中国神华能源股份有限公司
CHINA SHENHUA ENERGY COMPANY LIMITED

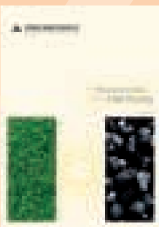
(a joint stock limited company incorporated in the People's Republic of China with limited liability)
Stock Code: 1088

2006

We are People-Oriented and develop in Harmony

Annual Report

Innovation



COVER STORY

Coal has a very long and varied history. We fully appreciate the philosophy of taking from and giving back to Mother Nature. While seeking to generate prosperity from coal, we strive to create a harmonious environment.

China Shenhua Energy Company Limited (Stock Code: 1088)

Published in March 2007

Contents

Results Highlights

Operational

	2006	2005	05-06 Percentage change %
Commercial coal production (Million tonnes)	**136.6**	121.4	12.5
Coal sales (Million tonnes)	**171.1**	144.4	18.5
Of which: Export (Million tonnes)	**23.9**	23.3	2.6
Turnover of coal transported by self-owned railways (Billion tonne kilometer)	**99.0**	84.3	17.4
Seaborne coal (Million tonnes)	**117.7**	100.2	17.5
Of which: Huanghua Port (Million tonnes)	**79.2**	67.1	18.0
Shenhua Tianjin Coal Dock (Million tonnes)	**1.6**	–	N/A
Gross power generation (Billion kwh)	**55.36**	39.21	41.2
Total power output dispatch (Billion kwh)	**51.71**	36.37	42.2

commercial coal production

136.6 million tonnes

revenues **RMB 64,240 million**

total power output dispatch **51.71** billion kwh,

42% up

Financial

	2006	2005 (restated)	05-06 Percentage change %
Per share (RMB)			
Earnings per share	**0.965**	0.937	3.0
Equity attributable to equity shareholders per share	**3.7**	3.2	15.6
Dividend per share as proposed by the Board	**0.34**	0.125	172.0
For the year (RMB million)			
Revenues	**64,240**	52,242	23.0
Profit for the year	**20,285**	17,993	12.7
Profit attributable to equity shareholders of the Company	**17,460**	15,619	11.8
As at 31 December (RMB million)			
Total assets	**163,148**	142,269	14.7
Total liabilities	**78,447**	69,282	13.2
Total equity	**84,701**	72,987	16.0
Of which: Equity attributable to equity shareholders of the Company	**66,771**	57,877	15.4

23% up

coal sales 171.1 million tonnes

profit attributable

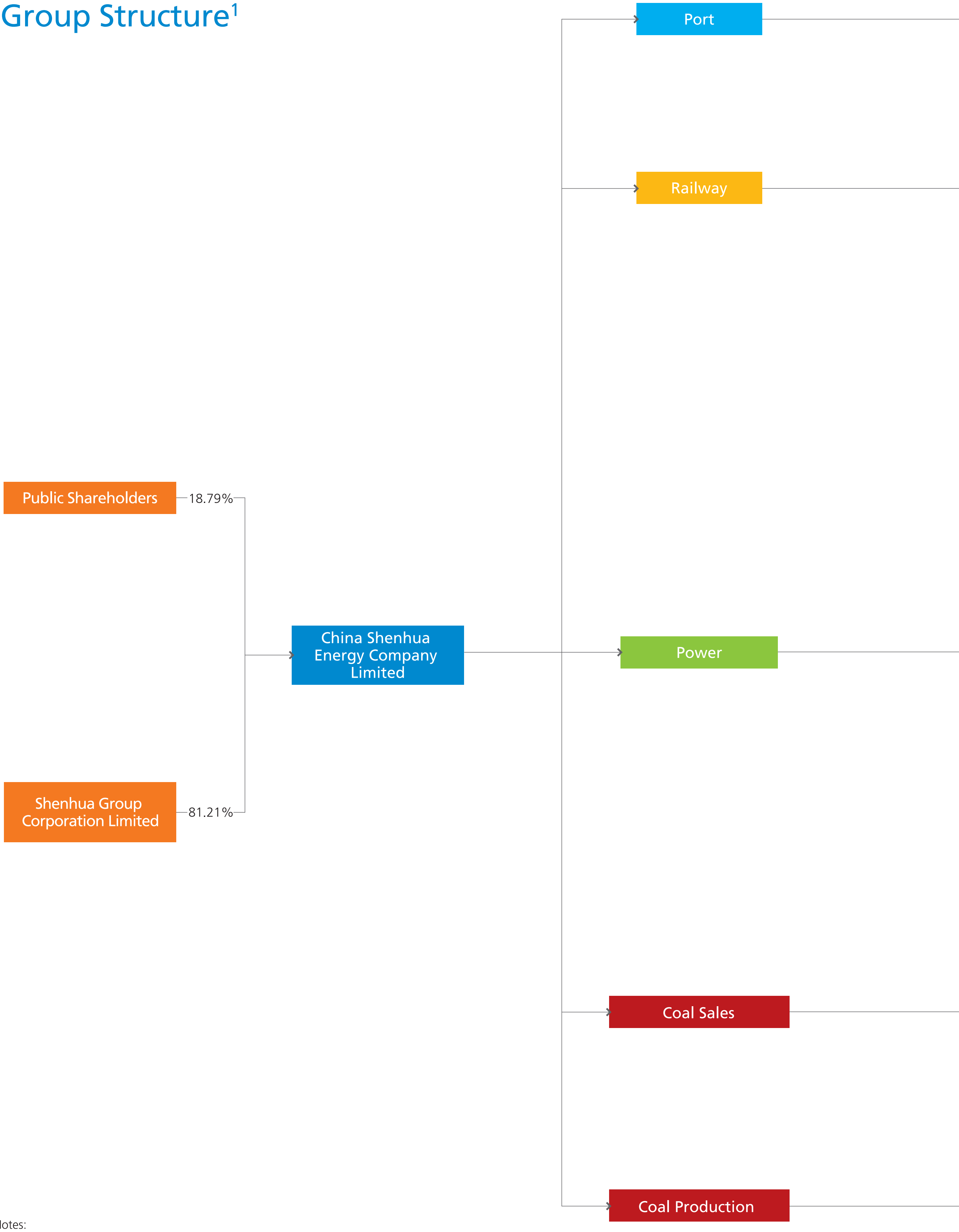
to equity shareholders of the Company

RMB17,460 million

In this report:

- The "Company", "China Shenhua", "we", "us" or "our" means China Shenhua Energy Company Limited, a joint stock limited company established in the PRC on 8 November 2004, and unless otherwise specified in the context, includes its subsidiaries;
- The "Group" means the Company and its subsidiaries;
- Coal production figures are quoted in tonnes of commercial coal, unless otherwise specified; and
- All prices are quoted exclusive of value-added tax, unless otherwise specified.

Group Structure[1]



Notes:

1 The Group structure at the publication time of the 2006 annual report is for illustrative purposes only and the English names are for identification purposes only.

2 It controls and operates Tianjin Guohua Panshan Power Generation Company Limited, Sanhe Power Company Limited and CLP Guohua Power Co., Ltd. Beijing Thermal Power Branch.

Stake	Major branches and subsidiaries	Other shareholders:
55%	Shenhua Tianjin Coal Dock Co. Ltd.	45% Tianjin Port (Group) Company
70%	Shenhua Huanghua Harbor Administration Co. Ltd.	30% Hebei Province Construction Investment Company
88.16%	Shenhua Baoshen Railway Co. Ltd.	5.92% Shaanxi Provincial Local Railway Company 5.92% Inner Mongolia Ruyi Co. Ltd.
	China Shenhua Shenshuo Railway Branch	
52.7%	Shuohuang Railway Development Co. Ltd.	6.1% Hebei Province Construction Investment Company 41.2% Zhongtie Construction and Development Center
	China Shenhua Rolling Stock Branch	
70%	Shaanxi Guohua Jinjie Energy Corporation	30% Shandong Luneng Development Group Co. Ltd.
70%	Beijing Guohua Logistics Co. Ltd.	6% Beijing Renhe Xingyuan Investment Consultant Co. Ltd. 8% Tianjin Shunlong Science and Technology Development Co. Ltd. 16% Beijing Renjie Xingyuan Investment Consultant Co. Ltd.
32.5%	Beijing Guohua Electric Technology Research Centre Co. Ltd.	5.4% CLP Guohua Shenmu Power Co. Ltd. 13.3% Shanghai Electric (Group) Co. Ltd. 16.3% Tianjin Guohua Panshan Power Generation Co. Ltd. 16.3% Suizhong Power Co. Ltd. 16.3% Sanhe Power Co. Ltd.
50%	Suizhong Power Co. Ltd.	25% Liaoning Provinicial Energy Investment Group Company 25% Liaoning Provincial Power Company
60%	Zhuhai Guohua Huida Wind Energy Development Co. Ltd.	40% Zhuhai Huida Wind Energy Development Group Company
80%	Zhejiang Guohua Yuyao Gas-fired Power Co. Ltd.	20% Yuyao City Construction and Development Co. Ltd.
75%	Beijing Guohua Jiedi Dongli Technical Service Co. Ltd.	25% Beijing Jiedi Industry Company
51%	Hebei Guohua Cangdong Power Co. Ltd.	9% Cangzhou City Construction Investment Company 40% Hebei Province Construction Investment Company
80%	Guangdong Guohua Yuedian Taishan Power Co. Ltd.	20% Guangdong Yuedian Group Co. Ltd.
51%	CLP Guohua Shenmu Power Co. Ltd.	49% CLP China (Shenmu) Limited
60%	Zhejiang Guohua Zheneng Power Co. Ltd.	40% Zhejiang Provincial Electric Power Development Co. Ltd.
65%	Inner Mongolia Guohua Zhunge'er Power Generation Co. Ltd.	30% Inner Mongolia Mengdian Huaneng Thermal Power Co. Ltd. 5% Shenhua Zhunge'er Energy Co. Ltd.
51%	CLP Guohua Power Co. Ltd.	49% CLP China (Beijing) Limited
	China Shenhua Guohua Power Branch	
65%	Shenhua Inner Mongolia Coal Transportation & Sales Corporation	5% Shenhua Zhunge'er Energy Co. Ltd. 10% Shenhua Group Haibowan Mining Co. Ltd. 10% Shenhua Group Wuda Mining Co. Ltd. 10% Shenhua Group Baotou Mining Co. Ltd.
100%	Gang Hua International Energy Limited	
90%	Shenhua Shanghai Coal Trading Co. Ltd.	10% Shenhua Changyun High Technology Coal Blending Co. Ltd.
80%	Shenhua Changyun High Technology Coal Blending Co. Ltd.	20% Shenhua Shanghai Coal Trading Co. Ltd.
	China Shenhua Coal Sales Centre	
62.5%	Shenhua Beidian Shengli Energy Co. Ltd.	2.5% Inner Mongolia Xilinguole State-owned Asset Management Co. 35% Northern United Power Co. Ltd.
57.76%	Shenhua Zhunge'er Energy Co. Ltd.	42.24% China Cinda Assets Management Corporation
	China Shenhua Jinfeng Coal Branch	
	China Shenhua Wanli Coal Branch	
	China Shenhua Shendong Coal Branch	

Assets / Investments

Note: This map as at 31 December 2006 is for illustrative purposes only.

4
Shengli Mines
INNER MONGOLIA AUTONOMOUS REGION
LIAONING
18
Suizhong Power
Datong East
BEIJING
Panshan Power
13
Qinhuangdao Port
16
Daqin
Railway
Beijing Thermal
Qinhuangdao
14
Datong
Sanhe Power
TIANJIN
11
Shenhua Tianjin Coal Dock
Wanjia
Berth
Shuozhou West
HEBEI
Huangwan
Railway
9
Su´ning North
10
Huanghua Port
12
Huanghua
Huanghua Power
7
Shuohuang Railway
SHANDONG
Coal Mine
Port
Railway
Power Plant
Place
State-owned Railway
Place
Self-owned Railway

Assets / Investments

Coal Segment

Coal Mines

01 **Shendong Mines:**

Located in the Shenfu Dongsheng coal field, sitting on the border of the Shaanxi Province and the Inner Mongolia Autonomous Region in Northern China. Shendong Mines has a simple geological composition with low methane gas levels, and thick, relatively flatlying coal seams located near the surface. The products of Shendong Mines mainly comprise of quality thermal coal. Based on the production volume in 2006, the Bulianta mine is the world's first underground mine with annual coal production over 20 million tonnes. In 2006, re-construction and expansion were carried out mainly to the mines in Shigetai and Wulanmulun, and a technological revamp was carried out in Shangwan mine and Bulianta mine; the mine in Jinjie Energy commenced operations in September 2006.

02 **Wanli Mines:**

Located in the north of Shenfu Dongsheng coal field and Zhunge'er coal field. In 2006, technological revamp was carried out mainly to Wanli No.1 mine, Liuta mine, Tanggonggou mine and Cuncaota mine, thus laying a foundation for improvements to production capacity. At present, construction of Bu'ertai mine and its coal preparation plant is progressing smoothly.

03 **Zhunge'er Mines:**

Located in the Zhunge'er coal field of Inner Mongolia Autonomous Region. Zhunge'er Mines comprises of two open-cut mines: Heidaigou mine and Ha'erwusu mine. In 2006, production of coal in Heidaigou mine amounted to 23.5 million tonnes, making it the largest open-cut mine in the PRC. Construction of Ha'erwusu mine commenced in May 2006 and has been progressing smoothly.

04 **Shengli Mines:**

Located in the Shengli coal field in Inner Mongolia Autonomous Region. Shengli Mines mainly produces brown coal, which has lower calorific value as compared with that of coal produced in the rest of our mines. In 2006, construction of the open-cut mine of Shengli No.1 had been progressing smoothly.

Railways

05 **Baoshen Railway:**

Total length of 172 km, running from Baotou in Inner Mongolia Autonomous Region to Daliuta in Shaanxi Province. Baoshen Railway is a single-line railway. In 2006, the transportation volume of Baoshen Railway amounted to 16.6 million tonnes. In 2006, the double-line of Ciyaowan – Batuta section and Bu'ertai coal mine special railway were constructed and a technological revamp was carried out to Hanjiacun Station.

06 **Shenshuo Railway:**

Total length of 270 km, running from the Daliuta mine in Shaanxi Province to Shuozhou in Shanxi Province. Shenshuo Railway is a double-line electric railway. In 2006, the transportation volume of Shenshuo Railway amounted to 128.1 million tonnes.

07 **Shuohuang Railway:**

Total length of 594 km, running from the Shenchi South Station of Shenshuo Railway to Huanghua Port in Hebei Province. Shuohuang Railway is a double-line electric railway. In 2006, the transportation volume of Shuohuang Railway amounted to 112.2 million tonnes.

08 **Dazhun Railway:**

Total length of 264 km, running from Zhunge'er in Inner Mongolia Autonomous Region to Datong in Shanxi Province, and connecting with Daqin Railway. Dazhun Railway is a single-line electric railway. In 2006, the transportation volume of Dazhun Railway amounted to 41.4 million tonnes. Improvement works to the Dazhun Railway stations was completed in 2006.

09 **Huangwan Railway:**

Total length of 67 km, running from Huanghua South Station of the Shuohuang Railway to the Wanjia dock in Tianjin. Huangwan Railway is a single-line electric railway. In October 2006, Huangwan Railway was fully put into operation.

Ports

10 **Huanghua Port:**

Located in Huanghua City in Hebei Province, it is the east terminal station of Shuohuang Railway. It is the principal seaborne port for the transportation of coal for customers along the coastal provinces of China and for export to markets in the Asian Pacific Region. There are seven coal berths and two berths for bulk cargo in Huanghua Port. As at the end of 2006, its seaborne capacity amounted to 80 million tonnes, of which the settled seaborne coal volume amounted to 79.2 million tonnes. In December 2006, Phase II construction works of Huanghua Port was completed and passed the subsequent State examination and inspection. Dredging and widening of the sailing route is still being carried out.

11 **Shenhua Tianjin Coal Dock:**

Located within the Tianjin Port with three berths, is capable of accommodating ships with a freight capacity of up to 150,000 tonnes, it provides a new seaborne channel for Shenhua's coal transportation. As at the end of 2006, the seaborne capacity for coal amounted to 35 million tonnes, of which the settled seaborne coal volume amounted to 1.6 million tonnes. Trial operation of Shenhua Tianjin Coal Dock commenced in October 2006. Planning for construction of three additional berths is underway.

Power Segment

Power Plants

12 **Huanghua Power:**
Located in Hebei Province and adjacent to our Huanghua Port. It is one of the key power plants supplying power to the Hebei South Power Grid. As at 31 December 2006, Huanghua Power operated two 600 MW coal-fired generation units. The gross power generation in 2006 amounted to 1.97 billion kwh and the average utilisation hours amounted to 5,943 hours. The fresh water used by Huanghua Power comes from a desalting plant with a daily production capacity of 20,000 tonnes. In June and December 2006, Units No.1 and 2 passed a 168 hours full-load trial operation and were put into commercial operation.

13 **Panshan Power:**
Located in Hebei Province and one of the key power plants supplying power to the Beijing-Tianjin-Tangshan Power Grid. As at 31 December 2006, Panshan Power operated two 500 MW coal-fired generation units. The gross power generation in 2006 amounted to 5.88 billion kwh and the average utilisation hours amounted to 5,881 hours.

14 **Sanhe Power:**
Located in Hebei Province and one of the key power plants supplying power to the Beijing-Tianjin-Tangshan Power Grid. As at 31 December 2006, Sanhe Power operated two 350 MW coal-fired generation units. In 2006, the gross power generation amounted to 4.21 billion kwh, and the average utilisation hours amounted to 6,008 hours. At present, construction of two 300 MW coal-fired units for Phase II is in progress, and will be equipped with a flue gas desulphurisation ("FGD") system, a de-NOx system and a system for purifying effluents for recycling. Sanhe Power also adopts the advanced "smoke-tower combination" technology.

15 **Guohua Zhunge'er:**
Located in Inner Mongolia Autonomous Region and adjacent to our Heidaigou mine. It is one of the key power plants supplying power to the Beijing-Tianjin-Tangshan Power Grid via the West Inner Mongolia Power Grid. As at 31 December 2006, Guohua Zhung'er operated two 330 MW coal-fired generation units. The gross power generation in 2006 amounted to 4.63 billion kwh and the average utilisation hours amounted to 7,009 hours. At present, construction of two additional 330 MW coal-fired generation units is underway.

16 **Beijing Thermal:**
Located in Beijing, it supplies power and heat to Beijing. As at 31 December 2006, Beijing Thermal operated two 200 MW coal-fired generation units. It applies environmentally friendly technologies such as FGD and rigorous standards for waste water and noise treatment. The gross power generation in 2006 amounted to 2.37 billion kwh and the average utilisation hours amounted to 5,925 hours.

17 **Zhunge'er Power:**
Located in Inner Mongolia Autonomous Region and adjacent to our Heidaigou mine. It is one of the power plants supplying power to the North China Power Grid. As at 31 December 2006, Zhunge'er Energy operated two 100 MW coal-fired generation units. The gross power generation in 2006 amounted to 1.56 billion kwh and the average utilisation hours amounted to 7,804 hours.

18 **Suizhong Power:**
Located in Liaoning Province and one of the power plants supplying power to the Northeast Power Grid. As at 31 December 2006, Suizhong Power operated two 800 MW coal-fired generation units. The gross power generation in 2006 amounted to 10.47 billion kwh and the average utilisation hours amounted to 6,541 hours.

19 **Ninghai Power:**
Located in Zhejiang Province and one of the key power plants supplying power to the East China Power Grid. As at 31 December 2006, Ninghai Power operated four 600 MW coal-fired generation units. The gross power generation in 2006 amounted to 6.83 billion kwh and the average utilisation hours amounted to 5,515 hours. Units No.3, 1 and 4 of Ninghai Power Phase I passed a 168 hours full-load trial operation and trial operation of the FGD system in May, August and November 2006, respectively, and had been put into commercial operation. Unit No.4 had also successfully simultaneously operated the de-NOx system. In December 2006, construction of two 1,000 MW ultra super critical coal-fired generation units of Ninghai Power Phase II was commenced, and FGD and de-NOx systems will be simultaneously installed.

20 **Jinjie Energy:**
Located in Shaanxi Province, it supplies power to the Hebei South Power Grid via the Jinjie-Xinzhou-Shijiazhuang 500,000 volt high-tension transmission line. As at 31 December 2006, Jinjie Energy operated one 600 MW coal-fired generation unit. The gross power generation in 2006 amounted to 910 million kwh and the average utilisation hours amounted to 5,958 hours. Unit No.1 of Jinjie Energy passed a 168 hours full-load trial operation in September 2006 and had been put into commercial operation. A further three generation units are being constructed.

21 **Shenmu Power:**
Located in Shaanxi Province and one of the power plants supplying power to the Northwest Power Grid. As at 31 December 2006, Shenmu Power operated two 100 MW coal-fired generation units. The gross power generation in 2006 amounted to 1.32 billion kwh and the average utilisation hours amounted to 6,596 hours.

22 **Taishan Power:**
Located in Guangdong province and one of the key power plants supplying power to the Pearl River Delta regions. As at 31 December 2006, Taishan Power operated five 600 MW coal-fired generation units. The gross power generation in 2006 amounted to 15.23 billion kwh and the average utilisation hours amounted to 6,464 hours. Units No.3, 4 and 5 of Taishan Power Phase I passed a 168 hours full-load trial operation and had been put into commercial operation in January, February and October 2006, respectively. To date, construction of the five 600MW of Taishan Power Phase I has been completed with an aggregate installed capacity of 3,000 MW, thus making it the largest coal-fired power plant supplying the Southern Power Grid.

Underpinning our transformation into a world class, large-scale comprehensive energy company, we continued to deliver strong business and financial performance to shareholders and witnessed a significant rise in share price in 2006.

Chen Biting Chairman

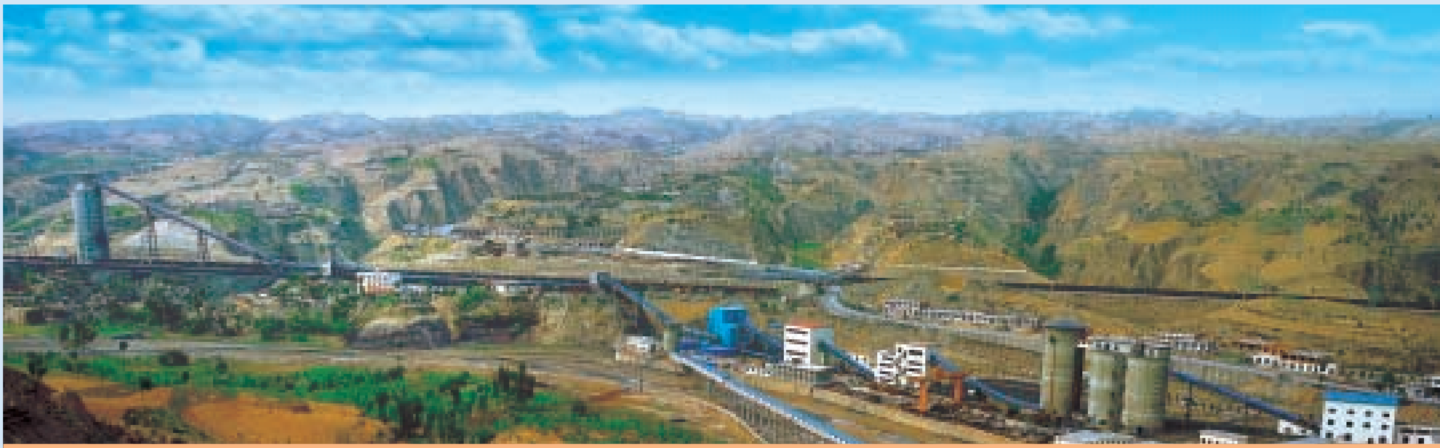
Dear Shareholders,

In 2006, China Shenhua attained outstanding achievements, in line with the expectations of our shareholders. Our business flourished in every aspect and our financial performance has been growing steadily, resulting in robust gains in our share price. We are becoming a world class, large-scale comprehensive energy company. While we are dedicated to the growth of our business operations, we remain committed to ensuring that our operations are safe and environmentally responsible, and contributions to the community. We are mindful of safety of our employees which are of the utmost importance to us. Therefore, we have been taking a vigilant stand on production safety and are constantly improving on working conditions. In 2006, we continued to maintain the best record for production safety in the coal industry in China. In addition, we remained steadfast in our commitment to leading the industry in environmental protection. Finally, we also continued our efforts to relieve poverty, improve education and create a harmonious society.

I am pleased to present on behalf of the Board to the shareholders the annual report for the year 2006 and to report on the results of the Company during the period.

Outstanding Performance

In 2006, China Shenhua continued to maintain its rapid pace of developments in its integrated operations of coal, railway, port and power, and achieved record-breaking and exceptional results. Our market capitalisation rose from US$17.45 billion upon our listing as at 15 June 2005 to US$43.65 billion as at 31 December 2006, representing an increase of 150.1%, which was 79 percentage points higher than the percentage increase of the Hang Seng China Enterprises Index for the same period.



Kangjiatan mine at Shendong Mines

In 2006, the revenues of the Company increased by RMB11,998 million to RMB64,240 million, representing a year-on-year increase of 23.0%; profit from operations increased by RMB3,634 million to RMB27,296 million, representing a year-on-year increase of 15.4%; profit attributable to equity shareholders of the Company increased by RMB1,841 million to RMB17,460 million, representing a year-on-year increase of 11.8%. Earnings per share was RMB0.965, representing a year-on-year increase of RMB0.028, or 3.0%.

In recognition of our shareholders' trust and support, the Board proposes a payment of RMB0.34 per share as the final dividend for 2006.

A World-class Coal Business

In 2006, production and sales of our commercial coal amounted to 136.6 million tonnes and 171.1 million tonnes respectively, representing a year-on-year increase of 12.5% and 18.5% respectively. Our export sales had reached 23.9 million tonnes, representing an increase of 2.6%. We have maintained our continued growth and were ranked the first in China and second in the world among listed energy companies in terms of coal sales. Profit from operations for our coal segment was RMB23,302 million, representing a year-on-year increase of 9.4%. The operating margin of our coal segment was 42.9%.

Our coal operations have been exemplary in China's coal industry in terms of scale, efficiency and safety.

Our coal operations have been exemplary in China's coal industry in terms of scale, efficiency and safety. In 2006, production of commercial coal in Shendong Mines had reached 105.5 million tonnes, and our Bulianta mine became the first underground mine in the world with annual production over 20 million tonnes. The coal production per capita at our Shendong Mines was 28,136 tonnes in 2006. Commercial coal production at Heidaigou mine at the Zhunge'er Mines was 23.5 million tonnes, making it the largest open-cut mine in China. The fatality rate per million tonnes of our raw coal production was 0.027, which was significantly lower than the average level of the fatality rate per million tonnes of raw coal of China (being approximately 2.041).

In June, 2006, when Mr.Wen Jiabao, the Premier of the State Council of the PRC, visited our Shendong Mines. He highly complimented Shendong Mines' mode of production, modernised coal mining equipment, IT-based production management and the professional management team. Shendong Mines has become a leading example in China's coal industry.

In 2006, we acquired the integrated coal and power project of Shaanxi Guohua Jinjie Energy Corporation ("Jinjie Energy") and completed the construction for its first phase, marking the first successful step in our mergers and acquisitions strategy. In addition, we carried out an extensive technological revamp at Wanli Mines, which upgraded the mechanised mining capability of the mines and laid a solid foundation for our future production growth. Moreover, we had continued the construction of Ha'erwusu open-cut mine in Zhunge'er Mines and open-cut mines in Shengli Mines.

As at 31 December 2006, under the JORC Code, our marketable coal reserve was 5.96 billion tonnes and our resources was 14.85 billion tonnes, which forms a very sound basis for our long-term development.

Unique Self-owned Transportation System

Having established our position in the coal industry, we have fully utilised our integrated transportation system of railways and ports and solved the transportation bottle-neck difficulties faced by all coal companies in China, and this has afforded us a unique competitive advantage. By leveraging on our four self-owned dedicated railways, a seaport and three berths, we are able to sell our coal throughout China and to many countries all over the world. Furthermore, we are able to target the markets which are mainly located along the coastal regions of China, thereby enabling us to provide an adequate and steady supply to customers.

In 2006, the transportation volume of Shenshuo-Shuohuang Railway exceeded 100 million tonnes, making it the second principal backbone of coal transportation from the west to the east in China after Daqin Railway. In 2006, the seaborne coal sales at Huanghua Port amounted to 79.2 million tonnes, making it the second largest coal seaport in China after Qinhuangdao port.

Not only have the integrated operations of China Shenhua's coal, railway, port and power brought about fruitful returns for shareholders, they have strengthened our ability to hedge risks.

At the end of 2006, we completed the construction of the dedicated three berths at the Shenhua Tianjin Coal Dock, which is connected via the newly operated Huangwan Railway with our Shenshuo – Shuohuang Railway. In future, we aim to fully utilise this new transportation channel to increase the coal transportation volume of our self-owned transportation system and continue to boost our profitability.

Highly Efficient and Rapidly-developing Power Operations

We have been proactive in developing our clean coal-fired power operations to complement our coal operations. As at 31 December 2006, we controlled and operated 11 coal-fired power plants with a total installed capacity of 11,960 MW, representing a year-on-year increase of 82.3%. These power plants are mainly located at our mines, along our railways and in regions where the economy is developed and the demand for power is strong, such as Beijing-Tianjin-Tanggu Region, Guangdong Province and Zhejiang Province.

In 2006, the total power output dispatch of the company amounted to 51.71 billion kwh, representing a year-on-year increase of 42.2%. We continued to operate at a high level of average utilisation hours in China, reaching 6,302 hours. At the end of 2006, we operated and controlled a total of 26 coal-fired generation units with an average installed capacity of 460 MW per unit, which was among the highest capacity in China's power industry. According to an announcement of the State Electricity Regulatory Commission, the investment price per KW of our generation units amounted to RMB3,282 over the last five years, which is lower than that of major independent power generation companies in

China. In 2006, the profit from operations of our power business amounted to RMB4,286 million, representing a year-on-year increase of 64.8%, and the operating margin was 25.6%. With our excellent operating results, efficient operation and rapid growth, our power operations have become one of the most competitive power operations in China.

Unmatched Competitive Advantage of the Integrated Operations of Coal, Railway, Port and Power

Not only have the integrated operations of China Shenhua's coal, railway, port and power, brought about fruitful returns to shareholders, they have strengthened our ability to hedge risk. In particular, the power operations have provided a stable and sizeable market for our coal operations, thereby facilitating a better understanding of our power customers and enabling us to improve quality of services. At the same time, by using the transportation system comprising of our self-owned railways and ports, our coal operations have been able to provide a stable and reliable supply of fuel for power operations. Moreover, our integrated operators have given us access to more investment opportunities in quality power operations, and has enabled us to benefit from the dual advantages in cost and power tariff.

Outlook

Our development benefits from the prosperity of the economy of China and the Asian Pacific Region. We believe that in the wake of the advancement of China's industrialisation, urbanisation and modernisation, China's demand for energy, in particular for coal and power, will see a continuous rise. As the principal resource of China's energy consumption, we believe coal will continue to be a valued commodity because it is scarce in supply and non-renewable. In the long-term, coal prices may see further rises, and we expect that the power industry, the key consumer of coal, will continue to be an attractive prospect with a significant growth potential.

Looking forward, we aim to establish China Shenhua as one of the leading comprehensive energy companies in the world within the next three to five years, embracing safety, quality and efficiency, technological innovations, resource conservation and harmonious development. We plan to achieve these goals by adopting the following strategies: adhering to our business model of being an integrated energy company, and complementing our organic growth with mergers and acquisitions; fully exploiting the synergies from our railways, ports and power operation in order to enhance our competitive advantages; continuing innovation combined with standardisation of operational process, improving our management and internal operational procedures, improving risk management and enhancing our corporate governance; improving the globalisation of the operations of the Company in terms of resource, market and business.

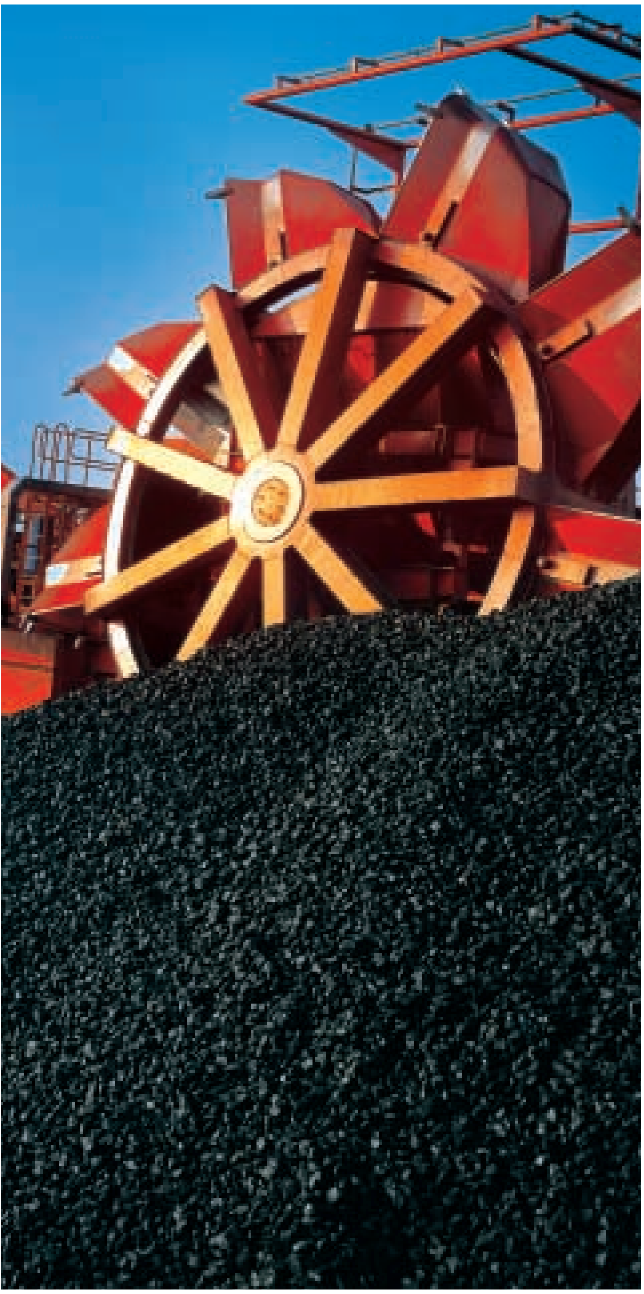
We will encounter both opportunities and challenges in 2007. The Board and myself will continue to strive to promote the smooth and rapid development of China Shenhua, so as to achieve a steady and favourable return for our shareholders!

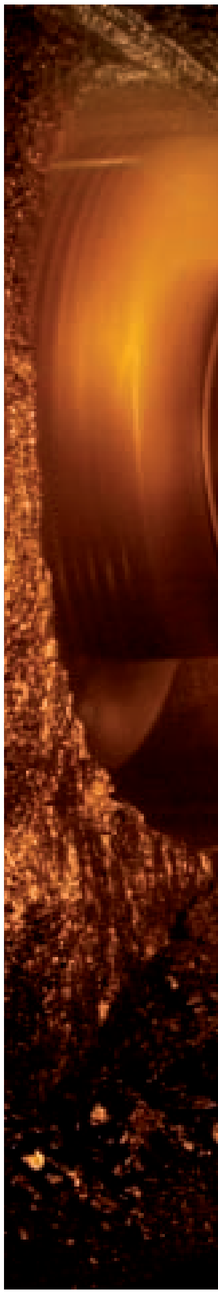
陈必亭

Chen Biting
Chairman

Beijing, China
23 March 2007

Flourishing World Class Coal Operations





The coal business of China Shenhua saw sustained growth in 2006 and was ranked the first in China and second in the world among listed energy companies in terms of coal sales. Bulianta mine at the Shendong Mines produces more than 20 million tonnes a year, making it the largest underground mine in the world in terms of coal production.

Coal Business Development

Better and Faster

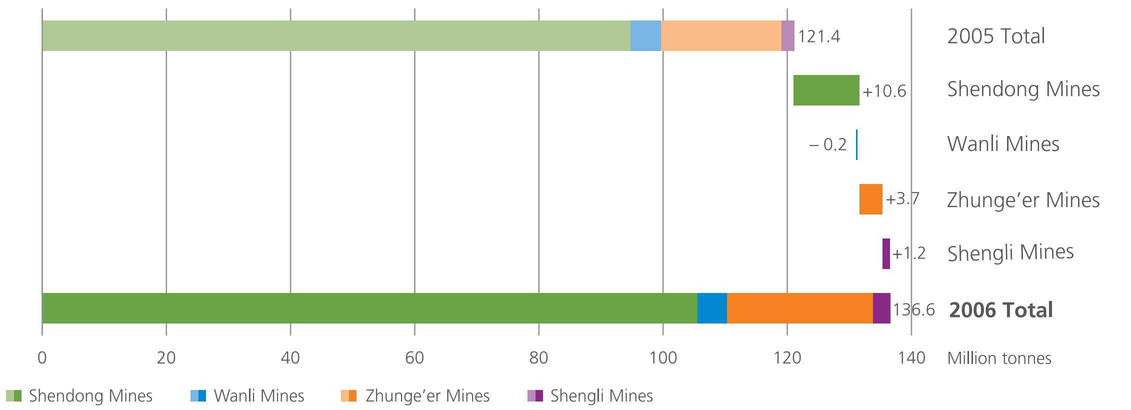
Business Performance

Coal Segment

Commercial coal production

	2004 Million tonnes	2005 Million tonnes	**2006 Million tonnes**	**05-06 Percentage change %**
Shendong Mines	**80.7**	**94.9**	**105.5**	**11.2**
Bulianta	11.1	16.5	**20.0**	21.2
Daliuta-Huojitu	19.9	19.6	**18.1**	(7.7)
Yujialiang	14.1	15.5	**16.1**	3.9
Shangwan	12.5	11.5	**12.1**	5.2
Halagou	2.5	12.3	**12.1**	(1.6)
Kangjiatan	7.3	8.0	**10.3**	28.8
Shigetai	–	0.2	**5.8**	2,800.0
Wulanmulun	3.2	4.4	**4.4**	–
Jinjie Energy	–	–	**0.4**	N/A
Others	10.1	6.9	**6.2**	(10.1)
Wanli Mines	**5.4**	**5.0**	**4.8**	**(4.0)**
Zhunge'er Mines	**14.2**	**19.8**	**23.5**	**18.7**
Heidaigou	14.2	19.8	**23.5**	18.7
Shengli Mines	**1.1**	**1.6**	**2.8**	**75.0**
Total	**101.3**	**121.4**	**136.6**	**12.5**

Analysis of commercial coal production

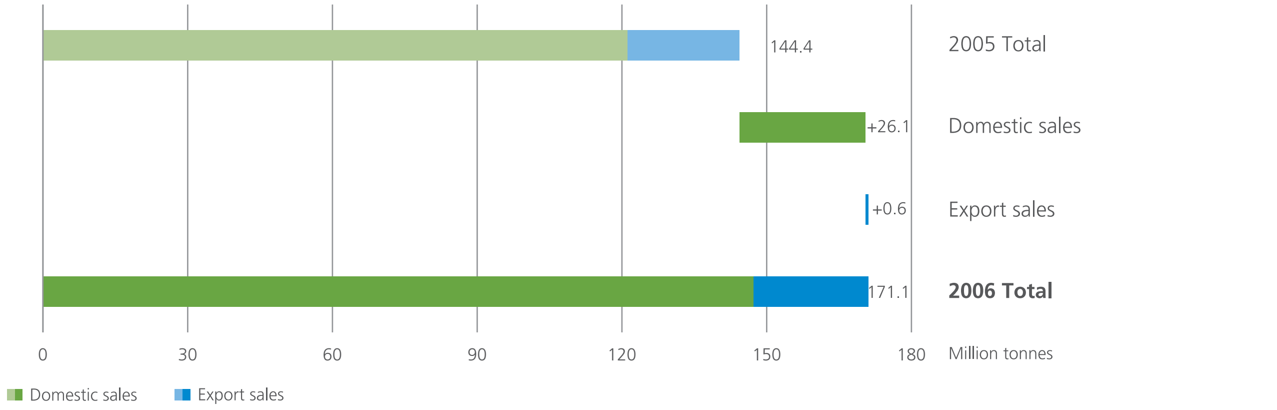


Coal sales

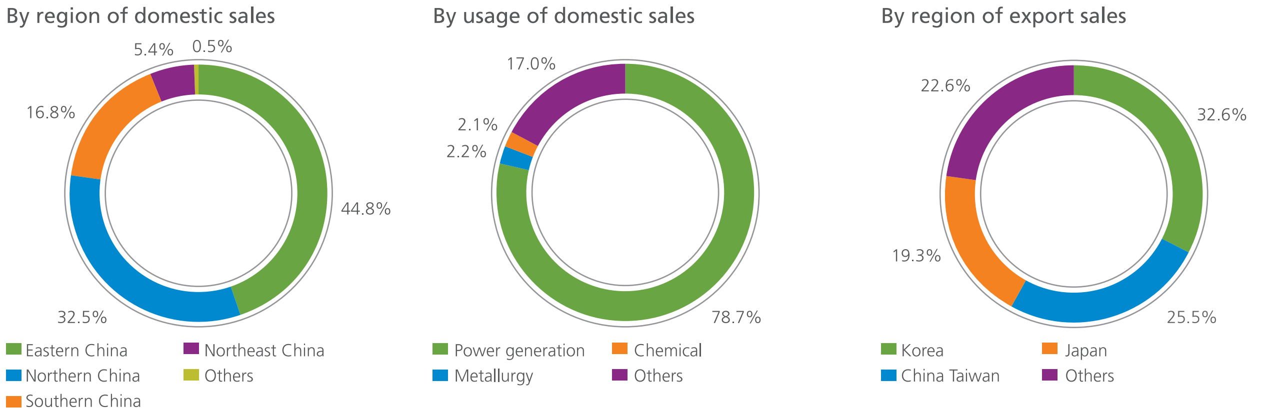
	2004 Million tonnes	2005 Million tonnes	**2006 Million tonnes**	**05-06 Percentage change %**
Domestic sales	**100.3**	**121.1**	**147.2**	**21.6**
By region				
Northern China	44.4	49.1	**47.9**	(2.4)
Eastern China	31.3	57.7	**66.0**	14.4
Southern China	19.1	8.5	**24.8**	191.8
Northeast China	5.2	4.8	**7.9**	64.6
Others	0.4	0.9	**0.6**	(33.3)
By usage				
Power generation	71.4	87.7	**115.9**	32.2
Metallurgy	2.1	2.3	**3.3**	43.5
Chemical	1.2	1.5	**3.1**	106.7
Others	25.6	29.6	**24.9**	(15.9)
Export sales	**26.6**	**23.3**	**23.9**	**2.6**
By region				
Korea	9.4	8.3	**7.8**	(6.0)
China Taiwan	7.5	6.7	**6.1**	(9.0)
Japan	4.8	4.4	**4.6**	4.5
Others	4.9	3.9	**5.4**	38.5
Total	**126.9**	**144.4**	**171.1**	**18.5**

The loading facilities of Huanghua Port

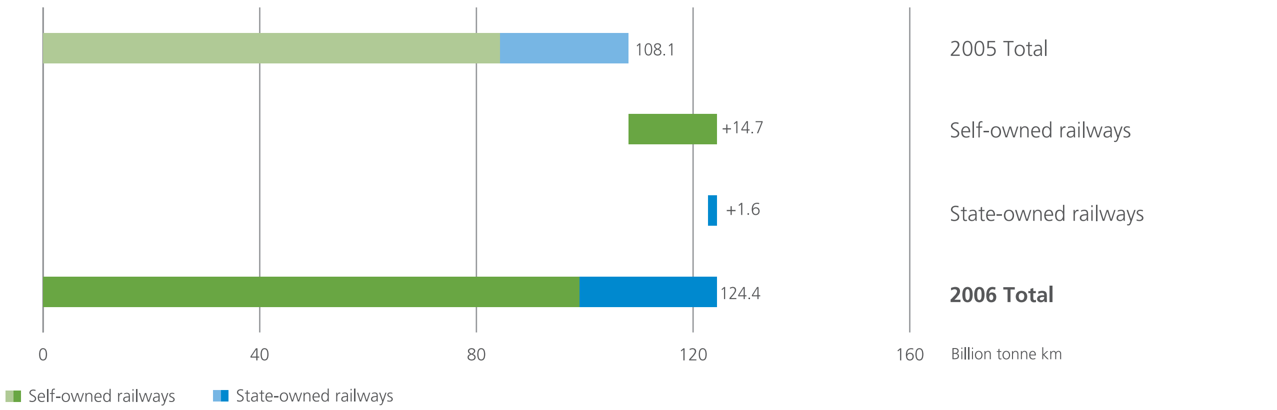
(I) Analysis of coal sales



(II) Analysis of coal sales



Analysis of turnover of coal transportation by railway



(I) Coal transportation

Turnover of coal transportation	2004 Billion tonne km	2005 Billion tonne km	**2006 Billion tonne km**	**05-06 Percentage change %**
Self-owned railways	64.3	84.3	**99.0**	17.4
State-owned railways	24.5	23.8	**25.4**	6.7
Total	**88.8**	**108.1**	**124.4**	**15.1**

(II) Coal transportation

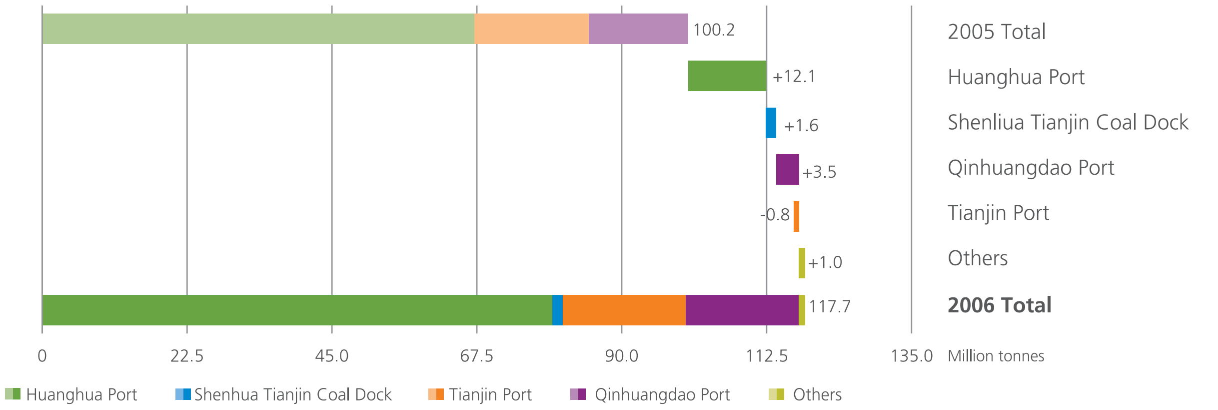
Seaborne coal sales	2004 Million tonnes	2005 Million tonnes	**2006 Million tonnes**	**05-06 Percentage change %**
Self-owned ports	45.4	67.1	**80.8**	20.4
Huanghua Port	45.4	67.1	**79.2**	18.0
Shenhua Tianjin Coal Dock	–	–	**1.6**	N/A
Third-party ports	41.9	33.2	**36.9**	11.1
Qinhuangdao Port	20.2	17.7	**21.2**	19.8
Tianjin Port	21.7	15.5	**14.7**	(5.2)
Others	–	–	**1.0**	N/A
Total	**87.3**	**100.2**	**117.7**	**17.5**

Coal reserves*

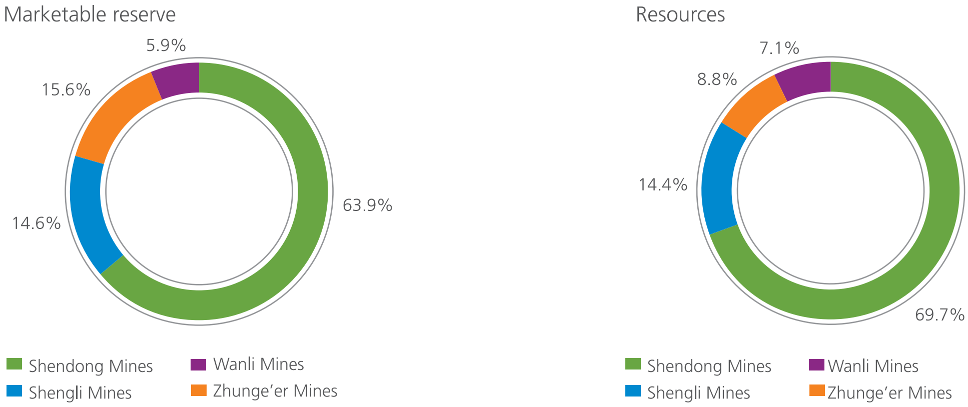
		As at 31 December 2006			
	Method of mining	**Marketable reserve Million tonnes**	**Percentage to total marketable reserve %**	**Resources Million tonnes**	**Percentage to total resources %**
Shendong Mines	Underground	3,804.4	63.9	10,353.9	69.7
Wanli Mines	Underground	353.9	5.9	1,048.6	7.1
Zhunge'er Mines	Open-cut	929.3	15.6	1,315.6	8.8
Shengli Mines	Open-cut	869.3	14.6	2,133.1	14.4
Total		**5,956.9**	**100.0**	**14,851.2**	**100.0**

* Under the Australian Code of Reporting of Mineral Resources and Ore Reserves, effective since December 2004 ("JORC Code")

Analysis of seaborne coal sales



Analysis of coal reserves



Coal production

In 2006, our coal segment achieved outstanding results. Commercial coal production amounted to 136.6 million tonnes, representing a year-on-year increase of 15.2 million tonnes or 12.5%; coal sales amounted to 171.1 million tonnes, representing a year-on-year increase of 26.7 million tonnes or 18.5%. In 2006, our raw coal production of 150 million tonnes accounted for 6.3% of the national raw coal production of 2.38 billion tonnes. Export sales volume, which was 23.9 million tonnes, accounted for 37.8% of the national export sales of 63.3 million tonnes.

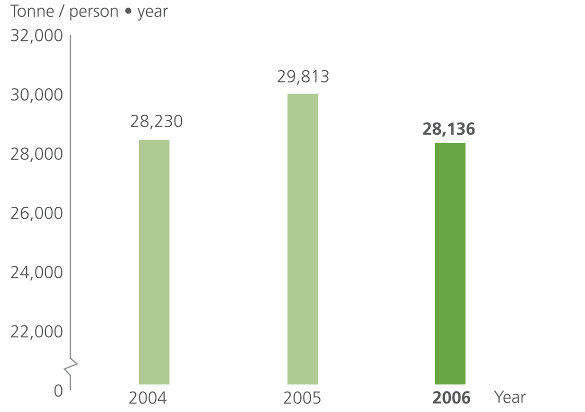
Our Shendong Mines continued to maintain its leading position among underground mines around the world, both in production volume and efficiency of underground workers. In December 2006, Bulianta mine became the first underground mine in the world with annual production volume of 20 million tonnes. Shendong Mines also includes five 10 million-tonne class underground mines: Daliuta, Yujialiang, Halagou, Shangwan and Kanjiatan. In 2006, the commercial coal production of Shendong Mines accounted for 77.2% of the total commercial coal production of the Company. In 2006, the coal production per capita in underground mines of Shendong Mines was 28,136 tonnes.

Extensive technological revamp of the Wanli Mines was carried out with certain mines combined, and mechanised mining improved, thus providing a foundation for expansion of production capacity in the future.

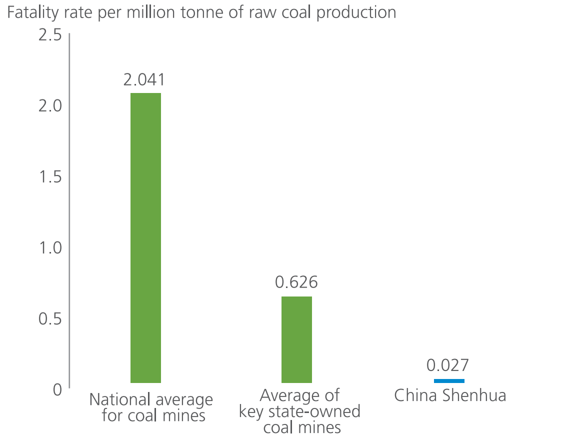
In 2006, production of the Heidaigou mine at Zhunge'er Mines amounted to 23.5 million tonnes, making it the largest open-cut mine in the PRC.

Construction of open-cut mine in Shengli No.1 of Shengli Mines is still underway.

Mining efficiency of underground mines at the Shendong Mines



2006 Production Safety Record



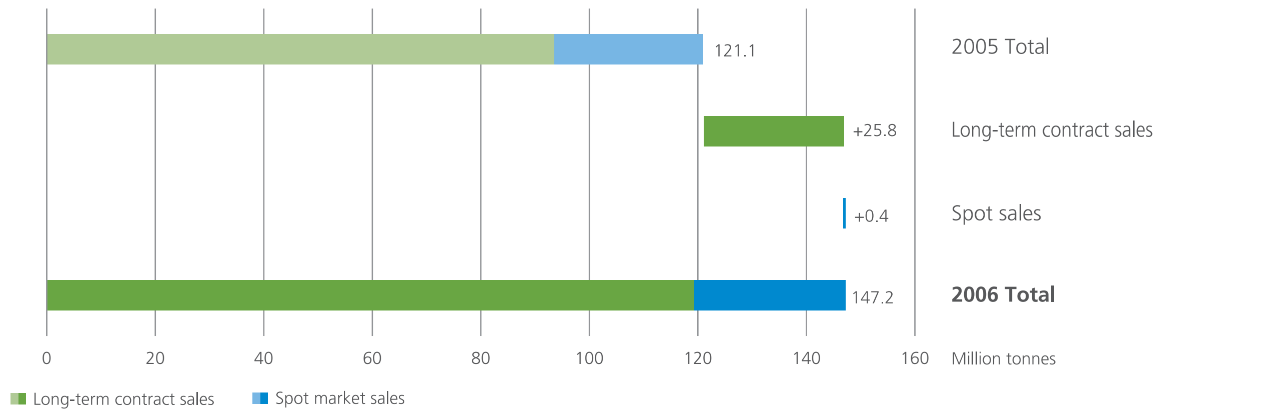
Coal sales

The Company believes that a sound sales and marketing strategy will allow it to establish itself as a market leader, and will also help in maintaining long-term customer relationships. In 2006, we placed great emphasis on relationship with new customers, including providing assistance in coal blending and the design of combustion boilers. We have implemented a VIP customer service providing preferential services in respect of the performance of contracts, quality assurance and customer services. In addition, we set up a Technological Expert Team for Shenhua Coal, which visits our customers regularly and assists them in solving any problems regarding combustion of Shenhua coal. They also make recommendations to customers for coal combustion in a safe and economical manner.

1. Domestic sales

In 2006, we sold 147.2 million tonnes of coal in the domestic market, which accounted for 86.0% of our commercial coal sales. Long term contract sales were 119.3 million tonnes, which accounted for 81.0% of our domestic sales and spot market sales were 27.9 million tonnes, which accounted for 19.0% of our domestic sales.

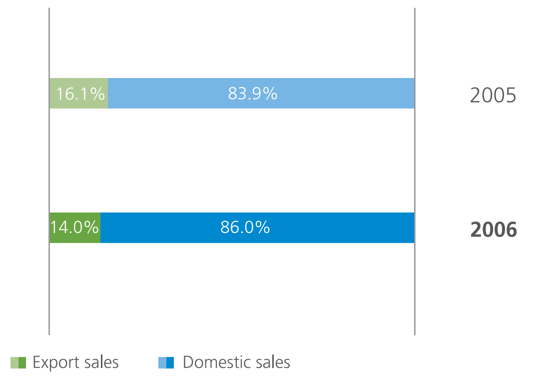
Analysis of domestic sales



Bulianta mine at the Shendong Mines

Coal sales to the five largest external customers amounted to 20.2 million tonnes, accounted for 13.7% of the total domestic sales volume. Sales to the largest external customer amounted to 5.1 million tonnes, accounted for 3.5% of our total domestic sales. The five largest domestic external customers are either power generation companies or fuel companies.

Proportion of domestic sales to total sales



2. Export sales

In 2006, we exported 23.9 million tonnes, which accounted for 14.0% of our commercial coal sales. Approximately 85% of our export sales were long-term contract sales.

Our sales to the five largest export customers amounted to 14.6 million tonnes, which accounted for 61.1% of our total export sales volume. Sales to the largest export customer amounted to 4.7 million tonnes, which accounted for 19.7% of our total export sales. The five largest customers for our export sales are either power generation companies or fuel companies.

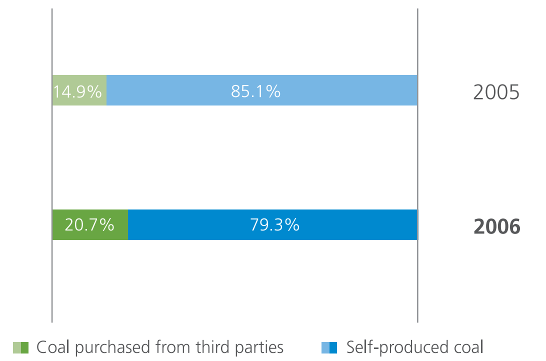
3. Sales to external customers and our power segment

In 2006, by customer type, the majority of our coal was sold to external customers, amounted to 148.7 million tonnes, representing a year-on-year increase of 16.2% and accounted for 86.9% of our total sales volume for the year; sales to our power segment amounted to 22.4 million tonnes, representing a year-on-year increase of 36.6% and accounted for 13.1% of our total sales for the year.

4. Operations of coal purchase from third parties for resales and blending ("Operations of coal purchase from third parties")

In 2006, coal purchased from third parties amounted to 35.4 million tonnes, accounted for 20.7% of our commercial coal sales and an increase of 13.9 million tonnes, or 64.7%, over 2005.

Proportion of self-produced coal to total sales



Coal transportation

In 2006, the total turnover of our coal transportation was 124.4 billion tonne km, representing a year-on-year increase of 16.3 billion tonne km or 15.1%. In 2006, the turnover of coal transportation by our self-owned railways amounted to 99.0 billion tonne km, representing a year-on-year increase of 14.7 billion tonne km or 17.4%. The turnover of coal transportation by self-owned railways accounted for 79.6% of total turnover of coal transportation.

In October 2006, Huangwan Railway and three berths at Shenhua Tianjin Coal Dock were completed and put into operation. The roll-out of these projects has provided new seaborne coal sales channels for us which will contribute to minimising transportation cost and enhancing the profit margin of coal sales.

In 2006, Huanghua Port achieved a seaborne coal sales of 79.2 million tonnes, representing a year-on-year increase of 12.1 million tonnes, or 18.0%, accounted for 46.3% of our commercial coal sales in 2006.

Coal reserves

As at 31 December 2006, under the JORC Code, our marketable coal reserves reached 5.96 billion tonnes. Based on the commercial coal production in 2006, the Company has resources which may be exploited for approximately a further 43 years.

In 2006, the Company sold the Wujiata mine, Huoluowan mine and Dahaize mine at the Shendong Mines to Shendong Tianlong Group Company Limited ("Tianlong Company"), which involved a marketable coal reserve of 168 million tonnes based on the JORC Code. The reasons for the sale are that these mines had minimal resources, relatively short exploitation period remaining and were unsuitable for our comprehensive mechanical long-wall mining technology. In order to optimise deployment of resources, to upgrade mining methods and to meet the State's requirements on resource recovery rate and safety regulations, we decided to dispose of these coal mines in 2006.

Based on a valuation report as at 31 March 2006 issued by an independent third party valuer, the sales of the mining rights for the three mines was valued at RMB262 million in aggregate. We completed the above transactions in September 2006.

Heavy-loaded train running on the Shuohuang Railway

Power Segment

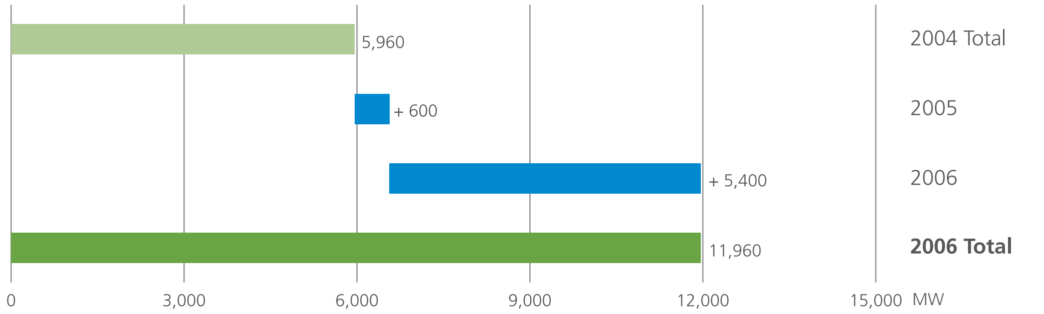
The table below sets forth operational performance for power plants:

Operating power plants	Location	Regional grid	Installed capacity as at 31 December 2006 MW	Gross power generation 100 million kwh	Total power output dispatch 100 million kwh	Average utilisation hours hour	Standard coal consumption rate of power dispatch g/kwh
Huanghua Power	Hebei	North China Power Grid	1,200	19.7	18.5	5,943	332
Panshan Power	Tianjin	North China Power Grid	1,000	58.8	55.1	5,881	331
Sanhe Power	Hebei	North China Power Grid	700	42.1	39.9	6,008	324
Guohua Zhunge'er	Inner Mongolia	North China Power Grid	660	46.3	42.8	7,009	329
Beijing Thermal	Beijing	North China Power Grid	400	23.7	21.0	5,925	271
Zhunge'er Power	Inner Mongolia	North China Power Grid	200	15.6	14.2	7,804	397
Suizhong Power	Liaoning	Northeast Power Grid	1,600	104.7	99.1	6,541	328
Ninghai Power	Zhejiang	East China Power Grid	2,400	68.3	64.0	5,515	329
Jinjie Energy	Shaanxi	Nothwest Power Grid	600	9.1	7.2	5,958	345
Shenmu Power	Shaanxi	Nothwest Power Grid	200	13.2	11.9	6,596	397
Taishan Power	Guangdong	Southern Power Grid	3,000	152.3	143.3	6,464	315
Total/weighted average			11,960	553.6	517.1	6,302	326

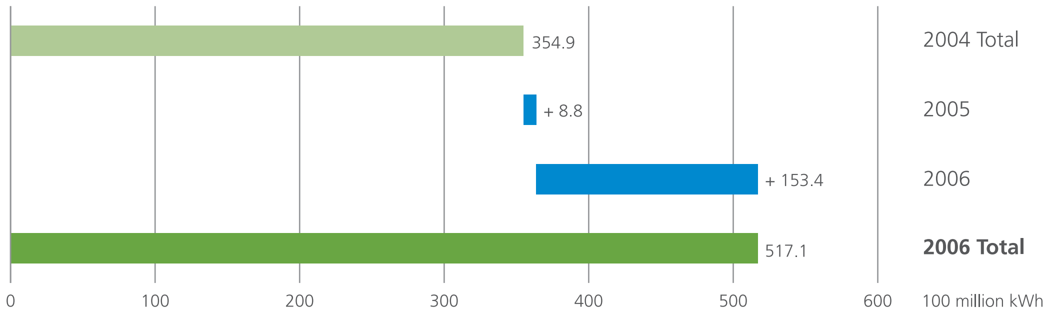
Distribution of installed capacity of China Shenhua

As at 31 December 2006, we controlled and operated 11 coal-fired power plants with total installed capacity and equity installed capacity of 11,960 MW and 6,993 MW, respectively, representing a year-on-year increase of 82.3% and 103.2%. The equity installed capacity accounted for 58.5% of the total installed capacity. In 2006, our gross power generation was 55.36 billion kwh, representing a year-on-year increase of 16.15 billion kwh or 41.2%; total power output dispatch amounted to 51.71 billion kwh, representing a year-on-year increase of 15.34 billion kwh or 42.2%; the average utilisation hours amounted to 6,302 hours, representing a year-on-year decrease of 231 hours, although we still maintained our leading position in the industry in China. In 2006, coal consumption by the Company's power business amounted to 23.2 million tonnes; of which 21.8 million tonnes of Shenhua Coal were consumed, accounting for 94.0% of the total coal consumption. Standard coal consumption rate of power dispatch was 326 g/kwh, the efficiency of coal combustion remain a similar level as to the previous year.

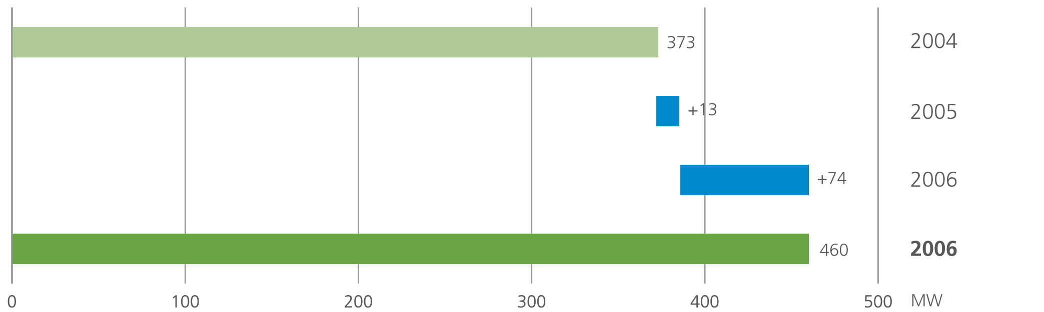
Analysis of total installed capacity



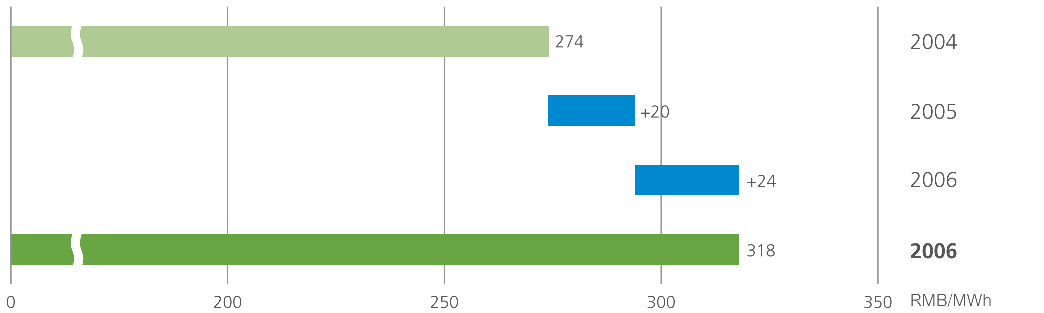
Analysis of total power output dispatch



Analysis of average installed capacity per unit

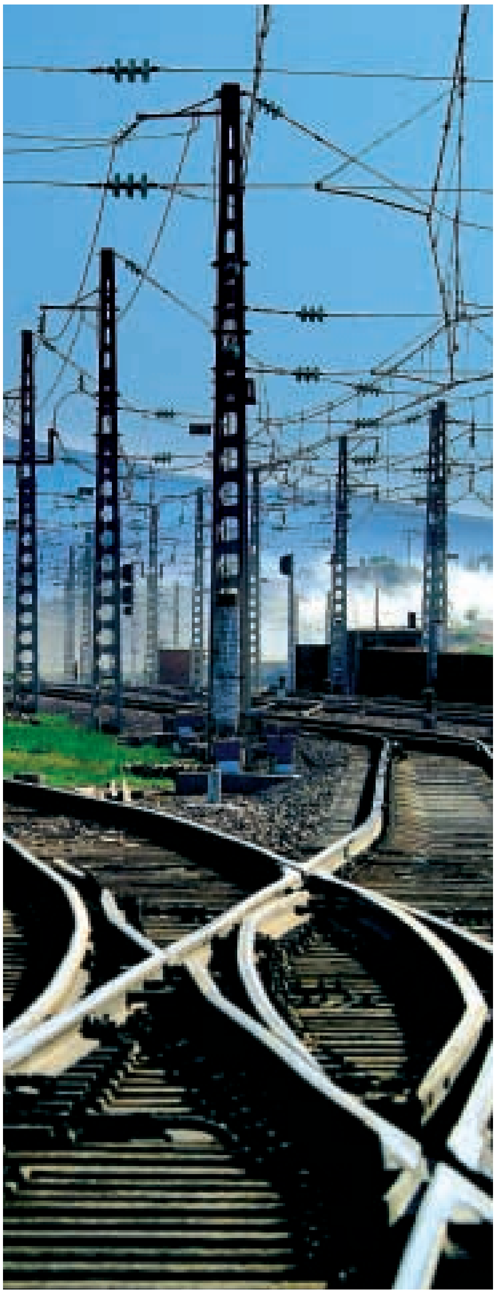


Analysis of average power tariff



The Unique Transport System

comprises of Railways and Ports



Huangwan Railway and Shenhua Tianjin Coal Dock, which commenced operation in 2006, laid a solid foundation to enhance coal transportation volume and market share, hence our profitability.

Management Discussion and Analysis of Financial Condition and Results of Operations[1]

The following discussion and analysis should be read together with the audited financial statements and related notes of the Group set out in this report.

Overview

For the year ended 31 December 2006, the profit before income tax of the Group amounted to RMB25,673 million, representing a year-on-year increase of 16.3%. The profit attributable to equity shareholders of the Company amounted to RMB17,460 million, representing a year-on-year increase of 11.8%. Earnings per share of the Company was RMB0.965.

For the year ended 31 December 2006, the profit from operations in our coal and power segments hit historical highs. Profit from operations in coal segment grew from RMB21,301 million for the year ended 31 December 2005 to RMB23,302 million for the year ended 31 December 2006, representing an increase of 9.4%. During the same period, the profit from operations in power segment increased from RMB2,600 million to RMB4,286 million, representing an increase of 64.8%.

Increase in the profit from operations from the two business segments was attributable to our having successfully captured the opportunities in the coal market, increasing our coal production as well as the sales volume; and in relation to the power segment, we accelerated the construction of new power plants and expanded the installed capacities of existing power plants, increased power output dispatch and improved our management.

Our return on total assets decreased from 11.0% for the year ended 31 December 2005 to 10.7% for the year ended 31 December 2006. The return on net assets decreased from 27.0% for the year ended 31 December 2005 to 26.1% for the year ended 31 December 2006. EBITDA[2] increased from RMB29,500 million for the year ended 31 December 2005 to RMB34,385 million for the year ended 31 December 2006, an increase of 16.6%. As at 31 December 2006, our total debt capitalisation ratio[3] decreased by 1.5 percentage points, from 41.5% as at 31 December 2005 to 40.0% as at 31 December 2006.

Notes:

1. In August 2006, the Company acquired a 70% stake in Jinjie Energy from Shenhua Group Corporation Limited ("Shenhua Group") (the "Acquisition"). As the Company and Jinjie Energy were under common control of Shenhua Group, the Acquisition has been reflected as a combination of entities under common control and accounted for in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities of Jinjie Energy have been accounted for at historical costs and the financial statements of the Company prior to the Acquisition have been restated to include the results of operations of Jinjie Energy on a combined basis. Additionally, analysis on operation of business segments for last year was restated to conform with the current year's presentation. Our financial data for the period prior to the Acquisition is presented based on those restated amounts.

2. EBITDA, a measure used by management to measure our operating performance, is defined as profit for the year plus net financing costs, investment income, income tax, depreciation and amortisation and minority interests. We present our EBITDA here to provide additional information regarding our operating performance and because our management believes EBITDA is useful to investors as it is a measure commonly used by securities analysts, investors and other interested parties in the evaluation of companies in the mining industry on the basis of operating performance. EBITDA is not a recognised term under International Financial Reporting Standards ("IFRS"). You should not consider it an alternative to profit for the year as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of EBITDA may be different from the calculation used by other companies and therefore comparability may be limited. In addition, EBITDA is not intended to be a measure of free cash flow for management's discretionary use, as it does not reflect certain cash requirements such as interest payments, tax payments and debt service requirements.

3. The total debt capitalisation ratio = [long-term interest bearing debt + short-term interest bearing debt (including bills payable)]/total debt + total equity)

A panoramic view of Daliuta mine at the Shendong Mines

The following is a comparison of financial results between the year ended 31 December 2005 and the year ended 31 December 2006:

Consolidated Results of Operations

Revenues

Revenues increased from RMB52,242 million for the year ended 31 December 2005 to RMB64,240 million for the year ended 31 December 2006, an increase of 23.0%. The increase was attributable to an increase in production and coal sales with the prices of certain types of coal rising; new power plants and power generation units had been put into operation which resulted in an increase of power output dispatch; and the policy of linking the coal prices and power tariff, which resulted in an increase in average on-grid tariff. The proportion of coal revenues to total operating revenues decreased from 76.4% for the year ended 31 December 2005 to 71.5% for the year ended 31 December 2006, whereas the proportion of power revenues to total operating revenues increased from 20.8% to 25.9% for the same period.

Cost of revenues

Cost of revenues increased from RMB25,119 million for the year ended 31 December 2005 to RMB32,460 million for the year ended 31 December 2006, an increase of 29.2%.

The main reasons for the increase are as follows:

- Coal purchased from third parties increased significantly from RMB4,339 million for the year ended 31 December 2005 to RMB6,935 million for the year ended 31 December 2006, an increase of 59.8%. The increase was mainly attributable to the increase in the volume of coal purchased from third parties in 2006.
- Materials, fuel and power increased from RMB2,545 million for the year ended 31 December 2005 to RMB3,236 million for the year ended 31 December 2006, an increase of 27.2%. The increase was mainly attributable to the increase in the consumption and prices of spare parts, raw materials and fuel.
- Personnel expenses increased from RMB2,046 million for the year ended 31 December 2005 to RMB2,441 million for the year ended 31 December 2006, an increase of 19.3%. The increase was mainly attributable to the increase in wages as a result of improved operational results and the increase in the number of employees due to the operation of new power plants and coal mines.

- Depreciation and amortisation increased from RMB5,182 million for the year ended 31 December 2005 to RMB6,346 million for the year ended 31 December 2006, representing an increase of 22.5%. The increase was mainly attributable to development of our businesses and the increase in fixed assets in power plants, coal mines, ports and railways.
- Repairs and maintenance increased from RMB2,660 million for the year ended 31 December 2005 to RMB3,142 million for the year ended 31 December 2006, an increase of 18.1%. The increase was mainly attributable to the increase in the equipment maintenance expenses for Shendong Mines, the costs for replacing the rails of railway and the repair expenses of equipment in power plants.
- Transportation charges increased from RMB5,152 million for the year ended 31 December 2005 to RMB6,246 million for the year ended 31 December 2006, representing an increase of 21.2%. The increase was mainly attributable to the increase in the sales volume of coal, which led to the increase in the transportation volume by state-owned railways and thus resulted in the rise in port handling fees and sea freight charges.
- Other expenses increased from RMB3,195 million for the year ended 31 December 2005 to RMB4,114 million for the year ended 31 December 2006, an increase of 28.8%. The increase was mainly attributable to the increase in coal selection and minery fees, coal extraction service costs, sales taxes and surcharges resulting from the increase in the commercial coal sales, and increase in environmental protection costs and resources compensation fee.

Selling, general and administrative expenses

Selling, general and administrative expenses increased from RMB3,311 million for the year ended 31 December 2005 to RMB4,166 million for the year ended 31 December 2006, an increase of 25.8%. The increase was mainly attributable to the new power plants put into operation and the increase in related amortisation of pre-operating expenses and the increase in staff insurance and welfare expenses and taxes.

Profit from operations

Profit from operations increased from RMB23,662 million for the year ended 31 December 2005 to RMB27,296 million for the year ended 31 December 2006, an increase of 15.4%.

Net financing costs

Net financing costs increased from RMB2,060 million for the year ended 31 December 2005 to RMB2,100 million for the year ended 31 December 2006, an increase of 1.9%. Finance income and finance expenses decreased by 42.6% and 11.4%, respectively.

Income tax

Income tax increased from RMB4,080 million for the year ended 31 December 2005 to RMB5,388 million for the year ended 31 December 2006, an increase of 32.1%. Effective tax rate increased from 18.5% for the year ended 31 December 2005 to 21.0% for the year ended 31 December 2006, an increase of 2.5 percentage points. The increase was mainly attributable to the increase in the proportion of taxable profits taxed at the tax rate of 33% and expiry of some preferential tax policies.

Profit attributable to equity shareholders of the Company

Profit attributable to equity shareholders of the Company increased from RMB15,619 million for the year ended 31 December 2005 to RMB17,460 milllion for the year ended 31 December 2006, an increase of 11.8%.

Operating Results by Segment

The Group conducts production, sales and transportation of coal as well as power generation and related activities through two main business segments: coal segment and power segment.

	Coal		Power		Corporate and others		Eliminations		Total	
	2006 RMB million	2005 RMB million	**2006 RMB million**	2005 RMB million	**2006 RMB million**	2005 RMB million	**2006 RMB million**	2005 RMB million	**2006 RMB million**	2005 RMB million
Revenues										
External sales	**47,604**	41,344	**16,636**	10,898	**–**	–	**–**	–	**64,240**	52,242
Inter-segment sales	**6,744**	4,156	**83**	53	**–**	–	**(6,827)**	(4,209)	**–**	–
Total operating revenues	**54,348**	45,500	**16,719**	10,951	**–**	–	**(6,827)**	(4,209)	**64,240**	52,242
Cost of revenues										
Cost of coal purchased from third parties	**(6,777)**	(4,209)	**(158)**	(130)	**–**	–	**–**	–	**(6,935)**	(4,339)
Cost of coal production	**(8,964)**	(7,042)	**–**	–	**–**	–	**2,009**	1,190	**(6,955)**	(5,852)
Costs of coal transportation	**(11,306)**	(9,673)	**–**	–	**–**	–	**1,423**	804	**(9,883)**	(8,869)
Power cost	**–**	–	**(10,905)**	(7,387)	**–**	–	**3,372**	2,195	**(7,533)**	(5,192)
Others	**(1,144)**	(853)	**(10)**	(14)	**–**	–	**–**	–	**(1,154)**	(867)
Total cost of revenues	**(28,191)**	(21,777)	**(11,073)**	(7,531)	**–**	–	**6,804**	4,189	**(32,460)**	(25,119)
Selling, general and administrative expenses	**(2,611)**	(2,215)	**(1,336)**	(877)	**(219)**	(219)	**–**	–	**(4,166)**	(3,311)
Other operating (expenses)/ income, net	**(244)**	(207)	**(24)**	57	**(50)**	–	**–**	–	**(318)**	(150)
Profit/(loss) from operations	**23,302**	**21,301**	**4,286**	**2,600**	**(269)**	**(219)**	**(23)**	**(20)**	**27,296**	**23,662**
Operating margins (%)	**42.9**	46.8	**25.6**	23.7					**42.5**	45.3

Coal Segment

In 2006, our coal segment enhanced its production efficiency by implementing technological revamps to existing mines and constructing new mines to increase coal production. The coal segment transports and sells coal to customers, mainly by employing the Group's self-owned railways and ports.

Overall analysis

(1) Revenues

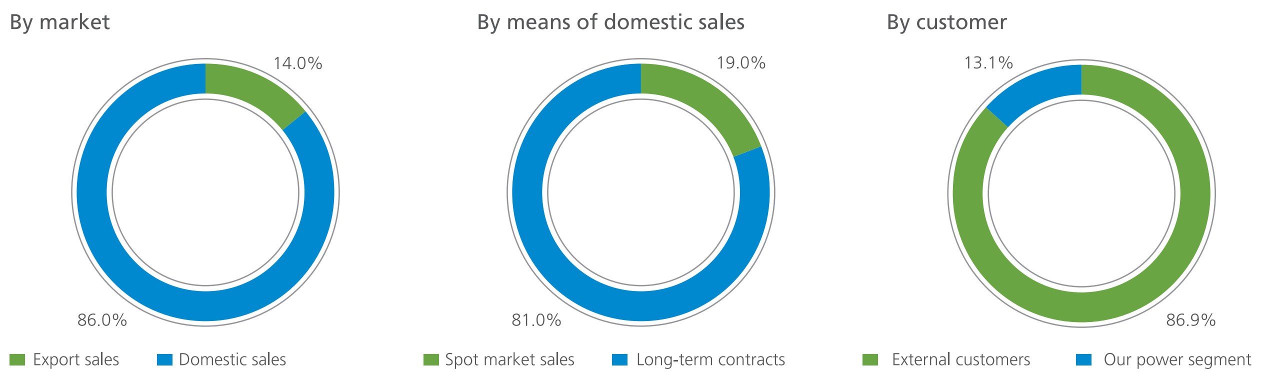
Revenues of the coal segment increased from RMB45,500 million for the year ended 31 December 2005 to RMB54,348 million for the year ended 31 December 2006, representing an increase of 19.4%. The increase was mainly attributable to the sales volume increasing from 144.4 million tonnes in 2005 to 171.1 million tonnes in 2006, an increase of 18.5%. The weighted average sales price of coal increased from RMB305.4/tonne in 2005 to RMB308.1/tonne in 2006, an increase of 0.9%.

The sales volume and price of our coal by market for the year ended 31 December 2005 compared with that for the year ended 31 December 2006 were as follows:

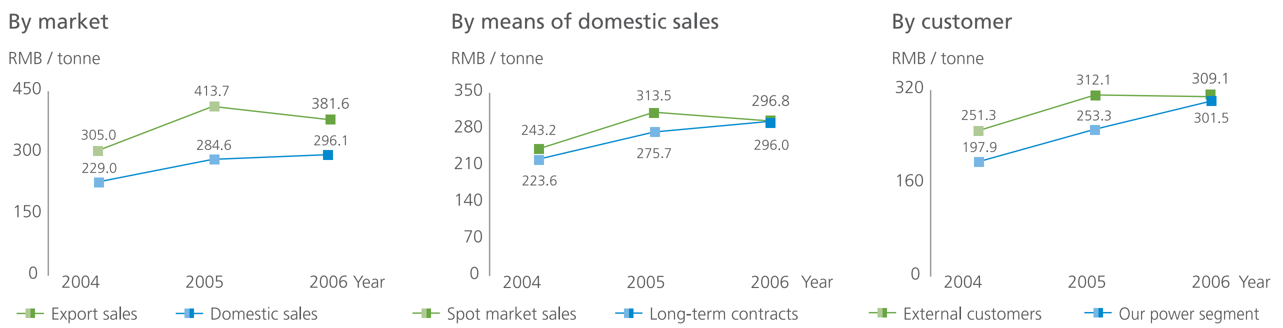
Coal sales (by market)

	2006		2005	
	Sales volume Million tonnes	**Sales price RMB/tonne**	Sales volume Million tonnes	Sales price RMB/tonne
Total domestic sales volume/ weighted average price	**147.2**	**296.1**	121.1	284.6
Long-term contract sales volume/ weighted average price	**119.3**	**296.0**	93.5	275.7
Mine mouth	**2.0**	**131.9**	2.1	132.0
Direct arrival (along rail lines)	**36.9**	**220.4**	32.4	208.0
Seaborne (FOB)	**80.4**	**334.8**	59.0	318.1
Spot market sales volume/ weighted average price	**27.9**	**296.8**	27.5	313.5
Mine month	**5.5**	**110.0**	3.8	93.4
Direct arrival (along rail lines)	**9.0**	**285.7**	5.8	298.2
Seaborne (FOB)	**13.4**	**380.8**	17.9	367.3
Export sales volume/price	**23.9**	**381.6**	23.3	413.7
Total sales volume/ weighted average price	**171.1**	**308.1**	144.4	305.4

Analysis of commercial coal sales



Analysis of sales price of commercial coal sales



Sales of the coal segment were mainly targeted at the domestic market. Revenues from domestic sales increased from RMB34,446 million for the year ended 31 December 2005 to RMB43,575 million for the year ended 31 December 2006, an increase of 26.5%. The increase was mainly attributable to the increase in coal prices as well as the sales volume. Our domestic sales increased from 121.1 million tonnes for the year ended 31 December 2005 to 147.2 million tonnes for the year ended 31 December 2006, an increase of 21.6%. During the same period, the proportion of domestic sales volume to the total sales volume increased from 83.9% to 86.0%. The weighted average price for domestic sales increased from RMB284.6/ tonne to RMB296.1/tonne, an increase of 4.0%.

Domestic sales of the coal segment mainly comprised sales pursuant to long-term contracts. The revenues from domestic sales pursuant to long-term contracts increased from RMB25,790 million for the year ended 31 December 2005 to RMB35,304 million for the year ended 31 December 2006, an increase of 36.9%. The increase was mainly attributable to the increase in sales volume and the rise in coal prices. The sales volume of our coal pursuant to long-term contracts increased from 93.5 million tonnes for the year ended 31 December 2005 to 119.3 million tonnes for the year ended 31 December 2006, an increase of 27.6%. During the same period, the proportion of domestic sales volume pursuant to long-term contracts to the domestic sales increased from 77.2% to 81.0%. The weighted average price for domestic sales pursuant to long-term contracts increased from RMB275.7/tonne to RMB296.0/tonne, an increase of 7.4%. Increases in the domestic sales and prices were attributable to the prosperous domestic coal market, which also enhanced sales and marketing efficiency as well as our profitability.

Domestic seaborne coal sales included sales pursuant to long-term contracts and spot sales. Revenues from our domestic seaborne coal sales increased from RMB25,353 million for the year ended 31 December 2005 to RMB32,019 million for the year ended 31 December 2006, an increase of 26.3%. Domestic seaborne coal sales increased from 76.9 million tonnes for the year ended 31 December 2005 to 93.8 million tonnes for the year ended 31 December 2006, an increase of 22.0%. During the same period, the proportion of domestic seaborne coal sales to the total domestic sales increased from 63.5% to 63.7%. The price for domestic seaborne coal sales increased from RMB329.6/tonne to RMB341.4/tonne, an increase of 3.6%.

Export sales of the coal segment decreased from RMB9,636 million for the year ended 31 December 2005 to RMB9,117 million for the year ended 31 December 2006, a decrease of 5.4%. Our export sales increased from 23.3 million tonnes for the year ended 31 December 2005 to 23.9 million tonnes for the year ended 31 December 2006, an increase of 2.6%. During the same period, the proportion of export sales volumes to the total sales volume decreased from 16.1% to 14.0%. The price for export sales decreased from RMB413.7/tonne to RMB381.6/tonne, a decrease of 7.8%.

The decrease was mainly attributable to:

(a) the decrease in coal prices in the international coal market, resulting in a decrease in the prices under long-term export sales contracts with certain major customers compared to that of 2005;

(b) Renminbi appreciation in 2006, resulting in the decrease in weighted average exchange rate between US Dollars and Renminbi on export sales from 8.1589 for the year ended 31 December 2005 to 7.9741 for the year ended 31 December 2006. The Renminbi appreciated by 2.3%, resulting in the decrease in export sales prices translated into Renminbi;

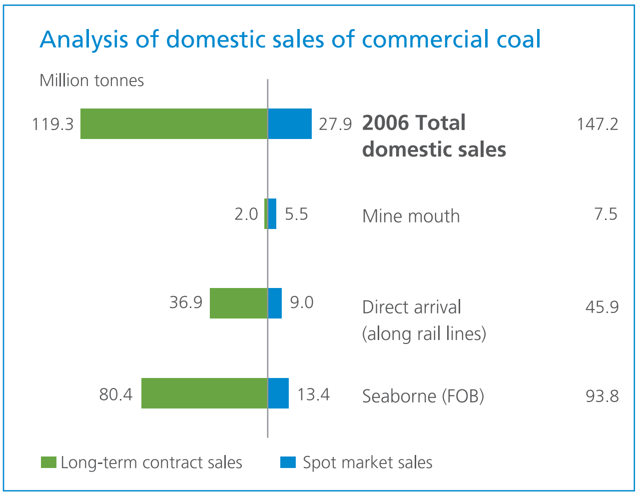
(c) reduction in the export tax rebate from 13% to 8% on 1 May 2005, while the rate of 13% tax rebate prevailed from January to April in 2005, resulted in a decrease in the export sales contract price for 2006 as compared with 2005.

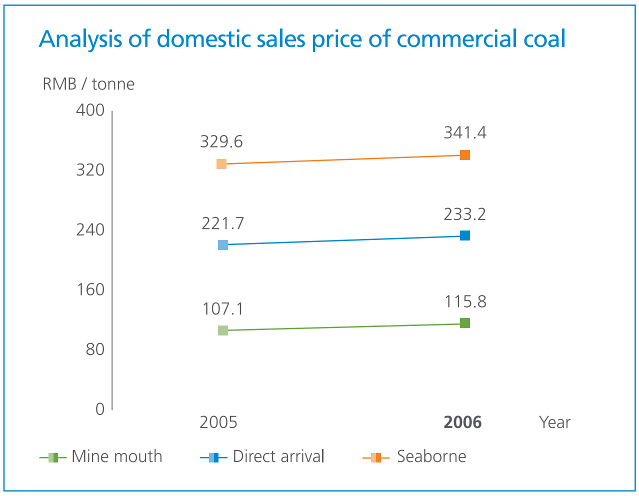
Sales in coal segment are mainly made to the external customers, and they are mainly power generation companies and fuel companies. Revenue from sales to external customers increased from RMB39,926 million for the year ended 31 December 2005 to RMB45,948 million for the year ended 31 December 2006, an increase of 15.1%. The increase was mainly attributable to the increase in sales volume and the sales price to domestic external customers. Our sales to external customers increased from 128.0 million tonnes for the year ended 31 December 2005 to 148.7 million tonnes for the year ended 31 December 2006, an increase of 16.2%. During the same period, the proportion of sales volume to external customers to total sales volume decreased from 88.6% to 86.9%. The price of sales to external customers decreased from RMB312.1/tonne to RMB309.1/tonne, a decrease of 1.0%. The decrease was mainly attributable to the decrease in export sales price.

Our coal sales volume and price by customer for the year ended 31 December 2005 compared with those for the year ended 31 December 2006 were as follows:

Coal sales (by customer)

	2006			2005		
	Sales volume Million tonnes	**Percentage to sales volume %**	**Sales price RMB/tonne**	Sales volume Million tonnes	Percentage to sales volume %	Sales price RMB/tonne
Sales to external customers	**148.7**	**86.9**	**309.1**	128.0	88.6	312.1
Domestic sales to external customers	**124.8**	**72.9**	**295.2**	104.7	72.5	289.5
Export sales	**23.9**	**14.0**	**381.6**	23.3	16.1	413.7
Domestic sales to our power segment	**22.4**	**13.1**	**301.5**	16.4	11.4	253.3
Total coal sales/ weighted average price	**171.1**	**100.0**	**308.1**	144.4	100.0	305.4





Sales of coal by coal segment to our power segment is part of our unique integrated model of operation. Revenues from sales to our power segment increased from RMB4,156 million for the year ended 31 December 2005 to RMB6,744 million for the year ended 31 December 2006, an increase of 62.3%. The increase was mainly attributable to the increase in coal demand with the increase in power generation of our power plants. Sales to our power segment increased from 16.4 million tonnes for the year ended 31 December 2005 to 22.4 million tonnes for the year ended 31 December 2006, an increase of 36.6%. During the same period, the proportion of the sales volume to our power segment to the total sales volume increased from 11.4% to 13.1%. The price of sales to our power segment increased from RMB253.3/tonne to RMB301.5/tonne, an increase of 19.0%. The increase in price was mainly attributable to the change in sales structure of our power generation business in 2006 and the rise in proportion of seaborne coal sales which has a higher price compared with mine mouth and direct arrival sales.

(2) Cost of revenues

Cost of revenues of our coal segment increased from RMB21,777 million for the year ended 31 December 2005 to RMB28,191 million for the year ended 31 December 2006, an increase of 29.5%. The increase was mainly attributable to the increase in the volume of coal purchased from third parties, raw materials and fuel cost for coal production and production volume of commercial coal, as well as transportation volume of coal.

(3) Selling, general and administrative expenses

Selling, general and administrative expenses of our coal segment increased from RMB2,215 million for the year ended 31 December 2005 to RMB2,611 million for the year ended 31 December 2006, an increase of 17.9%. The increase was mainly attributable to the increase in personnel expenses as a result of the improved operational results, and increase in sales taxes and surcharges.

(4) Profit from operations

Profit from operations of our coal segment increased from RMB21,301 million for the year ended 31 December 2005 to RMB23,302 million for the year ended 31 December 2006, an increase of 9.4%. During the same period, the operating margin of coal segment decreased from 46.8% to 42.9%.

Analysis of self-produced coal operations

(1) Revenues from self-produced coal operations

For the year ended 31 December 2006, the revenues from self-produced coal operations in our coal segment amounted to RMB41,138 million.

(2) Cost of revenues of self-produced coal operations

The cost of revenues and unit cost in respect of self-produced coal operations for 2006 compared with those of 2005 were as follows:

Analysis of cost of self-produced coal

	2006		2005	
	Cost RMB million	**Unit cost RMB/tonne**	Cost RMB million	Unit cost RMB/tonne
Cost of coal production	**8,964**	**66.1**	7,042	57.3
Cost of coal transportation	**8,924**	**65.8**	9,138	74.4
Total/average	**17,888**	**131.9**	16,180	131.7

The cost of coal production for our self-produced coal operations increased from RMB7,042 million for the year ended 31 December 2005 to RMB8,964 million for the year ended 31 December 2006, an increase of 27.3%. The sales volume of self-produced coal increased from 122.9 million tonnes in 2005 to 135.7 million tonnes in 2006, an increase of 10.4%. The difference in the sales volume of self-produced coal and the production volume of commercial coal arose from changes in inventory.

The cost of coal production of the self-produced coal operations by cost item of the Group for the year ended 31 December 2006 compared with that of 2005 were as follows:

Cost of coal production of self-produced coal operations

	2006		2005	
	Cost RMB million	**Unit cost RMB/tonne**	Cost RMB million	Unit cost RMB/tonne
Cash cost	**6,784**	**50.0**	5,178	42.1
Materials, fuel and power	**1,597**	**11.8**	1,442	11.7
Personnel expenses	**968**	**7.1**	723	5.9
Repairs and maintenance	**1,418**	**10.5**	1,021	8.3
Others	**2,801**	**20.6**	1,992	16.2
Depreciation and amortisation	**2,180**	**16.1**	1,864	15.2
Total	**8,964**	**66.1**	7,042	57.3

The unit cost of coal production of self-produced coal operations increased from RMB 57.3/tonne for the year ended 31 December 2005 to RMB 66.1/tonne for the year ended 31 December 2006, an increase of 15.4%. The increase was mainly attributable to the rise in repairs and maintenance resulting from the increase in mining equipment and the equipment age, the rise in personnel expenses resulted from the improved operational results as well as the rise in other costs such as coal selection and minery fees, sales taxes and surcharges and environmental protection costs.

The cost of coal transportation of the self-produced coal operations by cost item for the year ended 31 December 2006 were as follows:

Cost of coal transportatin of self-produced coal operations

	2006	
	Cost RMB million	**Unit cost RMB/tonne**
Cash cost	**7,590**	**56.0**
Materials, fuel and power	**1,020**	**7.5**
Personnel expenses	**576**	**4.3**
Repairs and maintenance	**833**	**6.1**
Third party transportation cost	**5,028**	**37.1**
Others	**133**	**1.0**
Depreciation and amortisation	**1,334**	**9.8**
Total	**8,924**	**65.8**

(3) Profit from operations in respect of self-produced coal

Profit from operations in respect of self-produced coal of our coal segment for the year ended 31 December 2006 amounted to RMB 20,622 million.

In 2006, the operating margin of self-produced coal operations was as follows:

Analysis of operating margin

	2006 Sales volume Million tonnes	Percentage to the coal sales volume %	Operating margin %
Self-produced coal operations	**135.7**	**79.3**	**50.1**

Analysis of operations of coal purchase from third parties

(1) Revenues from the operations of coal purchase from third parties

The coal purchased from third parties by the Group was partly re-sold through our transportation system, which increased revenues and profit, and partly blended with the self-produced coal in order to meet the quality requirements from customers. For the year ended 31 December 2006, the revenues from the operations of coal purchase from third parties amounted to RMB 11,554 million.

(2) Cost of revenues of the operations of coal purchase from third parties

The cost and unit cost in respect of the operations of coal purchase from third parties were as follows:

Operations of coal purchase from third parties for the year ended 31 December 2006

	2006 Cost RMB million	Unit cost RMB/tonne
Purchase cost	**6,777**	**191.4**
Transportation cost	**2,382**	**67.3**
Total/average	**9,159**	**258.7**

The purchase cost in respect of the operations of coal purchase from third parties was RMB6,777 million for the year ended 31 December 2006. The volume of coal purchased from third parties was 35.4 million tonnes for the year ended 31 December 2006, an increase of 64.7%. The unit purchase cost for coal purchased from third parties amounted to RMB191.4/tonne for the year ended 31 December 2006.

The transportation cost in respect of the operations of coal purchase from third parties amounted to RMB2,382 million for the year ended 31 December 2006. The unit transportation cost for coal purchased from third parties amounted to RMB 67.3/tonne for the year ended 31 December 2006.

(3) Profit from operations in respect of the operations of coal purchase from third parties

Profit from operations in respect of the operations of coal purchase from third parties amounted to RMB2,288 million for the ended 31 December 2006. The proportion of profit from operations in respect of the operations of coal purchase from third parties accounted for 9.8% of the profit from operations in the coal segment. Our operations of coal purchase from third parties assists us in increasing our revenues and profit, better utilising our transportation system and increasing our transportation and sales volume of coal, thereby enabling us to increase our coal market share.

For the year ended 31 December 2006, the operating margin in respect of the operations of coal purchase from third parties was as follows:

Analysis of operating margin

	Sales volume Million tonnes	2006 Percentage to the coal sales volume %	Operating margin %
Operations of coal purchase from third parties	**35.4**	**20.7**	**19.8**

Power Segment

In 2006, the Group's power segment developed rapidly. New power generation units commenced operation and the installed capacity increased by 5,400 MW. For the year ended 31 December 2006, the Group controlled and operated 11 coal-fired power plants with total installed capacity of 11,960 MW. In 2006, there was a significant increase in profitability of the power segment which became a key part of the Group's integrated operations.

(1) Revenues

Revenues of the power segment increased from RMB10,951 million for the year ended 31 December 2005 to RMB16,719 million for the year ended 31 December 2006, an increase of 52.7%. The increase was mainly attributable to the increase in the power output dispatch from 36.37 billion kwh in 2005 to 51.71 billion kwh in 2006, an increase of 42.2%; and the increase in weighted average power tariff from RMB294/MWh in 2005 to RMB318/MWh in 2006, an increase of 8.2%, as a result of the national policy linking the coal price and power tariff in 2005 and 2006.

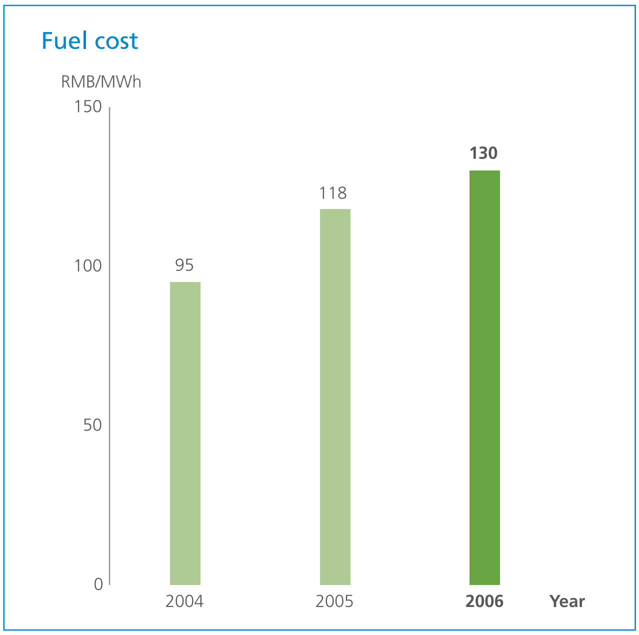
The power tariffs of our power segment for the year ended 31 December 2005 to those for the year ended 31 December 2006 were as follows:

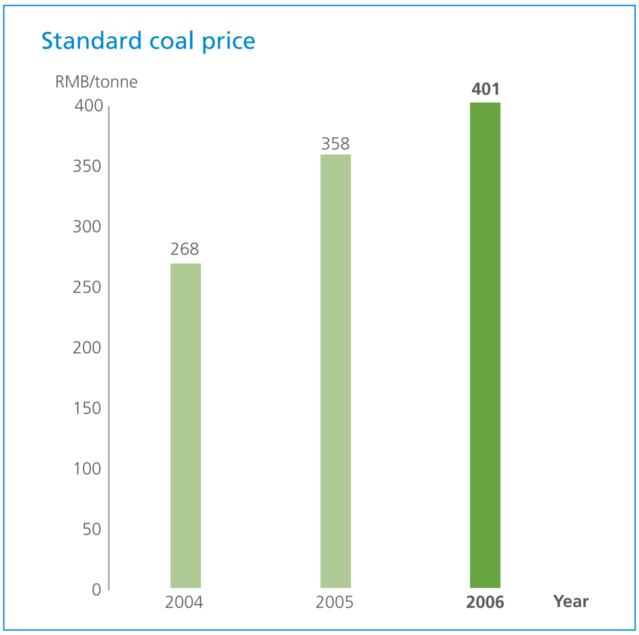
Operating power plants	Regional grid	2006 Power tariff RMB/MWh	2005 Power tariff RMB/MWh
Huanghua Power	North China Power Grid	**299**	–
Panshan Power	North China Power Grid	**337**	325
Sanhe Power	North China Power Grid	**307**	297
Guohua Zhunge'er	North China Power Grid	**205**	202
Beijing Thermal	North China Power Grid	**377**	357
Zhunge' er Power	North China Power Grid	**170**	170
Suizhong Power	Northeast Power Grid	**297**	273
Ninghai Power	East China Power Grid	**347**	309
Jinjie Energy	Northwest Power Grid	**211**	–
Shenmu Power	Northwest Power Grid	**244**	223
Taishan Power	Southern Power Grid	**371**	359
Weighted average		**318**	294

(2) Cost of revenues

Cost of revenues in the power segment mainly included fuel cost, personnel expenses, repairs and maintenance, depreciation and amortisation. The cost of revenues in our power segment increased from RMB7,531 million for the year ended 31 December 2005 to RMB11,073 million for the year ended 31 December 2006, representing an increase of 47.0%. The increase was mainly attributable to the increase of fuel consumption and the rise in fuel prices; and increases in labour expenses with the increase in the number of employees employed by power plants newly put in operation and the adjustment of wages of employees of our existing power plants with the improvement in our operating results.

		2006		2005	
Operating power plants	**Regional grid**	**Fuel cost RMB/MWh**	**Standard coal price RMB/tonne**	Fuel cost RMB/MWh	Standard coal price RMB/tonne
Huanghua Power	North China Power Grid	**124**	**370**	–	–
Panshan Power	North China Power Grid	**122**	**369**	117	354
Sanhe Power	North China Power Grid	**119**	**367**	112	345
Guohua Zhunge'er	North China Power Grid	**69**	**214**	62	193
Beijing Thermal	North China Power Grid	**95**	**354**	99	317
Zhunge'er Power	North China Power Grid	**85**	**213**	58	128
Suizhong Power	Northeast Power Grid	**141**	**430**	135	406
Ninghai Power	East China Power Grid	**164**	**499**	134	447
Jinjie Energy	Northwest Power Grid	**82**	**238**	–	–
Shenmu Power	Northwest Power Grid	**58**	**147**	64	161
Taishan Power	Southern Power Grid	**157**	**493**	145	454
Weighted average		**130**	**401**	118	358





(3) Selling, general and administrative expenses

Selling, general and administrative expenses of the Group's power segment increased from RMB877 million for the year ended 31 December 2005 to RMB1,336 million for the year ended 31 December 2006, an increase of 52.3%. The increase was mainly attributable to the increase in the amortisation of pre-operating expenses for the new power plants, wages as a result of increase in the number of employees and improved operational results and in depreciation.

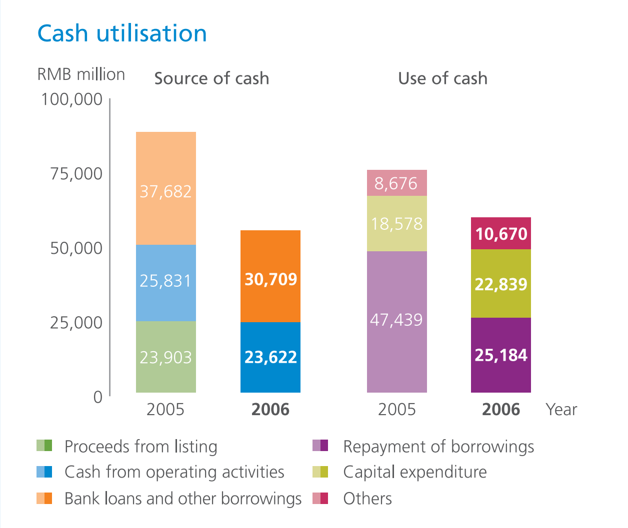
(4) Profit from operations

Profit from operations in our power segment increased from RMB2,600 million for the year ended 31 December 2005 to RMB4,286 million for the year ended 31 December 2006, an increase of 64.8%. During the same period, the operating margin of the power segment increased from 23.7% to 25.6%. The increase was mainly attributable to the significant increase in the proportion of power generation from high profit margin power plants being located in the coastal regions rather than in other regions with lower margin.

Cash Flow

As at 31 December 2006, the cash and cash equivalents of the Group amounted to RMB15,501 million, representing a decrease of RMB4,362 million, or 22.0%, as compared with the cash and cash equivalents of RMB19,863 million as at 1 January 2006. Of this, net cash from operating activities decreased from RMB25,831 million for the year ended 31 December 2005 to RMB23,622 million for the year ended 31 December 2006, a decrease of 8.6%. The decrease was mainly attributable to the increase in the accounts receivable of the power segment; reduction in accounts payable and corresponding increase in cash payments and increase in inventories as a result of the increased new power plants and power generation units with the related increase in spare parts and coal inventory.

Net cash used in investing activities increased from RMB19,347 million for the year ended 31 December 2005 to RMB24,938 milliion for the year ended 31 December 2006, an increase of 28.9%. Net cash from financing activities changed from RMB6,239 million for the year ended 31 December 2005 to net cash used in financing activities of RMB3,046 million for the year ended 31 December 2006.



Assets and Liabilities

Property, plant and equipment

As at 31 December 2006, the book value of property, plant and equipment of the Group was RMB136,432 million, representing an increase of RMB31,100 million, or 29.5%, compared with that as at 31 December 2005 of RMB105,332 million. The increase was mainly attributable to the amount transferred from construction in progress of RMB30,100 million for the year ended 31 December 2006, which mainly included coal mines of RMB6,081 million, railways of RMB2,537 million, ports of RMB2,762 million and power plants of RMB 18,720 million. As at 31 December 2006, the net book value of property, plant and equipment of the Group amounted to

Coal depot of Beijing Thermal

RMB107,859 million, representing an increase of RMB25,329 million, or 30.7%, over the net book value of property, plant and equipment amounted of RMB82,530 million on 1 January 2006. As at 31 December 2006, the net book value of buildings accounted for 10.5% of the net book value of property, plant and equipment, the net book value of mining structures and mining rights accounted for 9.3% of the net book value of property, plant and equipment, the net book value of mining related machinery and equipment accounted for 12.5% of the net book value of property, plant and equipment, the net book value of generators and related machinery and equipment accounted for 31.3% of the net book value of property, plant and equipment, the net book value of railway and port transportation structures accounted for 34.6% of the net book value of property, plant and equipment, and the net value book of furniture, fixtures, motor vehicles and other equipments accounted for 1.8% of the net book value of property, plant and equipment.

Construction in progress

As at 31 December 2006, our construction in progress amounted to RMB14,115 million, representing a decrease of RMB 7,795 million or 35.6% over the construction in progress of RMB21,910 million as at 31 December 2005. The decrease was mainly attributable to the amount transferred to property, plant and equipment of RMB30,100 million and an increase in construction in progress of RMB22,305 million. As at 31 December 2006, our construction in progress included coal mines of RMB5,388 million, railways of RMB 1,500 million, ports of RMB278 million and power plants of RMB 6,949 million.

Accounts receivable and bills receivable

As at 31 December 2006, our accounts receivable and bills receivable amounted to RMB4,860 million, representing an increase of RMB2,178 million or 81.2% over the RMB2,682 million as at 31 December 2005. The increase was mainly attributable to increase in accounts receivable from the power segment as a result of increase in new power plants. As at 31 December 2006, our current accounts receivable and bills receivable accounted for 98.8% of total accounts receivable and bills receivable. The turnover days of accounts receivable and bills receivable increased from 19.7 days for the year ended 31 December 2005 to 21.5 days for the year ended 31 December 2006.

Borrowings

As at 31 December 2006 and 31 December 2005, the details of our borrowings were as set out below:

	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million
Short-term borrowings and current portion of long-term borrowings	**14,842**	9,645
Long-term borrowings, less current portion	**40,840**	40,793
Total borrowings	**55,682**	50,438
Less: Cash and cash equivalents	**15,501**	19,863
Time deposits with original maturity over three months	**8**	66
Net borrowings	**40,173**	30,509

As at 31 December 2006, we had RMB49,541 million of borrowings denominated in Renminbi, RMB5,577 million denominated in Japanese Yen and RMB564 million denominated in US Dollars.

Significant Investments

For the year ended 31 December 2006, the Group had no new significant external investments.

Significant Acquisitions and Disposals

The Group completed the acquisition of Jinjie Energy integration project at the end of August 2006. At present, the construction project is proceeding smoothly.

In 2006, the Group did not conduct any substantial disposals of assets.

Exchange Rate Risk

The operations of the Group are affected by the Renmimbi exchange rate. In 2006, exchange gains arising from debts denominated in foreign currencies amounted to RMB235 million; export sales reduced by RMB228 million as a result of the effect of exchange rate; and exchange rate changes led to a saving of RMB60 million in cost in respect of imported equipment. Overall, an exchange gain of RMB67 million was resulted from the changes in the exchange rate in 2006.

Commodity Value Risk

The Group engages in coal production and sales and power generation business. The worldwide coal market is affected by various factors such as international politics, economy, military affairs and supply and demand. The Chinese coal market is affected by supply and demand, transportation capacity and safety conditions. Reduction in domestic and international coal prices will adversely affect the Group's financial performance.

Industry Risk

Consistent with the operational activities of other Chinese coal companies and power generation companies, the Company's operations are under the supervision of the PRC government in respect of aspects such as industry policy, project approval, issue of licences, industry special tax, environmental protection and safety standards. Therefore, the Company may be restricted in its business development or profit enhancement. Certain future policies regarding coal and power industry made by the PRC government may also affect the operations of the Company.

Contingent Liabilities

As at 31 December 2006, the status of the Group's contingent liabilities was as follows:

Bank guarantees

Bank guarantees

	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million
Associates	**310**	310

As at 31 December 2006, no assets of the Group were encumbered.

Environmental protection responsibility

The Group has been operating in China for many years. China has implemented comprehensive environmental protection regulations which affect our coal and power generation business. It is not clear what future environmental protection legislation will be enacted but legislation in future may have a material impact on us. However, the management of the Group believes that, other than that accounted for in the financial statements, no environmental protection liability that may adversely affect the Group's financial condition currently exists.

Contingent legal liabilities

As at 31 December 2006, the Group was not involved in any material litigation or arbitration. To the best knowledge of the Company, the Group had no material litigation or claim which was pending, or threatened against the Company. As at 31 December 2006, the Group was the defendant of certain non-material litigation as well as the plaintiff of some other litigation arising from the ordinary course of its business. The likely outcome of these contingent liabilities, litigation and other legal proceedings is not certain. However, the management of the Group believes any possible legal liability which may be incurred will not have a material adverse effect on the Group's financial condition.

Group's insurance

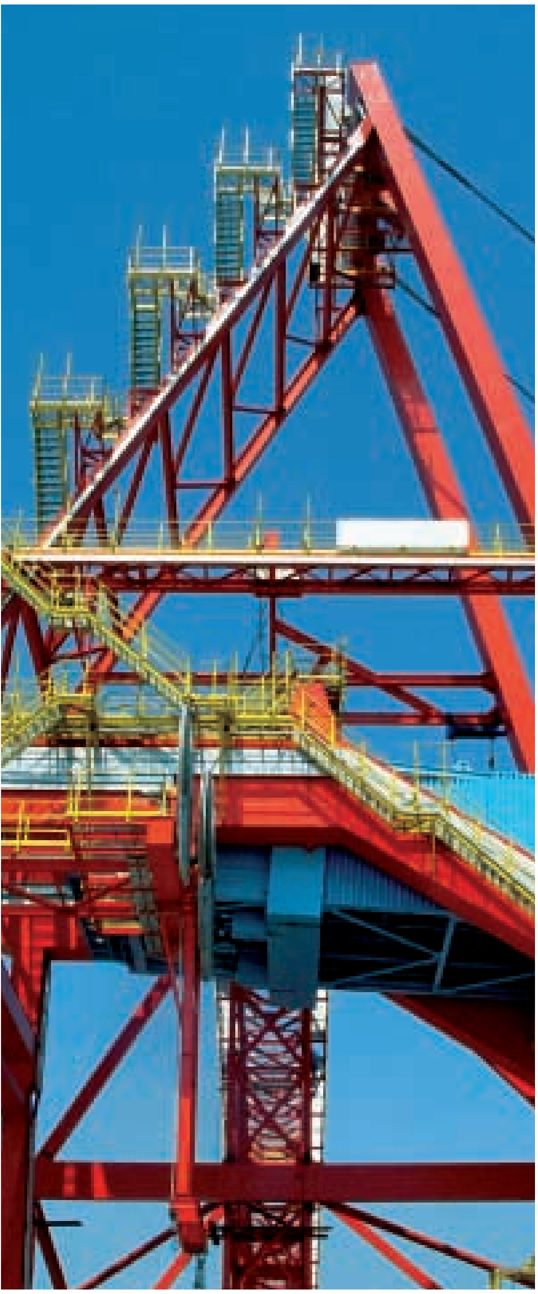
Consistent with what we believe is the customary practice for PRC coal mining entities, for the year ended 31 December 2006, the Group had not maintained fire, liability or other property insurance covering our property, equipment or inventory in our coal operations.

We maintain business interruption insurance or third-party liability insurance for personal injuries or environmental damages arising from accidents on our property or relating to our operations for certain of our power plants and for our vehicles. In addition, in accordance with requirements of relevant regulations, the Group maintained insurance for its employees against occupational injury, medical treatment, third party liability and unemployment.

The Group insured all of its operating power plants against property losses, lost profits, damages in plant and equipment, employee injuries and third party liability. Consistent with our understanding of China's industry practices, the Group did not carry insurance for risks relating to our power plants that are under construction.The Group will continue to review and assess its risk portfolio and make necessary and appropriate adjustments to our insurance cover based on its needs and industry practice with respect to insurance in China.

The insured value of the properties of companies under the Group amounted to RMB105,210 million, and insurance premium amounted to RMB95.8 million.

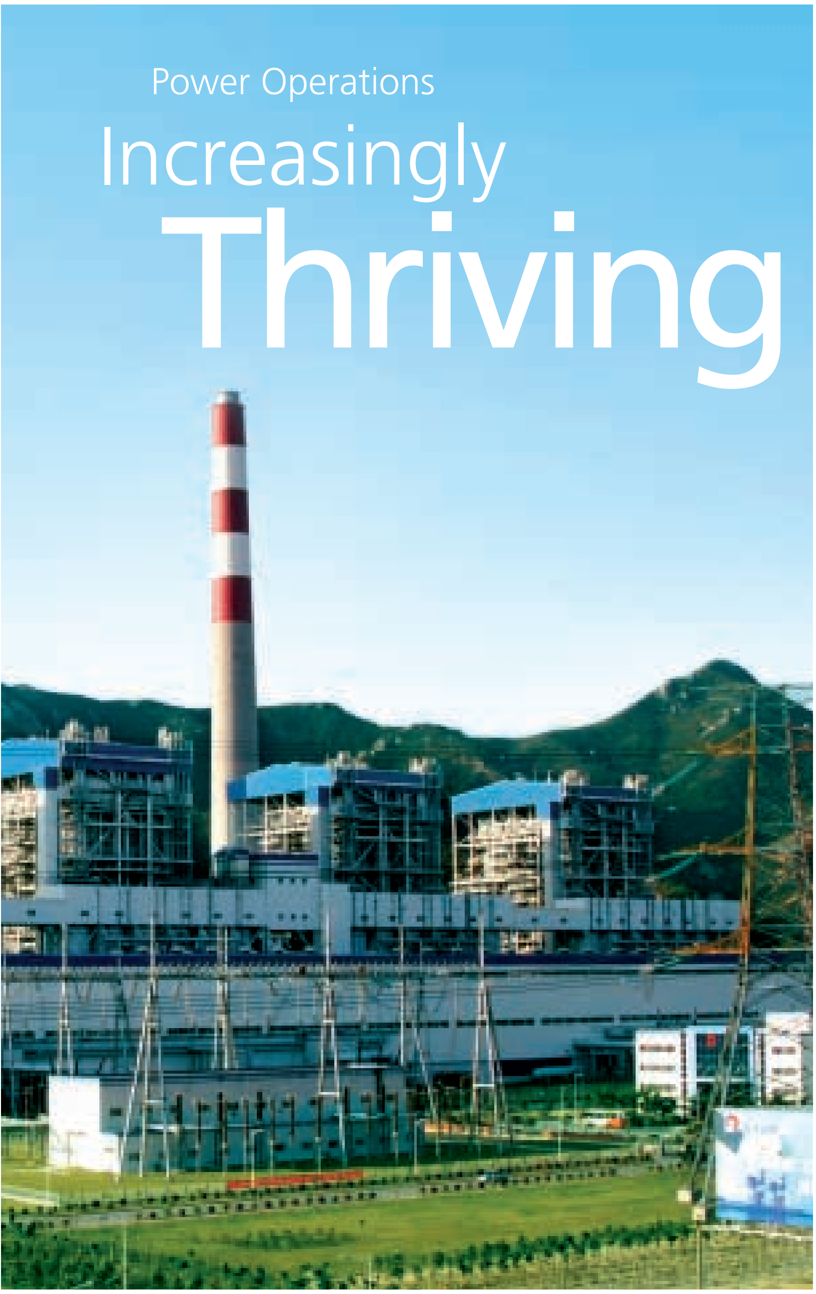
Highly Efficient and Rapidly Developing Power Operations

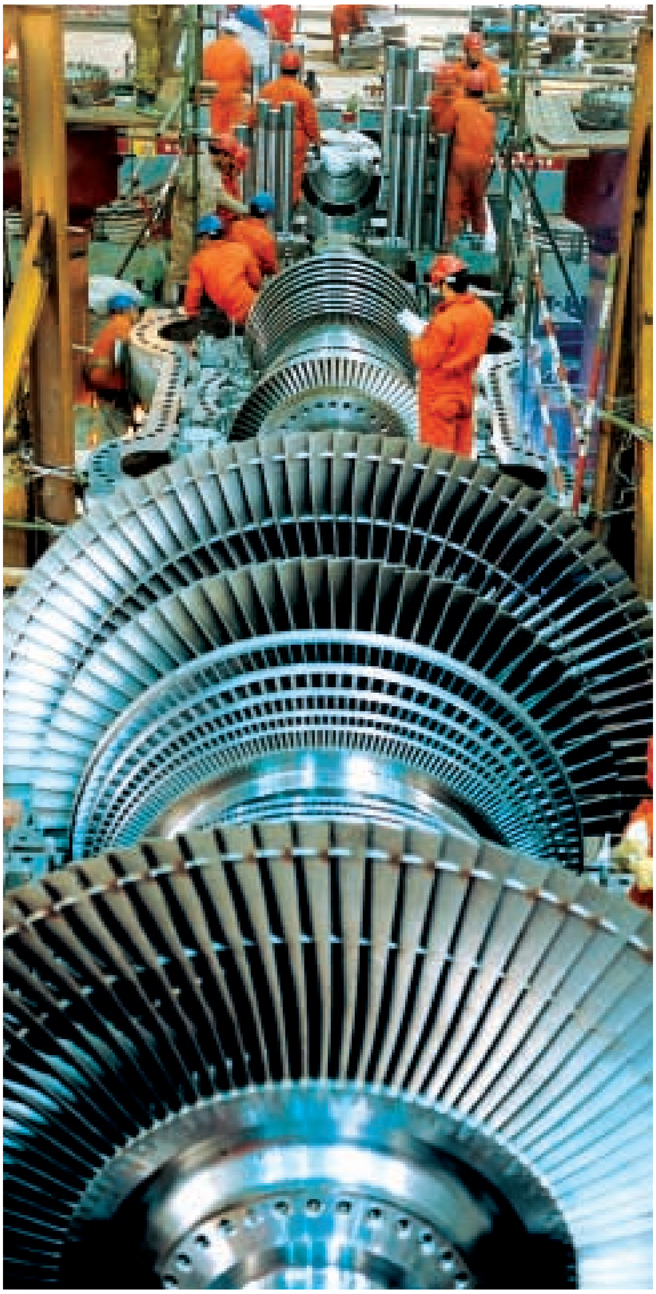


In 2006, the newly added installed capacity of Taishan Power was 1,800MW, which was equipped with FGD and de-NOx facilities and became the largest coal-fired power plant in the Southern Power Grid of China. The reliability of our coal operations, coal consumption levels, environmental protection measures and our sophisticated management model are all foremost in China's industry.

Power Operations

Increasingly Thriving





Capital Expenditure[1]

	Actual in 2006 RMB million	Percentage to total %	Planned for 2007 RMB million	Percentage to total %
Coal segment	**13,696**	**55.6**	**16,904**	**61.6**
Of which: Mines	**9,389**	**38.1**	**12,114**	**44.2**
Railways	**3,098**	**12.6**	**3,840**	**14.0**
Ports	**1,209**	**4.9**	**950**	**3.4**
Power segment	**10,818**	**43.9**	**10,303**	**37.6**
Corporate and others	**121**	**0.5**	**220**	**0.8**
Total	**24,635**	**100.0**	**27,427**	**100.0**

Coal mines

Shendong Mines: In 2007, the planned capital expenditure will be RMB5,130 million, which will be used in expanding the production capacity of Shendong Mines. The capital is expected to be used in the purchase of mining equipment for mining and hydraulic shield for the mining of thin coal bed in Yujialiang mine, Halagou mine and Shigetai mine as well as the maintenance of the mining structure.

Wanli Mines: In 2007, the planned capital expenditure will be RMB2,193 million, which will be used in the construction of Bu'ertai mine. It is currently planned that construction of the mine will be completed in 2008 with an annual production capacity of 20 million tonnes. Furthermore, we plan to enhance the production capacity and production efficiency of the Wanli Mine through continued technological revamps.

Zhunge'er Mines: In 2007, the planned capital expenditure will be RMB4,157 million, which will continue to be used in the construction of the Ha'erwusu open-cut mine. The designed annual production capacity of the project is 20 million tonnes, and it is currently expected that it will be put into operation in 2008. In addition, the capital is expected to settle the final payment of the cost and installation fee for the draglines in Heidaigou open-cut mine.

Shengli Mines: In 2007, the planned capital expenditure will be RMB527 million, which will continue to be used in the development of open-cut mine and construction projects.

Others: In 2007, the planned capital expenditure will be RMB107 million, which will mainly be used in the development of the coal sales center.

Railways

The planned capital expenditure for 2007 will be RMB3,840 million, which will be mainly used in the construction of the railway transportation network to enhance our transportation capability. The key projects include:

Baoshen Railway: construction works such as the double-line from Batuta to Ciyaowan section;

Shenshuo Railway: revamp works to enhance its capacity and the purchase of electric cars;

Shuohuang Railway: revamp and other related ancillary construction works; and

Dazhun Railway: expansion of capacity for trains with 10,000-tonne capacity and the newly constructed Ha'erwusu open-cut mine and its coal transportation special railway (Nanping sub-route);

Note: 1 Plans for future capital expenditure of the Company may vary for developments in Company's business plan (including potential acquisitions), progress in the Company's capital projects, market conditions, the outlook of the Company's future business conditions and obtaining of the necessary permits and regulatory approvals. Other than as required by the law, the Company takes no responsibility for the updating of any plan for capital expenditure.

Spherical coal depot
in construction

In addition, capital expenditure in 2007 will also cover construction of a vehicle repair and maintenance center and purchase of new trucks and equipment to increase our transportation capacity.

Ports

The planned capital expenditure for 2007 will be RMB950 million, which will be used in expanding our port operations. It will be mainly used in:

Huanghua Port: improvement works to the rotary railcar dumpers, dredging of the sailing channel and revamp works to each professional berths; and

Shenhua Tianjin Coal Dock: completing of existing projects and to increase handling equipment such as the coal loading carriers.

Power

The planned capital expenditure for 2007 will be RMB10,303 million, which will be mainly used in Phase I and Phase II of Jinjie Energy, Phase II of Sanhe Power, Phase III of Guohua Zhunge'er and Phase II of Ninghai Power as well as technological revamp works such as the FGD system.

Estimated Production Capacity

In 2007, our capital expenditure will be applied to enhance our capacity in coal production, railway transportation and port transportation capacity and installed capacity of power generation units. Assuming that the Company can complete the capital expenditure plans as scheduled, the estimated capacity for our relevant businesses will be enhanced (as shown in the following table). As the planned developments will need to undergo an implementation process, the estimated capacity may not be fully realised in 2007 and in the near future.

The Company plans to meet the funds for capital expenditure from cash generated from operating activities, short-term and long-term borrowings, part of the net proceeds from the IPO as well as other debts and equity financing.

	Capacity by the end of 2006	Estimated capacity by the end of 2007
Coal production capacity (Million tonnes/year) (including Shendong Mines, Wanli Mines, Zhunge'er Mines and Shengli Mines)	**145**	**157**
Shenshuo Railway (Million tonnes/year)	**140**	**150**
Shuohuang Railway (Million tonnes/year)	**150**	**200**
Baoshen Railway (Million tonnes/year)	**80**	**90**
Dazhun Railway (Million tonnes/year)	**45**	**45**
Seaborne coal capacity of self-owned ports (Million tonnes/year) (including Huanghua Port and Shenhua Tianjin Coal Dock)	**115**	**125**
Gross installed capacity (MW)	**11,960**	**14,420**

Technological Innovations

Establishment of our Organisational Structure and Incentives to Technological Innovations

In 2006, building on our existing coal and power technology branch centres, we established the Shenhua Technology Centre, thereby expanding our science and technology team. Preparation for the Shenhua Transportation Technology Centre is underway. The "Shenhua Post-doctorate Work Station" was approved by the Ministry of Personnel of the State in May 2006, and the recruitment of post-doctorate personnel and preparation for their admission has been progressing smoothly.

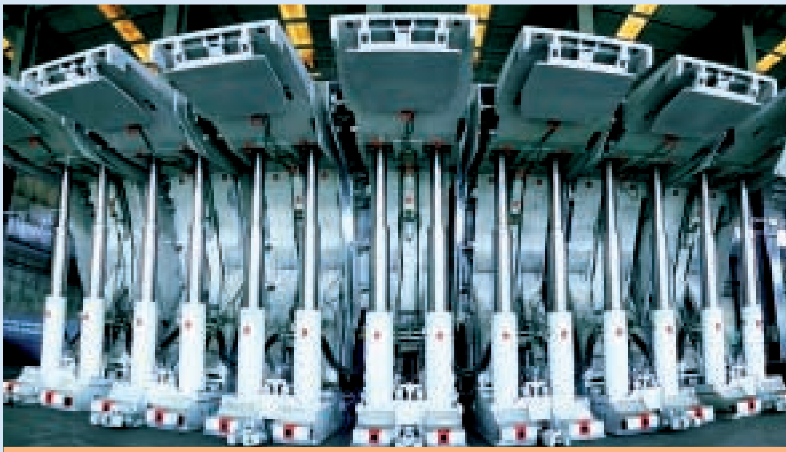
During our rapid development in 2006, the Company attained a number of important technological achievements with improvements to its technological indicators:

- We received 24 "China Enterprise Innovation New Records", the third highest number of awards nationwide, of which 14 were for the coal segment, eight were for the power segment and two were for the ports segment, accounting for half of the new records for the coal industry;
- We received three first class provincial technological advancement prizes, and five second and third class prizes;
- At the inaugural China Comprehensive Industrial Technology Innovation Awards, we were awarded the highest honour – "China Industrial Award";
- We applied for a total of 44 patents and were granted 38 patents, of which 24 were for the coal segment, two for the railways segment and 12 for the power segment. Three of these were invention patents. The Company applied for and was granted the largest number of patents within the coal industry.

Key Technological Projects

Domestic development of technology for hydraulic supports

The Company successfully developed 5.5m hydraulic supports through collaborations with domestic manufacturers and introducing strategic partners, thereby contributing to the progress in the domestic development of hydraulic supports technology. By placing emphasis on technology advancements, the Company not only resolved technological difficulties such as the welding of high-strength plates, but also applied advanced technologies such as automatic welding by robots, to manufacturing of hydraulic supports, thereby greatly enhancing the technological standards of domestic hydraulic supports. In 2006, 18 sets of hydraulic supports were developed through the Company's collaboration with domestic manufacturers, reducing costs by approximately RMB2.4 billion while the quality of the hydraulic supports remained comparable to imported equipment. At present, all our hydraulic supports from 2.4m to 6.3m have been made domestically, and efforts are being made to develop hydraulic supports under 2.4m which are suitable for the mining of thinner coal seams.



Domestically produced high mining height supports at the Shendong Mines

Air-cooling facility of Jinjie Energy

Panel Extension Technology

In 2006, panel extension technology was successfully applied in 15 panels in Shendong Mines, and the working length of panels has been extended from 240m, to 300m to 400m, thereby reducing the roadway developments, lifting the coal resources recovery ratio by 4 percentage point, increasing coal production by 4.26 million tonnes and increasing direct economic benefits by RMB1 billion. The technology will gradually be applied in other mines of the Company.

Comprehensive dust treatment technology in preparation plants

In 2006, the Company developed the dust treatment technology for the preparation plants. The technology reduces the dust density in the Zhunge'er preparation plant to less than 20mg/m^3, essentially eliminating the safety hazard caused by dust.

Enhancement of the quality of coal

In 2006, we continued our technological research on high-efficiency and safe combustion of Shenhua coal technology and on the special features of Shenhua coal slurry, which led to the development of a slurry technique for Shenhua coal and resulted in the development of an additive for coal slurry of Shenhua coal, thereby saving the slurry production cost. At present, the technique has been applied in the newly constructed coal slurry plants in Guangdong, Fujian and Liaoning Provinces, where over 10 million tonnes of Shenhua coal will be used in the production of coal slurry. It is expected to generate increased economic benefits of nearly RMB500 million. Technology for the high-efficiency and safe combustion of Shenhua coal has led to the development of slag prevention technology for 600 MW generation unit, enabling the exclusive use of Shenhua coal in 600 MW generation unit, which is expected to expand the market for Shenhua coal, and ensure the safety and stability of boilers in coal combustion.

Water-saving power generation technology

To address the shortage in fresh water available for the construction of power plants in coastal regions and the northwestern regions, China Shenhua has made an active effort in 2006 in the research and development of sea water desalting technology, of technology for direct air-cooling system operation in extreme low-temperature areas and of sea water cooling tower technology. In 2006, the largest sea water desalting facility in China has been successfully operating at Huanghua Power with a daily production volume of 20,000 tonnes of fresh water. This represents the first "negative consumption" of fresh water resource in China – not only will it directly consume small amounts of fresh water, but also it will supply fresh water to the adjacent areas.

The 600 MW air-cooling generation units at Jinjie Energy was successfully put into operation in 2006, marking the successful operation of large-scale air-cooling generation units technology by China Shenhua. This addressed the key technological difficulty of constructing mine mouth power plants in the northwest regions where the altitude is high and supply of Shenhua coal is plentiful but there is shortage of water, thereby optimizing the deployment of power source.

Construction of Ninghai Power II has commenced. This power plant will employ sea water-cooling tower technology for the first time in China, marking the Company's continued leading position in that technological aspect and providing the technical assurance for Shenhua to develop its power operations in the coastal regions of China.

Desalting facility of Huanghua Power

Plasma ignition technology for the power plants boilers

Having adopted the plasma ignition technology for power plants boilers, in 2006, the Company successfully applied it to 600 MW generation units. This has simplified the automatic startup formula of the units and increased the speed of ignition and safety of boilers. It has also led to ignition fuel savings and reduced operation costs. As a result, in 2006, the Company saved its fuel requirement by 48,400 tonnes, which contributed directly to an economic benefit of RMB185 million.

Vibration control technology for the roads and bridges of Shuohuang Railway

Shuohuang Railway has many large bridges, some of which suffered from serious transverse vibrations. In 2006, the Company made substantial efforts on a study on a vibration control technology for the bridges of Shuohuang Railway. After a series of comprehensive tests and reinforcement works, the technology was successfully applied to the bridge across Xiaotang River, and has been extended to the remaining 18 bridges along Shuohuang Railway. The application of the technology has allowed us to eliminate the risks to the bridges and vehicles caused by vibrations and ensure the safety of transportation, and has increased the transportation capacity of the railway by about 5%, or more than 5 million tonnes.

Silting treatment for the sailing channels of Huanghua Port and dredging technology

In 2006, the Company made a breakthrough in silting treatment for the sailing channels of Huanghua Port and dredging technology". We applied the technology to the expansion of Huanghua Port and the related dredging works, thus ensuring that the depth along the sailing channels was maintained at not less than 13 meters. This has successfully addressed the problem of silting by fine silt and sand along the sailing channels of ports and increased our seaborne coal volume by 10 million tonnes a year, bringing economic benefits of about RMB480 million a year.

Safety, Health, Environmental Protection and Social Responsibility

Production Safety

Continued Leading Position in Production Safety in China

In 2006, our fatality rate per million tonnes of raw coal produced was 0.027, which is significantly lower than the national average rate of 2.041. Our fatality rate is among the lowest in the industry nationwide and is relatively low by international standards.

Increase of Mines with Long Production Safety Period

In 2006, 13 of the 17 coal mines of the Company achieved zero fatality rate. Five of our pits were among the 108 pits nationwide with safe production for a continuous period of more than 1,000 days. There were no material accidents in our railways, ports and power plants.

Checking of operating equipment in the power plants

New Record in the Standardisation of Safety

In 2006, seven of the Group's branches and subsidiaries were awarded superior grade in the standardisation of safety, accounting for 58.3% of our total branches and subsidiaries and representing a year-on-year increase of 29%. 42 of our branches and subsidiaries and 24 of our branches and subsidiaries have attained superior grade and first grade respectively, representing a year-on-year increase of 11% and 50% respectively, thereby laying a solid foundation for the production safety.

Further Innovations and developments in Safety Management

We have adopted the safety management principles of eliminating fatality rates in mines and keeping gas emission levels within restricted levels to avoid accidents. These principles have been promoted and implemented throughout all our production units.

Further Commitment to Safety with the Essential Safety System Strengthened

In 2006, the Company had committed RMB1,684 million to improve safety, of which RMB653 million was used in the Shendong Mines mainly for improvements to the mine monitoring system, gas ventilation and dust removal system, centralised railway control system, port navigation system and the protection and safeguarding system of the generation units.

Strengthening training and cultivation of a safety culture, improving safety awareness of our staff

In 2006, the Company organised a total of 712 courses on various topics for technical and management staff, with an aggregate of 57,169 training attendances[(1)], to enhance safety responsibility awareness and operational skills of shift staff and technical staff. We also organised a "100-Day Safety" campaign and other activities, to fully promote our vision of safety awareness among all employees, in all aspects and throughout all processes.

Implementing risk management measures, new standards in health and safety, and environmental protection

We jointly commenced the study on "Coal Mines Essential Safety Management System" with the State Coal Mines Safety Supervision Bureau, and have made initial proposals for a safety management system emphasising risk management. Guohua Power Branch Company, China Shenhua Shendong Coal Branch and Shenhua Huanghua Port Company Limited ("Huanghua Port Company") had made major efforts in promoting the NOSA safety, health and environmental protection standards, resulting in an increase of branches and subsidiaries with NOSA 3 stars, 4 stars and 5 stars accreditation from eight to 15.

Safety drill in the mines

Maintenance of electric railway

Occupational Health

The Company has fully implemented the laws and regulations of China in respect of occupational illnesses, and strictly adhered to the principle of prevention is better than cure. This further highlights our "people-oriented" approach, and we are firmly committed to the monitoring and care of health of our staff, and monitoring and control of the occupational hazards in the workplace. We take the initiative to create a working environment and conditions favourable to the health of our staff.

Dust treatment works at the Zhunge'er preparation plant has been completed. Further efforts have been put in the treatment of dust in operating units of mines, railways and ports, and protection kits had been distributed regularly with their use being monitored. Records have been made, and are closely monitored, of the sources of X-ray radiation at power plants and the sources of radiation at the preparation plants.

Note:

(1) "Training attendances" is calculated as the number of training sessions multiplied by the number of attendees at each session.

Environmental protection

Over the years, we have been stringently implementing laws, regulations, policies and standards in respect of environmental protection. We are making significant efforts to protect our environment and to build a green mining area and environmentally friendly power plants, so as to ensure that our production is in harmony with the development of the community and the environment.

Environmental management

We have established various environmental protection rules. Shendong Mines recently introduced the "Measures for the Operation and Supervision of Environmental Protection Facilities" and the "Assessment Measures for the Supervision and Management of Environmental Protection Facilities". It has also integrated the ISO14001 standards and safety quality management system to establish a new and comprehensive management system. Its environmental management has also achieved the PDCA cycle and standardised its operation. Our power segment has adopted the "NOSA Implementation and Safety, Health and Environmental Protection Assessment Management Standards" in its power generation management system. Applying the power generation management system as guiding principles, and employing the ISO14001 standards as the means of implementation, our power plants have established a scientific system for environmental protection.

Examination and Assessment of the Environmental Impact of Projects

In 2006, the approval, construction and operation of our new projects met the environmental requirements of the PRC. The technological revamp of mines such as the Halagou mine at the Shendong Mines passed the examination by the State Administration for Environmental Protection. Eight new projects, including the alteration and expansion or Ninghai Power Plant, had been approved by relevant State or local government authorities on its environmental assessment.

Control of Pollutants Emission

In 2006, our power segment accelerated the construction of the dust removal, FGD and de-NOx works with the FGD works of nine units and de-NOx works for two units completed. These units have been in operation and pilot test works for a noise shield have been completed by Shuohuang Railways Development Company Limited. The improvement made by the Shendong Mines to its waste water treatment plant, with the total capacity of the 15 waste water treatments upon completion exceeding 96,000 tonnes/day, will increase the utilisation rate of pit water to 50% and living waste water to 35%.

Afforestation belt at the Shendong Mines

Improvement of the waters in the mines

Recycling efforts and development of power plants utilising gangues

Shengdong Mines has adopted the railless plastic wheels to simplify the system of the underground mines, so that the layout of shafts is within the entry of the coal deposit, thus eliminating the accumulation of hundreds of tonnes of waste gangues outside the exits. All our underground mines have been equipped with large-scale preparation plants and realised closed recycling, minimising water consumption and discharge of waste water. The extracted gangues, after being prepared and processed, are being utilised for the construction of two power plants, namely Daliuta and Shangwan, with annual utilisation of 2 million tonnes of gangues. Coal dust produced in the process is recycled into bricks.

Recycling of resources

In 2006, extension of panel and technological revamp on new mining technologies had been carried out at the Daliuta mine at the Shendong Mines. This has increased the recovery rate from 76% to 81%. We also made major efforts in water recycling so that water from the mine can be used after purification. The average recovery rate of Zhunge'er Energy reached 98% for the open-cut mines, and 97% for its underground mines which is among the highest among other industry players in China.

Improvement of the ecological environment of the mines

In 2006, Shendong Mines focused its greening effects on the sandstorm control works of the Gong Nie Er Gai Reservoir, ecological evergreen woods for east and west side of the hill at Daliuta, landscaping of the Shegetai mine, an irrigation network and the rubber dam works, which will have an area of 4.55 million square meters upon completion. Following over 10 years of greening projects, the rehabilitated vegetation area of Zhunge'er Mine amounted to 2,814,000 sq. m., and the afforestation rate was 41.4%. Of this the afforested area of our industrial concourse amounted to 2,100,000 sq. m., with an afforestation rate of 89.5%; the rehabilitated vegetation area of the dump amounted to 780,000 sq. m., with a rehabilitated vegetation rate of 24.8%, which was 12 times that of the average rehabilitated vegetation rate of China. The accumulated funds used in the rehabilitation of land and ecology by the Company amounted to more than RMB50 million. The vegetation coverage rate of the mines rose from less than 25% previously to over 70%, and the rate of vegetation is 2-3 times that in the natural landscape while the volume of soil erosion was reduced by over 80%.

Awards for environmental protection

In February 2006, Shendong Mines was awarded by the State Administration for Environmental Protection the highest national honour for environmental protection, the "China's Environment Award" and was the only enterprise which received such award in 2006. In June 2006, the Shuohuang Railway works was awarded the "State Environmentally Friendly Projects" by the State Administration for Environmental Protection. In December 2006, Daliuta mine at the Shendong Mines and Zhunge'er Mines were awarded the "Nationwide Exemplary Mining Companies in the Development and Exploitation of Resources" title by the Ministry of Land and Resources.

Social Responsibility

In 2006, the Company and its branches and subsidiaries made donations totalling RMB94 million, representing a year-on-year increase of RMB82 million. The money was mainly used in the following areas: sponsorship for education of RMB54 million; aid to underdeveloped areas of RMB22 million; and aid to areas suffering from natural disasters of RMB18 million.

Spotlight on Business Development

In 2006, the business of coal, railway, port and power of China Shenhua had all seen developments. There were new highlights in all aspects of our operations, building a solid foundation and affording new competitive edges for the innovations and long-term development of the Company.

The followings are new segmental highlights in 2006:

Bulianta Mine

The geological conditions of Bulianta mine are simple and natural disasters are few. It is a underground mine of a low methane gas level. Its principal types of coal are premium thermal coal and coal for chemical processes, which have low dust, sulfur and phosphorous content and medium to high calorific value. In 2006, production volume of the commercial coal of Bulianta mine topped 20 million tonnes, thus making it the largest underground mine both in China and in the world. From 2000 to 2002, Bulianta mine obtained the ISO9001 quality system certification and ISO14001 environmental management system certification as well as the OHSMS18001 international standards certification for occupational safety and hygiene management system. It has received the "Super-grade Underground Mine of High Production Volume and High Production Efficiency in the Industry" accreditation awarded by the China Coal Industry Association for eight consecutive years. In 2006, it received the four-star safety, health and environment management system certification awarded by the South Africa National Occupational Safety Association (NOSA), thus becoming the first coal company in China receiving such four-star certification.

Bulianta mine at the Shendong Mines

State-of-the-art Underground Mining

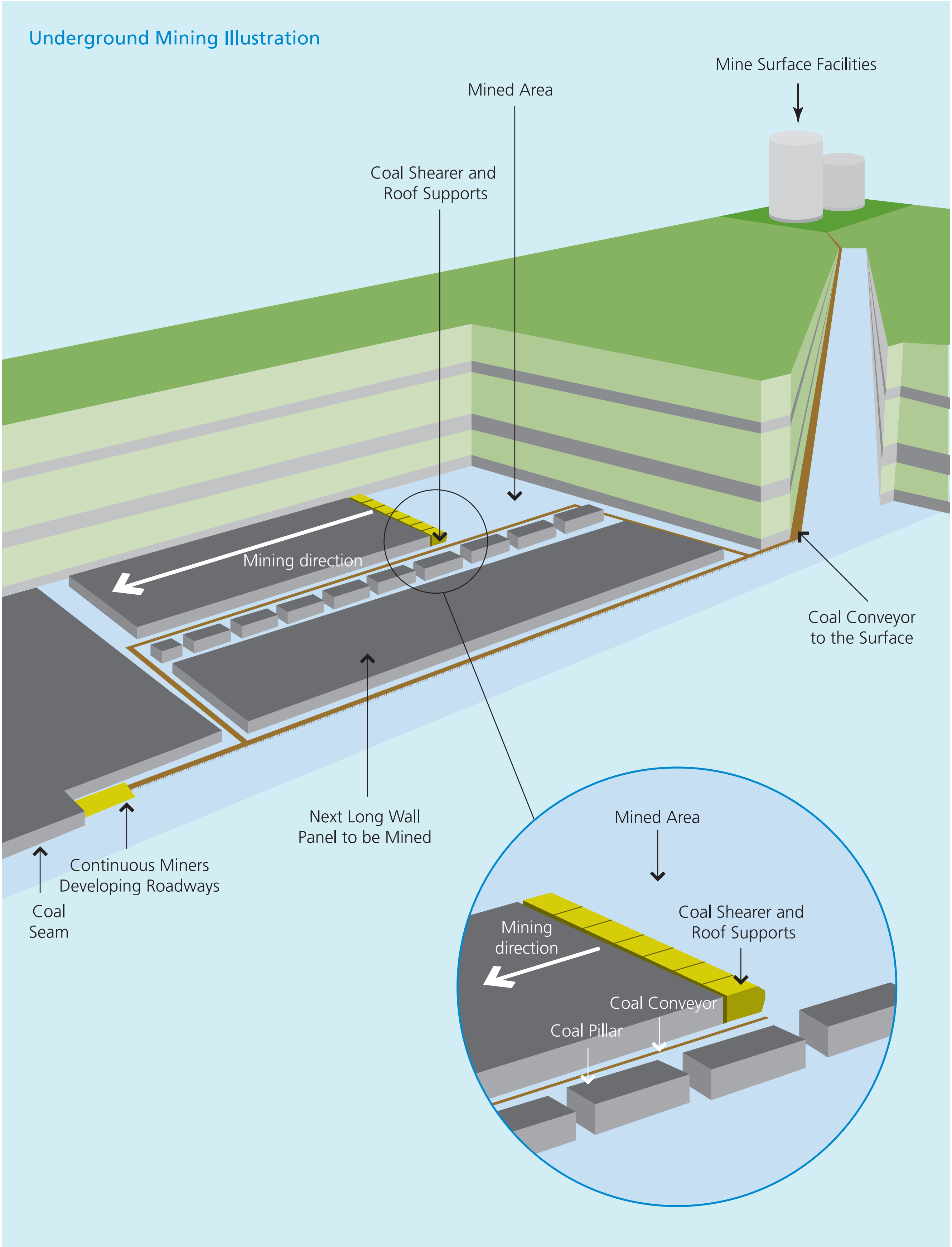
By optimising the layout of the mining area and panels, a comprehensive extended panel, which is 5.5 meters in height and 300 meters in length, has been constructed. Automatic technology has been applied to set up the automatic control system. Electro-hydraulic supports control and coal machine memory slicing have been achieved as a result of the comprehensive panels.

Establishing a Management Philosophy based on "Environment, Quality and Responsibility"

We have introduced and implemented the NOSA occupational health and safety comprehensive management system and maintained our management of quality, safety and hygiene, which is foremost in the industry. Up to now, the entire mine has lived through the sixth year with 76 million tonnes of coal having been mined without any fatality.

Emphasis on the Commitment to Environmental Protection and the Construction of a Green and Environmentally Friendly Coal Mine

We purify and recycle waste water for production and for fish-farming. For every tonne of coal mined, a sum of RMB0.45 is set aside for the greening of environment, such as the forming of a tree belt, the control of sand storm and environmental protection. An aggregate of 160,000 trees have been planted with a green zone of 830,000 sq.m. We use closed corridors for the coal conveyors to combat dust pollution.


Underground Mining Illustration
Mine Surface Facilities
Mined Area
Coal Shearer and Roof Supports
Mining direction
Coal Conveyor to the Surface
Next Long Wall Panel to be Mined
Continuous Miners Developing Roadways
Coal Seam
Mined Area
Coal Shearer and Roof Supports
Mining direction
Coal Conveyor
Coal Pillar

Huangwan Railway

The Huangwan Railway connects the Shuohuang Railway at Huanghua South Station to the Shenhua Tianjin Coal Dock, which has a total length of 67 km with a designed short-term transport volume of 37.5 million tonnes and a long-term transport volume of 42 million tonnes. The construction of Huangwan Railway was completed in October 2006.

The Huangwan Railway opens up new routes for the transportation to seaports enroute its eastbound transportation, thereby realising the direct transportation of Shenhua coal to the Nanjiang port area in Tianjin via Shuohuang Railway, which is 60 km shorter than if transported on State-owned railways. Based on the short-term transport volume of Huangwan Railway, which is 37.5 million tonnes, this represents a significant annual direct saving for China Shenhua of approximately RMB27 million.

Loading of large vessels at Shenhua Tianjin Coal Dock

Shenhua Tianjin Coal Dock

The Shenhua Tianjin Coal Dock is located at the east end of Nanjiang Port at Tianjin Port, having three berths. Its construction was completed in October 2006. It is an important channel for seaborne transportation in our transportation system. It has a designed annual coal handling capacity of 35 million tonnes and it is estimated that by the end of 2007 when the fourth unloading line is completed, its annual coal handling capacity will be increased to 45 million tonnes. As it benefits from the sound infrastructure of Tianjin Port, including the deep water route of 200,000-tonne class and the professional port services, the Shenhua Tianjin Coal Dock can accommodate one 150,000-tonne class and two 70,000-tonne class large vessels at the same time.

Port-entry line of Huangwan Railway

The Environmental Protection and Energy-saving System

Our Shenhua Tianjin Coal Dock constructed the ballast water recovery system to recover the fresh water in the tanks of incoming vessels. Following examination, the recovered fresh water will be used by the Company as spraying water, which will effectively minimise our water cost and fully utilise the fresh water. We are employing complete electrostatic dust-removing system in the loading and unloading tracks of our domestic terminals for the first time in China, with 24 of such electrostatic dust-removing devices installed at these operating points. The coal dust recovery rate amounts to over 99%. Based on the annual handling capacity of 35 million tonnes, an annual recovery of 5,000 tonnes of coal dust will be achieved, which will effectively minimise the pollution caused by coal dust.

Implementation of the Information System

Our Shenhua Tianjin Coal Dock have implemented the MIS system for production management and the EAM system for corporate assets management, which provides the most practicable information technology safeguard for our production and enhances the reliability and utilisation value of the operation of our assets, thereby lowering the maintenance and repair cost.

Generation units at Phase I of Huanghua Power

Huanghua Power

Huanghua Power is located adjacent to Huanghua Port. It is an important power plant in the Hebei South Power Grid. The total planned capacity of Huanghua Power is 6,400 MW. The Phase I works comprise of two 600 MW sub-critical generating units and a 20,000 tonnes/day desalting system, which are already in operation. A further two 600 MW super critical coal-fired generating units and a 10,000 tonnes/day desalting system are planned for Phase II. These have been listed by the National Development and Reform Commission ("NDRC") as a project to be selected for commencement of construction in 2007. The planned Phase III works comprises of four 1,000 MW ultra super critical coal-fired generation units.

Sea reclamation for the entire plant

Huanghua Power is the first power plant in China constructed on a piece of land reclaimed from the sea. The land reclaimed for the Phase I works amounts to 488,000 sq.m. On 30 November 2002, the sea reclamation works for the Huanghua Power Plant commenced. During the works, special techniques such as the building of embankments, dredging of mud and filling of dredged spaces and vacuum preloading were employed, and it took a mere 14 months to turn the 488,000 sq.m. of sea into land, with the works being completed two months ahead of schedule.

Combination of port and power plant

Huanghua Power obtains coal directly from the coal stacking ground at the port through coal conveyors, and sea water is obtained directly from the deep-water basin of the port area, thereby integrating the port and the power plant.

De-salting of sea water

A low-temperature multi-function sea water de-salting facility was constructed at the same time as Huanghua Power Plant. It has a production capacity of 20,000 tonnes/day to produce fresh water by de-salting sea water.

Operating Environment Analysis

The macro-economic environment[2]

The PRC economy

In 2006, China's GDP amounted to RMB20,900 billion, representing a year-on-year increase of 10.7%; the PPI experienced a year-on-year increase of 3.0%, and the CPI experienced a year-on-year increase of 1.5%.

In terms of the national economy, investment in industrial operations was strong, the domestic consumer market was active and the export trade was growing rapidly with general price levels being relatively stable. All these factors have provided a favorable operating environment in China.

The World Bank estimates that in 2007, the GDP of China will grow by 9.6% and such rapid growth will be maintained.

The world economy

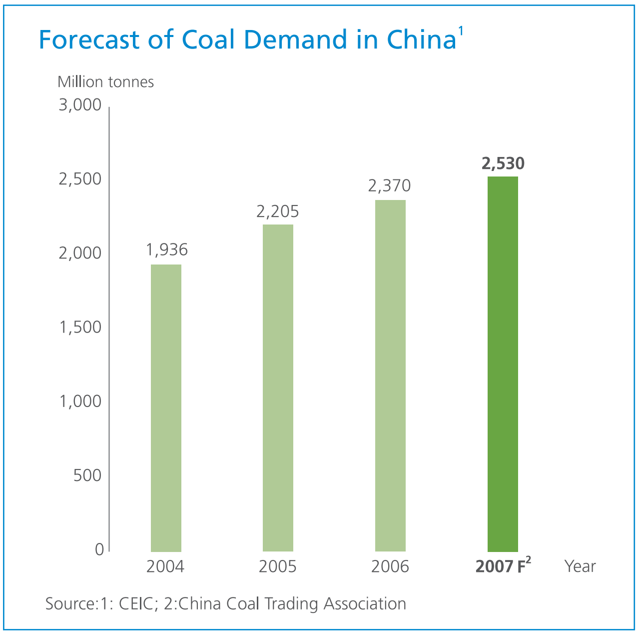
The world economy in 2007 will continue to be favourable. It is estimated that the growth rate will be approximately 3.2% for the world economy, and will probably be over 6% for developing economies, of which the economic development of China and India will be particularly rapid. It is estimated that in 2007, the economic growth of India will be 8.7%.

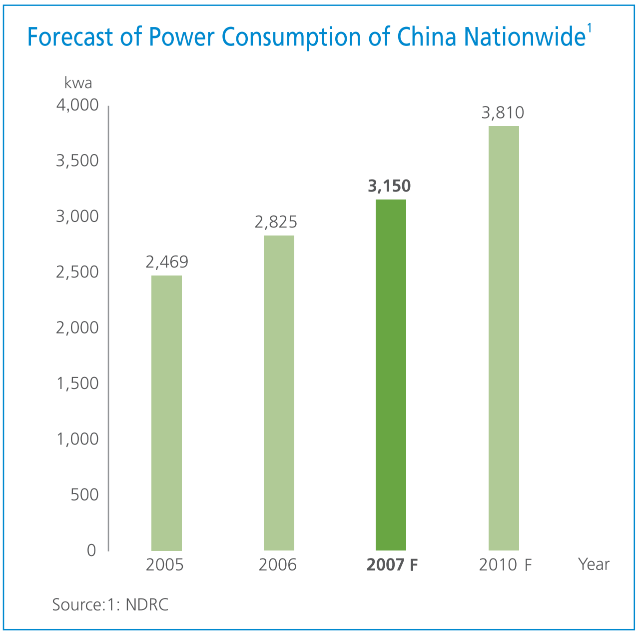
In 2007, the economic growth of the United States will be approximately 2.1%; the economic growth of Japan and the Euro zone will be 2.4% and 1.9% respectively, and such steady growth will be maintained.

All these factors will provide a favourable global operating environment for our growth.

Note:

1. This section is for reference only and is not to be construed as an investment recommendation. The Company has made an effort to confirm the accuracy of the information. However, it does not take any responsibility for or cannot guarantee the accuracy, completeness or validity of all or any part of the contents. The Company will not be responsible for any error or omission. There may be certain forward-looking statements attributable to third parties which are based on subjective assumptions or judgments made about certain political or economic prospect, and which therefore may be subject to uncertainties. The Company takes no responsibility for updating any data or correcting any error. The views, estimates or other data may be revised or eliminated without further notice.
2. Source of information: World Bank, China Coal Trading Association, SACMS and research conducted by the Company.





The industry environment

1. The domestic coal market[1]

Table: Key indicators for the coal industry

	2006	**2007F**
Demand for coal (Million tonnes)	2,370.0	**2,530.0**
Coal for power (Million tonnes)	1,247.8	**1,357.0**
Coal for steel (Million tonnes)	410.0	**429.0**
Coal for construction materials (Million tonnes)	348.0	**357.0**
Coal for chemical processes (Million tonnes)	134.0	**141.0**
Coal supply (Million tonnes)	2,380.0	**2,530.0**
Coal railway transport volume (Million tonnes)	1,390.0	**1,480.0**
Daqin line (Million tonnes)	250.0	**300.0**
Shenshuo - Shuohuang line (Million tonnes)	110.0	**125.0**
Houyue line (Million tonnes)	105.0	**125.0**
Transit volume at coal ports (Million tonnes)	400.0	**445.0**
Qinhuangdao Port (Million tonnes)	176.0	**190.0**
Huanghua Port (Million tonnes))	80.9	**80.0**
Shenhua Tianjin Coal Dock (Million tonnes)	2.3	**15.0**
Coal import (Million tonnes)	38.3	**–***
Coal export (Million tonnes)	63.3	**–***

* No available forecast

Supply and demand of coal

Review for 2006

In terms of demand, domestic demand for coal continued to rise. In 2006, the national commercial coal consumption volume amounted to 2,370 million tonnes, a year-on-year increase of 7.5%. Demand for coal from the key coal-consuming industries increased, with consumption by the power industry at 1,247.8 million tonnes, representing a year-on-year increase of 13.0%, consumption by the steel industry at 410.0 million tonnes, representing a year-on-year increase of 13.8%, consumption by the construction material industry at 348.0 million tonnes, representing a year-on-year increase of 6.1%, and consumption by the chemical industry at 134.0 million tonnes, representing a year-on-year increase of 5.2%.

In terms of supply, the national production volume of raw coal in 2006 amounted to 2.38 billion tonnes, representing a year-on-year increase of 8.0%. A total of 2,652 minor coal mines had been shut down in the year, representing a decrease of 110 million tonnes in production capacity.

In terms of import and export, in 2006, the annual coal export amounted to 63.3 million tonnes, representing a year-on-year decrease of 12.6%, the national coal import volume amounted to 38.3 million tonnes, representing a year-on-year increase of 46.1%. In 2006, the net coal export volume amounted to 25 million tonnes, representing a year-on-year decrease of 44.2%.

In summary, in 2006, the national demand and supply of coal was generally balanced.

Projection for 2007

In terms of demand, it is projected that the total national demand for coal will be approximately 2,530 million tonnes for 2007. Newly added demand of major coal consumption industries will be approximately 144 million tonnes. Of this, newly added demand of the power industry will be approximately 109 million tonnes, representing a year-on-year increase of 8.6%, newly added demand of the steel industry will be approximately 19 million tonnes, representing a year-on-year increase of 4.6%, newly added demand of the construction material industry will be approximately 9 million tonnes, representing a year-on-year increase of 2.6% and newly added demand of the chemical industry will be approximately 7 million tonnes, representing a year-on-year increase of approximately 5.2%.

In terms of supply, as at the end of 2006, the confirmed production capacity of coal mines in the PRC amounted to 2,350 million tonnes. Production capacity in construction as planned by the "Eleventh Five-Year Plan" amounted to 800 million tonnes, of which, the balance of 360 million tonnes from the "Tenth Five-Year Plan" have all been in operation; consolidation of minor mines to form large to medium-sized mines resulted in an increase of 200 million tonnes; large to medium-sized mines recently put into operation amounted to 450 million tonnes, and newly constructed mines which have been in operation amounted to 250 million tonnes. It is anticipated that these new production capacity will come on line gradually by the end of 2010. In addition, the State will continue to streamline and shut down minor mines. In 2007, 4,048 mines, with a production capacity of approximately 100 million tonnes, will be shut down. It is anticipated that the national coal production volume in 2007 will be 2,530 million tonnes.

In terms of import and export, with the impact of changes in tax rate for the import and export of coal, strong domestic demand for coal, and the appreciation of Renminbi, the export of coal from China will further decrease whereas the import will further increase, and it is possible that China may become a net importer. The import volume of coal of China in January and February 2007 amounted to 8.6 million tonnes, representing a year-on-year increase of 65.8%, and the export volume amounted to 7.7 million tonnes, representing a year-on-year decrease of 29.6%. The net coal import volume amounted to 0.92 million tonnes.

In summary, it is anticipated that the national coal demand will be generally balanced. However, the supply of quality thermal coal may still be limited seasonally or regionally.

Transport bottleneck

Review for 2006

The transport volume by railway in 2006 amounted to 1,390 million tonnes, representing a year-on-year increase of 7.5%; of which, the transportation volume of Daqin line was 250 million tonnes, the transportation volume of Shenshuo-Shuohuang line was 110 million tonnes, and the transportation volume of Houyue line was 105 million tonnes. The transit volume of key coal ports was approximately 400 million tonnes, representing a year-on-year increase of 9.9%.

Given the features of the distribution of China's coal resources and consumption, coal from western regions is transported to the east, and coal from northern regions is transported to the south, so that transportation of coal by railway cannot meet the transportation demand over a long period of time.

The "Eleventh Five-Year Plan" of the State listed Shanxi, Shaanxi, Inner Mongolia and Ningxia as coal output regions. In 2006, the output of coal from these four provinces or regions amounted to 784 million tonnes, whereas the transportation capacity of railways was merely approximately 700 million tonnes. Hence, a bottleneck problem of limited railway transportation capacity continued to exist.

Projection for 2007

It is estimated that in 2007, the transportation capacity of railways will increase by approximately 90 million tonnes; of which, Daqin line will increase by 50 million tonnes, Shenshuo – Shuohuang line will increase by 15 million tonnes, and Houyue line will increase by 20 million tonnes. The transportation capacity of ports will increase by 45 million tonnes; of which, Qinhuangdao Port will increase by approximately 14 million tonnes, and the Shenhua Tianjin Coal Dock will increase by 13 million tonnes.

Contracts entered into for cross-provincial transportation of coal will amount to 1,200 million tonnes for 2007, exceeding the target set by the State which is 738 million tonnes of transportation capacity. It is estimated that in 2007, the growth in coal transportation capacity by railway will not be able to meet the demand for coal transportation and bottleneck problems will persist. In addition, supply of coal to the coastal regions will be subject to limitations in the transportation capacity by sea, and it is estimated that the transportation capacity of the domestic seaborne market will continue to see constraints.

Policy for the coal industry

The key policies for the coal industry for 2007 are as follows:

The State introduced the "Eleventh Five-Year Plan for the Development of the Coal Industry" to facilitate a more rapid development of large coal production bases and large corporations and consolidation within the industry;

A new mechanism of "A Free-reigned Matching of Supply and Demand for the Resources and Pricing Under the Macro-economic Control by the State" will be introduced, whereby market-oriented pricing of coal has been adopted when placing orders for coal for 2007;

The State continues to adopt a policy to streamline and shut down minor mines. The NDRC proposed that by 2010, the number of minor coal mines will be reduced to 10,000 and their production volume will be controlled below 700 million tonnes. By the end of 2007, all coal mines under 30,000 tonnes will be shut down. The State Administration of Work Safety will not accept applications for approval for opening of new coal mines with a production capacity below 300,000 tonnes per year.

The State adopted, on a pilot basis, in Shanxi Province a series of measures to ensure the sustainable development of the coal industry. The test will involve coal resources being exploited on a fees basis, such fees to take the form of levies for the sustainable development fund, deposits for the rehabilitation of the environment of coal mines and levies for a development fund for converting coal mine to other operations. It is also examining the application of such measures across the country.

While the State has cancelled the tax rebate for the export of coal, it has also lowered the import duty for coal. In addition, export of four scarce energy products, including coal and coke, are taxed tentatively at an additional rate of 5%.

The State proposes that during the "Eleventh Five-Year Plan" period, the energy consumption per GDP unit will be reduced by about 20% and the annual rate of energy saving will be 4.4%.

In summary, consumption of coal in 2006 continued to be robust with production having increased by a small margin, whereas production capacity was restricted by transportation by railway, so that certain regions still suffered from under-supply. The increase in prices of coal for the year were relatively steady. For example, the FOB price for 6,000 calories per kilogram thermal coal in Qinhuangdao port saw an increase of approximately 11% for the year. In addition, the difference in price of thermal coal between contractual sales and spot sales had narrowed.

It is anticipated that in 2007, the demand for coal will be robust and continue to have steady growth. The production of coal will grow to some extent, so that the coal market will be steady and no marked unbalance in supply and demand will occur. However, for certain regions and in different seasons, the supply of coal, especially quality thermal coal, could be uneven. Given the transportation bottleneck constraints , the policy that production and transportation will be determined according to demand for the output of coal from Shanxi, Shaanxi, Inner Mongolia and Ningxia will not change. Given the impact of various factors including costs, coal prices will rise gently, contract price for thermal coal will rise and the difference between the contract prices for thermal coal and those of spot sales will shrink further.

2. The thermal coal market of the Asian Pacific Region[3]

Supply and demand of coal

Review of 2006

In terms of the demand, the major importers of thermal coal in the Asian Pacific market are Japan, Korea, China Taiwan, India and China. In 2006, the import volumes of Japan, Korea and China Taiwan were the three largest, of these the import volume of thermal coal of Japan amounted to 91.4 million tonnes, representing a year-on-year decrease of 5.0%; the import volume of thermal coal of Korea amounted to 59 million tonnes, representing a year-on-year increase of 5.2%; the import volume of thermal coal of China Taiwan amounted to 57.0 million tonnes, representing a year-on-year increase of 3.3%; the import volume of thermal coal of India amounted to 26 million tonnes; and the import volume of thermal coal of China amounted to 10.9 million tonnes, representing a year-on-year increase of 43.9%.

In terms of supply, exporters to the Asian Pacific Region mainly include Indonesia, Australia, China, Russia and South Africa. In 2006, Indonesia had exported a total of 125 million tonnes of thermal coal, representing a year-on-year increase of 13.6%. Australia had exported a total of 111.6 million tonnes of thermal coal, representing a year-on-year increase of approximately 4.4%. Russia had exported 11.0 million tonnes of thermal coal to Asia, which was broadly in line with the previous year. With the rise in transportation fees, South Africa had exported 3.0 million tonnes of thermal coal to the Asian regions, representing a year-on-year decrease of 31%. China had exported 53.8 million tonnes of thermal coal, representing a year-on-year decrease of 11.5%. The decrease was mainly attributable to the growth in domestic demand.

To summarise, the supply of thermal coal for the Asian Pacific market was limited in 2006.

Projection for 2007

In terms of demand, it is estimated that the demand for coal of the Asian Pacific Region will continue to rise. The demand of Japan, Korea and China Taiwan will be relatively steady with little change. The newly added demand will mainly concentrate in China and India. The import volume of thermal coal for India in 2007 will be approximately 30 million tonnes, representing an increase of 15.4%. With the adjustment in import and export duty and appreciation of the Renminbi, the coal import of China will increase further.

In terms of supply, in 2007, the supply capability of the Asian Pacific Region is anticipated to see a small margin of increase. The export volume of thermal coal by Indonesia would increase by 24 million tonnes, but the low calorific value of the product and impact of rainy seasons result in the unevenness in supply and restriction in export markets of thermal coal exported by Indonesia. Australia intends to export 8-10 million tonnes of thermal coal. As Russia has constraints on its port handling capacity, it is anticipated that there will be little change in its export of thermal coal. The export volume of China's thermal coal will continue to decrease as it is subject to factors such as the increase in domestic demand.

To summarise, the supply of thermal coal for the Asian Pacific market will rise but will continue to be limited especially in terms of the supply of coal with high calorific value.

[3] Source: China Coal Market Net; TEX Report

Transportation of coal

Review of 2006

The international transportation of coal was influenced by sea transportation fees and the handling capacity of ports. In 2006, the export of coal by Australia to a large extent was restricted by the handling capacity of its ports. In 2006, Newcastle Port dispatched a total of 79.8 million tonnes of coal, a decrease of approximately 0.6% from the 80.3 million tonnes in 2005. The sea transportation fees in 2006 were rising.

Projection for 2007/3/16

It is estimated that the bottleneck problem facing Australia in its transportation of coal will continue in 2007 and the supply of coal for the Asian Pacific Region will continue to be limited. With the completion of export infrastructure currently in construction or under planning in Australia, the throughput of ports in the future will increase by 79 million tonnes, which is favourable to the future coal exports of Australia. Increase in exports of Australia and Indonesia will result in the constraints in the coal transportation capacity by sea to the Asian Pacific Region during 2007.

In summary, in 2006, the economies of the Asian Pacific Region continued to grow, and energy demand of all countries, in particular the demand and import for coal in China and India, was rising. The export volume of Indonesia increased. In 2006, both the supply and demand for coal in the Asian Pacific Region were robust. The long-term contract price for coal was steady and the price for spot sales had increased significantly.

In 2007, although both Indonesia and Australia have plans to increase their exports, with the robust demand for coal in the Asian Pacific Region and the continued constraints of the port capacity in Australia as well as the change in import and export volumes of China, the supply of coal for the Asian Pacific Region will become increasingly restricted. Hence the prices of coal will rise, especially the long-term contract price of thermal coal in the Asian Pacific Region. In 2007, the supply of thermal coal for the Asian Pacific Region will be increasingly limited and leading to an increase in prices.

The market environment of the power industry [4]

Supply and demand of power

Review of 2006

In terms of demand for power, the total power consumption maintained its rapid growth, exceeding the GDP growth. In 2006, the nationwide power consumption reached 2,824.8 billion kwh, representing a year-on-year increase of 14.0%, of which, power consumption by heavy industries was 1,702.1 billion kwh, representing a year-on-year increase of 15.4%. The power consumption by urban and rural residents was 324.0 billion kwh, representing a year-on-year increase of 14.7%. It is noteworthy that the growth rate in power consumption by rural residents is higher than that of

Projection for 2007

In terms of demand, the demand of power in 2007 will continue to rise steadily. The total estimated power consumption across the country will be approximately 3,130 – 3,180 billion kwh, representing a year-on-year increase of 11% – 12.5%.

In terms of power production and supply, it is estimated that the newly-added installed capacity nationwide will be about 95 million kw, and by the end of the year, the national installed capacity will be 720 million kw. It is estimated that the utilisation hours of power generation

[4] Source: The China Electricity Council, State Grid Corporation

Supply and demand of coal

urban residents by about 5% in every month of the year, and also markedly higher than the growth rates of other industries. This shows that driven by the construction in the new rural area and development of rural economy, the power consumption of rural residents will become a key area of growth for the future demand of power.

In terms of power production and supply, in 2006, the national newly added installed capacity in operation exceeded 100 million kw, and the national installed capacity for generation amounted to 622 million kw, representing a year-on-year increase of 20.3%; of which, coal-fired installed capacity amounted to 484 million kw, representing a year-on-year increase of 23.7%. In 2006, the national gross power generation amounted to 2,834.4 billion kwh, representing a year-on-year increase of 13.5%; of which, coal-fired power generation amounted to 2,357.3 billion kwh, representing a year-on-year increase of 15.3%. The national average utilisation hours of generation facilities saw a further decrease, and the national average utilisation hours of generation facilities was 5,221 hours, representing a year-on-year decrease of 203 hours; of which, the average utilisation hours of generation facilities for coal-fired generation was 5,633 hours, representing a year-on-year decrease of 233 hours, indicating that the shortfall in supply of power had been alleviated.

In terms of policy, in 2006, the NDRC initiated the second round of linking coal price with power tariff and adjusted the on-grid tariff upwards, thus alleviating the pressure on power generation cost as a result of the rise in coal price. In addition, the State introduce further directives in respect of environmental protection and required that newly added generation units should also come with FGD facilities. Preferential treatment for on-grid tariff was offered as an incentive for applying such FGD facilities.

In 2006, the supply and demand of power was generally balanced with the shortfall in supply of power being markedly alleviated, though the supply for certain regions remained tight. The power supply in Eastern China, Northen China, the northwest and northeast was generally sufficient, whereas the power supply in Central China remained limited seasonally, and remained limited in the southern regions of China.

facilities in 2007 will continue to decrease to 4,900 – 5,000 hours, or about 220 – 320 hours. Of this the utilisation hours for coal-fired units will decrease to 5,200 – 5,300 hours, or about 330 – 430 hours, resulting in the total national supply and demand becoming more balanced.

In terms of policy, it is estimated that with the rise in coal price, in 2007, the NDRC will once again increase the power tariff. In addition, the power industry will implement the policy of preferring large enterprises over the small enterprises for energy conservation and reduction of emission, by making efforts to shut down small coal-fired generation units, reducing energy consumption and emission of pollutants. From 2007 to 2010, China plans to reduce small coal-fired generation units by over 50 million kw and reduce the energy consumption per unit of GDP and the emission of key pollutants by 20% and 10% respectively. Moreover, the State will be implementing its policy on optimizing the distribution of power generation. In regions where the policy is tentatively applied, the utilisation hours of generation units with large capacities and high parameters will be maintained or come down slightly, whereas generation units with small capacities and low parameters, especially the fuel-fixed generation units, will be subject to rigorous tests.

It is estimated that in 2007, the power supply and demand will be generally balanced, and the national average utilisation hours of generation facilities will see a marked decrease. The supply will only be limited in certain regions or at certain times in eastern, northern and southern regions of China.

Strategies in 2007

Sales and marketing strategies

- As domestic coal prices rise, we will raise the long-term contract prices of coal appropriately and narrow the gap with the spot sales prices gradually; while we will satisfy the demand of our existing strategic customers, we shall take the initiative to develop new customers;
- Developing the operations of purchasing coal from third parties for blending and re-sale, and fully utilising our resources in railways and ports for transportation, so as to increase our revenues and profits;
- We will appropriately balance our domestic and overseas coal market, steady our export sales, keep the prices reasonable and develop new customers;
- Prudently proceed with our coal import agency operations to expand our scope of operations;
- Be better prepared in our power segment in the bidding of on-grid power to maximise our business interest.

Production management

- Strive to facilitate the effective implementation of the safety management system and mechanism within the Company and to achieve higher safety standards and level within the industry;
- By further improving our infrastructure, production equipment and information system, we aim to enhance our production efficiency and increase our economy of scale;
- Continue to strive to expand the potential of our transportation system and upgrade our transportation capability to fully utilise our strength in the integrated transportation system;
- Strengthening operation and management of power operations and strive to minimise the operation costs and accelerate collection of power tariffs, to further enhance the level of return of the power segment.
- Constantly innovating in technology and fully leveraging new technologies, equipment and new materials, thus facilitating the modernisation of our production facilities and increasing our cost-effectiveness.

Management and operation of capital

- Developing and acquiring new resources in the PRC to lay a foundation for our sustainable development;
- Active involvement in developments and acquisitions of overseas projects to enhance our international presence;
- Developing projects with capital injection by our parent company to increase our profitability.

Sophisticated management

- Improving the ability of our staff to implement our annual plan well and creatively;
- Strengthening our independent innovation in technology to facilitate the long-term development of our integrated mode of operation;
- Strengthening our budget management to minimise cost and increase efficiency, thus achieving better cost control;
- Improving our internal controls system and strengthening our internal management mechanism to prevent operational risks, thereby actively implementing our systemisation of management. In the short term, focusing on the establishment of our strategic financial management system to increase the accuracy and timeliness of the way we deal with our daily operations and estimates, the safety and efficiency with which we apply our capital and to increase the support of finance to the management decision-making process, allowing us to effectively realise our strategic goals;
- Strengthening staff training to enhance their professionalism and teamwork capability;
- Rigorously managing connected transactions to ensure compliance with applicable laws and rules.

Harmonious development

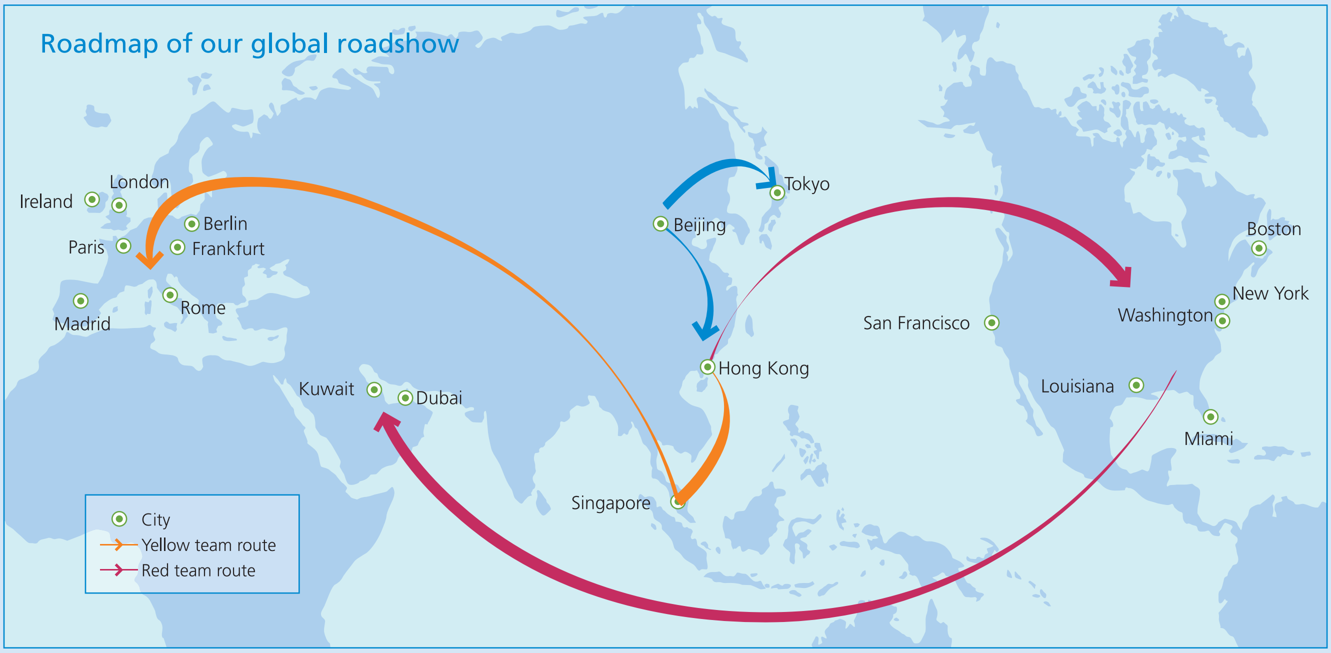
- Fostering a harmonious relationship internally and with the government, regulatory authorities, customers and shareholders, to achieve the best result for all and promote the continuous growth of the Company;
- Enhancing awareness of energy-conservation and environmental protection, performing our social responsibilities consciously for the sake of a harmonious development;
- Rigorously performing our corporate management duties in accordance with the standards of international capital markets, and endeavouring to generate returns for shareholders.

Investor Relations

The concept of investor relations: to enhance company profile, and create shareholder value
The approach of investor relations: proactive, interactive, professional and disciplined

Our share price rose steadily in 2006. The share price soared by 138% in the past year, performing far better than the Hang Seng Index and the H-share Index, and outstanding the industry. The rise in our share price brings good returns for shareholders.

Since its listing, the Company has been committed to taking the initiative to communicate candidly with investors, which has helped investors and analysts to fully understand our management concept, development strategy and operations, and to grasp the fundamentals of the Company, thereby optimising our shareholders' value.



Annual general meeting held in Hong Kong in May 2006

Site visit by fund managers and analysts to the Shendong Mines in May 2006

Multi-Channel Communications with the Market

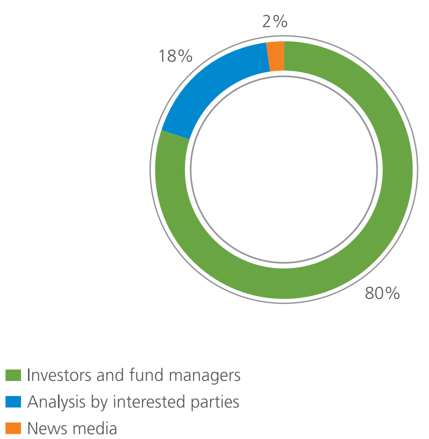
In 2006, the Company vigorously applied a "full coverage" approach, holding meetings with investors and analysts by various means with an aggregate of 1,630 meeting attendances(1), thereby achieving an efficient communication between the Company and the market.

In 2006, the Chairman and the President led a team of senior management of the Company to conduct two conferences in relation to the announcement of the results of the Company, one annual general meeting, several investment summit talks and three non-deal roadshows for the Company's results. The roadshows covered places including, North America, Europe, Middle East and Japan. The senior management of the Company has carried out proactive and full communications with investors from over 100 funds around the world, with an aggregate of 495 meeting attendances(1). Through their direct interactions with the market, not only can the senior management release the latest and most authoritative information to the market, but they can also understand the views of investors and analysts regarding the strategies of the Company, the corporate governance of the Company and its daily operations, thus allowing for improvements to be made to the operations of the Company.

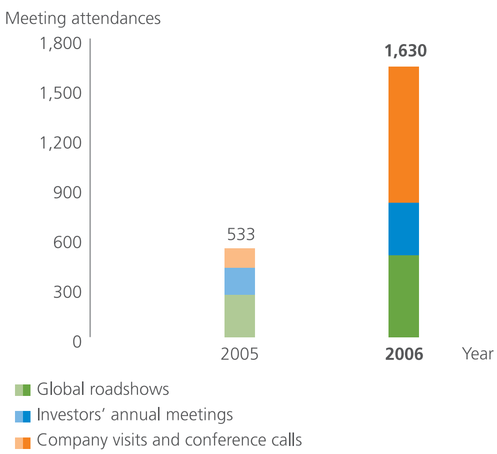
In 2006, the management of the Company actively participated in a number of international investment forums, 21 annual meetings with investors, and meetings with investors and analysts with an aggregate of 1,270 meeting attendances(1). Meanwhile, the investor relations staff of the Company met the investors and analysts with an aggregate of 360 meeting attendances(1) in 2006 through various means of visits or conference calls.

In May 2006, the Company held its first annual general meeting in Hong Kong after its listing. Led by Mr. Chen Biting, the Chairman of the Company, all the directors, supervisors and senior management attended the meeting to exchange views face-to-face with shareholders, in particular medium to small shareholders. Independent directors had also responded to the concerns of shareholders. All the resolutions had been passed smoothly.

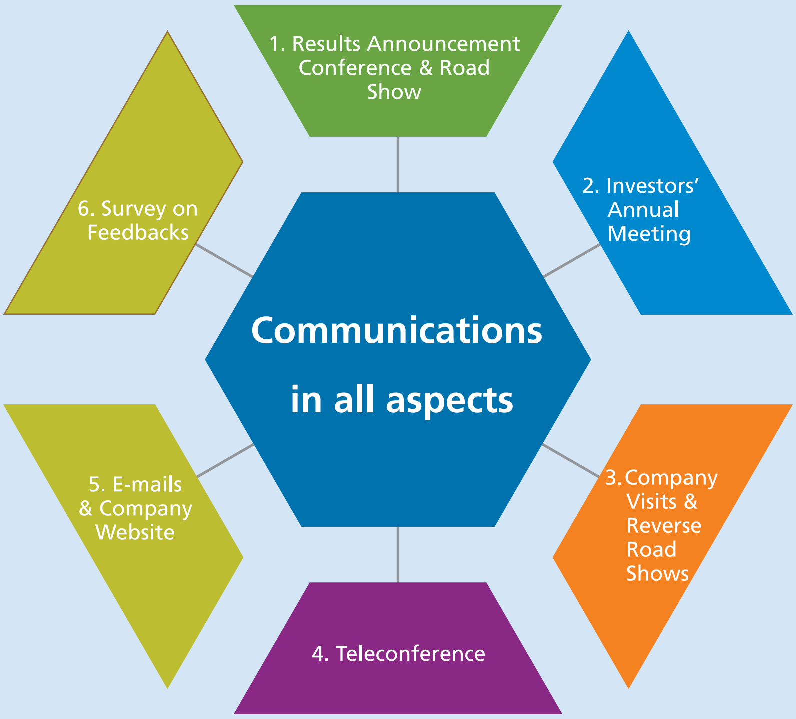
Analysis of interested parties



Analysis of investor relations activities



Note:
(1) "Meeting attendances" is calculated as the number of meetings multiplied by the number of attendees at each meeting.



1. Fully present our operating results to help investors grasp our strategies for the future
2. Transmit our latest information and analyse trend of the industry development in the future
3. Face-to-face communications to have an in-depth understanding of the Company's operations
4. Taking the initiative to disseminate the latest information about the Company and the industry
5. Disclose information in a timely manner to seek continuous interaction with investors
6. Review our performance and efficiency, identify deficiency and make continuous improvement

The first reverse roadshow after our listing

In May 2006, the Company conducted its first reverse roadshow. 30 fund managers and analysts from more than 20 investment banks came to visit the Bulianta mine, Majiata rehabiliation area, Direct Coal Liquefaction project, and repair and maintenance centre at the Shendong Mines. Through this site visit of the production base, investors and analysts were able to gain a more direct and thorough understanding of our operational model and highly efficient management.

The first roadshow in the Middle East after our listing

In September 2006, the Company went to the Middle East Region for a non-deal roadshow for the first time. The Company met with eight institutional investors in the Middle East with significant influence in the region, thereby enhancing our profile and influence with the investors in the Middle East Region. According to investors' feedback, the Company is the first H share Company other than financial companies to visit the investors in the Middle East and the Company is perceived as having a very strong international perspective and a high investment value.

Seeking to continously improve investor relations

We conducted a survey on investor relations through independent third parties to help us to understand any deficiency in our work over the past year and to identify the direction towards which we should be working in future. In the meantime, we had also sought to improve our professional qualifications and working capabilities through learning from domestic peers and exchange of our work experience as well as through training provided by the Company.

Working in-depth to enhance effectiveness

We have established and have been updating our database for the Company and industry and set up a mechanism for receiving feedback on information of the market. By means such as internal publications, we communicate with the management and the relevant departments on the key issues raised at each of our regular meetings. We also carried out in-depth discussions and analysis on the key issues or difficulties, so as to continuously improve the operation of the Company. For questions which cannot be fully addressed on the spot, the Company delivers the conclusion of such discussions and analysis to investors by e-mail and telephone.

Management met with investors in the Middle East for the first time in September 2006

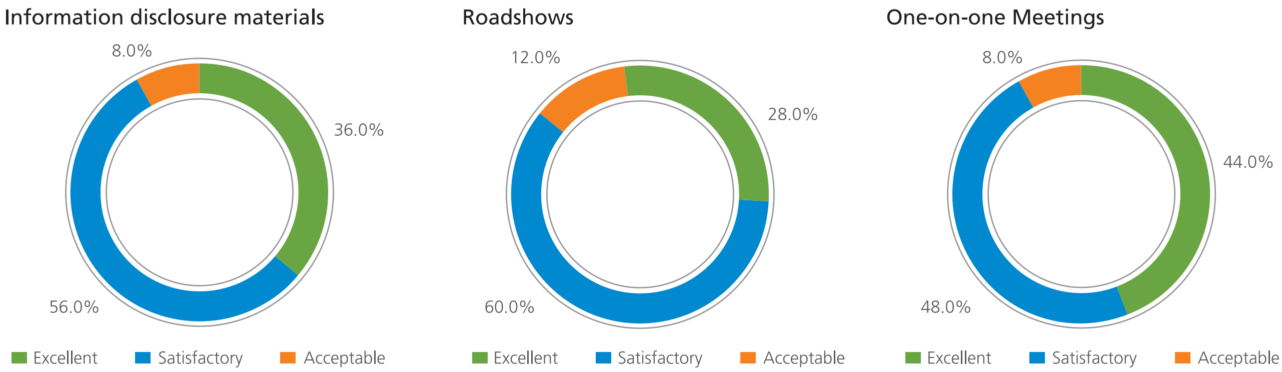
Prospects

In 2007, the Company will continuously take a proactive, interactive and professional approach for Investor Relations and will standardise the operations of Investor Relations. The Company will enhance the transparency of our disclosure of information and will provide information to the investors so that the investors and analysts can understand our development more accurately, effectively and timely, thus maximising shareholders' value.

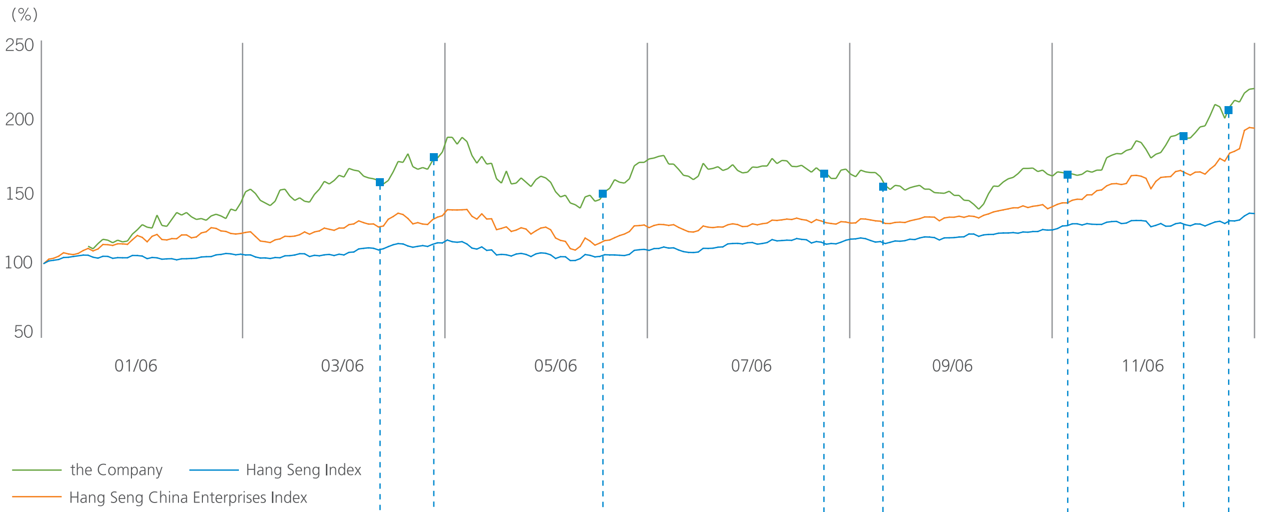
In 2007, the focus of Investor Relations are as follows:

- enhancing the transparency of the Company's information disclosure. Since January 2007, we have been disclosing on a monthly basis the business data of the Company and industry background or policies which will affect the operations of the Company;
- collecting internal and external information systematically and establishing our information data bank and investors database, so as to transmit information to investors in a timely manner and to improve the quality of such information transmitted; and
- improving the investor information feedback system and establishing the relevant systems to improve interaction with investors.

Analysis of survey results for investor relations



Share price performance of the Company in 2006



Major investor relations' events in 2006

- Annual Results Announcement of 2005 on 10 March
- Management Global Roadshow
- Announcement of Acquisition of Jinjie Energy

- Release of Quarterly Operational Results on 17 April

- Investors Site Visit to Shendong Mines on 20 May

- Release of Operational Results of the First Half of the Year on 14 July

- Announcement of 2006 Interim Results and Management Global Roadshow on 25 August

- Release of Quarterly Operational Results on 13 October

- Dr. Ling Wen, the President, attended the Asia Pacific Investment Summit of Morgan Stanley on 14 November

- Mr. Chen Biting, the Chairman, visited Japan for non-deal roadshow on 13 December

Key Activities for Investor Relations in 2006

	Key-note presentation	One-on-one meeting	Investors attendance
January 2006			
• Participated in the Investment Forum held by CICC for 2006	–	–	–
• Participated in the Greater China Investment Conference 2006 held by UBS	✓	10	50
February 2006			
• Participated in the activities for promotion of China enterprises held by HSBC	–	9	23
• Participated in the Global Economic Conference held by Lehman Brothers	–	–	–
• Participated in the "China Concept" Conference held by Deutsche Bank	–	8	22
March 2006			
• Announcement of 2005 annual results	✓	–	–
• Panel discussion with analysts and press conference	–	–	80
• Global non-deal roadshow presenting 2005 annual results of Company by the management	✓	97	257
• Participated in the China Investment Conference 2006 held by Credit Suisse	✓	97	35
April 2006			
• Participated in the China Investment Conference 2006 held by JP Morgan	✓	8	24
May 2006			
• Participated in the Annual Investment Conference held by Macquarie	✓	–	20
• Participated in the China Investment Forum 2006 held by CLSA	✓	8	28
• Participated in the Global Investment Forum held by Deutsche Bank	✓	–	50
• Participated in the Investment Forum held by UBS	✓	8	20
• 2005 Shareholders' Annual General Meeting	–	–	–
• Annual reverse roadshow of investors and analysts for 2006	–	–	30

	Key-note presentation	One-on-one meeting	Investors attendance
June 2006			
• Participated in China Access Day – Natural Resources held by CLSA	–	8	38
August 2006			
• Announcement of 2006 interim results	–	–	–
• Panel discussion with analysts and press conference	✓	–	80
• Interim Global non-deal roadshow presenting 2006 interim results of Company by the management	✓	98	255
September 2006			
• Participated in the Investment Forum 2006 held by CLSA	✓	8	30
• Participated in the Forum 2006 held by CICC	–	–	–
October 2006			
• Participated in the China Forum held by BNP Paribas	✓	5	6
• Participated in the China Investment Forum held by Credit Suisse Warrants	✓	10	23
• Participated in the Greater China Investment Forum 2006 held by Citibank	✓	16	51
November 2006			
• Participated in the Asia Pacific Investment Summit 2006 held by Morgan Stanley	✓	12	20
• Participated in the 2006 China Investment Frontier Meeting held by Goldman Sachs	✓	10	14
• Participated in the Communication Day of metals and mining industries in China held by JP Morgan	–	11	30
• Participated in the 2006 Meeting of metals and mining industries in China held by Macquarie	–	–	10
December 2006			
• Roadshow in Japan presenting 2006 interim results of Company by the management	✓	11	50
• Participated in the China Concept – Natural Resources held by CLSA	–	7	24

Directors, Supervisors, Senior Management and Employees

Directors

CHEN Biting

aged 61, has served as Chairman of our Board of Directors and an executive director since November 2004. Mr. Chen is also Chairman of the board of directors of Shenhua Group and was previously the General Manager of Shenhua Group. Mr. Chen also served as the Vice Secretary General of the No. 4 Standing Committee of the Chinese Electricity Council. Prior to joining Shenhua Group in November 2000, Mr. Chen served as Vice Governor of Jiangsu province, Director General of the Economic Planning Commission of Jiangsu Province, Vice Secretary General of the Jiangsu provincial government, Deputy Director General of the Economic Planning Commission of Jiangsu province and Executive Vice Mayor of Yancheng City, Jiangsu Province. Mr. Chen has over 30 years of experience in macroeconomic and enterprise management. He graduated from the University of Science and Technology of China in 1970.

ZHANG Xiwu

aged 48, has served as a non-executive director since November 2004. Dr. Zhang has served as the General Manager of Shenhua Group since 2004. Previously, he served as a Vice General Manager of Shenhua Group, Chairman and General Manager of Shenhua Shendong Coal Company, Chairman of Shenhua Dongsheng Coal Company, Manager of the Fine Coal Business Department of Shenhua Group. Prior to joining Shenhua Group in August 1995, Mr. Zhang was Deputy Chief of the Bureau of Coal Industry of Jilin Province and Deputy General Manager of the Northeast Inner Mongolia Coal Group Company. Dr. Zhang has in-depth industry knowledge of, and over 20 years of operational and management experience in the coal industry in China. He graduated from Jixi College of Technology in 1988, and he obtained a master's degree and a Ph.D. degree from Liaoning University of Engineering and Technology in 1997 and 2003, respectively.

ZHANG Yuzhuo

aged 45, has served as a non-executive director since November 2004. Dr. Zhang is also a Vice General Manager of Shenhua Group and Chairman of China Shenhua Coal Liquefaction Company Limited. Prior to joining Shenhua Group in December 2001, Dr. Zhang served as the President of the China Coal Research Institute, Chairman of China Coal Technology Corporation, Chairman of Tiandi Science & Technology Co. Ltd. and Deputy General Manager of Shandong Yankuang Group Co. Ltd. Dr. Zhang is experienced in management of research and development activities and has approximately 20 years of enterprise management experience in the coal industry in China. He graduated in 1982 from Shandong University of Science and Technology with a bachelor's degree, received a master's degree from China Coal Research Institute in 1985 and a Ph.D. degree from the University of Science and Technology of Beijing in 1989. From 1992 to 1996, Dr. Zhang conducted post-doctoral research and study of clean coal technology at the University of Southampton and Southern Illinois University at Carbondale.

LING Wen

aged 44, has served as an executive director and the President of our Company since August 2006. Dr. Ling is in charge of the daily operations of the Company. Dr. Ling has served as the executive director of the Company since November 2004. In addition, Dr. Ling is also the Chairman of Shenhua Finance Company Limited ("Shenhua Finance"). Dr. Ling had previously served as the executive vice president and chief financial officer of the Company. Prior to joining our Company, Dr. Ling served as a Vice General Manager of Shenhua Group. Prior to joining Shenhua Group in December 2001, Dr. Ling served as Deputy General Manager of the International Business Department of the Industrial and Commercial Bank of China, Deputy General Manager of Industrial and Commercial Bank of China (Asia) Limited and Chairman of UB China Business Management Company Limited. Dr. Ling has in-depth and extensive experience in financial institution and enterprise management. Holding a professorship at the school of management of the Harbin Institute of Technology, he is a member of the Institute of Financial Accountants of the United Kingdom and is a fellow-professional accountant of the National Institute of Accountants of Australia. Dr. Ling graduated from Shanghai Jiaotong University with a bachelor's degree in science in 1984, received a master's degree in system engineering from Harbin Institute of Technology in 1987 and received a Ph.D. degree in management engineering in 1991. From 1992 to 1994, Dr. Ling conducted post-doctoral research in macroeconomics in the Department of Automation of Shanghai Jiaotong University.

HAN Jianguo

aged 48, has served as a non-executive director since November 2004. Mr. Han has also been Vice General Manager of Shenhua Group since 2003. Previously, he served as Chairman and General Manager of Shenhua Coal Trading Company Limited ("Shenhua Trading"). Prior to joining Shenhua Group in April 1998, Mr. Han also served as secretary to the former Vice Minister of the State Development and Planning Commission. Mr. Han is a Senior Engineer and is experienced in macroeconomic and enterprise management in the coal industry in China. He graduated from Fuxin College of Mining and Technology in Liaoning Province with a bachelor's degree in 1983 and received a master's degree from Tongji University in 1999. From 2004 to 2006, he studied at the EMBA Sino-European International Business School and obtained a MBA degree.

HUANG Yicheng

aged 80, has served as an independent non-executive director since November 2004. Mr. Huang previously served as the Co-Chairman of the Sino-Russia Friendship, Peace and Development Committee, Deputy Director of the Financial and Economic Committee of the Eighth National People's Congress, Minister of the Ministry of Energy and former Vice Minister of the State Planning Commission. Mr. Huang is also a professional-level Senior Engineer.

NEOH Anthony Francis

aged 60, has served as an independent non-executive director since November 2004. Mr. Neoh is a member of the International Advisory Committee of the China Securities Regulatory Commission ("CSRC") and was previously the Chief Advisor to the CSRC. He was Chairman of the Securities and Futures Commission ("SFC") of Hong Kong from 1995 to 1998 and Chairman of the Technical Committee of the International Organisation of Securities Commissions from 1996 to 1998. From 1991 to 1994, he was a member of the Stock Exchange of Hong Kong Limited ("Stock Exchange") Council and its Listing Committee. He was appointed Queen's Counsel (now retitled Senior Counsel) in 1990. He was Visiting Professor for Nomura Securities International Financial Systems at the Harvard Law School in 2004. He graduated from the University of London with a bachelor's degree in law in 1976. In 2003, Mr. Neoh was granted an honorary doctorate by the Chinese University of Hong Kong.

CHEN Xiaoyue

aged 60, has served as an independent non-executive director since November 2004. Dr. Chen is the Director of Accounting Research Institute at Tsinghua University, a consultant of Beijing National Accounting Institute, a member of the Standing Committee of Accounting Society of China, a professor of Tsinghua University and mentor for doctoral students and vice president of China Appraisal Society. Dr. Chen was previously the President of Beijing National Accounting Institute, vice dean of the Economic Management School of Tsinghua University and dean of the Department of Accounting of Tsinghua University. In addition, Dr. Chen serves as an independent non-executive director of China United Telecommunications Corporation Limited and Yunnan Baiyao Group Co., Ltd. Dr. Chen graduated in 1982 from Tsinghua University with a bachelor's degree and received his master's and Ph.D degrees from Tsinghua University in 1984 and 1988, respectively.

Supervisors

XU Zufa

aged 58, has served as Chairman of our board of Supervisors since November 2004. Mr. Xu is also a director of Shenhua Group. Prior to joining Shenhua Group in July 2002, Mr. Xu served as Deputy Director and a director-level supervisor of the Organisation Department of the Central Committee of the Communist Party of China. Mr. Xu has extensive human resources management experience. He graduated from the Central Communist Party School with a bachelor's degree in 1993.

WU Gaoqian

aged 56, has served as a supervisor of our Company since November 2004. Prior to joining our Company, Mr. Wu joined Shenhua Group in August 1996 served as Director of the Audit and Inspection Office of Shenhua Group. He graduated from the China People's Police University (now retitled China People's Public Security University) in 1987.

LI Jianshe

aged 53, has served as a supervisor of our Company. Mr. Li has served as an employee representative supervisor of our Company since November 2004. Mr. Li has also served as a member of the standing committee and vice president of China Coal City Union. Since November 2006, Mr. Li has held the position of Deputy Chairman of China Coal Urban Development United Promotion Association. Prior to joining our company, Mr. Li served as Section Chief of the General Planning Office of Shenhua Group. Before joining Shenhua Group in December 2000, Mr. Li also served as Chief of the Secretary Section of General Office of the Ministry of Communications. Mr. Li is a Senior Engineer and graduated from Beijing University of Technology in 1978.

Senior Management

HAO Gui

aged 44, has served as Vice President in charge of safety, health and environmental management and operational coordination of our Company since November 2004. Prior to joining our Company, he served as Vice Chief Economist of Shenhua Group, Chairman of Shenhua Mengxi Coal Chemical Company Limited, Chairman of Shenhua Zhonglian Shuozhou Coal Company ("Zhonglian Shouzhou"), Chairman of Zhonglian Economic and Technological Development Company, Chief Economist of Shenhua Shenfu Fine Coal Company. Before joining Shenhua Group in May 1996, Mr. Hao acted as Vice Director of the Yanzishan Mine of Datong Coal Mining Bureau and lecturer at the Economics and Trade School of the China University of Mining and Technology. Mr. Hao is a Senior Economist and has in-depth industry knowledge with over 15 years of operational and managerial experience in the coal industry in China. He graduated from China University of Mining and Technology with a bachelor's degree in 1984 and received a master's degree in 1987. He graduated from the China University of Mining and Technology and obtained a doctor's degree in management in 2006.

WANG Jinli

aged 47, has served as Vice President in charge of coal production at our Company since November 2004. Prior to joining our Company, Mr. Wang served as the Chairman of the board and General Manager of Shenhua Shendong Coal Company, Deputy General Manager of Shenhua Shendong Coal Company, Director of Shenhua Port Company, Director of the Changchun Coal Technology Centre and Director of the Hunchun Coal Mining Bureau. Mr. Wang is a researcher Senior Engineer and has approximately 30 years of operational experience in the coal industry in China. He graduated from Jilin University with a bachelor's degree in 1992 and received a master's degree from Liaoning Technical University in 2002. In 2006, he graduated from Liaoning Engineering and Technology University and obtained a doctor's degree.

XUE Jilian

aged 52, has served as Vice President in charge of transportation operations at our Company since November 2004. Mr. Xue has also served as Chairman of Shuohuang Railway Development Company Limited since September 2003. Mr. Xue was previously the General Manager of Shuohuang Railway Development Company Limited. Prior to joining Shenhua Group in April 1999, Mr. Xue served as Deputy Director and Chief Engineer of Number 16 Engineering Bureau of the Ministry of Railways. Mr. Xue is a professor-level Senior Engineer and has extensive operational and management experience in railway construction and rail transportation enterprises. He graduated from Shijiazhuang Railway Insititute in 1979 and graduated in 1993 from Southwest Jiaotong University with a bachelor's degree and received a master's degree in science and engineering management from Southwest Jiaotong University in 2001.

HUA Zeqiao

aged 55, has served as Vice President of our Company in charge of coal marketing of our Company since November 2004. Mr. Hua has also been Chairman and General Manager of Shenhua Trading since 2003. Previously, he served as Deputy General Manager and Chairman of the Labour Union of Shenhua Trading and prior to joining Shenhua Group in September 1998, he also served as Chief Economist of the Jixi Mining Bureau, Deputy Chief Economist and Head of the Marketing Office and Head of Muleng Mines of the Jixi Mining Bureau. Mr. Hua is a Senior Economist and has over 30 years of operational and managerial experience in coal production and sales management. He graduated from Harbin Normal University with a bachelor's degree in 1991.

WANG Pingang

aged 45, has served as Vice President in charge of power operations of our Company since November 2004. Mr. Wang has also served as Chief Engineer of Beijing Guohua Power Company since 2004. Previously, he served as General Manager, Deputy General Manager and Chief Engineer of Suizhong Power. Prior to joining Shenhua Group in March 1999, he also served as Deputy Head of the Yuanbaoshan Power Plant. Mr. Wang is a Senior Engineer and has extensive operational and management experience in the power industry. He graduated from Northeast China Institute of Electric Power Engineering with a bachelor's degree in 1987.

HUANG Qing

aged 41, has served as Secretary to our board of directors since November 2004 and is also a joint company secretary of our Company. Mr. Huang is in charge of investor relations, capital market activities and M&A management. Prior to joining our Company, Mr. Huang served as Deputy Director of the General Office of Shenhua Group from 2002 and secretary to the Chairman of Shenhua Group since July 2003. Prior to joining Shenhua Group in 1998, he served as Deputy General Manager of the Hubei Provincial Railway Company and secretary to the Vice Governor of the Hubei provincial government. Mr. Huang obtained a board secretary certification from the Shanghai Stock Exchange in 2004. Mr. Huang graduated from the National University of Defence Technology with a bachelor's degree in 1988 and received a master's degree from Guangxi University in 1991.

ZHANG Kehui

aged 44, has served as Chief Financial Officer of our Company since January 2007 and is in charge of financial work of the Company. Ms. Zhang has previously acted as the head of the internal-control auditing department of the Company. Prior to joining our Company, Ms. Zhang acted as Deputy Manager of financial department of Shenhua Group, assistant to the General Manager of Shuohuang Railway Development Company Limited. Being a senior economist as well as certified accountant in China, Ms. Zhang has extensive experience in financial management. Ms. Zhang graduated from Shanxi University with a bachelor's degree in 1985 and received a master's degree in Economics from China University of Mining and Technology in 1994.

JOINT COMPANY SECRETARY

Ng Chai Ngee

aged 47, is a joint company secretary of our Company. Ms. Ng has served as the general counsel of the Legal Department (China Division) of Kerry Holdings Ltd. from June 2004. Prior to that, she served as in-house legal counsel and consultant to various divisions of the Kuok Group, including Shangri-la (Asia) Ltd. From 1989 to 1991, Ms. Ng was the executive secretary of the Law Society of Singapore, responsible for its organisation and management, including administration, finance, professional education programme, professional conduct and other issues. She carried on private practice as a lawyer at various law firms in Singapore between 1984 and 1989. She is qualified to practice law in Hong Kong, England and Wales and Singapore.

QUALIFIED ACCOUNTANT

LEUNG Ho Fai Michael

aged 35, has served as Qualified Accountant of the Company since August 2006. Mr. Leung served as the Chief Financial Officer of Hong Kong BRIGHTSTAR Company since April 2006. Before that, he was Taxation Manager of Hong Kong GT Company, Assistant Taxation Manager of KMPG Hong Kong and Corporate Affairs Consultant of Sidney PWC. He received a MBA from Australian Institute of Management in 2000. He is a certified accountant in Australia since 1997 and in Hong Kong since 1998.

Employees

As at 31 December 2006, the Company had a total of 45,016 employees, a year-on-year increase of 3,229, or 7.7%. The Company places a great deal of emphasis on the career development of its employees, and has been committed to training its personnel in the aspects of operational management, professional skills and technical operations, so as to achieve the harmonious development for both the Company and its staff.

In 2006, the Company operated a training programme to provide training to employees at different levels based on the specific requirements for their positions. The Company conducted various professional training sessions with an aggregate of 170,000 training attendances[(1)]. A series of centralised training programs was also provided to all staff at the headquarters of the Company to foster an enterprise learning culture, with the aim to developing talented people for the sustainable development of the Company.

Management training programme conducted by power segment

Employees	2006 Number	2006 % to total	2005 Number	2005 % to total
Operation and maintenance	**28,644**	**63.6**	27,707	66.3
Coal mining and transportation	**22,645**	**50.3**	20,988	50.2
Power generation	**5,999**	**13.3**	6,719	16.1
Management, financial and adminstrative management	**6,381**	**14.2**	4,514	10.8
Research & development & technical support	**3,913**	**8.7**	4,414	10.6
Sales and marketing	**902**	**2.0**	945	2.2
Others	**5,176**	**11.5**	4,207	10.1
Total	**45,016**	**100.0**	41,787	100.0

Note:

(1) "Training attendances" is calculated as the number of training sessions multiplied by the number of attendees at each session.

Corporate Governance Report

Overview of Corporate Governance

The Company has always regarded the consistent maintenance of an excellent, solid and reasonable corporate governance structure as its top priority. At present, the Company's code on corporate governance practices includes but is not limited to the following documents:

1. "Articles of Association of China Shenhua Energy Company Limited"; ("Articles of Association")
2. "Rules and Procedures of Shareholders' General Meetings of China Shenhua Energy Company Limited";
3. "Rules and Procedures of Meetings of the Board of Directors of China Shenhua Energy Company Limited";
4. "Rules and Procedures of Meetings of the Supervisory Committee of China Shenhua Energy Company Limited";
5. "Rules and Procedures of Meeting of the Strategic Planning Committee of the Board of China Shenhua Energy Company Limited";
6. Rules and Procedures of Meetings of the Audit Committee of the Board of China Shenhua Energy Company Limited";
7. "Rules and Procedures of Meetings of the Remuneration Committee of the Board of China Shenhua Energy Company Limited";
8. "Rules and Procedures of Meetings of the Safety, Health and Environmental Committee of the Board of China Shenhua Energy Company Limited";
9. "Rules and Procedures of Meetings of the Nomination Committee of China Shenhua Energy Company Limited";
10. "Information Disclosure Policy of China Shenhua Energy Company Limited";
11. "Rules of Information Disclosure Committee and its members of China Shenhua Energy Company Limited";
12. "Connected Transaction Decision making System of China Shenhua Energy Company Limited";
13. "Methods of Monitoring Connected Transactions of China Shenhua Energy Company Limited";
14. "Investor Relations Policy of China Shenhua Energy Company Limited"; and
15. "Model Code of Securities Transaction for Directors of China Shenhua Energy Company Limited".

The resolution to amend the Articles of Association was passed by way of special resolution at the Shareholders' Annual General Meeting for 2005 held on 17 May 2006. The amendments to the Articles of Association were made in respect of the successful public offering of the shares of the Company for listing on The Stock Exchange of Hong Kong Limited on 15 June 2005 to reflect the relevant laws and regulations of "The Company Law of the People's Republic of China" and "The Securities Law of the People's Republic of China" which came into effect on 1 January 2006. Please refer to the "Notice of Annual General Meeting" and the "Voting Results of Annual General Meeting for 2005" released by the Company respectively on 24 March 2005 and 12 May 2005 for details. In addition, pursuant to the mandate granted by way of special resolution at the Annual General Meeting for 2005, the directors of the Company made amendments to other relevant documents including the "Rules and Procedures of Shareholder's General Meetings of China Shenhua Energy Company Limited" pursuant to the relevant laws and regulations, the Listing Rules of Hong Kong (the "Listing Rules") and the revised Articles of Association of the Company.

The Board has reviewed the relevant corporate governance documents adopted by the Company, and is of the view that the documents comply with all the code provisions of the Code on Corporate Governance Practices (hereinafter referred to as the "Code on Corporate Governance Practices") of the Listing Rules. The Company has complied with the recommended corporate practices set out in the Code on Corporate Governance Practices in many aspects.

In respect of the following areas, our internal corporate governance rules are more stringent than the Code on Corporate Governance Practices:

1. In addition to the Audit Committee and Remuneration Committee, the Company has also established a Strategic Planning Committee, a Safety, Health and Environmental Committee and a Nomination Committee.
2. All members of the Audit Committee are independent non-executive directors, including Dr. Chen Xiaoyue who is also Director of the Accounting Research Institute of Tsinghua University, advisor to the Beijing National Accounting Institute and member of the Standing Committee of China Accounting Institute and this complies with the requirements stated in the Code on Corporate Governance Practices.

Code on Corporate Governance Practices

For the year ended 31 December 2006, the Company has fully complied with the code provisions of the Code of Corporate Governance Practices set out in Appendix 14 to the Listing Rules.

Securities Transactions of Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules, requiring the securities transactions of the directors of the Company to be carried out in accordance with the Model Code. The Model Code is also applicable to the senior management of the Company. After a special inquiry conducted by the Company, all the directors have confirmed that they have fully complied with the Model Code throughout 2006.

Share Interests of Directors, Supervisors and Senior Management

As at 31 December 2006, none of the directors, supervisors or senior management had any interest or short position in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO"), Chapter 571 of the Laws of Hong Kong) which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified by the directors and supervisors to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

As at 31 December 2006, the Company had not granted any equity securities or warrants to its directors, supervisors and senior management or their respective spouses or children under the age of 18.

Substantial Shareholders' Interests and Short Positions in the Company

As at 31 December 2006, persons set out in the table below had an interest or short position in the Company's shares as recorded in the register required to be kept under section 336 of the SFO (Chapter 571 of the Laws of Hong Kong):

Name of shareholder	Capacity	H/domestic shares	Nature of Interests	No. of H/domestic shares held	Percentage of H/domestic shares over all issued H/domestic shares respectively (%)	Percentage of total share capital of the Company (%)
Shenhua Group Corporation Limited	Beneficial owner	Domestic	Long position	14,691,037,955	100.00	81.21
Merrill Lynch Europe Intermediate holdings	Interest of controlled corporation	H H	Long position Short position	518,705,000 518,705,000	16.93 16.93	2.87 2.87
Merrill Lynch Europe PLC	Interest of controlled corporation	H H	Long position Short position	518,705,000 518,705,000	16.93 16.93	2.87 2.87
Merrill Lynch Holdings Limited	Interest of controlled corporation	H H	Long position Short position	518,705,000 518,705,000	16.93 16.93	2.87 2.87
ML UK Capital Holdings	Interest of controlled corporation	H H	Long position Short position	518,705,000 518,705,000	16.93 16.93	2.87 2.87
Merrill Lynch (Asia Pacific) Limited	Interest of controlled corporation	H	Long position	459,525,000	15.00	2.54
Merrill Lynch International Holdings Inc.	Interest of controlled corporation	H	Long position	459,525,000	15.00	2.54
Merrill Lynch International Incorporated	Interest of controlled corporation	H	Long position	459,525,000	15.00	2.54
AllianceBernstein L.P. (formerly known as Alliance Capital Management L.P.)	Interest in controlled corporation	H	Long position	340,900,530	10.03	1.88
JPMorgan Chase & Co.	Interest in controlled corporation	H H	Long position Lending Pool	339,737,642 120,977,692	10.00 3.56	1.88 0.66
Merrill Lynch & Co., Inc.	Interest in controlled corporation	H	Long position	218,980,866	6.44	1.21
Kerry Holdings Limited	Interest in controlled corporation	H	Long position	207,582,000	6.11	1.15
Genesis Asset Managers, LLP	Investment manager	H	Long position	204,000,500	6.00	1.13
Genesis Fund Managers, LLP	Investment manager	H	Long position	204,000,500	6.00	1.13
Taurus Investments SA	Beneficial owner	H	Long position	155,612,000	5.08	0.86

Board of Directors

The composition and other information on the Board are listed as follows:

Name	Sex	Age	Position in the Company	Term of office	Salaried
Chen Biting	Male	61	Chairman of the Board and Executive Director	From 6 November 2004 to the third shareholders' annual meeting of the Company	No
Zhang Xiwu	Male	48	Non-executive Director	From 6 November 2004 to the third shareholders' annual meeting of the Company	No
Zhang Yuzhuo	Male	45	Non-executive Director	From 6 November 2004 to the third shareholders' annual meeting of the Company	No
Ling Wen	Male	44	Executive Director and President	Executive Director: from 6 November 2004 to the third shareholders' annual meeting of the Company President: from 25 August 2006 to the expiration of the first session of the Board of the Company	Yes
Han Jianguo	Male	48	Non-executive Director	From 6 November 2004 to the third shareholders' annual meeting of the Company	No
Huang Yicheng	Male	80	Independent Non-executive Director	From 6 November 2004 to the third shareholders' annual meeting of the Company	Yes
Anthony Francis Neoh	Male	60	Independent Non-executive Director	From 6 November 2004 to the third shareholders' annual meeting of the Company	Yes
Chen Xiaoyue	Male	60	Independent Non-executive Director	From 6 November 2004 to the third shareholders' annual meeting of the Company	Yes

The Board is a standing decision-making organisation of the Company. It leads and supervises the Company in a responsible and cost-effective manner. All directors are requested to act in the best interest of the Company. All members of the Board understand that they are jointly and severally accountable to all shareholders regarding matters of management, supervision and operation of the Company.

The Board is primarily responsible for making decisions on the following:

- devising strategies of the Company;
- establishing objectives of the management;
- monitoring the performance of the management; and
- ensuring that the Company implements a prudent and effective control system, so as to assess and manage risks.

The Board is responsible for preparing the financial statements for each accounting year to give a true and fair view of the Company's financial position, its results and cash flow for the relevant period. In preparing the financial statements for the year ended 31 December 2006, the Board has adopted and applied the appropriate accounting policies in arriving at a prudent, fair and reasonable judgement and estimates, and has prepared the financial statements on a going concern basis. The Board is responsible for duly maintaining accounting records which disclose the financial position of the Company reasonably and accurately. The Board as a whole shall meet at least quarterly and as and when major decisions are required.

The Chairman and the President of the Company are Mr. Chen Biting and Dr. Ling Wen respectively. The roles of the Chairman and the President are two distinctively separate positions. The Chairman shall not be the President of the Company concurrently and their respective duties are clearly defined in writing. The Chairman is responsible for managing the operation of the Board whereas the President is responsible for the business operations of the Company. The Articles of Association of the Company sets out in detail the respective duties of the Chairman and the President. The senior executives other than the directors and the supervisors, are responsible for the daily business operations of the Company and their duties are set out in section "Directors, Supervisors, Senior Management and Employees" of this report.

In considering any matters and transactions at any Board meeting, the directors are required to declare any interests, whether direct or indirect, and shall refrain from attending a meeting as appropriate. The Company will, during each financial period, require the directors to confirm the details of any connected transaction entered into by them or any of their associates with the Company or any of its subsidiaries.

Attendance of Directors at Board Meetings in 2006

Number of meetings	**six**	
	Attendance in person Number of times	**Attendance by proxy Number of times**
Executive Directors		
Chen Biting	6	–
Ling Wen	6	–
Non-executive Directors		
Zhang Xiwu	6	–
Zhang Yuzhuo	6	–
Han Jianguo	5	1
Independent Non-executive Directors		
Huang Yicheng	6	–
Anthony Francis Neoh	6	–
Chen Xiaoyue	6	–

Throughout the period since the establishment of the Company in November 2004, the Board has been in compliance with Rule 3.10(1) of the Listing Rules, which requires a company to maintain at least three independent non-executive directors, and with Rule 3.10(2) of the Listing Rules, which requires one of those independent non-executive directors to possess appropriate professional qualifications or to be specialised in accounting or relevant financial management.

Pursuant to the requirements of the Hong Kong Stock Exchange, the Company has conducted the following verification procedures on its independent non-executive directors in respect of their independence: the Company has accepted the written confirmation of each of the independent non-executive directors confirming that they are in compliance with Rule 3.13 of the Listing Rules in respect of their independence. The Company is of the view that all of the independent non-executive directors are independent.

Other than their working relationships with the Company, none of the directors, supervisors or the senior management has any financial, business or family relationships or any relationships in other material aspects with each other.

Other than their own service contracts, none of the directors and supervisors has any actual personal interest, directly or indirectly, in the material contracts with the Company or any of its subsidiaries in 2006.

Directors' Remuneration

The Board of the Company established a Remuneration Committee consisting of two independent non-executive directors and one executive director. The Chairman is Mr. Anthony Francis Neoh, and the members are Dr. Chen Xiaoyue and Dr. Ling Wen. The committee would, when it is necessary, engage external professional advisers to give assistance and/or suggestions in relation to the matters concerned. Details of the principal duties and the work done by the Remuneration Committee during the year are set out in the section "Board Committees' Reports" of this report.

Attendance of Individual Remuneration Committee Members in 2006

Number of meetings	**four**	
	Attendance in person Number of times	**Attendance by proxy Number of times**
Anthony Francis Neoh	4	–
Ling Wen	4	–
Chen Xiaoyue	4	–

Nomination of Directors

The Board established a Nomination Committee on 7 July 2006.

The Company appoints new directors in accordance with a transparent procedure which has been formally established after prudent consideration. Generally, the candidates for directorship are proposed at general meetings of shareholders by the Board. Shareholders and the Supervisory Committee of the Company can nominate candidates according to the Articles of Association of the Company.

Written notice containing the intention to nominate a candidate and the candidate's express willingness to accept the nomination shall be delivered to the Company not earlier than the day when the notice of the shareholders' general meeting has been dispatched and not later than seven days prior to the convening of such meeting. The period between nomination and the acceptance of nomination shall not be less than seven days.

The tenure of each independent non-executive director is three years. Each of the independent non-executive directors is eligible for re-election; however, the combined term of an independent non-executive director shall not exceed six years. Prior to the expiry of his term, an independent non-executive director shall not be removed without good reasons. If any independent non-executive directors are removed prior to the expiry of his term of office, the Company will disclose the reasons for renewal as a special disclosable matter.

Attendance of Individual Nomination Committee Members in 2006

Number of meetings	one	
	Attendance in person Number of times	Attendance by proxy Number of times
Chen Biting	1	–
Huang Yicheng	1	–
Anthony Francis Neoh	1	–
Chen Xiaoyue	1	–

Auditors' Remuneration

The Company's external auditors are KPMG and KPMG Huazhen. They are appointed after being considering and approved at the annual general meeting held in May 2006. The Board is authoirsed to determine the fees of the auditor. The audit fee of the Company for the year ended 31 December 2006 was approximately RMB29.59 million, including the audit fee for conducting an audit on financial statements in relation to the acquisition of Jinjie Energy.

Audit and Audit Committee

The Board of the Company established an Audit Committee consisting of three independent non-executive directors. The Chairman is Dr. Chen Xiaoyue, and the members are Mr. Huang Yicheng and Mr. Anthony Francis Neoh. The committee would, when it is necessary, engage an external professional advisers to give assistance and/or suggestions in relation to the matters concerned. Details of the principal duties and the work done by the Audit Committee during the year are set out in the section "Board Committees' Reports" of this report.

Attendance of Individual Remuneration Committee Members in 2006

Number of meetings	four	
	Attendance in person Number of times	Attendance by proxy Number of times
Chen Xiaoyue	4	–
Huang Yicheng	4	–
Anthony Francis Neoh	4	–

Since its listing on the Hong Kong Stock Exchange, the Company has been in full compliance with the requirements of Rule 3.21 of the Listing Rules up to 31 December 2006.

The directors of the Company are responsible for overseeing the preparation of financial statements for each financial period which should truly and fairly reflect the business conditions, results and cash flows during the period. In preparing the financial statements for the year ended 31 December 2006, the directors adopted and applied consistently appropriate accounting policies; approved the adoption of all standards which are in compliance with the International Financial Reporting Standards ("IFRS"); and made prudent and reasonable judgments and estimates in the preparation of those financial statements which were prepared on a going concern basis.

The audited results for 2006 have been reviewed by the Audit Committee.

Shareholders' Rights

The Board and the senior management of the Company are aware that they act on behalf of the interests of all shareholders. Therefore, their important tasks are to maintain the long-term stability and the increase in shareholders' value and returns on investment, and to improve the competitiveness of our business.

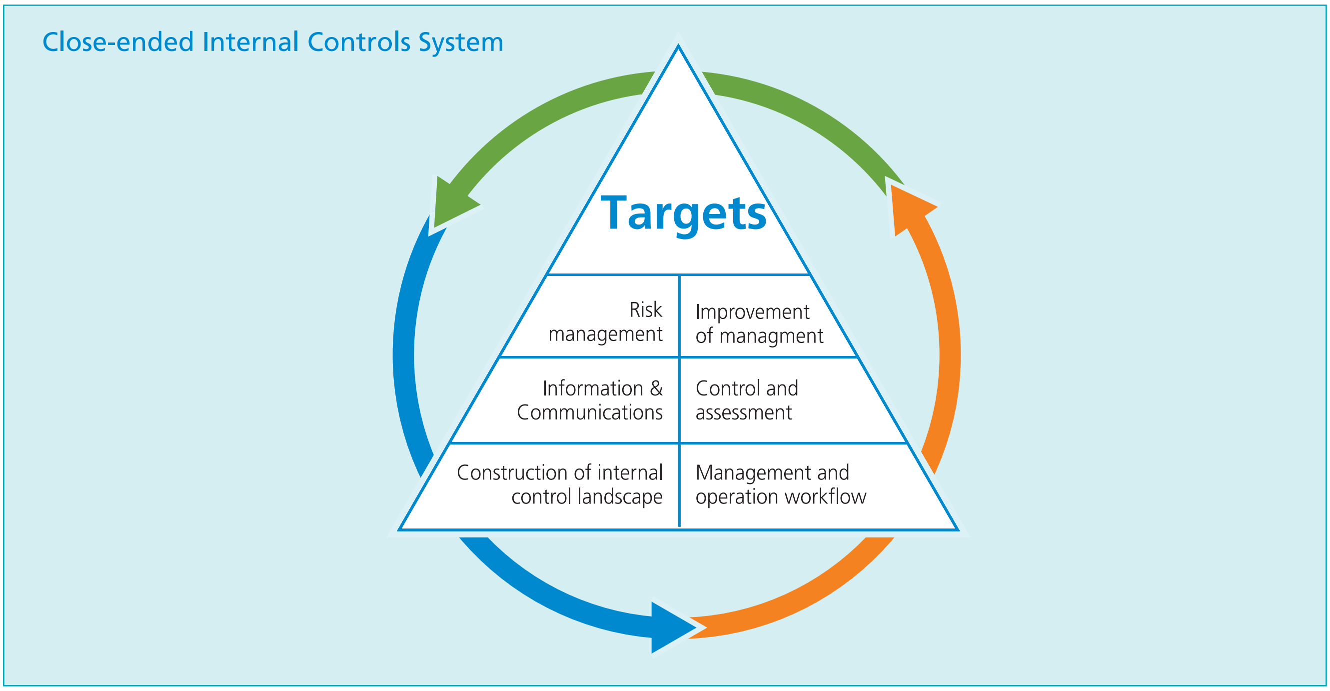
In accordance with the Articles of Association of the Company, shareholders who solely or in aggregate hold 10% or more of the voting shares issued by the Company, have the right to call for an extraordinary general meeting in writing (the number of shares held by the shareholders is calculated on the day the relevant shareholders submit their written request), and the extraordinary general meeting shall be convened within two months. The relevant documents shall state the purpose of the general meeting and shall be delivered to all the shareholders. Shareholders may propose to the Board procedures for making enquires and put forth the proposed procedures at shareholders' general meetings.

The Internal Controls System

The Board is aware of the responsibility to ensure the soundness, appropriateness and effectiveness of the internal control system of the Company. The Board will review the efficiency of the internal controls system through the Audit Committee.

Since the establishment of the Company, we have been committed to constructing and improving our internal controls system and continuously improving the control workflow with a view to enhancing our operational efficiency and reducing our operational risks. We have established a series of internal controls rules and systems in respect of important aspects such as asset supervision and management, capital management, investment management and human resources management. We have been continuously optimising our internal organisational structure to form a scientific decision-making, implementation and supervision mechanism. Our Internal Management Authorisation Manual (Provisional) strictly defines the scope of authorisations granted to the relevant departments, senior management and decision-making organisations. Persons or departments that have received authorisations are required to duly discharge their responsibilities within their scope of authorisation. If any approval exceeds the authorisation granted, the relevant people or departments dealing with the matter may refuse to implement such approval.

In 2006, with reference to the "Internal Control and Risk Management - A Basic Framework" issued by the Hong Kong Institute of Certified Public Accountants and with the assistance of reputable international consultancy institutions which have extensive experience in internal controls, the Company analysed and reviewed its existing internal controls system in light of the actual management situation of the Company and constructed a basic platform for our internal controls system. Our basic platform complies with the requirements of the Hong Kong Stock Exchange and the State-owned Assets Supervision and Administration Commission of the State Council. This has further defined the scope of responsibilities of the Board, all levels of management and the staff within the internal controls system and established basic procedures and methods in respect of key management control workflows, supervision and assessment as well as management improvements. The Company proposed specific requirements for the internal controls support system in respect of construction of our internal control landscape, full-range risk management and information and communications. The Company has adopted a "bottom-up" approach to ensure the achievement of our targets, and a "top-down closed-ended" control system to enable the creation of an internal controls culture. Please refer to the following diagram:



Review of the Year

The management of the Company reviewed its internal controls system in 2006 and the scope of the review covered supervision and control over financial, operational and compliance matters as well as risk management. Based on the targets set by the Company, internal and external risks were identified and assessed, so that the management was able to define and ascertain the significant risks faced by the Company. With this understanding of our significant risks, the management analysed the key internal control workflow, identify risks in such workflow and digout key control activities, the Company made improvements to the internal control measures in respect of key control points. The Company also organised appraiser to conduct tests on the improved key control workflow and control activities to determine whether the improved internal controls system can function properly. Based on the results of the tests, the Company can make improvements on any weakness and defects discovered. In 2006, the Company also examined the internal controls system with the management and staff at different levels so as to make comparisons with international energy corporations and determine the direction for the continued improvement of the Company. Furthermore, the internal audit department also placed great emphasis on the effectiveness of the internal controls system during their audit for the year. The management of the Company reported to the Audit Committee of the Board on the effectiveness of the internal controls system based on risk analysis, self-assessment, examination on the key elements of the internal controls system and internal audit results.

The Board made a thorough review of the procedures, methods, and assessment results of the internal controls system according to the requirements of the Hong Kong Stock Exchange and no material adverse matters were discovered. The internal controls system of the Company can ensure the safety and completeness of our assets and improve the results and efficiency of the operations of the Company. The Company has the appropriate information records and procedures to ensure the financial statements and related information of the Company is timely, relevant and reliable and to ensure that the relevant information is sufficiently disclosed in the financial statements in compliance with the relevant laws and regulations.

Internal Audit Organisation

The Company has an internal audit department which is accountable to the Board and which reports to the Audit Committee. The internal audit department carries out its work under the leadership of the President. The internal audit department has a department head and eight other professional staff. The subsidiaries of the Company have their own auditing departments in place in accordance with their relevant requirements which carry out their audit work under the leadership of the audit department of the Company. There are 45 professionals in total. The scope of auditing covers all the subsidiaries and branches of the Company.

Pursuant to the requirements of the "Measures for the Administration of Internal Auditing of China Shenhua Energy Company Limited (Provisional)", the internal audit department duly discharges its duties. Its main duties are to examine and assess the establishment, integrity and implementation of the internal controls system; examine the full enforcement of domestic and overseas laws and regulations and corporate planning and procedures; examine the operation and management of the Company relating to financial incomes and expenses; assess the cost-effectiveness of the Company; and examine the safety and completeness of the assets of the Company.

In 2006, the internal audit department mainly focused on the conformity to the norms of the operation activities of the Company and the efficiency and results of the operational activities of the Company, in particular the major risks of the Company, concerns of the management and major construction projects, and the scope of the internal audit department covers the Company and all the subsidiaries. It advises on management, follows up improvements to the management in a timely manner and reports to the senior management and the Audit Committee.

In the meantime, the internal audit department reinforces the construction of its basic foundation to have a sound internal audit system. Moreover, it takes the initiative to review the internal control system and coordinates and liaises with external auditors.

The Company has remained committed to improving its internal controls system. We will continue to review and improve our internal controls system pursuant to the Listing Rules based on our practical experience, views of shareholders, domestic and international development trend as well as changes of external and internal risks.

Directors' Report

The board of directors of the Company (the "Board") is pleased to present the report of the Board of Directors, together with the audited financial statements of the Group for the year ended 31 December 2006.

Principal Activities

The principal activities of the Group include production, transportation and sales of coal as well as power generation in the PRC. The coal business involves developing and operating coal mines, producing and processing coal, and transportation and sale of coal products. The power generation business involves the use of coal sourced internally as well as from external suppliers to generate power for sale primarily to power grid companies.

Structure of Share Capital

The table below sets out the structure of the share capital of the Company as at 31 December 2006:

Types of shares	Number of shares	Proportion (%)
Domestics shares	14,691,037,955	81.21
H shares	3,398,582,500	18.79
Total	18,089,620,455	100.00

Results of Operation

The financial results of the Group for 2006 are set out in the section "Financial Statements" of this report.

Dividends

On 23 March 2007, the Board proposed to distribute dividends of RMB0.34 per share in respect of the period between 1 January 2006 and 31 December 2006 to all equity shareholders of the Company. The proposed distribution of dividends will be considered and approved at the shareholders' annual general meeting to be held on 15 May 2007. The dividends will be paid to shareholders whose names appear on the register of members at the close of business on 14 April 2007. The register of members will be closed from 14 April 2007 to 14 May 2007 (inclusive), during which period no transfer of shares will be registered. In order to qualify for the dividends, all transfer documents must be lodged together with the relevant share certificates, at Computershare Hong Kong Investor Services Limited (address: Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) no later than 4:30 p.m. on 13 April 2007.

Pursuant to Articles 168 and 169 of the Articles of Association of the Company, the Company shall declare dividends in Renminbi. Dividends of domestic shares shall be paid in Renminbi while dividends of H Shares shall be paid in Hong Kong Dollars. The value of Hong Kong Dollars shall be calculated on the basis of the average exchange rate of Renminbi and Hong Kong Dollars announced by the Bank of China five working days before the date of declaration of dividends by the shareholders' annual general meeting on 15 May 2007. The final dividends for 2006 will be paid on or about 20 June 2007.

Major Customers and Suppliers

The largest external customer and the five largest external customers of the Company accounted for approximately 8.3% and 24.3% respectively of the Company's revenues for the year ended 31 December 2006.

For the year ended 31 December 2006, the total amount of purchases made by the Company from its five largest suppliers amounted to RMB7,721 million, and accounted for 26.0% of the total purchases for the year. The amount of purchases from the largest supplier amounted to RMB3,502 million, and accounted for 11.8% of the total purchases for the year. As far as the Company is aware, none of the directors, their associates and shareholders who are interested in more than 5% of the share capital of the Company has any interest in the five largest suppliers and external customers.

Purchase, Sale or Repurchase of Shares of the Company

For the year ended 31 December 2006, none of the Company and any of its subsidiaries had purchased, sold or repurchased any securities (as defined in the Listing Rules) of the Company.

Minimum Public Float

The public float of the Company satisfies the requirement in Rule 8.08 of the Listing Rules.

Property, Plant and Equipment

Additions to the property, plant and equipment of the Group for the year ended 31 December 2006 totalled RMB32,290 million. Details of movements are shown under note 15 of the section "Financial Statements" of this report.

Distributable Reserves

As at 31 December 2006, the aggregate amount of reserves which is available for distribution to the equity shareholders of the Company was RMB14,975 million.

Shareholding of Substantial Shareholders

Details are set out in the section "Corporate Governance Report" of this report.

Directors and Supervisors' Interests in the Share Capital of the Company

Details are set out in the section "Corporate Governance Report" of this report.

Staff Retirement Plan

In accordance with applicable laws and regulations, the Company participated in various retirement plans organised by municipal and provincial governments for employees. Details are set out in note 36 of the section "Financial Statements" of this report.

Remuneration

In compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules, the Company has established a Remuneration Committee to formulate remuneration policies and determine and manage the remuneration of the Company's senior management.

Service Contracts

The Company has entered into service contracts with all its directors and supervisors for a period of three years. None of the directors or supervisors has entered into any service contract with the Company which is not determinable within one year without any compensation (other than the statutory compensation).

The directors, supervisors and senior management of the Company receive remuneration in the form of salaries, bonuses, housing allowances and other benefits-in-kind, including contributions to pension plans.

Remuneration of the Directors and Supervisors

Details of the remuneration of the Company's directors and supervisors are set out in note 10 of the section "Financial Statements" of this report.

Share Appreciation Rights Scheme

In 2006, the Company granted share appreciation rights to its senior management and staff holding key positions in accordance with its Share Appreciation Rights Scheme. 3.235 million shares were granted to 50 members of the senior management and staff holding key positions, representing 0.1% of the total 3.399 billion shares issued overseas as foreign-invested shares (H shares). The grant was approved by the shareholders at the shareholders' annual general meeting for 2005.

Management Contracts

Other than the service contracts of the management officers of the Company, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company.

Donations

The Group contributed a total of RMB94 million as charitable and other donations for the year ended 31 December 2006.

Subsidiaries

Details of the principal subsidiaries of the Company are contained in note 18 of the section "Financial Statements" of this report.

Connected Transactions

The following are the key connected transactions of the Group in 2006:

Exempted Connected Transactions

Non-competition Agreement

The Company entered into a Non-competition Agreement with Shenhua Group on 24 May 2005. Pursuant to this agreement, Shenhua Group agreed not to compete with us in our core business and granted us options and pre-emptive rights to acquire the business retained by Shenhua Group and certain future businesses from Shenhua Group.

For the year ended 31 December 2006, except for the matters disclosed in the announcement of the Company dated 10 March 2006, the directors including independent non-executive directors has not made any decisions as to whether to exercise the options.

Non-exempted Continuing Connected Transactions

The following table sets out details of annual caps and actual transaction amounts during 2006, in respect of the continuing connected transactions of the Group which were subject to independent shareholders' approval, reporting and announcement requirement:

Connected transactions and parties	Expenses		Revenues	
	Amount incurred RMB million	Cap RMB million	Amount incurred RMB million	Cap RMB million
Export Agency Agreement with Shenhua Group (three years from 1 January 2005)	67.04	94.40	–	–
Agency Sales Agreement for the Xisanju Companies with Shenhua Group (three years from 1 January 2005)	–	–	11.86	14.90
Mutual Provision of Production Supplies and Ancillary Services Agreement with Shenhua Group (three years from 1 January 2005)	939.54	992.70	146.19	153.00
Mutual Supply of Coal Agreement with Shenhua Group (three years from 1 January 2005)	1,420.78	1,869.10	991.85	1,734.50
Zhonglian Supply Agreement with Zhonglian Energy (three years from 1 January 2005)	242.31	700.00	1.20	38.90
Dingzhou Coal Supply Agreement with Hebei Province Development and Investment Company (three years from 1 January 2005)	–	–	738.41	899.80
Power Supply Agreement with North China Power Grid, the State Power Grid Corporation and their several non-wholly owned subsidiaries (see "Power Purchase Arrangement")	–	–	11,313.41	19,100.00
Properties Leasing Agreement with Shenhua Group (three years from 1 January 2005)	40.83	51.00	–	0.80
Financial Services Agreement with Shenhua Finance Company Limited (from 21 July 2006 to 31 December 2007)	–	–	2.973.82[1]	3,400.00[2]

Notes:
1. Actual maximum daily balance in 2006.
2. The cap represents the deposit with Shenhua Finance which is the average maximum daily balance.

(1) Export Agency Agreement

In respect of the export sales of our coal products by Shenhua Trading, we entered into an export agency agreement dated 24 May 2005 ("Export Agency Agreement")with Shenhua Group for the export by Shenhua Trading of our coal products for a period of three years from 1 January 2005. Pursuant to the Export Agency Agreement, we appointed Shenhua Trading as our non-exclusive agent for the export of our coal products.

For the year ended 31 December 2006, the annual cap was RMB94.40 million, and the Group paid a total of RMB67.04 million as agency fees to Shenhua Group.

(2) Agency Sales Agreement for the Xisanju Companies

Shenhua Group entered into an agency sales agreement dated 24 May 2005 (the "Agency Sales Agreement") with us and our subsidiary, Shenhua Inner Mongolia Coal Transportation and Sales Co., Ltd. The term of the Agency Sales Agreement is three years commencing from 1 January 2005 and is renewable on our request. Pursuant to the Agency Sales Agreement, we were appointed as the exclusive agent in the PRC for the sale of all the thermal coal produced by Shenhua Wuda Mining Company Limited, Shenhua Haibowan Mining Company Limited and Shenhua Baotou Mining Company Limited (each a subsidiary of Shenhua Group and collectively referred to as "Xisanju Companies") and the non-exclusive agent for the sale of the coking coal produced by the Xisanju Companies.

For the year ended 31 December 2006, the annual cap was RMB14.90 million, and the agency sales fee of coal received by the Group from Xisanju Companies was RMB11.86 million.

(3) Mutual Provision of Production Supplies and Ancillary Services Agreement

Shenhua Group entered into an agreement on 24 May 2005 with us for the mutual provision of production supplies and ancillary services. This mutual supply agreement is for a term of three years commencing from 1 January 2005 and may be renewed upon mutual agreement by both parties.

For the year ended 31 December 2006, (1) the annual cap was RMB992.70 million, and the Group paid a total of RMB939.54 million as agency fees to Shenhua Group for its provision of production supplies and ancillary service; and (2) the annual cap was RMB153.00 million, and the Group received RMB146.19 million for provision of products and services to Shenhua Group.

(4) Mutual Supply of Coal Agreement

Shenhua Group entered into an agreement on 24 May 2005 with us for the mutual provision of coal ("Mutual Supply of Coal Agreement"). The term of this agreement is for three years commencing from 1 January 2005 and may be renewed upon agreement by both parties.

For the year ended 31 December 2006, (1) the annual cap was RMB1,869.10 million, and the Group paid a total of RMB1,420.78 million in respect of Shenhua Group's provision of coal to the Group; and (2) the annual cap was RMB1,734.50 million, and the Group received RMB991.85 million for its provision of coal to Shenhua Group.

(5) Zhonglian Supply Agreement

We entered into an agreement with Shenhua Zhonglian Energy Holdings Co., Ltd., ("Zhonglian Energy") dated 24 May 2005. Zhonglian Energy holds a 25% equity interest in our non-wholly owned subsidiary, Shuozhou Shenhua Tengda Coal Cleaning and Selection Co., Ltd. ("Shenhua Tengda"). Zhonglian Energy also holds a 70% equity interest in Shenhua Zhonglian Shuozhou Coal Company ("Zhonglian Shuozhou"). According to the Listing Rules, Zhonglian Energy is our connected person as it is a substantial shareholder of one of our subsidiaries and Zhonglian Shuozhou is also our connected person by reason of it being an associate (as defined in the Listing Rules) of Zhonglian Energy. Zhonglian Shuozhou supplies coal to one of our subsidiaries, Shenhua Changyun High Technology Coal Blending Co., Ltd. ("Changyun Coal Blending"). Shenhua Tengda supplies coal preparation services to Zhonglian Shuozhou. The term of the Zhonglian Supply Agreement is for three years commencing from 1 January 2005.

For the year ended 31 December 2006, (1) the annual cap was RMB700.00 million, and the Group paid RMB242.31 million to Shenhua Group for provision of coal by the subsidiaries of Zhonglian Energy; and (2) the annual cap was RMB38.90 million, and the Group received RMB1.20 million for provision of coal preparation services to the subsidiaries of Zhonglian Energy.

(6) Dingzhou Coal Supply Agreement

We hold a 51% equity interest in Hebei Guohua Cangdong Power Co., Ltd., one of the equity holders of which is Hebei Province Development and Investment Company, which also holds a 40.5% interest in Hebei Guohua Dingzhou Power Co., Ltd. ("Dingzhou Power Company"). One of our subsidiaries, Beijing Guohua Logistics Company Limited supplied coal to Dingzhou Power Company. According to the Listing Rules, Hebei Province Development and Investment Company is our connected person and Dingzhou Power Company is also our connected person by reason of it being an associate (as defined in the Listing Rules) of Hebei Province Development and Investment Company. We entered into a coal supply agreement on 24 May 2005 for supply of coal to Dingzhou Power Company. The term of the agreement is for three years commencing from 1 January 2005.

For the year ended 31 December 2006, the annual cap was RMB899.80 million, and the Group received RMB738.41 million for provision of coal to Dingzhou Power Company.

(7) Supply of Power by Our Power Plants to Substantial Shareholders of Some of Our Non-wholly Owned Subsidiaries

One of our indirect subsidiaries, Tianjin Guohua Panshan Power Generation Company, operates the Panshan Power which supplies power generated by it to one of its own substantial equity holders, the North China Power Grid. Pursuant to the Listing Rules, North China Power Grid is a connected person as it is a substantial shareholder (as defined in the Listing Rules) of our subsidiary. Any transactions between it, its associates (including its holding company, subsidiaries or fellow subsidiaries) and us are connected transactions. Several of our power plants also sell the power generated by them through the power grid companies where they are located. As these power purchasers are all owned or controlled by the same parent company, the State Grid Corporation of China, they are all fellow subsidiaries of a connected person and therefore, the supply of power to these power grid companies are all connected transactions within the Listing Rules. Each of our power plants agreed power purchase arrangements ("Power Purchase Arrangements") with its corresponding power purchasers to supply them power until 31 December 2006.

For the year ended 31 December 2006, the annual cap was RMB19,100.00 million, and the Group received RMB11,313.41 million for its power supply to North China Power Grid Corporation, the State Power Grid Corporation as well as its subsidiaries.

(8) Properties Leasing Agreement

We have entered into a properties leasing agreement on 24 May 2005 with Shenhua Group (the "Properties Leasing Agreement") regarding the terms and conditions for the lease of certain buildings. The lease is for a period of ten years commencing from 1 January 2005, and may be renewed upon agreement.

In respect of the properties leasing agreement, the annual cap for rental payable in 2006 was RMB51.00 million and rental receivable in 2006 was RMB0.8 million. For the year ended 31 December 2006, the Group (1) paid a rental payment of RMB40.83 million to Shenhua Group; and (2) had no rental income since rental service to be provided to Shenhua had not commenced.

(9) Financial Services Agreement

On 21 July 2006, the Company and Shenhua Finance, a non-wholly owned subsidiary of Shenhua Group, entered into a financial services agreement (the "Financial Services Agreement"), pursuant to which Shenhua Finance provides deposit services, loan services and other financial services to the Group. Shenhua Finance is a non-wholly owned subsidiary of Shenhua Group in which Shenhua Group owns 59.29% equity interests directly and indirectly through its subsidiaries, and is therefore a connected person of the Company. Accordingly, the Financial Services Agreement and the financial services transactions thereunder constitute a continuing connected transaction of the Company under the Listing Rules. The term of the Financial Services Agreement is from 21 July 2006 to 31 December 2007.

For the year ended 31 December 2006, the annual cap for the average daily maximum balance of the Group's deposit with Shenhua Finance was RMB3,400.00 million, and the actual average daily maximum balance is below the cap.

With the continued development of the Group and based on internal estimates of the demand under and the operating conditions of the continuing connected transactions, the Company noted that the existing caps for transactions in 2006 and/or 2007 under the Mutual Supplies and Services Agreement, Mutual Supply of Coal Agreement, Agency Sales Agreement and Zhonglian Supply Agreement pursuant to the existing waiver from the Hong Kong Stock Exchange was insufficient to meet the demand of the Group. Therefore, The Company revised the caps for 2006 and/or 2007 of the four categories of transactions. The revised caps are a follows (1) Mutual Supplies and Services Agreement: in respect of annual cap for production supplies and ancillary services provided by Shenhua Group to the Group for 2006 was revised from the original cap of RMB886.70 million to RMB992.70 million; the annual cap for production supplies and ancillary services provided by the Group to Shenhua Group for 2007 was revised from the original annual cap of RMB202.00 million to RMB300.00 million; (2) Mutual Supply Coal Agreement: the annual caps in relation to the supply of coal by the Group to Shenhua Group for the years 2006 and 2007 were revised from RMB237.40 million and RMB249.30 million to RMB1,734.50 million and RMB2,000.00 million, respectively. The annual caps for the supply of coal by Shenhua Group to the Group for the years 2006 and 2007 were revised from RMB1,114.70 million and RMB1,281.90 million to RMB1,869.10 million and RMB2,500.00 million, respectively; (3) Agency Sales Agreement: the annual cap for the agency sales services to be provided by the Company to Xisanju Companies for the years 2006 and 2007 were revised from RMB6.10 million and RMB7.90 million to RMB14.90 million and RMB18.80 million respectively; (4) Zhonglian Supply Agreement: the annual caps for the supply of coal by Zhonglian Shuozhou to Changyun Coal Bleanding for the years 2006 and 2007 were revised from RMB581.80 million and RMB698.20 million to RMB700.00 million and RMB1,050.00 million, respectively.

The independent non-executive directors of the Company have reviewed the non-exempt continuing connected transactions (1) to (9) set out above and are of the opinion that: (A) these transactions were within the ordinary course of business of the Group; (B) these transactions were conducted on normal commercial terms, or where there was no sufficient comparable transactions to judge whether they were on normal commercial terms, on terms no less favorable to the Group than terms available to or from (as applicable) independent third parties; and (C) these transactions were conducted in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company has reviewed the transactions and issued a letter to the Board to state that: (1) these transactions received the approval by the Board of the Company; (2) they are not aware of any indication which would make them believe that these transactions were not conducted in compliance with the related terms of agreements for the transactions or their prices were not made in line with the Group's pricing policy; and (3) they are not aware of any other matters which would make them believe that these connected transactions exceeded the existing caps as approved by the Hong Kong Stock Exchange.

Non-exempt Connected Transaction

Acquisition of 70% equity interest in Jinjie Energy

On 10 March 2006, the Company and Beijing Guohua Power Co. Ltd, a wholly-owned subsidiary of Shenhua Group, entered into an acquisition agreement (the "Acquisition Agreement") for the acquisition of 70% equity interest in Jinjie Energy. Jinjie Energy is engaged in coal production and power generation in Shaanxi Province, the PRC. Upon completion of the Acquisition Agreement, the Company and Shangdong Luneng Development Group Company Limited respectively held 70% and 30% of the equity interest in Jinjie Energy. Beijing Guohua Power Co. Ltd is a wholly owned subsidiary of Shenhua Group, and therefore a connected person of the Company. Accordingly, the Acquisition Agreement and the transactions thereunder constituted a connected transaction of the Company under the Listing Rules.

The major terms of the Acquisition Agreement were as follows:

The aggregate consideration for the acquisition was RMB1,161,639,200 (equivalent to approximately HK$1,116,960,769), subject to an adjustment by an amount equal to the aggregate sum of capital contributions in Jinjie Energy made by Beijing Guohua Power Co., Ltd at any time between 1 January 2006 and the completion date in accordance with the relevant resolutions of the shareholders of Jinjie Energy to increase its registered capital, up to a maximum amount of RMB90 million (equivalent to approximately HK$86,538,461.54). The total consideration was paid by the Company on 31 August 2006 and was funded out of the Group's working capital.

Waivers

The Company has obtained a waiver from the Hong Kong Stock Exchange prior to the Company's listing in relation to connected transactions (1) to (6), and (8) set out above, from strict compliance with the announcement and/or independent shareholders' approval requirements of the Listing Rules until 31 December 2007.

Pre-emptive rights

There are no provisions regarding pre-emptive rights under the Articles of Association of the Company and the laws of the PRC, which would oblige the Company to issue new shares to its existing shareholders in proportion to their existing shareholdings.

Auditors

The Company has appointed KPMG and KPMG Huazhen as the international and PRC auditors, respectively, of the Company for the year ended 31 December 2006. KPMG has conducted the audit of the financial statements which were prepared in accordance with International Financial Reporting Standards ("IFRSs"). KPMG and KPMG Huazhen have been engaged by the Company since its listing date. Resolutions for reappointments of KPMG and KPMG Huazhen as the international and PRC auditors of the Company for the year ending 31 December 2007 will be proposed at the forthcoming shareholders' annual general meeting on 15 May 2007.

Taxation

For the year ended 31 December 2006, no foreign shareholder who is not resident of the PRC is liable for Individual or Enterprise Income Tax, Capital Gains Tax, Stamp Duty or Estate Duty of the PRC in relation to their holding of shares of the Company. Shareholders are urged to consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of the Company's H shares.

Material Events

Yuyao gas-fired plant is located in Yuyao City of Zhejiang Province with a planned installed capacity of 780MW. Construction of the plant was commenced on 28 June 2004. In September 2009, the civil engineering, installation and static adjustment and trial runs were been completed and Yuyao Power is ready to be put into operation. In November 2006, natural gas from the East China Sea began to be transmitted to Yugao Power for trial runs. In December 2006, tests other than the 168 hours full-loaded trial operation have been completed. Over 98% of the investment has been completed.

Based on the IFRS, the Company considered that the gas-fired units of Yuyao Power in 2006 were ready for intended use, and the accounting treatment for the transfer of construction-in-progress into fixed assets has been completed, with the total of assets transferred being RMB2.007 billion. In 2006, a loss of RMB241 million was incurred, which comprised pre-operating expenses, financial expenses for the period and depreciation. The management considers that no provision of impairment is required.

By order of the Board

Chen Biting
Chairman

Beijing, China
23 March 2007

As at the date of the report of directors, the Board comprises Mr. Chen Biting and Dr. Ling Wen, as executive directors, Dr. Zhang Xiwu, Dr. Zhang Yuzhuo and Mr. Han Jianguo, as non-executive directors, and Mr. Huang Yicheng, Mr. Anthony Francis Neoh and Dr. Chen Xiaoyue, as independent nonexecutive directors.

Board Committees' Reports

Report of the Strategy Planning Committee

The Strategy Planning Committee consists of Mr. Chen Biting, Dr. Zhang Xiwu, Dr. Ling Wen (appointed in January 2007) and Mr. Wu Yuan (retired in August 2006). Chen Biting is the chairman of this committee.

The principal duties of the Strategy Planning Committee are to conduct research and submit proposals regarding the long-term development strategies and material investment decisions of the Company; conduct research and submit proposals regarding material investments and financing plans which require approval from the Board; conduct research and submit proposals regarding material capital operations and assets operation projects required to be approved by the Board; conduct research and submit proposals regarding other material matters that may affect the Company's development; carry out examination on the implementation of the above matters; and perform other matters authorised by the Board.

In 2006, the Strategy Planning Committee held four meetings in total.

Name of Committee	**Strategy Planning Committee**
Members	Chen Biting, Zhang Xiwu, Ling Wen (appointed in January 2007) and Wu Yuan (retired in August 2006)
Number of meetings held	4
Date of meetings	9 March 2006 7 July 2006 25 August 2006 9 December 2006
Reviewed and approved resolutions	1. "A resolution on seeking approval from directors on acquisition of 70% equity interest in Jinjie Energy Corporation by China Shenhua Energy Company Limited"; 2. "A resolution on progress report of acquisition of 70% equity interest in Jinjie Energy Corporation by China Shenhua Energy Company Limited"; 3. "A resolution on eleventh five-year plan (2005~2010) of China Shenhua Energy Company Limited"; 4. "A resolution on report of acquisition of 70% equity interest in Jinjie Energy Corporation"; 5. "A resolution on acquisition of part of assets and equity interest of Shenhua Group's in 2007"; 6. "A resolution on adjustment to the capital expenditure plan for the year 2006"; 7. "A resolution on business indicator and capital expenditure plan of China Shenhua Energy Company Limited for the year 2007"

Report of the Audit Committee

The Audit Committee consists of Dr. Chen Xiaoyue, Mr. Huang Yicheng and Mr. Anthony Francis Neoh. Dr. Chen Xiaoyue is the chairman of this committee.

The principal duties of the Audit Committee are to examine the internal auditing schedule of the Company for the year; supervise the quality of internal audit and disclosure of financial information, and review the interim and annual financial statements before submission to the Board; supervise the appointment and removal of the person-in-charge of the Company's internal auditing organisation and provide any relevant advice; examine the effectiveness of the Company's internal control procedures and receive any complaints from relevant parties; review and consider whether the external auditors are independent and objective and the audit procedures are effective in accordance with the applicable criteria; formulate and implement policies for appointment of external auditors to provide non-auditing services; provide advice to the Board on appointment, re-appointment and removal of external auditors, approve the remuneration and terms of appointment of external auditors, and deal with any matter regarding the resignation or dismissal of those auditors; and monitor the completeness of the Company's financial statements, annual reports, interim reports and, if to be issued, quarterly reports, and review any significant opinion on financial reporting set out in the financial statements and reports.

In 2006, the Audit Committee held four meetings in total.

The Audit Committee has reviewed the audited report of the Group's results for the year 2006.

Name of Committee	**Audit Committee**
Members	Chen Xiaoyue, Huang Yicheng and Anthony Francis Neoh
Number of meetings held	4
Date of meetings	9 March 2006 7 July 2006 25 August 2006 9 December 2006
Reviewed and approved resolutions	1. The "Audited Report of China Shenhua Energy Company Limited for the year 2005" (PRC, interantional); 2. "A resolution on audit fee of China Shenhua Energy Company Limited for the year 2005"; 3. "Report of the Audit Committee of China Shenhua Energy Company Limited"; 4. "Internal audit plan of Chian Shenhua Energy Company Limited for the year 2006"; 5. "A resolution on the authorisation of KPMG to review of interim financial report of the Company for the year 2006"; 6. "A resolution on the Financial Services Agreement entered into with Shenhua Finance Company Limited"; 7. "Opereational budget and explanation of China Shenhua Energy Company Limited for the year 2007"

Report of the Remuneration Committee

The Remuneration Committee consists of Mr. Anthony Francis Neoh, Dr. Ling Wen and Dr. Chen Xiaoyue. Mr. Anthony Francis Neoh is the chairman of this committee.

The principal duties of the Remuneration Committee are to formulate remuneration plans or proposals for the directors, supervisors, president and other senior management personnel and provide advice to the Board, including but not limited to standards, procedures and a system for performance appraisals as well as major plans and system for rewards and sanctions; examine the performance of the directors, supervisors, president and other senior management personnel of the Company, and conduct annual performance appraisals; supervise the implementation of the remuneration policy of the Company; assume duties assigned by the Board, namely, determining specific remuneration for all executive directors, supervisors, the president and other senior management personnel, including non-monetary benefits, pension and compensation (including compensation for loss or termination of positions or appointments); ensure that none of the directors or any of their respective associates determine their own remuneration; and carry out any other duties as authorised by the Board.

In 2006, the Remuneration Committee held four meetings in total.

Name of Committee	Remuneration Committee
Members	Anthony Francis Neoh, Ling Wen and Chen Xiaoyue
Number of meetings held	4
Date of meetings	9 March 2006 7 July 2006 25 August 2006 9 December 2006
Approved resolutions	1. "A resolution on remuneration of directors and supervisors of the Company in 2005"; 2. "A resolution on remuneration of the President and other senior management of the Company in 2005"; 3. "A resolution on Share Appreciation Rights Scheme"; 4. "A resolution on Share Appreciation Rights Scheme granted by the Company in 2006"; 5. "A resolution on responsibilities for operation result of China Shenhua Energy Company Limited".

Report of the Safety, Health and Environmental Committee

The Safety, Health and Environmental Committee consists of Mr. Huang Yicheng, Dr. Zhang Yuzhuo, Dr. Ling Wen (appouted in March 2007) and Mr. Han Jianguo, Mr. Wu Yuan (retired in August 2007). Mr. Huang Yicheng is the chairman of this committee.

The principal duties of the Safety, Health and Environmental Committee are to supervise the implementation of health, safety and environmental protection plans of the Company. Its detailed duties include providing advice to the Board or the President on material issues of the Company in respect of the health, safety and environmental protection, inquiring into material incidents and liabilities regarding the Company's production, operations, properties, assets, staff or other facilities, as well as reviewing and expediting the resolution of incidents and dealing with any other issues authorised by the Board.

In 2006, the Safety, Health and Environmental Committee held two meetings in total.

Name of Committee	**Safety, Health and Environmental Committee**
Members	Huang Yicheng, Zhang Yuzhuo, Ling Wen (appointed in March 2007), Han Jianguo and Wu Yuan (retired in August 2006)
Numbers of meetings held	2
Date of meetings	9 March 2006 7 July 2006
Approved resolutions	1. Report of focus of work in 2006 and safety and environmental protection in 2005 of China Shenhua Energy Company Limited; 2. Report of safety and environmental protection of China Shenhua Energy Company Limited

Nomination Committee

The Nomination Committee consists of Mr. Chen Biting, Mr. Huang Yicheng, Mr. Anthony Francis and Dr. Chen Xiaoyue. Mr. Chen Biting is the chairman of this committee.

The Nomination Committee is responsible for improving our corporate governance structure, standardising the nomination procedures of directors, the President and other senior management of the Company, selecting qualified directors, the President and other senior management, so as to increase our competitiveness.

In 2006, the Nomination Committee held one meeting in total.

Name of Committee	**Nomination Committee**
Members	Chen Biting, Huang Yicheng, Anthony Francis Neoh and Chen Xiaoyue
Number of meeting held	1
Date of meeting	25 August 2006
Approved resolutions	1. "A resolution on Mr. Wu Yuan is the resignation as executive director and the President and the appointment of Mr. Ling Wen as president"; 2. "A resolution on appointment of Michael Ho Fai Leung as qualified accountant of the Company"

Supervisory Committees' Report

Dear Shareholders,

During the report period, in accordance with the relevant provisions of the Company Law of the People's Republic of China (the "Company Law") and Articles of Association of the Company and in compliance with the principles of integrity, all members of the Supervisory Committee of the Company (the "Supervisory Committee") performed their duties of supervision with a view to protecting shareholders' interests in line with their accountability to all shareholders. They monitored the operations and financial position as well as the performance of senior management of the Company for the year 2006. On behalf of the Supervisory Committee, I hereby present our report for as follows:

Overview of the Work of the Supervisory Committee

In 2006, as required by the "Rules and Procedures of Meetings of the Supervisory Committee of China Shenhua Energy Company Limited" and based on its actual work, the Supervisory Committee conducted two on-site inspections of the operations and financial position of the Company, and reviewed the financial statements regularly. In 2006, the Supervisory Committee held three meetings, details of the time, venue, attendance and contents of the meetings are as follows:

1. On 7 March 2006, the fifth meeting of the first session of the Supervisory Committee was convened in Beijing. All supervisors were present. The meeting considered and approved three resolutions including the "Final accounts of the Company for 2005", "Financial budget of the Company for 2006" and "Profit distribution plan for 2006". In addition, the meeting considered and approved the work report of the Supervisory Committee for 2005, and considered and approved the highlights of the work of the Supervisory Committee for 2006.

2. On 6 July 2006, the sixth meeting of the first session of the Supervisory Committee was convened in Beijing. All supervisors were present. The meeting considered and approved the resolution on amendments to the "Rules and Procedures of Meetings of the Supervisory Committee of China Shenhua Energy Company Limited", and the meeting had also heard reports regarding the construction of projects and management of projects of the Company for the first half of the year.

3. On 24 August 2006, the seventh meeting of the first session of the Supervisory Committee was convened in Beijing. All supervisors were present. The meeting considered and approved the "Resolution on the Interim Financial Report of the Company for 2006".

The convening of the three meetings were in compliance with the relevant provisions of the Company Law and the Articles of Association of the Company.

In 2006, the supervisors had attended the shareholders' annual general meeting for 2005 and were present at all the board meetings of the Company for 2006 and 12 meetings of the standing committee of the President. At those meetings, the supervisors had duly monitored whether the Company had operated in accordance with the law.

Independent Opinion of the Supervisory Committee on Relevant Matters of the Company in 2006

Compliance of the Company's operations with Legal Requirements

Pursuant to the laws and regulations of the place of listing, the Supervisory Committee has duly supervised and examined the procedures for convening Board meetings, resolutions, execution of resolutions of shareholders' general meetings by the Board, performance of duties by senior management of the Company, as well as the healthy establishment and consistent implementation of the Company's internal management system.

The Supervisory Committee is of the view that the Board and senior management of the Company strictly operated in accordance with the Company Law, the Securities Law of the PRC, the Articles of Association as well as other relevant regulations and rules of the place of listing, with integrity and diligence, they performed their duties, executed all resolutions and authorities of the shareholders' general meetings and conducted all operations in compliance with laws and regulations and the Articles of Association. When examining the financial position of the Company and monitoring the performance of the directors and senior management of the Company, the Supervisory Committee was not aware of any act harmful to the interests of the Company and shareholders, nor was there any act in breach of the laws, regulations, the Articles of Association and rules of the Company.

Examination of Financial Position of the Company

The Supervisory Committee examined the financial position of the Company twice and duly considered the annual report of the Company for 2006, the profit distribution plan of the Company for 2006 and the unqualified auditors' report for 2006 audited by the auditors of the Company. The Supervisory Committee is of the view that the financial statements of the Company reflect the financial position and operating results of the Company in all material aspects in an objective, true and fair manner, and the financial statements are true and reliable. The Supervisory Committee has agreed on the audited financial statements issued by the auditors as well as the profit distribution plan of the Company for 2006.

Use of Proceeds from the IPO of the Company

On 15 June 2005, the Company issued H shares to raise funds. In 2006, the Company used the proceeds to fund capital expenditure of RMB13.269 billion (of which the expenditure for 2005 was RMB5.779 billion and the expenditure for 2006 was RMB7.490 billion), made early repayment of borrowings of RMB7.429 billion (expenditure for 2005) and used RMB2.123 billion (expenditure for 2005) as working capital. The actual use of proceeds was in line with the undertakings set out in the prospectus of the Company.

Transactions of the Company for Acquiring or Disposing of Assets

In 2006, the Company successfully completed the acquisition of Jinjie Energy. In 2006, the Company did not conduct any substantial disposal of assets, and the Supervisory Committee was not aware of any insider dealing and circumstances resulting in any loss to the interests of shareholders or any loss of the Company's assets.

Connected Transactions

In 2006, the Company concluded an acquisition transaction for the sum of RMB 1,162 million to acquire a 70% equity interest in Shaanxi Guohua Jinjie Energy Company Limited from Beijing Guohua Power Company, a wholly-owned subsidiary of China Shenhua Group Corporation. The transaction was approved by the seventh Board meeting of the first session of the Company held on 10 March 2006. The consideration was paid on 31 August 2006.

The Supervisory Committee is of view that the connected transactions of the Company for the year were conducted under the principles of fairness and equality. The connected transactions of the Company have been constantly monitored, and the price for the connected transactions are reasonable and the amounts of the transactions are within the cap as approved by the Stock Exchange. The Supervisory Committee is not aware of any act which is harmful to the interests of the shareholders.

The Supervisory Committee hopes that with the Company's high level of capital expenditure, it will move further to assess the cost-effectiveness of the investments projects, and that it will further improve the effectiveness of its investment plan; also, the Supervisory Committee hopes that the Company will strengthen communications and liaise with the competent authorities of the government and reduce the impact of change of policies on its cost of production; that it will further enhance the awareness of production safety of the management and operation staff to enable them to operate in strict compliance with the operation procedures, so as to facilitate the creation of "intrinsically safe enterprise".

In 2007, the Supervisory Committee will continue perform its duties of supervision diligently for the protection of the interests of shareholders and the Company in accordance with the Company Law and the Articles of Association of the Company.

Xu Zufa
Chairman of the Supervisory Committee

Beijing, China
23 March 2007

Independent Auditor's Report

KPMG

To the shareholders of China Shenhua Energy Company Limited

(Incorporated in The People's Republic of China with limited liability)

We have audited the consolidated financial statements of China Shenhua Energy Company Limited (the "Company") set out on pages 109 to 175, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

23 March 2007

Financial Statements

Consolidated income statement

for the year ended 31 December 2006 (Expressed in Renminbi)	Note	2006 RMB million	2005 RMB million (restated – Note 1)
Revenues			
Coal revenue		**45,948**	39,926
Power revenue		**16,628**	10,879
Other revenues	5	**1,664**	1,437
Total operating revenues	4	**64,240**	52,242
Cost of revenues			
Coal purchased from third parties		**(6,935)**	(4,339)
Materials, fuel and power		**(3,236)**	(2,545)
Personnel expenses		**(2,441)**	(2,046)
Depreciation and amortisation		**(6,346)**	(5,182)
Repairs and maintenance		**(3,142)**	(2,660)
Transportation charges		**(6,246)**	(5,152)
Others	6	**(4,114)**	(3,195)
Total cost of revenues		**(32,460)**	(25,119)
Selling, general and administrative expenses		**(4,166)**	(3,311)
Other operating expense, net		**(318)**	(150)
Total operating expenses	7	**(36,944)**	(28,580)
Profit from operations		**27,296**	23,662
Finance income	8	**508**	885
Finance expenses	8	**(2,608)**	(2,945)
Net finance costs		**(2,100)**	(2,060)
Investment (loss)/income		**(1)**	10
Share of profits less losses of associates		**478**	461
Profit before income tax		**25,673**	22,073
Income tax	9	**(5,388)**	(4,080)
Profit for the year		**20,285**	17,993
Attributable to:			
Equity shareholders of the Company		**17,460**	15,619
Minority interests		**2,825**	2,374
Profit for the year		**20,285**	17,993
Dividends payable to equity shareholders of the Company attributable to the year			
Dividends resolved and proposed after the balance sheet date	13	**6,150**	7,404
Earnings per share (RMB)	14		
- Basic		**0.965**	0.937
- Diluted		**0.965**	0.937

The notes on pages 116 to 175 form part of these financial statements.

Consolidated balance sheet

at 31 December 2006 (Expressed in Renminbi)	Note	2006 RMB million	2005 RMB million (restated – Note 1)
Non-current assets			
Property, plant and equipment, net	15	**107,859**	82,530
Construction in progress	16	**14,115**	21,910
Intangible assets	17	**1,133**	1,293
Interest in associates	19	**2,369**	3,686
Other investments	20	**1,066**	74
Lease prepayments		**4,848**	3,857
Deferred tax assets	27	**1,569**	1,435
Total non-current assets		**132,959**	114,785
Current assets			
Inventories	22	**4,761**	3,572
Available-for-sale investments	23	**2,000**	–
Accounts and bills receivable, net	24	**4,860**	2,682
Prepaid expenses and other current assets	25	**3,059**	1,301
Time deposits with original maturity over three months	26	**8**	66
Cash and cash equivalents	26	**15,501**	19,863
Total current assets		**30,189**	27,484
Total assets		**163,148**	142,269
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	28	**14,842**	9,645
Current portion of long-term payable	32	**88**	72
Accounts and bills payable	29	**9,133**	6,834
Income tax payable		**2,193**	1,124
Accrued expenses and other payables	30	**6,977**	6,813
Total current liabilities		**33,233**	24,488
Net current (liabilities)/assets		**(3,044)**	2,996
Total assets less current liabilities		**129,915**	117,781
Non-current liabilities			
Long-term borrowings, less current portion	28	**40,840**	40,793
Long-term payable, less current portion	32	**2,426**	2,405
Accrued reclamation obligations	31	**942**	852
Deferred tax liabilities	27	**1,006**	744
Total non-current liabilities		**45,214**	44,794
		84,701	72,987
Equity			
Share capital	33	**18,090**	18,090
Reserves		**48,681**	39,787
Equity attributable to equity shareholders of the Company		**66,771**	57,877
Minority interests		**17,930**	15,110
Total equity		**84,701**	72,987

Approved and authorised for issue by the board of directors on 23 March 2007.

Chen Biting
Chairman

Ling Wen
Director and President

The notes on pages 116 to 175 form part of these financial statements.

Balance sheet

at 31 December 2006 (Expressed in Renminbi)	Note	2006 RMB million	2005 RMB million (restated – Note 1)
Non-current assets			
Property, plant and equipment, net	15	**30,899**	27,170
Construction in progress	16	**3,664**	1,680
Intangible assets	17	**324**	344
Investments in subsidiaries	18	**19,687**	18,119
Interest in associates	19	**1,480**	2,982
Other investments	20	**1,002**	10
Other non-current financial assets	21	**377**	–
Lease prepayments		**566**	598
Deferred tax assets	27	**886**	774
Total non-current assets		**58,885**	51,677
Current assets			
Inventories	22	**2,670**	1,964
Available-for-sale investments	23	**2,000**	–
Accounts and bills receivable, net	24	**1,457**	1,324
Prepaid expenses and other current assets	25	**11,218**	9,317
Cash and cash equivalents	26	**13,937**	18,716
Total current assets		**31,282**	31,321
Total assets		**90,167**	82,998
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	28	**5,101**	3,480
Current portion of long-term payable	32	**88**	72
Accounts and bills payable	29	**3,512**	2,596
Income tax payable		**1,227**	564
Accrued expenses and other payables	30	**4,474**	3,829
Total current liabilities		**14,402**	10,541
Net current assets		**16,880**	20,780
Total assets less current liabilities		**75,765**	72,457
Non-current liabilities			
Long-term borrowings, less current portion	28	**11,544**	14,868
Long-term payable, less current portion	32	**2,426**	2,405
Accrued reclamation obligations	31	**568**	497
Deferred tax liabilities	27	**491**	244
Total non-current liabilities		**15,029**	18,014
		60,736	54,443
Equity			
Share capital	33	**18,090**	18,090
Reserves		**42,646**	36,353
Total equity		**60,736**	54,443

Approved and authorised for issue by the board of directors on 23 March 2007.

Chen Biting
Chairman

Ling Wen
Director and President

The notes on pages 116 to 175 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2006
(Expressed in Renminbi)

	Equity attributable to equity shareholders of the Company										
	Share capital RMB million (Note 33)	Share premium RMB million (Note i)	Capital reserve RMB million (Note ii)	Revaluation reserve RMB million (Note iii)	Future development fund RMB million (Note iv)	Statutory reserves RMB million (Note v)	Other reserves RMB million (Note vi)	Retained earnings RMB million	Total RMB million	Minority interests RMB million	Total equity RMB million
At 1 January 2005 (as previously reported)	15,000	–	(6,591)	7,186	338	230	849	8,384	25,396	13,085	38,481
Adjusted for acquisition of Jinjie Energy (Note 1)	–	–	–	–	–	–	20	(1)	19	9	28
At 1 January 2005 (as restated)	15,000	–	(6,591)	7,186	338	230	869	8,383	25,415	13,094	38,509
Issuance of shares upon public offering	3,090	21,568	–	–	–	–	–	–	24,658	–	24,658
Shares issue expenses	–	(755)	–	–	–	–	–	–	(755)	–	(755)
Profit for the year	–	–	–	–	–	–	–	15,619	15,619	2,374	17,993
Appropriations	–	–	–	–	543	2,898	–	(3,441)	–	–	–
Revaluation surplus realised	–	–	–	(2)	–	–	–	2	–	–	–
Realisation of deferred tax	–	–	–	–	–	–	(10)	10	–	–	–
Dividend for 2004 (Note 13)	–	–	–	–	–	–	–	(7,549)	(7,549)	–	(7,549)
Adjusted for acquisition of Jinjie Energy (Note 1)	–	–	–	–	–	–	489	–	489	–	489
Capital contributions from minority interests	–	–	–	–	–	–	–	–	–	830	830
Distributions to minority interests	–	–	–	–	–	–	–	–	–	(1,188)	(1,188)
At 31 December 2005	18,090	20,813	(6,591)	7,184	881	3,128	1,348	13,024	57,877	15,110	72,987
At 1 January 2006	**18,090**	**20,813**	**(6,591)**	**7,184**	**881**	**3,128**	**1,348**	**13,024**	**57,877**	**15,110**	**72,987**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**17,460**	**17,460**	**2,825**	**20,285**
Appropriations	**–**	**–**	**–**	**–**	**697**	**1,614**	**–**	**(2,311)**	**–**	**–**	**–**
Revaluation surplus realised	**–**	**–**	**–**	**(4)**	**–**	**–**	**–**	**4**	**–**	**–**	**–**
Realisation of deferred tax	**–**	**–**	**–**	**–**	**–**	**–**	**(17)**	**17**	**–**	**–**	**–**
Dividend for 2005 (Note 13)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(7,404)**	**(7,404)**	**–**	**(7,404)**
Capital contributions from minority interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,173**	**1,173**
Distributions to minority interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,178)**	**(1,178)**
Consideration of the Acquisition (Note 1)	**–**	**–**	**–**	**–**	**–**	**–**	**(1,162)**	**–**	**(1,162)**	**–**	**(1,162)**
At 31 December 2006	**18,090**	**20,813**	**(6,591)**	**7,180**	**1,578**	**4,742**	**169**	**20,790**	**66,771**	**17,930**	**84,701**

The notes on pages 116 to 175 form part of these financial statements.

Consolidated statement of changes in equity *(continued)*

Notes:

(i) The share premium represents the difference between the total amount of the par value of shares issued and the amount of the net proceeds received upon the global initial public offering.

(ii) The capital reserve represents the difference between the total amount of the par value of shares issued and the amount of the net assets, net of revaluation and other reserves, transferred from Shenhua in connection with the Restructuring (as defined in Note 1).

(iii) As required by the relevant PRC rules and regulations with respect to the Restructuring (as defined in Note 1), the property, plant and equipment of the Group as at 31 December 2003 were revalued by China Enterprise Appraisal Co., Ltd., independent valuers registered in the PRC, on a depreciated replacement cost basis.

(iv) Pursuant to the relevant PRC regulations, the Company and its subsidiaries are required to make a transfer to future development fund based on RMB7.00 to RMB8.00 (2005: RMB7.00 to RMB8.00) per tonne of raw coal mined (net of usage). The fund can only be used for the future development of the coal mining business and is not available for distribution to shareholders.

(v) Statutory reserves

Statutory surplus reserve

According to the Company's Articles of Association, the Company is required to transfer 10% of its net profit as determined in accordance with the PRC Accounting Rules and Regulations to its statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, or to expand the Company's business, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

For the year ended 31 December 2006, the Company transferred RMB1,614 million (2005: RMB1,449 million), being 10% of the current year's net profit as determined in accordance with the PRC Accounting Rules and Regulations, to this reserve.

Statutory public welfare fund

The Company made an appropriation of RMB1,449 million to statutory public welfare fund in 2005. Pursuant to the revised Company Law of the PRC, the Company is not required by law to make appropriations to statutory public welfare fund with effect from 1 January 2006. The balances of the statutory public welfare fund as at 1 January 2006 of RMB1,564 million were transferred to statutory surplus reserve.

Discretionary surplus reserve

The appropriation to the discretionary surplus reserve is subject to the shareholders' approval. The utilisation of the reserve is similar to that of the statutory surplus reserve.

The directors have not proposed any appropriation to the discretionary surplus reserve in 2006 and 2005.

(vi) In connection with the Restructuring (as defined in Note 1), the land use rights of the Group were revalued as required by the relevant PRC rules and regulations as at 31 December 2003. The revalued amount will serve as the tax base for future years. The land use rights were not revalued for financial reporting purpose and accordingly, a deferred tax asset was created with an increase in shareholders' equity, net of minority interests. The amount also includes the difference between the considerations paid over the amount of the underlying net assets of the interests acquired in Shaanxi Guohua Jinjie Energy Corporation ("Jinjie Energy"). The transaction was recorded at historical cost and was reflected as changes in other reserves in the year the acquisition occurred.

The notes on pages 116 to 175 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2006 (Expressed in Renminbi)	Note	2006 RMB million	2005 RMB million (restated – Note 1)
Net cash from operating activities	(a)	**23,622**	25,831
Investing activities			
Capital expenditure		**(22,839)**	(18,578)
Lease prepayments		**(1,096)**	(198)
Purchase of investments		**(2,106)**	(750)
Proceeds from disposal of investments		**614**	58
Proceeds from disposal of property, plant and equipment and lease prepayments		**431**	132
Increase in time deposits with maturity over three months		**–**	(61)
Maturity of time deposits with maturity over three months		**58**	50
Net cash used in investing activities		**(24,938)**	(19,347)
Financing activities			
Proceeds from bank and other loans		**30,709**	37,682
Repayments of bank and other loans		**(25,184)**	(47,439)
Consideration of the Acquisition		**(1,162)**	–
Dividend paid to minority interests		**(1,178)**	(1,188)
Contributions from minority interests		**1,173**	830
Dividend paid to equity shareholders of the Company		**(7,404)**	(7,549)
Net proceeds from issuance of new shares upon listing		**–**	23,903
Net cash (used in)/from financing activities		**(3,046)**	6,239
Net (decrease)/increase in cash and cash equivalents		**(4,362)**	12,723
Cash and cash equivalents, at the beginning of the year		**19,863**	7,140
Cash and cash equivalents, at the end of the year		**15,501**	19,863

The notes on pages 116 to 175 form part of these financial statements.

Consolidated cash flow statement *(continued)*

	2006 RMB million	2005 RMB million (restated – Note 1)
(a) Reconciliation of profit for the year to net cash from operating activities		
Profit before income tax	**25,673**	22,073
Adjustments for:		
Depreciation and amortisation	**6,611**	5,377
Impairment losses on property, plant and equipment	**147**	41
Investment loss/(income)	**1**	(10)
Interest income	**(250)**	(266)
Share of profits less losses of associates	**(478)**	(461)
Net interest expense	**2,585**	2,577
Loss on remeasurement of derivative financial instruments to fair value	**23**	368
Unrealised foreign exchange gain	**(281)**	(994)
Loss on disposal of property, plant and equipment and lease prepayments	**72**	187
	34,103	28,892
(Increase)/decrease in accounts and bills receivable	**(2,178)**	231
Increase in inventories	**(1,189)**	(881)
(Increase)/decrease in prepaid expenses and other current assets	**(94)**	1,557
(Decrease)/increase in accounts and bills payable	**(678)**	986
Increase in accrued expenses and other payables	**109**	2,080
Cash generated from operations	**30,073**	32,865
Interest received	**250**	266
Interest paid	**(2,809)**	(3,105)
Dividend received from investments	**299**	143
Income tax paid	**(4,191)**	(4,338)
Net cash from operating activities	**23,622**	25,831

The notes on pages 116 to 175 form part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2006
(Expressed in Renminbi)

1 Principal activities and organisation

Principal activities

China Shenhua Energy Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in: (i) the production and sale of coal; and (ii) the generation and sale of power in the People's Republic of China (the "PRC"). The Group operates coal mines as well as an integrated railway network and seaports that are primarily used to transport the Group's coal sales. The primary customers of the Group's coal sales include power plants and metallurgical producers in the PRC. The Group also operates power plants in the PRC, which are engaged in the generation and sale of coal-based power to provincial/regional electric grid companies.

Organisation

The Company was established in the PRC on 8 November 2004 as a joint stock limited company as part of the Restructuring (as defined below) of Shenhua Group Corporation Limited ("Shenhua" or the "Parent Company"), a state-owned enterprise under the direct supervision of the State Council of the PRC. Prior to the establishment of the Company, the coal production and power generation operations were carried on by various mining companies and power plant entities wholly owned or controlled by Shenhua.

In connection with the Restructuring (as defined below), Shenhua's principal coal production and power generation operations together with the related assets and liabilities that were transferred to the Company were segregated and separately managed effective on 31 December 2003 (the "Restructuring"). Pursuant to the Restructuring, property, plant and equipment related to the operations and businesses that were transferred to the Company were revalued as at 31 December 2003 as required by the PRC rules and regulations.

On 8 November 2004, in consideration for Shenhua transferring the coal mining and power generating assets and liabilities to the Company, the Company issued 15 billion domestic state-owned ordinary shares with a par value of RMB1.00 each to Shenhua. The shares issued to Shenhua represented the entire registered and paid-up share capital of the Company at that date.

In June 2005, the Company issued 2,785,000,000 H shares with a par value of RMB1.00 each, at a price of HK$7.50 per H share by way of a global initial public offering to Hong Kong and overseas investors. As part of the global initial public offering, 278,500,000 domestic state-owned ordinary shares of RMB1.00 each owned by Shenhua were converted into H shares and sold to Hong Kong and overseas investors. The Company was listed on the Stock Exchange of Hong Kong Limited ("the Stock Exchange") on 15 June 2005. In July 2005, the Company issued 304,620,455 H shares with a par value of RMB1.00 each, at a price of HK$7.50 per H share upon the exercise of the over-allotment option in connection with the global initial public offering. As part of the exercise of the over-allotment option, 30,462,045 domestic state-owned ordinary shares of RMB1.00 each owned by Shenhua were converted into H shares and sold to Hong Kong and overseas investors. A total of 3,398,582,500 H shares were listed on the Stock Exchange.

Pursuant to a resolution passed at the Directors' meeting on 10 March 2006, the Company acquired a 70% stake in Shaanxi Guohua Jinjie Energy Corporation ("Jinjie Energy") (the "Acquisition") from Beijing Guohua Power Company Limited ("Beijing Guohua Power"), a subsidiary of Shenhua, at a consideration of RMB1,162 million. The Acquisition was completed in August 2006.

1 Principal activities and organisation *(continued)*

Restatement

As the Company and Jinjie Energy were under common control of Shenhua, the Acquisition has been reflected as a combination of entities under common control and accounted for in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities of Jinjie Energy have been accounted for at historical costs and the financial statements of the Company prior to the Acquisition have been restated to include the results of operations of Jinjie Energy on a combined basis. The consideration paid by the Company for the Acquisition of Jinjie Energy has been accounted for as an equity transaction in the consolidated statement of changes in equity.

The results of operations for the year ended 31 December 2005, the financial conditions as at 31 December 2005 and the equity attributable to equity shareholders of the Company as at 31 December 2005 and 1 January 2005 previously reported by the Group and Jinjie Energy and the combined amounts presented in the accompanying consolidated financial statements are set out below:

	The Group (as previously reported) RMB million	**Jinjie Energy** RMB million	**Combined** RMB million
Results of operations for the year ended 31 December 2005:			
Revenues	52,242	–	52,242
Profit/(loss) from operations	23,684	(22)	23,662
Profit/(loss) for the year	18,012	(19)	17,993
Basic earnings per share (RMB)	0.937	–	0.937
Financial conditions as at 31 December 2005:			
Current assets	27,419	65	27,484
Total assets	139,260	3,009	142,269
Current liabilities	22,837	1,651	24,488
Total liabilities	66,771	2,511	69,282
Minority interests	15,107	3	15,110
Equity attributable to equity shareholders of the Company	57,382	495	57,877
Equity attributable to equity shareholders of the Company as at 1 January 2005	25,396	19	25,415

2 Significant accounting policies

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB"). IFRSs include International Accounting Standards ("IAS") and interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group and the Company for the current and prior accounting periods reflected in these financial statements.

2 Significant accounting policies *(continued)*

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries and the Group's interest in associates.

These financial statements are prepared on the historical cost basis as modified by the revaluation of certain property, plant and equipment (see Note 2(i)); and that financial instruments classified as available-for-sale or trading (see Note 2(f)) and derivative financial instruments (see Note 2(g)) are stated at fair value.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are disclosed in Note 40.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity, so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with Notes 2(o) or 2(p) depending on the nature of the liability.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(m)).

2 Significant accounting policies *(continued)*

(d) Associates

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognised for the year (see Notes 2(e) and 2(m)).

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see Note 2(m)).

(e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see Note 2(m)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in profit or loss.

On disposal of a cash-generating unit of an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in debt and equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

2 Significant accounting policies *(continued)*

(f) Other investments in debt and equity securities *(continued)*

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less impairment losses (see Note 2(m)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see Note 2(m)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains and losses in respect of monetary items such as debt securities which are recognised directly in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. When these investments are derecognised or impaired (see Note 2(m)), the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(i) Property, plant and equipment

Property, plant and equipment, which consist of buildings, mining structures and mining rights, mining related machinery and equipment, generators and related machinery and equipment, railway and port transportation structures and furniture, fixtures, motor vehicles and other equipment, are initially stated at cost less accumulated depreciation and impairment losses (see Note 2(m)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to its present working condition and location for its intended use, the cost of borrowed funds used during the period of construction and, when relevant, the costs of dismantling and removing the items and restoring the site on which they are located, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other cost is recognised as an expense in the income statement in the period in which it is incurred.

2 Significant accounting policies *(continued)*

(i) Property, plant and equipment *(continued)*

When proved and probable coal reserves have been determined, costs incurred to develop coal mines are capitalised as part of the cost of the mining structures. All other expenditures, including the cost of repairs and maintenance and major overhaul, are expensed as they are incurred. Mining exploration costs, such as expenditures related to locating coal deposits and determining the economic feasibility, and the costs of removing waste materials or "stripping costs" are expensed as incurred.

Subsequent to the revaluation which was required by the PRC rules and regulations in connection with the Restructuring and which was based on depreciated replacement costs, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation, less subsequent accumulated depreciation and impairment losses (see Note 2(m)).

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. When an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs is revalued simultaneously. When an asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to shareholder's equity as a component of revaluation reserve. However, a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense in the income statement. However, a revaluation decrease is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation reserve in respect of that same asset. Revaluations are to be performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the income statement on the date of disposal. On disposal of a revalued asset, the related revaluation surplus is transferred from revaluation reserve to retained earnings.

Depreciation is provided to write off the cost/revalued amount of each part of an item of property, plant and equipment, other than mining structures and mining rights, over its estimated useful life on a straight-line basis, after taking into account its estimated residual value. The estimated useful lives of property, plant and equipment are as follows:

	Depreciable life
Buildings	20-50 years
Mining related machinery and equipment	5-18 years
Generators and related machinery and equipment	20-30 years
Railway and port transportation structures	30-45 years
Furniture, fixtures, motor vehicles and other equipment	5-10 years

Mining structures and mining rights are depreciated on a units-of-production method utilising only proved and probable coal reserves in the depletion base.

The Group's mining rights are of sufficient duration (or convey a legal right to renew for sufficient duration) to enable all reserves to be mined in accordance with current production schedules.

2 Significant accounting policies *(continued)*

(j) Lease prepayments

Lease prepayments represent land use rights paid to the PRC's governmental authorities. Land use rights are carried at cost less impairment losses (see Note 2(m)) and are charged to the income statement on a straight-line basis over the respective periods of the rights which range from 30 years to 50 years.

(k) Construction in progress

Construction in progress is stated at cost less impairment losses (see Note 2(m)). Cost comprises direct costs of construction, borrowing costs and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the period of construction.

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

(l) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses (see Note 2(m)) and are charged to the income statement on a straight-line basis over the estimated useful life of 20-45 years.

(m) Impairment losses

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

2 Significant accounting policies *(continued)*

(m)Impairment losses *(continued)*

(i) Impairment of investments in debt and equity securities and other receivables *(continued)*

— For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— construction in progress;

— intangible assets;

— investments in subsidiaries and associates; and

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2 Significant accounting policies *(continued)*

(m) Impairment losses *(continued)*

(ii) Impairment of other assets *(continued)*

— Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro-rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(n) Inventories

Coal inventories are stated at the lower of weighted average cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When coal inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Inventories of ancillary materials, spare parts and small tools used in production are stated at cost less impairment losses for obsolescence.

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(p) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see Note 2(m)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see Note 2(m)).

2 Significant accounting policies *(continued)*

(r) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 2(r)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Revenues associated with the sale of coal and other goods are recognised when the title to the goods has been passed to the customer which is at the date that the customer receives and accepts the goods. Acceptance occurs when the customer agrees to the amount and quality of the delivered goods. Export coal sales are recognised as revenues when the customers receive and accept the goods at the port and pay for freight costs.

(ii) Revenue from sale of power is recognised upon the transmission of electric power to the power grid companies, as determined based on the volume of electric power transmitted and the applicable fixed tariff rates agreed with the respective electric power grid companies annually.

(iii) Revenue from the rendering of transportation and other services is recognised upon the delivery or performance of the services.

(t) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2 Significant accounting policies *(continued)*

(u) Translation of foreign currencies

The Group's functional and presentation currency is Renminbi ("RMB"). Foreign currency transactions during the year are translated into RMB at the applicable rates of exchange quoted by the People's Bank of China ("PBOC") prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the applicable PBOC rates ruling at the balance sheet date. Foreign currency differences, other than those capitalised as construction in progress, are recognised as income or expense in the income statement.

(v) Obligations for land reclamation

The Group's obligations for land reclamation consist of spending estimates at both surface and underground mines in accordance with the PRC rules and regulations. The Group estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash spending for a third party to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. The Group records a corresponding asset associated with the liability for final reclamation and mine closure. The obligation and corresponding asset are recognised in the period in which the liability is incurred. The asset is depreciated on the units-of-production method over its expected life and the liability is accreted to the projected spending date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and asset are recognised at the appropriate discount rate.

(w) Operating leases

Operating lease payments are charged to the income statement on a straight-line basis over the period of the respective leases.

(x) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the years in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these accounts are stated at their present value.

(ii) Defined contribution retirement plans

Obligations for contributions to defined contribution retirement plans are recognised as an expense in profit or loss when they are due.

The Group's contributions to defined contribution retirement plans administered by the PRC government are recognised as an expense when incurred according to the contribution determined by the plans.

(iii) Share appreciation rights

Share appreciation rights ("SARs") are granted to employees of the Company. The fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. The fair value initially is measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value of the SARs is measured based on the binomial option pricing model, taking into account the terms and conditions upon which the instruments were granted. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised in the income statement.

2 Significant accounting policies *(continued)*

(x) Employee benefits *(continued)*

(iv) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(y) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination). For temporary differences relating to investments in subsidiaries, they are recognised except to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, they are recognised only to the extent that it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

2 Significant accounting policies *(continued)*

(y) Income tax *(continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(z) Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see Note 2(m)). Other development expenditure is recognised as an expense in the period in which it is incurred.

(aa) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(ab) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

2 Significant accounting policies *(continued)*

(ac) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to equity shareholders of the Company and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(ad) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements. The Group has two reportable business segments which are (i) coal operations; and (ii) power operations, and three reportable geographical segments which are (i) the PRC domestic markets; (ii) Asia Pacific markets-export sales; and (iii) other markets-export sales.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

2 Significant accounting policies *(continued)*

(ae) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(ii) Derivatives

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

(iii) Non-derivative financial liabilities

Fair value of non-derivative financial liabilities, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

(iv) Share appreciation rights ("SARs")

The fair value of SARs is measured based on the binomial option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

3 Adoption of new/revised IFRSs

The Group has adopted the amendments to IAS 39, *Financial instruments: Recognition and measurement: Financial Guarantee Contracts*, with effective from 1 January 2006.

In prior years, financial guarantees issued by the Group were disclosed as contingent liabilities. No provisions were made in respect of these guarantees unless it was more likely than not that the guarantee would be called upon.

Under the new policy, financial guarantees issued are measured initially at fair value and recognised as deferred income within trade and other payables. The deferred income is amortised in profit and loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with IAS 37. Further details of the new policy are set out in Note 2(r)(i).

The adoption of the above new policy did not have any financial impact on the Group's and the Company's financial statements for the years presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see Note 43).

4 Revenues

The Group is principally engaged in the production and sale of coal, generation and sale of power and the provision of transportation services in the PRC. Revenues represent the aggregate of the invoiced value of goods sold and services provided, net of sales taxes.

5 Other revenues

	2006 RMB million	2005 RMB million
Rendering of transportation and other services	**1,536**	1,357
Sale of ancillary materials and other goods	**45**	57
Others	**83**	23
	1,664	1,437

6 Cost of revenues – others

	2006 RMB million	2005 RMB million
Coal selection and minery fees	**830**	557
Coal extraction service costs	**573**	544
Sales taxes and surcharges	**456**	404
Dredging expenses	**379**	294
Relocation compensation expenses	**192**	203
Operating lease charges	**190**	222
Environmental protection costs	**153**	121
Resources compensation fees	**147**	100
Public utilities expenses	**127**	75
Cost of sale of ancillary materials and other goods	**63**	53
Others	**1,004**	622
	4,114	3,195

7 Total operating expenses

	2006 RMB million	2005 RMB million (restated – Note 1)
Personnel expenses	**3,772**	3,112
– including contribution to retirement plans	**353**	348
– share appreciation rights expense	**22**	1
Depreciation and amortisation	**6,611**	5,377
Net loss on disposal of property, plant and equipment and lease prepayments	**72**	187
Cost of inventories (Note)	**26,985**	20,719
Research and development costs	**66**	24
Auditors' remuneration	**35**	27
– audit services	**33**	25
– tax services	**2**	2
Operating lease charges on properties	**250**	285
Provisions for accounts receivable, other receivables and inventories	**58**	32
Impairment losses on property, plant and equipment	**147**	41

Note:

Cost of inventories includes RMB5,707 million (2005: RMB4,929 million) for the year ended 31 December 2006, relating to personnel expenses, depreciation and amortisation and operating lease charges, which amounts are also included in the respective amounts disclosed separately above for each of these types of expenses.

8 Finance income / (expenses)

	2006 RMB million	2005 RMB million (restated – Note 1)
Interest income	**250**	266
Foreign exchange gain	**258**	619
Finance income	**508**	885
Interest on loans from banks and other financial institutions, and other borrowings wholly repayable within five years	**(3,013)**	(3,255)
Less: Interest expense capitalised*	**428**	678
Net interest expense	**(2,585)**	(2,577)
Loss on remeasurement of derivative financial instruments to fair value	**(23)**	(368)
Finance expenses	**(2,608)**	(2,945)
Net finance costs	**(2,100)**	(2,060)
* Interest expense was capitalised in construction in progress at the following rates per annum	**1.8%-6.156%**	1.8%-5.508%

9 Income tax

Income tax in the consolidated income statement represents:

	2006 RMB million	2005 RMB million (restated – Note 1)
Provision for PRC income tax	**5,260**	3,987
Deferred taxation (Note 27)	**128**	93
	5,388	4,080

A reconciliation of the expected tax with the actual tax expense is as follows:

	2006 RMB million	2005 RMB million (restated – Note 1)
Profit before income tax	**25,673**	22,073
Expected PRC income tax expense at a statutory tax rate of 33% (Note i)	**8,472**	7,284
Differential tax rate on subsidiaries' income (Note i)	**(2,924)**	(3,060)
Non-deductible expenses (Note ii)	**126**	209
Tax effect in respect of associates' income	**(158)**	(152)
Other non-taxable income	**–**	(2)
Tax credit of domestic equipment purchases	**(169)**	(12)
Tax losses not recognised	**140**	–
Others	**(99)**	(187)
	5,388	4,080

Notes:

(i) The provision for PRC current income tax is based on a statutory rate of 33% of the assessable profit of the entities comprising the Group as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain branches, subsidiaries and associates of the Company, which are exempted or taxed at preferential rates of 7.5% or 15%.

(ii) Non-deductible expenses mainly represent personnel and other miscellaneous expenses in excess of statutory deductible limits for tax purposes.

10 Directors' and supervisors' emoluments

The amounts of emoluments paid and payable to the directors and supervisors of the Company by the Group for the years are as follows:

	2006					
	Fees RMB million	Basic salaries, housing and other allowances and benefits in kind RMB million	Discretionary bonuses RMB million	Share appreciation rights (Note) RMB million	Retirement scheme contributions RMB million	Total RMB million
Executive directors						
Chen Biting	–	–	–	2.26	–	2.26
Wu Yuan (retired from the office on 25 August 2006)	–	0.25	0.57	1.80	0.13	2.75
Ling Wen	–	0.28	0.60	1.54	0.14	2.56
Non-executive directors						
Zhang Xiwu	–	–	–	2.04	–	2.04
Zhang Yuzhuo	–	–	–	1.54	–	1.54
Han Jianguo	–	–	–	1.54	–	1.54
Independent non-executive directors						
Huang Yicheng	0.43	–	–	–	–	0.43
Anthony Francis Neoh	0.43	–	–	–	–	0.43
Chen Xiaoyue	0.43	–	–	–	–	0.43
Supervisors						
Xu Zufa	–	–	–	1.35	–	1.35
Wu Gaoqian	–	0.21	0.16	–	0.10	0.47
Li Jianshe	–	0.10	0.21	–	0.10	0.41
	1.29	0.84	1.54	12.07	0.47	16.21

10 Directors' and supervisors' emoluments *(continued)*

	2005					
	Fees RMB million	Basic salaries, housing and other allowances and benefits in kind RMB million	Discretionary bonuses RMB million	Share appreciation rights (Note) RMB million	Retirement scheme contributions RMB million	Total RMB million
Executive directors						
Chen Biting	–	0.23	0.56	0.16	0.10	1.05
Wu Yuan	–	0.19	0.44	0.13	0.09	0.85
Ling Wen	–	0.18	0.40	0.11	0.08	0.77
Non-executive directors						
Zhang Xiwu	–	–	–	0.14	–	0.14
Zhang Yuzhuo	–	–	–	0.11	–	0.11
Han Jianguo	–	–	–	0.11	–	0.11
Independent non-executive directors						
Huang Yicheng	0.40	–	–	–	–	0.40
Anthony Francis Neoh	0.40	–	–	–	–	0.40
Chen Xiaoyue	0.40	–	–	–	–	0.40
Supervisors						
Xu Zufa	–	0.18	0.40	0.11	0.08	0.77
Wu Gaoqian	–	0.13	0.20	—	0.05	0.38
Li Jianshe	–	0.09	0.21	—	0.05	0.35
	1.20	1.00	2.21	0.87	0.45	5.73

Note: Please refer to Note 36 for details of the share appreciation rights.

11 Individuals with highest emoluments

Of the five highest paid individuals of the Group, four (2005: four) are directors of the Company for the year ended 31 December 2006 whose emoluments are included in Note 10 above.

The following table sets out the emoluments of the Group's remaining one (2005: one) highest paid individual for the year ended 31 December 2006 who is not a director nor a supervisor of the Company:

	2006 RMB million	2005 RMB million
Basic salaries, housing and other allowances and benefits in kind	**0.25**	0.16
Discretionary bonuses	**0.29**	0.34
Share appreciation rights	**1.16**	0.08
Retirement scheme contributions	**0.12**	0.07
	1.82	0.65

11 Individuals with highest emoluments *(continued)*

The emoluments of this individual is within the following band:

	Number of individual	
	2006	2005
Nil – RMB1,005,000 (equivalent to HK$1,000,000)	**–**	1
RMB1,507,001 – RMB2,009,000 (equivalent to HK$1,500,001 to HK$2,000,000)	**1**	–
	1	1

12 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB12,519 million (2005: RMB11,928 million) which has been dealt with in the financial statements of the Company.

13 Dividends

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2006 RMB million	2005 RMB million
Special dividend to Shenhua resolved after the balance sheet date	**–**	5,143
Final dividend proposed after the balance sheet date of RMB0.34 (2005: RMB0.125) per ordinary share	**6,150**	2,261
	6,150	7,404

On 23 March 2007, the directors proposed a final dividend of RMB0.34 per share totalling RMB6,150 million to all equity shareholders of the Company for shareholders' approval at the forthcoming annual general meeting.

The dividends resolved and proposed after the balance sheet date have not been recognised as a liability at the balance sheet date.

13 Dividends *(continued)*

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2006 RMB million	2005 RMB million
Special dividend to Shenhua in respect of previous financial year, resolved and paid during the year	**5,143**	–
Final dividend in respect of the previous financial year, approved and paid during the year	**2,261**	7,549
	7,404	7,549

On 27 March 2005, the directors proposed and the sole shareholder approved that the distributable profit of the Group for the period from 1 January 2005 to the date immediately preceding the date of its listing on the Stock Exchange (i.e. 14 June 2005) be entirely distributed to Shenhua. Pursuant to a resolution passed at the directors' meeting on 10 March 2006, the directors resolved to pay a special dividend to Shenhua amounting to RMB5,143 million (being the distributable profit of the Group for the period from 1 January 2005 to 14 June 2005). The special dividend was paid on 18 May 2006.

A final dividend of RMB0.125 per share totalling RMB2,261 million in respect of the year ended 31 December 2005 was approved at the annual general meeting held on 12 May 2006 and was subsequently paid on 29 May 2006.

On 27 March 2005, a final dividend of RMB7,549 million in respect of the year ended 31 December 2004 was approved for distribution to Shenhua and was subsequently paid on 26 May 2005.

14 Earnings per share

The calculation of basic earnings per share for the year ended 31 December 2006 was based on the profit attributable to equity shareholders of the Company for the year of RMB17,460 million (2005: RMB15,619 million as restated) and the weighted average number of shares in issue during the year ended 31 December 2006 of 18,090 million (2005: 16,678 million).

Weighted average number of ordinary shares

	2006 million	2005 million
Ordinary shares issued at 1 January	**18,090**	15,000
Effect of shares issued in June 2005 (Note 1)	**–**	1,534
Effect of shares issued in July 2005 (Note 1)	**–**	144
Weighted average number of ordinary shares at 31 December	**18,090**	16,678

The Company had no dilutive potential shares outstanding for both years presented.

15 Property, plant and equipment, net

The Group

	Buildings RMB million	Mining structures and mining rights RMB million	Mining related machinery and equipment RMB million	Generators and related machinery and equipment RMB million	Railway and port transportation structures RMB million	Furniture, fixtures, motor vehicles and other equipment RMB million	Total RMB million
Cost/valuation:							
At 1 January 2005 (restated)	9,447	7,334	11,614	23,608	36,194	2,766	90,963
Additions	7	3,132	253	18	576	278	4,264
Transferred from construction in progress	1,160	179	3,035	3,365	2,783	172	10,694
Disposals	(46)	(33)	(239)	(23)	(92)	(156)	(589)
At 31 December 2005 (restated)	10,568	10,612	14,663	26,968	39,461	3,060	105,332
Representing:							
Cost (restated)	2,377	3,659	5,879	4,759	8,705	786	26,165
Valuation – 2003 (Note (b))	8,191	6,953	8,784	22,209	30,756	2,274	79,167
	10,568	10,612	14,663	26,968	39,461	3,060	105,332
Accumulated depreciation and impairment losses:							
At 1 January 2005 (restated)	1,860	606	3,667	5,157	5,326	1,315	17,931
Charge for the year	459	288	1,182	1,296	1,594	281	5,100
Impairment losses (Note (e))	1	–	–	–	10	30	41
Written back on disposals	(2)	(5)	(97)	(13)	(31)	(122)	(270)
At 31 December 2005 (restated)	2,318	889	4,752	6,440	6,899	1,504	22,802
Net book value:							
At 31 December 2005 (restated)	8,250	9,723	9,911	20,528	32,562	1,556	82,530
Cost/valuation:							
At 1 January 2006	**10,568**	**10,612**	**14,663**	**26,968**	**39,461**	**3,060**	**105,332**
Additions	**22**	**93**	**556**	**48**	**1,173**	**298**	**2,190**
Transferred from construction in progress	**3,743**	**762**	**4,702**	**15,049**	**5,319**	**525**	**30,100**
Disposals	**(86)**	**(220)**	**(573)**	**(45)**	**(119)**	**(147)**	**(1,190)**
At 31 December 2006	**14,247**	**11,247**	**19,348**	**42,020**	**45,834**	**3,736**	**136,432**
Representing:							
Cost	**6,142**	**4,514**	**11,137**	**19,856**	**15,197**	**1,609**	**58,455**
Valuation – 2003 (Note (b))	**8,105**	**6,733**	**8,211**	**22,164**	**30,637**	**2,127**	**77,977**
	14,247	**11,247**	**19,348**	**42,020**	**45,834**	**3,736**	**136,432**
Accumulated depreciation and impairment losses:							
At 1 January 2006	**2,318**	**889**	**4,752**	**6,440**	**6,899**	**1,504**	**22,802**
Charge for the year	**656**	**389**	**1,438**	**1,790**	**1,700**	**338**	**6,311**
Impairment losses (Note (e))	**–**	**–**	**147**	**–**	**–**	**–**	**147**
Written back on disposals	**(19)**	**(28)**	**(467)**	**(25)**	**(38)**	**(110)**	**(687)**
At 31 December 2006	**2,955**	**1,250**	**5,870**	**8,205**	**8,561**	**1,732**	**28,573**
Net book value:							
At 31 December 2006	**11,292**	**9,997**	**13,478**	**33,815**	**37,273**	**2,004**	**107,859**

15 Property, plant and equipment, net *(continued)*

The Company

	Buildings RMB million	Mining structures and mining rights RMB million	Mining related machinery and equipment RMB million	Generators and related machinery and equipment RMB million	Railway and port transportation structures RMB million	Furniture, fixtures, motor vehicles and other equipment RMB million	Total RMB million
Cost/valuation:							
At 1 January 2005	1,989	6,078	8,005	6	10,169	696	26,943
Additions	6	2,951	169	–	393	91	3,610
Transferred from construction in progress	108	156	2,984	–	516	83	3,847
Disposals	(43)	(33)	(170)	(1)	(3)	(45)	(295)
At 31 December 2005	2,060	9,152	10,988	5	11,075	825	34,105
Representing:							
Cost	317	3,275	5,532	1	2,092	316	11,533
Valuation – 2003 (Note (b))	1,743	5,877	5,456	4	8,983	509	22,572
	2,060	9,152	10,988	5	11,075	825	34,105
Accumulated depreciation:							
At 1 January 2005	366	518	1,728	4	2,103	330	5,049
Charge for the year	80	283	1,003	2	554	75	1,997
Written back on disposals	(2)	(5)	(83)	(1)	(2)	(18)	(111)
At 31 December 2005	444	796	2,648	5	2,655	387	6,935
Net book value:							
At 31 December 2005	1,616	8,356	8,340	–	8,420	438	27,170
Cost/valuation:							
At 1 January 2006	**2,060**	**9,152**	**10,988**	**5**	**11,075**	**825**	**34,105**
Additions	**16**	**93**	**421**	**–**	**836**	**169**	**1,535**
Transferred from construction in progress	**414**	**701**	**3,856**	**–**	**15**	**113**	**5,099**
Disposals	**(24)**	**(220)**	**(553)**	**–**	**(38)**	**(86)**	**(921)**
At 31 December 2006	**2,466**	**9,726**	**14,712**	**5**	**11,888**	**1,021**	**39,818**
Representing:							
Cost	**747**	**4,069**	**9,809**	**1**	**2,943**	**598**	**18,167**
Valuation – 2003 (Note (b))	**1,719**	**5,657**	**4,903**	**4**	**8,945**	**423**	**21,651**
	2,466	**9,726**	**14,712**	**5**	**11,888**	**1,021**	**39,818**
Accumulated depreciation and impairment losses:							
At 1 January 2006	**444**	**796**	**2,648**	**5**	**2,655**	**387**	**6,935**
Charge for the year	**73**	**358**	**1,295**	**–**	**547**	**120**	**2,393**
Impairment losses (Note (e))	**–**	**–**	**147**	**–**	**–**	**–**	**147**
Written back on disposals	**(6)**	**(28)**	**(452)**	**–**	**(7)**	**(63)**	**(556)**
At 31 December 2006	**511**	**1,126**	**3,638**	**5**	**3,195**	**444**	**8,919**
Net book value:							
At 31 December 2006	**1,955**	**8,600**	**11,074**	**–**	**8,693**	**577**	**30,899**

15 Property, plant and equipment, net *(continued)*

(a) All of the Group's buildings and plant and equipment are located in the PRC.

(b) As required by the relevant PRC rules and regulations with respect to the Restructuring, the property, plant and equipment of the Group as at 31 December 2003 were revalued for each asset class by China Enterprise Appraisal Co., Ltd. (the "PRC valuers"), independent valuers registered in the PRC, on a depreciated replacement cost basis. The value of property, plant and equipment was determined at RMB66,832 million. The net surplus on the revaluation of RMB8,260 million was incorporated in the consolidated balance sheet as at 31 December 2003.

The Group's properties were also valued separately by American Appraisal China Limited, independent qualified valuers in Hong Kong, on a depreciated replacement cost basis, as at 15 March 2005. The value arrived at by these valuers is approximately the same as that arrived at by the PRC valuers as adjusted for the depreciation for the period from 1 January 2004 to 15 March 2005.

(c) Had property, plant and equipment been carried at cost less accumulated depreciation, the historical carrying amounts as at 31 December 2006 would have been as follows:

	2006 RMB million	2005 RMB million (restated – Note 1)
Buildings	**10,971**	7,890
Mining structures and mining rights	**5,479**	4,958
Mining related machinery and equipment	**13,038**	9,468
Generators and related machinery and equipment	**33,752**	20,449
Railway and port transportation structures	**35,321**	30,528
Furniture, fixtures, motor vehicles and other equipment	**2,160**	1,750
	100,721	75,043

(d) Up to the date of this report, the Group was in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB2,977 million as at 31 December 2006 (2005: RMB875 million as restated), of which RMB2,236 million related to newly acquired properties in 2006. The directors are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

(e) Certain property, plant and equipment which were obsolete, damaged or that could not generate future economic benefits were provided against for impairment for the years ended 31 December 2006 and 31 December 2005 respectively.

16 Construction in progress

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB million	RMB million (restated – Note 1)	**RMB million**	RMB million
At the beginning of the year	**21,910**	13,317	**1,680**	1,649
Additions	**22,305**	19,287	**7,083**	3,878
Transferred to property, plant and equipment	**(30,100)**	(10,694)	**(5,099)**	(3,847)
At the end of the year	**14,115**	21,910	**3,664**	1,680

The construction in progress as at 31 December 2006 are mainly related to mining, generators and related machinery and equipment.

17 Intangible assets

Intangible assets mainly represent the cost of acquiring railway route access and use rights. The movement of intangible assets is as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB million	RMB million	**RMB million**	RMB million
At the beginning of the year	**1,293**	1,210	**344**	343
Additions	**140**	360	**4**	20
Amortisation	**(300)**	(277)	**(24)**	(19)
At the end of the year	**1,133**	1,293	**324**	344

The amortisation charge for the year is included in cost of revenues in the consolidated income statement.

18 Investments in subsidiaries

	The Company	
	2006	2005
	RMB million	RMB million (restated – Note 1)
Unlisted shares, at cost	**19,687**	18,119

18 Investments in subsidiaries *(continued)*

The Company's subsidiaries are unlisted and established in the PRC. Details of the Company's principal subsidiaries as at 31 December 2006 are as follows:

Name of the company	Type of legal entity	Particulars of registered capital	% held by the Company	Principal activities
Shenhua Zhunge'er Energy Co., Ltd.	Limited company	Registered capital RMB7,102 million	58%	Coal mining and development
Shuohuang Railway Development Co., Ltd.	Limited company	Registered capital RMB5,880 million	53%	Provision of transportation services
Shenhua Huanghua Harbor Administration Co., Ltd.	Limited company	Registered capital RMB1,820 million	70%	Provision of harbour and port services
Shenhua Baoshen Railway Co., Ltd.	Limited company	Registered capital RMB602 million	88%	Provision of transportation services
Guangdong Guohua Yuedian Taishan Power Co., Ltd.	Limited company	Registered capital RMB2,700 million	80%	Generation and sale of electricity
CLP Guohua Power Co., Ltd.	Limited company	Registered capital RMB1,637 million	51%	Generation and sale of electricity

19 Interest in associates

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB million	RMB million	**RMB million**	RMB million
Unlisted shares, at cost	**–**	–	**1,480**	2,982
Share of net assets	**2,369**	3,686	**–**	–
	2,369	3,686	**1,480**	2,982

19 Interest in associates *(continued)*

The Group's interest in associates are individually and in aggregate not material to the Group's financial condition or results of operations for the year. The Group's associates are unlisted and established in the PRC. Details of the Group's principal associates as at 31 December 2006 are as follows:

			Proportion of ownership interest			
Name of the Company	**Type of legal entity**	**Particulars of registered capital**	**Group's effective interest**	**% held by the Company**	**% held by the Company's subsidiaries**	**Principal activities**
Hebei Guohua Dingzhou Power Co., Ltd.	Limited company	Registered capital RMB931 million	41%	41%	–	Power generation
Zhejiang Jiahua Power Co., Ltd.	Limited company	Registered capital RMB2,055 million	20%	20%	–	Power generation
Inner-Mongolia Haibowan Power Co., Ltd.	Limited company	Registered capital RMB280 million	40%	40%	–	Power generation
Inner-Mongolia Jingda Power Co., Ltd.	Limited company	Registered capital RMB455 million	30%	30%	–	Power generation
Shenhua Finance Co., Ltd.	Limited company	Registered capital RMB700 million	33%	21%	19%	Provision of financial services

20 Other investments

Other investments comprise unlisted equity securities and certain subsidiaries which are individually and in aggregate not material to the Group's financial position and results of operations for the year. As there is no quoted market price in an active market for these investments, they are stated at cost less impairment losses.

21 Other non-current financial assets

Other non-current financial assets represent entrusted loans to a subsidiary (2005: Nil) through a PRC state-owned bank. The loans are interest bearing at rates ranging from 5.202% to 5.4315% per annum and are receivable within eight years.

22 Inventories

	The Group 2006 RMB million	The Group 2005 RMB million	The Company 2006 RMB million	The Company 2005 RMB million
Coal	**1,487**	1,140	**934**	751
Materials and supplies	**3,274**	2,432	**1,736**	1,213
	4,761	3,572	**2,670**	1,964

The analysis of the amount of inventories recognised as an expense is as follows:

	The Group 2006 RMB million	The Group 2005 RMB million
Carrying amount of inventories sold	**26,953**	20,746
Write down of inventories	**36**	–
Reversal of write down of inventories	**(4)**	(27)
	26,985	20,719

The reversal of write-down of inventories made in prior years arose due to an increase in the estimated net realisable value of certain inventories.

23 Available-for-sale investments

On 29 December 2006, the Group entered into two fund management contracts with Industrial and Commercial Bank of China ("ICBC") with a total principal of RMB2,000 million. The expected return from the investments ranges from 2.4% to 2.8% per annum. The securities that ICBC could invest in may include trust funds, government bonds, financial bonds, bills, enterprise bonds, short-term financial coupons and other bonds. As at 31 December 2006, ICBC has not yet invested the fund into any securities on behalf of the Group. The maturity date of both the contracts is 28 June 2007.

24 Accounts and bills receivable, net

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB million	RMB million	**RMB million**	RMB million
Accounts receivable	**4,331**	2,531	**1,412**	1,276
Impairment losses for bad and doubtful accounts	**(20)**	(23)	**(11)**	(13)
	4,311	2,508	**1,401**	1,263
Bills receivable	**549**	174	**56**	61
	4,860	2,682	**1,457**	1,324

Credit of up to 60 days is granted to customers with established trading history, otherwise sales on cash terms are required.

The following is the ageing analysis of accounts and bills receivable, net of impairment losses for bad and doubtful accounts:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB million	RMB million	**RMB million**	RMB million
Current	**4,803**	2,639	**1,448**	1,286
Within one year	**53**	39	**7**	35
Between one and two years	**4**	2	**2**	1
Between two and three years	**–**	2	**–**	2
	4,860	2,682	**1,457**	1,324

Included in accounts and bills receivable are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	**2006**	2005
	million	million	**million**	million
United States Dollars	**USD89**	USD76	**USD89**	USD76

25 Prepaid expenses and other current assets

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB million	RMB million (restated – Note 1)	**RMB million**	RMB million
Amounts due from Shenhua	**52**	107	**52**	71
Prepayments in connection with construction work and equipment purchases	**2,144**	585	**2,015**	401
Prepaid expenses and deposits	**624**	394	**494**	229
Amounts due from subsidiaries	**–**	–	**8,558**	8,443
Amounts due from associates	**50**	104	**50**	100
Other receivables	**149**	80	**25**	54
Advances to staff	**40**	31	**24**	19
	3,059	1,301	**11,218**	9,317

In the Company's balance sheet, the balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

26 Time deposits with original maturity over three months and cash and cash equivalents

Included in time deposits with original maturity over three months and cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	**2006**	2005
	million	million	**million**	million
United States Dollars	**USD14**	USD9	**–**	–
Hong Kong Dollars	**HK$494**	HK$487	**HK$491**	HK$486

27 Deferred tax assets and liabilities

Deferred tax assets and deferred tax liabilities are attributable to the items set out below:

	The Group					
	Assets		Liabilities		Net balance	
	2006 RMB million	2005 RMB million (restated – Note 1)	**2006 RMB million**	2005 RMB million	**2006 RMB million**	2005 RMB million (restated – Note 1)
Current						
Allowances, primarily for receivables and inventories	**69**	64	**–**	–	**69**	64
Non-current						
Property, plant and equipment	**253**	169	**(734)**	(601)	**(481)**	(432)
Lease prepayments	**857**	877	**–**	–	**857**	877
Tax losses carried forward, net of valuation allowance	**11**	122	**–**	–	**11**	122
Tax allowable expenses not yet incurred	**–**	–	**(272)**	(143)	**(272)**	(143)
Unrealised profits from sales within the Group	**90**	70	**–**	–	**90**	70
Accrued salaries not yet paid	**90**	39	**–**	–	**90**	39
Pre-operating expenses written off	**58**	53	**–**	–	**58**	53
Others	**141**	41	**–**	–	**141**	41
Deferred tax assets/(liabilities)	**1,569**	1,435	**(1,006)**	(744)	**563**	691

	The Company					
	Assets		Liabilities		Net balance	
	2006 RMB million	2005 RMB million	**2006 RMB million**	2005 RMB million	**2006 RMB million**	2005 RMB million
Current						
Allowances, primarily for receivables and inventories	**40**	40	**–**	–	**40**	40
Non-current						
Property, plant and equipment	**106**	28	**(232)**	(123)	**(126)**	(95)
Lease prepayments	**533**	544	**–**	–	**533**	544
Tax allowable expenses not yet incurred	**–**	–	**(259)**	(121)	**(259)**	(121)
Unrealised profits from sales within the Company	**90**	70	**–**	–	**90**	70
Accrued salaries not yet paid	**35**	33	**–**	–	**35**	33
Others	**82**	59	**–**	–	**82**	59
Deferred tax assets/(liabilities)	**886**	774	**(491)**	(244)	**395**	530

27 Deferred tax assets and liabilities *(continued)*

Movements in temporary differences are as follows:

The Group

	At 1 January 2006 RMB million (restated – Note 1)	Recognised in consolidated income statement RMB million	At 31 December 2006 RMB million
Current			
Allowances, primarily for receivables and inventories	**64**	**5**	**69**
Non-current			
Property, plant and equipment	**(432)**	**(49)**	**(481)**
Lease prepayments	**877**	**(20)**	**857**
Tax losses carried forward, net of valuation allowances	**122**	**(111)**	**11**
Tax allowable expenses not yet incurred	**(143)**	**(129)**	**(272)**
Unrealised profits from sales within the Group	**70**	**20**	**90**
Accrued salaries not yet paid	**39**	**51**	**90**
Pre-operating expenses written off	**53**	**5**	**58**
Others	**41**	**100**	**141**
Net deferred tax assets	**691**	**(128)**	**563**

	At 1 January 2005 RMB million (restated – Note 1)	Recognised in consolidated income statement RMB million (restated – Note 1)	At 31 December 2005 RMB million (restated – Note 1)
Current			
Allowances, primarily for receivables and inventories	69	(5)	64
Non-current			
Property, plant and equipment	(165)	(267)	(432)
Lease prepayments	894	(17)	877
Tax losses carried forward, net of valuation allowances	23	99	122
Tax allowable expenses not yet incurred	(47)	(96)	(143)
Unrealised profits from sales within the Group	32	38	70
Accrued salaries not yet paid	15	24	39
Pre-operating expenses written off	32	21	53
Others	(69)	110	41
Net deferred tax assets	784	(93)	691

27 Deferred tax assets and liabilities *(continued)*

The Company

	At 1 January 2006 RMB million	Recognised in income statement RMB million	At 31 December 2006 RMB million
Current			
Allowances, primarily for receivables and inventories	**40**	**–**	**40**
Non-current			
Property, plant and equipment	**(95)**	**(31)**	**(126)**
Lease prepayments	**544**	**(11)**	**533**
Tax allowable expenses not yet incurred	**(121)**	**(138)**	**(259)**
Unrealised profits from sales within the Company	**70**	**20**	**90**
Accrued salaries not yet paid	**33**	**2**	**35**
Others	**59**	**23**	**82**
Net deferred tax assets	**530**	**(135)**	**395**

	At 1 January 2005 RMB million	Recognised in income statement RMB million	At 31 December 2005 RMB million
Current			
Allowances, primarily for receivables and inventories	40	–	40
Non-current			
Property, plant and equipment	(103)	8	(95)
Lease prepayments	554	(10)	544
Tax allowable expenses not yet incurred	(45)	(76)	(121)
Unrealised profits from sales within the Company	32	38	70
Accrued salaries not yet paid	13	20	33
Others	(22)	81	59
Net deferred tax assets	469	61	530

28 Borrowings

The Group's and the Company's short-term borrowings comprise:

	The Group 2006 RMB million	The Group 2005 RMB million (restated – Note 1)	The Company 2006 RMB million	The Company 2005 RMB million
Borrowings from banks and other financial institutions	**9,255**	5,951	**2,000**	2,000
Loans from subsidiaries	**–**	–	**900**	300
Current portion of long-term borrowings	**5,587**	3,694	**2,201**	1,180
	14,842	9,645	**5,101**	3,480

The Group's and the Company's interest rates per annum on short-term borrowings were:

	The Group 2006	The Group 2005 (restated – Note 1)	The Company 2006	The Company 2005
Borrowings from banks and other financial institutions	**4.185%-5.508%**	3.6%-5.508%	**4.388%-5.508%**	5.022%
Loans from subsidiaries	**–**	–	**2.277%-2.70%**	2.277%
Current portion of long-term borrowings	**2.30%-6.156% L+0.6%-1.8%**	2.30%-5.508% L+0.6%-1.35%	**2.30%-6.156% L+0.6%**	2.30%-5.508% L+0.6%

The Group's and the Company's long-term borrowings comprise:

		The Group 2006 RMB million	The Group 2005 RMB million (restated – Note 1)	The Company 2006 RMB million	The Company 2005 RMB million
Loans from banks and other financial institutions *					
Renminbi denominated	Interest rates ranging from 3.60% to 6.156% per annum with maturities through 28 December 2023	**40,286**	37,805	**8,056**	9,624
US Dollars denominated	Interest rate at L+0.6% -1% per annum with maturities through 20 June 2020	**564**	568	**276**	567
Japanese Yen denominated	Interest rates ranging from 1.80% to 4.45% or L+1.8% per annum with maturities through 20 March 2031	**5,577**	6,114	**5,413**	5,857
		46,427	44,487	**13,745**	16,048
Less: current portion of long-term borrowings		**(5,587)**	(3,694)	**(2,201)**	(1,180)
		40,840	40,793	**11,544**	14,868

* At 31 December 2006, the balance includes an entrusted loan from the Parent Company amounting to RMB1,000 million (2005: RMB1,000 million).

Interest rates comprise fixed rates and floating rates based on the London Interbank Offered Rate ("LIBOR"/"L").

The above borrowings are unsecured.

28 Borrowings *(continued)*

The long-term borrowings were repayable as follows:

	The Group 2006 RMB million	The Group 2005 RMB million (restated – Note 1)	The Company 2006 RMB million	The Company 2005 RMB million
Within one year or on demand	**5,587**	3,694	**2,201**	1,180
After one year but within two years	**6,298**	6,214	**2,028**	2,921
After two years but within five years	**13,738**	14,849	**2,635**	3,809
After five years	**20,804**	19,730	**6,881**	8,138
	46,427	44,487	**13,745**	16,048

Included in borrowings are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group 2006 million	The Group 2005 million	The Company 2006 million	The Company 2005 million
United States Dollars	**USD72**	USD82	**USD35**	USD70
Japanese Yen	**JPY84,979**	JPY88,980	**JPY82,481**	JPY85,231

The Group had unsecured banking facilities amounting to RMB8,072 million as at 31 December 2006 (2005: RMB4,350 million). As at 31 December 2006, the unutilised banking facilities amounted to RMB4,789 million (2005: RMB3,919 million). Such banking facilities would be drawn down in accordance with the level of working capital and planned capital expenditure of the Company and its subsidiaries.

29 Accounts and bills payable

	The Group 2006 RMB million	The Group 2005 RMB million (restated – Note 1)	The Company 2006 RMB million	The Company 2005 RMB million
Accounts payable	**8,465**	5,458	**3,511**	2,596
Bills payable	**668**	1,376	**1**	–
	9,133	6,834	**3,512**	2,596

The following is the ageing analysis of accounts and bills payable:

	The Group 2006 RMB million	The Group 2005 RMB million (restated – Note 1)	The Company 2006 RMB million	The Company 2005 RMB million
Within one year	**8,705**	6,422	**3,332**	2,274
One to two years	**262**	368	**43**	315
Two to three years	**139**	24	**134**	7
Over three years	**27**	20	**3**	–
	9,133	6,834	**3,512**	2,596

29 Accounts and bills payable *(continued)*

Included in accounts and bills payable are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	**2006**	2005
	million	million	**million**	million
United States Dollars	**USD21**	USD69	**USD16**	USD52
Hong Kong Dollars	**HK$84**	–	**–**	–
Euros	**EUR11**	–	**EUR11**	–

RMB101 million (2005: RMB463 million) of the accounts and bills payable are expected to be settled after more than one year.

30 Accrued expenses and other payables

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB million	RMB million	**RMB million**	RMB million
		(restated – Note 1)		
Accrued staff wages and welfare benefits	**1,364**	1,202	**843**	696
Accrued interest payable	**73**	46	**50**	32
Accrued taxes other than income tax	**1,555**	1,204	**1,083**	958
Other accrued expenses and payables	**2,191**	3,069	**1,273**	1,160
Fair value of derivative financial instruments	**246**	223	**246**	223
Customer deposits and receipts in advances	**1,548**	1,069	**979**	760
	6,977	6,813	**4,474**	3,829

At 31 December 2006, the Group had amounts payable to related parties amounting to RMB211 million (2005: RMB1,283 million as restated). The Company had amounts payable to related parties amounting to RMB200 million as at 31 December 2006 (2005: RMB126 million).

Accrued expenses and payables with an amount of RMB241 million (2005: RMB117 million) are expected to be settled after more than one year.

31 Accrued reclamation obligations

The accrual for reclamation costs has been determined based on management's best estimates. However, so far as the effect on the land from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to change in the near term. The Group believes that the accrued reclamation obligations at 31 December 2006 are adequate. The accrual is necessarily based on estimates and therefore, the ultimate liability may exceed or be less than such estimates.

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB million	RMB million	**RMB million**	RMB million
At the beginning of the year	**852**	650	**497**	470
Addition	**40**	172	**40**	–
Accretion expense	**50**	30	**31**	27
At the end of the year	**942**	852	**568**	497

32 Long-term payable

Long-term payable represents payable for acquisition of mining rights which is to be settled over the period of production on an annual basis. The annual payment is determined by fixed rates on a per tonne basis with reference to the annual production volume of the acquired mines.

33 Share capital

	2006 **RMB million**	2005 RMB million
Registered, issued and fully paid:		
14,691,037,955 domestic state-owned ordinary shares of RMB1.00 each	**14,691**	14,691
3,398,582,500 H shares of RMB1.00 each	**3,399**	3,399
	18,090	18,090

	2006 **No. of shares** **million**	2005 No. of shares million
At 1 January	**18,090**	15,000
Conversion of domestic state-owned shares into H shares	**–**	(309)
Issue of H shares	**–**	3,399
At 31 December	**18,090**	18,090

The Company was incorporated on 8 November 2004 with a registered share capital of 15,000,000,000 domestic state-owned ordinary shares with a par value of RMB1.00 each. Such shares were issued to Shenhua in consideration for the assets and liabilities transferred from Shenhua (Note 1).

In 2005, the Company issued 3,398,582,500 H shares with a par value of RMB1.00 each, at a price of HK$7.50 per H share by way of a global initial public offering to Hong Kong and overseas investors. The H shares were listed on the Stock Exchange.

34 Commitments and contingent liabilities

(a) Capital commitments

As at 31 December 2006, the Group had capital commitments for acquisition and construction of land and buildings and equipment, and for the acquisition of investments and associates as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB million	RMB million (restated – Note 1)	**RMB million**	RMB million
Authorised and contracted for				
- Land and buildings	**4,333**	4,911	**863**	200
- Equipment	**9,542**	6,686	**1,540**	1,973
- Investments and associates	**–**	450	**–**	450
	13,875	12,047	**2,403**	2,623
Authorised but not contracted for				
- Land and buildings	**12,639**	11,990	**3,573**	2,794
- Equipment	**12,550**	20,764	**7,859**	8,485
	25,189	32,754	**11,432**	11,279

(b) Operating lease commitments

The Group leases business premises through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments nor impose restrictions on dividends, additional debt and/or further leasing. As at 31 December 2006, future minimum lease payments under non-cancellable operating leases on business premises having initial or remaining lease terms of more than one year are payable as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB million	RMB million (restated – Note 1)	**RMB million**	RMB million
Within one year	**43**	48	**25**	37
After one year but within five years	**152**	185	**82**	141
After five years	**109**	178	**58**	137
	304	411	**165**	315

34 Commitments and contingent liabilities *(continued)*

(c) Financial guarantees issued

As at the balance sheet date, the Group issued the following guarantees:

(i) a guarantee in respect of a banking facility made by Shenhua Finance Company Limited ("Shenhua Finance") to an associate of the Company; and

(ii) guarantees to banks in respect of banking facilities granted to subsidiaries.

As at the balance sheet date, the directors do not consider it probable that a claim will be made against the Group under any of the guarantees. The maximum liability of the Group at the balance sheet date under the single guarantee issued is the outstanding amount of the banking facility to an associate of RMB310 million (2005: RMB310 million). The maximum liability of the Company at the balance sheet date under the guarantee is RMB1,966 million (2005: RMB2,478 million).

(d) Legal contingencies

The Group is a defendant in certain lawsuits as well as the plaintiff in other proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

(e) Environmental contingencies

To date, the Group has not incurred any significant expenditures for environmental remediation, is currently not involved in any environmental remediation, and apart from the provision for land reclamation costs, has not accrued any further amounts for environmental remediation relating to its operations. Under the existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved, and may move further towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include (i) the exact nature and extent of the contamination at various sites including, but not limited to coal mines and land development areas, whether operating, closed or sold; (ii) the extent of required cleanup efforts; (iii) varying costs of alternative remediation strategies; (iv) changes in environmental remediation requirements; and (v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under future environmental legislation cannot reasonably be estimated at present, and could be material.

35 Related party transactions

(a) Transactions with Shenhua and its affiliates ("Shenhua Group") and the associates of the Company

The Group is controlled by the Parent Company and has significant transactions and relationships with the Parent Company and its affiliates. Related parties refer to enterprises over which the Parent Company is able to exercise significant influence or control. The Company also has entered into transactions with its associates, over which the Company can exercise significant influence. Because of the above relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

The Group had the following transactions with Shenhua Group and the associates of the Company that were carried out in the normal course of business:

		2006 RMB million	2005 RMB million (restated – Note 1)
Interest income	(i)	**9**	10
Purchases of ancillary materials and spare parts	(ii)	**(509)**	(423)
Ancillary and social services	(iii)	**(438)**	(305)
Transportation services income	(iv)	**71**	78
Interest expense	(v)	**(50)**	(98)
Purchase of coal	(vi)	**(1,421)**	(927)
Sale of coal	(vii)	**1,730**	1,133
Property leasing	(viii)	**(41)**	(49)
Transportation services expense	(ix)	**(272)**	(175)
Net deposits (placed with)/withdrawn from related party		**(1,469)**	3,728
Net loans repaid to related party		**–**	(2,822)
Repairs and maintenance services expense	(x)	**(3)**	(31)
Coal export agency expense	(xi)	**(67)**	(70)
Entrusted loan from a related party		**–**	1,000
Entrusted loan repaid by/(to) a related party		**50**	(100)
Income from equipment installation and construction work	(xii)	**32**	–
Purchase of equipment and construction work	(xiii)	**(124)**	(171)
(Repaid to)/advance from a related party		**(1,200)**	1,200
Other income	(xiv)	**58**	60

35 Related party transactions *(continued)*

(a) Transactions with Shenhua and its affiliates ("Shenhua Group") and the associates of the Company *(continued)*

(i) Interest income represents interest earned from deposits placed with its associate. The applicable interest rate is determined in accordance with the prevailing savings deposit rate.

(ii) Purchases of ancillary materials and spare parts represent purchase of materials and utility supplies from Shenhua Group related to the Group's operations.

(iii) Ancillary and social services represent expenditures for social welfare and support services such as property management, water and electricity supply, and canteen paid to Shenhua Group.

(iv) Transportation services income represents income earned from its associate and Shenhua Group in respect of coal transportation services.

(v) Interest expense represents interest incurred in respect of borrowings from Shenhua Group. The applicable interest rate is determined in accordance with the prevailing borrowing rate.

(vi) Purchase of coal represents coal purchased from Shenhua Group.

(vii) Sale of coal represents income from sale of coal to its associates and Shenhua Group.

(viii) Property leasing represents rental charge in respect of properties leased from Shenhua Group.

(ix) Transportation services expense represents expense related to coal transportation services provided by its associates.

(x) Repairs and maintenance services expense represents expense related to machinery repairs and maintenance services provided by Shenhua Group.

(xi) Coal export agency expense represents expense related to coal export agency services provided by Shenhua Group.

(xii) Income from equipment installation and construction work represents equipment installation and construction service provided to related parties.

(xiii) Purchase of equipment and construction work represents expense related to purchase of equipment and construction work from related parties.

(xiv) Other income includes agency income, repairs and maintenance service income, sales of ancillary materials and spare parts, management fee income and sales of electricity, etc.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

35 Related party transactions *(continued)*

(a) Transactions with Shenhua and its affiliates ("Shenhua Group") and the associates of the Company *(continued)*

In connection with the Restructuring, the Company and Shenhua Group entered into a number of agreements effective as at 1 January 2004, which were subsequently revised as stated below. The terms of the principal agreements impacting the results of operations of the Company are summarised as follows:

(a) The Company entered into a three-year mutual supply agreement expiring 31 December 2006 which was subsequently extended to 31 December 2007 in the revised agreement with the Parent Company for the mutual provision of production supplies and ancillary services. Pursuant to the agreements, Shenhua Group provides the Company with the production supplies, such as explosives, fuses, oil products, and other related or similar production supplies and services; ancillary production services including security, logistics and support services, tendering services, other related or similar services and use of the information network system; and ancillary administrative services, such as social security and pension management service and staff data recording services. On the other hand, the Company provides Shenhua Group with water supplies, rolling stock management, rail transportation and other related or similar production supplies or services and use of the information network system.

The products and services provided under the agreement, other than the social security, pension management services, and staff data recording services which are provided by Shenhua Group free of charge and the sharing of use of the information network system, are provided in accordance with the following pricing policy:

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

Each party may terminate the provision of production supplies and ancillary services on six months' prior written notice unless the other party is unable to obtain similar production supplies and ancillary services from third parties.

(b) The Company entered into a three-year coal supply agreement expiring 31 December 2006 which was subsequently extended to 31 December 2007 in the revised agreement with the Parent Company. Pursuant to the agreements, the Group and Shenhua Group supply coal to each other in accordance with their needs. The coal supplied is charged at the prevailing market price. Each party is entitled to purchase coal from any independent third party if such a third party is able to provide coal to it on better terms and conditions than those offered by the other party.

Each party may terminate the supply of coal by giving six months' prior written notice to the other party. However, if the Company cannot conveniently purchase coal from a third party, Shenhua Group may not terminate the supply of coal under any circumstances.

35 Related party transactions *(continued)*

(a) Transactions with Shenhua and its affiliates ("Shenhua Group") and the associates of the Company *(continued)*

(c) The Company entered into a three-year financial services agreement expiring 31 December 2006 which was subsequently terminated on 24 May 2005 with Shenhua Finance, a subsidiary of Shenhua and an assoicate of the Company. The Company entered into a new financial services agreement which was effective from 21 July 2006 to 31 December 2007 with Shenhua Finance on 21 July 2006. Pursuant to the new agreement, Shenhua Finance provides financial services to the Group. The terms and conditions of such services should not be less favourable than the terms and conditions of financial services rendered to other members of Shenhua Group by Shenhua Finance and by other financial institutions. The interest rate for the Group's deposit with Shenhua Finance should not be lower than the lowest limit fixed by the PBOC for the same type of deposit. The interest rate for loans made by Shenhua Finance to the Company should not be higher than the highest limit fixed by PBOC for the same type of loan. The fees charged by Shenhua Finance for the provision of other financial services shall be fixed according to the rate of fees chargeable by the PBOC or the China Banking Regulatory Commission.

(d) The Company entered into a ten-year property leasing agreement expiring 31 December 2013 which was subsequently extended to 31 December 2014 in the revised agreement with the Parent Company. Pursuant to the agreements, the Group leases certain properties from Shenhua Group and vice versa. No rent is payable by the Company before Shenhua Group obtains the relevant certificate of property ownership for that piece of property. The rental charges will be based on comparable market rates. If Shenhua Group negotiates to sell a leased property to a third party, the Company has a pre-emptive right to purchase such property under terms no less favourable to the Company. The lessee may sub-let any of the properties with the consent of lessor. The Group may at any time during the term of the property leasing agreement enter into or terminate the lease of the properties under the property leasing agreement by providing three months' written notice.

(e) The Company entered into a ten-year land leasing agreement expiring 31 December 2013 which was subsequently extended to 31 December 2024 in the revised agreement with the Parent Company, which may be renewed upon request by the Company for another 20 years on the same terms (subject to the prevailing market rent) by giving one month's written notice prior to expiry of the land leasing agreement. No rent is payable before Shenhua Group has obtained the relevant land use rights certificate for that parcel of land, but thereafter, the annual rent is determined between the parties based on the relevant laws and regulations then in force and the local market rate. The rights of the Group to use land under the land leasing agreement may not be sub-let. The Group may at any time during the term of the land leasing agreement terminate the lease of any parcel of land leased under the land leasing agreement by providing three months' written notice.

(f) The Company entered into a three-year agency agreement expiring 31 December 2006 which was subsequently extended to 31 December 2007 in the revised agreement with the Parent Company for the export of coal on the Company's behalf. Shenhua Group is appointed as a non-exclusive export agent of the Company in priority over other export agencies if the terms of export services offered by it are equal or more favourable than other export agencies. Pursuant to the agreements, Shenhua Group is entitled to receive an agency fee based on the relevant market rates or lower rates. Currently, the rate is 0.7% of the free on board price of each tonne of coal exported by Shenhua Group on the Company's behalf.

35 Related party transactions *(continued)*

(a) Transactions with Shenhua and its affiliates ("Shenhua Group") and the associates of the Company *(continued)*

(g) The Company and one of its subsidiaries entered into a three-year agency agreement expiring 31 December 2006 which was subsequently extended to 31 December 2007 in the revised agreement with the Parent Company for the sale of coal by the Company's subsidiary on behalf of Shenhua Group to minimise any potential competition between Shenhua Group and the Company. The Company's subsidiary is appointed as the exclusive sales agent for Shenhua Group for thermal coal and non-exclusive sales agent for coking coal. The unit selling price for sales the Company's subsidiary makes as agent will be determined by the Company's subsidiary according to the spot market price, subject to confirmation by Shenhua Group. Pursuant to the agreements, the Company's subsidiary is entitled to receive an agency fee which is based on its related costs incurred plus a profit margin of 5% for sale of coal outside the Inner Mongolia Autonomous Region. The Company's subsidiary does not charge any fee for sales of coal within the Inner Mongolia Autonomous Region.

(h) The Company entered into a ten-year trademark license agreement expiring 31 December 2013 which was subsequently amended by a supplemental agreement with the Parent Company. Pursuant to the agreements, Shenhua Group has granted the Group a non-exclusive licence to use the registered trademarks in the PRC. The trademarks licensed under the trademark license agreement may be used by the Group on a royalty-free basis for a term of ten years, which is renewable for another term of ten years if so agreed by both parties. Shenhua Group has agreed to maintain at its own cost the registration of such trademarks during the term of the trademarks license agreement. Shenhua Group has also agreed to be responsible for the expenses for enforcement against any infringement of the licensed trademarks by third parties.

(i) A subsidiary of the Company entered into a three-year coal supply agreement expiring 31 December 2006 which was subsequently extended to 31 December 2007 in the revised agreement with Heibei Guohua Dingzhou Power Generation Co., Ltd. ("Dingzhou", an associate of the Company). Pursuant to the agreements, the Company's subsidiary supplies coal to Dingzhou. The coal supplied is determined in accordance with the prevailing market price. Each party may terminate the supply of coal at any time by providing six months' prior written notice to the other party.

(j) A subsidiary of the Company entered into a one-year maintenance agreement with effect from 1 January 2004 which was subsequently renewed for two more years to 31 December 2006 in the renewed agreement with Dingzhou. Pursuant to the agreements, the Company's subsidiary provides rail line maintenance services to Dingzhou on a daily basis.

35 Related party transactions *(continued)*

(a) Transactions with Shenhua and its affiliates ("Shenhua Group") and the associates of the Company *(continued)*

Amounts due from/to Shenhua Group and the associates of the Company:

	Note	**2006 RMB million**	2005 RMB million (restated – Note 1)
Cash and cash equivalents		**1,469**	–
Accounts receivable		**112**	48
Prepaid expenses and other current assets	25	**102**	211
Total amounts due from Shenhua Group and the associates of the Company		**1,683**	259
Accounts payable		**345**	190
Accrued expenses and other payables	30	**211**	1,283
Long-term borrowings	28	**1,000**	1,000
Total amounts due to Shenhua Group and the associates of the Company		**1,556**	2,473

The deposits placed with an associate of the Company generate interest based on prevailing bank interest rates published by PBOC. Long-term borrowings bear an interest rate at 5.25% per annum. Other than the above, amounts due from/to Shenhua Group and the associates of the Company bear no interest, are unsecured and are repayable in accordance with normal commercial terms.

Acquisition of a subsidiary

Pursuant to a resolution passed at the Directors' meeting on 10 March 2006, the Company acquired a 70% stake in Jinjie Energy from Beijing Guohua Power at a consideration of RMB1,162 million. The Acquisition was completed in August 2006.

Following the Acquisition of Jinjie Energy (see Note 1), certain transactions between Jinjie Energy and Shenhua Group and the associates of the Company in 2005 were considered as related party transactions in these financial statements and the disclosures in this regard for the year ended 31 December 2005 were restated accordingly.

(b) Key management personnel emoluments

Key management personnel receive compensation in the form of fees, salaries, housing and other allowances, benefits in kind, discretionary bonuses, share appreciation rights and retirement scheme contributions.

Key management personnel compensation of the Group's summarised as followings:

	2006 RMB million	2005 RMB million
Short-term employee benefits	**4**	4
Post-employment benefits	**1**	1
Share appreciation rights expense	**17**	1
	22	6

Total remuneration is included in "personnel expenses" as disclosed in Note 7.

(c) Contributions to post-employment benefit plans

The Group participates in various defined contribution post-employment benefit plans organised by municipal and provincial governments for its employees. Further details of the Group's post-employment benefit plans are disclosed in Note 36.

35 Related party transactions *(continued)*

(d) Transactions with other state-controlled entities in the PRC

The Company is a state-controlled entity and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government ("state-controlled entities") through its government authorities, agencies, affiliations and other organisations.

Other than those transactions with the Parent Company and its associates as disclosed above, the Group conducts certain business activities with other state-controlled entities which include but are not limited to the following:

- Power sales;
- Sales and purchases of coal;
- Transportation services;
- Construction work of railway;
- Purchases of ancillary materials and spare parts;
- Ancillary and social services; and
- Financial services arrangements.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled. The Group has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether the counterparties are state-controlled entities or not.

Having considered the potential for transactions to be impacted by related party relationships, the Group's pricing strategy, buying and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements, the directors are of the opinion that the following transactions with other state-controlled entities require disclosure:

(i) Transactions with other state-controlled entities, including state-controlled banks in the PRC

	2006 **RMB million**	2005 RMB million
Coal revenue	**22,405**	18,495
Power revenue	**16,210**	10,616
Transportation costs	**4,799**	4,093
Interest income	**241**	256
Interest expenses	**2,789**	3,043

(ii) Balances with other state-controlled entities, including state-controlled banks in the PRC

	2006 **RMB million**	2005 RMB million
Accounts receivable	**3,217**	1,618
Cash and time deposits at banks	**14,039**	19,928
Short-term borrowings and current portion of long-term borrowings	**14,842**	9,645
Long-term borrowings, less current portion	**39,840**	39,793

36 Employee benefits plan

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 17% to 20% of the salaries, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group's contributions for the year ended 31 December 2006 were RMB353 million (2005: RMB348 million as restated).

On 19 November 2005, the Company's board of directors approved a scheme of share appreciation rights for the senior management of the Group with a term of 10 years with effect from 15 June 2005. No shares will be issued under this scheme. The rights will be granted in units with each unit representing one H share of the Company.

The rights to the units will have an exercise period of six years from the date of grant and can be exercised after the second, third and fourth anniversary of the date of grant and the total number of the rights exercised by an individual may not in aggregate exceed one-third, two-thirds and 100% respectively, of the total rights granted to the individual.

Upon exercise of the said rights, the exercising participant will, subject to the restrictions under the scheme, receive a payment in RMB, after deducting any applicable withholding tax, equal to the product of the number of rights exercised and the difference between the exercise price and market price of the H shares of the Company at the time of exercise.

The Company granted 3.2 million share appreciation rights during the year ended 31 December 2006 (2005: 2.8 million) and recognised a compensation expense over the applicable vesting period. The compensation expense recognised for the year ended 31 December 2006 amounted to RMB22 million (2005: RMB1 million). The exercise price of granted share appreciation rights as approved by the board of directors ranges from HK$7.90 to HK$11.80. As at 31 December 2006, 6.0 million (2005: 2.8 million) share appreciation rights were outstanding.

37 Segment information

The Group's risks and rates of return are affected predominantly by differences in the products and services it produces. The Group's primary format for reporting segment information is business segments with geographical segments as its secondary format.

Business segments:

The Group has two reportable segments as follows:

(1) Coal operations – which produces coal from surface and underground mines, and the sale and transportation of coal to external customers and the power segment. The Group primarily sells its coal under long-term coal supply contracts which typically allow the parties to make annual price adjustments.

(2) Power operations – which uses coal, sourced from coal mining segment of the Group and purchased from external suppliers, to generate the electric power for sale to external power grid companies and to the coal segment. The sales of power are not subject to long-term minimum power supply obligations. Electric power is sold to the power grid companies in accordance with planned power output at the tariff rates as approved by the relevant government authorities. Electric power produced in excess of the planned power output is sold at the tariff rate as agreed upon with the respective power grid companies which are generally lower than the tariff rates for planned power output.

The segments were determined primarily because the Group manages its coal and power generation businesses separately. The reportable segments are each managed separately due to differences in their operating, distribution and production processes and gross margin characteristics.

The Group evaluates the performance and allocates resources to its reportable segments on an income from operations basis, without considering the effects of finance costs or investment income. The accounting policies of the Group's reportable segments are the same as those described in the significant accounting policies (see Note 2). Corporate administrative costs and assets are not allocated to the operating segments; instead, operating segments are charged for direct corporate services. Inter-segment transfer pricing is based on market prices or prices pre-determined by the relevant governmental authority.

37 Segment information *(continued)*

(a) Income statement

The following table presents segmental information:

	Coal		Power		Corporate and others (Note)		Eliminations		Total	
	2006 RMB million	2005 RMB million	**2006 RMB million**	2005 RMB million (restated – Note 1)	**2006 RMB million**	2005 RMB million	**2006 RMB million**	2005 RMB million	**2006 RMB million**	2005 RMB million (restated – Note 1)
Revenues										
External sales	**47,604**	41,344	**16,636**	10,898	**–**	–	**–**	–	**64,240**	52,242
Inter-segment sales	**6,744**	4,156	**83**	53	**–**	–	**(6,827)**	(4,209)	**–**	–
Total operating revenues	**54,348**	45,500	**16,719**	10,951	**–**	–	**(6,827)**	(4,209)	**64,240**	52,242
Cost of revenues										
Coal purchased from third parties	**(6,777)**	(4,209)	**(158)**	(130)	**–**	–	**–**	–	**(6,935)**	(4,339)
Cost of coal production	**(8,964)**	(7,042)	**–**	–	**–**	–	**2,009**	1,190	**(6,955)**	(5,852)
Cost of coal transportation	**(11,306)**	(9,673)	**–**	–	**–**	–	**1,423**	804	**(9,883)**	(8,869)
Power cost	**–**	–	**(10,905)**	(7,387)	**–**	–	**3,372**	2,195	**(7,533)**	(5,192)
Others	**(1,144)**	(853)	**(10)**	(14)	**–**	–	**–**	–	**(1,154)**	(867)
Total cost of revenues	**(28,191)**	(21,777)	**(11,073)**	(7,531)	**–**	–	**6,804**	4,189	**(32,460)**	(25,119)
Selling, general and administrative expenses	**(2,611)**	(2,215)	**(1,336)**	(877)	**(219)**	(219)	**–**	–	**(4,166)**	(3,311)
Other operating (expenses)/ income , net	**(244)**	(207)	**(24)**	57	**(50)**	–	**–**	–	**(318)**	(150)
Profit/(loss) from operations	**23,302**	21,301	**4,286**	2,600	**(269)**	(219)	**(23)**	(20)	**27,296**	23,662
Reconciliation of profit from operations to profit for the year:										
Net financing costs									**(2,100)**	(2,060)
Investment (loss)/income									**(1)**	10
Share of profits less losses of associates									**478**	461
Income tax									**(5,388)**	(4,080)
Profit for the year									**20,285**	17,993

Note: "Corporate and others" represents miscellaneous expenses that are immaterial.

37 Segment information *(continued)*

(b) Balance sheet

Assets and liabilities dedicated to a particular segment's operations are included in that segment's total assets and liabilities. Assets which benefit more than one segment are considered to be corporate assets and are not allocated. "Unallocated assets" consists primarily of cash and cash equivalents, time deposits, investments and deferred tax assets. "Unallocated liabilities" consists primarily of short-term and long-term borrowings, income tax payable and deferred tax liabilities.

Interests in and earnings from associates are included in the segments in which the associates operate. Information on interest in associates is included in Note 19.

	2006 RMB million	2005 RMB million (restated – Note 1)
Assets		
Segment assets		
Coal	**82,131**	69,978
Power	**57,016**	45,647
Combined segment assets	**139,147**	115,625
Interest in associates		
Coal	**657**	544
Power	**1,712**	3,142
Total interest in associates	**2,369**	3,686
Unallocated assets	**21,632**	22,958
Total assets	**163,148**	142,269
Liabilities		
Segment liabilities		
Coal	**(12,847)**	(11,127)
Power	**(5,457)**	(4,686)
Combined segment liabilities	**(18,304)**	(15,813)
Unallocated liabilities	**(60,143)**	(53,469)
Total liabilities	**(78,447)**	(69,282)

37 Segment information *(continued)*

(c) Other segment information

	Coal		Power		Corporate and others (Note)		Total	
	2006 RMB million	2005 RMB million	**2006 RMB million**	2005 RMB million (restated – Note 1)	**2006 RMB million**	2005 RMB million	**2006 RMB million**	2005 RMB million (restated – Note 1)
Capital expenditure	**13,696**	13,609	**10,818**	10,298	**121**	4	**24,635**	23,911
Depreciation and amortisation	**4,044**	3,593	**2,565**	1,783	**2**	1	**6,611**	5,377
Share of profits less losses of associates	**94**	85	**384**	376	**–**	–	**478**	461
Impairment losses on property, plant and equipment	**147**	41	**–**	–	**–**	–	**147**	41

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

Note: "Corporate and others" represents miscellaneous expenses that are immaterial.

Geographical segments:

The Group has three geographical segments by location of customers as follows:

(1) Domestic markets – external customers which are located in the PRC.

(2) Asia Pacific markets – export sales to customers which are located outside the PRC and primarily to customers in Korea and Japan.

(3) Other markets – export sales to customers which are located outside the PRC and the Asia Pacific region.

(i) Income statement

	2006 RMB million	2005 RMB million
Domestic markets	**55,123**	42,606
Export sales – Asia Pacific markets	**8,825**	9,351
Export sales – other markets	**292**	285
Total operating revenues	**64,240**	52,242

(ii) Balance sheet

The location of all the Group's production or service facilities and other assets is in the PRC.

38 Distributable reserves

The movement of shareholders' equity of the Company is as follows:

	Share capital RMB million (Note 33)	Share premium RMB million	Statutory reserves RMB million	Capital and other reserves RMB million	Retained earnings RMB million	Total RMB million
At 1 January 2005 (as previously reported)	15,000	–	230	1,716	6,794	23,740
Adjusted for acquisition of Jinjie Energy (Note 1)	–	–	–	20	–	20
At 1 January 2005 (as restated)	15,000	–	230	1,736	6,794	23,760
Issuance of shares upon public listing	3,090	21,568	–	–	–	24,658
Share issue expenses	–	(755)	–	–	–	(755)
Profit for the year	–	–	–	–	13,840	13,840
Appropriations	–	–	2,898	499	(3,397)	–
Dividend for 2004 (Note 13)	–	–	–	–	(7,549)	(7,549)
Adjusted for acquisition of Jinjie Energy (Note 1)	–	–	–	489	–	489
Realisation of deferred tax	–	–	–	(10)	10	–
Revaluation surplus realised	–	–	–	(2)	2	–
At 31 December 2005	18,090	20,813	3,128	2,712	9,700	54,443
At 1 January 2006	**18,090**	**20,813**	**3,128**	**2,712**	**9,700**	**54,443**
Profit for the year	**–**	**–**	**–**	**–**	**14,859**	**14,859**
Appropriations	**–**	**–**	**1,614**	**587**	**(2,201)**	**–**
Dividend for 2005 (Note 13)	**–**	**–**	**–**	**–**	**(7,404)**	**(7,404)**
Realisation of deferred tax	**–**	**–**	**–**	**(17)**	**17**	**–**
Revaluation surplus realised	**–**	**–**	**–**	**(4)**	**4**	**–**
Consideration of the acquisition (Note 1)	**–**	**–**	**–**	**(1,162)**	**–**	**(1,162)**
At 31 December 2006	**18,090**	**20,813**	**4,742**	**2,116**	**14,975**	**60,736**

According to the Company's Articles of Association, the amount of retained profits available for distribution to equity shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with IFRSs after the appropriation to reserves as detailed in Note (v) to the consolidated statement of changes in equity.

At 31 December 2006, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB14,975 million (2005: RMB9,700 million).

39 Financial instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's and the Company's financial management policies and practices described below.

(a) Credit risk

The carrying amounts of cash and cash equivalents, time deposits, investments, accounts and bills receivable, other receivables and available-for-sale investments represent the Group's and the Company's maximum exposure to credit risk in relation to these financial assets. Substantially all of the Group's and the Company's cash and cash equivalents are held in major financial institutions located in the PRC, which management believes are of high credit quality. The Group's and the Company's major customers are power plants, metallurgical companies and power grid companies, which accounted for significant amounts of the Group's and the Company's total operating revenues during the year. The Group and the Company have no significant credit risk with any of these customers since the Group and the Company maintain long-term and stable business relationships with these large customers in the coal and power industries. Accounts receivable are typically unsecured and denominated in RMB, and are derived from revenues earned from operations arising in the PRC. The Group and the Company perform ongoing credit evaluations of its customers' financial condition and generally does not require collateral on accounts receivable. The impairment losses on bad and doubtful accounts have been within management's expectations.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet. Except for the financial guarantees given by the Group and the Company as set out in Note 34(c), the Group and the Company do not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the balance sheet date is disclosed in Note 34(c).

(b) Currency risk

Except for export sales which are transacted in US Dollars, all of the revenue-generating operations of the Group and the Company are transacted in RMB, which is not fully convertible into foreign currencies. On 1 January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the PBOC. However, the unification of the exchange rate does not imply convertibility of RMB into Hong Kong Dollars or other foreign currencies. All foreign exchange transactions must take place through the PBOC or other institutions authorised to buy and sell foreign exchange. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

In addition, the Group and the Company incur foreign currency risk on borrowings that are denominated in a currency other than RMB. The currencies giving rise to this risk are primarily US Dollars and Japanese Yen. To reduce the risk, the Group has entered into forward exchange contracts, details of which are set out in Note (d) below.

(c) Interest rate risk

The interest rates and terms of repayment of the Group's and the Company's borrowings are disclosed in Note 28. To reduce the interest rate exposure to fixed rate borrowings, the Group has entered into interest rate swaps, details of which are set out in Note (d) below.

39 Financial instruments *(continued)*

(d) Fair values

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32. Fair value estimates, methods and assumptions, set forth below for the Group's financial instruments, are made solely to comply with the requirements of IAS 32 and should be read in conjunction with the financial statements. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgement is required to interpret market data to develop the estimates of fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group and the Company could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following summaries the major methods and assumptions used in estimating the fair values of the Group's and the Company's financial instruments.

Long-term borrowings: The fair values of long-term borrowings are estimated by discounting future cash flows using current market interest rates offered to the Group and the Company for borrowings with substantially the same characteristics and maturities. As at 31 December 2006, the carrying amounts and fair values of the Group's and the Company's long-term borrowings are as follows:

	The Group				**The Company**			
	2006		2005		**2006**		2005	
	Carrying amount RMB million	**Fair value RMB million**	Carrying amount RMB million (restated – Note 1)	Fair value RMB million (restated – Note 1)	**Carrying amount RMB million**	**Fair value RMB million**	Carrying amount RMB million	Fair value RMB million
Long-term borrowings	**46,427**	**46,597**	44,487	44,835	**13,745**	**13,950**	16,048	16,400

Derivatives: Forward exchange contracts are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate. For interest rate swaps broker quotes are used. Those quotes are back tested using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument having a similar maturity at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

39 Financial instruments *(continued)*

(d) Fair values *(continued)*

Derivatives outstanding at 31 December 2006 in connection with the fixed rate borrowings denominated in Japanese Yen are as follows:

Remaining term to maturity	The Group receives (notional amount Japanese Yen million)	Interest revenues	The Group pays (notional amount US Dollars million)	Interest charges
Within one year	–		–	
After one year but within five years	3,693	Fixed 2.3%	33	6 month L-1.14% to 6 month L-1.12%
After five years	25,089	Fixed 1.8% to 2.6%	216	Fixed 2.95% to 4.45% or 6 month L-2.36% to 6 month L-0.29%
	28,782		249	

Derivatives outstanding at 31 December 2005 in connection with the fixed rate borrowings denominated in Japanese Yen are as follows:

Remaining term to maturity	The Group receives (notional amount Japanese Yen million)	Interest revenues	The Group pays (notional amount US Dollars million)	Interest charges
Within one year	–		–	
After one year but within five years	8,951	Fixed 2.3%	83	Fixed 3.58% or 6 month L-1.14% to 6 month L-1.12%
After five years	11,088	Fixed 2.5% to 2.6%	99	Fixed 4.29% or 4.45% or 6 month L-0.39% to 6 month L-0.29%
	20,039		182	

39 Financial instruments *(continued)*

(d) Fair values *(continued)*

The carrying amount and the fair value of the Group's and the Company's derivative financial instruments are as follows:

	The Group and the Company			
	2006		2005	
	Carrying amount RMB million	**Fair value RMB million**	Carrying amount RMB million	Fair value RMB million
Derivative financial instruments - liabilities	**246**	**246**	223	223

Change in fair value is recognised as net financing costs in the consolidated income statement.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

The fair values of all other financial instruments approximate their carrying amounts due to the nature or short-term maturity of these instruments.

40 Accounting estimates and judgements

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in Note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

Coal reserves

Engineering estimates of the Group's coal reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated coal reserves can be designated as "proved" and "probable". Proved and probable coal reserve estimates are updated at regular basis and have taken into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable coal reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expenses and impairment loss. Depreciation rates are determined based on estimated proved and probable coal reserve quantity (the denominator) and capitalised costs of mining structures and mining rights (the numerator). The capitalised cost of mining structures and mining rights are amortised based on the units of coal produced.

40 Accounting estimates and judgements *(continued)*

Impairments

In considering the impairment losses that may be required for certain of the Group's assets which include property, plant and equipment, construction in progress and investments in its subsidiaries and associates (Note 2(m)(ii)), recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sale volume, selling price and amount of operating costs.

In considering the impairment losses that may be required for current receivables, future cashflows need to be determined. One of the key assumptions that has to be applied is about the ability of the debtors to settle the receivables. Despite that the Group has used all available information to make this estimation, inherent uncertainty exists and actual write-offs may be higher than the amount estimated.

Depreciation

Other than the mining structures and mining rights, property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Obligations for land reclamation

The estimation of the liabilities for final reclamation and mine closure involves the estimates of the amount and timing for the future cash spending as well as the discount rate used for reflecting current market assessments of the time value of money and the risks specific to the liability. The Group considers the factors including future production volume and development plan, the geological structure of the mining regions and reserve volume to determine the scope, amount and timing of reclamation and mine closure works to be performed. Determination of the effect of these factors involves judgements from the Group and the estimated liabilities may turn out to be different from the actual expenditure to be incurred. The discount rate used by the Group may also be altered to reflect the changes in the market assessments of the time value of money and the risks specific to the liability, such as change of the borrowing rate and inflation rate in the market. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation will be recognised at the appropriate discount rate.

Derivative financial instruments

In determining the fair value of the derivative financial instruments, considerable judgement is required to interpret market data used in the valuation techniques. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

41 Subsequent events

The following significant transactions took place subsequent to 31 December 2006:

(a) On 23 March 2007, the directors proposed a final dividend payable to all equity shareholders of the Company. Further details are disclosed in Note 13(a).

(b) On 29 December 2006, the Standing Committee of the Tenth National People's Congress ("NPC") passed a resolution to submit the draft corporate income tax law to the Tenth NPC plenary session for voting. According to the income tax law that was passed by NPC on 16 March 2007, corporate income tax rate will be revised to 25% with effect from 1 January 2008. Since implementation measure on transitional policy of preferential tax rate granted according to current tax law and administrative regulations was not yet announced, financial impact of the new tax law cannot be reasonably estimated at this stage.

42 Immediate and ultimate controlling party

At 31 December 2006, the directors consider the immediate parent and ultimate controlling party of the Group to be Shenhua Group Corporation Limited, a state-owned enterprise established in the PRC.

43 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2006

Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the annual accounting period ended 31 December 2006 and which have not been adopted in these financial statements:

	Effective for accounting period beginning on or after
IFRS 7, Financial Instruments: Disclosures	1 January 2007
IFRS 8, Operating Segments	1 January 2009
IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies	1 March 2006
IFRIC 8, Scope of IFRS 2	1 May 2006
IFRIC 9, Reassessment of Embedded Derivatives	1 June 2006
IFRIC 10, Interim financial reporting and impairment	1 November 2006
IFRIC 11, IFRS 2 – Group and Treasury Share Transactions	1 March 2007
IFRIC 12, Service Concession Agreements	1 January 2008
Amendment to IAS 1, Presentations of Financial Statements: Capital Disclosures	1 January 2007

43 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2006 *(continued)*

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far the Group believes that the adoption of IFRIC 7, IFRIC 8, IFRIC 9, IFRIC 11 and IFRIC 12 are not applicable to any of the Group's operations and that the adoption of the rest of the above amendments, new standards and new interpretations is unlikely to have a significant impact on the Group's results of operations and financial position.

44 Comparative figures

Certain comparative figures have been adjusted or re-classified as a result of the application of pooling-of-interests method on the acquisition of Jinjie Energy or to conform with the current year's presentation.

Five Years Summary

The following consolidated financial information is extracted from the consolidated financial statements of the Group, prepared under International Financial Reporting Standards:

Consolidated Income Statement

(Expressed in Renminbi)	2002 RMB million	2003 RMB million (restated*)	2004 RMB million (restated*)	2005 RMB million (restated*)	**2006** **RMB million**
	Years ended 31 December				
Revenues					
Coal revenue	13,393	17,596	28,079	39,926	**45,948**
Power revenue	5,914	7,024	9,866	10,879	**16,628**
Other revenues	2,122	2,375	1,322	1,437	**1,664**
Total operating revenues	21,429	26,995	39,267	52,242	**64,240**
Cost of revenues					
Coal purchased from third parties	(1,638)	(1,844)	(3,326)	(4,339)	**(6,935)**
Materials, fuel and power	(1,183)	(1,852)	(2,573)	(2,545)	**(3,236)**
Personnel expenses	(1,151)	(1,559)	(1,564)	(2,046)	**(2,441)**
Depreciation and amortisation	(3,370)	(3,674)	(4,795)	(5,182)	**(6,346)**
Repairs and maintenance	(846)	(1,529)	(2,146)	(2,660)	**(3,142)**
Transportation charges	(3,520)	(3,715)	(4,110)	(5,152)	**(6,246)**
Others	(2,515)	(3,058)	(2,708)	(3,195)	**(4,114)**
Total cost of revenues	(14,223)	(17,231)	(21,222)	(25,119)	**(32,460)**
Selling, general and administrative expenses	(1,804)	(2,217)	(2,494)	(3,311)	**(4,166)**
Other operating expense, net	(188)	(307)	(54)	(150)	**(318)**
Total operating expenses	(16,215)	(19,755)	(23,770)	(28,580)	**(36,944)**
Profit from operations	5,214	7,240	15,497	23,662	**27,296**
Deficit on revaluation of property, plant and equipment	–	(518)	–	–	**–**
Finance income	108	142	217	885	**508**
Finance expenses	(3,211)	(3,272)	(2,575)	(2,945)	**(2,608)**
Net finance costs	(3,103)	(3,130)	(2,358)	(2,060)	**(2,100)**
Gain on debt restructuring	–	613	–	–	**–**
Investment income/(loss)	51	200	–	10	**(1)**
Share of profits less losses of associates	299	46	198	461	**478**
Profit before income tax	2,461	4,451	13,337	22,073	**25,673**
Income tax	(454)	(854)	(2,773)	(4,080)	**(5,388)**
Profit for the year	2,007	3,597	10,564	17,993	**20,285**
Attributable to:					
Equity shareholders of the Company	1,597	2,901	8,934	15,619	**17,460**
Minority interests	410	696	1,630	2,374	**2,825**
Profit for the year	2,007	3,597	10,564	17,993	**20,285**
Basic earnings per share (RMB)	0.106	0.193	0.596	0.937	**0.965**

* Please refer to section "Financial Statements" note 1 of this report.

Condensed Consolidated Balance Sheet

(Expressed in Renminbi)	2002 RMB million	2003 RMB million (restated*)	As at 31 December 2004 RMB million (restated*)	2005 RMB million (restated*)	**2006 RMB million**
Property, plant and equipment, net	58,300	66,836	72,930	82,530	**107,859**
Total non-current assets	75,953	83,366	95,425	114,785	**132,959**
Total current assets	15,480	11,245	16,045	27,484	**30,189**
Total assets	91,433	94,611	111,470	142,269	**163,148**
Total current liabilities	22,493	22,343	25,460	24,488	**33,233**
Total non-current liabilities	44,026	44,171	47,501	44,794	**45,214**
	24,914	28,097	38,509	72,987	**84,701**
Equity attributable to equity shareholders of the Company	15,294	16,469	25,414	57,877	**66,771**
Minority interests	9,620	11,628	13,095	15,110	**17,930**
Total equity	24,914	28,097	38,509	72,987	**84,701**

* Please refer to section "Financial Statements" note 1 of this report.

Corporate Information

Registered Address

Shenhua Tower
22 Andingmen Xibinhe Road
Dongcheng District
Beijing, China

Joint Company Secretaries

Huang Qing
Ng Chai Ngee (Hong Kong Practising Solicitor)

Authorised Representatives

Ling Wen, Huang Qing

Website

www.csec.com or www.shenhuachina.com

Investor Relations

Investor Relations Department
China Shenhua Energy Company Limited
4th Floor, Zhouji Tower
16 Ande Road
Dongcheng District
Beijing, China
Post code: 100011
Tel: (8610) 5813 3399 or (8610) 5813 3355
Fax: (8610) 8488 2107
Email: ir@csec.com

Auditors

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

Hong Kong Legal Advisers

Hong Kong Law Adviser
Herbert Smith
23rd Floor, Gloucester Tower
11 Pedder Street
Central, Hong Kong

PRC Legal Advisers

King & Wood
31st Floor, Tower A
Jianwai SOHO
39 Dongsanhuan Zhonglu
Chaoyang District
Beijing, China

Hong Kong Representative Office

Unit B, 60th Floor
Bank of China Tower
1 Garden Road
Central, Hong Kong

H Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Listing Information

H Share
The Stock Exchange of Hong Kong Limited
Stock Code: 1088
Listing Date: 15 June 2005

CHINA SHENHUA ENERGY COMPANY LIMITED
4th Floor, Zhouji Tower
16 Ande Road, Dongcheng District
Beijing, China
Postal Code 100011
www.csec.com
Tel: 86-10-58133399 or 58133355
Email : ir@csec.com