Shenhua Shendong Real Estates Development Company Limited in the Inner Mongolia Autonomous Region. The property management services are mainly provided by Erdos Shendong Property Management Company Limited, a wholly-owned subsidiary of Shendong Coal.

### ***3.2.6 Other assets acquired the Company pursuant to the Acquisitions***

Other assets which will be acquired by the Company pursuant to the acquisition of Shendong Coal include a hospital and a hotel, a 33% equity interest in Shenhua DBT Leather Belt Company Limited and a 20.5% equity interest in Tianlong Corporation. These assets provide support services to the operations of the Company in Shendong Mining Area.



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## LETTER FROM THE BOARD

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Shendong Hospital is the largest hospital in Shendong Mining Area, providing emergency medical services and regular medical and healthcare services for the staff of the Company and other residents in Shendong Mining Area. Established in 1990, Shendong Hotel is the only 3-star hotel in Shendong Mining Area, which mainly provides catering and accommodation to technical and engineering visitors at Shendong Mining Area.

Shenhua DBT Leather Belt Company Limited is a Sino-foreign joint venture enterprise, whose registered capital is US\$ 0.6 million. Shendong Coal holds 33% equity interest and DBT GmbH, an independent third party, holds the remaining 67% equity interest in Shenhua DBT Leather Belt Company Limited. It is primarily engaged in the manufacturing, sales and maintaining of belts constructed of rubber and steel or fiber cords and PVC, which are mainly used in Shendong Mining Area for coal production, transportation and operation.

Tianlong Corporation is a limited company established in the PRC, in which Shendong Coal has a 20.5% equity interest. An additional 4.5% equity interest in Tianlong Corporation has recently been transferred from Shendong Coal to the senior management of Tianlong Corporation in accordance with the relevant approval. The remaining 75% equity interest in Tianlong Corporation is held by the employees of Tianlong Corporation, who are independent third parties. Tianlong Corporation is primarily engaged in coal investment, coal mining and coal sales.

### **3.3 Assets retained by Shenhua Group: some real estate and hotels**

Certain minor assets of Shendong Coal which are not related to the main business of the Company have been retained by Shenhua Group. Such assets, including mainly several hotels which are not located in Shendong Mining Area, were transferred to Shenhua Group on 30 December, 2006.

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## LETTER FROM THE BOARD

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### 3.4 Financial information of Shendong Coal

Set out below is certain financial information reviewed by KPMG, certified public accountants in Hong Kong and extracted from the consolidated financial statements of Shendong Coal as at 31 December 2006 prepared in accordance with International Financial Reporting Standards.

	<b>As of</b> <b>31 December 2006</b> <b>(RMB' million)</b>
Non-current assets	2,328
Current assets	<u>611</u>
Total assets	<u><u>2,939</u></u>
Non-current liabilities	352
Current liabilities	<u>1,573</u>
Total liabilities	<u><u>1,925</u></u>
Total assets less total liabilities	<u><u>1,014</u></u>
Minority interests	21
Equity attributable to equity shareholder	<u><u>993</u></u>
	<b>For the year ended</b> <b>31 December 2006</b> <b>(RMB' million)</b>
Profit before income tax	123
Income tax	<u>(5)</u>
Profit after income tax	118
Minority interests	<u><u>—</u></u>
Profit attributable to equity shareholder	<u><u>118</u></u>

Based on the consolidated financial statements prepared by the Company in accordance with PRC GAAP audited by KPMG Huazhen, certified accountants registered in the PRC, the total assets, net profit (after tax and before minority interests) and net profit (after tax and minority interests) of Shendong Coal as at 31 December 2006 were RMB2,939 million, RMB118 million and

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## LETTER FROM THE BOARD

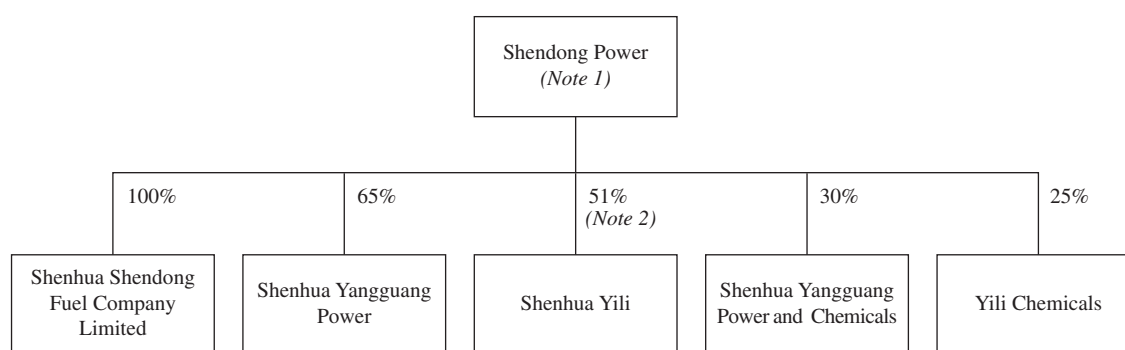
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RMB118 million, respectively. The net profit (after tax and before minority interests) of Shendong Coal for the year ended 31 December 2005 as audited by the PRC auditors of the consolidated financial statements prepared in accordance with PRC GAAP was RMB20.38 million. Upon completion of the Acquisitions, as the Company and Shendong Coal are under common control of Shenhua Group, the Acquisitions will be reflected as a combination of entities under common control and accounted for in a manner of merger accounting. Accordingly, the assets and liabilities of Shendong Coal will be accounted for at historical costs and the financial statements of the Company prior to the Acquisitions will be restated to include the results of operations of Shendong Coal on a combined basis.

### 4. INFORMATION RELATING TO SHENDONG POWER

#### 4.1 Overview

Established in Shenmu, Shaanxi Province, on 21 February 1997, Shendong Power is a wholly-owned subsidiary of Shenhua Group, whose registered capital is RMB2 billion, which has been paid-up. A simplified organization chart of Shendong Power after the Acquisitions is as follows:



*Notes:*

1. Shendong Power owns and operates an ancillary power plant and a calcium carbide plant and provides comprehensive services to its subsidiaries. Please refer to paragraph 4.2.1 under the heading of “Power generation assets” below for more information relating to the ancillary power plant and calcium carbide plant of Shendong Power. The acquisition of Shendong Power will be reflected as a combination of entities under common control and accounted for in a manner of merger accounting in the financial statements of the Company.
2. Shenhua Yili owns a 4×200MW coal residual stone power plant, whose operation is expected to commence in 2008. The mining right permit of Huangyuchuan Mine is owned by Erdos Yide Resources Company Limited, whose name was changed to Shenhua Yili on 25 February 2006. Please refer to paragraph 4.2.2 under the heading “Coal assets” below for more information relating to Huangyuchuan Mine.

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## LETTER FROM THE BOARD

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### 4.2 The assets to be acquired from Shendong Power

#### 4.2.1 Power generation assets

Table of power generation assets to be acquired through acquisition of Shendong Power:

Name of holding company	Location	Percentage equity interest held by Shendong Power	Current installed capacity	Nature of power plant
Shenhua Yangguang Power	Shenmu, Shaanxi Province	65%	2 x 135 MW	Coal residual stone power
Shenhua Yili	Erdos, Inner Mongolia Autonomous Region	51%	4 x 200 MW	Coal residual stone power
Shendong Ancillary Power Plant ( <i>Note 1</i> )	Shenmu, Shaanxi Province	100%	2 x 12 MW 1 x 3 MW	Coal-fired power Coke oven gas power
Shenhua Yangguang Power and Chemicals	Shenmu, Shaanxi Province	30% ( <i>Note 2</i> )	2 x 25 MW	Coal residual stone power

*Notes:*

1. Shendong Ancillary Power Plant will be closed down by 2009 or 2010 according to the PRC government policy relating to small power generating plants.
2. Shendong Power has control of the voting power held by the Employees' Shareholding Society of Shendong Power, which is the holder of a 35% equity interest in Shenhua Yangguang Power and Chemicals.

#### *Shenhua Yangguang Power*

Shenhua Yangguang Power owns and operates a 2 x 135MW coal residual stone power plant, which has been in operation since June 2006. The total investment of the coal residual stone power plant amounted to RMB1.14 billion. Shenhua Yangguang Power is a non-wholly owned subsidiary of Shendong Power, in which Shendong Power has a 65% equity interest and the remaining 35% equity interest is held by Yulin Yangguang Power Company Limited, an independent third party. The coal residual stones consumed by Shenhua Yangguang Power are sourced from the local market and the power generated is supplied to the Yulin Power Grid.

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## LETTER FROM THE BOARD

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### *Shenhua Yili*

Shenhua Yili, a non wholly-owned subsidiary of Shendong Power, is owned as to 51% by Shendong Power and the remaining 49% by Erdos Yili Resources Group Company Limited, a connected person of the Company at the subsidiary level. Shenhua Yili is an integrated resource development company engaged principally in coal production and power generation. In addition, Shenhua Yili has invested in a power generation project involving the construction of a 4 x 200MW coal residual stone power generation plant. The total investment of the power generation project of Shenhua Yili is RMB3.16 billion and the amount invested up to the end of October 2006 was approximately RMB1.19 billion. It is expected that two of the 200MW power units will commence production in August 2007 and at the end of 2007, respectively, and the other two power units will commence operation in the middle of 2008. The coal residual stones consumed by the power generation project will be sourced from the local market. It is intended that the power generated by two of the 200MW power units will be supplied to the PVC project of Yili Chemicals, and the power generated by the other two 200MW power units will be supplied to the Inner Mongolia Grid. Supply of power by Shenhua Yili to Yili Chemicals will constitute continuing connected transactions of the Company. For more information relating to such continuing connected transactions, please refer to the paragraphs headed “Continuing Connected Transactions” of this circular.

### *Shendong Ancillary Power Plant*

Shendong Ancillary Power Plant has 2 x 12MW coal-fired power generation units and one 3 MW coal oven gas power generation units which have been in operations since 1989 and 2001, respectively and are wholly-owned by Shendong Power. The power generated is mainly supplied to Shendong Power Calcium Carbide Plant. According to the policy of the PRC government to close down small power generating plants, Shendong Ancillary Power Plant, because of its small power generation capacity, has to be shut down by 2009 or 2010.

### *Shenhua Yangguang Power and Chemicals*

Shendong Power has a 30% equity interest in Shenhua Yangguang Power and Chemicals, with the remaining equity interest being held as to 35% by the Employees Shareholding Society of Shendong Power and as to 35% by Yulin Yangguang Power Company Limited, an independent third party. By a resolution of the Employees Shareholding Society of Shendong Power, Shendong Power is authorized to exercise the voting power of the 35% equity interest held by the Employees Shareholding Society of Shendong Power in Shenhua Yangguang Power and Chemicals. Shenhua Yangguang Power and Chemicals owns and operates a 2 x 25MW coal residual stone power plant and a 12500KVA calcium carbide furnace, which have been in operation since July 2004. The total investment of Shenhua Yangguang Power and Chemicals is RMB178 million. The coal residual stones consumed by the power plants are sourced from the local market and most of the power generated is supplied to its calcium carbide plant.

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## LETTER FROM THE BOARD

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### 4.2.2 Coal assets

#### *Background*

The Huangyuchuan mining right area is located in the Zhunge'er Coal Field in Zhunge'er County, Ordos City, in the Inner Mongolia Autonomous Region, the PRC. The area is assessed via the Xiewei Highway and the Datong Zhunge'er Railway is located at a 20 km distance from the mining right area.

Huangyuchuan Mine has not yet commenced its mining production. It is estimated that the total investment in the construction of Huangyuchuan Mine is approximately RMB2.02 billion. The total designed coal production capacity of Hunagyuchuan Mine is 10 million tonnes per year in total, which will be developed by two phases of 5 million tonnes per year per phase. It has already obtained the approval of the National Development and Reform Commission of the PRC for the commencement of the mining construction. Construction is currently in progress and production is expected to commence in 2009.

#### *Mining rights*

The mining right permit of Huangyuchuan Mine is owned by Erdos Yide Resources Company Limited, whose name was changed to Shenhua Yili on 25 February, 2006. Shenhua Yili is a subsidiary of Shendong Power, the equity interest of which is held as to 51% by Shendong Power and 49% by Erdos Yili Resources Group Company Limited, respectively. The mining right period is for approximately 30 years from April 2006 to January 2036.

#### *Resources*

The Company has engaged J. T. Boyd, independent technical consultants, to estimate the coal reserves and resources of Huangyuchuan Mine. Based on the resource source data provided by the Company in accordance with the relevant PRC law and reviewed, reclassified and substantiated by J. T. Boyd in accordance with JORC Code, J. T. Boyd has estimated the coal reserves and resources of Huangyuchuan Mine as at 31 December 2006 as follows:

31 December 2006								
JORC Code								
Resources (Mt)			Recoverable Reserves (Mt)			Marketable Reserves (Mt)		
Measured	Indicated	Total	Proved	Probable	Total	Proved	Probable	Total
347.85	434.97	782.64	253.64	319.70	573.34	167.87	201.46	369.33

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## LETTER FROM THE BOARD

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### *Coal quality*

The data extracted from the Resource Assessment Report prepared by J. T. Boyd on the average raw coal quality of Huangyuchuan Mine are as follows:

<b>Seam</b>	<b>Moisture % (ad)</b>	<b>Ash % (d)</b>	<b>Volatile Matter % (daf)</b>	<b>Sulfur % (d)</b>	<b>Heat Content (Gr.v.d) (Kcal/kg)</b>
4	2.4	22.3	39.7	0.7	5,650
6 Upper	2.5	18.9	39.1	0.7	5,950
6	2.3	20.7	39.1	0.7	5,800
9	2.1	24.3	39.4	1.1	5,500

The Resource Assessment Report of Huangyuchuan Mine prepared by J. T. Boyd is in Appendix II of this circular.

### *Mining method*

Coal extraction in the Huangyuchuan Mine is projected to be performed primarily using fully mechanized, full extraction LW methods and fully mechanized, sublevel caving LW mining methods.

#### **4.2.3 Chemical industry business**

Shendong Power Calcium Carbide Plant is wholly-owned by Shendong Power. It is engaged in the production of calcium carbide. It operates one 16500KVA calcium carbide furnace, one 6300KVA calcium carbide furnace and one coking plant.

Additionally and as stated in paragraph 4.2.1 above, Shendong Power has a 30% equity interest in Shenhua Yangguang Power and Chemicals, which is engaged in coal residual stone power generation and production of calcium carbide. Shendong Power is entitled to exercise the voting power of the 35% equity interest held by the Employees Shareholding Society of Shendong Power in Shenhua Yangguang Power and Chemicals.

As the production of calcium carbide is not related to the core business of the Company, Shendong Power has undertaken to transfer Shendong Power Calcium Carbide Plant and the 30% equity interest in Shenhua Yangguang Power and Chemicals to Yili Chemicals. The undertaking was given as part of the consideration for the transfer of the 25% equity interest in Yili Chemicals to Shendong Power in 19 July 2005. In accordance with the Equity Transfer Agreement dated 19 July 2005, the transfers of such assets should take place within 60 days from the month in which the production of the PVC project of Yili Chemicals first commenced.

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## LETTER FROM THE BOARD

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### **4.2.4 Ancillary Services**

Shenhua Shendong Fuel Company Limited is a wholly-owned subsidiary of Shenhua Powers. It is engaged in the supply and transportation of fuel.

### **4.2.5 Minority interests in Yili Chemicals**

Shendong Power has a 25% equity interest in Yili Chemicals. The remaining equity interest of Yili Chemicals is held as to 34% by Shanghai Huayi Group Company, an independent third party and as to 41% by Erdos Yili Resources Group Company Limited, a connected person of the Company at the subsidiary level. The registered capital of Yili Chemicals was RMB112 million. The principal investment of Yili Chemicals is a PVC project, which is a PVC production plant with an annual PVC production capacity of 400,000 tonnes. The total investment of the PVC project is RMB3.58 billion. As the production of PVC requires high power consumption, part of the power to be generated by the power generation plant of Shenhua Yili, a 51% non-wholly owned subsidiary of Shendong Power, will be supplied to the PVC project of Yili Chemicals. For further information relating to the supply of power by Shenhua Yili to Yili Chemicals, please refer to paragraph 4.2.1 above. The PVC project of Yili Chemicals will start operation in 2008 and will reach its production capacity in 2009.

## **4.3 Assets retained by Shenhua Group**

The following assets have retained and transferred to Shenhua Group and will not be transferred to the Company upon completion of the Acquisitions:

### **4.3.1 Coal liquefaction ancillary power plant**

The coal liquefaction ancillary power plant, which is intended to supply power to the coal liquefaction project of Shenhua Group, has been retained by Shenhua Group. The power plant will own and operate 2 x 100MW oil clinker power generation units. The power generated will be mainly supplied to the coal liquefaction project of Shenhua Group.

### **4.3.2 Wuhai Damo Power Generation Company Limited**

Wuhai Damo Power Generation Company Limited has 2 x 25 MW power generation units and commenced its trial production in June 2006. Wuhai Damo Power Generation Company Limited is excluded from the Acquisitions as its power generation capacity is small and its location is not within the main operation area of Shendong Power. Shendong Power previously has a 41% equity interest in Wuhai Damo Power Generation Company, and the remaining 59% equity interest is held by Shenhua Group Wuda Mining Company Limited, a wholly owned by subsidiary of Shenhua Group.



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## LETTER FROM THE BOARD

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### 4.4 *Financial information of Shendong Power*

Set out below is certain financial information reviewed by KPMG, certified public accountants in Hong Kong and extracted from the consolidated financial statements of Shendong Power as of 31 December 2006 prepared in accordance with International Financial Reporting Standards.

	<b>As of 31 December 2006</b> <b>(RMB' million)</b>
Non-current assets	4,980
Current assets	<u>1,336</u>
Total assets	<u><u>6,316</u></u>
Non-current liabilities	1,440
Current liabilities	<u>1,358</u>
Total liabilities	<u><u>2,798</u></u>
Total assets less total liabilities	<u><u>3,518</u></u>
Minority interests	<u><u>1,496</u></u>
Equity attributable to equity shareholder	<u><u>2,022</u></u>

	<b>For the year ended</b> <b>31 December 2006</b> <b>(RMB' million)</b>
Profit before income tax	121
Income tax	<u>(1)</u>
Profit after income tax	120
Minority interests	<u>(55)</u>
Profit attributable to equity shareholder	<u><u>65</u></u>

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## LETTER FROM THE BOARD

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Based on the consolidated financial statements prepared by the Company in accordance with PRC GAAP audited by KPMG Huazhen, certified accountants registered in the PRC, the total assets, net profit (after tax and before minority interests) and net profit (after tax and minority interests) of Shendong Power as at 31 December 2006 were RMB 5,218 million, RMB 79 million and RMB 24 million, respectively. As the major assets of Shendong Power were under construction in 2005 and based on the PRC audited accounts of Shendong Power as audited by the PRC auditors of Shendong Power in accordance with PRC GAAP, Shendong Power made a loss of RMB5.3 million for the year ended 31 December 2005.

Upon completion of the Acquisitions, as the Company and Shendong Power are under common control of Shenhua Group, the Acquisitions will be reflected as a combination of entities under common control and accounted for in a manner of merger accounting. Accordingly, the assets and liabilities of Shendong Power will be accounted for at historical costs and the financial statements of the Company prior to the Acquisitions will be restated to include the results of operations of Shendong Power on a combined basis.

### 5. PROPERTIES

#### 5.1 Properties and land title

##### *Shendong Coal*

Shendong Coal occupies 22 parcels of land with a total site area of approximately 1,054,062.81 sq.m.. All the land use right certificates have been obtained by Shendong Coal. The building ownership certificates of 96 out of 208 buildings have also been issued to Shendong Coal and 3 buildings are held by real estate development companies before sale and therefore do not have ownership certificates. Shendong Coal is in the process of applying for the building ownership certificates of the remaining 109 buildings.

King & Wood, the Company's PRC legal advisers on PRC law, is of the view that there should not be any material legal impediments for Shendong Coal to obtain the relevant building ownership certificates.

##### *Shendong Power*

Shendong Power occupies 19 parcels of land with a total site area of approximately 3,698,040.29 sq.m.. All the land use right certificates have been obtained by Shendong Power. The building ownership certificates of all 135 buildings have been issued to Shendong Power.

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## LETTER FROM THE BOARD

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### 5.2 Valuation of property interests

To provide more information to the Shareholders in respect of the Acquisitions, the Company has engaged CBRE, an independent valuer, to assess the market value of the property interests of Shendong Coal and Shendong Power as at 30 April 2007. The total market value of these property interests has been assessed as RMB1,769.5 million (or equivalent to HK\$1,815.3 million). The valuation report prepared by CBRE is included in Appendix I of this circular.

In accordance with the requirements of Rule 5.07 of the Listing Rules, the statement below shows the reconciliation between the net book value of the property interests of Shendong Coal and Shendong Power as at 31 December 2006 and the valuation of such property interests as at 30 April 2007 set out in Appendix I to this circular as follows:

	<b>RMB million</b> <b>Approx.</b>
Net book value of the property interests of Shendong Coal and Shendong Power as at 31 December 2006 ( <i>Note (a)</i> )	1,355.8
Valuation as at 30 April 2007 as per Appendix I ( <i>Note (b)</i> )	1,769.5
Valuation surplus ( <i>Note (b)</i> )	413.7

*Note:*

- (a) The property interests of Shendong Coal and Shendong Power valued by CBRE, an independent valuer, as contained in Appendix I to this circular are different from the net book value of the property interests included in the consolidated balance sheet prepared by the Company in accordance with PRC GAAP audited by KPMG Huazhen, certified public accountants in the PRC. The net book value of the property interests of Shendong Coal and Shendong Power shown above was based on the interests attributable to Shendong Coal and Shendong Power on the net book value of the property interests owned by Shendong Coal, Shendong Power and their subsidiaries and associates as at 31 December 2006.
- (b) The valuation as at 30 April 2007 took into account additions and disposals of property interests between 1 January 2007 to 30 April 2007.

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## LETTER FROM THE BOARD

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### 6. FINANCIAL IMPACT OF THE ACQUISITIONS

The Board expects that the Final Purchase Price will be funded by the Company's existing cash balance.

As at 31 December 2006, in accordance with the JORC Code, the marketable coal reserves of the Company was 5,960 million tonnes and the coal resources of the Company was 14,850 million tonnes, which form a solid foundation for the long-term development of the Company. According to the Resource Assessment Report prepared by J. T. Boyd, the Acquisitions will increase the marketable coal reserves and the coal resources of the Company by 370 million tonnes and 780 million tonnes, respectively. The Acquisitions will keep up with the expansion trend of the Company's coal business and maintain the Company's market position as the largest coal sales listed energy company in the PRC and the second largest coal sales listed energy company in the world.

As at 31 December 2006, the total installed capacity of the Company was 11,960MW and the equity capacity of the Company was 6,993MW. Upon the completion of the Acquisitions, the total installed capacity of the Company will increase by 644MW and the equity capacity of the Company will increase by 491MW. At the same time, the total installed capacity under construction of the Company will increase by 800MW and the equity capacity under construction of the Company will increase by 408MW. This is in line with the power business development strategy of the Company.

The Acquisitions will have a positive impact on the Company's coal and power business developments and would also further consolidate the Company's position as an integrated coal and power company. Assuming that there is no material change in the economic or market conditions in the PRC, the Board believes the revenue and profitability of the Group will be enhanced as a result of the Acquisitions.

Prior to the Acquisitions, the Company's total assets and total liabilities, based on the audited consolidated balance sheet as of 31 December 2006 prepared in accordance with IFRS were RMB163,148 million (or equivalent to approximately HK\$167,367 million) and RMB78,447million (or equivalent to approximately HK\$80,476 million), respectively. Following the Acquisitions and based on the consolidated balance sheets of Shendong Coal and Shendong Power prepared in accordance with IFRs as at 31 December 2006 as reviewed by KPMG and on the assumption that the Company pays the consideration in cash within 10 business days from the Transfer Date, the consolidated total assets, total liabilities and minority interests of the Company are expected to increase by approximately RMB5,927 million (or equivalent to approximately HK\$6,080 million), RMB4,723 million (or equivalent to approximately HK\$4,845 million) and RMB1,517 million (or equivalent to approximately HK\$1,556 million), respectively.

As regards profits, it is expected that the Company's profits will increase upon the completion of the Acquisitions. In accordance with IFRS, the reviewed net profits after tax and minority interests of Shendong Coal and Shendong Power for the year ended 31 December 2006 were RMB118 million (or equivalent to approximately HK\$121 million) and RMB65 million (or equivalent to approximately HK\$67 million), respectively. Upon the completion of the Acquisitions, the financial statements of Shendong Coal and Shendong Power will be consolidated into the financial statements of the Company, which will increase the earnings per share of the Company.

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## LETTER FROM THE BOARD

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In addition, a 4 x 200MW power plant of Shendong Power and Huangyuchuan Mine are currently under construction. It is expected that two of the 200MW power generation units will commence production in August 2007 and at the end of 2007, respectively; and the other two power generation units will commence operation in the middle of 2008. It is expected that Huangyuchuan Mine will commence production in the second half of 2009. Upon the commencement of operations of all these projects, the profitability of Shendong Power will substantially increase, bringing good returns to the Company.

### 7. REASONS AND BENEFIT OF THE ACQUISITIONS

The Board considers that the terms of the Acquisitions are fair and reasonable and in the interests of the Shareholders as a whole for the following reasons:

- 7.1 Through the Acquisitions, the Company will through Shenhua Yili, a non-wholly owned subsidiary of Shendong Power, acquire the coal resources of Huangyuchuan Mine. Such acquisition is in line with the sustainable long-term coal business growth strategy of the Company through selective acquisition of commercially attractive assets and coal resources so as to maintain and expand highly productive and efficient coal resources of the Company. At the same time, the Board believes the commencement of production of Huangyuchuan Mine will further increase the Company's coal production and contribute value to the Shareholders;
- 7.2 The Acquisitions will increase the total installed capacity and gross power generation amount of the Company, which is in line with the Company's strategy of building power plants in proximity to the mine mouths of the Company's mining areas to benefit from the operational efficiency;
- 7.3 Save for the smaller scale power generating units of Shendong Coal, all the power plants, including the power plants in operation or under construction to be acquired from Shendong Power and the Baode power plant to be acquired from Shendong Coal, are coal residual stone power plants. Coal residual stones are waste products from coal mining operations, which, if not used for power generation, have to be disposed of, as waste materials occupying a lot of dumping space. By utilizing coal residual stones from the Company's own mining operations as well as the abundant supply of such waste materials from the local mining areas, the Company is not only able to environmentally treat such waste materials but also utilize such waste materials to generate revenue;
- 7.4 In addition, coal residual stone power generation is an environmental power generation business encouraged by the PRC government, and enjoys certain preferential tax policy. For instance, the applicable rate of Value Added Tax rate is 8.5%. Moreover, as the power plants to be acquired are all located in western part of China and according to the relevant policy, such power plants also enjoy preferential income tax rate of 15%. Such policies will benefit the income of the power plants acquired; and
- 7.5 Due to the location of the Shendong Mining Area, it is necessary for the Shenhua Group to develop all the ancillary services by itself instead of seeking third party service providers.

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## LETTER FROM THE BOARD

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Therefore, the ancillary services provided by Shendong Coal form a critical part of the operations in the Shendong Mining Area of the Company. In addition, the acquisition of the ancillary service assets from Shendong Coal will be favorable not only to the daily operation of the Company in the Shendong Mining Area, but also provide a strong support for the Company's further development in the future. At the same time, the Acquisitions will generate revenue, reduce the cost of operation, reduce the business tax and notably reduce the continuing connected transactions between the Company and Shenhua Group.

### **8. CONTINUING CONNECTED TRANSACTIONS**

#### **8.1 Connected persons**

Shenhua Group is the sole promoter holding 81.21% of the issued share capital of the Company. Shenhua Group is therefore a connected person of the Company.

Yili Chemicals is held as to 41% by Erdos Yili Resources Group Company Limited, which is a connected person by virtue of its 49% equity interest in Shenhua Yili, a subsidiary of Shendong Power. Yili Chemicals is therefore an associate of Erdos Yili Resources Group Company Limited, a connected person of the Company at the subsidiary level, and transactions between the Company and its subsidiaries with Yili Chemicals are connected transactions under the Listing Rules.

#### **8.2 Reduction in continuing connected transactions upon completion of the Acquisitions**

After the completion of the Acquisitions, Shendong Coal and Shendong Power will be wholly-owned by the Company. After completion of the restructuring for the purpose of listing in Hong Kong, Shenhua Group including through Shendong Coal has been providing certain goods and services to the core businesses of the Company and its subsidiaries. Shendong Coal has also continued to purchase small quantity of coal from the Company. Upon completion of the Acquisitions and with Shendong Coal forming an integral part of the Company, there will no longer be any more continuing connected transactions between Shendong Coal and the Company and its subsidiaries.

It is expected that the Acquisitions will reduce the value of the production supplies and ancillary services provided by Shenhua Group to the Company under the Mutual Supplies and Services Agreement dated 24 May 2005 (as revised and renewed on 23 March 2007) by RMB640 million in 2007. In its circular dated 30 March 2007, the Company has proposed to its Independent Shareholders to revise annual cap for the provision of production supplies and ancillary services by Shenhua Group to the Company under the Mutual Supplies and Services Agreement for the year ending 31 December 2007 from RMB1,120.1 million to RMB2,617.58 million. Such revision of the annual cap was approved by the Independent shareholders at a general meeting hold on 15 May 2007. It is therefore expected that completion of the Acquisitions will reduce the annual amount of such continuing connected transactions by at least RMB640 million, while it will be difficult to quantify the actual reduced amount of such transactions for the year ending 31 December 2007.

It is also expected that as a result of there being no more connected transactions for the supply of coal to Shendong Coal, the value of the continuing connected transactions with respect to the purchase of coal by Shenhua Group from the Company under the Mutual Coal Supply Agreement dated

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## LETTER FROM THE BOARD

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24 May 2005 (as revised and renewed on 23 March 2007) will be reduced by RMB72 million in 2007. The annual cap for the supply of coal by the Company to Shenhua Group under the Mutual Coal Supply Agreement for the year ending 31 December 2007 is RMB2,000 million. It is therefore expected that completion of the Acquisitions will at least reduce the annual amount of such continuing connected transactions by RMB72 million, while it will be difficult to quantify the actual reduced amount of such transactions for the year ending 31 December 2007.

<b>Continuing connected transactions</b>	<b>Estimated reduction in annual amount - 2007 (RMB)</b>
<b>Expenditure</b>	
<i>Mutual Supply Agreement</i> — Provision of production supplies and ancillary services by Shendong Coal to the Company	640 million
<b>Revenue</b>	
<i>Mutual Coal Supply Agreement</i> — Supply of coal to Shendong Coal	72 million

### 8.3 Future continuing connected transaction upon completion of the Acquisitions

It is expected that the power generation business of Shenhua Yili, a 51% subsidiary of the Company, will commence production by the end of 2007 and in 2008, respectively. Part of the power generated will be provided for the PVC project of Yili Chemicals. As Yili Chemicals is an associate of Erdos Yili Resources Group Company Limited, a connected person of the Company, supply of power by Shenhua Yili to Yili Chemicals will constitute continuing connected transactions for the purpose of the Listing Rules. When appropriate, Shenhua Yili and Yili Chemicals will enter into a power supplying agreement to regulate such transactions and the Company will make proper disclosure and announcement in compliance with Listing Rules. Other than the above, there will not be any new continuing connected transactions arising out of the Acquisitions.

Other than the continuing connected transactions with Shenhua Group which have been disclosed in the Company's circular dated 30 March 2007, there were no prior connected transactions between the Company and Shenhua Group or its associates in the past 12 months from the date of this announcement which are required to be aggregated under the Listing Rules. The non-exempt continuing connected transactions disclosed in the circular dated 30 March 2007 include: (1) the provision of production supplies and ancillary services by Shenhua Group to the Company and its subsidiaries pursuant to the Mutual Supplies and Services Agreement (as defined in the circular dated 30 March 2007); (2) the provision of production supplies and ancillary services by the Company and its subsidiaries to Shenhua Group pursuant to the Mutual Supplies and Services Agreement; and (3) the supply of coal by Shenhua Group to the Company and its subsidiaries pursuant to the Mutual Coal Supply Agreement. All these transactions are continuing connected transaction not exempt from the reporting, announcement and independent shareholders' approval requirements. Since the Acquisitions are one-off transactions of equity interests and the continuing connected transactions in the circular dated 30 March 2007 are continuing transactions for the provision of supplies and services, the Acquisitions do not have to be aggregated with the non-exempt continuing connected transactions referred to in the circular dated 30 March 2007.

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## LETTER FROM THE BOARD

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### **8.4 Future disposal of Shendong Power Calcium Carbide Plant and the 30% equity interest in Shenhua Yangguang Power and Chemicals**

In accordance with the Equity Transfer Agreement dated 19 July 2005, Shendong Power has undertaken to transfer the assets of Shendong Power Calcium Carbide and the 30% equity interest in Shenhua Yangguang Power and Chemicals to Yili Chemicals within 60 days of the commencement of production of the PVC project of Yili Chemicals. Any such transfers in the future are in performance of an obligation given by Shendong Coal prior to Yili Chemicals becoming a connected person of the Company and therefore would not constitute a new connected transaction.

### **9. GENERAL INFORMATION RELATING TO THE COMPANY**

The Company and its subsidiaries operate an integrated coal-based energy business in the PRC, including coal production, transportation and sales as well as power generation. The Company and its subsidiaries also purchase coal from third parties for coal blending and resale.

### **10. GENERAL INFORMATION RELATING TO THE CONNECTED PARTIES**

Shenhua Group and its subsidiaries are principally engaged in coal liquefaction as well as investment and finance activities. Shenhua Group is the sole promoter holding 81.21% of the issued share capital of the Company. Shenhua Group is therefore a connected person of the Company.

For information relating to the business of Yili Chemicals, please refer to paragraph 4.2.4 above.

### **11. RECOMMENDATIONS**

Your attention is drawn to the letter from the Independent Board Committee set out on pages 32 to 33 of this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders concerning the Acquisitions, which require the approval by the Independent Shareholders.

The advice of China Merchants Securities (HK) Co., Ltd., the Independent Financial Adviser to the Independent Board Committee, on the fairness and reasonableness of the terms of the Acquisitions is set out on pages 34 to 47 of this circular. The Independent Financial Adviser considers that the terms of the Acquisitions and the entering into of the Acquisition Agreement 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.

The Independent Board Committee, having considered the recommendation of the Independent Financial Adviser as set out on pages 34 to 47 of this circular, considers that the terms of the Acquisitions and the entering into of the Acquisition Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the proposed resolutions relating to the Acquisitions at the EGM.



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## LETTER FROM THE BOARD

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### 12. EGM

The Acquisitions are subject to the approval by the Independent Shareholders at the EGM and Shenhua Group and its associates will abstain from voting on the ordinary resolution in respect of the Acquisitions at the EGM.

The EGM will also consider, and if appropriate, pass resolutions relating to the proposed issue of A Shares by the Company. Information relating to the proposed issue of A Shares by the Company is contained in a separate circular, which will be despatched together with this circular, to the Shareholders.

### 13. GENERAL INFORMATION

Your attention is drawn to the additional information set out the Appendices to this circular, including the Resource Assessment Report by J. T. Boyd, the independent technical consultants on the coal resources and reserves of Huangyuchuan Mine and the valuation report prepared by CBRE on the property interests of Shendong Coal and Shendong Power.

Yours faithfully  
For and on behalf of the board of Directors of  
**China Shenhua Energy Company Limited**  
**Chen Biting**  
*Chairman*

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## LETTER FROM INDEPENDENT BOARD COMMITTEE

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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)

*Registered office:*  
Shenhua Tower  
22 Andingmen Xibinhe Road  
Dongchen District  
Beijing, PRC

*Principal place of business  
in Hong Kong:*  
Unit B, 60th Floor  
Bank of China Tower  
1 Garden Road  
Central  
Hong Kong

10 July 2007

*To the Independent Shareholders*

Dear Sir or Madam,

### **DISCLOSABLE TRANSACTIONS, CONNECTED TRANSACTIONS AND PRICE-SENSITIVE INFORMATION ACQUISITIONS OF 100% EQUITY INTERESTS IN SHENDONG COAL AND SHENDONG POWER**

We refer to the circular of the Company to the Shareholders dated 10 July 2007 ("Circular"), of which this letter forms part. Terms defined therein shall have the same meanings when used in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to advise you as to whether, in our opinion, the Acquisitions are in the interests of the Company and the Shareholders as a whole and whether the terms of the Acquisition Agreement are fair and reasonable.

China Merchants Securities (HK) Co., Ltd. has been appointed by the Company as the independent financial adviser to advise the Independent Board Committee regarding the terms of the Acquisition Agreement and the Acquisitions. Details of the advice of China Merchants Securities (HK) Co., Ltd., together with the principal factors taken into consideration in arriving at such advice, are set out in its letter on pages 34 to 47.

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## LETTER FROM INDEPENDENT BOARD COMMITTEE

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Your attention is also drawn to the letter from the Board set out on pages 7 to 31 and the additional information set out in the Appendices.

Having taken into account the terms of the Acquisition Agreement and having considered the interests of the Independent Shareholders and the advice of China Merchants Securities (HK) Co., Ltd., we consider that the terms of the Acquisition Agreement are fair and reasonable and the Acquisitions are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the resolutions approving the terms of the Acquisition Agreement and the Acquisitions and the steps required on the part of the Company to implement the Acquisitions.

Yours faithfully,

**CHINA SHENHUA ENERGY COMPANY LIMITED**

**Huang Yicheng**

**Anthony Francis Neoh**

**Chen Xiaoyue**

*Independent Board Committee*

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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



48th Floor, One Exchange Square  
Central, Hong Kong

10 July 2007

**China Shenhua Energy Company Limited**

Shenhua Tower, 22 Andingmen Xibinhe Road, Dongchen District,  
Beijing, the PRC

*To: the Independent Board Committee and the Independent Shareholders of  
China Shenhua Energy Company Limited*

Dear Sirs,

**DISCLOSEABLE TRANSACTIONS, CONNECTED TRANSACTIONS  
AND PRICE-SENSITIVE INFORMATION  
ACQUISITIONS OF 100% EQUITY INTERESTS IN  
SHENDONG COAL AND SHENDONG POWER**

**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 Acquisition Agreement, details of which are set out in the letter from the Board (the “Letter from the Board”) contained in the circular dated 10 July 2007 (the “Circular”) issued by the Company to the Shareholders, of which this letter forms apart. Capitalized terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

This letter contains our advice to the Independent Board Committee and the Independent Shareholders as to (i) whether the Acquisition Agreement is on normal commercial terms, in the ordinary and usual course of business, 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; and (ii) whether the Independent Shareholders are recommended to vote in favor of the Acquisition Agreement at the EGM.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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### **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 management. We have assumed that all statements of belief and intention made by the Directors 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 EGM. 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 that no material facts have been omitted from the information provided and referred to in the Circular.

In rendering our opinions, we have researched, analyzed 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-depth investigation into the business affairs, financial position or future prospects of the Group or the counterparties of the Acquisition Agreement, 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:

#### **1. The Acquisitions**

On 30 June 2007, the Company announced that the Company had, on 30 June 2007, entered into the Acquisition Agreement with Shenhua Group. Pursuant to the Acquisition Agreement, Shenhua Group agrees to sell and the Company agrees to purchase, subject to fulfillment of certain conditions, the respective 100% equity interests held by Shenhua Group in Shendong Coal and Shendong Power for a cash consideration of approximately RMB3,328.49 million (equivalent to approximately HK\$3,414.56 million).

Details of the Acquisition Agreement are set out in the Letter from the Board.

#### **2. Background of the Company and Shenhua Group**

As stated in the Letter from the Board, the Company and its subsidiaries operate an integrated coal-based energy business in the PRC, including coal production, transportation and sales as well as power generation. The Company and its subsidiaries also purchase coal from third parties for coal blending and resale.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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As stated in the Letter from the Board, Shenhua Group and its subsidiaries are principally engaged in coal liquefaction as well as investment and finance activities. As Shenhua Group is the sole promoter and the controlling Shareholder holding approximately 81.21% of the total share capital of the Company, Shenhua Group is therefore a connected person of the Company, and the Acquisitions constitute connected transactions for the Company under the Listing Rules. As one of the percentage ratios, pursuant to the Listing Rules, applicable to the Acquisitions exceeds 5% but is less than 25%, the Acquisitions also constitute discloseable transactions under the Listing Rules. In accordance with the requirements of the Listing Rules, the Acquisitions are subject to, among other conditions, the approval by the Independent Shareholders. Shenhua Group and its associates will abstain from voting at the EGM.

### 3. Information on Shendong Coal

As stated in the Letter from the Board, Shendong Coal was established in the PRC on 21 February 1997 as a wholly-owned subsidiary of Shenhua Group. The registered capital of Shendong Coal is RMB215 million (equivalent to approximately HK\$221 million), which has been fully paid up.

As stated in the Letter from the Board, Shendong Coal is primarily engaged in coal residual stone power generation, supply of heat and water as well as the provision of services ranging from property management, environment protection, construction services, real estate development, medical services to the operations of the Company in Shendong Mining Area, and coal investment. A simplified organization chart of Shendong Coal upon completion of the Acquisitions and a brief description of the principal assets of Shendong Coal to be acquired by the Company following the Acquisitions are set out in the Letter from the Board.

As stated in the Letter from the Board, the table below sets out some key financial information of Shendong Coal as at and for the year ended 31 December 2006 extracted from the consolidated financial statements prepared in accordance with Generally Accepted Accounting Principles of the PRC ("PRC GAAP") audited by KPMG Huazhen, certified accountants registered in the PRC, and the consolidated financial information, reviewed by KPMG, certified public accountants in Hong Kong, prepared in accordance with International Financial Reporting Standards ("IFRS"):

	<b>As at and for the year ended 31 December 2006 (prepared according to PRC GAAP and audited) (RMB million)</b>	<b>As at and for the year ended 31 December 2006 (prepared according to IFRS and reviewed) (RMB million)</b>
Total assets	<u>2,939</u>	<u>2,939</u>
Net profit (after tax and before minority interest)	<u>118</u>	<u>118</u>
Net profit (after tax and minority interests)	<u>118</u>	<u>118</u>

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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As stated in the Letter from the Board, the net profit (after tax and before minority interests) of Shendong Coal for the year ended 31 December 2005 as audited by the PRC auditors of the consolidated financial statements prepared in accordance with PRC GAAP was RMB20.38 million (equivalent to approximately HK\$20.91 million). Upon completion of the Acquisitions, as the Company and Shendong Coal are under common control of Shenhua Group, the Acquisitions will be reflected as a combination of entities under common control and accounted for in a manner of merger accounting. Accordingly, the assets and liabilities of Shendong Coal will be accounted for at historical costs and the financial statements of the Company prior to the Acquisitions will be restated to include the results of operations of Shendong Coal on a combined basis.

#### 4. Information on Shendong Power

As stated in the Letter from the Board, Shendong Power was established in Shenmu, Shaanxi Province on 21 February 1997. Shendong Power is a wholly-owned subsidiary of Shenhua Group, with registered capital of RMB2 billion (equivalent to approximately HK\$2.05 billion), which has been fully paid-up.

As stated in the Letter from the Board, the table below sets out some key financial information of Shendong Power as at and for the year ended 31 December 2006 extracted from the consolidated financial statements prepared in accordance with PRC GAAP audited by KPMG Huazhen, and the consolidated financial information, reviewed by KPMG, prepared in accordance with IFRS:

	<b>As at and for the year ended 31 December 2006 (prepared according to PRC GAAP and audited) (RMB million)</b>	<b>As at and for the year ended 31 December 2006 (prepared according to IFRS and reviewed) (RMB million)</b>
Total assets	<u>5,218</u>	<u>6,316</u>
Net profit (after tax and before minority interest)	<u>79</u>	<u>120</u>
Net profit (after tax and minority interests)	<u>24</u>	<u>65</u>

As stated in the Letter from the Board, as the major assets of Shendong Power were under construction in 2005 and based on the PRC audited accounts of Shendong Power as audited by the PRC auditors of Shendong Power in accordance with PRC GAAP, Shendong Power made a loss of RMB5.3 million (equivalent to approximately HK\$5.44 million) for the year ended 31 December 2005. Upon completion of the Acquisitions, as the Company and Shendong Power are under common control of Shendong Group, the Acquisitions will be reflected as a combination of entities under common control and accounted for in a manner of merger accounting. Accordingly, the assets and liabilities of Shendong Power will be accounted for at historical costs and the financial statements of the Company prior to the Acquisitions will be restated to include the results of operations of Shendong Power on a combined basis.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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As stated in the Letter from the Board, the principal assets of Shendong Power to be acquired by the Company pursuant to the Acquisition Agreement are (i) power generation assets, including three coal residual stone power plants and one coal-fired power and coke oven gas plant; (ii) coal assets, which is the mining right permit of Huangyuchuan Mine (“Hunagyuchuan Mining Right Permit”); (iii) chemical production plants; (iv) ancillary services assets; and (v) the minority interest in a company whose principal investment is a PVC project. A simplified organization chart of Shengdong Power upon completion of the Acquisitions and a brief description of the principal assets of Shengdong Power to be acquired by the Company are set out in the Letter from the Board. The principal characteristics of the Huangyuchuan Mining Right Permits, the coal asset of Shendong Power, are set out below:

### *Huangyuchuan Mining Right Permit*

As set out in the Letter from the Board, the Huangyuchuan mining right area is located in the Zhunge’er Coal Field in Zhunge’er County, Ordos City, in the Inner Mongolia Autonomous Region, the PRC. The area is accessed via the Xiewei Highway and the Datong Zhunge’er Railway is located at a 20 km distance from the mining right area. As stated in the Letter from the Board, the mining right permit is owned by Erdos Yide Resources Company Limited, whose name was changed to Shenhua Yili on 25 February 2006. Shenhua Yili is a subsidiary of Shendong Power. The equity interest of Shenhua Yili is held as to 51% by Shendong Power and as to 49% by Erdos Resources Group Company Limited. The mining right period is for approximately 30 years from April 2006 to January 2036.

As stated in the Letter from the Board, Huangyuchuan Mine has not yet commenced its mining production. It is estimated that the total investment in the construction of Huangyuchuan Mine is approximately RMB2.02 billion (equivalent to approximately HK\$2.07 billion). The total designed coal production capacity of Huangyuchuan Mine is 10 million tones per year in total, which will be developed by two phases of 5 million tones per year per phase. It has already obtained the approval of the National Development and Reform Commission of the PRC for the commencement of the mining construction. Mining construction has already commenced and mining production is expected to commence in 2009. According to the Resource Assessment Report prepared by J.T. Boyd, the independent technical consultants engaged by the Company, which is included in Appendix II of the Circular, the total Recoverable reserves of Huangyuchuan Mine is estimated to be 573.34Mt, and the total Marketable reserves of Huangyuchuan Mine is estimated to be 369.33Mt.

### **5. Reasons for and benefits to the Acquisition Agreement**

The Company is a leading integrated coal-based energy company focusing on the coal and power business in the PRC. The Board considers that the terms of the Acquisitions are fair and reasonable and in the interests of the Company and the Shareholders as a whole for the following reasons:

#### *In line with the Company’s long-term development strategy*

As stated in the prospectus of the Company dated 2 June 2005 (the “Prospectus”), one of the Company’s business strategy is to seek sustainable growth of its coal business. As the



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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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primary power generation fuel source in the PRC, Coal is widely used in the manufacturing of steel and other industrial applications. The Directors believe that in the advancement of the PRC's industrialization, urbanization and modernization, the PRC's demand for energy, in particular for coal and power, will see a continuous rise. Therefore, maintaining and expanding high-quality and abundant coal reserve portfolio through selective acquisition of mines is the long-term business strategy of the Company.

As mentioned in the paragraph headed "Information on Shendong Power" above, Shenhua Yili, a subsidiary of Shendong Power, owns the Hunagyuichuan Mining Rights Permit. As stated in the Letter from the Board, as at 31 December 2006, in accordance with the JORC Code, the marketable coal reserves of the Company was 5,960 million tones and the coal resources of the Company was 14,850 million tones, which form a solid foundation for the long-term development of the Company. Based on the Resource Assessment Report prepared by J.T.Boyd, the Acquisitions will increase the marketable coal reserves and the coal resources of the Company by approximately 370 million tones and 780 million tones, respectively. The Acquisitions will keep up with the expansion trend of the Company's coal business and maintain the Company's market position as the largest coal sales listed energy company in PRC and the second largest coal sales listed energy company in the world. In view of the above, we concur with the Directors that the acquisition and control of the coal resources of Huangyuichuan Mine through the Acquisitions is in line with the Company's long-term development strategy.

### ***Expanding power generation capacity and improving the power generation operation's efficiency***

Power generation is one of the two principal businesses of the Company. As stated in the Letter from the Board, as at 31 December 2006, the total installed capacity of the Company was 11,960MW and the equity capacity of the Company was 6,993MW. Upon completion of the Acquisitions, the total installed capacity of the Company will increase by 644MW and the equity capacity of the Company will increase by 491MW. At the same time, the total installed capacity under construction of the Company will increase by 800MW and the equity capacity under construction of the Company will increase by 408MW. This is in line with the power business development strategy of the Company. As set out in the annual report of the Company for the year ended 31 December 2006 (the "2006 Annual Report"), the Company's gross power generation was 55.36 billion kwh, representing a year-on-year increase of 16.15 billion kwh or 41.2%. As stated in the Prospectus, the Company operates and develops power plants in regions with strong economic growth and attractive power tariffs or in proximity to the Company's own coal mines or coal transportation network (such as Inner Mongolia and Shaanxi) which enable the Company to capture the rapid increase in demand for electricity and ensure easy access to coal supplies. As advised by the Directors, Shendong Power and its subsidiaries are located mainly in Shendong Mining Area. The Directors consider that the acquisition of the power generating plants of Shendong Power will add to the power generation capacity of the Company and improve the power generation operations' efficiency by taking advantage of the easy access of the coal supplies from the Company's own coal mines. The Directors consider that the Acquisitions will have a positive impact on the Company's coal and power business developments and would also further consolidate the Company's position as an integrated coal and power company.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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### *Enhancing environment protection and generating revenue*

The Directors advised that coal residual stones, the waste product from the Company coal mining operations, can be utilized for power generation, which will not only contribute to environmental protection but also reduce the costs in dealing with such waste products by the mines of the Company. As stated in the Letter from the Board, save for the smaller scale power generating units of Shendong Coal, all the power plants, including the power plants in operation or under construction to be acquired from Shendong Power and the Baode power plant to be acquired from Shendong Coal, are coal residual stone power plants. Coal residual stones are waste products from coal mining operations, which, if not used for power generation, have to be disposed of, as waste materials occupying a lot of dumping space. By utilizing coal residual stones from the Company's own mining operations as well as the abundant supply of such waste materials from the local mining areas, the Company is able not only to environmentally treat such waste materials but also utilize such waste materials to generate revenue.

In addition, coal residual stone power generation is an environmental power generation business encouraged by the PRC government, and enjoys certain preferential tax policy. The applicable rate of Value Added Tax rate is 8.5%, which is half of the normal rate of 17%. Moreover, as the power plants to be acquired are all located in western part of China, according to the relevant policy, such power plants also enjoy preferential income tax rate of 15%. (The normal income tax rate at present is 33%, which will be reduced to 25% from 2008). Therefore, the Directors consider that such policies will benefit the income of the power plants acquired.

### *Maintaining the daily operation of the largest mining area of the Company*

As advised by the Directors, most of the assets of Shendong Coal to be acquired by the Company pursuant to the Acquisition Agreement are providing ancillary and public services, such as supplying heat and water, providing environmental protection, construction services, real estate management, hospital, and etc, to the Shendong Mining Area, which is the largest coal mining area of the Company. As stated in the 2006 Annual report, Shendong Mine Area is the largest and most productive mining area of the Company, which accounted for approximately 77.23% of the Company's total commercial coal production in 2006. Therefore, maintaining the daily operation of Shendong Mining Area smoothly is fundamentally important for the business development of the Group. The Directors consider that the acquisition of the ancillary service assets from Shendong Coal will be favorable not only to the daily operation of the Company in the Shendong Mining Area, but also provide a strong support for the Company's further development in the future.

### *Strengthening governance and reducing operation costs*

As stated in the Letter from the Board, the Acquisitions will also generate revenue, reduce the cost of operation, reduce the business tax and notably reduce the continuing connected transactions between the Company and Shenhua Group. In view of the above, we concur with the Directors that the Acquisition will strengthen the governance and improve the financial results of the Company in the long term.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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In view of the reasons above, we are of the view that the entering into the Acquisition Agreement by the Company with Shenhua Group is in the ordinary and usual course of business, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

### 6. The Purchase Price

#### *Basis of the Purchase Price*

As stated in the Letter from the Board, based on the valuation report prepared by CEA adopting the cost method, the value of 100% entire equity interest of Shendong Coal was approximately RMB1,169.89 million (equivalent to approximately HK\$1,200.15 million) and the value of 100% equity interest of Shendong Power was approximately RMB2,158.60 million (equivalent to approximately HK\$2,214.41 million) as at the Valuation Date, and the aggregate total valuation was approximately RMB3,328.49 million (equivalent to approximately HK\$3,414.56 million).

As stated in the Letter from the Board, the Company and Shenhua Group have agreed and confirmed that based on the valuation report prepared by CEA, the Purchase Price is approximately RMB3,328.49 million (equivalent to approximately HK\$3,414.56 million), which equals to the aggregate total valuation of Shendong Coal and Shendong Power based on the valuation report prepared by CEA.

The Acquisitions are subject to 企業國有產權轉讓管理暫行辦法 (the Interim Measures on the Management of Transfer of the State-owned Property Rights of Enterprises (the “Interim Measures”)) effective from 1 February 2004 and 關於國有產權轉讓有關事項的通知 (the Notice to the Matters on the Transfer of the Stated-owned Property Rights of Enterprises (the “Notice”)) which is issued by SASAC on 31 December 2006. The Interim Measure and the Notice require that the consideration for the transfer of State-owned shares shall be based on the value appraised by a qualified appraiser which shall further be endorsed by or filed with the relevant PRC government regulatory bodies, and the consideration for a transfer should not be less than the appraised value.

#### *Valuations*

In assessing the fairness and reasonableness of the valuations of Shendong Coal and Shendong Power and their respective subsidiaries, we have reviewed the valuation reports of Shendong Coal and Shendong Power and their respective subsidiaries as at 31 December 2006 prepared by CEA, respectively. The appraised value of Shendong Coal and Shendong Power and their respective subsidiaries valued by CEA are based on the cost method, which determines the value of an asset by assuming the value of such asset is equal to the current cost of reproduction or replacement of such asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization in valuation. As stated in the valuation reports prepared by CEA, the valuation of Shendong Coal and Shendong Power and their respective subsidiaries were conducted in accordance with the relevant rules and regulations regarding asset valuation in the PRC.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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We have discussed with CEA on the methodology adopted and assumptions used in arriving at its valuations of Shendong Coal and Shendong Power and their respective subsidiaries in its valuation reports. In the course of our discussions with CEA, nothing material has come to our attention that would lead us to believe that the valuations of Shendong Coal and Shendong Power and their respective subsidiaries were not prepared on a reasonable basis nor reflect the methodology and assumptions which have been adopted and arrived at after due and careful consideration. We have no reason to doubt the fairness and appropriateness of the methodology adopted and assumptions used by CEA in arriving at the valuations of Shendong Coal and Shendong Power and their respective subsidiaries.

There are three internationally recognized valuation methodologies namely, (i) the market approach; (ii) the cost approach; and (iii) the income approach. We concur with CEA that the cost method is the most appropriate approach in evaluating the fair value of Shendong Coal and Shendong Power and their respective subsidiaries as (i) the market approach is not appropriate as (a) to the best knowledge of CEA, no comparable transactions of acquiring company which is similar to Shendong Coal and Shendong Power and their respective subsidiaries for the period from 1 July 2006 to 31 December 2006 can be identified by CEA; and (b) the price-to-earnings ratio is not appropriate in evaluating Shendong Coal and Shendong Power and their respective subsidiaries as the price charged by Shendong Coal to services and/or products provided to the Group is based on a cost plus basis which may not be a market price; and (ii) the income approach is not appropriate as (a) the price charged by Shendong Coal to services and/or products provided to the Group is based on a cost plus basis which may not be a market price; and (b) most of assets of Shendong Power either are under construction or have just commenced operation.

### *Comparable transactions*

It is common to use price-to-earnings ratio and price to net asset ratio in evaluating the fairness and reasonableness of the consideration of acquiring a company. After considering (i) the price charged by Shendong Coal to services and/or products provided to the Group is based on a cost plus basis which may not be a market price; and (ii) most of assets of Shendong Power either are under construction or have just commenced operation, we consider that the price-to-earnings ratio is not appropriate in evaluating the fairness and reasonableness of the Purchase Price. Given that there is an appraised value of net asset of Shendong Coal and Shendong Power and their respective subsidiaries, we have used such appraised value, instead of book value of net assets of Shendong Coal and Shendong Power and their respective subsidiaries, in evaluating the fairness and reasonableness of the Purchase Price.

We have performed searches on the information available on the Stock Exchange website and identified the connected transactions (the “Comparable Transactions”) from 1 July 2005 (two year immediately before 30 June 2007, being the date of entering the Acquisition Agreement (the “Agreement Date”)) to the Agreement Date, which involved the acquisition of assets involving Chinese State-owned parent companies and their Hong Kong listed subsidiaries with market capitalization exceed HK\$10,000 million as at the Agreement Date and adopted the appraised

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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values as the basis to determine the relevant considerations. We compare the premium/discount of considerations to the PRC appraised value of the Comparable Transactions. Set out below is a list of the approximate considerations, the PRC appraised values and the premium/(discount) of considerations to the PRC appraised value of the Comparable Transactions.

Name of issuer	Date of circular	Target	Approximate consideration (RMB millions)	Approximate PRC appraised value of the target (RMB millions)		Premium/ (discount) to the PRC appraised value (Note 1) (approximately)
China Telecom Corporation Ltd. (Stock Code: 728)	15 June 2007 (announcement date)	100% equity interests in three companies	1,408	N.A (Note 2)	N.A (Note 2)	
Jiangxi Copper Co., Ltd. (Stock Code: 358)	2 April 2007	The mining rights and the related operating assets and liabilities of the Chengmenshan Copper Mine, the operating assets and the related liabilities of the Xiangsi Railway, and certain equity interests of a number of companies	1,785.3	1,785.3	0.0%	
Beijing Capital International Airport Company Limited (Stock Code: 694)	17 November 2006	Certain assets relating the construction in progress of airfield, terminal numbered 3 of the airport and roads within airport area, relevant electric train system and equipments, and the relevant land use rights	15,620.0 (Note 3)	12,320 (Note 3)	0.0% (Note 3)	
China Shipping Development Co., Ltd. (Stock Code: 1138)	13 November 2006	Assets in vessels	2,470.0	2,462.1	0.3%	
Anhui Conch Cement Co. Ltd. (Stock Code: 914)	26 October 2006	Certain equity interest of a number of companies	302.6	302.6	0.0%	
Yanzhou Coal Mining Co. Ltd. (Stock Code: 1171)	7 September 2006	98% equity interest in Shanxi Neng Hua	733.3	733.3	0.0%	

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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Name of issuer	Date of circular	Target	Approximate consideration (RMB millions)	Approximate PRC appraised value of the target (RMB millions)	Premium/ (discount) to the PRC appraised value (Note 1) (approximately)
Shanghai Electric Group Company Limited (Stock Code: 2727)	9 February 2006	Certain equity interest of a number of companies	378.6	380.2	(0.4%)
Angang New Steel Company Limited (Stock Code: 347)	11 November 2005	Certain iron and steel operations and assets	19,691.6	19,691.6	0.0%
				Minimum:	(0.4%)
				Maximum:	0.3%
				Average:	(0.01%)
The Company:					
(i) Acquisition of Shendong Coal	10 July 2007	100% equity interest of Shendong Coal	1,169.89	1,169.89	0.0%
(ii) Acquisition of Shendong Power	10 July 2007	100% equity interest of Shendong Power	2,158.60	2,158.60	0.0%

*Source: Circulars published on the Stock Exchange website.*

*Notes:*

1. The premium/ (discount) are calculated by dividing the considerations by the PRC appraised values.
2. The relevant circular has not been despatched. The valuation amount of the target companies are not identified in the relevant announcement, therefore, the premium/discount of the consideration to the PRC appraised value can not be calculated.
3. The consideration of approximately RMB15,620 million comprises: (i) approximately RMB12,320 million for initial consideration which is based on the valuation report of the transfer asset as at 31 March 2006; and (ii) approximately RMB3,300 million for expenditure incurred or to be incurred by the vendor on the transfer asset from 1 April 2006 until the delivery of the transfer asset to the buyer.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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As shown above, the ratios of considerations to the PRC appraised values of the Comparable Transactions range from a discount of approximately 0.4% to a premium of approximately 0.3% with an average of discount of approximately 0.01%. Since the Purchase Price are equal to the PRC appraised value prepared by CEA, the Purchase Price has no discount or premium to the PRC appraised value which is in line with the practice of the eight comparable transactions listed in the above table and is in the range of the Comparable Transactions. Therefore, we consider that the Purchase Price is fair and reasonable.

Considering (i) the determination of the consideration of an acquisition of State-owned assets is required to be based on and not lower than the value appraised by a qualified valuer endorsed by or filed with the relevant PRC government regulatory bodies; (ii) the Directors advised that CEA is a qualified appraiser endorsed by or filed with the relevant PRC government regulatory bodies; (iii) the valuation reports prepared by CEA were prepared in accordance with relevant rules and regulations in the PRC; and (iv) the Purchase Price to the PRC appraised value for the Acquisitions is in line with the Comparable Transactions mentioned above, we are of the view that the Purchase Price is determined on normal commercial terms, 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.

### 7. Financial effects of the Acquisition Agreement

Set out below are the financial effects of the Acquisition Agreement on the Group:

#### *Earnings*

As advised by the Directors, given Shendong Coal and Shendong Power had net profits attributable to equity shareholder of approximately RMB118 million (equivalent to approximately HK\$121 million) and RMB65 million (equivalent to approximately HK\$67 million) for the year ended 31 December 2006 prepared according to IFRS respectively, and upon the completion of the Acquisitions, Shendong Coal and Shendong Power will be consolidated into the financial statements of the Company and each will become a subsidiary of the Company, the Acquisition Agreement will likely have an overall positive impact on the profitability of the Company, which in turn, will likely have an overall positive impact on the earnings per Share as well. Assuming that there is no material change in the economic or market conditions in the PRC, the Board believes that the revenue and profitability of the Group will be enhanced as a result of the Acquisitions. As such, we concur with the Directors' view that the Acquisition Agreement is likely to have a positive impact on the earnings of the Group.

#### *Net asset value*

According to the 2006 Annual report, the Group's consolidated total assets, total liabilities, and net asset value were approximately RMB163,148 million (equivalent to approximately HK\$167,367 million), approximately RMB78,447 million (equivalent to approximately HK\$80,476 million), and approximately RMB84,701 million (equivalent to approximately HK\$86,891 million) respectively as at 31 December 2006. As stated in the Letter from the Board, the Purchase Price will be funded by the existing cash balance of the Company. Following the



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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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Acquisitions and based on the consolidated balance sheets of Shendong Coal and Shendong Power prepared in accordance with IFRS as at 31 December 2006, as reviewed by KPMG prepared and on the assumption that the Company pays the Purchase Price in cash within 10 business days from the Transfer Date, the total assets and the total liabilities of the Company are expected to increase by approximately RMB5,927 million (equivalent to approximately HK\$6,080 million) and RMB4,723 million (equivalent to approximately HK\$4,845 million), respectively. As a result, upon the completion of the Acquisitions, the Group's consolidated net asset value will be increased by approximately RMB1,204 million (equivalent to approximately HK\$1,235 million) to approximately RMB85,905 million (equivalent to approximately HK\$88,127 million). As such, we are of the view that the Acquisition Agreement will increase the consolidated net asset value of the Group.

### *Gearing and cash position*

As mentioned in the above paragraph, since the payment for the Purchase Price under the Acquisition Agreement will be funded by the Company's existing cash balance, there will be no material effect to the total debt to total asset ratio (the "Gearing Ratio") of the Group as a result of the Acquisition Agreement. Based on the 2006 Annual Report, the Group had a cash and cash equivalent of approximately RMB15,501 million (equivalent to approximately HK\$15,902 million) as at 31 December 2006. Assuming the Acquisition Agreement had been completed on 31 December 2006, the cash and cash equivalent of the Group would have been reduced by approximately 21.47% to approximately RMB12,173 million (equivalent to approximately HK\$12,488 million). Accordingly, we are of the view that the payment of the consideration of the Acquisition Agreement will have an immaterial adverse effect on the cash position of the Group.

Having taking into account of the above, we are of the view that the Acquisition Agreement will likely have a positive impact on the earnings and the consolidated net asset value of the Group, no material effect on the gearing ratio of the Group and immaterial adverse effect on the cash position of the Group.

## RECOMMENDATION AND CONCLUSION

Having considered the above principal factors and reasons, we are of the opinion that the Acquisition Agreement is on normal commercial terms, in the ordinary and usual course of business, 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. We would therefore advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the Acquisition Agreement at the EGM. We also recommend the Independent Shareholders to vote in favour of the Acquisition Agreement at the EGM

Yours faithfully,  
For and on behalf of  
**China Merchants Securities (HK) Co., Ltd.**  
**Tony Wu**  
*Executive Director*



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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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- \* *In this letter, the English names of the PRC laws and entities are translations of their Chinese names and included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.*
- \* *For the purpose of this letter, for the purpose of identification only, the following exchange rate is used:*

*RMB0.97479=HK\$1.*

*The following is the text of a valuation certificate received from CB Richard Elli Limited, an independent property valuer, prepared for the purpose of inclusion in this circular, in connection with its valuation as at April 30, 2007 in respect of the property interests of Shenhua Group Shenfu Dongsheng Coal Company Limited and Shenhua Shendong Power Company Limited.*

**CBRE**

CB RICHARD ELLIS

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地產代理（公司）牌照號碼  
Estate Agent's Licence No: C-004065

July 10, 2007

The Board of Directors,  
China Shenhua Energy Company Limited,  
Floor 4, Zhouji Plaza,  
No.16 Ande Road,  
Dongcheng District,  
Beijing City,  
The People's Republic of China

Dear Sirs,

**RE: VALUATION OF VARIOUS PROPERTIES IN THE PEOPLE'S REPUBLIC OF CHINA**

In accordance with your instructions to us to value the property interests of Shenhua Group Shenfu Dongsheng Coal Company Limited and Shenhua Shendong Power Company Limited (the "Company") and its subsidiaries (together referred to as the "Group") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interests for the purpose of incorporating in this circular as at April 30, 2007.

We have valued the property interests on the basis of Market value which we would define as intended to mean "*the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.*"

In valuing the property interests of Shenhua Group Shenhua Dongsheng Coal Company Limited and Shenhua Shendong Power Company Limited, we have complied with all the requirements contained in the Practice Notes 12, 16 and Chapter 5 of the Rules Governing the Listing of Securities (the “Exchange Listing Rules”) issued by the Stock Exchange of Hong Kong Limited and the Hong Kong Institute of Surveyors Valuation Standards on Properties (1st Edition) published by the Hong Kong Institute of Surveyors.

Our valuation has been made on the assumption that the owners sell the properties on the open market without the benefit or the burden of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which would serve to affect the values of the property interests.

In the course of our valuation for the properties in the PRC, we have relied on the legal opinion provided by the Group’s PRC legal adviser, King & Wood (the “PRC Legal Opinion”). We have been provided with extracts from title documents relating to such property interests. Where possible, we have searched the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the properties or any lease amendments which may not appear on the copies handed to us. All documents and lease have been used for reference only. All dimensions, measurements and areas are approximations.

We have not seen original planning and/or development schemes and occupation consents for the properties and have assumed that they have been erected and are being occupied and used in accordance with such consents and that there are no outstanding statutory notices.

In valuing the property interests in Group I, which are held and occupied by the Group in the PRC, we have adopted the market approach in valuing the land portion of the property and depreciated replacement cost approach in assessing buildings and structures standing on the land. In the valuation of the land portion, reference has been made to the standard land price and the sales evidence as available to us in the locality.

As the nature of the buildings and structures cannot be valued on the basis of market value, they have therefore been valued on the basis of their depreciated replacement costs. The depreciated replacement cost approach considers the cost to reproduce or replace in new condition the property appraised in accordance with current construction costs for similar property in the locality, with allowance for accrued depreciation as evidence by observed condition or obsolescence present, whether arising from physical, functional or economics causes. The depreciated replacement cost approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparable sales.

For the property interests in Group II, which are leased and occupied by the Group in the PRC, they have no commercial value mainly due to the short term nature of the tenancy or prohibition against assignment or the lack of substantial profit rent.

We have inspected the exterior of the properties and, where possible, the interior of the premises. However, we have not carried out any structural survey nor have we inspected or other parts of the structures, which are covered, unexposed or inaccessible. Therefore, we were not able to report whether the properties are free of rot, infestation or any other structural defects.

We have not carried out land survey to verify the site boundaries of the properties, we have not investigated the site to determine the suitability of soil conditions, the availability of services, etc. for future development. Our report is prepared on the assumption that these aspects are satisfactory. This report does not make any allowance for contamination or pollution of the lands, if any, which may have occurred as a result of past usage.

We have relied to a considerable extent on information provided by Shenhua Group Shenfu Dongsheng Coal Company Limited and Shenhua Shendong Power Company Limited, and have accepted advice given to us by Shenhua Group Shenfu Dongsheng Coal Company Limited and Shenhua Shendong Power Company Limited on such matters as planning approvals, statutory notices, easements, tenure, occupation, lettings, site and floor areas, gross construction volume, and in the identification of those property interests in which Shenhua Group Shenfu Dongsheng Coal Company Limited and Shenhua Shendong Power Company Limited have valid interest. All documents and leases have been used for reference only and all dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximate. No on-site measurements have been taken.

We have had no reason to doubt the truth and accuracy of the information provided to us by Shenhua Group Shenfu Dongsheng Coal Company Limited and Shenhua Shendong Power Company Limited. We have also sought confirmation from Shenhua Group Shenfu Dongsheng Coal Company Limited and Shenhua Shendong Power Company Limited that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoing of an onerous nature which could affect their values.

Unless otherwise stated, all monetary amounts are stated in Renminbi.

We enclose herewith a summary of valuations and our valuation certificate.

Yours faithfully,  
For and on behalf of  
**CB Richard Ellis Limited**  
**Alex P W Leung**  
MHKIS MRICS RPS (GP)  
*Director*  
*Valuation & Advisory Services*

*Note: Mr. Alex P W Leung is a Registered Professional Surveyor (General Practice), a corporate member of Royal Institution of Chartered Surveyors and a member of the Hong Kong Institute of Surveyors. He has over 12 years' valuation experience in Hong Kong and the PRC.*

## SUMMARY OF VALUATIONS

<u>Property interests</u>	<u>Capital value in existing state as at April 30, 2007 (RMB)</u>	<u>Interests attributable to the Group</u>	<u>Capital value attributable to the Group as at April 30, 2007 (RMB)</u>
<i>Group I — Property interests held and occupied by the Group in the PRC</i>			
1. Land, various buildings and structures held by Shenhua Group Shenfu Dongsheng Coal Company Limited, Daliuta Shenmu County and Xian City Shanxi Province, the PRC	481,111,000	100%	481,111,000
2. Land, various buildings and structures held by Shenhua Shendong Real Estate Development Company, Daliuta Town Shenmu County Yulin City Shanxi Province, the PRC	41,600,000	100%	41,600,000
3. Land, various buildings and structures held by Erduosi Shenhua Shendong Real Estate Development Company, No.37 Yijinhuoluo West Road, Dongsheng District, Erduosi City, Inner Mongolia, the PRC	127,509,000	100%	127,509,000
4. Land, various buildings and structures held by Erduosi Shendong Property Management Company, No.37 Yijinhuoluo West Road, Dongsheng District, Erduosi City, Inner Mongolia, the PRC	25,262,000	100%	25,262,000
5. Land and two buildings held by Erduosi Shendong Construction Company, Daqiao Road, Dongsheng District, Erduosi City, Inner Mongolia, the PRC	6,063,000	100%	6,063,000

**APPENDIX I****PROPERTY VALUATION REPORT**

<u>Property interests</u>		<u>Capital value in existing state as at April 30, 2007 (RMB)</u>	<u>Interests attributable to the Group</u>	<u>Capital value attributable to the Group as at April 30, 2007 (RMB)</u>
6.	Land, various buildings and structures held by Baode Shendong Power Generation Company, Qiaotou Town, Baode County, Shanxi Province, the PRC	366,328,000	91.3%	334,458,000
7.	Land, various buildings and structures held by Shendong Power Fuel Company, Dianta Industrial Zone, Shenmu County, Shanxi Province, the PRC	3,063,000	100%	3,063,000
8.	Land, various buildings and structures held by Shenhua Shendong Power Co., Ltd., Dianta Village, Shenmu County, Shanxi Province, the PRC	109,924,000	100%	109,924,000
9.	Land, various buildings and structures held by Shenhua Yangguang Power Chemical Engineering Company, Dianta Industrial Zone of Shenmu County, Shanxi Province, the PRC	49,907,000	30%	14,972,000
10.	Land, various buildings and structures held by Shenhua Yangguang Shenmu Power Generation Company, Dianta Industrial Zone of Shenmu County, Shanxi Province, the PRC	170,088,000	65%	110,557,000
11.	Land, various buildings and structures held by Inner Mongolia Yili Chemical Company, Dalate Qi Erduosi City, Inner Mongolia, the PRC	1,146,788,000	25%	286,697,000
12.	Land, various buildings and structures located in Dalate County, Inner Mongolia held by Shenhua Yili Energy Company, No.30 West Street Erduoshi City, Inner Mongolia, the PRC	447,643,000	51%	228,298,000
<b>Sub-Total:</b>		<b><u>2,975,286,000</u></b>		<b><u>1,769,514,000</u></b>

## SUMMARY OF VALUATIONS

<u>Property interests</u>	<u>Capital value attributable to the Group as at April 30, 2007 (RMB)</u>
<i>Group II — Property leased and occupied by the Group in the PRC</i>	
13. 42 Apartment Units, Railway South, Daqishulinshao County, Inner Mongolia, the PRC	No Commercial Value
14. 64 Apartment Units, Railway South, Daqishulinshao County, Inner Mongolia, the PRC	No Commercial Value
15. 29 Apartment Units, Beside Huanghe Hotel, Daqishulinshao Town, Inner Mongolia, the PRC	No Commercial Value
16. 11 Apartment Units, On the other side of the road, opposite the bus station of Daqishulinshao Town, Inner Mongolia, the PRC	No Commercial Value
<b>Sub-Total:</b>	<b><u>No Commercial Value</u></b>
<b>Grand Total:</b>	<b><u><u>1,769,514,000</u></u></b>

## VALUATION CERTIFICATE

## Group I — Property held and occupied by the Group in the PRC

Property	Description and tenure	Details of occupancy	Capital value in existing state as at April 30, 2007 (RMB)										
1. Land, various buildings and structures held by Shenhua Group Shenfu Dongsheng Coal Company Limited, Daliuta Shenmu County, and Xian City Shanxi Province, the People's Republic of China.	<p>The property consists of fourteen parcels of land with a total site area of approximately 757,185.54 sq.m. Some 180 buildings and structures, mainly completed between 1988 and 2006, were erected on the land.</p> <p>As advised by the Company, the buildings and structures have a total gross floor area of approximately 171,485.19 sq.m., with a breakdown as follows:</p> <table><tr><th>Use</th><th>Gross Floor Area (sq.m.)</th></tr><tr><td>Production</td><td>58,638.79</td></tr><tr><td>Office</td><td>15,964.85</td></tr><tr><td>Allocated</td><td>96,881.55</td></tr><tr><td><b>Total</b></td><td><b>171,485.19</b></td></tr></table> <p>The property is held under 14 State-owned Land Use Rights Certificates for various land use terms expiring on 2057 and 2077.</p>	Use	Gross Floor Area (sq.m.)	Production	58,638.79	Office	15,964.85	Allocated	96,881.55	<b>Total</b>	<b>171,485.19</b>	<p>The property is occupied by Shenhua Group Shenfu Dongsheng Coal Company Limited as industrial production facilities and offices.</p>	<p>481,111,000 (100% interest attributable to the Company: 481,111,000)</p>
Use	Gross Floor Area (sq.m.)												
Production	58,638.79												
Office	15,964.85												
Allocated	96,881.55												
<b>Total</b>	<b>171,485.19</b>												

## Notes:

- a) Pursuant to fourteen State-owned Land Use Rights Certificates, the land use rights of the property with a total site area of 757,185.54 sq.m. have been granted to Shenhua Group Shenfu Dongsheng Coal Company Limited. The details of the Land Use Rights Certificates are listed as follows:

No.	Land Use Rights Certificate No.		Site Area (sq.m.)	Terms (years)
1	Shen Gong Yong (2007) No. WG001008	(神國用(2007)第WG001008號)	10,393.63	50
2	Shen Gong Yong (2005) No. WG001009	(神國用(2007)第WG001009號)	273,212.13	50
3	Shen Gong Yong (2007) No. WG001007	(神國用(2007)第WG001007號)	23,893.33	70
4	Yi Guo Yong (2007) No. 9514313	(伊國用(2007)第9514313號)	85,570.94	50
5	Yi Guo Yong (2007) No. 9514323	(伊國用(2007)第9514323號)	211,273.00	50
6	Yi Guo Yong (2007) No. 95143334	(伊國用(2007)第9514334號)	29,657.16	50
7	Yi Guo Yong (2007) No. 9514335	(伊國用(2007)第9514335號)	5,420.83	50
8	Yi Guo Yong (2004) No. 1527289514336	(伊國用(2004)字第1527289514336號)	16,933.33	40
9	Yi Guo Yong (2007) No. 9514339	(伊國用(2007)第9514339號)	5,555.73	40
10	Yi Guo Yong (2004) No. 9514324	(伊國用(2004)字第9514324號)	66,600.00	50
11	Yi Guo Yong (2006) No. 40106929	(伊國用(2006)第40106929號)	382.80	40



## APPENDIX I

## PROPERTY VALUATION REPORT

No.	Land Use Rights Certificate No.		Site Area	Terms
			(sq.m.)	(years)
12	E Guo Yong (2007) No. 1755	(鄂國用(2007)第1755號)	27,416.66	50
13	Xi Bei Guo Yong (2005 Chu) Di084	(西碑國用(2005出)第084號)	586.30	70
14	Xi Bei Guo Yong (2005 Chu) No. 083	(西碑國用(2005出)第083號)	289.70	70
			<u>757,185.54</u>	

- b) Pursuant to 54 Building Ownership Certificates, the building ownership rights of 85 blocks of buildings with a total gross floor area of 119,296.28 sq.m. have been granted to Shenhua Group Shenfu Dongsheng Coal Company Limited. The details of the Building Ownership Certificates are listed as follows:

No.	Building Ownership Certificate No.		Gross Floor Area
			(sq.m.)
1	Yi Fang Quan Zheng Zi No. 3303	(伊房權證字第YW3303號)	2,608.37
2	Zi No. 486	(字第486號)	1,706.40
3	Zi No. 484	(字第484號)	1,426.00
4	Fang Quan Zheng Zi No. YW3770	(房權證字第-9721號)	664.33
5	Fang Quan Zheng Zi No. YW3346	(房權證產字第YW3770號)	2,094.66
6	Fang Quan Zheng Zi No. YW3346	(房權證字第YW3346號)	2,478.60
7	Zi No. 485	(字第485號)	2,539.50
8	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00568	(神木縣房權證大柳塔鎮字第00568號)	11,000.00
9	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00710	(神木縣房權證大柳塔鎮字第00710號)	5,100.00
10	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00893	(神木縣房權證大柳塔鎮字第00893號)	402.90
11	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00919	(神木縣房權證大柳塔鎮字第00919號)	265.20
12	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00920	(神木縣房權證大柳塔鎮字第00920號)	1,201.02
13	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00934	(神木縣房權證大柳塔鎮字第00934號)	349.83
14	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00950	(神木縣房權證大柳塔鎮字第00950號)	117.88
15	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00956	(神木縣房權證大柳塔鎮字第00956號)	157.50
16	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00957	(神木縣房權證大柳塔鎮字第00957號)	143.75
17	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00958	(神木縣房權證大柳塔鎮字第00958號)	157.50
18	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00959	(神木縣房權證大柳塔鎮字第00959號)	180.50
19	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00960	(神木縣房權證大柳塔鎮字第00960號)	144.30
20	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 01031	(神木縣房權證大柳塔鎮字第01031號)	2,020.00
21	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 01040	(神木縣房權證大柳塔鎮字第01040號)	247.11
22	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 0574, 0593	(神木縣房權證大柳塔鎮字第0574號、0593號)	42.14
23	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00321	(神木縣房權證大柳塔字第00321號)	1,275.00
24	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00322	(神木縣房權證大柳塔字第00322號)	215.00
25	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00326	(神木縣房權證大柳塔字第00326號)	675.00
26	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00335	(神木縣房權證大柳塔字第00335號)	23.00
27	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00338	(神木縣房權證大柳塔字第00338號)	6,764.00
28	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00339	(神木縣房權證大柳塔字第00339號)	404.00
29	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00341	(神木縣房權證大柳塔字第00341號)	254.00
30	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00344	(神木縣房權證大柳塔字第00344號)	1,550.00
31	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00373	(神木縣房權證大柳塔字第00373號)	1,450.00
32	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00374	(神木縣房權證大柳塔字第00374號)	242.00
33	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00561	(神木縣房權證大柳塔字第00561號)	4,313.57
34	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00562	(神木縣房權證大柳塔字第00562號)	4,313.57
35	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00563	(神木縣房權證大柳塔字第00563號)	4,313.57

## APPENDIX I

## PROPERTY VALUATION REPORT

No.	Building Ownership Certificate No.	Gross Floor Area (sq.m.)
36	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00564 (神木縣房權證大柳塔字第00564號)	90.40
37	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00565 (神木縣房權證大柳塔字第00565號)	2,592.00
38	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00566 (神木縣房權證大柳塔字第00566號)	4,313.57
39	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00701 (神木縣房權證大柳塔字第00701號)	7,861.54
40	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00873 (神木縣房權證大柳塔字第00873號)	365.84
41	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00874 (神木縣房權證大柳塔字第00874號)	539.10
42	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00876 (神木縣房權證大柳塔字第00876號)	9,305.94
43	Shen Mu Fang Quan Zheng Da Liu Ta Zhen Zi No. 00921 (神木縣房權證大柳塔字第00921號)	1,500.00
44	Xi An Shi Fang Quan Zheng Bei Lin Qu Zi Di019035/37/38 (西安市房權證碑林區字第019035/37/38號)	2,716.08
45	Yi Fang Quan Zheng Zi No. YW3280 (伊房權證字第YW3280號)	45.31
46	Yi Fang Quan Zheng Zi No. YW3287 (伊房權證字第YW3287號)	2,708.78
47	Yi Fang Quan Zheng Zi No. YW3288 (伊房權證字第YW3288號)	4,354.89
48	Yi Fang Quan Zheng Zi No. YW3289 (伊房權證字第YW3289號)	1,141.28
49	Yi Fang Quan Zheng Zi No. YW3291 (伊房權證字第YW3291號)	1,434.10
50	Yi Fang Quan Zheng Zi No. YW3292 (伊房權證字第YW3292號)	120.41
51	Yi Fang Quan Zheng Zi No. YW3300 (伊房權證字第YW3300號)	16,971.52
52	Zi No. YW3304 (字第YW3304號)	1,216.42
53	Yi Fang Quan Zheng Zi No. YW3305 (伊房權證字第YW3305號)	174.82
54	Yi Fang Quan Zheng Zi No. YW3399 (伊房權證字第YW3399號)	1,004.08
Total		<u>119,296.28</u>

c) We have attributed no commercial value to the remaining 95 buildings/structures with a total gross floor area of approximately 52,188.91 sq.m. without relevant title certificates. We are of the opinion that the capital value of these buildings as at the valuation date would be RMB31,377,000 assuming all relevant title certificates have been obtained.

d) We have been provided with a legal opinion on the property prepared by the Company's PRC legal adviser, which contains, *inter alia*, the following information:

Regarding those with building ownership certificates in progress, according to documents and law of PRC, there shall be no material legal impediment for Shenhua Group Shenfu Dongsheng Coal Company Limited to obtain the building ownership certificate. Once relevant building ownership certificates obtained by Shenhua Group Shenfu Dongsheng Coal Company Limited, Shenhua Group Shenfu Dongsheng Coal Company Limited has the rights to transfer, mortgage, lease or dispose of the buildings by other legal means within the validity period of the relevant building ownership certificates.

e) As advised, Shenhua Group Company wholly holds the interest of Shenhua Group Shenfu Dongsheng Coal Company Limited.

## VALUATION CERTIFICATE

Property	Description and tenure	Details of occupancy	Capital value in existing state as at April 30, 2007 (RMB)								
2. Land, various buildings and structures held by Shenhua Shendong Real Estate Development Company, Daliuta Town Shenmu County Yulin City Shanxi Province, the People's Republic of China.	<p>The property is erected on two parcels of land with at total site area of approximately 44,304.31 sq.m. It comprises seven buildings/structures generally completed between 1994 and 2001.</p> <p>As advised by the Company, the total gross floor area of the property is approximately 5,239.9 sq.m. with a breakdown as follows:</p> <table><tr><th>Use</th><th>Gross Floor Area (sq.m.)</th></tr><tr><td>Retail</td><td>4,360.75</td></tr><tr><td>Office</td><td>879.15</td></tr><tr><td><b>Total</b></td><td><b>5,239.90</b></td></tr></table> <p>The property is held under two State-owned Land Use Rights Certificates for land use terms of 50 years or 70 years expiring on 2057 and 2077.</p>	Use	Gross Floor Area (sq.m.)	Retail	4,360.75	Office	879.15	<b>Total</b>	<b>5,239.90</b>	<p>The property is occupied by Shenhua Shendong Real Estate Development Company as offices.</p>	<p>41,600,000 (100% interest attributable to the Company: 41,600,000)</p>
Use	Gross Floor Area (sq.m.)										
Retail	4,360.75										
Office	879.15										
<b>Total</b>	<b>5,239.90</b>										

## Notes:

- a) Pursuant to State-owned Land Use Rights Certificate No. E Guo Yong (2007) No. 1756 (鄂國用(2007) 第1756號), the land use rights of the property with a site area of 29,042.21 sq.m. have been granted to Shenhua Group Shenfu Dongsheng Coal Company Limited for a term of 50 years.
- b) Pursuant to State-owned Land Use Rights Certificate No. E Guo Yong (2007) No. 1754 (鄂國用(2007) 第1754號), the land use rights of the property with a site area of 15,262.1 sq.m. have been granted to Shenhua Group Shenfu Dongsheng Coal Company Limited for a term of 70 years.
- c) We have attributed no commercial value to the six office buildings with a total gross floor area of approximately 879.15 sq.m. without relevant title certificates. We are of the opinion that the capital value of these buildings as at the valuation date would be RMB280,135.00 assuming all relevant title certificates have been obtained.
- d) We have been provided with a legal opinion on the property prepared by the Company's PRC legal adviser, which contains, *inter alia*, the following information:

Regarding those with building ownership certificates in progress, according to documents and law of PRC, there shall be no material legal impediment for Shenhua Shendong Real Estate Development Company to obtain the building ownership certificate. Once relevant building ownership certificates obtained by Shenhua Shendong Real Estate Development Company, Shenhua Shendong Real Estate Development Company has the rights to transfer, mortgage, lease or dispose of the buildings by other legal means within the validity period of the relevant building ownership certificates.

- e) As advised, Shenhua Group Shenfu Dongsheng Coal Company Limited wholly holds the interest of Shenhua Shendong Real Estate Development Company.

## VALUATION CERTIFICATE

Property		Description and tenure	Details of occupancy	Capital value in existing state as at April 30, 2007 (RMB)							
3.	Land, various buildings and structures held by Erduosi Shenhua Shendong Real Estate Development Company, No.37 Yijinhualuo West Road, Dongsheng District, Erduosi City, Inner Mongolia, the People’s Republic of China.	The property is/will be erected on two parcels of land with a total site area of approximately 104,100.61 sq.m.	The completed buildings were held by Erduosi Shenhua Shendong Real Estate Development Company.	127,509,000 (100% interest attributable to the Company: 127,509,000)							
		As advised by the Company, two buildings and eight carparks had been completed in about 2005. The gross floor area of these buildings is approximately 421 sq.m. in total with a breakdown as follows:									
		<table><tr><td><u>Use</u></td><td><u>Gross Floor Area (sq.m.)</u></td></tr><tr><td>Retail</td><td>259</td></tr><tr><td>Carparks</td><td>162</td></tr><tr><td>Total</td><td>421</td></tr></table>	<u>Use</u>	<u>Gross Floor Area (sq.m.)</u>	Retail	259	Carparks	162	Total	421	The property is currently vacant.
		<u>Use</u>	<u>Gross Floor Area (sq.m.)</u>								
		Retail	259								
Carparks	162										
Total	421										
As advised by the Company, the construction is undergoing on the site. According to the development proposal provided to us, the total gross floor area of the buildings/structure is approximately 86,966.9 sq.m. and site area of 65,776.7 sq.m. will be completed in about October 2007.											
The property is held under two State-owned Land Use Rights Certificates for land use terms of expiring on 2044 and 2076.											

## Notes:

- a) Pursuant to State-owned Land Use Rights Certificate No. Dong Guo Yong (2004) Zi No. Chu Rang 204-175 (東國用(2004)字第出讓204-175號), the land use rights of the property with a site area of 38,323.91 sq.m. has been granted to Erduosi Shenhua Shendong Real Estate Development Company for a term of 40 years.
- b) Pursuant to State-owned Land Use Rights Certificate No. Dong Guo Yong (2006) No. Chu Rang 150 (東國用(2006)字第出讓150號) the land use rights of the property with a site area of 65,776.7 sq.m. has been granted to Erduosi Shenhua Shendong Real Estate Development Company for a term of 70 years.
- c) As at the date of valuation, the property was construction in progress. The total construction cost is approximately RMB173,906,100. It shall be completed and put into use in October, 2007.

- d) We have been provided with a legal opinion on the property prepared by the Company's PRC legal adviser, which contains, *inter alia*, the following information:

Regarding the buildings with building ownership certificates erected on the granted land, Erduosi Shenhua Shendong Real Estate Development Company. has the rights to transfer, mortgage, lease or dispose of the land and the buildings by other legal means within the validity period of the relevant land use rights certificates and building ownership certificates.

- e) As advised, Shenhua Group Shenfu Dongsheng Coal Company Limited wholly holds the interest of Erduosi Shenhua Shendong Real Estate Development Company.

## VALUATION CERTIFICATE

Property		Description and tenure	Details of occupancy	Capital value in existing state as at April 30, 2007 (RMB)										
4	Land, various buildings and structures held by Erduosi Shendong Property Management Company, No.37 Yijinhualuo West Road, Dongsheng District, Erduosi City, Inner Mongolia, the People's Republic of China.	<p>The property comprises a parcel of land with a site area of approximately 17,403.47 sq.m. Five buildings/ structures erected on the site are generally completed between 1992 and 1994.</p> <p>As advised by the Company, the buildings/ structures have a total gross floor area of approximately 7,237.70 sq.m., with a breakdown as follows:</p> <table><thead><tr><th>Use</th><th>Gross Floor Area (sq.m.)</th></tr></thead><tbody><tr><td>Production</td><td>1,872.0</td></tr><tr><td>Office</td><td>3,443.0</td></tr><tr><td>Ancillary</td><td>1,922.0</td></tr><tr><td><b>Total</b></td><td><b>7,237.0</b></td></tr></tbody></table> <p>The property is held for a land use term of 40 years expiring on 2047.</p>	Use	Gross Floor Area (sq.m.)	Production	1,872.0	Office	3,443.0	Ancillary	1,922.0	<b>Total</b>	<b>7,237.0</b>	<p>The property is occupied by Erduosi Shendong Property Management Company as production, offices as well as ancillary uses.</p>	<p>25,262,000 (100% interest attributable to the Company: 25,262,000)</p>
Use	Gross Floor Area (sq.m.)													
Production	1,872.0													
Office	3,443.0													
Ancillary	1,922.0													
<b>Total</b>	<b>7,237.0</b>													

## Notes:

- a) Pursuant to State-owned Land Use Rights Certificate No. E Guo Yong (2007) No. 1753 (鄂國用(2007) 第1753號), the land use rights of the property with a site area of 17,403.47 sq.m. have been granted to Shenhua Group Shenfu Dongsheng Coal Company Limited for a term of 40 years.
- b) We have attributed no commercial value to five of the buildings with a total gross floor area of approximately 7,237.0 sq.m. without relevant title certificates. We are of the opinion that the capital value of these buildings as at the valuation date would be RMB5,227,000 assuming all relevant title certificates have been obtained.
- c) We have been provided with a legal opinion on the property prepared by the Company's PRC legal adviser, which contains, *inter alia*, the following information:

Regarding those with building ownership certificates in progress, according to documents and law of PRC, there shall be no material legal impediment for Shendong Property Management Company to obtain the building ownership certificate. Once relevant building ownership certificates obtained by Shendong Property Management Company, Shendong Property Management Company has the rights to transfer, mortgage, lease or dispose of the buildings by other legal means within the validity period of the relevant building ownership certificates.
- d) As advised, Shenhua Group Shenfu Dongsheng Coal Company Limited wholly holds the interest of Shendong Property Management Company.

## VALUATION CERTIFICATE

<u>Property</u>		<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Capital value in existing state as at April 30, 2007</u> (RMB)								
5.	Land and two buildings held by Erduosi Shendong Construction Company, Daqiao Road, Dongsheng District, Erduosi City, Inner Mongolia, the People's Republic of China.	<p>The property comprises a parcel of land with a site area of approximately 3,492.03 sq.m. Two buildings are erected on the site and completed in about 2001.</p> <p>As advised by the Company, the gross floor area of the buildings is approximately 2,479.33 sq.m. in total with a breakdown as follows:</p> <table><tr><th><u>Use</u></th><th><u>Gross Floor Area (sq.m.)</u></th></tr><tr><td>Office</td><td>2,146.79</td></tr><tr><td>Ancillary</td><td>332.54</td></tr><tr><td><b>Total</b></td><td><b><u>2,479.33</u></b></td></tr></table> <p>The property is held for a land use term of 40 years expiring on 2047.</p>	<u>Use</u>	<u>Gross Floor Area (sq.m.)</u>	Office	2,146.79	Ancillary	332.54	<b>Total</b>	<b><u>2,479.33</u></b>	The property is occupied by Erduosi Shendong Construction Company as office and ancillary uses.	6,063,000 (100% interest attributable to the Company: 6,063,000)
<u>Use</u>	<u>Gross Floor Area (sq.m.)</u>											
Office	2,146.79											
Ancillary	332.54											
<b>Total</b>	<b><u>2,479.33</u></b>											

*Notes:*

- a) Pursuant to State-owned Land Use Rights Certificate No. E Guo Yong (2007) No. 9514338 (伊國用 (2007) 第9514338號), the land use rights of the property with a site area of 3,492.03 sq.m. have been granted to Shenhua Group Shenfu Dongsheng Coal Company Limited for a term of 40 years.
- b) Pursuant to Building Ownership Certificates Nos. Yi Fang Quan Zheng Zi No. YW3284 (伊房權證字第YW3284 號), the building ownership rights of the buildings with total gross floor area of 2,479.33 sq.m. have been granted to Shen Dong Public Facility Development Company.
- c) We have been provided with a legal opinion on the property prepared by the Company's PRC legal adviser, which contains, *inter alia*, the following information:

Regarding the buildings erected on the granted land, with building ownership certificates, Erduosi Shendong Construction Company has the rights to transfer, mortgage, lease or dispose of the land and the buildings by other legal means within the validity period of the relevant land use rights certificates and building ownership certificates

- d) As advised, Shenhua Group Shenfu Dongsheng Coal Company Limited wholly holds the interest of Erduosi Shendong Construction Company.

## VALUATION CERTIFICATE

<u>Property</u>		<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Capital value in existing state as at April 30, 2007 (RMB)</u>										
6.	Land, various buildings and structures held by Baode Shendong Power Generation Company, Qiaotou Town, Baode County Shanxi Province, the People’s Republic of China.	<p>The property comprises two parcels of land with a total site area of approximately 127,576.85 sq.m. Thirteen buildings/ structures are erected on the site and completed in 2005.</p> <p>As advised by the Company, the gross floor area of the buildings/ structures is approximately 23,734.20 sq.m. in total with a breakdown as follows:</p> <table><tr><th><u>Use</u></th><th><u>Gross Floor Area (sq.m.)</u></th></tr><tr><td>Production</td><td>20,454.20</td></tr><tr><td>Office</td><td>3,200.00</td></tr><tr><td>Ancillary</td><td>80.00</td></tr><tr><td><b>Total</b></td><td><b><u>23,734.20</u></b></td></tr></table> <p>The property is held under 2 State-owned Land Use Rights Certificates for land use terms of expiring on 2044 and 2056.</p>	<u>Use</u>	<u>Gross Floor Area (sq.m.)</u>	Production	20,454.20	Office	3,200.00	Ancillary	80.00	<b>Total</b>	<b><u>23,734.20</u></b>	<p>The property is occupied by Baode Shendong Power Generation Company as production and office facilities.</p>	<p>366,328,000 (91.3% interest attributable to the Company: 334,458,000)</p>
<u>Use</u>	<u>Gross Floor Area (sq.m.)</u>													
Production	20,454.20													
Office	3,200.00													
Ancillary	80.00													
<b>Total</b>	<b><u>23,734.20</u></b>													

*Notes:*

- a) Pursuant to State-owned Land Use Rights Certificate No. Bao Guo Yong (2006) Zi No. 011430148 保國用 (2006) 字第011430148號), the land use rights of the property with a site area of 102,461.7 sq.m. have been granted to Baode Shendong Power Generation Company for a term of 49.3 years.
- b) Pursuant to State-owned Land Use Rights Certificate No. He Guo Yong (2006) No. 185 河國用 (2006) 第185號), the land use rights of the property with a site area of 25,115.15 sq.m. have been granted to Baode Shendong Power Generation Company for a term of 38 years.



- c) Pursuant to four Building Ownership Certificates, the building ownership rights of nine of the buildings with a total gross floor area of 22,396.20 sq.m. have been granted to Baode Shendong Power Generation Company. The details of the Building Ownership Certificates are listed as follows:

No.	Building Ownership Certificate No.		Gross Floor Area (sq.m.)
1	Fang Quan Zheng Bao Fang Zi No. 002772	(房權證保房字第002772號)	769.20
2	Fang Quan Zheng Bao Fang Zi No. 002773	(房權證保房字第002773號)	945.00
3	Fang Quan Zheng Bao Fang Zi No. 002774	(房權證保房字第002774號)	7,864.00
4	Fang Quan Zheng Bao Fang Zi No. 002775	(房權證保房字第002775號)	12,818.00
<b>Total</b>			<b>22,396</b>

- d) We have attributed no commercial value to four of the buildings with a total gross floor area of approximately 1,338.00 sq.m. without relevant title certificates. We are of the opinion that the capital value of these buildings as at the valuation date would be RMB7,368,000 assuming all relevant title certificates have been obtained.

- e) We have been provided with a legal opinion on the property prepared by the Company's PRC legal adviser, which contains, *inter alia*, the following information:

Regarding those with building ownership certificates in progress, according to documents and law of PRC, there shall be no material legal impediment for Baode Shendong Power Generation Company to obtain the building ownership certificate. Once relevant building ownership certificates obtained by Baode Shendong Power Generation Company, Baode Shendong Power Generation Company has the rights to transfer, mortgage, lease or dispose of the buildings by other legal means within the validity period of the relevant building ownership certificates.

- f) As advised, Shenhua Group Shenfu Dongsheng Coal Company Limited holds 91.3% interest in Baode Shendong Power Generation Company

## VALUATION CERTIFICATE

<u>Property</u>		<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Capital value in existing state as at April 30, 2007 (RMB)</u>								
7.	Land, various buildings and structures held by Shendong Power Fuel Company, Dianta Industrial Zone, Shenmu County and Xi an City Shanxi Province, and Baotou City the People’s Republic of China.	<p>The property, together with Property No. 8 which is held by Shenhua Shendong Power Company Limited, is situated on a combined site consisting of three parcels of land.</p> <p>The property comprise five buildings/ structures generally completed between 2000 and 2005.</p> <p>As advised by the Company, the gross floor area of the buildings/structures is approximately 2,475.20 sq.m. in total with a breakdown as follows:</p> <table><tr><th><u>Use</u></th><th><u>Gross Floor Area (sq.m.)</u></th></tr><tr><td>Office</td><td>2,398.34</td></tr><tr><td>Production</td><td>76.86</td></tr><tr><td><b>Total</b></td><td><b><u>2,475.20</u></b></td></tr></table> <p>The property is held for two land use term of 50 years expiring on 2054 and 2057.</p>	<u>Use</u>	<u>Gross Floor Area (sq.m.)</u>	Office	2,398.34	Production	76.86	<b>Total</b>	<b><u>2,475.20</u></b>	The property is occupied by Shendong Power Fuel Company as offices and production plant.	3,063,000 (100% interest attributable to the Company: 3,063,000)
<u>Use</u>	<u>Gross Floor Area (sq.m.)</u>											
Office	2,398.34											
Production	76.86											
<b>Total</b>	<b><u>2,475.20</u></b>											

## Notes:

- a) Pursuant to State-owned Land Use Rights Certificate Nos. Shen Fu Kai Guo Yong (2004) No. 1010 (神府開國用(2004)第1010號), Shen Guo Yong (2007) No. WG001016 (神國用(2007)第WG001016) and Shen Guo Yong (2007) No. WG001014 (神國用(007)第WG001014), the land use rights of the relevant land with site areas of 32,346.70 sq.m., 79,576.45 sq.m., 204,918.64 sq.m. respectively, have been granted to Shendong Power Fuel Company for a same term of 50 years. The property is being shared with Shenhua Shendong Power Co., Ltd..
- b) Pursuant to five Building Ownership Certificates with a total gross floor area of 2,475.20 sq.m., the relevant building ownership rights have been granted to Shendong Power Fuel Company. The details of the Building Ownership Certificates are listed as follows:

No.	Building Ownership Certificates No.	Gross Floor Area (sq.m.)
1	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 01148 (神木縣房權證大柳塔鎮字第01148號)	2,061.11
2	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 00673 (神木縣房權證大柳塔鎮字第00673號)	76.86
3	Xi An Shi Fang Quan Zheng Bei Lin Qu Zi No. 002182 (西安市房權證碑林區字第002182號)	133.00
4	Xi An Shi Fang Quan Zheng Bei Lin Qu Zi No. 002183 (西安市房權證碑林區字第002183號)	102.92
5	Bao Dong Zi 27173 (包東字27173號)	101.31
<b>Total</b>		<b>2,475.20</b>

- c) We have been provided with a legal opinion on the property prepared by the Company's PRC legal adviser, which contains, *inter alia*, the following information:

Regarding the buildings erected on the Granted land with building ownership certificates, shareholding in Shendong Power Fuel Company has the rights to transfer, mortgage, lease or dispose of the land and the buildings by other legal means within the validity period of the relevant land use rights certificates and building ownership certificates.

- d) As advised, Shenhua Shendong Power Company Limited holds 100% shareholding in Shendong Power Fuel Company.

## VALUATION CERTIFICATE

Property		Description and tenure	Details of occupancy	Capital value in existing state as at April 30, 2007 (RMB)										
8	Land, various buildings and structures held by Shenhua Shendong Power Co., Ltd. Dianta Village, Shenmu County, Shanxi Province, the People's Republic of China.	<p>The property, together Property No. 7 which is held by Shendong Power Fuel Company, is situated on 11 parcels of land with a total site area of approximately 368,854.53 sq.m..</p> <p>The property comprises 81 buildings/structures generally completed between 1987 and 2006.</p> <p>As advised by the Company, the total gross floor area of the buildings/structures is approximately 69,477.20 sq.m. in total with a breakdown as follows:</p> <table><tr><th>Use</th><th>Gross Floor Area (sq.m.)</th></tr><tr><td>Production</td><td>6,497.53</td></tr><tr><td>Office</td><td>7,150.95</td></tr><tr><td>Ancillary</td><td>55,828.72</td></tr><tr><td>Total</td><td>69,477.20</td></tr></table> <p>The property is held for a land use terms of 40 years or 50 years expiring on March 15, 2047 and April 28, 2057.</p>	Use	Gross Floor Area (sq.m.)	Production	6,497.53	Office	7,150.95	Ancillary	55,828.72	Total	69,477.20	The property is occupied by Shenhua Shendong Power Company Limited as production and office facilities.	109,924,000 (100% interest attributable to the Company: 109,924,000)
Use	Gross Floor Area (sq.m.)													
Production	6,497.53													
Office	7,150.95													
Ancillary	55,828.72													
Total	69,477.20													

## Notes:

- a) Pursuant to 11 State-owned Land Use Rights Certificates, the land use rights of the property with a total site area of 368,854.53 sq.m. have been granted to Shenhua Shendong Power Company Limited. The details of the Land Use Rights Certificates are listed as follows:

No.	Land Use Rights Certificate No.	Site Area	Terms
		(sq.m.)	(years)
1	Shen Fu Kai Guo Yong (2004) No. 1010 (神府開國用 (2004)第 1010號 )	32,346.70	50
2	Shen Fu Kai Guo Yong (2004) No. 1011 (神府開國用 (2004)第 1011號 )	19,046.70	50
3	Shen Fu Kai Guo Yong (2004) No. 1015 (神府開國用 (2004)第 1015號 )	31,813.30	50
4	Shen Guo Yong (2007) No. G006307 (神國用 (2007)第 G006307號 )	36.38	40
5	Shen Guo Yong (2007) No. G006309 (神國用 (2007)第 G006309號 )	36.38	40
6	Shen Guo Yong (2007) No. G006310 (神國用 (2007)第 G006310號 )	45.09	40
7	Shen Guo Yong (2007) No. G006306 (神國用 (2007)第 G006306號 )	72.79	40
8	Shen Guo Yong (2007) No. G006308 (神國用 (2007)第 G006308號 )	872.20	40
9	Shen Guo Yong (2007) No. G006311 (神國用 (2007)第 G006311號 )	89.90	40
10	Shen Guo Yong (2007) No. WG001016 (神國用 (2007)第 WG001016號 )	79,576.45	50
11	Shen Guo Yong (2007) No. WG001014 神國用 (2007)第 WG001014號 )	204,918.64	50
Total		368,854.53	

## APPENDIX I

## PROPERTY VALUATION REPORT

- b) Pursuant to 30 Building Ownership Certificates, the building ownership rights of 72 buildings/structures with a total gross floor area of 69,477.20 sq.m. have been granted to Shenhua Shendong Power Co., Ltd.. The details of the Building Ownership Certificates are listed as follows:

No.	Building Ownership Certificates No.	Gross Floor Area (sq.m.)
1	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 00672 (神木縣房權證店塔鎮字第 00672 號)	1,385.95
2	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi Di00657 (神木縣房權證店塔鎮字第 00657 號)	4,662.40
3	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 00677 (神木縣房權證店塔鎮字第 00677 號)	4,555.52
4	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi Di00663 (神木縣房權證店塔鎮字第 00663 號)	1,658.58
5	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi Di00669 (神木縣房權證店塔鎮字第 00669 號)	4,444.44
6	Shen Mu Xian Fang Quan Zheng Shen Mu Zhen Zi Di01056 (神木縣房權證神木鎮字第 01056 號)	4,545.46
7	Shen Mu Xian Fang Quan Zheng Shen Mu Zhen Zi Di01055 (神木縣房權證神木鎮字第 01055 號)	185.08
8	Shen Mu Xian Fang Quan Zheng Shen Mu Zhen Zi No. 01053 (神木縣房權證神木鎮字第 01053 號)	183.08
9	Shen Mu Xian Fang Quan Zheng Shen Mu Zhen Zi No. 01054 (神木縣房權證神木鎮字第 01054 號)	226.88
10	Shen Mu Xian Fang Quan Zheng Shen Mu Zhen Zi No. 01052 (神木縣房權證神木鎮字第 01052 號)	267.28
11	Shen Mu Xian Fang Quan Zheng Shen Mu Zhen Zi No. 01077 (神木縣房權證神木鎮字第 01077 號)	432.00
12	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 00848 (神木縣房權證店塔鎮字第 00848 號)	7,423.87
13	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 00559 (神木縣房權證店塔鎮字第 00559 號)	2,443.25
14	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 00673 (神木縣房權證店塔鎮字第 00673 號)	387.52
15	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 00560 (神木縣房權證店塔鎮字第 00560 號)	4,173.50
16	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 00551 (神木縣房權證店塔鎮字第 00551 號)	1,793.27
17	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 00674 (神木縣房權證店塔鎮字第 00674 號)	1,159.82
18	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 00556 (神木縣房權證店塔鎮字第 00556 號)	9,682.69
19	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 00552 (神木縣房權證店塔鎮字第 00552 號)	1,178.93
20	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 00670 (神木縣房權證店塔鎮字第 00670 號)	4,740.07
21	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 00675 (神木縣房權證店塔鎮字第 00675 號)	972.80
22	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 01147 (神木縣房權證店塔鎮字第 01147 號)	2,673.99
23	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 01148 (神木縣房權證店塔鎮字第 01148 號)	8,070.04
24	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 00665 (神木縣房權證店塔鎮字第 00665 號)	659.41
25	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 00664 (神木縣房權證店塔鎮字第 00664 號)	36.27
26	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 00668 (神木縣房權證店塔鎮字第 00668 號)	653.88
27	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 00666 (神木縣房權證店塔鎮字第 00666 號)	389.06
28	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 01173 (神木縣房權證店塔鎮字第 01173 號)	86.56
29	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 01174 (神木縣房權證店塔鎮字第 01174 號)	156.63
30	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 01175 (神木縣房權證店塔鎮字第 01175 號)	248.97
<b>Total</b>		<b><u>69,477.2</u></b>

- c) We have been provided with a legal opinion on the property prepared by the Company's PRC legal adviser, which contains, *inter alia*, the following information:

Regarding the buildings erected on the Granted land with building ownership certificates, shareholding in Shenhua Shendong Power Co., Ltd. has the rights to transfer, mortgage, lease or dispose of the land and the buildings by other legal means within the validity period of the relevant land use rights certificates and building ownership certificates.

- d) Shenhua Group Company holds 100% Shenhua Shendong Power Company Limited.

## VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Capital value in existing state as at April 30, 2007</u> <u>(RMB)</u>										
9. Land, various buildings and structures held by Shenhua Yangguang Power Chemical Engineering Company. Dianta Industrial Zone of Shenmu County and Dianta Village, Shanxi Province, the People’s Republic of China.	<p>The property comprises two parcels of land with a total site area of approximately 69,073.55 sq.m. partly located in Dianta Industrial Zone of Shenmu County and partly in Dianta Village.</p> <p>The property comprises twenty-three buildings/structures generally completed between April 2004 and October 2004.</p> <p>As advised by the Company, the total gross floor area of the buildings/structure is approximately 20,345.04 sq.m. in total with a breakdown as follows:</p> <table><tr><th><u>Use</u></th><th><u>Gross Floor Area</u> <u>(sq.m.)</u></th></tr><tr><td>Production</td><td>13,509.81</td></tr><tr><td>Office</td><td>85.61</td></tr><tr><td>Ancillary</td><td><u>6,749.62</u></td></tr><tr><td><b>Total</b></td><td><b><u>20,345.04</u></b></td></tr></table> <p>The property is held for a land use terms of 50 years expiring on April 28, 2057.</p>	<u>Use</u>	<u>Gross Floor Area</u> <u>(sq.m.)</u>	Production	13,509.81	Office	85.61	Ancillary	<u>6,749.62</u>	<b>Total</b>	<b><u>20,345.04</u></b>	<p>The property is occupied by Shenhua Yangguang Power Chemical Engineering Company as production and office facilities .</p>	<p>49,907,000 (30% interest attributable to the Company: 14,972,000)</p>
<u>Use</u>	<u>Gross Floor Area</u> <u>(sq.m.)</u>												
Production	13,509.81												
Office	85.61												
Ancillary	<u>6,749.62</u>												
<b>Total</b>	<b><u>20,345.04</u></b>												

*Notes:*

- a) Pursuant to State-owned Land Use Rights Certificates Nos. Shen Fu Kai Guo Yong (2004) No. 1012 (神府開國用(2004)第1012號) and Shen Guo Yong (2007) No. WG001015 (神國用(2007)第WG001015號), the land use rights of the property with site areas of 25,740.00 sq.m. and 43,333.55 sq.m. respectively, have been granted to Shenhua Yangguang Power Chemical Engineering Company for a same term of 50 years.

- b) Pursuant to five Building Ownership Certificates, the building ownership rights of 23 buildings with a gross floor area of 20,345.04 sq.m. have been granted to Shenhua Yangguang Power Chemical Engineering Company. The details of the Building Ownership Certificates are listed as follows:

No.	Building Ownership Certificates No.	Gross Floor Area (sq.m.)
1	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 01149 (神木縣房權證店塔鎮字第 01149 號)	9,569.85
2	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 01150 (神木縣房權證店塔鎮字第 01150 號)	441.78
3	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 01176 (神木縣房權證店塔鎮字第 01176 號)	462.20
4	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 01177 (神木縣房權證店塔鎮字第 01177 號)	9,378.88
5	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 01178 (神木縣房權證店塔鎮字第 01178 號)	492.33
		<b>Total</b> <u>20,345.04</u>

- c) We have been provided with a legal opinion on the property prepared by the Company's PRC legal adviser, which contains, *inter alia*, the following information:

Regarding the buildings erected on the granted land with building ownership certificates, Shenhua Yangguang Power Chemical Engineering Company has the rights to transfer, mortgage, lease or dispose of the land and the buildings by other legal means within the validity period of the relevant land use rights certificates and building ownership certificates.

- d) Shenhua Shendong Power Company Limited holds 30% shareholding in Shenhua Yangguang Power Chemical Engineering Company.

## VALUATION CERTIFICATE

<u>Property</u>		<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Capital value in existing state as at April 30, 2007 (RMB)</u>										
10.	Land, various buildings and structures held by Shenhua Yangguang Shenmu Power Generation Company. Dianta Industrial Zone, Shenmu County, Shanxi Province, the People’s Republic of China.	<p>The property is erected on a parcel of land with a site area of approximately 108,987.21 sq.m. It comprises 35 buildings/structures mainly completed between January 2006 and August 2006.</p> <p>As advised by the Company, the total gross construction volume of approximately 41,275.03 sq.m., exclude an office. A breakdown is as follows:</p> <table><tr><th><u>Use</u></th><th><u>Gross Floor Area (sq.m.)</u></th></tr><tr><td>Production</td><td>22,046.36</td></tr><tr><td>Office</td><td>3,231.81</td></tr><tr><td>Ancillary</td><td>15,996.86</td></tr><tr><td><b>Total</b></td><td><b><u>41,275.03</u></b></td></tr></table> <p>The property is held for a land use term of 50 years expiring on April 28, 2057.</p>	<u>Use</u>	<u>Gross Floor Area (sq.m.)</u>	Production	22,046.36	Office	3,231.81	Ancillary	15,996.86	<b>Total</b>	<b><u>41,275.03</u></b>	The property is occupied by Shenhua Yangguang Shenmu Power Generation Company as production and office facilities.	170,088,000 (65% interest attributable to the Company: 110,557,000)
<u>Use</u>	<u>Gross Floor Area (sq.m.)</u>													
Production	22,046.36													
Office	3,231.81													
Ancillary	15,996.86													
<b>Total</b>	<b><u>41,275.03</u></b>													

## Notes:

- a) Pursuant to State-owned Land Use Rights Certificate No. Shen Guo Yong (2007) No. WG001013 (神國用 (2007) 第 WG001013號), the land use rights of the property with a site area of 108,987.21 sq.m. have been granted to Shenhua Yangguang Power Chemical Engineering Company for a term of 50 years.
- b) Pursuant to eight Building Ownership Certificates, the building ownership rights of 35 buildings/structures with a total gross floor area of 41,275.03 sq.m. have been granted to Shenhua Yangguang Shenmu Power Generation Co., Ltd.. The details of the Building Ownership Certificates are listed as follows:

No.	Building Ownership Certificate No.	Gross Floor Area (sq.m.)
1	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 01178 (神木縣房權證店塔鎮字第 01178號)	1,142.98
2	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 01179 (神木縣房權證店塔鎮字第 01179號)	1,218.83
3	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 01180 (神木縣房權證店塔鎮字第 01180號)	8,961.46
4	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 01181 (神木縣房權證店塔鎮字第 01181號)	194.64
5	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 01182 (神木縣房權證店塔鎮字第 01182號)	1,709.37
6	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 01183 (神木縣房權證店塔鎮字第 01183號)	22,583.57
7	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 01184 (神木縣房權證店塔鎮字第 01184號)	2,668.89
8	Shen Mu Xian Fang Quan Zheng Dian Ta Zhen Zi No. 01185 (神木縣房權證店塔鎮字第 01185號)	2,795.29
		<b>Total 41,275.03</b>



- c) We have been provided with a legal opinion on the property prepared by the Company's PRC legal adviser, which contains, *inter alia*, the following information:

Regarding the buildings erected on the granted land with building ownership certificates, Shenhua Yangguang Shenmu Power Generation Company has the rights to transfer, mortgage, lease or dispose of the land and the buildings by other legal means within the validity period of the relevant land use rights certificates and building ownership certificates.

- d) As advised, Shenhua Shendong Power Company Limited holds 65% interest in Shenhua Yangguang Shenmu Power Generation Company.

## VALUATION CERTIFICATE

Property	Description and tenure	Details of occupancy	Capital value in existing state as at April 30, 2007 (RMB)
11. Land, various buildings and structures held by Inner Mongolia Yili Chemical Company, South of Baita Grain Depot, Baoshen Railway West, Tree Town, Da La Te County/Dalate Qi Erduosi City, Inner Mongolia, the People's Republic of China.	The property comprises four parcels of land with a total site area of approximately 2,144,423.70 sq.m. Various buildings/structures have been erected on the land. The total gross floor area of the buildings/structures is approximately 259,642.22 sq.m. in total with a breakdown as follows:	The property is occupied by Inner Mongolia Yili Chemical Company Limited as production and office facilities.	1,146,788,000 (25% interest attributable to the Company: 286,697,000)
	<u>Use</u>	<u>Gross Floor Area (sq.m.)</u>	
	Production	82,478.55	
	Office	13,286.12	
	Ancillary	163,877.55	
	<b>Total</b>	<b>259,642.22</b>	
	The property is held for land use terms of 50 years expiring on November 25, 2055.		

## Notes:

- a) Pursuant to four State-owned Land Use Rights Certificates, the land use rights of the property with a site area of 2,144,423.70 sq.m. have been granted to Inner Mongolia Yili Chemical Company. The details of the Land Use Rights Certificates are listed as follows:

No.	Land Use Rights Certificate No.	Site Area (sq.m.)	Terms (years)
1	Da Guo Yong (2005) No. 5632 達國用 (2005)第 5632 號	132,174.40	50
2	Da Guo Yong (2005) No. 5633 達國用 (2005)第 5633 號	796,072.00	50
3	Da Guo Yong (2005) No. 5634 達國用 (2005)第 5634 號	714,282.90	50
4	Da Guo Yong (2005) No. 5635 達國用 (2005)第 5635 號	501,894.40	40
	<b>Total</b>	<b>2,144,423.70</b>	

- b) The buildings being constructed on the property with State-owned Land Use Rights Certificates Nos. Da Guo Yong (2005) No. 5632 (達國用 (2005) 第5632號), Da Guo Yong (2005) No. 5633 (達國用 (2005) 第5633號), Da Guo Yong (2005) No. 5634 (達國用 (2005) 第5634號), Da Guo Yong (2005) No. 5635 (達國用 (2005) 第5635號), have been issued with Construction Land Use Planning Permit No.200500008 (編號為 200500008的建設用地規劃許可證), Planning Permit for Construction Works No. 20050003 (編號為20050003的建設工程規劃許可證), and Construction Works Commencement Permit Nos. 152701 - 20050524 - 01 - 01, 152701 - 20050524 - 02 - 01, 152701 - 20050524 - 03

- 01, 152701 - 20050524 - 04 - 10, 152701 - 20050528 - 01 - 01, 152701 - 20050624 - 01 - 01, 152701 - 20050704 - 01 - 01 (編號為152701 - 20050524 - 01 - 01, 152701 - 20050524 - 02 - 01, 152701 - 20050524 - 03 - 01, 152701 - 20050524 - 04 - 10, 152701 - 20050528 - 01 - 01, 152701 - 20050624 - 01 - 01, 152701 - 20050704 - 01 - 01 的建設工程施行許可證 )。

- c) As at the date of valuation, part of the property was under construction. The total construction cost is approximately RMB1,003,253,000. It shall be completed and put into use in August, 2007.
- d) We have been provided with a legal opinion on the property prepared by the Company's PRC legal adviser, which contains, *inter alia*, the following information:

The granted land is held by Inner Mongolia Yili Chemical Company legally under the PRC laws, Inner Mongolia Yili Chemical Company has the rights to use such land legally under the PRC laws, Inner Mongolia Yili Chemical Company is entitled to transfer, mortgage, lease or dispose of the land of the property by other legal means during the remaining land use rights terms.

- e) As advised, Shenhua Shendong Power Company Limited holds 25% shareholding in Inner Mongolia Yili Chemical Company.

## VALUATION CERTIFICATE

Property	Description and tenure	Details of occupancy	Capital value in existing state as at April 30, 2007 (RMB)										
12. Land, various buildings and structures located in Dalate County, Inner Mongolia held by Shenhua Yili Energy Company, No.30 West Street, South of Baita Grain Depot, Baoshen Railway West, Tree Town, Da La Te County, Erduoshi City, Inner Mongolia, the People’s Republic of China.	<p>The property comprises a parcel of land with a site area of approximately 1,006,701.30 sq.m. It comprises various buildings, structures and ancillary facilities.</p> <p>According to the planning, the property has a Gross Construction Volume of 625,107.00 cb.m. excluding an office gross floor area of 19,989.00 square meter.</p> <p>As at the date of valuation, parts of the property were under construction. The total gross floor area of buildings/structures is approximately 493,416.0 sq.m. with a breakdown as follows:</p> <table><tr><th>Use</th><th>Gross Floor Area (sq.m.)</th></tr><tr><td>Production</td><td>473,427.00</td></tr><tr><td>Office</td><td>3,900.00</td></tr><tr><td>Ancillary</td><td>16,089.00</td></tr><tr><td><b>Total</b></td><td><b>493,416.00</b></td></tr></table> <p>The Gross Construction Volume of the completed portion is approximately 151,680.00 cb.m. excluding the office.</p> <p>According to the planning provided to us, upon completion of the construction works undergoing, the total Gross Construction Volume will be 625,107.00 cb.m. (excluding office) whilst the total Gross Floor Area will be 19,989.00 sq.m.</p> <p>The property is held for a land use terms of 50 years expiring on January 20, 2055.</p>	Use	Gross Floor Area (sq.m.)	Production	473,427.00	Office	3,900.00	Ancillary	16,089.00	<b>Total</b>	<b>493,416.00</b>	<p>The property is occupied by Shenhua Yili Energy Company as production and office facilities.</p>	<p>447,643,000 (51% interest attributable to the Company: 228,298,000)</p>
Use	Gross Floor Area (sq.m.)												
Production	473,427.00												
Office	3,900.00												
Ancillary	16,089.00												
<b>Total</b>	<b>493,416.00</b>												

## Notes:

- a) Pursuant to State-owned Land Use Rights Certificate No. Da Guo Yong (2005) No. 5751 (達國用 (2005) 第5751號), the land use rights of the property with a site area of 1,006,701.30 sq.m. have been granted to Shenhua Yili Energy Company for a term of 50 years.
- b) We have been provided with a legal opinion on the property prepared by the Company's PRC legal adviser, which contains, *inter alia*, the following information:
- The granted land is held by Shenhua Yili Energy Company legally under the PRC laws, Shenhua Yili Energy Company has the rights to use such land legally under the PRC laws, Shenhua Yili Energy Company is entitled to transfer, mortgage, lease or dispose of the land of the property by other legal means during the remaining land use rights terms.
- c) As advised, Shenhua Shendong Power Company Limited holds 51% interest in Shenhua Yili Energy Company.

## VALUATION CERTIFICATE

*Group II — Property leased and occupied by the Group in the PRC*

<u>Property</u>	<u>Description and tenure</u>	<u>Details of occupancy</u>	<u>Capital value in existing state as at April 30, 2007</u>
13. 42 Apartment Units, Railway South, Daqishulinshao County, Inner Mongolia, the People's Republic of China.	<p>The property comprises 42 apartment units in Wan Tao Hotel.</p> <p>The property is leased by Qi Xiao Lin to Inner Mongolia Yili Chemical Company for a term of 1 year from May 1, 2006 to April 30, 2007 at a monthly rent of RMB16,667.</p>	<p>The property is occupied by Inner Mongolia Yili Chemical Company as staff dormitory.</p>	No commercial value

*Notes:*

- a) Pursuant to a tenancy agreement entered into between Qi Xiao Lin and Inner Mongolia Yili Chemical Company dated April 13, 2006, the property has been leased to Inner Mongolia Yili Chemical Company.
- b) We were advised that Qi Xiao Lin is an independent third party from the Company.
- c) We have been provided with a legal opinion on the property prepared by the Company's PRC legal adviser, which contains, *inter alia*, the following information:

Regarding the property leased by Inner Mongolia Yili Chemical Company, as Building Ownership Certificate has not been issued to the Lessor, Inner Mongolia Yili Chemical Company may encounter the risk of not being able to use the property. If so, Inner Mongolia Yili Chemical Company may take an action to the Lessor for breaching.

	<b>Property</b>	<b>Description and tenure</b>	<b>Details of occupancy</b>	<b>Capital value in existing state as at April 30, 2007</b>
14	64 Apartment Units, Railway South, Daqishulinshao County, Inner Mongolia, the People's Republic of China.	<p>The property comprises 64 apartment units in Kai Hong Hotel.</p> <p>The property is leased by Fang Da Qi Kai Hong Real Estate Co., Ltd. to Inner Mongolia Yili Chemical Company for a term of 1 year from June 20, 2006 to June 19, 2007 at a monthly rent of RMB47,500.</p>	The property is occupied by Inner Mongolia Yili Chemical Company as staff dormitory.	No commercial value

*Notes:*

- a) Pursuant to a tenancy agreement entered into between Fang Da Qi Kai Hong Real Estate Co., Ltd. and Inner Mongolia Yili Chemical Company dated June 13, 2006, the property has been leased to Inner Mongolia Yili Chemical Company.
- b) We were advised that Fang Da Qi Kai Hong Real Estate Co., Ltd. is an independent third party from the Company.
- c) We have been provided with a legal opinion on the property prepared by the Company's PRC legal adviser, which contains, *inter alia*, the following information:

Regarding the property leased by Inner Mongolia Yili Chemical Company, as Building Ownership Certificate has not been issued to the Lessor, Inner Mongolia Yili Chemical Company may encounter the risk of not being able to use the property. If so, Inner Mongolia Yili Chemical Company may take an action to the Lessor for breaching.

	<b>Property</b>	<b>Description and tenure</b>	<b>Details of occupancy</b>	<b>Capital value in existing state as at April 30, 2007</b>
15	29 Apartment Units, Beside the Huanghe Hotel, Daqishulinshao Town, Inner Mongolia, the People's Republic of China.	<p>The property comprises 29 apartment units in Hong Ze Mei Dian Hotel.</p> <p>The total gross area of the units is approximately 1,294 sq.m.</p> <p>The property is leased by Zhang Zhong Wu to Inner Mongolia Yili Chemical Company for a term of 2 years from June 14, 2005 to June 14, 2007 at a monthly rent of RMB16,667.</p>	The property is occupied by Inner Mongolia Yili Chemical Company as staff dormitory and canteen.	No commercial value

*Notes:*

- a) Pursuant to a tenancy agreement entered into between Zhang Zhong Wu and Inner Mongolia Yili Chemical Company dated June 7, 2005, the property has been leased to Inner Mongolia Yili Chemical Company.
- b) We were advised that Zhang Zhong Wu is an independent third party from the Company.
- c) We have been provided with a legal opinion on the property prepared by the Company's PRC legal adviser, which contains, *inter alia*, the following information:

Regarding the property leased by Inner Mongolia Yili Chemical Company, as Building Ownership Certificate has not been issued to the Lessor, Inner Mongolia Yili Chemical Company may encounter the risk of not being able to use the property. If so, Inner Mongolia Yili Chemical Company may take an action to the Lessor for breaching.

	<b>Property</b>	<b>Description and tenure</b>	<b>Details of occupancy</b>	<b>Capital value in existing state as at April 30, 2007</b>
16	11 Apartment Units, On the other side of the road, opposite the bus station of Daqishulinshao Town, Inner Mongolia, the People's Republic of China.	<p>The property comprises 11 apartment units in Kai Tong 凱通駕校 .</p> <p>The property is leased by Fang Da La Te Qi Kai Tong Driving School to Inner Mongolia Yili Chemical Company from May 15, 2006 at a monthly rent of RMB1,800.00 per room.</p>	The property is occupied by Inner Mongolia Yili Chemical Company as staff dormitory and canteen.	No commercial value

*Notes:*

- a) Pursuant to a tenancy agreement entered into between Fang Da La Te Qi Kai Tong Driving School and Inner Mongolia Yili Chemical Company dated May 21, 2006, the property has been leased to Inner Mongolia Yili Chemical Company.
- b) We were advised that Fang Da La Te Qi Kai Tong Driving School is an independent third party from the Company.
- c) We have been provided with a legal opinion on the property prepared by the Company's PRC legal adviser, which contains, *inter alia*, the following information:

Regarding the property leased by Inner Mongolia Yili Chemical Company, as Building Ownership Certificate has not been issued to the Lessor, Inner Mongolia Yili Chemical Company may encounter the risk of not being able to use the property. If so, Inner Mongolia Yili Chemical Company may take an action to the Lessor for breaching.



China Shenhua Energy Company Limited  
 No. 16 Ande Road  
 Dongcheng District  
 Beijing, 100011  
 CHINA

20 April 2007

File: 3123.8

### Huangyuchuan Resource Assessment

Dear Sir:

At the request of China Shenhua Energy Company Limited (China Shenhua), John T. Boyd Company (BOYD) has prepared this independent assessment of the underground mineable coal resources underlying the Huangyuchuan mining right area located in Inner Mongolia Autonomous Region, China. (see Figures 1 and 2, following this text). All work is completed in accordance with the Australasian Code for Reporting Exploration Results, Mineral Resource, and Ore Reserves (JORC Code).

The Huangyuchuan mining right area encompasses 42.68 km<sup>2</sup>, and is currently undeveloped.

In performing this assessment we have relied on information provided to us by China Shenhua, which included: exploration drilling data, seam, mining right area, geologic and hydrologic maps, geologic reports, and internally prepared in-place resource estimates. We have audited the procedures used in preparation of this information, and conclude that it has been developed according to accepted industry standards and practices. Accordingly, China Shenhua's in-place estimates of coal resources have been used as the starting point for our estimation of coal reserves.

#### SUMMARY

1. Our estimates of coal reserves and resources, prepared in accordance with JORC Code, are:

31 December 2006									
JORC Code									
Resources* (Mt)			Recoverable Reserves (Mt)				Marketable Reserves (Mt)		
Measured	Indicated	Total	Proved	Probable	Total	Processing Yield (%)	Proved	Probable	Total
347.85	434.97	782.64	253.64	319.70	573.34	64	167.87	201.46	369.33

\* In-place basis.

2. Our estimates of Inferred Resources are:

In-Place Inferred (Mt)	JORC Code		Marketable Inferred (Mt)
	Recoverable Inferred (Mt)	Processing Yield %	
663.64	469.79	68	321.80

Based on the uniform nature of these seams, as exhibited in available drilling, we expect future drilling will confirm the projected seam thicknesses and result in most of this tonnage being reclassified in the Economic Reserve category.

3. Based on our review of the coal resource data, and the methodology used to define the resources, we have a high degree of confidence that the resource estimates shown in this report accurately represent the specified mining right area. Our review of China Shenhua's exploration data and geologic mapping, indicates that this information is reasonably prepared and developed according to accepted industry standards.
4. BOYD has reviewed the mining right documentation provided by China Shenhua with regard to Huangyuchuan. To the extent supported by the documentation, we accept that China Shenhua holds the mining right permit for the area evaluated in this report for the documented period. We have also assumed that China Shenhua will successfully renew the mining right certificate until the exhaustion of the resources.

### Location

The 42.68 km<sup>2</sup> Huangyuchuan mining right area is located in Zhunge'er County, Ordos City, in the Inner Mongolia Autonomous Region, China. The area is accessed via the Xiewei Highway, which passes through the eastern portion of the area. Datong Zhunge'er Railway is located a 20 km distance of the mining right area. The western part of the area is bisected from north to south by the Shilichangchuan River.

### Geology

On a global basis the geological setting, or nature, of the Huangyuchuan coal deposit is judged to be simple to moderate (i.e., not geologically complex). The Huangyuchuan mining right area is located within the Zhunge'er Coal Field. Several coal seams present in the mining right area, identified by number, from No. 9 to No. 4 in stratigraphically ascending order. The major lower coal seams No. 6 Upper, No. 6 and No. 9 are in the Taiyuan Formation of Carboniferous Age, and the No. 4 seam is in the overlying Shanxi Formation of Permian Age.

The coal-bearing formations are unconformably overlain by semiconsolidated Quaternary alluvium (loess) over most of the area measuring up to 50 meter (m) in depth. This stratum has been eroded to form the present rugged, steeply sloping topography (maximum relief of 300 m).

The geologic strike of the strata in this part of the coalfield is generally from north to south. The general western dip of the strata is bisected by a monoclinical structure that trends from north to south. The strata to the east and west of the structure dip from 1 to 5 degrees. Along the structure which is approximately 1,000 m wide, the dip increases to 12 degrees. Depth of cover ranges from 200 m to 550 m in the eastern half of the area and from 550 m to 750 m in the west. Based on available drilling, there is not any significant faulting indicated within the mining right area.

The characteristics of the coal seams reflect the depositional environment at the time they were formed. In this case the coal depositional environment was relatively stable with several thick accumulations of coal. However, this coal deposition was frequently disrupted by flooding events which formed partings and impurities within the seams, which is typical of a fluvial deltaic depositional environment. Parting thickness and occurrence is somewhat erratic and unpredictable. The No. 4 and No. 9 seams are more frequently split by partings than the No. 6 Upper and No. 6 seams. Partings are common in all seams and washing of the seams will be necessary to produce a marketable coal quality product. A north to south trending sandstone filled paleochannel system, approximately 700 m wide, occurs between the No. 6 Upper and No. 6 seams, and bisects the area. Within the main channel zone, the seam interval is over 20 m thick but rapidly decreases to 1 m to 5 m thickness along the channel margins. We expect the channel will negatively impact the mineability of the underlying No. 6 Seam with poor roof conditions and seam erosion in the channel areas, resulting in lower mining recoveries for this seam.

#### **Resource Source Data**

In order to prepare an independent assessment of the Huangyuchuan coal resources, BOYD was provided with the following data:

1. Geologic report.
2. Geologic data, including tables containing drill hole data and logs and coal quality analyses.
3. Resource tables and maps for each seam.
4. Other data including hydrologic drilling and mapping, geophysical logs, etc.

The geologic report prepared by No. 151 Exploration Team, Inner Mongolia Bureau of Coal Geology in January 2006, contained the following information:

1. Location and Geography.
2. Regional Geologic, Mine Geology, Coal Seam Geology.
3. Coal Quality.
4. Hydrology.

5. Engineering Geology.
6. Environmental Geology.
7. Exploration Status.
8. Resource Assessment.
9. Resource Calculations.

The report also contained various supporting maps, sections, and figures.

Huangyuchuan coal resources are defined by 64 exploration drill holes. The holes have a 500 m spacing in the initial planned mine area, a 1,000 m spacing adjacent to the initial mining area, and approximate 2,000 m spacing in future mine areas. The resource maps provided by China Shenhua showed hole locations, seam thickness and structure, geologic and hydrologic features, mining rights limits, barrier areas, and surface features. Resource polygons were shown with polygon identification number, area, seam thickness, density, and in-place tonnage data.

China Shenhua prepared in-place coal resource tonnage estimates for each seam in each resource area according to standards established by the PRC Government for this coal classification and grade. Under applicable thermal coal standards, all underground mineable seams greater than 0.8 m in thickness are included in the resource estimates. In accordance with PRC Government resource estimation protocol, China Shenhua geologists used a polygon method to define individual area subdivisions used to calculate in-place resources. A detailed accounting of all in-place coal tonnage is maintained to track exploitation of a strategic national asset.

Polygon tables were also provided corresponding to the resource maps. These tables included polygon identification, polygon area, average thickness, in-place tonnes, and hole references used to determine seam thickness for the polygon. The table also shows the classification of the resources based on the classification system used by China Shenhua. During our review of this data BOYD personnel contacted China Shenhua several times to clarify, and verify, our understanding of the data provided. Additional information including maps and tables were provided as needed.

BOYD has reviewed the in-place resources estimates prepared by China Shenhua and found that the estimates were reasonable, prepared in accordance with PRC Government standards, and supported by available source exploration data. However, these estimates covered large areas, parts of which were well defined, moderately defined, and poorly defined by exploration and mine data. Also some polygon areas included some coal that was judged by BOYD to be not economically mineable. For purposes of this report, it was determined that the China Shenhua's polygon estimates did not address other criteria such as, resource classification (reliability) and economic mineability, and could not be used for purposes of this report. Therefore, BOYD prepared new estimates for all of the specified resources areas.

### Resource Classification

In reporting resources for the valuation of mining properties most international classification systems recognize two major factors must be considered, namely:

- Geologic assurance of existence
- Economic viability

All systems require that the degree of geological assurance of existence be separated into various categories based on the spacing of points of observation (drill holes, mine measurements, and outcrop measurements). Economic viability of resources is usually reported in economic and subeconomic categories. The terms Resource and Reserve are commonly used in the reporting of coal tonnage, but the usage or definition applied to these terms can vary between parties.

BOYD prepared resource estimates for China Shenhua using the Australasian Code for Reporting of Mineral Resources and Ore Resources, also known as the JORC Code. The following definitions are stated in the JORC Code, and used in this report:

*“A Coal Resource is a concentration or occurrence of material of intrinsic economic interest in or on the Earth’s crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics and continuity of a Coal Resource are known, estimated or interpreted from specific geological evidence and knowledge. Coal Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.”*

*“An Inferred Coal Resource is that part of a Coal Resource for which tonnage, quality and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or quality continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.”*

*“An Indicated Coal Resource is that part of a Coal Resource for which tonnage, densities, shape, physical, characteristics, quality and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or quality continuity but are spaced closely enough for continuity to be assumed.”*

*“A Measured Mineral Resource is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, quality and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and quality continuity.”*

*“Coal Reserve is the economically mineable part of a Measured or Indicated coal resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of the modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Coal Reserves are sub-divided in order of increasing confidence into Probable Coal Reserves and Proved Coal Reserves.”*

*“Probable Coal Reserve is the economically mineable part of an indicated, and in some circumstances, a Measured Coal Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.”*

*“Proved Coal Reserve is the economically mineable part of a Measured Coal Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.”*

*“Marketable Coal Reserves are the tonnages of coal, at specified moisture and quality, available for sale after beneficiation of Coal Reserves. Marketable Coal Reserves should be reported in terms of Probable Marketable Coal Reserves or Proved Marketable Coal Reserves.”*

In this report, Proved Reserves are defined by points of observation on a 500 m spacing. Probable Reserves are defined on a 1,000 m spacing. Inferred Resources are defined on a 2 km spacing. Projections of resources in any category beyond any point of observation do not exceed one-half of the defined spacing. We have assigned these spacing criteria based on our evaluation of the site-specific geologic conditions within the Huangyuchuan mining right area. The structure of the resource areas is generally simple and uniform and therefore seam splitting and thinning are the only major geologic factors affecting assurance of existence. We believe the points of observation spacings used in this report are conservative, but appropriate, and provide the required level of geological assurance.

### Resource Estimates

Estimates of Proved and Probable Coal Reserves presented in this report are JORC compliant. BOYD has also prepared estimates of Inferred Resources where the lack of exploration data results in a low level of confidence in the estimate.

### Economic Criteria

BOYD has developed criteria to assess the economic viability of each seam resource area. Economic viability is based on:

1. Mine plan feasibility studies.
2. Current mining economics.
3. Seam thickness and areal extent.
4. Geological considerations.

BOYD has reviewed mine plans, costs and other data, and has developed our own economic models to evaluate the coal resources. A minimum seam thickness limit of 2.0 m has been used in our calculations reflecting the practical operating height limits of the longwall (LW) face equipment proposed for Huangyuchuan. Since most of the seams have thick occurrence, this limit has minimal impact overall and mainly applies to the No. 9 Seam, which is thin in the eastern and western portions of the mining right area.

BOYD has used various criteria to estimate Recoverable Resources and Marketable Resources from In-Place Resource estimates. These criteria address the following:

1. Vertical Seam Recovery.
2. Areal Mining Recovery.
3. Mining Dilution.
4. Mining Moisture Gain.
5. Preparation Plant Yield and Moisture Gain.

### Vertical Seam and Area Mining Recovery

Coal extraction is projected to be performed primarily using fully mechanized (FM) LW and sublevel caving LW mining methods. The following areal mining recoveries by method are:

Seam	Areal Mining Recovery — Mining Method
4	75% - 5m single slice LW
6 Upper	75% - 6 m single slice LW 75% - 2.8 m 2nd slice sub level caving LW
6	65% - 6 m single slice LW
9	70% - 4 m single slice LW

As shown above, LWs operating to mining heights of 4 m, 5 m and 6 m will be utilized to recover the No. 4 Seam, No. 6 Upper Seam (first slice), No. 6 and No. 9 seams. Vertical recovery of the seams is limited by the specified LW face mining height.

In zones of thick (greater than 9 m) No. 6 Upper Seam occurrence, two slice LW mining is planned. The initial 6 m LW slice recovers the upper part of the seam, following the top of coal seam. The second longwall slice follows the seam floor and recovers the lower 2.8 m of the seam with shearer cutting and employs sublevel caving to recover a portion of the coal remaining between the initial top slice and the shearer cutting on the seam floor. It is anticipated that a period of 10 years may be required between the first and second slices to allow the overlying rock strata to achieve equilibrium conditions for second slice mining. We estimate that 65% of the coal (greater than 1 meter thick) between the shearer slices is recovered with the planned sublevel caving methods.

The No. 6 Seam recovery is lower than the No. 4 Seam recovery due to the small vertical interval to the overlying No. 6 Upper Seam, and anticipated poor roof conditions caused by overlying paleochannels.

The No. 9 Seam recovery is lower than that used for the No. 4 Seam due to the No. 9 Seam's irregular occurrence caused by seam splitting and thinning.

Our recovery factors represent the average results a typical mine will achieve over the life of its operation. In China Shenhua's active large, underground mines, these mining recoveries have been exceeded in certain small site-specific areas, and have also been lower in other areas. We are confident these values fairly represent the average recovery that is achievable at Huangyuchuan.

### **Mining Dilution**

Mining Dilution is the rock contamination from roof and floor rock strata that are mined with the coal seam during the normal mining process. BOYD has estimated mining dilution for all seams at 0.1 m. This factor is based on the seam thickness and planned mining equipment to be utilized in the resource areas. A 2.3 specific gravity density factor is used for calculating mining dilution tonnage.

### **Moisture Gain**

Spray water is commonly used throughout the mining process to control dust liberated during mining and coal handling. A three (3) percentage gain in raw coal output is applied to account for moisture gain.

### **Preparation Plant Yield and Moisture Gain**

Due to the frequent occurrence of partings and impurities in the seams, China Shenhua will wash all mined coal to produce an acceptable coal quality (marketable product). The following factors are used in this report to estimate the tonnage of marketable coal recovered from the raw (as-mined) coal:

- 80% of the coal portion of the as-mined product for the No. 6 Upper and No. 6 seams.



- 70% of the coal portion of the as mined product for the No. 4 and No. 9 seams.
- 3% of the in-seam parting and mining dilution portions of the as-mined product remains in the washed product (misplaced material during processing).
- 3% moisture gain is applied to the washed coal.

Lower coal recoveries are used for the No. 4 and No. 9 seams as the seams contain more impurities than the No. 6 Upper and No. 6 seams.

Our preparation plant yields (plant coal recovery estimates) may be conservative and reflect judgments based on available coal seam descriptions and raw and washed coal analyses. In practice, depending on coal market specifications for ash and heating value, preparation plant yields may be higher than projected.

### Exclusions

The following resource tonnages are excluded from our analysis:

- Mining right area barriers (standard mandatory barriers maintained around area boundaries).
- Areas where seam thickness is less than 2.0 m.
- Resources underlying planned mine facilities as specified by China Shenhua.

### Resources

Resource estimates are presented by resource classification categories. Tonnages for Proved and Probable Reserves, and Inferred Resources are presented on In-Place, Recoverable, and Marketable bases.

In Place-Resources were estimated using the delineated resource area for each seam, mineable seam thickness (coal and partings), and the following coal and parting densities:

Seam	Specific Gravity (g/cm <sup>3</sup> )
4	1.45
6 Upper	1.40
6	1.43
9	1.44
Partings	2.10

Recoverable Resources and Reserves are estimated by applying vertical seam recovery, areal mining recovery, mining dilution, and mining moisture gain factors to the in-place estimates.

Marketable Resources and Reserves are estimated by applying the plant yields and processing moisture gain to the estimated recoverable tonnages.

### Proved and Probable Reserves

BOYD has prepared resources estimated for Huangyuchuan mining right area controlled by China Shenhua. Our estimates of the Proved and Probable Reserves are summarized from Table 1 as follows:

Seam	Average Thickness (m)	JORC Code					
		In-Place Resource (Mt)			Marketable Reserves (Mt)		
		Measured	Indicated	Total	Proved	Probable	Total
4	4.2	58.87	81.40	140.27	24.30	31.26	55.66
6 Upper	12.7	168.76	215.04	383.80	86.59	107.90	194.49
6	5.4	75.59	87.15	162.74	39.04	43.75	82.79
9	3.7	<u>44.63</u>	<u>51.20</u>	<u>95.83</u>	<u>17.94</u>	<u>18.45</u>	<u>36.39</u>
Total		<u>347.85</u>	<u>434.79</u>	<u>782.64</u>	<u>167.87</u>	<u>201.46</u>	<u>369.33</u>

JORC Code compliant Proved and Probable Marketable reserves total 369.3 Mt. As shown, the thick No. 6 Upper Seam contains 53% of the reserves. Approximately 45% of the reserves are classified in the Proved Reserves category.

### Inferred Resources

BOYD has also prepared estimates of Inferred Coal Resources for the Huangyuchuan mining right area. Due to the limited extent of exploration data in the Inferred Resource areas, these estimates have a low degree of confidence (i.e., low geologic assurance). Commonly, it would be reasonable to expect that the majority of Inferred Resources would upgrade to Indicated Resources with continued exploration. However, due to the uncertainty of Inferred Resources it should not be assumed this will always occur. Typical JORC compliant statements of Inferred Coal Resources are limited to an in-place tonnage basis; however, BOYD has extended the estimates of Inferred Coal Resources to include Recoverable and Marketable tonnage bases. We have prepared these estimates using the same recovery factors as applied to the seams in adjacent Probable Reserve areas to provide an approximate tonnage that could be reasonably expected, assuming future exploration and coal quality testing confirm that the Inferred Resources actually exist as now projected.

Our estimates of Inferred Resources from Table 2 are as follows:

Seam	Average Thickness (m)	JORC Code		% of Resources
		In-Place Inferred (Mt)	Marketable Inferred (Mt)	
4	4.2	117.69	48.34	15
6 Upper	14.0	400.10	205.34	64
6	4.2	109.62	54.57	17
9	3.6	<u>36.23</u>	<u>13.55</u>	<u>4</u>
Total		<u>663.64</u>	<u>321.80</u>	<u>100</u>

As shown, the thick No. 6 Upper Seam contains 64% of the Inferred Resources .

It is not appropriate to combine Inferred Resources with any Reserve estimates as there is no direct connection between Inferred Coal Resources and any category of Coal Reserves in the JORC Code.

### Coal Quality

Average raw coal quality (partings excluded) is summarized as follows:

Seam	Moisture % (ad)	Ash % (d)	Volatile Matter % (daf)	Sulfur % (d)	Heat Content
					(Gr.v.d) (Kcal/kg)
4	2.4	22.3	39.7	0.7	5,650
6 Upper	2.5	18.9	39.1	0.7	5,950
6	2.3	20.7	39.1	0.7	5,800
9	2.1	24.3	39.4	1.1	5,500

Product coal quality is indeterminate at this time pending market requirements. We have assumed all as-mined coals are washed at an approximate 1.8 specific gravity to remove out-of-seam dilution rock and in-seam parting materials. Clean coal quality at 1.8 specific gravity is as follows:

Seam	Total Moisture (%)	Ash % (d)	Sulfur % (d)	Volatile Matter % (daf)	Heat Content	
					(Gr.v.d) (Kcal/kg)	Qnet, ar (Kcal/kg)
4	11.0	19.0	0.60	40	5,850	5,400
6 Upper	11.0	17.0	0.68	39	6,100	5,600
6	11.0	17.0	0.68	39	6,050	5,550
9	11.0	21.0	0.97	39	5,750	5,250

## MINING RIGHTS

### Overview

Coal in China is owned by the central government as established in the PRC Mineral Resources Law. The law and related Administrative Measures on the Mineral Resources Production Registration, which governs certain aspects of mineral and coal resources control for exploitation (including the granting of new and the renewal of existing mining right permits), are administered by the Ministry of Land and Resources (MLR). Exploration right permits, mining right permits, and land use rights are granted by the MLR or relevant provincial mineral resource bureau before exploration or mining operations can be undertaken in defined mining right areas. Mining right permits are granted for specified periods of time, after which the rights may be extended upon application.

### Mining Rights Review

China Shenhua is licensed to produce coal at Huangyuchuan. We have not completed an independent legal evaluation of the status of China Shenhua's mining rights, but we have reviewed the documentation for the China Shenhua's mining rights. By PRC law the maximum holding period (term) for mining right permit is 30 years. The MLR or relevant provincial regulatory body has the legal authority to renew an existing mining right area that is expiring. It is typical practice in other major coal producing nations for governments to extend the term of the mining rights for the economic life of the reserves. We have assumed that China Shenhua's mining rights will be renewable for the life of the resources for the purposes of our estimates.

Mining right permit summary and status for Huangyuchuan follows:

Mining Right Area	Mining Certificate Number	Mining Method	Area (km <sup>2</sup> )	Mining Right Permit Grant Date (month/yr)	Mining Right Expiration (month/yr)
Huangyuchuan	1000000620058	UG	42.6794	4/2006	1/2036

China Shenhua controls the mining right areas for 30 years, during which time the majority of the coal resource will be recovered. It is reasonable to assume that China Shenhua's mining rights will be renewed upon expiration. According to Chinese law governing natural resources, the owner of mining rights has priority to renew or extend its mining rights if mineable reserves remain at expiration of the mining right holding period. Transfer of mining rights to a third party requires provincial approval.

### **Land Use Rights**

Generally the surface lands within the China Shenhua mining right areas belong to the PRC government. For mining right areas where underground mining methods are applied, extensive land use rights are not needed.

### **Resource Recovery**

PRC laws and regulations governing the mining of coal resources require coal mine operators to attain high resource recovery rates. Failure to achieve applicable recovery rates in a timely manner as set by the responsible central government ministry can expose a coal producer to penalties such as revocation of the coal mine's production permit. A responsible person, typically the highest ranking geologist/engineer, prepares an annual report detailing changes in estimated resources over the year (to be confirmed by the Company). Based on our discussions with China Shenhua, the Company takes resource recovery seriously and employs measures to comply with mandated recovery rates including secondary recovery mining activity in some instances, demonstrating a concern for maximizing resource recovery.

### **Report Disclaimer**

In preparing this report, we have relied on reported exploratory drilling results, operating, and other data as provided by China Shenhua. We have exercised due care in reviewing the information provided herein and believe it is both reasonable and representative. We have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional material information. Our report has been completed in accordance with generally accepted standards and practices employed in the international mining industry. Although we have compared key information provided by China Shenhua with expected values, the accuracy of the results and conclusions of this report are reliant on the accuracy of the information provided. We are not responsible for any material errors or omissions in the information provided.

The findings and conclusions presented in this report represent the independent professional opinion of BOYD based on our review of available project information. We have made no attempt to verify the technical and geological information presented in the reference material documents and assume it has been prepared by competent engineers and geologists. Our expertise is in technical and financial mining issues and BOYD is not qualified to represent any findings of a legal or accounting nature. BOYD's independent analyses of the available data have been developed in a manner consistent with reasonable industry standards and accepted engineering practices. We believe our conclusions are reasonable assessments of the information provided.

The ability of China Shenhua, or any mine operator, to achieve the projections contained in this report is dependent on numerous factors that are beyond the control of, and cannot be anticipated by, BOYD. These factors include mining and geologic conditions, the capabilities of management and employees, securing required approvals and permits in a timely manner, etc. Unforeseen changes in regulations could also impact performance, although we believe all findings and conclusions to be reasonable, we do not warrant this report in any manner, express or implied.

### Conclusion

Based on our review of the coal resource data and the methodology used to define the resources, visits to the active mining operations, and interactions with China Shenhua personnel, we have a high degree of confidence that the resource estimates shown in this report accurately represent the specified mine properties. Our review of China Shenhua's exploration data and geologic mapping, indicates that this information is reasonably prepared and developed according to accepted industry standards.

BOYD has reviewed the mining right documentation provided by China Shenhua with regard to the company's coal resource holdings. To the extent supported by the documentation, we accept that China Shenhua holds the underground mining right permits for the controlled areas evaluated in this report for the documented periods. We have also assumed that China Shenhua will successfully renew the mining right certificates until the exhaustion of the resources.

Following this page are:

#### Figures

- 1: General Location Map Showing Huangyuchuan Coal Mine and Coal Measures, Railways, and Ports
- 2: Map Showing Huangyuchuan Coal Mining Right Area

#### Tables

- 1: Coal Reserve Estimate
- 2: Inferred Coal Resource Estimate

Respectfully submitted,

JOHN T. BOYD COMPANY By:

**Paul D. Anderson**

*Director of Geological Services*

*JORC Competent Person*

**James F. Kvitkovich**

*Project Manager*

**Ronald L. Lewis**

*Chief Operating Officer and Managing Director*





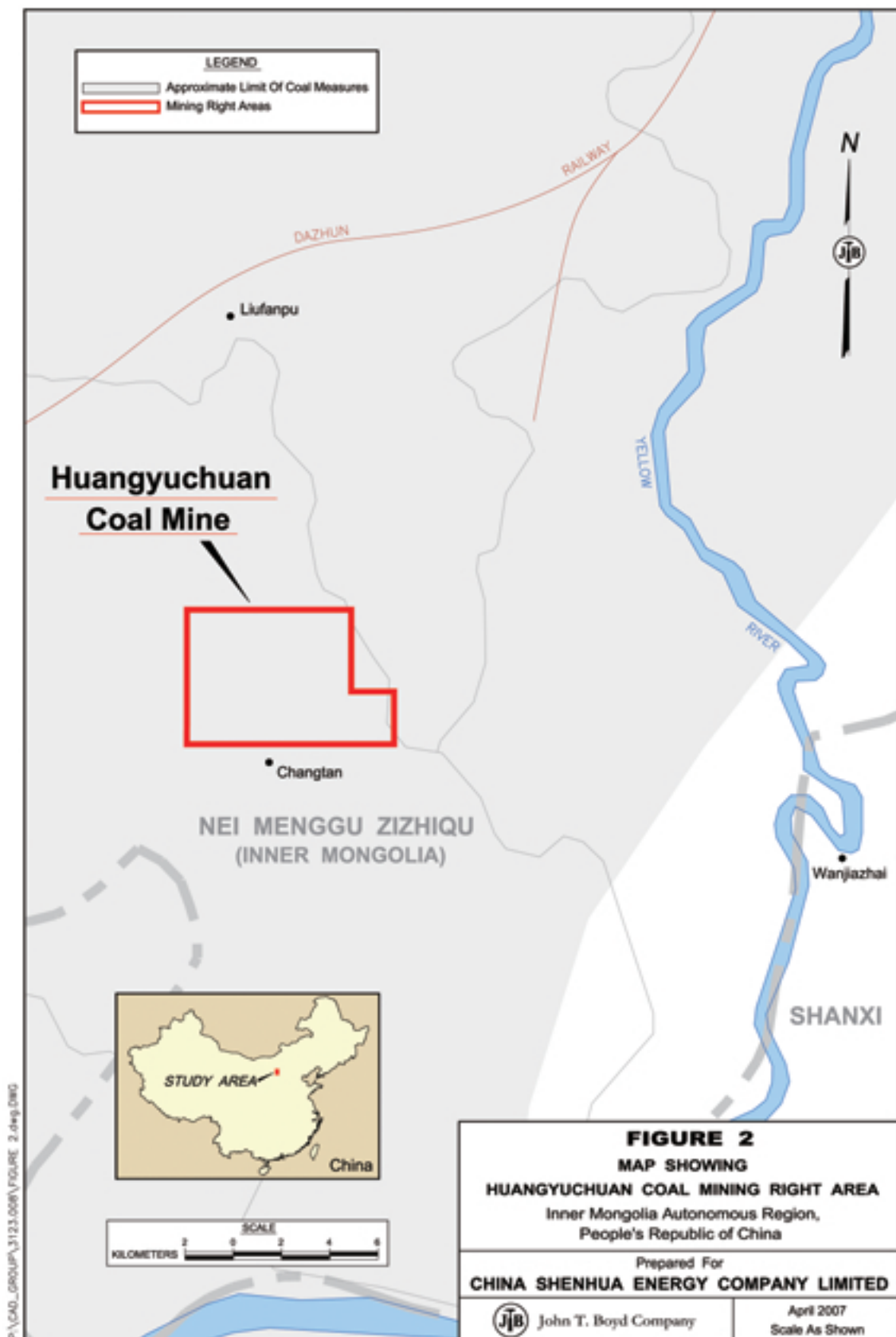


TABLE 1

## COAL RESERVE ESTIMATE

## HUANGYUCHUAN MINE

Inner Mongolia Autonomous Region, People's Republic of China

Prepared For

CHINA SHENHUA ENERGY COMPANY LIMITED

By

John T. Boyd Company

Mining and Geological Consultants

April 2007

Seam	JORC Code										
	In-Place Resource (Mt)			Recoverable Reserves (Mt)			Processing	Marketable Reserves (Mt)			% of
	Measured	Indicated	Total	Proved	Probable	Total	Yield %	Proved	Probable	Total	
4	58.87	81.40	140.27	47.20	64.93	112.13	50	24.30	31.36	55.66	15
6u	168.76	215.04	383.80	120.74	156.34	277.08	70	86.59	107.90	194.49	53
6	75.59	87.15	162.74	52.13	60.08	112.21	74	39.04	43.75	82.79	22
9	44.63	51.20	95.83	33.57	38.35	71.92	51	17.94	18.45	36.39	10
Total	347.85	434.79	782.64	253.64	319.70	573.34	64	167.87	201.46	369.33	100

TABLE 2

**INFERRED COAL RESOURCE ESTIMATE**  
**HUANGYUCHUAN MINE**  
**Inner Mongolia Autonomous Region, People's Republic of China**  
**Prepared For**  
**CHINA SHENHUA ENERGY COMPANY LIMITED**  
**By**  
**John T. Boyd Company**  
**Mining and Geological Consultants**  
**April 2007**

Seam	Tonnes (Mt)		JORC Code	Tonnes (Mt)	% of Resources
	In-Place	Recoverable	Processing Yield %	Marketable	
4	117.69	94.18	51	48.34	15
6u	400.10	272.19	75	205.34	64
6	109.62	76.22	72	54.57	17
9	<u>36.23</u>	<u>27.20</u>	<u>50</u>	<u>13.55</u>	<u>4</u>
Total	<u>663.64</u>	<u>469.79</u>	<u>68</u>	<u>321.80</u>	<u>100</u>

**ADDENDUM 1**  
**STATEMENT OF JORC COMPLIANCE**

The estimates of Coal Reserves and Resources for the Huangyuchuan Coal Mine presented in this report have been carried out in accordance with the Guidelines of the “Australasian Code for Reporting of Mineral Resources and Ore Reserves”, prepared by the Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australasian Institute of Geoscientists and Mineral Council of Australia, 2004.

The information in the report to which this statement is attached, that relates to Huangyuchuan Coal Resources, is based on information reviewed by Messrs. Paul D. Anderson, James F. Kvitkovich, and Ronald L. Lewis, who are Registered members of the Society of Mining, Metallurgy, and Exploration, Inc., and fulltime employees of John T. Boyd Company.

Messrs. Anderson, Kvitkovich, and Lewis have sufficient experience, which is relevant to the style of mineralization and type of deposit under consideration and to the activity which they are undertaking, to qualify as Competent Persons as defined in the 2004 Edition of the “Australasian Code for Reporting of Mineral Resources and Ore Reserves.”

Messrs. Anderson, Kvitkovich, and Lewis have consented to the inclusion in the report of the matters based on this information in the form and context in which it appears.

(Signed)

**Paul D. Anderson**

*Director of Geological Services*

**James F. Kvitkovich**

*Vice President*

**Ronald L. Lewis**

*Chief Operating Officer  
and Managing Director*

**ADDENDUM 2**  
**HONG KONG STOCK EXCHANGE (SEHK) EXPERIENCE**

BOYD is one of the largest independent consulting firms in the world exclusively serving the coal, financial, utility, power and mineral-related industries. We have provided consultancy services on a continuous basis since 1943 and have worked in over 50 countries. Our full-time staff includes specialists in the analysis of geology, reserves, mine planning and costs, material handling, markets, business planning, transport, and environmental issues.

We have over 60 years of expertise in completing reserve audits, coal company valuations, and stock listing requirements as well as extensive knowledge of coal operations in the US and internationally, with recognized experts having qualifications in all the technical disciplines related to mine and rail transportation operations. We have completed over 2,000 reserve audits including audits for some of the largest US coal producers.

BOYD has worked with and/or for virtually all of the major international banks. Numerous financial agencies have used our services to opine on major property/ mine operations. BOYD prepares bankable documents that are accepted and used with confidence by major financial institutions and other investors around the world.

BOYD has prepared reports for inclusion in filings to the United States Securities and Exchange Commission (SEC) for listings on the New York and American stock exchanges. We have also prepared reports for the London, Canadian, and Singapore stock exchanges. BOYD has experience preparing Competent Persons Reports for SEHK stock exchange filings. In 2005, BOYD prepared a comprehensive independent technical review (ITR) report of China Shenhua Energy Company Ltd's extensive coal holdings for the Company's listing on the SEHK.

**ADDENDUM 3**  
**PROFESSIONAL QUALIFICATIONS AND**  
**RELEVANT EXPERIENCE**

**Ronald L. Lewis**  
**Chief Operating Officer and Managing Director**

<b>Summary of Expertise</b>	Valuation of coal/mineral reserves and operating mining companies with specialized expertise in the areas of coal/mineral reserve estimation, surface and underground mineability analysis, and financial due diligence. Mr. Lewis is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc. and is qualified as a Competent Person as defined in the Australian Code for Reporting of Mineral Resources and Ore Reserves (JORC Code).
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<b>Registration and Certificates</b>	Registered Professional Mining Engineer — Alabama, Kentucky, Ohio, Pennsylvania, and West Virginia  Certified Member of the American Institute of Minerals Appraisers
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**James F. Kvitkovich**  
**Vice Presiden**

<b>Summary of Expertise</b>	Twenty-six years experience in evaluation of underground mining operations, mine plans, costs, capital requirements and productivity. Particular expertise has been developed in mine feasibility, economic analysis of mining operations and operational assessments. Additional mine engineering expertise in ventilation analysis, evaluation of coal quality and geological impacts on mine operations, and appraisal of mining assets. Mr. Kvitkovich is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is qualified as a Competent Person as defined in the Australian Code for Reporting of Mineral Resources and Ore Reserves (JORC Code).
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<b>Registration and Certificates</b>	Registered Professional Engineer — Pennsylvania Certificate — Pennsylvania Mine Examiner
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**Paul D. Anderson**  
**Director of Geological Services**

**Summary of Expertise**

Design and management of exploration programs, assessment of geologic conditions and reserves, resource quantity and quality estimates, and computer modeling of geologic data. Mr. Anderson is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., a member of the American Institute of Professional Geologists, and is qualified as a Competent Person as defined in the Australian Code for Reporting of Mineral Resources and Ore Reserves (JORC Code).

**Registration and Certificates**

American Association of Petroleum Geologists, Certified Coal Geologist Institute of Professional Geologists

Certified Professional Geologist: Indiana, Kentucky, Pennsylvania, Texas, Illinois

**1. RESPONSIBILITY STATEMENT**

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company and its subsidiaries (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 Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; (ii) required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (iii) required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange;
- 2.2 none of the Directors, supervisors, proposed Directors or proposed supervisors of the Company has any direct or indirect interest in any assets which have since 31 December, 2006 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or 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 Shareholder	Capacity	Class of Shares	Nature of interest	No. of Shares held	Percentage in the relevant Percentage in	
					class of Shares	total share capital
Shenhua Group Corporation Limited	Beneficial owner	Domestic	Long Position	14,691,037,955	100	81.21
AllianceBernstein L.P.	Investment manager, Interest of controlled corporation	H	Long Position	296,901,150	8.74	1.64
JP Morgan Chase & Co.	Beneficial owner, Investment manager, Custodian	H	Long Position	249,160,252	7.33	1.37
Merrill Lynch & Co., Inc.	Custodian	H	Lending Pool	179,173,452	5.27	0.98
	Interest of controlled corporation	H	Long Position	204,949,879	6.03	1.13
	Interest of controlled corporation	H	Short Position	5,513,176	0.16	0.03
Taurus Investments SA	Beneficial owner	H	Long Position	155,612,000	5.08	0.86
The Capital Group Companies, Inc.	Investment manager	H	Long Position	170,474,500	5.02	0.94

*Note:*

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

**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:

<b>Name</b>	<b>Qualifications</b>
John T. Boyd Company	International independent technical consultants
CB Richard Ellis Limited	Independent property valuer
King & Wood	the Company's Legal advisers on PRC Law
China Merchants Securities (HK) Co., Ltd.	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 for the purposes of the SFO

- 4.2 As at the Latest Practicable Date, the Independent Financial Adviser has no shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.
- 4.3 The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter of advice and references to its name in the form and context in which they respectively appear.
- 4.4 As at the Latest Practicable Date, the Independent Financial Adviser did not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2006, the date to which the latest published audited financial statements of the Company were made up.

**5. SERVICE CONTRACTS**

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

**6. NO MATERIAL ADVERSE CHANGE**

The Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2006 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

## 7. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to the articles of associating of the Company, at any general meeting of shareholders a resolution shall be decided on a show of hands unless a poll is demanded, before or after any vote by show of hands. A poll can be demanded by (i) the chairman of the meeting; (ii) at least two shareholders entitled to vote present in person or by proxy; or (iii) one or more shareholders present in person or by proxy and representing 10 per cent or more of all shares carrying the right to vote at the meeting.

Unless a poll be so demanded, a declaration by the chairman that a resolution has on 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 poll. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded.

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

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

## 8. DIRECTORS' INTERESTS

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

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

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

Director	Name of company	Position
Ling Wen	神華財務有限公司 (Shenhua Finance Company Limited), a subsidiary of Shenhua Group in which the Company has a 32.89% equity interest	Chairman of the board of directors
Han Jianguo	Shenhua Group	Vice general manager

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

- 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 Listing Rules.

## 9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the offices of Baker & McKenzie at 14th Floor, Hutchison House, Central, Hong Kong up to and including 24 July 2007.

- 9.1 the Acquisition Agreement;
- 9.2 the letter from the Independent Board Committee as set out in this circular;
- 9.3 the letter from the Independent Financial Adviser, the text of which is set out in this circular;
- 9.4 the Property Valuation Report by CBRE and the Resource Assessment Report by J.T. Boyd as set out in this circular; and
- 9.5 the written consents of the Independent Financial Adviser, J. T. Boyd, King & Wood and CBRE referred to in this Appendix.