



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

Chen Biting Chairman

Dear Shareholders,

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

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

Outstanding Performance

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



Kangjatan mine at Shendong Mines

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

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

A World-class Coal Business

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

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

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

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

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

Unique Self-owned Transportation System

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

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

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

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

Highly Efficient and Rapidly-developing Power Operations

We have been proactive in developing our clean coal-fired power operations to complement our coal operations. As at 31 December 2006, we controlled and operated 11 coal-fired power plants with a total installed capacity of 11,960 MW, representing a year-on-year increase of 82.3%.

These power plants are mainly located at our mines, along our railways and in regions where the economy is developed and the demand for power is strong, such as Beijing-Tianjin-Tanggu Region, Guangdong Province and Zhejiang Province.

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

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

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

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

Outlook

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

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

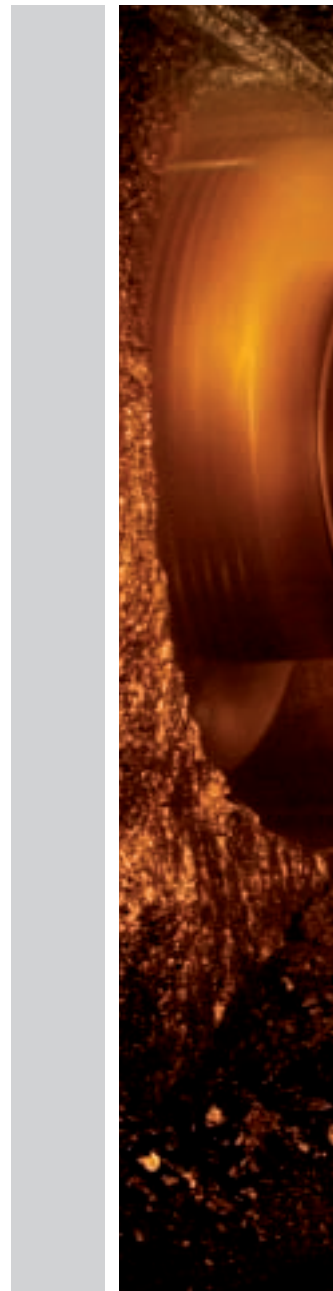
We will encounter both opportunities and challenges in 2007. The Board and myself will continue to strive to promote the smooth and rapid development of China Shenhua, so as to achieve a steady and favourable return for our shareholders!



Chen Biting
Chairman

Beijing, China
23 March 2007

Flourishing World Class Coal Operations



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

A photograph of an underground coal mine tunnel. The scene is dimly lit with warm, yellowish light from overhead lamps. The ceiling is supported by a complex network of metal beams and cables. The floor is uneven and appears to be covered in coal dust or debris. The perspective is looking down a long, narrow tunnel that recedes into the distance.

Coal Business Development

Better
and Faster