



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)

**ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

FINANCIAL HIGHLIGHTS

- Revenues of the Group in 2007 were RMB82,107 million, representing an increase of RMB16,921 million or 26.0% over 2006.
- Profit attributable to equity shareholders of the Company in 2007 was RMB20,581 million, representing an increase of RMB2,937 million or 16.6% over 2006.
- Earnings per share was RMB1.110.
- EBITDA¹ in 2007 was RMB40,637 million, representing an increase of RMB6,402 million, or 18.7%, over 2006.
- The directors duly authorised by shareholders resolved to declare a special dividend of RMB0.3176 per share or RMB5,745 million. In addition, the Board proposed a final dividend of RMB0.18 per share or RMB3,580 million for the year of 2007.

Note 1: EBITDA is defined as profit for the year plus net financing costs, investment income, income tax, depreciation and amortisation, and excluding investment income and shares of profits less losses of associates.

FINANCIAL INFORMATION

(a) Financial information extracted from the audited financial statements for the year ended 31 December 2007 prepared in accordance with International Financial Reporting Standards (“IFRSs”):

Consolidated income statement (IFRSs)

for the year ended 31 December 2007

(Expressed in Renminbi)

	Note	2007 RMB million	2006 RMB million (restated – Note 1)
Revenues			
Coal revenue		55,741	45,948
Power revenue		23,922	17,056
Other revenues		2,444	2,182
Total operating revenues	3	<u>82,107</u>	<u>65,186</u>
Cost of revenues			
Coal purchased from third parties		(10,719)	(6,935)
Materials, fuel and power		(6,276)	(3,764)
Personnel expenses		(3,960)	(2,677)
Depreciation and amortisation		(7,785)	(6,456)
Repairs and maintenance		(3,612)	(3,187)
Transportation charges		(6,845)	(6,259)
Others		(4,576)	(3,777)
Total cost of revenues		<u>(43,773)</u>	<u>(33,055)</u>
Selling, general and administrative expenses		(5,144)	(4,359)
Other operating expense, net		<u>(693)</u>	<u>(281)</u>
Total operating expenses	4	<u>(49,610)</u>	<u>(37,695)</u>

		2007	2006
	Note	RMB million	RMB million (restated – Note 1)
Profit from operations		32,497	27,491
Finance income	5	1,034	521
Finance expenses	5	(3,417)	(2,658)
Net finance costs		(2,383)	(2,137)
Investment income/(loss)		38	(1)
Share of profits less losses of associates		627	564
Profit before income tax		30,779	25,917
Income tax	6	(6,742)	(5,394)
Profit for the year		<u>24,037</u>	<u>20,523</u>
Attributable to:			
Equity shareholders of the Company		20,581	17,644
Minority interests		3,456	2,879
Profit for the year		<u>24,037</u>	<u>20,523</u>
Dividends to equity shareholders of the Company			
Dividends declared during the year	7	<u>22,949</u>	<u>7,404</u>
Dividends resolved and proposed after the balance sheet date	7	<u>9,325</u>	<u>6,150</u>
Earnings per share (RMB)	8		
-Basic		<u>1.110</u>	<u>0.975</u>
- Diluted		<u>1.110</u>	<u>0.975</u>

Consolidated balance sheet (IFRSs)

at 31 December 2007

(Expressed in Renminbi)

	Note	2007 RMB million	2006 RMB million (restated – Note 1)
Non-current assets			
Property, plant and equipment, net		131,059	113,371
Construction in progress		22,358	15,185
Intangible assets		1,162	1,172
Interest in associates		2,754	2,808
Other investments		1,031	1,066
Other non-current financial assets		937	—
Lease prepayments		5,931	5,051
Deferred tax assets		1,679	1,569
Total non-current assets		<u>166,911</u>	<u>140,222</u>
Current assets			
Inventories		6,337	4,880
Available-for-sale investments		—	2,000
Accounts and bills receivable, net	9	6,642	5,277
Prepaid expenses and other current assets		5,712	4,215
Time deposits with original maturity over three months		32	8
Cash and cash equivalents		<u>53,404</u>	<u>15,758</u>
Total current assets		<u>72,127</u>	<u>32,138</u>

	Note	2007 RMB million	2006 RMB million (restated – Note 1)
Current liabilities			
Short-term borrowings and current portion of long-term borrowings		10,196	16,392
Short-term bonds		1,453	—
Current portion of long-term payables		873	88
Accounts and bills payable	10	9,074	9,498
Income tax payable		2,198	2,196
Accrued expenses and other payables		9,577	7,950
Total current liabilities		<u>33,371</u>	<u>36,124</u>
Net current assets/(liabilities)		<u>38,756</u>	<u>(3,986)</u>
Total assets less current liabilities		<u>205,667</u>	<u>136,236</u>
Non-current liabilities			
Long-term borrowings, less current portion		49,718	42,427
Long-term payables, less current portion		3,962	2,630
Accrued reclamation obligations		1,018	942
Deferred tax liabilities		1,165	1,006
Total non-current liabilities		<u>55,863</u>	<u>47,005</u>
Net assets		<u>149,804</u>	<u>89,231</u>
Equity			
Share capital		19,890	18,090
Reserves		109,898	51,694
Equity attributable to equity shareholders of the Company		<u>129,788</u>	<u>69,784</u>
Minority interests		<u>20,016</u>	<u>19,447</u>
Total equity		<u>149,804</u>	<u>89,231</u>

Consolidated statement of changes in equity (IFRSs)
for the year ended 31 December 2007
(Expressed in Renminbi)

	Equity attributable to equity shareholders of the Company										
	Share capital	Share premium	Capital reserve	Revaluation reserve	Future development fund	Statutory reserves	Other reserves	Retained earnings	Total	Minority interests	Total equity
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
At 1 January 2006											
(as previously reported)	18,090	20,813	(6,591)	7,184	881	3,128	1,348	13,024	57,877	15,110	72,987
Adjustment for the acquisitions of Shendong Coal and Shendong Power (Note 1)	—	—	—	—	—	—	2,557	(392)	2,165	1,190	3,355
At 1 January 2006 (as restated)	18,090	20,813	(6,591)	7,184	881	3,128	3,905	12,632	60,042	16,300	76,342
Profit for the year	—	—	—	—	—	—	—	17,644	17,644	2,879	20,523
Appropriations	—	—	—	—	697	1,614	—	(2,311)	—	—	—
Revaluation surplus realised	—	—	—	(4)	—	—	—	4	—	—	—
Realisation of deferred tax	—	—	—	—	—	—	(17)	17	—	—	—
Dividend declared (Note 7)	—	—	—	—	—	—	—	(7,404)	(7,404)	—	(7,404)
Capital contributions from minority shareholders	—	—	—	—	—	—	—	—	—	1,458	1,458
Contributions from shareholders of Shendong Power	—	—	—	—	—	—	669	—	669	—	669
Dividend paid to shareholders of Shendong Power	—	—	—	—	—	—	—	(5)	(5)	(12)	(17)
Distributions to minority shareholders	—	—	—	—	—	—	—	—	—	(1,178)	(1,178)
Consideration for the acquisition of Jinjie Energy (Note 1)	—	—	—	—	—	—	(1,162)	—	(1,162)	—	(1,162)
At 31 December 2006	18,090	20,813	(6,591)	7,180	1,578	4,742	3,395	20,577	69,784	19,447	89,231

Equity attributable to equity shareholders of the Company

	Future										Total equity
	Share capital	Share premium	Capital reserve	Revaluation reserve	development fund	Statutory reserves	Other reserves	Retained earnings	Total	Minority interests	
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
At 1 January 2007	18,090	20,813	(6,591)	7,180	1,578	4,742	3,395	20,577	69,784	19,447	89,231
Issuance of A shares	1,800	64,782	—	—	—	—	—	—	66,582	—	66,582
A shares issue expenses	—	(594)	—	—	—	—	—	—	(594)	—	(594)
Profit for the year	—	—	—	—	—	—	—	20,581	20,581	3,456	24,037
Appropriations	—	—	—	—	—	2,019	—	(2,019)	—	—	—
Realisation/reassessment of deferred tax	—	—	—	—	—	—	(120)	9	(111)	(67)	(178)
Dividend declared (Note 7)	—	—	—	—	—	—	—	(22,949)	(22,949)	—	(22,949)
Restatement of profit appropriations for prior years	—	—	—	—	—	(498)	—	498	—	—	—
Write back of future development fund	—	—	—	—	(1,578)	—	—	1,578	—	—	—
Capital contributions from minority shareholders	—	—	—	—	—	—	—	—	—	654	654
Acquisition of minority interests	—	—	—	—	—	—	(117)	—	(117)	(845)	(962)
Contributions from shareholders of Shendong Power	—	—	—	—	—	—	199	—	199	—	199
Distributions to minority shareholders	—	—	—	—	—	—	—	—	—	(3,437)	(3,437)
Consideration for the acquisitions of Shendong Coal and Shendong Power (Note 1)	—	—	—	—	—	—	(3,587)	—	(3,587)	—	(3,587)
Through addition of a subsidiary	—	—	—	—	—	—	—	—	—	808	808
At 31 December 2007	<u>19,890</u>	<u>85,001</u>	<u>(6,591)</u>	<u>7,180</u>	<u>—</u>	<u>6,263</u>	<u>(230)</u>	<u>18,275</u>	<u>129,788</u>	<u>20,016</u>	<u>149,804</u>

Note:

In June 2005, the Company issued 2,785,000,000 H shares with a par value of RMB1.00 each, at a price of HKD7.50 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 Group Corporation Limited (“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 HKD7.50 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.

In September 2007, 1,800,000,000 A shares of the Company with a par value of RMB1.00 each were issued at a price of RMB36.99 per share and listed on the Shanghai Stock Exchange in October 2007. The net proceeds from the initial public offering of A shares, after deducting shares issue expenses of RMB593,620,000, amounted to RMB65,988,000,000 of which RMB1,800,000,000 and RMB64,188,000,000 were credited to the Company’s paid-up capital and capital reserve, respectively.

Consolidated cash flow statement (IFRSs)

for the year ended 31 December 2007

(Expressed in Renminbi)

	Note	2007 RMB million	2006 RMB million (restated – Note 1)
Net cash generated from operating activities	(a)	<u>25,626</u>	<u>22,069</u>
Investing activities			
Capital expenditure		(27,134)	(24,535)
Lease prepayments		(939)	(1,177)
Purchase of investments		(1,163)	(2,174)
Consideration of the acquisitions of subsidiaries		(3,328)	(1,162)
Proceeds from disposal of investments		2,054	646
Proceeds from disposal of property, plant and equipment		136	479
Dividend received from investments		465	307
Increase in time deposits with original maturity over three months		(541)	—
Maturity of time deposits with original maturity over three months		<u>517</u>	<u>58</u>
Net cash used in investing activities		<u>(29,933)</u>	<u>(27,558)</u>

	Note	2007 RMB million	2006 RMB million (restated – Note 1)
Financing activities			
Proceeds from bank and other borrowings		48,140	32,674
Repayments of bank and other borrowings		(49,603)	(25,890)
Proceeds from bonds issued		1,453	—
Distributions to minority shareholders		(1,929)	(1,190)
Contributions from minority shareholders		654	1,458
Contributions from shareholders of Shendong Power		199	669
Dividend paid to equity shareholders of the Company		(22,949)	(7,409)
Net proceeds from issuance of A shares		65,988	—
Net cash from financing activities		<u>41,953</u>	<u>312</u>
Net increase/(decrease) in cash and cash equivalents			
		37,646	(5,177)
Cash and cash equivalents, at the beginning of the year		<u>15,758</u>	<u>20,935</u>
Cash and cash equivalents, at the end of the year		<u><u>53,404</u></u>	<u><u>15,758</u></u>

(a) Reconciliation of profit before income tax to net cash from operating activities

	2007	2006
	RMB million	RMB million (restated – Note 1)
Profit before income tax	30,779	25,917
Adjustments for:		
Depreciation and amortisation	8,140	6,744
Impairment losses on property, plant and equipment	380	147
Net loss on disposal of property, plant and equipment	299	67
Investment (income)/loss	(38)	1
Interest income	(622)	(263)
Share of profits less losses of associates	(627)	(564)
Net interest expense	3,417	2,635
(Gain)/loss on remeasurement of derivative financial instruments to fair value	(283)	23
Unrealised foreign exchange gain	(155)	(281)
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Operating profit before changes in working capital	41,290	34,426
Increase in accounts and bills receivable	(1,130)	(2,279)
Increase in inventories	(1,387)	(1,191)
Increase in prepaid expenses and other assets	(2,555)	(1,127)
Decrease in accounts and bills payable	(934)	(449)
Increase/(decrease) in accrued expenses and other payables, long-term payables and accrued reclamation obligations	2	(496)
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	2007	2006
	RMB million	RMB million (restated – Note 1)
Cash generated from operations	35,286	28,884
Interest received	622	263
Interest paid	(3,500)	(2,878)
Income tax paid	(6,782)	(4,200)
Net cash generated from operating activities	<u>25,626</u>	<u>22,069</u>

Notes to the financial information under IFRSs

1 Restatement

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") 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.

Pursuant to a resolution passed at the extraordinary general meeting on 24 August 2007, the Company acquired the entire equity interests in Shenhua Shenfu Dongsheng Coal Company Limited ("Shendong Coal") and Shenhua Shendong Power Company Limited ("Shendong Power") from Shenhua. The acquisition was completed on 31 August 2007 (the "completion date"). During the year, the Company has paid RMB3,328 million according to the valuation of Shendong Coal and Shendong Power as at 31 December 2006 (the "valuation date"). The Company has to pay an additional RMB259 million to Shenhua, being the excess of the net assets of Shendong Coal and Shendong Power as at the completion date over that of the valuation date, for the acquisition.

As the Company, Jinjie Energy, Shendong Coal and Shendong Power were under common control of Shenhua, the above acquisitions have 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, Shendong Coal and Shendong Power have been accounted for at historical cost and the consolidated financial statements of the Company prior to these acquisitions have been restated to include the results of operations of Jinjie Energy, Shendong Coal and Shendong Power on a combined basis. The consideration paid by the Company for the acquisitions of Jinjie Energy, Shendong Coal and Shendong Power has been accounted for as an equity transaction in the consolidated statement of changes in equity.

2 Adoption of new and revised IFRSs

The International Accounting Standards Board ("IASB") has issued a number of new and revised IFRSs and interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in the financial statements for the years presented as a result of these developments. However, as a result of the adoption of IFRS 7, Financial instruments: Disclosures and the amendment to IAS 1, Presentation of financial statements: Capital disclosures, there have been some additional disclosures provided as follows:

As a result of the adoption of IFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by IAS 32, Financial instruments: Disclosure and presentation.

The amendment to IAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital.

Additional disclosures are provided in the Group's consolidated financial statements included in the 2007 annual report.

Both IFRS 7 and the amendment to IAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

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

3 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.

4 Total operating expenses

	2007	2006
	RMB million	RMB million
		(restated – Note 1)
Personnel expenses, including	5,544	4,063
- contributions to retirement plans	621	386
- share appreciation rights expense	112	22
Depreciation and amortisation	8,140	6,744
Net loss on disposal of property, plant and equipment	299	67
Cost of inventories	36,475	27,172
Research and development costs	23	66
Auditors' remuneration, including		
- audit services	38	33
- tax services	1	2
Operating lease charges on properties	205	231
Allowance for accounts receivable and other receivables and write down of inventories	326	58
Impairment losses on property, plant and equipment	380	147
	<u> </u>	<u> </u>

5 Finance income/ (expenses)

	2007	2006
	RMB million	RMB million (restated – Note 1)
Interest income on financial assets not at fair value through profit or loss	622	263
Foreign exchange gain	129	258
Gain on remeasurement of derivative financial instruments to fair value	283	—
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Finance income	1,034	521
	<hr/>	<hr/>
Interest expense on financial liabilities not at fair value through profit or loss - interest on loans from banks and other financial institutions, and other borrowings wholly repayable within five years	(3,816)	(3,082)
Less: Interest expense capitalised	399	447
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Net interest expense	(3,417)	(2,635)
Loss on remeasurement of derivative financial instruments to fair value	—	(23)
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Finance expenses	(3,417)	(2,658)
	<hr/>	<hr/>
Net finance costs	(2,383)	(2,137)
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6 Income tax

Income tax in the consolidated income statement represents:

	2007	2006
	RMB million	RMB million (restated – Note 1)
Provision for PRC income tax	6,737	5,266
Deferred taxation	5	128
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	6,742	5,394
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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 and subsidiaries of the Company, which are exempted or taxed at preferential rates.
- (ii) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which has taken effect from 1 January 2008. As a result of the new tax law, the statutory income tax rate currently adopted by the Company and its subsidiaries has changed from 33% to 25% with effect from 1 January 2008.

Pursuant to the grandfathering arrangement under the new tax law, the preferential policies enjoyed by the entities with operations in the western developing region of the PRC remain effective after the implementation of the new tax law until the preferential periods are expired. The income tax rates of entities that previously enjoyed a preferential tax rate of 15% have been revised to 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 respectively.

The deferred tax assets and liabilities have been remeasured for the change in applicable tax rates as a result of the new tax law.

7 Dividends

(a) Dividends proposed after the balance sheet date

	2007	2006
	RMB million	RMB million
Special dividend to the Company's domestic stated-owned share and H share shareholders	5,745	—
Final dividend proposed of RMB0.18 (2006: RMB0.34) per ordinary share to all equity shareholders of the Company	3,580	6,150
	<u>9,325</u>	<u>6,150</u>

(i) Special dividends

Pursuant to the approval by the shareholders at the extraordinary general meeting of the Company held on 24 August 2007, as part of the arrangement of the issue of A shares, it was resolved that the Company's domestic state-owned share and H share shareholders would be entitled to receive a distribution from the entire distributable reserves of the Group as at 30 June 2007 amounting to RMB22,544 million. The amount of such distributable reserves 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 of reserves. On 25 October 2007, the directors duly authorised by the shareholders declared a special dividend of RMB16,799 million to the Company's domestic state-owned share and H share shareholders, which was paid on 14 November 2007. On 15 March 2008, the directors duly authorised by the shareholders resolved to declare a special dividend for the remaining balance of RMB5,745 million (i.e. RMB0.3176 per share) to the Company's domestic state-owned share and H share shareholders.

(ii) Final dividend

On 15 March 2008, the directors proposed a final dividend of RMB0.18 per share totalling RMB3,580 million to all equity shareholders of the Company for the shareholders' approval at the forthcoming annual general meeting.

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

(b) Dividends approved and paid during the year

	2007	2006
	RMB million	RMB million
Special dividend to Shenhua in respect of previous financial year, resolved and paid during the year	—	5,143
Special dividend to the Company's domestic stated-owned share and H share shareholders (Note 7(a)(i))	16,799	—
Final dividend in respect of the previous financial year, approved and paid during the year	6,150	2,261
	<u>22,949</u>	<u>7,404</u>

- (i) 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.
- (ii) 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.
- (iii) Pursuant to the shareholders' approval at the annual general meeting held on 15 May 2007, a final dividend of RMB0.34 per share totalling RMB6,150 million in respect of the year ended 31 December 2006 was paid on 15 June 2007.

8 Earnings per share

The calculation of basic earnings per share for the year ended 31 December 2007 was based on the profit attributable to equity shareholders of the Company for the year of RMB20,581 million (2006: RMB17,644 million as restated) and the weighted average number of shares in issue during the year ended 31 December 2007 of 18,540 million (2006: 18,090 million).

The amount of diluted earnings per share is the same as basic earnings per share as there were no dilutive potential ordinary shares in existence during both the current and prior years.

9 Accounts and bills receivable, net

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 allowance for doubtful debts:

	2007	2006
	RMB million	RMB million
		(restated – Note 1)
Current	6,516	5,147
Within one year	125	126
Between one and two years	1	4
	<u>6,642</u>	<u>5,277</u>

10 Accounts and bills payable

The accounts and bills payable are due to be settled within one year except for RMB145 million (2006: RMB136 million as restated) which will be due after one year.

11 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:

	Coal		Railway		Port		Power		Corporate and others (Note)		Eliminations		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
	million	million	million	million	million	million	million	million	million	million	million	million	million	million
	(restated -		(restated -		(restated -		(restated -		(restated -		(restated -		(restated -	
	Note 1)		Note 1)		Note 1)		Note 1)		Note 1)		Note 1)		Note 1)	Note 1)
Revenues														
External sales	56,246	46,559	1,455	1,254	103	75	24,303	17,298	—	—	—	—	82,107	65,186
Inter-segment sales	9,703	6,744	14,755	11,704	1,878	1,494	84	83	—	—	(26,420)	(20,025)	—	—
Total operating revenues	65,949	53,303	16,210	12,958	1,981	1,569	24,387	17,381	—	—	(26,420)	(20,025)	82,107	65,186
Cost of revenues														
Coal purchased from third parties	(10,719)	(6,777)	—	—	—	—	—	(158)	—	—	—	—	(10,719)	(6,935)
Cost of coal production	(11,842)	(8,964)	—	—	—	—	—	—	—	—	3,275	2,009	(8,567)	(6,955)
Cost of coal transportation	(22,152)	(18,285)	(5,956)	(5,048)	(1,309)	(1,118)	—	—	—	—	18,681	14,568	(10,736)	(9,883)
Power cost	—	—	—	—	—	—	(16,528)	(11,179)	—	—	4,352	3,372	(12,176)	(7,807)
Others	(304)	(537)	(977)	(768)	(69)	(46)	(225)	(124)	—	—	—	—	(1,575)	(1,475)
Total cost of revenues	(45,017)	(34,563)	(6,933)	(5,816)	(1,378)	(1,164)	(16,753)	(11,461)	—	—	26,308	19,949	(43,773)	(33,055)
Selling, general and administrative expenses	(2,517)	(1,982)	(643)	(522)	(211)	(212)	(1,459)	(1,424)	(314)	(219)	—	—	(5,144)	(4,359)
Other operating expenses, net	(319)	(148)	(53)	(83)	(16)	—	(300)	—	(5)	(50)	—	—	(693)	(281)
Profit/(loss) from operations	18,096	16,610	8,581	6,537	376	193	5,875	4,496	(319)	(269)	(112)	(76)	32,497	27,491
Reconciliation of profit from operations to profit for the year:														
Profit from operations													32,497	27,491
Net financing costs													(2,383)	(2,137)
Investment income/(loss)													38	(1)
Share of profits less losses of associates													627	564
Income tax													(6,742)	(5,394)
Profit for the year													24,037	20,523

Note: "Corporate and others" represents miscellaneous expenses that are immaterial.

Geographical segments:

	2007	2006
	RMB million	RMB million (restated – Note 1)
Domestic markets	72,541	56,069
Export sales – Asia Pacific markets	9,222	8,825
Export sales – other markets	344	292
	<hr/>	<hr/>
Total operating revenues	<u>82,107</u>	<u>65,186</u>

12 Subsequent events

The following significant transactions took place subsequent to 31 December 2007:

On 15 March 2008, the directors duly authorised by the shareholders resolved to declare a special cash dividend of RMB0.3176 per share totalling RMB5,745 million to the Company's H share shareholders and Shenhua Group Corporation Limited.

On the same date, the board of directors proposed a final dividend of RMB0.18 per share totalling RMB3,580 million to all equity shareholders of the Company.

13 Comparative figures

Certain comparative figures have been adjusted as a result of the application of pooling-of-interests method on the acquisitions of Shendong Coal and Shendong Power.

(b) Financial information extracted from the audited financial statements for the year ended 31 December 2007 prepared in accordance with PRC Accounting Rules and Regulations (“PRC GAAP”)

Balance sheet (PRC GAAP)

as at 31 December 2007

Assets	2007		2006	
	The Group RMB million	The Company RMB million	The Group RMB million (restated)	The Company RMB million
Current assets				
Cash at bank and on hand	53,436	51,914	15,766	13,937
Financial assets held for trading	37	37	–	–
Available-for-sale financial assets	–	–	2,000	2,000
Bills receivable	756	543	600	56
Accounts receivable	5,886	2,026	4,677	1,401
Prepayments	2,682	1,970	2,565	2,267
Dividends receivable	–	2,465	–	97
Other receivables	2,569	7,067	1,600	6,854
Inventories	6,337	4,453	4,880	2,670
Other current assets	424	10,537	50	2,000
Total current assets	72,127	81,012	32,138	31,282
Non-current assets				
Long-term equity investments	3,811	29,319	4,109	24,413
Fixed assets	116,370	26,135	101,976	22,531
Construction in progress	18,713	8,847	12,172	3,322
Construction materials	3,645	287	3,013	341
Intangible assets	21,310	11,646	17,338	7,998
Long-term deferred expenses	1,007	316	1,082	323
Deferred tax assets	901	430	704	317
Other non-current assets	937	377	–	377
Total non-current assets	166,694	77,357	140,394	59,622
Total assets	238,821	158,369	172,532	90,904

Liabilities and shareholders' equity	2007		2006	
	The Group RMB million	The Company RMB million	The Group RMB million (restated)	The Company RMB million
Current liabilities				
Short-term loans	4,903	1,500	10,805	2,900
Financial liabilities held for trading	–	–	246	246
Short-term bonds payable	1,453	–	–	–
Bills payable	169	–	668	1
Accounts payable	8,905	5,085	8,830	3,511
Receipts in advance	1,228	1,047	1,027	958
Staff costs payable	1,537	953	1,440	871
Taxes payable	4,244	2,379	4,071	2,526
Interest payable	151	54	73	50
Dividends payable	1,538	–	–	–
Other payables	3,077	1,764	3,289	1,050
Current portion of long-term loans	5,293	1,822	5,587	2,201
Current portion of long-term payables	873	873	88	88
Other current liabilities	–	679	–	–
Total current liabilities	<u>33,371</u>	<u>16,156</u>	<u>36,124</u>	<u>14,402</u>
Non-current liabilities				
Long-term loans	49,718	12,897	42,427	11,544
Long-term payables	5,239	4,756	3,575	3,299
Provisions	1,018	624	942	568
Deferred tax liabilities	659	296	729	234
Total non-current liabilities	<u>56,634</u>	<u>18,573</u>	<u>47,673</u>	<u>15,645</u>
Total liabilities	<u>90,005</u>	<u>34,729</u>	<u>83,797</u>	<u>30,047</u>
Shareholders' equity				
Share capital	19,890	19,890	18,090	18,090
Capital reserve	87,701	87,621	26,998	23,748
Surplus reserves	6,263	6,263	4,257	4,257
Retained earnings	14,396	9,866	19,585	14,762
Total equity attributable to equity shareholders of the Company	<u>128,250</u>	<u>123,640</u>	<u>68,930</u>	<u>60,857</u>
Minority interests	<u>20,566</u>	<u>–</u>	<u>19,805</u>	<u>–</u>
Total shareholders' equity	<u>148,816</u>	<u>123,640</u>	<u>88,735</u>	<u>60,857</u>
Total liabilities and shareholders' equity	<u>238,821</u>	<u>158,369</u>	<u>172,532</u>	<u>90,904</u>

Income statement (PRC GAAP)

for the year ended 31 December 2007

	2007		2006	
	The Group RMB million	The Company RMB million	The Group RMB million (restated)	The Company RMB million
Operating income	82,107	65,198	65,186	53,234
Less: Operating costs	40,716	44,077	30,696	34,591
Business taxes and surcharges	1,832	990	1,543	880
Selling expenses	522	445	453	379
Administrative expenses	6,624	2,983	5,944	2,589
Financial expenses	2,666	458	2,114	568
Impairment loss	709	254	210	142
Add: Gain/(loss) from changes in fair value	283	283	(23)	(23)
Investment income (Including: Income from investment in associates)	638	6,983	559	2,586
	567	351	552	437
Operating profit	29,959	23,257	24,762	16,648
Add: Non-operating income	209	46	249	159
Less: Non-operating expenses (Including: Loss from disposal of non-current assets)	539	345	382	216
	326	200	220	124
Profit before income tax	29,629	22,958	24,629	16,591
Less: Income tax expenses	6,481	2,770	5,237	2,349
Net profit for the year	23,148	20,188	19,392	14,242
(Including: Net profit made by the acquirees before the consolidation)	101		223	
Net profit attributable to equity shareholders of the Company	19,766		16,620	
Minority interests	3,382		2,772	
Earnings per share:				
Basic earnings per share (RMB)	1.066		0.919	
Diluted earnings per share (RMB)	1.066		0.919	

Cash flow statement (PRC GAAP)
for the year ended 31 December 2007

	2007		2006	
	The Group RMB million	The Company RMB million	The Group RMB million (restated)	The Company RMB million
Cash flows from operating activities:				
Cash received from sale of goods and rendering of services	90,080	70,573	69,755	58,764
Refund of taxes	48	–	35	3
Other cash received relating to operating activities	1,150	681	1,049	321
Sub-total of cash inflows from operating activities	91,278	71,254	70,839	59,088
Cash paid for goods and services	(36,431)	(45,857)	(26,169)	(34,172)
Cash paid to and for employees	(5,950)	(2,401)	(3,857)	(1,461)
Cash paid for all types of taxes	(16,090)	(7,968)	(10,959)	(5,458)
Other cash paid relating to operating activities	(2,872)	(905)	(5,289)	(570)
Sub-total of cash outflows from operating activities	(61,343)	(57,131)	(46,274)	(41,661)
Net cash flow from operating activities (Note i)	29,935	14,123	24,565	17,427

	2007		2006	
	The Group RMB million	The Company RMB million	The Group RMB million (restated)	The Company RMB million
Cash flows from investing activities:				
Cash received from disposal of investments	2,154	4,638	911	2,675
Cash received from return on investments	495	4,528	311	2,420
Net cash received from disposal of fixed assets and intangible assets	136	46	479	384
Cash received on maturity of time deposits with financial institutions	517	108	58	–
Other cash received relating to investing activities	622	585	263	224
Sub-total of cash inflows from investing activities	<u>3,924</u>	<u>9,905</u>	<u>2,022</u>	<u>5,703</u>
Cash paid for acquisition of fixed assets and intangible assets	(28,073)	(12,557)	(25,712)	(9,561)
Net cash paid for acquisition of subsidiaries	(3,328)	(3,328)	(1,162)	(1,162)
Cash paid for acquisition of investments	(2,724)	(12,658)	(2,324)	(6,967)
Cash paid for time deposits with financial institutions	(541)	(118)	–	–
Sub-total of cash outflows from investing activities	<u>(34,666)</u>	<u>(28,661)</u>	<u>(29,198)</u>	<u>(17,690)</u>
Net cash flow from investing activities	<u>(30,742)</u>	<u>(18,756)</u>	<u>(27,176)</u>	<u>(11,987)</u>

	2007		2006	
	The Group RMB million	The Company RMB million	The Group RMB million (restated)	The Company RMB million
Cash flows from financing activities:				
Cash received from investment	654	–	1,458	–
Net proceeds from issuance of A shares	65,988	65,988	–	–
Cash received from shareholders	199	–	669	–
Cash received from borrowings	48,140	21,943	32,674	3,708
Cash received from issuance of bonds	1,453	–	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
Sub-total of cash inflows from financing activities	<u>116,434</u>	<u>87,931</u>	<u>34,801</u>	<u>3,708</u>
Cash repayments of borrowings	(49,603)	(21,557)	(25,890)	(5,838)
Cash paid for dividends, profits distribution or interest (Including: Dividends and profits paid to minority shareholders by subsidiaries)	(28,378)	(23,774)	(11,477)	(8,089)
	<hr/>	<hr/>	<hr/>	<hr/>
Sub-total of cash outflows from financing activities	<u>(77,981)</u>	<u>(45,331)</u>	<u>(37,367)</u>	<u>(13,927)</u>
Net cash flow from financing activities	<u>38,453</u>	<u>42,600</u>	<u>(2,566)</u>	<u>(10,219)</u>
Net increase/(decrease) in cash and cash equivalents	37,646	37,967	(5,177)	(4,779)
Add: Cash and cash equivalents at the beginning of the year	<hr/> 15,758	<hr/> 13,937	<hr/> 20,935	<hr/> 18,716
Cash and cash equivalents at the end of the year	<u><u>53,404</u></u>	<u><u>51,904</u></u>	<u><u>15,758</u></u>	<u><u>13,937</u></u>

(i) Reconciliation of net profit to cash flows from operating activities:

	2007		2006	
	The Group RMB million	The Company RMB million	The Group RMB million (restated)	The Company RMB million
Net profit	23,148	20,188	19,392	14,242
Add: Provisions for impairment	727	264	238	152
Written back on impairment losses	(18)	(10)	(28)	(10)
Depreciation of fixed assets	8,319	3,219	7,115	2,853
Amortisation of intangible assets	563	359	397	252
Amortisation of long-term deferred expenses	153	21	287	23
Gains on disposal of fixed assets and intangible assets	(27)	(24)	(153)	(143)
Losses on disposal of fixed assets	326	200	220	124
Losses/(gains) on changes in fair value	(283)	(283)	23	23
Financial expenses	2,666	458	2,114	568
Investment income	(638)	(6,983)	(559)	(2,586)
Deferred taxation	(256)	(51)	(33)	(14)
Increase in gross inventories	(1,644)	(2,037)	(1,213)	(708)
(Increase)/decrease in operating receivables	(2,422)	(1,783)	(3,601)	801
(Decrease)/increase in operating payables	(679)	585	366	1,850
	<u>29,935</u>	<u>14,123</u>	<u>24,565</u>	<u>17,427</u>
Net cash inflow from operating activities	<u>29,935</u>	<u>14,123</u>	<u>24,565</u>	<u>17,427</u>

(ii) Change in cash and cash equivalents:

	2007		2006	
	The Group RMB million	The Company RMB million	The Group RMB million (restated)	The Company RMB million
Cash and cash equivalents				
at the end of the year	53,404	51,904	15,758	13,937
Less: Cash and cash equivalent at the beginning of the year	15,758	13,937	20,935	18,716
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net increase/(decrease) in cash and cash equivalents	<u>37,646</u>	<u>37,967</u>	<u>(5,177)</u>	<u>(4,779)</u>

(c) Major differences between consolidated financial statements prepared under PRC GAAP and IFRSs

	Net profit attributable to equity shareholders of the Company		Total equity attributable to equity shareholders of the Company	
	2007 RMB million	2006 RMB million (restated)	2007 RMB million	2006 RMB million (restated)
Under the PRC GAAP	19,766	16,620	128,250	68,930
Adjustments:				
Production maintenance expense and safety production expense	929	1,090	3,593	2,664
Revaluation of land use rights	112	99	(2,049)	(2,161)
Tax adjustments and others	(226)	(165)	(6)	351
Under IFRSs	<u>20,581</u>	<u>17,644</u>	<u>129,788</u>	<u>69,784</u>

Notes on the differences

1. Production maintenance expense and safety production expense

According to the relevant rules and regulations in the PRC, provision for production maintenance and production safety is accrued by coal mining companies based on coal production volume, which is recognised as expense in the income statement. On acquisition of production maintenance and production safety facilities, fixed assets and accumulated depreciation for the same amounts are recognised upon purchase. Under IFRSs, expenses relating to production maintenance and safety measures are recognised in the income statement as and when incurred. Capital expenditures on production maintenance and safety facilities are recognised as property, plant and equipment, which are depreciated according to the relevant depreciation method.

2. Revaluation of land use rights

Under the PRC GAAP, land use rights are carried at revalued in accordance with the Restructuring. Under IFRSs, land use rights are carried at cost. Accordingly, the unamortised surplus on revaluation of the land use rights was reversed against the equity. After revaluation date, the depreciation of land use rights under the PRC GAAP and IFRSs are different as their carrying amounts are not the same.

3. Tax adjustments and others

It mainly represents tax effects on the above differences.

I CHAIRMAN'S STATEMENT

China Shenhua has created a unique operating model integrating coal, railway, port and power businesses, which was a remarkable innovation in the history of China's energy development. The competitive advantages created by this operating model has continued and strengthened in 2007, and the Company maintained its leading position in market capitalization, financial performance and business development.

Against the background of rapid economic development in China as well as rapid growth of key coal-consuming industries, the financial performance of the Company in 2007 was strong with continuous growth in various financial indicators. Based on financial results prepared in accordance with IFRSs, earnings per share was RMB1.110, representing a 13.8% increase as compared with 2006. The net assets per share was RMB5.38, representing an increase of 49.9% as compared with 2006. Over the past three years, the Company maintained a more favourable and competitive dividend policy as compared with its peers in the industry. In 2007, we paid a special dividend of RMB0.92863 per share to H shareholders. The Board has proposed to distribute a cash final dividend of RMB0.18 per share for 2007 to all shareholders.

It is our mission to provide high quality thermal coal to fuel the economic development of China and Asia Pacific on a long-term basis. Since the listing of our H shares, the coal segment of the Company maintained rapid growth and efficient operations on the basis of large-sale production. In 2007, the production and sales volumes of commercial coal reached 158.0 million tonnes and 209.1 million tonnes respectively, representing an increase of 21.4 million tonnes and 38.0 million tonnes compared with 2006 or an increases of 15.7% and 22.2% as compared with 2006. In terms of coal sales, the Company has become the largest listed coal company in China and the second largest listed coal company in the world. In 2007, with our coal export volume reaching 24.0 million tonnes, the company has become the largest coal exporter in China.

China Shenhua has made good progress in the construction of new coal mines. Construction has largely been completed on the large scale mechanical mining technological reform in underground coal mine of Buertai mine, the project for separating mining construction and stripping for Haerwusu open-cut mine has basically been completed with a ground production system being constructed; and the construction of Shengli No. 1 open-cut mine has basically been completed.

Benefiting from the strong demand for coal generated by economic development of the Asia Pacific region, the selling price of the Company's coal rose steadily. In 2007, domestic long term seaborne coal contract price increased by 7.6 % as compared with 2006, while the contract price for coal export denominated in US dollar increased by 9.9 % as compared with last year. At the same time, the Company managed its customer relationship under the principles of integrating customers' benefit with the Company's economic return, built strategic cooperative relationship with customers, emphasized importance on service to the enhancement of sales value chain and pursuing win-win result.

Mining reserves is a critical indicator for the long-term development of mining companies. As at 31st December 2007, calculated by reference to the standard of China mining industry, the recoverable reserve of China Shenhua reached 11.482 billion tonnes. According to the internationally accepted JORC standard, the Company has marketable coal reserves of 7.320 billion tonnes.

Our railway and port transportation network has become an irreplaceable resource, creating an important competitive advantage for the operations and development of the Company. In 2007, the annual transportation turnover of the Company's self-owned railway reached 116.7 billion tonne km, representing an increase of 17.9% as compared with 2006. After partial revamp and upgrading, the transportation capacity of our railways have increased. The transportation capacity of Shenshuo Railway, Dazhun Railway, Shuohuang Railway and Shentie railway northern line has increased to 150 million tonnes, 48 million tonnes, 200 million tonnes and 30 million tonnes respectively. In 2007, the seaborne coal turnover via self-owned ports reached 130.3 million tonnes, representing an increase of 10.7% as compared with 2006. After carrying out capacity expansion, the loading capacity of Huanghua Port now exceeds 80 million tonnes. The phase one project of the Shenhua Tianjian Coal Dock has been put into operation with loading capacity exceeding 35 million tonnes and it has successfully passed acceptance inspection by governmental authorities.

In 2007, the power segment of the Company underwent a refinement of its management systems, with significant increase of production and great achievement in energy conservation and consumption reduction. As at 31st December 2007, the Company controlled and operated 13 coal-fired power plants, with a total installed capacity of 15,091 megawatts (MW), representing an increase of 19.5% as compared with 2006. In 2007, the Company's power output dispatch reached 74.35 billion kwh, representing an

increase of 37.8% as compared with 2006; the utilization hours of power generation facilities reached 5,995 hours, with annual equivalent usable index reaching 90.58%; and the coal consumption rate of power dispatch reached 332 g/kwh, which continued to surpass industry averages.

On 9 October 2007, China Shenhua was successfully listed on Shanghai Stock Exchange and became a substantial A + H listed energy company. The funds raised by the IPO of A shares and the amount of application fund received has set new records for A shares offerings. The Company's A shares listing remains the largest IPO in the mining sector in the world. The net proceeds raised from the A share offering was RMB66.582 billion, providing a solid capital foundation for the company's future capital expenditure and acquisition of strategic assets. At the same time, the Company has enhanced the Shenhua brand and corporate image with its strong performance in both international and domestic capital markets, whilst enhancing the reputation and social influence of the Company.

The Board and the management of China Shenhua attach great importance to investor communication and information disclosure, striving to realise commitments made to shareholders and build an excellent corporate image in the capital market. Since the listing of its H shares, the Company has kept its promise to increase annual production by 15 million tonnes for three consecutive years, and has achieved steady growth in returns to shareholders. In 2007, H shares of the Company were incorporated into major market indexes such as the MSCI Index, Dow Jones China 88 Index, as well as Hang Seng Index, and A shares of the Company were incorporated into the SSE Index. During such time the Company was awarded numerous honors including "Asia Best Long-term Value-creation Company", "Best Corporate Governance Disclosure Gold Award", the "NO.1 Coal and Consumable Fuel Company in the World" award and the "Best Company Accredited by Shareholders in Asia" award.

In 2007, while enhancing operational performance, the Company actively performed its social responsibilities. The Company continued to strengthen management, increased investment and made full use of advancement of science and technology. Moreover, the Company strived to improve production safety and occupational health of employees, increased utilization efficiency of resource and reduced pollution. We have actively sought to improve the ecological environment where our operations are located, in order to promote symbiotic development with the environment, government, customers and suppliers. For more details, you may refer to the 2007 Corporate Social Responsibility Report of China Shenhua.

II MANAGEMENT DISCUSSION AND ANALYSIS BASED ON FINANCIAL INFORMATION UNDER IFRSs

(I) Review of the overall operating performance of the Company

The operating revenues of the Group for the year ended 31 December 2007 was RMB82.107 billion (2006: RMB65.186 billion), representing an increase of 26.0% compared with 2006. The profit attributable to equity shareholders of the Company was RMB20.581 billion (2006: RMB17.644 billion), representing an increase of 16.6% compared with 2006.

For the year ended 31 December 2007, earnings per share of the Group was RMB1.110 (2006: RMB0.975), representing an increase of 13.8% compared with 2006. The equity attributable to Shareholders per share of the Group was RMB5.38 (2006: RMB3.59), representing an increase of 49.9% compared with 2006.

For the year ended 31 December 2007, the return on total assets¹ of the Group amounted to 10.1% (2006: 11.9 %), representing a decrease of 1.8% compared with 2006. The average return on net assets² was 20.6% (2006: 27.2%) representing a decrease of 6.6% compared with 2006. EBITDA³ was RMB40.637 billion (2006: RMB34.235 billion), representing an increase of 18.7% compared with 2006. As at 31 December 2007, the total debt capitalization ratio⁴ of the Group was 28.6% (2006: 40.0%), representing a decrease of 11.4% compared with 2006.

1. The return on total assets is based on net profit and total assets.
2. Average return net assets is calculated based on the average net assets for the year attributable to shareholders of the Company and net profit year-end attributable to shareholders.
3. EBITDA is a method for the management to assess the performance of the Company. It's definition is profit for the year plus finance costs, profits tax and depreciation and amortization and after deducting investment returns and share of profit less losses of associates. The EBITDA presented here by the Company is used as extra reference for investors with regard to business performance, as management of the Company considers EBITDA is popularly used by securities analysts, investors and other parties concerned as a criterion for the evaluation of the performance of mining companies, which is believed to be helpful to investors. EBITDA is not yet an item acknowledged by International Financial Reporting Standards. You are not expected to take it as an alternative indicator of profit for the year to evaluate achievements or performances, nor shall it be taken as an alternative indicator to evaluate liquidity. The calculation of EBITDA by the Company may be different from those of other companies; therefore comparability may be limited. In addition, EBITDA is not a criterion of free cash flow that the management can decide to use at their own will, because it does not reflect requirements for cash such as interest expenditure, tax payment or repayment of debts, etc.
4. Total debt capitalization ratio = [long term interest bearing debts + short term interest bearing debts (including bill payable)]/(total liabilities + equity)

(II) Business review and operating results by segment

The Group is mainly engaged in the business of coal, railway, port and power generation in China.

Coal

(1) Coal production

Commercial coal production

	2005	2006	2007	06-07
	Million	Million	Million	Percentage
	tonnes	tonnes	tonnes	change
				%
Shandong Mines	94.9	105.5	110.6	4.8
Bulianta	16.5	20.0	18.4	(8.0)
Daliuta-Huojitu	19.6	18.1	18.7	3.3
Yujiali	15.5	16.1	16.5	2.5
Shangwan	11.5	12.1	12.1	–
Halagou	12.3	12.1	12.1	–
Kangjatan	8.0	10.3	11.6	12.6
Shigetai	0.2	5.8	8.7	50.0
Wulanmulun	4.4	4.4	5.0	13.6
Jinjie	–	0.4	3.7	825.0
Others	6.9	6.2	3.8	(38.7)
Zhunge'er Mines	19.8	23.5	25.2	7.2
Heidaigou	19.8	23.5	25.2	7.2
Wanli Mines	5.0	4.8	16.0	233.3
Shengli Mines	1.6	2.8	6.2	121.4
	<hr/>	<hr/>	<hr/>	<hr/>
Total	121.4	136.6	158.0	15.7
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The coal segment of the Group comprises Shendong Mines, Zhunge'er Mines, Wanli Mines and Shengli Mines. In 2007, the commercial coal production of the Group achieved 158.0 million tonnes (2006: 136.6 million tonnes), representing an increase of 21.4 million tonnes or 15.7%. In 2007, the mechanisation ratio of coal mining and excavation of all the mines of the Group were both 100%, which enabled the Group to maintain rapid growth of coal production. The production in Jinjie mine (acquired in 2006), Wanli Mines and Shengli Mines had increased significantly.

In 2007, the commercial coal production of Shendong Mines reached 110.6 million tonnes, which accounted for 70.0% of the total commercial coal production of the Company during the period, representing an increase of 4.8%. In 2007, the commercial coal production in Shendong Mines increased by 5.1 million tonnes, which accounted for 23.8% of the total commercial coal increase of 21.4 million tonnes of the Group. By extending the working force and enhancing the reliability of equipment, Shendong Mines maintain its global leading position in underground mine production and productivity of underground workers. By the end of 2007, Shendong Mines had a total of 6 mines of the "ten-million tonnes" class, namely, Bulianta mine, Daliuta mine, Yujialiand mine, Halagou mine, Shangwan mine and Kangjiatan mine. In 2007, the coal production per underground worker at Shendong Mine was 29,105 tonnes. At the same time, Shendong Mines put strong emphasis on the protection of ecological environment. In 2007, Shendong Coal Branch totally invested RMB81.43 million on ecological construction, which was the highest amount of investment over the past years, involving the highest number of projects, resulting in further improvement in the ecological environment of the mines.

In 2007 the commercial coal production of Heidaigou mine of Zhunge'er Mines reached 25.2 million tonnes, representing an increase of 7.2% as compared with 2006. In 2007, the output of commercial coal by Zhunge'er Mines increased by 1.7 million tonnes when compared with last year, which accounted for 8.0% of the total commercial coal increase of 21.4 million tonnes of the Group. In 2007, Zhunge'er Mines made great achievement in production technology. Advanced technology and equipments for open-cut mining were introduced including wheel bucket craft, dragline earth moving and 300-tonne tip

lorry driven by power. At the same time, Heidaigou open-cut coal mine successfully applied the “pinpoint blasting technology” into practice, with effective pinpoint rate over 25%, which saved stripping cost by more than RMB15 million. In 2007, Zhunge'er Mines reclaimed 1.2 million square meters of dumping site, with reclamation rate of 100%.

In 2007, the commercial coal production of Wanli Mines achieved output of 16.0 million tonnes, representing an increase of 233.3% as compared with 2006. In 2007, the commercial coal output of Wanli Mines increased by 11.2 million tonnes as compared with 2006, which accounted for 52.3% of the total commercial coal increase of 21.4 million tonnes of the group. Wanli Mines combined mines with technological revamp and mechanical mining in the mining process. Both the level of full-mechanized longwall technology and production capacity of mines have been increased. The progress in the construction of Bu'ertai mine of Wanli Mines was smoothly undergoing. The production system was basically completed, and the equipment is now being installed. It is estimated that test run will be carried out in May 2008. Bu'ertai mine is the largest mine with one-time design, one-time construction and one-time commissioning in the world. The planned production capacity of the mine is 20 million tonnes per year. Wanli Mines will be one of the main driving forces for the growth of the company in the coming years.

In 2007, the commercial coal production of Shengli Mines was 6.2 million tonnes, representing an increase of 121.4%. In 2007, the commercial coal output of Shengli Mines increased by 3.4 million tonnes as compared with 2006, which accounted for 15.9% of the total commercial coal increase of 21.4 million tonnes of the group. The construction of the Shengli No.1 open-cut mine was basically completed, with designed production capacity of the 1st phase met.

While attaining rapid growth in coal production, the Group continued place high emphasis on the production safety in coal mines and continued to maintain its leading position in the production safety nationally and internationally. In 2007, the fatality rate per million tonnes of raw coal production in China Shenhua was 0.006, which was significantly lower than national average level of 1.485 and the average level of 0.383 in

State-owned coal mines. There were no accidents in 11 out of the Company's 14 subsidiaries for the last years; 16 out of its 17 production coal mines have achieved zero fatality for the whole year, and 10 mines have been in safe production for over 1,000 days. In 2007, 10 of the 17 coal mines of China Shenhua were appraised as safe and highly efficient mines nationwide, while 6 of these 10 mines were appraised as the most safe and highly efficient mines.

(2) Coal resources

Coal resources & reserves under China National Standard

	Method of mining	As at 31 December 2007		As at 31 December 2006	
		Recoverable reserve 100 Million tonnes	Resource 100 Million tonnes	Recoverable reserve 100 Million tonnes	Resource 100 Million tonnes
Shandong Mines	Underground	70.33	118.66	61.66	103.54
Wanli Mines	Underground	5.97	10.55	6.19	10.49
Zhunge'er Mines	Open-cut	26.77	29.77	11.33	13.16
Shengli Mines	Underground/ Open-cut	11.75	21.26	11.81	21.33
Total		<u>114.82</u>	<u>180.24</u>	<u>90.99</u>	<u>148.52</u>

Coal resources & reserves under JORC* Standard

	Method of mining	As at 31 December 2007		As at 31 December 2006	
		Marketable reserve 100 Million tonnes	Resource 100 Million tonnes	Marketable reserve 100 Million tonnes	Resource 100 Million tonnes
Shandong Mines	Underground	39.69	118.66	38.04	103.54
Wanli Mines	Underground	1.40	10.55	3.54	10.49
Zhunge'er Mines	Open-cut	23.48	29.77	9.29	13.16
Shengli Mines	Underground				
	Open-cut	8.63	21.26	8.69	21.33
Total		<u>73.20</u>	<u>180.24</u>	<u>59.56</u>	<u>148.52</u>

* Per AUSTRALASIAN JOINT ORE RESERVES COMMITTEE Standard (JORC Standard) dated December 2004.

As at 31 December 2007, the Group had recoverable coal reserves of 11.482 billion tonnes, with resource of 18.024 billion tonnes under national standard in China. Calculated on the basis of the output of raw coal in 2007, the ratio of resource to raw coal production amounted to 68.8.

As at 31 December 2007, the Group had marketable coal reserves of 7.320 billion tonnes based on JORC standard, with resource reserve of 18.024 billion tonnes. Calculated on the basis of commercial coal output in 2007, coal reserves of the Company can be mined for around 46 years.

In 2007, the Group was granted the mining permit to carry out mining in Ha'erwusu open-cut mine of Zhunge'er Mines, which added 1.685 billion tonnes to total resource, of which recoverable reserves under China national standard was 1.567 billion tonnes, while marketable reserves by JORC standard was 1.074 billion tonnes. By the end of 2007, the project of mining construction and removing the overburden at Ha'erwusu mine has basically been completed, with the ground production system being formed, and trial production expected to be put into operation by the end of 2008.

In 2007, the Group acquired 100% of the equity of Shendong Power from its controlling shareholder Shenhua Group, therefore Huangyuchuan mine of Shendong Power was consolidated into Shengdong Mines. As at the end of 2007, the resource reserve of Huangyuchuan mine amounted to 1.507 billion tonnes, recoverable reserves under China national standard reaching 0.944 billion tonnes, and marketable reserve under JORC standard reaching 0.369 billion tonnes. Huangyuchuan mine is in the process of infrastructure construction. It is expected that trial production will commence in 2011.

(3) Coal sales

Coal sales by region

		2005	2006	2007	06-07 Percentage change
		Million tonnes	Million tonnes	Million tonnes	%
Domestic sales		121.1	147.2	185.1	25.7
By region	Northern China	49.1	47.9	82.4	72.0
	Eastern China	57.7	66.0	67.2	1.8
	Southern China	8.5	24.8	26.6	7.3
	Northeast China	4.8	7.9	8.1	2.5
	Others	0.9	0.6	0.8	33.3
By usage	Thermal coal	87.7	115.9	145.1	25.2
	Metallurgy	2.3	3.3	4.3	30.3
	Chemical	1.5	3.1	3.6	16.1
	Others	29.6	24.9	32.1	28.9
Export sales		23.3	23.9	24.0	0.4
	South Korea	8.3	7.8	9.7	24.4
	China, Taiwan	6.7	6.1	6.6	8.2
	Japan	4.4	4.6	5.0	8.7
	Others	3.9	5.4	2.7	(50.0)
Total		<u>144.4</u>	<u>171.1</u>	<u>209.1</u>	<u>22.2</u>

For the year ended 31 December 2007, the sales volume of the Group was 209.1 million tonnes (2006: 171.1 million tonnes), representing an increase of 22.2% compared with 2006. The volume of domestic sales was 185.1 million tonnes, accounting for 88.5% of the Group's total sales volume of coal. The export volume was 24.0 million tonnes, accounting for 11.5% of the Group's total sales volume of coal.

Sales volume and price of coal by market

	2007		2006	
	Sale volume Million tonnes	Sales price RMB/ tonne	Sales volume Million tonnes	Sales price RMB/ tonne
Coal sales				
Subtotal of domestic sales				
volume/Weighted average				
price	185.1	301.8	147.2	296.1
Long-term contract sales				
volume/Weighted average				
price	147.5	311.2	119.3	296.0
Mine mouth	–	–	2.0	131.9
Direct arrival				
(along railway line)	55.1	228.9	36.9	220.4
Seaborne (port FOB)	92.4	360.2	80.4	334.8
Spot market sales volume/				
Weighted average price	37.6	265.2	27.9	296.8
Mine mouth	13.0	101.5	5.5	110.0
Direct arrival				
(along railway line)	10.7	289.2	9.0	285.7
seaborne (port FOB)	13.9	399.3	13.4	380.8
Exported sales volume/ price	24.0	398.1	23.9	381.6
Total coal sales volume/				
Weighted average price	209.1	312.9	171.1	308.1

For the year ended 31 December 2007, the domestic sales revenue of the Group was RMB55.857 billion (2006: RMB43.575 billion), representing an increase of 28.2 % over last year. The main reason for the increase contributed to the increase of the sales volume of coal. Domestic sales volume of the Group in 2007 was 185.1 million tonnes (2006: 147.2 million tonnes), representing an increase of 25.7% as compared with 2006. During the same period, the percentage of domestic sales volume out of total sales volume of coal increased from 86.0% to 88.5%. The weighted average domestic sales price was RMB301.8/ tonne (2006: RMB296.1/ tonne), representing an increase of 1.9% as compared with last year.

For the year ended 31 December 2007, the sales volume under long-term contract was 147.5 million tonnes (2006: 119.3 million tonnes), representing an increase of 23.6 % as compared with last year. The domestic coal sales under spot price volume was 37.6 million tonnes (2006: 27.9 million tonnes), representing an increase of 34.8 % compared with 2006. During the same period, the percentage of domestic long-term contract sales out of the total sales volume of coal increased from 69.7% to 70.5%. In 2007, the weighted average sales price of domestic long-term contract sales was RMB311.2 /tonne (2006: RMB296.0/tonne), representing an increase of 5.1% as compared with last year. The weighted average domestic sales by spot price was RMB265.2/tonne (2006: RMB296.8/tonne), representing a decrease of 10.6% as compared with last year.

Domestic seaborne coal (port FOB) sales was the main form of the Group's domestic sales which enjoys higher margin than other forms of sales. For the year ended 31 December 2007, the volume of the Group's domestic seaborne sales was 106.3 million tonnes (2006: 93.8 million tonnes), representing an increase of 13.3% as compared with 2006. During the same period, the percentage of domestic seaborne sales volume out of total domestic sales volume decreased from 63.7% to 57.4%. In 2007, the sales price of domestic seaborne coal was RMB365.3/tonne (2006: RMB341.4/tonne), representing an increase of 7.0% as compared with last year. In 2007, the domestic seaborne coal sales volume of the group accounted for 23.1% of the seaborne coal sale volume of the main ports in China enabling the Company to maintain its leading position of market share in the coastal thermal coal market.

The increase in domestic sales volume was attributable to the boom of the domestic coal market and the improvement of marketing sales which enhanced the profitability of the Group.

For the year ended 31 December 2007, the Group's export sales revenue was RMB9.566 billion (2006: RMB9.117 billion), representing an increase of 4.9% as compared with last year. In 2007 the export sales volume of the Group was 24.0 million tonnes (2006: 23.9 million tonnes), representing an increase of 0.4% as compared with 2006. During the same period, the percentage of the volume of export sales out of the total sales volume of coal decreased from 14.0% to 11.5%.

In 2007 the export sales price was RMB398.1/tonne (2006: RMB381.6/tonne), representing an increase of 4.3% as compared with last year. The increase is the combined result of the following: (a) affected by the increase of international coal price. The long-term contract price signed with main customers increased when compared with that in 2006; and (b) the appreciation of Renminbi against USD in 2007, with the weighted average exchange rate from USD to RMB applied to the settlement of export sales reaching 7.5863 (2006: 7.9741), an appreciation of 4.9%, which reduced the export sales price denominated in USD when quoted in Renminbi.

In 2007, the sales volume of the Group to the largest five export customers was 16.581 million tonnes, which accounted for 69.1% of the total volume of export sales. Of which, the sales volume to the largest customer was 6.041 million tonnes, which accounted for 25.2% of total export sales. The largest five export customers were either power generation companies or fuel companies.

Sales volume and price of coal by customers

	2007			2006		
	Coal sales Million tonnes	As a percentage of total sales volume %	Sales price RMB/ tonne	Coal sales Million tonnes	As a percentage of total sales volume %	Sales price RMB/ tonne
Coal sales to external customers	178.5	85.4	312.3	148.7	86.9	309.1
Domestic sales to external customers	154.5	73.9	299.0	124.8	72.9	295.2
Export sales	24.0	11.5	398.1	23.9	14.0	381.6
Coal sales to our power segment	30.6	14.6	316.0	22.4	13.1	301.5
Total coal sales volume/ Weighted average price	209.1	100.0	312.9	171.1	100.0	308.1

For the year ended 31 December 2007, the revenues from coal sales to external customers was RMB55.741 billion (2006: RMB45.948 billion), representing an increase of 21.3 % as compared with last year. The main reason for the increase was attributable to the increase of coal sales volume. During the same period, the coal sales volume of the Group to external customers was 178.5 million tonnes (2006: 148.7 million tonnes), representing an increase of 20.0% as compared with 2006. Of which, the coal sales volume to domestic external customers was 154.5 million tonnes (2006: 124.8 million tonnes), representing an increase of 23.8% as compared with 2006. During the same period, the coal sales volume to external customers as a percentage of total coal sales volume decreased from 86.9% to 85.4%. The coal sales price to external customers increased from RMB309.1/tonne to RMB312.3/tonne, representing an increase of 1.0% as compared with 2006.

In 2007, the sales volume of the Group to the largest five domestic external customers amounted to 21.689 million tonnes, which accounted for 11.7 % of the total domestic sales volume. Of which, the sales volume to the largest customer was 6.466 million tonnes, which accounted for 3.5% of the total domestic sales volume. The largest five domestic and overseas external customers were all power generation companies or fuel companies.

The coal sales to our power segment represent a unique management model of vertical intergration within the Group. In 2007, with the increasing installed generating units capacity of the Group, the demand for coal also increased correspondingly. The coal sales volume to the Group's power segment was 30.6 million tonnes (2006: 22.4 million tonnes), representing an increase of 36.6% as compared with 2006. During the same period, the volume of coal sold to the Group's power segment as a percentage of the total sales volume of coal increased from 13.1% to 14.6%. The sales price to internal power plants increased from RMB301.5/tonne to RMB316.0/tonne, representing an increase of 4.8% as compared with 2006. The main reason for the price rise was the increasing proportion of newly-added generation units in the coastal regions in 2007, which increased the proportion of the volume of seaborne coal sold to our power segment. The sales prices of seaborne coal were higher than those sold at mine mouth or by direct arrival. In 2007, 89.7% of the coal used in the power segment was supplied internally within the Group, while the rest was purchased from external sources.

(4) Operating results of coal segment

(a) Revenues

For the year ended 31 December 2007, revenues of coal segment before elimination on consolidation was RMB65,949 million (2006: RMB53,303 million), representing an increase of 23.7%. The increase was mainly attributable to the increase of sales volume in 2007.

(b) Cost of revenues

Cost of revenues in coal segment

	2007			2006		
	Cost RMB million	Quantity Million tonnes	Unit cost RMB/ tonne	Cost RMB million	Quantity Million tonnes	Unit cost RMB/ tonne
Coal purchased						
from third parties	10,719	51.9	206.5	6,777	35.4	191.4
Cost of coal production	11,842	157.2	75.3	8,964	135.7	66.1
Materials,						
fuel and power	2,874	157.2	18.3	1,830	135.7	13.5
Personnel expenses	1,612	157.2	10.3	1,149	135.7	8.5
Repairs and						
maintenance	1,485	157.2	9.4	1,171	135.7	8.6
Depreciation and						
amortisation	2,663	157.2	16.9	2,180	135.7	16.1
Others	3,208	157.2	20.4	2,634	135.7	19.4

For the year ended 31 December 2007, cost of revenues of coal segment of the Group was RMB45,017 million (2006: RMB34,563 million), representing an increase of 30.2%. Cost of revenues comprised of the coal purchased from third parties, cost of coal production, etc. The increase was mainly attributable to the increase in the volume of coal purchased from third parties, the increase in cost of self-produced coal and the increase in the sales volume of commercial coal.

The unit cost of coal production was RMB75.3/tonne (2006: RMB66.1/tonne), representing an increase of 13.9%. The unit cost of coal purchased from third parties was RMB206.5/tonne (2006: RMB191.4/tonne), representing an increase of 7.9%.

(c) Profit from operations

For the year ended 31 December 2007, profits from operations of the Group was RMB18,096 million (2006: RMB16,610 million), representing an increase of 8.9%. During the same period, operating margin of coal segment decreased from 31.2% to 27.4%.

Railway

(1) Railway operation

Turnover of railway transportation

	2005	2006	2007	06-07
	Billion	Billion	Billion	Percentage
	tonne km	tonne km	tonne km	change
				%
Self-owned railways	84.3	99.0	116.7	17.9
Shenshuo Railway	23.6	26.7	29.4	10.1
Shuohuang-HuangWan				
Railway	51.2	60.0	72.7	21.2
Dazhun Railway	6.1	8.6	9.8	14.0
Baoshen Railway	3.4	3.7	4.8	29.7
State-owned railways	23.8	25.4	25.1	(1.2)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total turnover of				
coal transportation	108.1	124.4	141.8	14.0
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The total turnover of coal transportation by the Group in 2007 was 141.8 billion tonne km (2006: 124.4 billion tonne km), representing an increase of 14.0%. Of which, turnover of coal transportation by self-owned railways of the Company was 116.7 billion tonne km (2006: 99.0 billion tonne km), representing an increase of 17.9%. The turnover of coal transportation by self-owned railways accounted for 82.3% of the total turnover of coal transportation, which increased as compared with 79.6% in 2006.

(2) Operating results of railway segment

(a) Revenues

For the year ended 31 December 2007, revenues of railway segment of the Group before elimination on consolidation was RMB16,210 million (2006: RMB12,958 million), representing an increase of 25.1%. Of which, revenues generated by the railway segment for internal transportation of coal was RMB14,755 million (2006: RMB11,704 million), representing an increase of 26.1%, and accounted for 91.0% of the revenues in railway segment. At the same time, the Group utilised part of the surplus transportation capacity of the railways to provide transport services to third parties and generated transportation income. The main reason for the increase in revenues of the railway segment in 2007 was the increase in the turnover of transportation while there was no significant change in the rates of freight charges.

(b) Cost of revenues

Cost of revenues of railways

	2007 RMB million	2006 RMB million
Materials, fuel and power	1,490	1,102
Personal expenses labour cost	993	717
Repairs and maintenance	990	1,140
Depreciation and amortisation	1,371	1,132
Cost of external transportation	201	158
Others	911	799
	<hr/>	<hr/>
Cost of internal transportation	5,956	5,048
Cost of external transportation	846	636
	<hr/>	<hr/>
Sub-total	6,802	5,684
Others	131	132
	<hr/>	<hr/>
Cost of revenues	<u>6,933</u>	<u>5,816</u>

For the year ended 31 December 2007, cost of revenues of the Group's railway segment was RMB6,933 million (2006: RMB5,816 million), representing an increase of 19.2%, which was mainly comprised of cost of coal transportation. The increase in cost of coal transportation was mainly attributable to the increase in the transportation volume of self-owned railways, increase in the costs of fuel and power, and increase in depreciation as a result of the purchase of new locomotives for railway trucks and completion of the technological innovation of Dazhun Railway's platforms.

The unit transportation cost of the railway segment was RMB0.058/tonne km (2006: RMB0.057/tonne km), representing an increase of 1.8%. The increase was mainly attributable to the increase in the cost of materials, fuel, power and labour cost, while at the same time the decrease in repairs and maintenance offset part of the increment of the cost as mentioned above.

(c) Profit from operations

For the year ended 31 December 2007, profit from operations of the Group's railway segment was RMB8,581 million (2006: RMB6,537 million), representing an increase of 31.3%. The operating margin of railway segment increased from 50.4% to 52.9%.

Port

(1) Port operation

Seaborne coal sales

	2005	2006	2007	06-07
	Million	Million	Million	Percentage
	tonnes	tonnes	tonnes	change
				%
Self-owned ports	67.1	80.8	100.4	24.3
Huanghua Port	67.1	79.2	81.2	2.5
Shenhua Tianjin Coal Dock	–	1.6	19.2	1,100.00
Third-party ports	33.2	36.9	29.9	(19.0)
Qinhuangdao Port	17.7	21.2	18.2	(14.2)
Tianjin Port	15.5	14.7	10.7	(27.2)
Others	–	1.0	1.0	–
Total seaborne coal sales	<u>100.2</u>	<u>117.7</u>	<u>130.3</u>	<u>10.7</u>

In 2007, seaborne coal sales of the Group was 130.3 million tonnes, which accounted for 62.3% of the Company's commercial coal sales for the year. Of which, the volume of seaborne coal through Huanghua Port and Shenhua Tianjin Coal Dock reached 100.4 million tonnes, representing an increase of 19.6 million tonnes, or 24.3% as compared with that of 2006, which accounted for 77.1% of the total volume of seaborne coal of the Company.

(2) Operating results of port segment

(a) Revenues

For the year ended 31 December 2007, revenues of the port segment before elimination on consolidation was RMB1,981 million (2006: RMB1,569 million), representing an increase of 26.3%. Of which, revenues generated by the port segment for internal transportation of coal amounted to RMB1,878 million (2006: RMB1,494 million), representing an increase of 25.7% as compared with last year and accounted for 94.8% of the revenues of the port segment. The increase in revenues of port segment in 2007 was mainly attributable to the increase in the turnover of transportation while there was no significant change in the rates of seaborne freight.

(b) Cost of revenues

Cost of revenues of ports

	2007 RMB million	2006 RMB million
Materials, fuel and power	207	117
Personal expenses	72	39
Repairs and maintenance	88	105
Depreciation and amortisation	562	429
Others	380	428
	<hr/>	<hr/>
Cost of internal transportation	1,309	1,118
Cost of external transportation	62	46
Other operating costs	7	–
	<hr/>	<hr/>
Cost of revenues	<u>1,378</u>	<u>1,164</u>

For the year ended 31 December 2007, cost of revenues of the Group's port segment was RMB1,378 million (2006: RMB1,164 million), representing an increase of 18.4% as compared with 2006. The increase was mainly attributable to the increase in the turnover of transportation at the self-owned ports, and depreciation charge increased subsequent to the commencement of operation at Shenhua Tianjin Coal Dock.

The unit transportation cost of port segment was RMB13.0/tonne (2006: RMB13.8/tonne), representing a decrease of 5.8%. The decrease was mainly resulted from the effect of scale economy arising from the increase in transportation volume.

(c) Profit from operations

For the year ended 31 December 2007, profit from operations of the Group's port segment was RMB376 million (2006: RMB193 million), representing an increase of 94.8%. The operating margin of port segment increased from 12.3% to 19.0%.

Power

(1) Power generation

Installed capacity of power plants

		As at 31 December 2006 (Restated) Installed capacity MW	Additions of installed capacity 2007 MW	As at 31 December 2007 Installed capacity MW	Equity installed capacity MW
Huanghua Power	Hebei	1,200	–	1,200	612
Panshan Power	Tianjin	1,000	–	1,000	332
Sanhe Power	Hebei	700	600	1,300	365
Guohua Zhunge'er	Inner Mongolia	660	660	1,320	896
Beijing Thermal	Beijing	400	–	400	204
Zhunge'er Power	Inner Mongolia	200	–	200	116
Suizhong Power	Liaoning	1,600	–	1,600	1,040
Ninghai Power	Zhejiang	2,400	–	2,400	1,440
Jinjie Energy	Shaanxi	600	1,200	1,800	1,260
Shenmu Power	Shaanxi	200	–	200	102
Taishan Power	Guangdong	3,000	–	3,000	2,400
Shendong Coal	Inner Mongolia	324	–	324	301
Shendong Power	Inner Mongolia	347	–	347	218
Total		<u>12,631</u>	<u>2,460</u>	<u>15,091</u>	<u>9,286</u>

Comprehensive performance indicators of power plants in 2007

		Gross power generation kwh	Total power output dispatch kwh	Average utilisation hours Hour	Standard coal consumption rate for power dispatching g/kwh
	Regional grid				
Huanghua Power	North China Power Grid	64.8	61.5	5,396	326
Panshan Power	North China Power Grid	59.5	55.9	5,952	328
Sanhe Power	North China Power Grid	46.6	43.5	5,547	328
Guohua Zhunge'er	North China Power Grid	41.8	38.4	5,057	330
Beijing Thermal	North China Power Grid	25.5	22.6	6,363	285
Zhunge'er Power	North China Power Grid	12.3	11.1	6,169	398
Suizhong Power	Northeast Power Grid	104.7	99.1	6,542	328
Ninghai Power	East China Power Grid	141.7	133.5	5,905	323
Jinjie Energy	Northwest Power Grid	53.7	48.8	5,589	343
Shenmu Power	Northwest Power Grid	13.9	12.6	6,926	394
Taishan Power	South China Power Grid	192.6	180.9	6,420	319
Shendong Coal	Northwest Power Grid	18.6	16.3	5,755	398
Shendong Power	Northwest Power Grid	21.6	19.3	6,231	441
Total/weighed average		<u>797.4</u>	<u>743.5</u>	<u>5,995</u>	<u>332</u>

The Group is keen on developing clean thermal power business which has synergies with the coal business. As at 31 December 2007, the Group controlled and operated 13 coal-fired power plants with the total installed capacity and equity installed capacity of 15,091 MW and 9,286 MW respectively, representing an increase of 19.5% and 23.6% as compared with 2006. The equity installed capacity accounted for 61.5% of the total installed capacity. The average capacity of generation unit of the Group had reached 351 MW representing an increase of 10 MW as compared with last year.

Gross power generation of the Group in 2007 was 79.74 billion kwh, representing an increase of 21.88 billion kwh or an increase of 37.8% as compared with 2006. Total power output dispatch was 74.35 billion kwh, representing an increase of 20.44 billion kwh or an increase of 37.9% as compared with 2006; average utilisation hours was 5,995 hours, representing a decrease of 92 hours as compared with 2006, yet we still maintain leading position in the power industry in China, which was 679 hours higher than the national average level of 5,316 hours.

In 2007, coal consumption for the power segment of the Group was 34.1 million tonnes, of which, the consumption of Shenhua coal was 30.6 million tonnes, which accounted for 89.7% of the total consumption. The standard coal consumption rate of power dispatch was 332g/kwh, with approximately the same level as 2006.

Power segment of the Group attached great importance to the environmental protection and the application of advanced technology to power generation, and devoted itself to developing clean coal-fired operations. By the end of 2007, 87% of the generating units in power segment has been equipped with the device of desulfurisation, which was the highest level within the country, while 82.5% of the coal-fired units were installed with electrostatic precipitators with dedusting efficiency over 99%. In 2007, the Phase II project of Sanhe Power successfully applied the technology of integration with chimney and cooling tower into practice which saved design and construction cost over RMB18 million; the 1,000MW unit limestone-gypsum wet method and the seawater desalination and heating technology in progress can save capital investment of RMB10 million and RMB55 million respectively. The Group had applied the following technologies and measures into practice including coal-electricity integration, air cooling technology, integration with chimney and cooling tower, application of recycled water, desulphurisation and denitrification in an attempt to reduce emission of pollutants and to improve the productivity of power generation.

(2) Progress in construction projects

Phase II project of Sanhe Power of 2x300 MW coal-fired units adopting 100% stack gas desulfurisation and denitrification system, sewage as the source of cooling water and the application of advanced natural draft cooling tower with flue gas injection technology. No. #3 and #4 units successfully passed 168 hours full-capacity trial operation on 31 August 2007 and 10 November 2007 respectively.

Coal-fired No. #3 and #4 units of phase III project of Guohua Zhunge'er of 2x330 MW successfully passed 168 hours full-capacity trial operation on 26 September 2007 and 30 September 2007 respectively.

Coal-fired No. #3 and #4 units of phase II project of Jinjie Energy construction of 2x600 MW passed 168 hours full-capacity trial operation on 1 May 2007 and 22 December 2007 respectively.

Phase II project of Sanhe Power, Phase III project of Guohua Zhunge'er Power and Phase II project of Jinjie Energy had all achieved desulfurisation synchronized production, while Phase II project of Sanhe Power also realised denitrification at the same pace.

In addition, the power segment of the Group acquired the entire equity interests in Shendong Coal and Shendong Power from Shenhua Group in August 2007, which increased the installed capacity of 324 MW and 347 MW respectively. Those two companies possessed 4 units with 540 MW using coal gangue for power generation, making comprehensive use of coal for enhancement of environmental protection.

Besides coal-fired power generation, the Group also operates a gas-fired power plant, Yuyao Power. The installed capacity of Yuyao Power at the end of 2007 was 780 MW, gross power generation was 296 million kwh and the on-grid power tariff was RMB396.6/kwh.

(3) Operation results of power segment

(a) Revenues

For the year ended 31 December 2007, revenues of power segment of the Group before elimination on consolidation was RMB24,387 million (2006: RMB17,381 million), representing an increase of 40.3%. The increase was mainly attributable to the increase in power output dispatch of the Group, as well as the impact of the implementation of “pass-through” policy which adjusted power tariff higher.

Power tariff of power plants

		2007	2006 (restated)
	Regional grid	Power tariff RMB/MWh	Power tariff RMB/MWh
Huanghua Power	North China Power Grid	295	299
Panshan Power	North China Power Grid	340	337
Sanhe Power	North China Power Grid	299	307
Guohua Zhunge'er	North China Power Grid	217	205
Beijing Thermal	North China Power Grid	375	377
Zhunge'er Power	North China Power Grid	176	170
Suizhong Power	Northeast Power Grid	302	297
Ninghai Power	East China Power Grid	363	347
Jinjie Energy	Northwest Power Grid	216	211
Shenmu Power	Northwest Power Grid	247	244
Taishan Power	South China Power Grid	382	371
Shendong Coal	Northwest Power Grid	216	220
Shendong Power	Northwest Power Grid	199	182
		<hr/>	<hr/>
Weighted average		321	312
		<hr/> <hr/>	<hr/> <hr/>

(b) Cost of revenues

For the year ended 31 December 2007, cost of revenues of power segment of the Group before elimination on consolidation was RMB16,753 million (2006: RMB11,461 million), representing an increase of 46.2% as compared with last year. The major reason of increase was mainly attributable to the increase of fuel consumption, the unit

cost surpassing the average level of the group and the rise of fuel price in power plants located in coastal region including Taishan Power, Ninghai Power and Huanghua Power. Moreover, the newly-added generation units brought about the increase of depreciation and new employees increased the labour cost.

Fuel cost and standard coal price of power plants

Operating power plants	Regional grid	2007		2006 (restated)	
		Fuel cost RMB/ MWh	Standard coal price RMB/ tonne	Fuel cost RMB/ MWh	Standard coal price RMB/ tonne
Huanghua Power	North China Power Grid	136	419	124	370
Panshan Power	North China Power Grid	134	405	122	369
Sanhe Power	North China Power Grid	133	403	119	367
Guohua Zhunge'er	North China Power Grid	77	233	69	214
Beijing Thermal	North China Power Grid	111	389	95	354
Zhunge'er Power	North China Power Grid	93	226	85	213
Suizhong Power	Northeast Power Grid	158	479	141	430
Ninghai Power	East China Power Grid	178	548	164	499
Jinjie Energy	Northwest Power Grid	67	191	82	238
Shenmu Power	Northwest Power Grid	61	154	58	147
Taishan Power	South China Power Grid	174	547	157	493
Shandong Coal	Northwest Power Grid	40	101	21	36
Shandong Power	Northwest Power Grid	68	154	60	127
Weighed average		140	431	132	386

(c) Profit from operations

For the year ended 31 December 2007, the profit from operations of power segment of the Group before elimination on consolidation was RMB5,875 million (2006: RMB4,496 million), representing an increase of 30.7%. During the same period, the operating margin of the power segment decreased from 25.9% to 24.1%. The decrease was mainly attributable to the decrease of the average utilization hours and the increase of fuel price.

(III) Consolidated results of operations

Notes to consolidated income statement

(1) Revenues

Revenues

	2007	2006	Percentage
		(restated)	change
Revenues	RMB million	RMB million	%
Coal revenues	55,741	45,948	21.3
Power revenues	23,922	17,056	40.3
Other revenues	2,444	2,182	12.0
	<u>82,107</u>	<u>65,186</u>	<u>26.0</u>
Total	<u><u>82,107</u></u>	<u><u>65,186</u></u>	<u><u>26.0</u></u>

For the year ended 31 December 2007, revenues of the Group was RMB82,107 million (2006: RMB65,186 million), representing an increase of 26.0%. The increase was mainly attributable to the increase in coal production and sales; new power generation units had been put into operation which resulted in an increase of power output dispatch. During the same period, the proportion of coal revenues to total operating revenues decreased from 70.5% to 67.9%, while the proportion of power revenues to total operating revenues increased from 26.2% to 29.1%.

In 2007, the total revenues from the top five customers of the Group was RMB21,549 million, representing 26.2% of total operating revenues of the Group.

(2) Cost of revenues

Cost of revenues

	2007	2006	Percentage
	RMB million	(restated) RMB million	change %
Coal purchased from third parties	10,719	6,935	54.6
Materials, fuel and power	6,276	3,764	66.7
Personnel expenses	3,960	2,677	47.9
Depreciation and amortisation	7,785	6,456	20.6
Repairs and maintenance	3,612	3,187	13.3
Transportation charges	6,845	6,259	9.4
Others	4,576	3,777	21.2
	<hr/>	<hr/>	<hr/>
Total	43,773	33,055	32.4
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

For the year ended 31 December 2007, cost of revenues of the Group was RMB43,733 million (2006: RMB33,055 million), representing an increase of 32.4%.

The main reasons for the increase were as follows:

- (a) Coal purchased from third parties increased significantly was mainly attributable to the increase of 46.6% in the volume of coal purchased from third parties and an increase of 7.9% in the price of coal purchased.
- (b) The increase in materials, fuel and power was mainly attributable to the increase in the consumption of spare parts, raw materials and fuel as a result of the extension of mining; the increase in railway transportation leading to an increase in the consumption of fuel; and the increase in power generations leading to an increase in coal purchased by the Group from third parties.

- (c) The increase in personnel expenses was mainly attributable to the increase in wages as a result of improved operational results of the Company, and the increase in the number of employees in coal mines and power plants.
- (d) The increase in depreciation and amortisation was mainly attributable to new power generation units had been put into operation, and the additions of equipment and mining structures following the technological innovation at Wanli Mines.
- (e) The increase in repairs and maintenance was mainly attributable to the increase in inspection and repairs of equipment in the power segment.
- (f) The increase in transportation charges was mainly attributable to the increase in the transportation volume by state-owned railways that resulted from the increase in the coal sales .
- (g) The increase in other expenses was mainly attributable to the increases in expenses for coal selection and blending as a result of fees increased in commercial coal production; the impact of relocation compensation fees and new government levies, such as sustainable development fund, environmental protection fund and coal mine conversion fund.

In 2007, the amount of purchases from the top five suppliers of the Group was RMB9,272 million, representing 16.4% of the total purchases for the year.

(3) Selling, general and administrative expenses

For the year ended 31 December 2007, selling, general and administrative expenses of the Group was RMB5,144 million (2006: RMB4,359 million), representing an increase of 18.0%. The increase was mainly attributable to the increase in personnel expenses and provision for diminution in value of inventories.

(4) Income tax

For the year ended 31 December 2007, income tax of the Group was RMB6,742 million (2006: RMB5,394 million), representing an increase of 25.0%. The increase was mainly attributable to the increase in profits, so that the tax expense increased corresponding the effective tax rate was slightly increased.

(5) Profit attributable to equity shareholders of the Company

For the year ended 31 December 2007, profit attributable to equity shareholders of the Company was RMB20,581 million (2006: RMB17,644 million), representing an increase of 16.6%.

Notes to consolidated balance sheet

(1) Property, plant and equipment

As at 31 December 2007, property, plant and equipment of the Group was RMB131,059 million (2006: RMB113,371 million), representing an increase of 15.6%. The main reasons for the increase were the completion of the Wanli Mines technological innovation project, completion of the construction of Jinjie Energy Phase project and new power generation units had been put into operation.

As at 31 December 2007, the proportion of property II, plant and equipment of the Group to total assets amounted to 54.8% (2006: 65.8%), representing a decrease of 11.0 percentage points.

As at 31 December 2007, the net book value of buildings accounted for 9.8% of the net book value of property, plant and equipment, the net book value mining of structure and mining rights account for 12.1% of the net book value of property, plant and equipment, the net book value of mining related machinery and equipment accounted for 13.0% of the net book value of property, plant and equipment, the net book value of generators and related machinery and equipment accounted for 34.3% of the net book value of property, plants and equipment, the net book value of railway and port transportation structures accounted for 29.0% of the net book value of property, plant and equipment, and the net book value of furniture, fixtures, motor vehicles and other equipment accounted for 1.8% of the net book value of property, plant and equipment.

(2) Construction in progress

As at 31 December 2007, construction in progress of the Group was RMB22,358 million (2006: RMB15,185 million), representing an increase of 47.2%. The increase was mainly attributable to the construction projects of Háerwusu open-cut mine in Zhunge'er Mines, Buérta mine in Wanli Mines and certain power projects which were underway.

As at 31 December 2007, the proportion of construction in progress of the Group to total assets amounted to 9.4% (2006: 8.8%), representing an increase of 0.6 percentage point.

(3) Inventories

As at 31 December 2007, inventories of the Group was RMB6,337 million (2006: RMB4,880 million), representing an increase of 29.9%. The increase was mainly attributable to the increase in spare parts for coal production.

As at 31 December 2007, the proportion of inventories of the Group to total assets amounted to 2.7% (2006: 2.8%), representing a decrease of 0.1 percentage point.

(4) Accounts and bills receivable

As at 31 December 2007, accounts and bills receivable of the Group was RMB6,642 million (2006: RMB5,277 million), representing an increase of 25.9%. The increase was mainly attributable to the increase in the revenue from the power segment, as the credit period in the power segment was longer than that of other segments.

As at 31 December 2007, the proportion of accounts and bills receivable of the Group to total assets amounted to 2.8% (2006: 3.1%), representing a decrease of 0.3 percentage point.

(5) Borrowings

Borrowings

	As at 31 December 2007 RMB million	As at 31 December 2006 (restated) RMB million
Short-term borrowings and current portion of long-term borrowings	10,196	16,392
Long-term borrowings, less current portion	49,718	42,427
Total borrowings	59,914	58,819
Less:		
Cash and cash equivalents	53,404	15,758
Time deposits with original maturity over three months	32	8
Net borrowings	6,478	43,053

As at 31 December 2007, the Group had RMB54,456 million of borrowings denominated in Renminbi, RMB5,144 million of borrowings denominated in Japanese Yen and RMB314 million of borrowings denominated in US Dollars.

(6) Capital structure

As at 31 December 2007, the gearing ratio (total liabilities/total assets) of the Group was 37.3% (2006: 48.2%), representing a decrease of 10.9 percentage points. The interest cover multiple (profit before interest and tax/interest expense) was 8.69 (2006: 9.10).

Notes to consolidated cashflow statement

As at 31 December 2007, cash and cash equivalents of the Group was RMB53,404 million (2006: RMB15,758 million), representing an increase of 238.9%.

Net cash generated from operating activities increased from RMB22,069 million for the year ended 31 December 2006 to RMB25,626 million for the year ended 31 December 2007, representing an increase of 16.1%. The increase was mainly attributable to the increase in revenues.

Net cash used in investing activities increased from net cash outflow of RMB27,558 million for the year ended 31 December 2006 to net cash outflow of RMB29,933 million for the year ended 31 December 2007, representing an increase of 8.6%. The increase was mainly attributable to the increase in capital expenditure and payment for acquisitions of subsidiaries.

Net cash from financing activities increased from net cash inflow of RMB312 million for the year ended 31 December 2006 to net cash inflow of RMB41,953 million for the year ended 31 December 2007. The increase was mainly attributable to the issuance of 1.8 billion A shares by the Group in 2007, the net proceeds of which amounted to RMB65,988 million.

IV PROFIT DISTRIBUTION PLAN PROPOSAL

According to the audited financial statement of China Shenhua Energy Company Limited for the year ended 31 December 2007, the distributable profit of the Company under PRC accounting rules and regulations and International Financial Reporting Standards amounted to RMB9,866 million and RMB12,631 million respectively, as at 31 December 2007.

In accordance with relevant laws and regulations and the articles of association, the Company adheres to the profit distribution policy that distributable profit shall be the lower of distributable profits under the PRC accounting rules and regulations and the International Financial Reporting Standards. Pursuant to such policy, the distributable profits of the Company as at 31 December 2007 was RMB9,866 million, including profit distributable to Shenhua Group and shareholders of H Shares amounting to RMB5,745 million. The Company resolved to declare a special dividend of RMB0.3176 per share or RMB5.745 billion in total to Shenhua Group and H Shareholders on 15 March 2008. Such special dividend was approved at the extraordinary general meeting on 24 August 2007. In addition, the Board of Directors proposed to distribute a final dividend of RMB0.18 per share or RMB3,580 million in total to all shareholders of both A Shares (including Shenhua Group) and H Shares, representing a distribution proportion (i.e. as a percentage of the Group's consolidated net profit for the second half year of 2007 attributable to shareholders of the Company of RMB9,960 million under the PRC accounting rules and regulations) of approximate 35.9%.

The Company held its annual Board meeting on 15 March 2008 to propose resolutions recommencing distribution of final dividend for approval at the 2007 annual general meeting to be held on 16 May 2008.

The register of members will be closed from 16 April 2008 to 15 May 2008 (both days inclusive). The special dividend and final dividend distributable to H Shareholders ("H Share Dividends") will be paid to H Share Shareholders whose names appear on the register of members on 16 April 2008. In order to qualify for attending the Annual General Meeting and receiving the dividends, all transfer documents in respect of H Shares must be lodged at our Share Register for H Shares at Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 15 April 2008.

Under relevant regulations of China Securities Depository and Clearing Corporation Shanghai Branch and according to the market practice adopted in dividend distribution for A shares, the Company will publish a separate announcement in respect of dividend distribution to holders of A Shares which, among others, will determine the record date and ex-rights date after the Annual General Meeting of 2007.

Other Disclosable Matters

Following to the resolution passed at the extraordinary general meeting held on 24 August 2007 and subject to the approval granted by relevant regulatory bodies in respect of the issuance of A Shares, the Board has authorized the directors to make special dividends of RMB22,544 million distributable to the holders of H Shares and Shenhua Group. The directors announced on 25 October 2007 that special dividends of RMB16.799 billion (RMB0.92863 per share) would be distributed to shareholders whose names appear on the H share register of members of the Company on Wednesday, 14 November 2007 and Shenhua Group. In respect of the remaining RMB5.745 billion, the Company will only distribute it after the audit of 2007 annual financial statements is completed and the Company's distributable reserve is sufficient for the planned distribution amount.

Purchase, Sale or Repurchase of Shares of the Company

For the year ended 31 December 2007, none of the Company and any of its subsidiaries had purchased, sold or repurchased any securities (as defined in the Hong Kong Listing Rules) of the Company.

V SIGNIFICANT EVENTS

(I) Material litigation and arbitration

As at the end of the reporting period, the Group was not involved in any material litigation or arbitration. As far as the Group was aware, the Group had no material litigation or claim which was pending or threatened against the Group. As at 31 December 2007, the Group was the defendant of certain non-material litigations, and also a party to certain litigations arising from the ordinary course of business. The likely outcome of these contingent liabilities, litigations or other legal proceedings cannot be ascertained at present, but the management of the Group believes that, any possible legal liability which may be incurred from the aforesaid cases will not have material adverse effect on the financial position of the Group.

(II) Acquisition and sale of assets, takeovers and mergers during the reporting period

1. On 30 June 2007, the Company entered into an agreement with Shenhua Group to acquire its 100% equity interests in Shendong Coal. The book value of the assets as at 31 December 2006 was RMB993 million and the appraised value was RMB1,169.90 million. The consideration of the acquisition was RMB1,169.90 million. On the same date, the Company also entered into another agreement with Shenhua Group to acquire its 100% equity interests in Shendong Power. The book value of the assets as at 31 December 2006 was RMB2,020 million and the appraised value was RMB2,158.60 million as at 31 December 2006. The consideration of this acquisition was RMB2,158.60 million. The purchase prices of the two acquisitions were determined based on appraised value and negotiation. These matters were published on the website of Hong Kong Stock Exchange on 2 July 2007. The Company will pay Shenhua Group an additional sum of RMB2.59 million, for the difference between net assets value of Shendong Coal and Shendong Power at completion and their estimated net assets value on the date of assessment. The completion of these acquisitions took place on 31 August 2007. These acquisitions were in line with the long term development strategy of the Company, and were beneficial to the increase of the Company's coal reserve, expansion in power output, improvement of operating efficiency of power generation, maintenance of the daily operation of the Company's key mines and reduction of operating costs. The net profits attributable to the Company by these two assets from the beginning to the end of this year were RMB114 million and 10 million respectively, representing 0.49% and 0.04% of the Company's net profit, respectively.
2. On 8 June 2007, the Company acquired 15% equity interests held by Liaoning Provincial Power Company in Suizhong Power. The consideration of the acquisition was RMB390 million, which was determined through tender process. This matter was published on South China Morning Post, Hong Kong Economic Times and the website of the Hong Kong Stock Exchange on 8 June 2007. The Company originally held 50% equity interests in Suizhong Power before the acquisition and holds 65% equity interests in Suizhong Power after the acquisition was completed. The net profits attributable by the assets to the Company from the date of purchase to the end of this year was RMB7.47 million, accounting for 0.03% of the Company's net profit.

3. On 8 June 2007, CLP Guohua, a subsidiary of the Company, acquired 15% equity interests held by North China Power Grid Co., Ltd. in Panshan Power. The consideration of the acquisition was RMB480 million, which was determined through tender process. The matter was published on South China Morning Post, Hong Kong Economic Times and the website of Hong Kong Stock Exchange on 8 June 2007. CLP Guohua held 50% equity interests in Panshan Power prior to the acquisition and holds 65% equity interests in Panshan Power after the acquisition was completed. The net profit attributable by the acquisition to the Company from the date of acquisition to the end of this year was RMB6.94 million, accounting for 0.03% of the Company's net profit.

VI CORPORATE GOVERNANCE REPORT

The Company has established its systems in relation to corporate governance practices in accordance with the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules of Hong Kong. The Company was in full compliance with the code provisions of the Code on Corporate Governance Practices and most of the recommended best practices as specified therein throughout the year ended 31 December 2007.

In the following aspects, the provisions of the code on corporate governance adopted by the Company are stricter than the code provisions of the Code on Corporate Governance Practices:

1. In addition to Audit Committee, Remuneration Committee and Nomination Committee the Company has set up Strategy Committee and Safety, Health and Environment Committee.
2. All the members of the Audit Committee are independent non-executive directors.

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 2007.

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 specialized 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.

Audit Committee

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 2007.

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. The audited results for 2007 have been reviewed by the Audit Committee.

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.

Nomination of Directors

The Board established a Nomination Committee on 7 July 2006. The Chairman is Mr. Chen Biting, and the members are Mr. Huang Yicheng, Mr. Anthony Francis Neoh and Dr. Chen Xiaoyue.

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.

VII FUTURE DEVELOPMENT STRATEGY AND BUSINESS PLAN

(I) Prospective of macro economic and industry environment in 2008

Looking into 2008, we expect that China economy will continue to grow rapidly, which will provide an excellent external environment for the business development of the Company.

- (1) From the perspective of the domestic coal market, rapid growth of the China economy in 2008 will lead to continuous strong demand for energy. Demand for coal from the main coal-consumed industries will remain robust. From the perspective of coal supply, the coal production capacity release in 2008 will be restricted due to the impact of the strict control on fixed asset investment by the state and the railway transportation bottleneck. It is expected that in 2008 the supply and demand for coal nationwide will be balanced, with volume and prices fluctuating at high levels. Supply will be limited in different areas for certain time periods and for certain product types while surpluses exist simultaneously due to the railway transportation bottleneck and seasonal factors. Due to the increase of policy-driven cost, it is possible that the coal price will rise further.

- (2) From the perspective of the Asia Pacific coal market, in 2008 the coal market in the Asia Pacific region will be robust, and supply will be tight. There is a growing trend in both coal consumption and import in the main importing countries, whereas Australia is restrained by transportation capability, and the coal supply from Indonesia is affected by the rainy season so that growth in the supply of coal will slow down. If we take the change of China's import and export into account, the coal supply in the Asia Pacific market will be tight. It is expected that in 2008 there will be seasonal tight supply over certain time periods so that spot coal prices will fluctuate at high levels and contract coal price is expected to increase year on year.

(3) From the perspective of the domestic power market, the domestic supply and demand of power in 2008 will be balanced and power shortage and surplus will exist simultaneously in certain areas for certain time periods. Situations of short supply of power in certain areas over certain periods will be alleviated further. From the perspective of geographical distribution, the power supply and demand in the power grids of Northern China and Eastern China will be balanced basically. Overall, there will be power surplus on the power grids in Central China, Northeastern China and Northwestern China. Power supply on the power grid in the south China tends to be tense. Tight supply of power will appear in certain regions such as Zhejiang and Guangdong.

(II) Business Plan and Business Strategy for 2008

The overall operational and development strategy of the Company is formulated around the theme of “to strengthen and expand, to attain glorious achievements” and to build a world- class leading integrated energy corporation. This strategy includes: to acquire high quality coal resources selectively, to maintain rapid growth in coal production, to expand the internal transportation network, to strengthen the management of customer relationship and marketing, to develop the power business selectively and to focus on the corporate social responsibility. The objective is to raise the core competitiveness of the enterprise through the above strategy to realize rapid and healthy expansion. The operational objectives of the Company in 2008 are: to maintain coordination and rapid development of businesses of the Company in various segments and to maintain the steady growth of profit. The Company’s output of commercial coal amounted to 177 million tonnes, representing an increase of 12.0% as compared with 2006. The sales volume of coal amounted to 224 million tonnes, representing an increase of 7.1% as compared with 2006. Gross power generation for the year amounted to 97.8 billion kwh, representing an increase of 22.6% as compared with 2006.

In order to realize above-mentioned targets, the group attaches great importance to the following strategies:

- (1) To accelerate the business development. Firstly the Group is to speed up the progress of existing projects.

We shall actively strive for the granting of approvals of new resources and new mines, and complete properly procedures for the examination, approval and obtaining of certificates and licenses at the initial stage of projects. Secondly we will handle with investment property and coordinate the scale of development of various business segments. Thirdly we shall select high quality domestic coal, railway, port and power projects which are attractive to the market and pursue mergers and acquisitions actively while developing overseas projects in a prudent manners to expand the Company's scope of development.

- (2) Strengthen operational management, achieve cost reduction and increase operational efficiency.

Related to the business aspects of the coal and transportation segments, the group will maintain stable and rapid growth of existing mines and organised coal production of all mines to achieve the productive target; the group will expand the transportation capacity of existing railway and port, enhance capacity expansion and accelerate the construction of new rail lines. For the power segment, we will seek to carry out inspection and maintenance of generation units to ensure their steady and economic operation, do our best to lower operating costs to overcome the pressure on costs brought by factors such as environmental protection policy, positively react to challenges posed by on-grid tariff bidding and energy conservation dispatching, and strive for higher average utilization hours of the Company than the national average level.

In terms of financial management, firstly the Company will seek to actively promote the establishment of a strategic financial system, to strengthen the accuracy and forecast capability of periodic financial reports, to enhance the supportive function of financial decision making, to actively promote centralized management of funds and to continuously raise the controlling power exercised by the Company. Secondly the Company will further strengthen the management of cost planning, to strictly control unbudgeted expenses and to lower controllable costs.

In terms of sale strategy, we shall seek to adjust the form of sale contracts, implement the price bargaining mechanism actively and increase coal price appropriately. We shall also actively react to the challenges posed by on-grid tariff bidding and energy conservation dispatching so as to obtain favorable on-grid tariff in the power market.

- (3) To regulate the enterprise's operations and enhance the corporate governance of the Company. The Company will seek to accelerate the improvement on the workflow and reform of management, to refine management and standardized management so as to increase the overall control on the Company. We will provide the establishment of a strategic financial system on a trial basis to spearhead innovations in our systems and mechanisms, and to strengthen the establishment of internal controls for the prevention of risks. In 2008 the Company will seek to actively focus on the establishment of internal control systems in subsidiaries and branches, and implement the requirements of the Internal Control Manual and Self Assessment Manual.

VIII CAPITAL EXPENDITURE

Actual and planned capital expenditure

	Actual in 2007 (Note) RMB million	Percentage to total %	Plan in 2008 RMB million	Percentage to total %
Coal segment	15,823	52.7	13,840	34.8
Railway segment	2,960	9.8	7,680	19.3
Port segment	504	1.7	1,170	2.9
Power segment	10,703	35.6	16,860	42.4
Corporate and others	61	0.2	230	0.6
	30,051	100.0	39,780	100.0
Total	30,051	100.0	39,780	100.0

Note: exclusive of the payment for lease prepayments amounted to RMB936 million.

In 2008, the Company will adopt a proactive attitude in striving to obtain more strategic resources. In 2008, our priority on capital expenditure investment is the principle of capital expenditure for the company to adhere to is to ensure the continuation of investment in existing projects, and supplement this with obtaining approval from the state and the Company for new projects.

Key points for capital expenditure in 2008:

- (1) To continue to improve the mine construction and technological transformation of mines already in operation, to focus on the mining and construction of mines and to attain the approval of new resource and new mines.
- (2) To speed up the technological improvement and transformation of existing railways, to raise the transportation capacity of railways while speeding up the construction of new railways, to use trains with a capacity of 10,000 tonnes, and new equipment such as C80 and high powered locomotives, with emphasis on resolving the bottlenecks issue of Shenshuo railway.
- (3) To capture opportunities in the selection and construction of high quality power plant location, and to adopt an appropriately tight principle on power projects.

The current plans of the Group in relation to capital expenditures in the future are subject to the development of the business plans of the Company, the progress of the investment projects of the Group, market conditions, the future prospect of the business environment of the Group, and requisite permissions and regulatory approvals. Save as required by laws, the Group do not assume any responsibility to update the disclosures on capital expenditure plans. The Group intends to meet its demand for capital with cash generated from operation activities, short-term and long-term loans, some of the proceeds from the initial public offering of A Shares and other debt and equity facilities.

IX MAJOR RISKS OF THE COMPANY

1. Risk of macroeconomic cyclical fluctuation

In retrospect, we can see that the development of our national economy is characterized with cyclical fluctuation. The coal and power industry, to which the company belong, are the fundamental stone for the national economy. The development of these industries is highly correlated to the prosperity of the national economy. When the economy develops rapidly, it stimulates the growth of coal and power consumption; on the contrary, when the economy declines, it will suppress the growth in the consumption of coal and power, which in turn affects the performance of the Company and brings risk to the production of the Company to certain extent.

2. Risk of competition in the coal and power industry

Competition in the coal industry is manifested in many aspects, which mainly include: the condition of coal reserves, quality and type of coal, production efficiency and cost, capacity in coal blending, brand name and service. The Company's coal business faces competition posed by other coal producers both in the domestic and international markets. In the domestic market, some rivals are located close to the coast so that they have lower cost of transportation when they transport coal to the target markets and hence enjoys competitive advantage. Besides, small coal mines in certain regions also have cost competitive advantage as they invest less in safety measures. Domestic coal producers are still competing with the Company in obtaining resources. In the international market, some overseas competitors have competitive advantages over the Company in respect of market channels and brands.

The Company's power business is mainly competing with domestic power generation companies. Our main competitors include the five major power generation corporations in China and some domestic independent power vendors. The total installed capacity of the five major domestic power corporations accounted for 39.1% of the total installed capacity of the country in 2006. In comparison, the Company's scale of power operation is relatively small, which may set the Company in a disadvantaged position in the competition for the right to develop new projects. Besides, there is serious competition among power plants for favourable dispatch in power generation volume and higher on-grid power tariff, if the Company does not put enough efforts in competition, business development may be restricted, while revenue and earning capacity will also be adversely affected. In addition, in future, if the government canceled the approval of on-grid power tariff and the system of dispatching plan for power on-grid and applied on-grid power tariff bidding into practice, the bidding on-grid power generation and power tariff may be lower than the corresponding planned ones. If on-grid power tariff bidding is implemented throughout the country, it will accelerate the price competition among domestic power generation companies.

3. Risk of insufficient transport capacity

Besides self owned railways and the port transport system, the Company also transport some coal through external railway and port systems. At present, the external railway and ports are still unable to meet all the transport demands of domestic coal. The Company has experienced delay in the process of transportation of coal by using external transportation systems. The Company cannot guarantee that similar delay will not occur in the future.

4. Risk of cost increase

The cost of revenues of the Company shall increase with expansion in production and sales, including coal selection and mine excavation fees, expenditure for coal mining services, sales tax and ancillary levy, environmental protection expenses, resource compensation fee, raw materials, fuel and power, labour cost, increase in the quantity of coal transported by state owned railways, sundry port charges and ocean freight etc. If the Company's operating income cannot fully offset the increase in costs, it may have adverse impact on the operating results of the Company. Besides, the government is carrying out sustainable development policy in Shanxi province as a trial basis, and implemented the use of resources for compensation, which entail the levy of sustainable fund, reinhabitation fund and reemployment fund. If the government enforces these measures across the whole country, the Company's production cost will increase further. In the meanwhile, the government is promoting the change of resource tax from the "levy based on volume" to "levy on price". If this policy is enforced, the resource tax rates will be increased which will raise cost and affect the business performance of the Company.

5. Environmental protection responsibility

The Group has been carrying on operations in China for many years. Environmental protection laws and regulations are fully enforced in China, which has impact on the coal operation and power businesses. At present, it is not possible to guess what will be the future legislation on environmental protection, but they may have significant impact on the Group. However, according to the existing legislation, the senior management of the Group thinks that currently there does not exist any environmental protection responsibility that may have material adverse effect on the Group's financial position that has not been taken into account in the financial statements.

6. Risk brought by adjustments in loan interest rates.

In 2008 the central government will implement steady fiscal policy and tight monetary policy in response to domestic and international economic situation and the requirements of macroeconomic control. Therefore the scope for interest rate to increase is substantial in 2008. Rise of interest rates for loans will increase the interest expenses of the Company.

7. Foreign exchange risk

The business operations of the Group are subjected to the impact of foreign exchange movements in Renminbi. In 2007, exchange gain on foreign currency liabilities for the year was RMB440 million, while the reduction of export income due to the impact of foreign exchange was RMB446 million; the amount of equipment cost saved in the year due to the impact of foreign exchange was RMB119 million. To sum up the above factors, the amount of income to the Company generated by foreign exchange movements in 2007 was RMB129 million. If the exchange rate of Renminbi increase or decrease further, it will affect the Company's profit or loss for the period.

At present, there is a lack of financial tools for the hedging of foreign exchange risk in the country, which to certain extent restrained the capability of the Company in managing foreign exchange risks.

8. Group insurance

In accordance with the Group's understanding of conventions in the China coal industry, for the year ended 31st December 2007 the Group has purchased insurance for part of its property, equipment or inventory. The Group has purchased insurance policy for business disruption and third party liability for personal injury or environmental damage that arise from accidents in relation to the Group's premises or certain power plants and vehicles in relation to the Group's businesses. As for the transportation business, the Group has purchased property insurance for trucks and car insurance for Huanghua Port. In addition, the Group has purchased policies for employee accident, medical, third party liability and unemployment insurances, and has complied with relevant regulations.

The Group has purchased insurance for all power plants operated by us, including insurances for property, loss of profit, plant and equipment, labor injury and third party liability. The Group will continue to review and assess its own risk portfolio, and make necessary and appropriate adjustments to the Group's insurance acts in accordance with the needs of the Group and convention of the insurance industry in China.

Publication of Annual Report on the Internet Website of the Stock Exchange of Hong Kong Limited

The 2007 annual report will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

The 2007 annual report, which contains consolidated financial statements for the year ended 31 December 2007, with an unqualified auditor's report, will be despatched to shareholders as well as made available on the Company's website at *http://www.csec.com*.

By order of the Board
China Shenhua Energy Company Limited
Huang Qing
Secretary to Board of Directors

Beijing, 17 March 2008

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