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

Annual Report 2007

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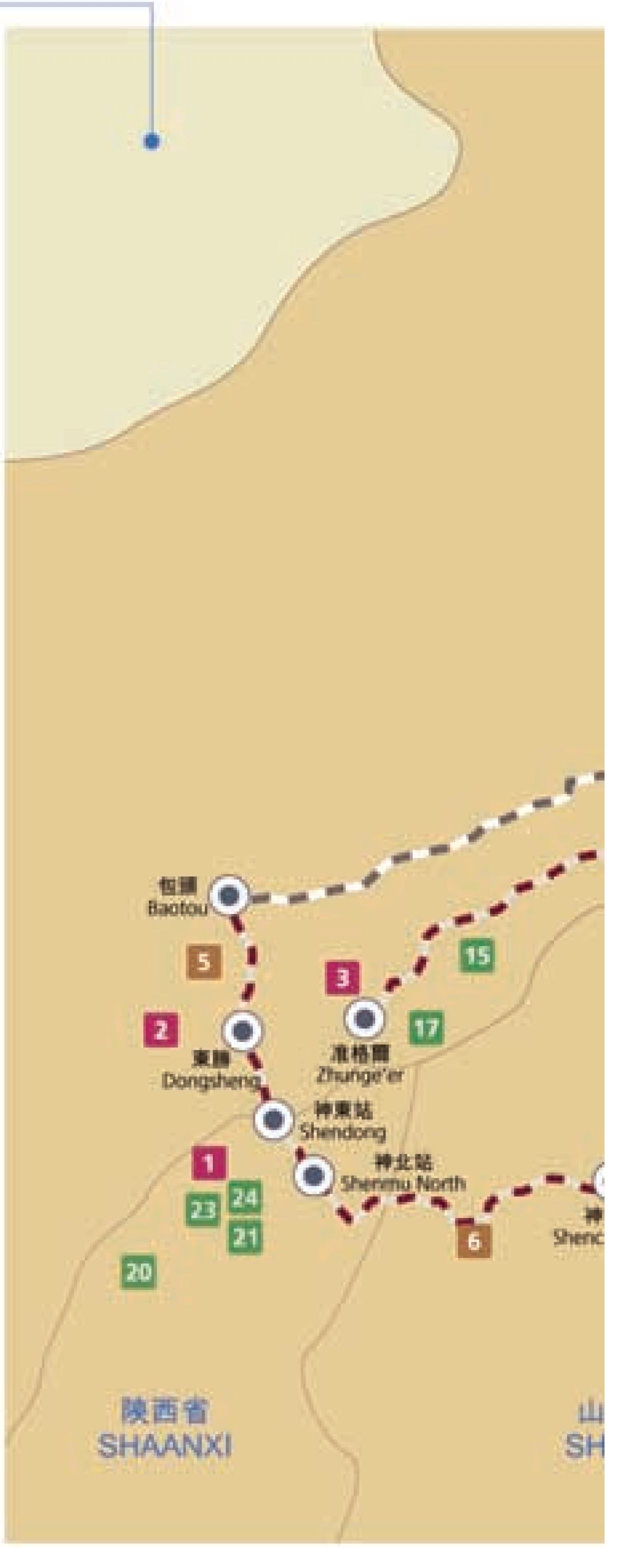


煤礦
Coal Mine

1. 神東礦區
Shendong Mines
2. 萬利礦區
Wanli Mines
3. 准格爾礦區
Zhunge'er Mines
4. 勝利礦區
Shengli Mines

鐵路
Railway

5. 包神鐵路
Baoshen Railway
6. 神朔鐵路
Shenshuo Railway
7. 朔黃鐵路
Shuohuang Railway
8. 大准鐵路
Dazhun Railway
9. 黃萬鐵路
Huangwan Railway

港口
Port

10. 黃驊港
Huanghua Port
11. 神華天津煤碼頭
Shenhua Tianjin Coal Dock

電廠
Power

12. 黃驊電力
Huanghua Power
13. 盤山電力
Panshan Power
14. 三河電力
Sanhe Power
15. 國華准格爾
Guohua Zhunge'er
16. 北京熱電
Beijing Thermal
17. 准能電力
Zhunge'er Power
18. 綏中電力
Suizhong Power
19. 寧海電力
Ninghai Power
20. 錦界能源
Jinjie Energy
21. 神木電力
Shenmu Power
22. 台山電力
Taishan Power
23. 神東電力
Shendong Power
24. 神東煤炭
Shendong Coal

國有鐵路
State-owned Railway

自有鐵路
Self-owned Railway

地名
Place

註：於2007年12月31日之分佈圖，僅供示意用途。
Note: This map as at 31 December 2007 is for illustrative purpose only.

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

Cover Story

"Clean Coal" and "Green Environment" are the themes for China Shenhua Energy Company Limited's annual report this year.

Today, coal has an important role in satisfying the world's growing appetite for energy. As a leader in the industry, we develop valuable coal energy and generate returns in a responsible and environmental friendly manner, and through which, we have established a leading example in the industry. Since the environment is important to us all, how coal is used is an important matter. Our goal is to contribute to a better future on basis of a safe and efficient production environment.

Contents

Important notice

The board of directors, supervisory committee and the directors, supervisors and senior management of China Shenhua Energy Company Limited (the "Company") warrant that this report does not contain any misrepresentation, misleading statements or material omissions, and jointly and severally accept full responsibility for the authenticity, accuracy and completeness of the information contained in this report.

All directors of the Company have attended meetings of the board of directors.

KPMG Huazhen and KPMG have issued standard unqualified audit reports to the Company in accordance with China's Auditing Standards and Hong Kong Standards on Auditing, respectively.

Mr. Chen Biting, Chairman of the Company, Ms. Zhang Kehui, Chief Financial Officer and the person in charge of accounting affairs of the Company, and Mr. Hao Jianxin, General Manager of Accounting and the person in charge of the accounting department of the Company, warrant the authenticity and completeness of the financial statements in this annual report.

Company Profile

1. Statutory Chinese Name: 中國神華能源股份有限公司
   Abbreviation: 中國神華
   English Name: China Shenhua Energy Company Limited
   Abbreviation: CSEC

2. Legal Representative: Chen Biting

3. The Secretary to the Board of Directors: Huang Qing
   Tel: (010) 5813 3399
   Fax: (010) 8488 2107
   E-mail: 1088@csec.com
   Contact Address: 4th Floor, Zhouji Tower, 16 Ande Road, Dongcheng District, Beijing, China
   Representative of Securities Affairs: Chen Guangshui
   Tel: (010) 5813 3355
   Fax: (010) 8488 2107
   E-mail: 1088@csec.com
   Contact Address: 4th Floor, Zhouji Tower, 16 Ande Road, Dongcheng District, Beijing, China

4. Registered Address: 22 Andingmen Xibinhe Road, Dongcheng District, Beijing, China
   Office Address: 4th Floor, Zhouji Tower, 16 Ande Road, Dongcheng District, Beijing, China
   Post Code: 100011
   Website: http://www.csec.com or
   http://www.shenhuachina.com
   E-mail: 1088@csec.com

5. Newspapers for Information Disclosed: China Securities Journal (A Shares) and Shanghai Securities News (A Shares)
   Internet website designated by China Securities Regulatory Commission for publishing A Shares annual report:
   http://www.sse.com.cn
   Internet website designated by The Stock Exchange of Hong Kong Limited for publishing H Shares annual report:
   http://www.hkex.com.hk
   Annual report available at:
   Investor Reception Room, 4th Floor, Zhouji Tower, 16 Ande Road, Dongcheng District, Beijing, China

6. A Shares Listed in: Shanghai Stock Exchange
   Stock Short Name for A Shares: 中國神華
   Stock Code for A Shares: 601088
   Listing Date: 9 October 2007
   H Shares listed in: The Stock Exchange of Hong Kong Limited
   Stock Short Name for H Shares: 中國神華
   Stock Code for H Shares: 1088
   Listing Date: 15 June 2005

7. Registration Number of Corporate Business License: 1000001003928
   Tax Registration Number: Jing Guo Shui Dong Zi No. 110101710933024;
   Di Shui Jing Zi No. 110101710933024000
   Organisation Code: 71093302-4

8. Other Information
   Date of first business registration: 8 November 2004
   Location of first business registration: Beijing

9. PRC Auditor: KPMG Huazhen
   Office address of PRC Auditor:
   8th Floor, Office Tower E2, Oriental Plaza, 1 East Chang An Avenue, Beijing
   International Auditor: KPMG
   Certified Public Accountants
   Office address of International Auditor:
   8th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong

10. Joint Company Secretaries
    Huang Qing, Ng Chai Ngee (Hong Kong Practising Solicitor)

11. Authorised Representatives
    Ling Wen, Huang Qing

12. Investor Contacts
Investor Relations Department, China Shenhua Energy Company Limited
Address: 4th Floor, Zhouji Tower, 16 Ande Road, Dongcheng District, Beijing, China
Post code: 100011
Tel: (010) 5813 3399 or (010) 5813 3355
Fax: (010) 8488 2107
E-mail: ir@csec.com or 1088@csec.com

13. Legal Advisers
PRC Legal Adviser
King & Wood
Address: 31st Floor, Tower A, Jianwai SOHO, 39 Dongsanhuan Zhonglu, Chaoyang District, Beijing, China
Hong Kong Legal Adviser
Herbert Smith
Address: 23rd Floor, Gloucester Tower, 15 Queen's Road, Central, Hong Kong

14. Hong Kong Representative Office
Address: Unit B, 60th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong

15. Domestic Share Registrar and Transfer Office
China Securities Depository and Clearing Corporation Limited Shanghai Branch
Address: 36th Floor, China Insurance Building, 166 Lu Jia Zui Dong Lu, Pudong New Area, Shanghai

16. Hong Kong Share Registrar and Transfer Office
Computershare Hong Kong Investor Services Limited
Address: Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

17. Principal Bankers
Industrial and Commercial Bank of China Limited, China Construction Bank Limited, Bank of China Limited and Bank of Communications Co., Ltd.

Results Highlights

Operational

		2007	2006 (restated)	Percentage change %
Commercial coal production	(Million tonnes)	**158.0**	136.6	15.7
Coal sales	(Million tonnes)	**209.1**	171.1	22.2
of which: Export	(Million tonnes)	**24.0**	23.9	0.4
Turnover of coal transported by self-owned railways	(Billion tonne km)	**116.7**	99.0	17.9
Seaborne coal	(Million tonnes)	**130.3**	117.7	10.7
of which: Huanghua Port	(Million tonnes)	**81.2**	79.2	2.5
Shenhua Tianjin Coal Dock	(Million tonnes)	**19.2**	1.6	1100.0
Gross power generation	(Billion kwh)	**79.74**	57.86	37.8
Total power output dispatch	(Billion kwh)	**74.35**	53.91	37.9
As at 31 December				
Recoverable coal reserve (under PRC standard)	(Million tonnes)	**11,482**	9,099	26.2
Marketable coal reserve (under JORC standard)	(Million tonnes)	**7,320**	5,957	22.9

Financial (under International Financial Reporting Standards)

	2007	2006 (restated)	Percentage change %
Per share (RMB)			
Earnings per share	**1.110**	0.975	13.8
Equity attributable to equity shareholders per share[1]	**5.38**	3.59	49.9
Final dividend for the year[2]	**0.18**	0.34	N/A
For the year (RMB million)			
Revenues	**82,107**	65,186	26.0
Profit for the year	**24,037**	20,523	17.1
Profit attributable to equity shareholders of the Company	**20,581**	17,644	16.6
As at 31 December (RMB million)			
Total assets	**239,038**	172,360	38.7
Total liabilities	**89,234**	83,129	7.3
Total equity	**149,804**	89,231	67.9
of which: equity attributable to equity shareholders of the Company	**129,788**	69,784	86.0

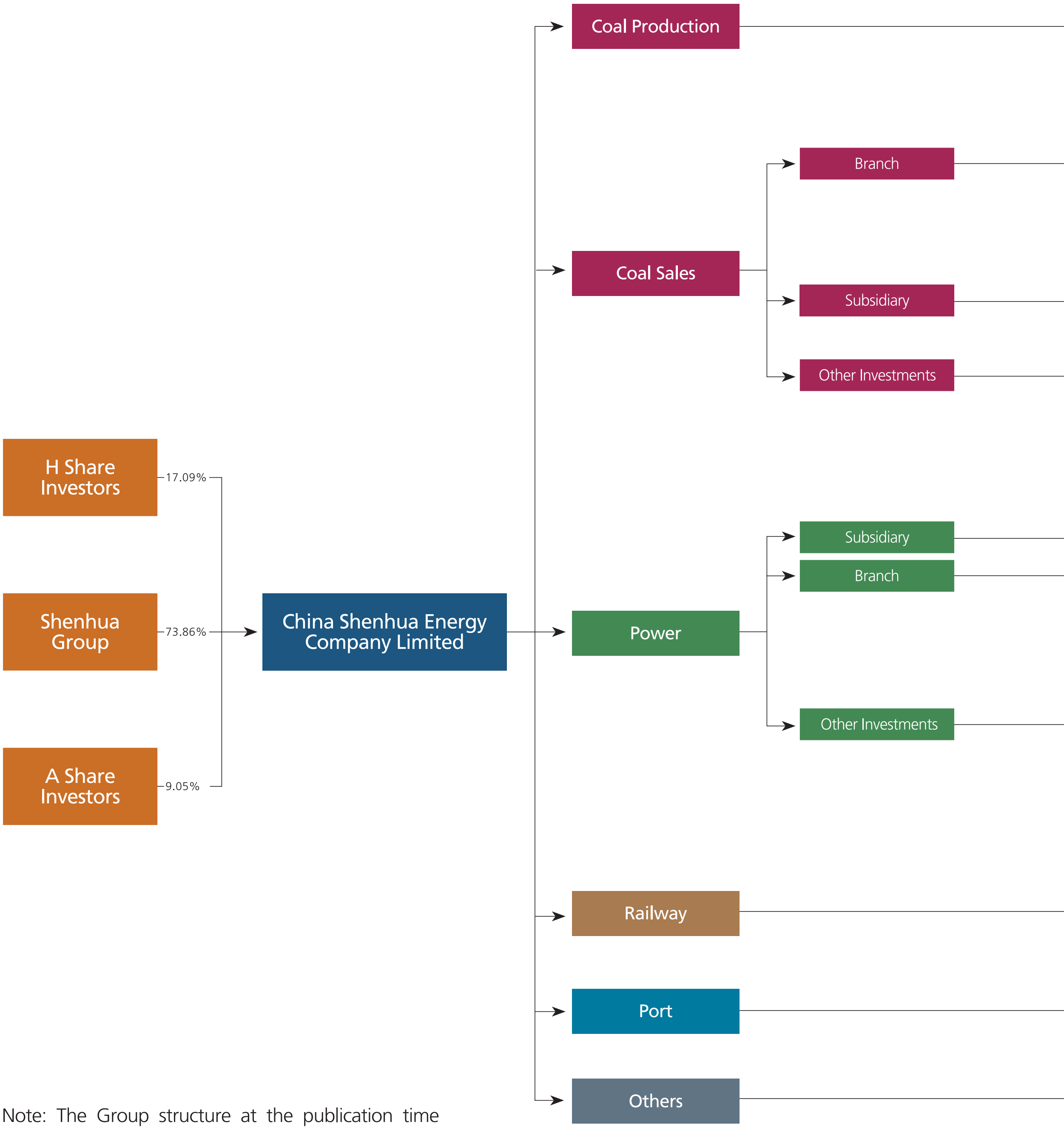
Notes: (1) Equity attributable to equity shareholders per share was calculated on the basis of the average net assets attributable to equity shareholders of the Company and the weighted average number of shares of the Company in relevant years;

(2) Refers to the final dividend for year 2006 and final dividend proposed by the board of directors for 2007 only, excluding the special dividend declared for 2007 in an aggregate amount of RMB22,544 million.

In this report:

- The "Group", "Company", "China Shenhua", "we", "us" or "our" means China Shenhua Energy Company Limited, a joint stock limited company established in the PRC on 8 November 2004, and unless otherwise specified in the context, includes its subsidiaries;
- Coal production figures are quoted in tonnes of commercial coal, unless otherwise specified;
- All prices are quoted exclusive of value-added tax, unless otherwise specified;
- All financial indicators are denominated in RMB, unless otherwise specified;
- The China Accounting Standards for Business Enterprises refer to the Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the Peoples' Republic of China; and
- This report is prepared in Chinese and English respectively. In case of discrepancies, the Chinese version shall prevail.

Group Structure



Note: The Group structure at the publication time of the 2007 Annual Report is for illustrative purposes only and the English names are for identification purposes only.

- China Shenhua Shendong Coal Branch
- China Shenhua Wanli Coal Branch
- China Shenhua Jinfeng Coal Branch
- 57.76% Shenhua Zhunger'er Energy Co. Ltd.
- Ha'erwusu Coal Brach
- 63.19% Shenhua Beidian Shengli Energy Co. Ltd.
- Shengli Energy Branch

- Dongsheng Coal Transport Branch
- Zhunge'er Coal Transport Branch
- Baotau Coal Sales Branch
- Guangzhou Coal Sales Branch

- 80% Shenhua Changyun High Technology Coal Blending Co. Ltd.
- 100% Beijing Shenhua Hengyun Energy Technology Co. Ltd.
- 90% Shenhua Shanghai Coal Trading Co. Ltd.
- 100% Gang Hua International Energy Limited
- 65% Shenhua Inner Mongolia Coal Transportation & Sales Corporation

- 33.3% Beijing Shenhua Tongmei Clean Coal Co. Ltd.
- 50% Zhuhai New Century Shipping Co. Ltd.
- 43.83% Tianjin Yuanhua Shipping Co. Ltd.
- 20% Huanghua Overseas Ship Proxy Co. Ltd.

- 100% Beijing Thermal Branch
- 65% Tianjin Guohua Panshan Power Generation Co. Ltd.
- 55% Sanhe Power Co. Ltd.

- 40.5% Hebei Guohua Dingzhou Power Co. Ltd.
- Guohua Huizhou Thermal Power Branch

- 20% Zheijiang Jiahua Power Co. Ltd.
- 10% Nothern United Power Co. Ltd.
- 40% Inner Mongolia Menghua Haibowan Power Co. Ltd.
- 30% Inner Mongolia Menghua Wuhai Power Co. Ltd.
- 30% Inner Mongolia Jingda Power Co. Ltd.
- 30% North China Power Technology Institute Co. Ltd.

- 51% CLP Guohua Power Co. Ltd.
- 65% Inner Mongolia Guohua Zhunge'er Power Generation Co. Ltd.
- 60% Zhejiang Guohua Zheneng Power Co. Ltd.
- 51% CLP Guohua Shenmu Power Co. Ltd.
- 80% Guangdong Guohua Yuedian Taishan Power Co, Ltd.
- 51% Hebei Guohua Cangdong Power Co, Ltd.
- 75% Beijing Guohua Jiedi Dongli Technical Service Co. Ltd.
- 80% Zheijiang Guohua Yuyao Gas-fired Power Co. Ltd.
- 60% Zhuhai Guohua Huidafeng Wind Energy Development Co. Ltd.
- 65% Suizhong Power Co. Ltd.
- 19.57% Beijing Guohua Electric Technology Research Centre Co. Ltd.
- 70% Beijing Guohua Logistics Co. Ltd.
- 70% Shaanxi Guohua Jinjie Energy Corporation
- 65% Tianjin Guohua Jinneng Power Co. Ltd.
- 55% Jiangsu Guohua Chenjiagang Power Co. Ltd.

- China Shenhua Rolling Stock Branch
- 52.7% Shouhuang Railway Development Co. Ltd.
- China Shenhua Shenshuo Railway Branch
- 88.16% Shenhua Baoshen Railway Co. Ltd.

- 70% Shenhua Huanghua Harbor Administration Co. Ltd.
- 55% Shenhua Tianjin Coal Dock Col. Ltd.

- 21.43% Shenhua Finance Co. Ltd.
- 100% Shenhua Group Shenfu Dongsheng Coal Co. Ltd.
- 100% Shenhua Shendong Power Co. Ltd.

Chen Biting
Chairman

Chairman's Statement

Dear Shareholders,

If you held H shares of China Shenhua throughout 2007, you would be delighted to find that your investment generated returns of 149%, outperforming by more than 2.7 times the growth of the Hang Seng China Enterprises Index over the same period. In 2007 China Shenhua issued 1.8 billion A shares listed on Shanghai Stock Exchange. By the end of 2007, the market capitalization of the Company reached US$168.4 billion, an increase of 3.87 times more than that of 2006. In terms of market capitalization, the Company is ranked first among listed companies in the coal sector and second in the mining sector globally. I think this fully demonstrates the recognition by investors of the enterprise value and market position of China Shenhua as a prime blue chip company. I am deeply grateful for the long-term support from our shareholders to the Company.

Behind such outstanding market performance, it is a moving story of an entire team at Shenhua dedicated to high quality management and pursuit of corporate aspiration. The board of directors ("Board") and I are pleased to note that, based on financial results prepared in accordance with International Financial Reporting Standards ("IFRSs"), the operating revenue of China Shenhua increased from RMB39.820 billion in 2004 to RMB82.107 billion in 2007, representing a compound annual growth rate of 27.3%. Profit attributable to equity shareholders of the Company increased from RMB8.942 billion to RMB20.581 billion, a compound annual growth rate of 32.0%. Net cash generated from operating activities increased from RMB18.934 billion to RMB25.626 billion, representing a compound growth rate of 10.6%. These key indicators show that China Shenhua is a reliable long term energy investment with substantial income, steady finance and sustainable growth.

On behalf of the Board, I am delighted to present the 2007 annual report and report on the Company's performance for the year.

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.

We have an outstanding and talented team. We are dedicated to building an enterprise with a corporate culture that meets the expectation of long-term investors. We respect performance and talents, and at the same time we fully understand that only by continuous training, quality improvement, and the building of a harmonious team can we create long-term value for shareholders. In 2007, we continued to strengthen on these initiatives by enhancing the cohesiveness of the team, improving the individual's business quality and innovation, enriching of our corporate culture and enhancing the relationship between employees and the vision of China Shenhua.

In recent years, the coal industry of China has developed towards the market-oriented, scale-building and sustainable development, which provide significant opportunities for China Shenhua. In 2007, the coal consumption in China continued to be strong, and the supply and demand of coal was basically balanced. The coal price throughout 2007 increased rapidly.

Looking into the year ahead, we expect the China economy to continue its growth in a rapid pace. Continuous development of the key coal consuming industries (including power, steel, construction materials and chemical industries) will raise the demand for coal. Generally, in 2008, we expect that the momentum in the coal market of China in 2007 will be maintained, with the supply and demand for coal basically balanced and sales volume and price fluctuating at high levels.

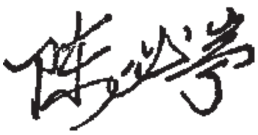
From an international perspective, we expect that the world economy will continue to maintain its growth momentum and the global coal demand will continue to be strong in 2008. In 2008, we expect that the supply will be insufficient to meet the demand. Coal supply will be tight in certain seasons and period, spot price will maintain its high momentum with fluctuation, and contract price will increase compared with that of 2007.

In the long run, with a coal price market mechanism established in China, we expect that coal price will stand at a reasonable value reflecting the scarcity of coal. Furthermore, high energy prices (as represented by petroleum) in recent years indicate that the global markets has entered an age of high energy prices. Large increase of price in petroleum and gas provides room for increase of coal price. The development of coal liquefaction and coal chemical industry has led to a re-examination of the value of coal resources.

In recent years, the coal industry has been in a transition period from industrial consolidation towards capital consolidation. The government has been determined to enhance coal consolidation by encouraging large-scale coal producers to acquire small ones. As for China Shenhua, the reform presents more opportunities than challenges. As a leader in the industry, in addition to accelerating self-improvement and expansion of production capacity, China Shenhua will use proceeds raised in the initial public offering of A shares to acquire strategic assets and consolidate resources in accordance with industrial policies. In addition, the Company will seek to seize more market share and improve competitiveness through mergers and acquisitions.

In the coming years, the Company seeks to strengthen its foothold in China and positively implement its "Go Global" strategy. The Company will, by international merger, acquisition and joint equity venture, obtain reserves of scarce resources and develop its international business with the objective of consolidating and raising the Company's leading position in the international coal industry. Through the diversification of operating regions, the Company will strengthen its core competitiveness and achieve sustainable development of the Company, fully realising the synergies between overseas and domestic markets and spreading operational risks.

In the coming year, China Shenhua will continue to develop its coal, railway, port and power businesses, implement its merger and acquisition strategy and gradually attain its ultimate goal to "strengthen, expand and achieve spectacular splendid achievement". The Company will actively perform its social responsibility, pay attention to production safety and environmental protection, and promote economic growth to achieve harmonious co-development of human and nature as well as corporate and society. At the same time, the Company will strictly adhere to the standard of domestic and international capital markets, voluntarily accept supervision by regulatory authorities, and further enhance corporate governance to bring higher returns for its Shareholders.



Chen Biting
Chairman
Beijing, China

15 March 2008

Major Financial Data and Indicators

Unless otherwise specified, financial data and indicators in this section are prepared under with the China Accounting Standards for Business Enterprises.

(I) Major Financial Data for the Reporting Period

Unit: RMB million

Items	Amount
Operating profit	29,959
Profit before income tax	29,629
Net profit attributable to equity shareholders of the Company	19,766
Net profit attributable to the Company's shareholders of extraordinary gain and loss	19,834
Net cash flow from operating activities	29,935

(II) Differences between Domestic and International Accounting Standards

Unit: RMB million

Items	Net profit attributable to equity shareholders of the Company		Total equity attributable to equity shareholders of the Company	
	2007	2006 (restated)	**2007**	2006 (restated)
Under the China Accounting Standards for Business Enterprises	**19,766**	16,620	**128,250**	68,930
Items and totals as adjusted under International Financial Reporting Standards:				
Production maintenance expense and safety production expense	**929**	1,090	**3,593**	2,664
Revaluation of land use rights and others	**112**	99	**(2,049)**	(2,161)
Tax adjustments	**(226)**	(165)	**(6)**	351
Under IFRSs	**20,581**	17,644	**129,788**	69,784

Notes on the differences between domestic and international accounting standards

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 and others

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 the deferred tax adjustments on the tax effects of the differences in the accounting standards.

(III) Items and amounts net of extraordinary gain and loss

Unit: RMB million

Items of extraordinary gain and loss	Amounts
Non-operating income	
- Subsidy income	43
- Others	158
Investment income	
- Net gain on disposal of investments	6
- Income from entrusted loans	30
- Net gains from available-for-sale financial assets	27
Net profit of subsidiaries generated before combination involving entities under common control	123
Non-operating expenses	(539)
Tax effect in respect of the above items	18
Total	(134)

(IV) Major financial data and indicators for the last three years as of the end of the reporting period

Major financial data	2007	2006 After restatement	2006 Before restatement	Increase/ decrease over the previous year (%)	2005 After restatement	2005 Before restatement
Operating income (million)	**82,107**	65,186	64,240	26.0%	53,023	52,242
Operating profit (million)	**29,629**	24,629	24,384	20.3%	20,875	21,002
Net profit attributable to equity shareholders of the Company (million)	**19,766**	16,620	16,436	18.9%	14,556	14,700
Net profit attributable to the Company's shareholders of extraordinary gain and loss (million)	**19,834**	16,421	16,568	20.8%	14,789	14,794
Basic earnings per share inclusive of extraordinary gain and loss	**1.066**	0.919	0.909	16.0%	0.873	0.881
Diluted earnings per share inclusive of extraordinary gain and loss	**1.066**	0.919	0.909	16.0%	0.873	0.881
Basic earnings per share net of extraordinary gain and loss	**1.070**	0.908	0.916	17.8%	0.887	0.887
Fully diluted return on net assets (%) (inclusive of extraordinary gain and loss)	**15.4**	24.1	24.9	decreased by 8.7 percentage points	24.2	25.5
Weighted average return on net assets (%) (inclusive of extraordinary gain and loss)	**20.1**	25.7	26.5	decreased by 5.6 percentage points	33.2	35.0
Fully diluted return on net assets net of extraordinary gain and loss (%)	**15.5**	23.8	25.1	decreased by 8.3 percentage points	24.6	25.7
Weighted average return on net assets net of extraordinary gain and loss (%)	**20.1**	25.4	26.7	decreased by 5.3 percentage points	33.7	35.2
Net cash flowfrom operating activities (million)	**29,935**	24,565	25,686	21.9%	26,284	26,806
Net cash flow from operating activities per share	**1.51**	1.36	1.42	11.0%	1.56	1.48

	At the end of 2007	At the end of 2006 After restatement	At the end of 2006 Before restatement	Increase/ decrease over the end of the previous year (%)	At the end of 2005 After restatement	At the end of 2005 Before restatement
Total assets (million)	**238,821**	172,532	163,320	38.4%	150,614	140,448
Total equity attributable to equity shareholders of the Company (million)	**128,250**	68,930	65,917	86.1%	60,212	57,553
Net assets per share attributable to equity shareholders of the Company	**6.45**	3.81	3.64	69.3%	3.33	3.18

(V) Items measured at fair value

Unit: RMB million

Items	Balance at the beginning of the period	Balance at the end of the period	Change over the current period	Effect on the profit for the period
Derivative financial instruments assets (liabilities)	(246)	37	283	283
Payable for cash settled share-based payment	(23)	(116)	(93)	(112)
Total	(269)	(79)	190	171

1. The Company uses swaps to hedge the foreign exchange and interest rate risks resulting from borrowings in foreign currencies which include foreign debt currency swap and interest rate swaps.

   The swaps are stated at fair values, subsequent gain or loss as a result of the changes in fair values was recognised in profit or loss for the year. The fair value of a swap transaction refers to the then transaction amount agreed by both parties in respect of the disposal of assets and settlement of liabilities during the transaction. When entering into a currency swap transaction relating to Japanese Yen denominated debts with its counterparty, the Company will obtain the subject assets upon receipt from the counterparty for the repayment of principal and interest thereon in Japanese Yen on each transaction date. The Company shall have to settle the liabilities by repaying the principal and interest thereon to the counterparty in US Dollars. The determination of the fair value is based on the net transaction amount resulting from the hedge of the assets to be received and liabilities to be repaid by the Company on each transaction date during the remaining transaction period. The fair value of the Company's existing transactions is arrived at after aggregating the discounted net amount of such future transactions.

   At present, valuation is principally made based on the Black-Scholes model and the discounted cash flow method. Interest rate curve with a term of less than one year is determined by reference to the interest rate in the currency market, while interest rate curve with a term of more than one year is derived by the linear interpolation of interest rate swap.

2. On 19 November 2005, the Company's board of directors approved a Share Appreciation Rights Scheme of (the "Scheme") for the senior management of the Group for a period of 10 years effective from 15 June 2005. No shares will be required to be issued under this Scheme. The rights are granted in units with each unit representing one H share of the Company.

   The valuation for the Company's share appreciation rights adopted Black-Scholes (Financial Numeric Method) Option Valuation Model, key calculation parameters of which include the exercise price of the share appreciation rights, expected duration, expected fluctuation rates in the share price, expected return rate of dividend, risk-free interest rate and the market price of the share. The determination of the parameters as mentioned above is based on the relevant terms of the Scheme and the historical trading data of the Company's H shares.

Changes in Equity and Shareholders

(I) Changes in equity

1. Changes in shares

Unit: shares

	Pre-movement		Increase/(decrease)					Post-movement	
	Number	Percentage	New shares issued	Bonus issued	Conversion from reserves	Others	Sub-total	Number	Percentage
I. Shares with selling restrictions									
1. State-owned shares	14,691,037,955	81.21%	–	–	–	–	–	14,691,037,955	73.86%
2. Domestic legal person shares	–	–	+540,000,000	–	–	–	+540,000,000	540,000,000	2.72%
Total shares with selling restrictions	14,691,037,955	81.21%	+540,000,000	–	–	–	+540,000,000	15,231,037,955	76.58%
II. Shares without selling restrictions									
1. RMB ordinary shares	–	–	+1,260,000,000	–	–	–	+1,260,000,000	1,260,000,000	6.33%
2. Share listed overseas	3,398,582,500	18.79%	–	–	–	–	–	3,398,582,500	17.09%
Total shares without selling restrictions	3,398,582,500	18.79%	+1,260,000,000	–	–	–	+1,260,000,000	4,658,582,500	23.42%
III. Total shares	18,089,620,455	100.00%	1,800,000,000	–	–	–	1,800,000,000	19,889,620,455	100.00%

Approval of changes in shares

Approved by Zheng Jian Fa Xing Zi [2007] No. 304 document issued by the China Securities Regulatory Commission and Shang Zheng Shang Zi [2007] No. 185 document issued by the Shanghai Stock Exchange, in September 2007, the Company issued 1.8 billion A Shares of the nominal value of RMB1 each at RMB36.99 per share, which were listed on the Shanghai Stock Exchange on 9 October 2007. KPMG Huazhen had verified the proceeds from the issue of A-Shares and issued the Capital Verification Report (KPMG-A (2007) CR No. 0030) on 28 September 2007. The net proceeds from the offering of A-Shares were RMB65,988 million.

Registration of changes in shares

On 27 September 2007, the share registration procedures for the initial public offering of A Shares were completed at Shanghai Branch of China Securities Depository and Clearing Corporation Limited.

2. Changes in shares with selling restrictions

Unit: shares

Shareholder	Number of shares with selling restrictions at the beginning of the year	Number of shares released from selling restrictions in the year	Increase in shares with selling restrictions in the year	Number of shares with selling restrictions at the end of the year	Reasons for selling restrictions	Date of release of selling restrictions
Shenhua Group	N/A	—	14,691,037,955	14,691,037,955	Commitments made by controlling shareholders in the initial public offering of A Shares of the Company	9 October 2010
Offline placement shares	N/A	—	540,000,000	540,000,000	Issue of shares with selling restrictions	9 January 2008
Total	N/A	—	15,231,037,955	15,231,037,955	—	—

3. Securities issuance and listing

(1) Securities issuance in the last three years

Unit: shares

Type of stocks and their derivative securities	Date of issue	Issue price	Number of shares issued	Date of listing	Number of shares listed
H Share	7 June 2005	HK$ 7.5 per share	3,398,582,500	15 June 2005	3,398,582,500
Ordinary A shares	25 September 2007	RMB36.99 per share	1,800,000,000	9 October 2007	1,260,000,000

The Company made an initial public offering of 3,398,582,500 H Shares of the nominal value of RMB1 each at a price of HK$ 7.5 per share by way of global offering and Hong Kong public offering in June and July of 2005. These H shares have been permitted to be listed and traded from 15 June 2005. Upon completion of the offering, the Company had a total share capital of 18,089,620,455 shares, of which 14,691,037,955 shares or 81.21% were held by Shenhua Group and 3,398,582,500 shares or 18.79% were held by H Share shareholders. KPMG Huazhen had verified the proceeds from the offering of H Shares and issued the Capital Verification Report (KPMG-A (2006) CR No. 0007) on 10 March 2006. The net proceeds from the offering of H Shares were RMB23,903 million, of which RMB3,090 million was allocated to new share capital and RMB20,813 million was allocated to capital reserve.

In September 2007, the Company made an initial public offering of 1.8 billion A Shares of the nominal value of RMB1 each at a price of RMB36.99 per share. Of which, 1,260,000,000 shares have been permitted to be listed and traded from 9 October 2007. Upon completion of the offering, the Company had a total share capital of 19,889,620,455 shares. A Share shareholders held 16,491,037,955 shares, representing 82.91% of the total share capital, of which 14,691,037,955 shares, representing 73.86% of the total share capital, were held by Shenhua Group and 1,800,000,000 shares, representing 9.05% of the total share capital, were held by other A Share shareholders; H Share shareholders held 3,398,582,500 shares, representing 17.09% of the total share capital. KPMG Huazhen had verified the proceeds from the offering of A Shares and issued the Capital Verification Report (KPMG-A (2007) CR No. 0030) on 28 September 2007. The net proceeds from the offering of A Shares were RMB65,988 million, of which RMB1,800 million was allocated to new share capital and RMB64,188 million was allocated to capital reserve.

(2) Changes in total number of shares and shareholding structure

Except for the domestic initial public offering of A Shares of the Company in 2007, there were no changes in the total number of shares, the shareholding structure and the assets and liabilities structure of the Company due to bonus issue, capital conversion or placement of shares during the reporting period.

(3) Internal employee shares

During the reporting period, the Company did not issue any internal employee share and there was no internal employee share exist.

(II) Shareholders

1. Number of shareholders and shareholdings of principal shareholders

(1) Total number of shareholders

As at the end of the reporting period, there was a total of 611,445 shareholders of the Company, of which there was 609,018 holders of A Shares (including Shenhua Group) and 2,427 holders of H Shares.

(2) Top ten shareholders

Unit: shares

Name of shareholders	Nature of shareholders	Shareholding percentage	Total number of shares held at the end of reporting period	Increase/ (decrease) during the reporting period	Number of shares with selling restrictions	Number of pledges or lock-ups
Shenhua Group	State-owned shares	73.86%	14,691,037,955	–	14,691,037,955	Nil
HKSCC NOMINEES LIMITED (Note)	Overseas legal person shares	16.62%	3,305,484,280	16,456,931	–	Unknown
PERFEX OVERSEAS LIMITED	Overseas legal person shares	0.44%	88,179,850	(15,561,150)	–	Unknown
China Life Insurance Company Limited – bonus - personal bonus - 005L - FH002 Shanghai	Others	0.18%	36,616,400	36,616,400	17,628,400	Unknown
China Life Insurance (Group) Company - traditional - ordinary insurance product	Others	0.17%	34,496,400	34,496,400	17,628,400	Unknown
China Life Insurance Company Limited - traditional - ordinary insurance product - 005L - CT001 Shanghai	Others	0.14%	27,628,400	27,628,400	10,000,000	Unknown
CITIC Securities Company Limited	Others	0.10%	18,985,300	18,985,300	3,778,300	Unknown
China Life Insurance Company Limited - bonus - group bonus - 005L - FH001 Shanghai	Others	0.09%	17,628,400	17,628,400	17,628,400	Unknown
Ping An Life Insurance Company of China, Ltd. - traditional - ordinary insurance product	Others	0.09%	17,628,400	17,628,400	17,628,400	Unknown
Ping An Life Insurance Company of China ,Ltd. - self-owned capital	Others	0.07%	13,739,180	13,739,180	13,739,180	Unknown

Statement on the connection or activities in concert among the above mentioned shareholders	China Life Insurance Company Limited - bonus - personal bonus - 005L - FH002 Shanghai, China Life Insurance Company Limited - traditional - ordinary insurance product - 005L - CT001 Shanghai and China Life Insurance Company Limited – bonus - group bonus - 005L - FH001 Shanghai are different accounts of the same insurance company; China Life Insurance Company Limited is a subsidiary of China Life Insurance (Group) Company; in addition, the Company does not know whether there are any connection between the above shareholders or whether they are persons acting in concert as defined in the Measures for the Administration of Disclosure of Shareholding Movement of Listed Companies.

Note: H Shares held by HKSCC Nominees Limited are held on behalf of a number of its account participants.

(3) Top ten shareholders of shares without selling restrictions

Unit: shares

Name of shareholder	Number of shares without selling restrictions	Nature of shares
HKSCC NOMINEES LIMITED	3,305,484,280	Foreign shares listed overseas
PERFEX OVERSEAS LIMITED	88,179,850	Foreign shares listed overseas
China Life Insurance Company Limited - bonus - personal bonus - 005L - FH002 Shanghai	18,988,000	RMB ordinary shares
China Life Insurance(Group) Company - traditional - ordinary insurance product	16,868,000	RMB ordinary shares
CITIC Securities Company Limited	15,207,000	RMB ordinary shares
China Construction Bank - Hua An Hongli Stock Securities Investment Fund	11,720,153	RMB ordinary shares
Bank of Communications - E Fund 50 Index Securities Investment Fund	10,878,913	RMB ordinary shares
China Life Insurance Company Limited - traditional - ordinary insurance product - 005L - CT001 Shanghai	10,000,000	RMB ordinary shares
CNOOC Finance Corp., Ltd.	8,732,000	RMB ordinary shares
Industrial & Commercial Bank of China –Southern Composition Selected Stock Securities Investment Fund	8,319,074	RMB ordinary shares
Statement on the connection or activities in concert among the above mentioned shareholders	China Life Insurance Company Limited - bonus - personal bonus - 005L - FH002 Shanghai and China Life Insurance Company Limited - traditional - ordinary insurance product - 005L - CT001 Shanghai are different accounts of the same insurance company; China Life Insurance Company Limited is a subsidiary of China Life Insurance (Group) Company; in addition, the Company does not know whether there are any connections between the above shareholders or whether they are persons acting in concert as defined in the Measures for the Administration of Disclosure of Shareholding Movement of Listed Companies.	

Statement on the connection or activities in concert between the top ten shareholders of shares without selling restrictions and top ten shareholders: China Life Insurance Company Limited - bonus - personal bonus - 005L - FH002 Shanghai, China Life Insurance Company Limited - traditional - ordinary insurance product - 005L - CT001 Shanghai, China Life Insurance Company Limited – bonus - group bonus - 005L - FH001 Shanghai and China Life Insurance Company Limited - traditional - ordinary insurance product - 005L - CT001 Shanghai are different accounts of the same insurance company; China Life Insurance Company Limited is a subsidiary of China Life Insurance (Group) Company; in addition, the Company does not know whether there are any connection between the top ten shareholders of shares without selling restrictions and the top ten shareholders or whether they are persons acting in concert as defined in the Measures for the Administration of Disclosure of Shareholders Movement of Listed Companies.

(4) Top ten shareholders of shares with selling restrictions and respective selling restrictions

Unit: shares

No.	Name of shareholder of shares with selling restrictions	Number of shares with selling restrictions	Particulars of trading and listing of shares with selling restrictions: Date for trading	Particulars of trading and listing of shares with selling restrictions: Increase in the number of tradable shares	Selling restrictions
1	Shenhua Group	14,691,037,955	9 October 2010	14,691,037,955	It shall not transfer or entrust others to manage the shares of the Company directly or indirectly held by it, nor shall such shares be acquired by the Company, within 36 months from the date on which the shares of the Company were listed on the Shanghai Stock Exchange.
2	Ping An Life Insurance Company of China, Ltd. – traditional - ordinary insurance product	17,628,400	9 January 2008	17,628,400	A lock-up period of three months commencing from the date on which the shares issued and subscribed online were listed on the Shanghai Stock Exchange.
3	China Life Insurance(Group) Company- traditional- ordinary insurance product	17,628,400	9 January 2008	17,628,400	A lock-up period of three months commencing from the date on which the shares issued and subscribed online were listed on the Shanghai Stock Exchange.
4	China Life Insurance Company Limited -bonus –group bonus -005L-FH001 Shanghai	17,628,400	9 January 2008	17,628,400	A lock-up period of three months commencing from the date on which the shares issued and subscribed online were listed on the Shanghai Stock Exchange.
5	China Life Insurance Company Limited - traditional – ordinary insurance -005L-CT001 Shanghai	17,628,400	9 January 2008	17,628,400	A lock-up period of three months commencing from the date on which the shares issued and subscribed online were listed on the Shanghai Stock Exchange.
6	China Life Insurance Company Limited - bonus – personal bonus - 005L-FH002 Shanghai	17,628,400	9 January 2008	17,628,400	A lock-up period of three months commencing from the date on which the shares issued and subscribed online were listed on the Shanghai Stock Exchange.
7	Ping An Life Insurance Company of China, Ltd. – self-owned fund	13,739,180	9 January 2008	13,739,180	A lock-up period of three months commencing from the date on which the shares issued and subscribed online were listed on the Shanghai Stock Exchange.
8	Taikang Life Insurance Co., Ltd. – multiple-purpose – individual insurance multiple-purpose	10,398,368	9 January 2008	10,398,368	A lock-up period of three months commencing from the date on which the shares issued and subscribed online were listed on the Shanghai Stock Exchange.
9	Bank of Communications – Hua An Strategic Optimal Stock Securities Investment Fund	9,402,280	9 January 2008	9,402,280	A lock-up period of three months commencing from the date on which the shares issued and subscribed online were listed on the Shanghai Stock Exchange.
10	New China Life Insurance Co., Ltd. - bonus – group bonus - 018L-FH001 Shanghai	9,245,592	9 January 2008	9,245,592	A lock-up period of three months commencing from the date on which the shares issued and subscribed online were listed on the Shanghai Stock Exchange.

2. Particulars of controlling shareholders and effective controller

(1) Corporate controlling shareholders

Name of the controlling shareholder:	Shenhua Group Corporation Limited
Legal representative:	Chen Biting
Registered capital:	RMB23.2 billion
Date of establishment:	23 October 1995
Principal operating activities or management activities:	state-owned assets operating activities within the scope authorized by the State Council; investment and management activities in various sectors, including resources products (such as coal), coal-based oil, coal chemical, power, thermal, port and information sectors; planning, organizing, coordinating and managing the production and operating activities of the companies comprising Shenhua Group in such sectors; and sales of mineral products, chemical materials, chemical products, textiles, construction materials, machinery, electronic equipment and office products.

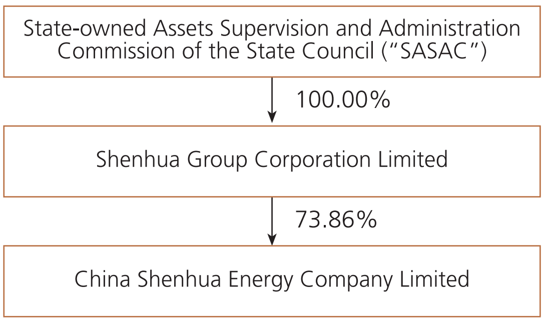
(2) Corporate effective controller

Name of the effective controller: State-owned Assets Supervision and Administration Commission of the State Council

(3) Changes in controlling shareholder and effective controller

There were no changes in the controlling shareholder and the effective controller of the Company during the reporting period.

(4) Diagram of the equity and control relationship between the Company and the effective controller



3. Other Corporate shareholders with shareholdings of more than 10%

As at the end of the reporting period, there were no other corporate shareholders with shareholdings of more than 10% save for those disclosed above.

Directors, Supervisors, Senior Management and Employees

(I) Directors, supervisors and senior management

Name	Title	Gender	Age	Commencement date for term of office	Number of shares held	Stock option of the Company held	Total remuneration received from the Company during the reporting period (RMB ten thousand) (before tax)	Equity Incentives granted during the reporting period: Number of shares the options over which can be exercised	Equity Incentives granted during the reporting period: Number of shares the options over which have been exercised	Equity Incentives granted during the reporting period: Exercise price	Equity Incentives granted during the reporting period: Market price of shares at the end of the reporting period	Whether or not receive salaries or allowances from shareholders or their associates
Chen Biting	Executive Director,Chairman	Male	62	6 November 2004	–	–	–	–	–	–	–	Yes
Yun Gongmin	Non-executive Director	Male	57	15 May 2007	–	–	–	–	–	–	–	Yes
Zhang Xiwu	Non-executive Director	Male	49	6 November 2004	–	–	–	–	–	–	–	Yes
Zhang Yuzhuo	Non-executive Director	Male	45	6 November 2004	–	–	195	–	–	–	–	Yes
Ling Wen	Executive Director, President	Male	44	6 November 2004 25 August 2006	–	–	293	–	–	–	–	No
Han Jianguo	Non-executive Director	Male	49	6 November 2004	–	–	133	–	–	–	–	Yes
Huang Yicheng	Independent Non-executive Director	Male	81	6 November 2004	–	–	45	–	–	–	–	No
Neoh Anthony Francis	Independent non-executive Director	Male	61	6 November 2004	–	–	45	–	–	–	–	No
Chen Xiaoyue	Independent Non-executive Director	Male	60	6 November 2004	–	–	45	–	–	–	–	No
Xu Zufa	Chairman of Supervisory Committee	Male	59	6 November 2004	–	–	226	–	–	–	–	Yes
Wu Gaoqian	Supervisor	Male	57	6 November 2004	–	–	57	–	–	–	–	No
Li Jianshe	Employee Representative Supervisor	Male	54	6 November 2004	–	–	46	–				No
Hao Gui	Vice President	Male	45	6 November 2004	–	–	304	–	–	–	–	No
Wang Jinli	Vice President	Male	48	6 November 2004	–	–	304	–	–	–	–	No
Xue Jilian	Vice President	Male	53	6 November 2004	–	–	251	–	–	–	–	No
Hua Zeqiao	Vice President	Male	56	6 November 2004	–	–	83	–	–	–	–	No
Wang Pingang	Vice President	Male	46	6 November 2004	–	–	243	–	–	–	–	No
Huang Qing	Secretary of Board of Directors	Male	42	6 November 2004	–	–	72	–	–	–	–	No
Zhang Kehui	Chief Financial Officer	Female	44	22 January 2007	–	–	62	–	–	–	–	No
Total	/	/	/	/	–	–	2,404	–	–	–	–	/

Main Working Experiences of Directors, Supervisors and Senior Management:

Directors


CHEN Biting


YUN Gongmin


ZHANG Xiwu

CHEN Biting aged 62, Chinese

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

YUN Gongmin aged 57, Chinese

Non-executive Director. Mr. Yun has served as a Non-executive Director of the Company since May 2007. Mr. Yun is also Deputy Chairman of the board of directors and Chairman of Labor Union of Shenhua Group. Prior to joining Shenhua Group in 2006, Mr. Yun served as Vice General Secretary of Shanxi Provincial Committee of CPC, Director of the Publicity Department of Shanxi Provincial Committee of CPC, a member of the Standing Committee of Shanxi Provincial Committee of CPC, General Secretary of Taiyuan Municipal Committee of CPC, Vice Governor of Shanxi Province, Vice President of the Inner Mongolia Autonomous Region, Assistant to the President of the Inner Mongolia Autonomous Region, Chief of Yikezhao Banner of Inner Mongolia and General Secretary of Yikezhao Banner Committee of CPC and Director of the Working Committee of the NPC, Yikezhao Banner. Mr. Yun has over 30 years of experience in government administration and industry management. He studied in the Heat Energy Engineering Department of Tsinghua University in 1975, majoring in Auto Manufacturing.

ZHANG Xiwu aged 49, Chinese

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

Directors


ZHANG Yuzhuo


LING Wen


HAN Jianguo

ZHANG Yuzhuo aged 45, Chinese

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

LING Wen aged 44, Chinese

Executive Director and President. Dr. Ling has served as the President in charge of daily operations of the Company since August 2006 and an Executive Director since November 2004. In addition, Dr. Ling is also the Chairman of Shenhua Finance Company Limited. Dr. Ling had previously served as the executive vice president and chief financial officer of the Company. Prior to joining our Company, Dr. Ling served as a Vice General Manager of Shenhua Group. Prior to joining Shenhua Group in December 2001, Dr. Ling served as Deputy General Manager of the International Business Department of the Industrial and Commercial Bank of China, Deputy General Manager of Industrial and Commercial Bank of China (Asia) Limited and Chairman of UB China Business Management Company Limited. Dr. Ling has in-depth and extensive experience in financial institution and enterprise management. He is a professor and mentor for doctoral students at the Harbin Institute of Technology, Renmin University of China and China University of Mining and Technology (Beijing). Dr. Ling graduated from Shanghai Jiaotong University with a bachelor's degree in science in 1984, received a master's degree in system engineering from Harbin Institute of Technology in 1987 and received a Ph.D. degree in management engineering in 1991. From 1992 to 1994, Dr. Ling conducted post-doctoral research in macroeconomics in the Department of Automation of Shanghai Jiaotong University.

HAN Jianguo aged 49, Chinese

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

Directors


HUANG Yicheng


NEOH Anthony Francis


CHEN Xiaoyue

HUANG Yicheng aged 81, Chinese

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

NEOH Anthony Francis aged 61, Hong Kong citizen

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

CHEN Xiaoyue aged 60, Chinese

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

Supervisors


XU Zufa


WU Gaoqian


LI Jianshe

XU Zufa aged 59, Chinese

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

WU Gaoqian aged 57, Chinese

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

LI Jianshe aged 54, Chinese

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

Senior Management


LING Wen


HAO Gui


WANG Jinli

LING Wen aged 44, Chinese

Executive Director and President. Dr. Ling has served as the President in charge of daily operations of the Company since August 2006 and an Executive Director since November 2004. In addition, Dr. Ling is also the Chairman of Shenhua Finance Company Limited. Dr. Ling had previously served as the executive vice president and chief financial officer of the Company. Prior to joining our Company, Dr. Ling served as a Vice General Manager of Shenhua Group. Prior to joining Shenhua Group in December 2001, Dr. Ling served as Deputy General Manager of the International Business Department of the Industrial and Commercial Bank of China, Deputy General Manager of Industrial and Commercial Bank of China (Asia) Limited and Chairman of UB China Business Management Company Limited. Dr. Ling has in-depth and extensive experience in financial institution and enterprise management. He is a professor and mentor for doctoral students at the Harbin Institute of Technology, Renmin University of China and China University of Mining and Technology (Beijing). Dr. Ling graduated from Shanghai Jiaotong University with a bachelor's degree in science in 1984, received a master's degree in system engineering from Harbin Institute of Technology in 1987 and received a Ph.D. degree in management engineering in 1991. From 1992 to 1994, Dr. Ling conducted post-doctoral research in macroeconomics in the Department of Automation of Shanghai Jiaotong University.

HAO Gui aged 45, Chinese

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

WANG Jinli aged 48, Chinese

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

Senior Management


XUE Jilian


HUA Zeqiao


WANG Pingang

XUE Jilian aged 53, Chinese

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

HUA Zeqiao aged 56, Chinese

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

WANG Pingang aged 46, Chinese

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

Senior Management

HUANG Qing

ZHANG Kehui

HUANG Qing aged 42, Chinese

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

ZHANG Kehui aged 44, Chinese

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

(II) Positions held in controlling shareholder and its associates

Name	Name of entity	Position	Commencement of term of office	Expiration of term of office	Whether salaries or allowance received
Chen Biting	Shenhua Group	Chairman	July 2003	—	Yes
	Beijing Guohua Power Company Ltd.	Chairman	August 2003	—	No
Yun Gongmin	Shenhua Group	Deputy Chairman	September 2006	—	Yes
Zhang Xiwu	Shenhua Group	Director, General Manager	September 2004	—	Yes
Xu Zufa	Shenhua Group	Director	July 2002	—	Yes
Zhang Yuzhuo	Shenhua Group	Deputy General Manager	December 2001	—	Yes
	China Shenhua Coal Liquefaction Company Limited	Chairman	July 2003	—	No
	Shenhua International (Hong Kong) Company Limited	Chairman	March 2005	—	No
Ling Wen	Shenhua Finance Company Limited.	Chairman	July 2002	—	No
Han Jianguo	Shenhua Group	Deputy General Manager	August 2003	—	Yes
Hua Zeqiao	Shenhua Coal Trading Company Limited	Chairman	March 2004	—	No

Positions held in other entities

Name	Name of entity	Position	Commencement of term of office	Expiration of term of office	Whether salaries or allowance received
Neoh Anthony Francis	International Advisory Committee of the China Securities Regulatory Commission	Member	June 2004	—	Yes
	Bank of China Limited	Independent Non-executive Director	August 2004	—	Yes
Chen Xiaoyue	Accounting Research Institute at Tsinghua University	Director	August 2000	—	
	China United Telecommunications Corporation Limited	Independent Non-executive Director	May 2005	—	Yes
	Yunnan Baiyao Group Co., Ltd.	Independent Non-executive Director	August 2006	—	Yes Yes

(III) Remuneration of directors, supervisors and senior management

1. Procedure for determination of the remuneration of directors, supervisors and senior management

The remuneration of directors, supervisors and senior management is proposed by the Remuneration Committee of the Company following due calibration and is submitted to the Board of Directors for approval.

Proposals in respect of the remuneration of directors and supervisors are submitted to shareholders' general meeting for determination after consideration and approval by the Board of Directors and proposals in respect of the remuneration of senior management are considered and determined by the Board of Directors.

2. Basis on which the remuneration of directors, supervisors and senior management are determined

Remuneration of directors (other than the President and independent non-executive directors) and the Chairman of Supervisory Committee are paid by Shenhua Group. Remuneration of supervisors are paid by the Company in accordance with the remuneration policy approved at the general meeting of the Company. The basis for determining the remunerations of independent non-executive directors was set out in the Resolution on the Remunerations of Independent Directors of the Company passed by way of a poll in the 2004 Annual General Meeting of the Company. The basis for determining the remunerations of senior management was set out in the Provisional Measures for the Management of the Annual Salaries of the Senior Management of China Shenhua Energy Company Limited approved by way of a poll in the 2004 Annual General Meeting of the Company.

3. Directors and supervisors not receiving remuneration and allowance from the Company

Name of directors and supervisors not receiving remuneration and allowance from the Company		Whether remunerations or allowance received from controlling shareholder and its associates
Directors		
	Chen Biting	Yes
	Yun Gongmin	Yes
	Zhang Xiwu	Yes

In 2007, the aggregate amount of the pre-tax remuneration (including basic salary, bonus, allowance, subsidy, employee benefit and various insurance, capital reserve fund, annuity and other remunerations) of all directors, supervisors and senior management received from the Company amounted to RMB24.04 million. Pursuant to the Share Appreciation Rights Scheme of the Company approved at the Annual General Meeting held in 2005, the Company granted successively share appreciation rights to its directors (other than independent directors), supervisors and senior management in 2005, 2006 and 2007.

(IV) Changes in directors, supervisors and senior management

Name	Position	Changes
Yun Gongmin	Non-executive Director	Elected as Non-executive Director
Ling Wen	Executive Director and President	Resigned as Chief Financial Officer
Zhang Kehui	Chief Financial Officer	Appointed as Chief Financial Officer

Following nomination at the 14th meeting of the First Session of the Board of Directors on 23 March 2007, Mr. Yun Gongmin was elected as a Non-executive Director of the Company at the 2006 Annual General Meeting of the Company held on 15 May 2007.

On 22 January 2007, the Board of the Company considered and passed the Resolution on the Resignation of Dr. Ling Wen as Chief Financial Officer and the Appointment of Ms. Zhang Kehui as Chief Financial Officer, pursuant to which Ms. Zhang Kehui was appointed as the Chief Financial Officer of the Company and Dr. Ling Wen ceased to be the Chief Financial Officer of the Company.

(V) Employees of the Company

As at the end of the reporting period, the Company had 58,827 employees. In 2007, the total number of retired employees in respect of which the Company bears expenses was 493. Composition of the employees of the Company is as follows:

1. Breakdown by functions

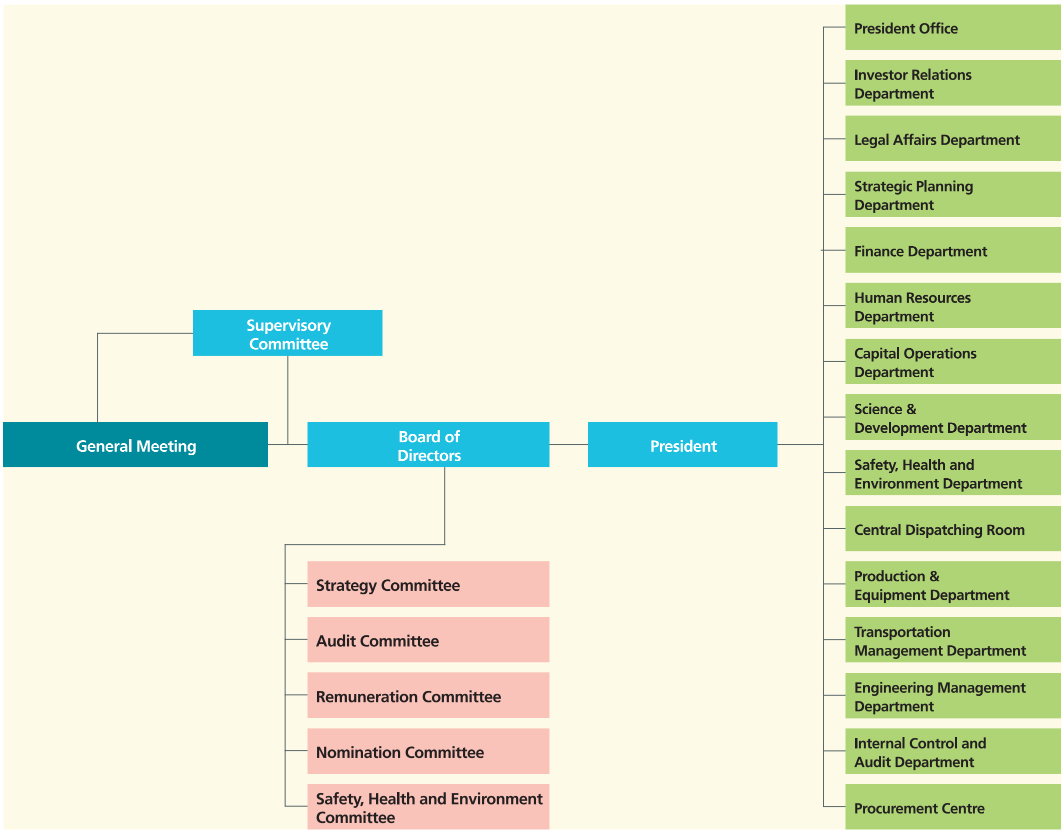
Functions	Number of employees
Operation and maintenance	38,227
Management and administration	6,833
Finance and accounting	748
R&D and technical support	4,948
Sales and marketing	1,072
Others	6,999
Total	58,827

2. Breakdown by degrees of education

Degrees of education	Number of employees
Postgraduate or above	438
University graduate	7,756
College graduate	11,642
Specialized secondary school graduate	13,684
Technical school graduate	6,924
High school graduate	11,889
Middle school graduate or below	6,494
Total	58,827

Corporate Governance Structure

The overall corporate governance structure of the Company is as follows:



(I) Corporate governance

During the reporting period, the Company further improved its corporate governance by establishing a standardized and sound corporate governance structure in strict compliance with the PRC Company Law, Securities Law and other laws and regulations as well as the domestic and foreign regulatory requirements. The Company's standard of corporate governance has been recognized in the capital market and the Company has won various awards such as the award of "2006 Best Corporate Governance in Asia" («Finance Asia»). In respect of the corporate governance conditions of the Company, there exist no material deviation from the corporate governance requirements under the relevant rules of the China Securities Regulatory Commission. The Company, the directors and the Board have not received any administrative punishment or have been publicly criticized or condemned by China Securities Regulatory Commission or any other regulatory authorities or stock exchange.

1. Corporate governance documents

During the reporting period, the Company further improved its systems on corporate governance as well as the relevant internal rules, including the "Articles of Association of China Shenhua Energy Company Limited" (the "Article of Association") and the "Rules and Procedures of Meetings of Shareholders", the "Rules and Procedures of Meetings of the Board" and the "Rules and Procedures of Meetings of the Supervisory Committee" and formulated a number of regulatory documents on corporate governance. The Board and the Supervisory Committee and shareholders' general meeting of the Company are operated and held independently and effectively in accordance with the Articles of Association and their respective rules and procedures.

(1). "Articles of Association";

(2). "Rules and Procedures of Shareholders' General Meetings of China Shenhua Energy Company Limited";

(3). "Rules and Procedures of Meetings of the Board of Directors of China Shenhua Energy Company Limited";

(4). "Rules and Procedures of Meetings of the Supervisory Committee of China Shenhua Energy Company Limited";

(5). "Rules and Procedures of Meeting of the Strategy Committee of the Board of China Shenhua Energy Company Limited";

(6). Rules and Procedures of Meetings of the Audit Committee of the Board of China Shenhua Energy Company Limited";

(7). "Rules and Procedures of Meetings of the Remuneration Committee of the Board of China Shenhua Energy Company Limited";

(8). "Rules and Procedures of Meetings of the Nomination Committee of China Shenhua Energy Company Limited";

(9). "Rules and Procedures of Meetings of the Safety, Health and Environment Committee of the Board of China Shenhua Energy Company Limited";

(10). "Information Disclosure Policy of China Shenhua Energy Company Limited";

(11). "Rules of Information Disclosure Committee and its Members of China Shenhua Energy Company Limited";

(12). "Connected Transactions Decision Making Systems for of China Shenhua Energy Company Limited";

(13). "Measures of Monitoring Connected Transactions of China Shenhua Energy Company Limited";

(14). "Investor Relations Policy of China Shenhua Energy Company Limited";

(15). "Rules of Investor Reception of China Shenhua Energy Company Limited";

(16). "Model Code on Securities Transactions by Directors of China Shenhua Energy Company Limited";

(17). "Measures on Regulating the Dealings by Employees in the Shares of China Shenhua Energy Company Limited";

(18). "Internal Control Manual of China Shenhua Energy Company Limited";

(19). "Manual on Self-evaluation of China Shenhua Energy Company Limited";

(20). "Rules on Use of Proceeds of China Shenhua Energy Company Limited";

(21). "Internal Reporting System for Significant Events of China Shenhua Energy Company Limited";

(22). "Systems of Independent Directors of China Shenhua Energy Company Limited";

(23). "Rules on Work of the Audit Committee of the Board of China Shenhua Energy Company Limited"

Of the above, the amendments to the Articles of Association were approved by way of a special resolution at the 1st Extraordinary General Meeting for 2007 held on 24 August 2007 and the amendments to the "Rules and Procedures of Shareholders' General Meetings of China Shenhua Energy Company Limited", the "Rules and Procedures of Meetings of the Board of Directors of China Shenhua Energy Company Limited" and the "Rules and Procedures of Meetings of the Supervisory Committee of China Shenhua Energy Company Limited" were approved by way of ordinary resolutions at the 1st Extraordinary General Meeting for 2007 held on 24 August 2007. Such amendments were made in connection with the offering and listing of the A Shares of the Company. For details, please refer to the "Notice of Extraordinary General Meeting" dated 10 July 2007 and the "Announcements on the Voting Results of First Extraordinary General Meeting in 2007" dated 24 August 2007 of the Company.

Upon completion of the offering of A Shares, the registered capital of the Company was changed from RMB18,089,620,455 to RMB19,889,620,455. The Company has completed the registration procedures for such change in registered capital at the State Administration for Industry and Commerce. Corresponding amendments to the number of shares and share capital of the Company set out in the Articles of Association of the Company have been made by the authorized directors upon completion of the offering and listing of A Shares pursuant to the authorisation granted by the shareholders at the 1st Extraordinary General Meeting for 2007 of the Company. The amended Articles of Association have been filed with the State Administration for Industry and Commerce upon registration of the change in registered capital. For details, please refer to the China Securities News, Shanghai Securities News and Announcement of Registration of Changes in Registered Capital and Articles of Association of China Shenhua of 14 December 2007.

2. Shareholders' rights

As the owners of the Company, the shareholders of the Company are entitled to the rights as stipulated in laws, administrative regulations and the Articles of Association. The shareholders' general meeting is the highest authority of the Company, through which shareholders can exercise their rights.

In the reporting period, the Company held its annual general meeting for 2006 and the 1st Extraordinary General Meeting for 2007. At the 1st Extraordinary General Meeting for 2007, amendments to the Articles of Association of the Company were approved by way of a special resolution, which provides that "shareholders shall enjoy rights and assume liabilities on the basis of the classes and number of shares they held; and shareholders holding the same class of shares shall enjoy the same rights and assume the same liabilities". As such, the Company has established a corporate governance structure that ensures the adequate exercise of their respective rights by shareholders in the mainland China and Hong Kong and the equality among all shareholders, particularly the minority shareholders. The Company held two shareholders' general meetings in the reporting period in accordance with the scope of authority of shareholders' general meetings, at which the significant events of the Company including the issuance of A Shares were considered and approved by all shareholders and the connected transactions such as the acquisitions of Shendong Coal and of Shendong Power were approved by the independent shareholders.

The Company makes timely, accurate and complete information disclosures in accordance with the listing rules of the its location of listing. This is to ensure the fairness, openness and equality for all shareholders in obtaining information. The Company has established an effective communication channel with shareholders through an information disclosure system and the investor communication system. Shareholders are entitled to be informed and to participate in the material matters of the Company as specified in laws, administrative regulations and the Articles of Association.

In the Articles of Association and the Rules and Procedures of Shareholders' General Meetings, the Company has formulated the convening and voting procedures for shareholders' general meetings, including the notification, registration, consideration and approval of proposals, voting, vote counting, announcement of voting results, formation of resolutions, minutes and the execution and announcement thereof.

The Board of the Company generally considers with due care and makes arrangements for the matters to be considered at shareholders' general meetings at least 45 days prior to such meetings, and sufficient time for discussion will be given to each matter proposed.

In the reporting period, it was the policy of the Company to hold the shareholders' general meeting at selected times and venues in order to allow as many shareholders to attend as possible provided that the legality and validity of such meetings will not be impaired. Shareholders may attend and vote at such meetings in person or by proxies with the same legal effect. The 1st Extraordinary General Meeting for 2007 held on 24 August 2007 was attended by shareholders holding an aggregate of 16,643,956,167 voting shares of the Company, representing 92.0% of the total share capital of the Company. This indicates a high shareholders' participation in the important decisions of the Company.

For the related party transactions between the Company and its related party, the Company has signed definitive agreements with such parties based on the principles of equality, willingness and fair consideration. The Company has disclosed the conclusion, variation, termination and performance of such agreements pursuant to relevant requirements in a timely manner. The independent directors, the Board and shareholders' general meeting of the Company have confirmed that the related party transactions of the Company were conducted in compliance with the commercial principles and the principles for price determination of the related party transactions does not deviate from the standards quoted by independent third parties in the market. The Company has fully disclosed the pricing basis for related party transactions. In the reporting period, the Company did not provide any guarantees for its controlling shareholder or its subsidiaries.

3. Functions of the Board of Directors

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

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

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

The Board is responsible for preparing the financial statements for each financial year to give a true and fair view of the Company's financial position, its results and cash flow for the relevant period. In preparing the financial statements, the Board has adopted and applied the appropriate accounting policies in arriving at a prudent, fair and reasonable judgments and estimates, and has prepared the financial statements on a going concern basis. The Board is responsible for duly maintaining accounting records which reasonably and accurately disclose the financial position of the Company. The Board held in total five meetings in the reporting period.

The Board of Directors consists of 9 directors, including 3 independent directors. The number of members and composition of the Board comply with the legal requirements. The board members are all technique experts, financial experts, law experts and management experts who are diligent and familiar with the Company's business, which ensures the disciplined operation, scientific decision-making and the effective implementation of various internal control systems of the Company.

The Company has formulated a collection of systems relating to the decision-making of the Board in accordance with relevant regulatory requirements and the Articles of Association of the Company. The Company has established five Board committees, including the Strategy Committee, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Safety, Health and Environment Committee. The committees conduct research on professional matters and convene meetings in respect of the same. Upon discussion with the management, the committees will submit their opinions and recommendations to the Board for its reference. Also, the committees are responsible for handling the relevant matters empowered and authorized by the Board. Therefore, the operation efficiency and functions of the Board are enhanced.

The operating body of the Board has further standardized the procedures of the Board meetings and consolidated all of the Company's meeting documents relating to corporate governance since the convention of its first meeting.

(II) Performance of duties by independent directors

In the reporting period, the independent directors of the Company strictly complied with the requirements of relevant laws and regulations, the Articles of Association and relevant rules and procedures, they maintained their independence required for independent directors, performed their functions of supervision, participated in the making of important decisions of the Company. Therefore the independent directors of the Company played a key role in monitoring of the operation of the Company and protected the lawful interests of minority shareholders. The Company has facilitated and ensured that proper conditions for independent directors to duly perform their duties.

1. Attendance of independent directors at board meetings

Name of independent director	Number of board meetings held this year	Attendance in person	Attendance by proxy	Absent	Remark
Huang Yicheng	5	4	1	–	Huang Yicheng appointed Chen Xiaoyue as his proxy to attend and vote at the 17th board meeting
Neoh Anthony Francis	5	5	–	–	
Chen Xiaoyue	5	5	–	–	

2. Particulars of independent directors' objections

In the reporting period, the independent directors of the Company did not raise any objection to the resolutions of the Board and other resolutions of the Company for the year.

(III) Independence of the Company as compared to its controlling shareholder in terms of business, personnel, asset, organisation and finance

Business: the business of the Company is independent from that of its controlling shareholder and the Company is operated on its own with a separate structure.

Personnel: the Company has set up independent and complete systems for labor, personnel and remuneration management and has entered into labor contracts with its employees independently. All members of the senior management receive remunerations from the Company.

Assets: the Company has its own independent production system, auxiliary production system, ancillary facilities, purchasing and selling systems, it lawfully owns the ownerships or right of use of its tangible and intangible assets, such as land, buildings and trademarks.

Organisation: the Company has established a sound organisational structure. The Board, the Supervisory Committee and other internal organisations of the Company operate independently and no subordinated relationships exist between the controlling shareholder and the Company or their respective functional organisation.

Finance: the Company has an independent finance department, independent systems for accounting and financial management. The Company has separate bank accounts and pays taxes independently.

(IV) Information on establishment and improvement of the internal control systems of the Company

1. Establishment of the internal control systems

At the 14th meeting of the first session of the Board held on 23 March 2007, the "Internal Control Manual" and the "Manual on Self-evaluation" prepared by the Company were approved. Those manuals constitute the basic systems through which the Company establishes its internal control system and ensures the effective operation thereof.

In compliance with relevant regulatory requirements, the Company has formulated series of corporate governance systems. In order to ensure the smooth operation of the Company's business activities, the Company has taken such measures such as formulating and continuously improving its corporate management and internal control systems after taking into account its capital structure and mode of operation as well as its own specific attributes.

The Company places great emphasis on systemization and disciplined management and has formulated series of standards in respect of production and operation control, financial management and control, information disclosure control and technology information management, safety, health and environmental protection, as well as management of quality control, internal audit, legal affairs and administrative matters. The series of the systems set up by the Company include the following:

(1) Production and operation control

- Planning and production: carried out in accordance with relevant business management procedures;
- Procurement: "Measures for Management of Procurement";
- Sales: "Measures for Management of Domestic Sales of Coal" and "Measures for Management of Sales of Market-oriented Coal";
- Management of connected transactions: "Connected Transaction Decision-making Systems" and "Methods of Monitoring Connected Transactions";
- Cost and expense management: The Company's costs and expenses are budgeted and managed at various levels;
- Investment management: "Measures of Investment Management";

- Project Management: "Measures for Management and Supervision of Tender and Bidding for Construction Projects", "Management Measures for Commencement of Construction Projects", "Management Measures for Examination and Delivery of Completed Construction Projects" and "Trial Measures for Post-completion Assessment of Construction Projects";

- Safety management: "Code of Production Safety Responsibilities", "Code of Examination and Avoidance of Potential Accidents", "Code of Safety Supervision" and the Examination and Management System for Safe Production of Coal Mine with risk control as its core;

- Fixed asset management: The Company implements management in accordance with levels and has formulated management regulations on purchase, audit, storage, disposal and write-off etc.;

(2) Financial management and control

- Capital management: "Trial Measures for Management of Funds", "Measures for Management of Bank Accounts", "Management System for Use of Proceeds", "Measures for Centralized Fund Management" and "Measures for Management of Fund Budget";

- Financing management: "Trial Measures for Management of Debt Financing";

- Budget management: the Company has published a series of documents regarding budget management;

- Management of security and financial derivatives: the Company has adopted stringent approval procedures and risk control measures in respect of financial derivatives and provision of external guarantees; and

- Financial reporting management: Accounting Audit System;

(3) Internal control of information disclosure

"Information Disclosure Policy", "Rules of Information Disclosure Committee & Its Members", "Investor Relations Policy" and "Rules of Internal Reporting on Significant Events".

(4) Others

- Human resources management: "Trial Rules for Management of Remuneration of Staff at Headquarter", "Measures for Management of Annual Remuneration of Corporate Head", "Trial Rules for Management of Workforce and Employment", "Staff Manual of Head Office" and "Trial Measures for Performance Evaluation of Five Types of Enterprises";

- Legal affairs management: "Trial Rules for Contract Management" and "Trial Measures for Management of Enterprise Legal Advisors";

- Internal audit management: "Trial Measures for Internal Audit Management ", "Rules on Auditing of Construction Projects" and "Work Manual for Internal Audit";

- Management of subsidiaries: "Measures for Management of Branch Companies" and "Measures for Management of Directors and Supervisors";

- Management of technology innovation projects: "Trial Measures for Management of Technology Innovation Projects";

- Other basic management rules: "Trial Measures for Strengthening the Management of Coal Resources and Improving the Recovery Rate of Operating Mines", "Trial Measures for Management of Coal Quality", "Trial Rules for Reward and Punishment of Coal Quality Management", "Rules and Procedures of President's Meetings", "Trial Measures for Handling Archives" and "Trial Measures for Management of Seals"; etc.

In summary, the Company has basically established a set of internal control rules which regulates and complements its internal control system.

2. Implementation of internal control system

The Company's internal control system was established to standardize the organizational structure of internal control and set out basic rules for management control. This laid a solid foundation for the establishment of sound, effective and reasonable internal accounting controls. The Company improved its corporate governance structure by establishing a mechanism among the Board, the Supervisory Committee and the Management in relation to decision-making, supervision and operation management. In pursuance of its corporate culture, the Company learned from advanced international experience and combined its corporate development with the moral and cultural training for its employees. Through the establishment of code of conduct for employees and the implementation of various policies and rules, the Company was able to effectively integrate and improve its internal control and business development, thereby improving its ability to operate in accordance with the applicable laws and rules for continuous development.

The Company has established internal control supervision departments, including the Internal Control, the Audit Department and the Legal Affairs Department.

The Company has established an Audit Committee of the Board, which ensures management of the Company performed their duties to establish effective information disclosure mechanisms and rules for internal financial control through reviewing and discussing the mechanisms and the relevant rules with the management of the Company. The Audit Committee also supervises and examines the Company's financial control, information disclosure mechanisms and procedures, internal control and risk management systems. The Company's self-evaluation report on internal control is reviewed by the Board on annual basis.

The Company takes various measures to supervise and examine its internal control and its implementation systems in respect of the preparation of accounting statements in accordance with the PRC GAAP, so as to ensure the full implementation of its internal control systems. Various separate or joint audits are carried out by the Audit Department and other relevant departments of the Company on annual basis. This facilitates the implementation of the relevant rules, mitigate the Company's operating risks, strengthen internal control, optimize the allocation of our resources and enhance our operational management.

(V) Assessment and incentives for senior management

1. Appraisal system for senior management

At the annual general meeting for 2004 held on 27 March 2005, the Company formulated its appraisal system for senior management.

The Company has adopted a performance appraisal system for senior management which combines annual appraisal and appraisal over the term of office. Such appraisal on operation performance are conducted based on the letter of responsibility of operation performance. In 2007, the Board issued the letter of responsibility on operation performance for senior management for 2007, which set forth the appraisal benchmarks of senior management for 2007.

2. Incentive mechanism of the Company

The Company places great emphasis on the establishment and improvement of its incentive mechanism to enhance performance management. On 27 March 2005, the Company formulated an annual remuneration system for senior management. The Share Appreciation Rights Scheme of China Shenhua Energy Company Limited was approved at the annual general meeting for 2005 held on 12 May 2006.

According to the Provisional Measures on the Management of the Annual remuneration of Senior Management of China Shenhua Energy Company Limited, the annual remuneration for senior management of the Company consists of basic annual remuneration and performance bonus. Basic annual remuneration is the basic income of the senior management in the year and is determined based on, among other things, the scale of the enterprise, average salary of employees in the industry, average salary of employees in local region and average salary of employees in the enterprise. Performance bonus is based on the basic salary and is determined based on the results of the annual appraisal on operation performance of the senior management.

Pursuant to the Share Appreciation Rights Scheme of China Shenhua Energy Company Limited approved at the shareholders' general meeting held in 2005 and the reply from the State-owned Assets Supervision and Administration Commission of the State Council, the Company has granted share appreciation rights to its directors (other than independent non-executive directors), supervisors and senior management under the scheme in 2005, 2006 and 2007 respectively.

3. Results of performance appraisal and incentives granted by the Company

The Company has accomplished the commitments specified by the Board in the letter of operation responsibility for 2006. In 2007, the Company paid to the senior management their annual remuneration for 2006 and granted them share appreciation rights, which could be exercised at maturity, pursuant to the Resolution on the Granting of Share Appreciation Rights in 2007 of the Company passed on the 17th board meeting held on 21 December 2007.

(VI) Self-assessment report of the Board on the Company's internal controls and the auditors' comments thereon

The Board is of the view that the Company's existing internal control system in connection with operation and financial accounting complies with the relevant PRC regulations and the requirements of the securities regulatory authorities in material aspects, and has functions of control and prevention in terms of the loss of control of material risks, serious management fraud and significant flow errors. During the implementation of the internal control system, the Company was not aware of any loss of control of material risks, serious management fraud and significant flow errors. Due to several factors, such as the inherent limitations of the internal control system, the differences among the management in the understanding of the internal control system, the ever-changing operating environment in the market and the unforeseeable risks, we cannot absolutely guarantee that there will not be any errors and mistakes.

Based on the accumulative management experience, shareholders' recommendations, development trends of the international and domestic markets and changes in the external and internal risks, and in compliance with relevant regulatory rules and requirements, the Company will continue to review and improve its internal control system.

The Company's auditor has conducted the work in respect of understanding of internal control and control testing according to relevant requirements of the "China's Auditing Standards for the Certified Public Accountants", and pursuant to the "Circular with respect to the Issuance of 'Standards No. 2 on the Contents and Format of Information Disclosure regarding Companies Issuing Securities to the Public (amended in 2007)" promulgated by China Securities Regulatory Commission, issued a statement on such evaluation of those internal controls related to the preparation of financial statement as included in the Self-assessment Report on Internal Controls prepared by the Company, which is summarized as follows: "We have read the Self-assessment Report on Internal Controls prepared by the management of the Company. Based on our work, we are not aware of any material inconsistency between the contents of evaluation of internal controls related to the preparation of financial statements as included in the Self-assessment Report on Internal Controls prepared by the Company and our findings derived from our audit of the financial statements aforesaid". The full report of such statement has been disclosed at the website of Shanghai Stock Exchange.

The texts of the Self-assessment Report on Internal Control of the Company and the report issued by the Company's Auditor have been disclosed at the website of Shanghai Stock Exchange.

The "VII Corporate governance report" below is disclosed pursuant to the Listing Rules of Hong Kong Stock Exchange.

(VII) Corporate governance

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.

During the reporting period, the Company further improved its corporate governance system according to the requirements of regulations issued by the China Securities Regulating Commission such as the "Guidance on the Articles of Association of Listed Companies"and "Rules on Corporate Governance of Listed Companies", including the "Articles of Association of China Shenhua Energy Company Limited" ("the Article of Association") and other internal rules in respect of corporate governance. Besides, the Company also formulated a number of regulatory documents on corporate governance. The Board, the Supervisory Committee and shareholders' general meeting of the Company are operated, independently and effectively in accordance with the Articles of Association and their respective rules and procedures.

Amendments to the Articles of Association were approved by way of a special resolution at the 1st Extraordinary General Meeting for 2007 held on 24 August 2007 and amendments to the "Rules and Procedures of Shareholders' General Meetings of China Shenhua Energy Company Limited", the "Rules and Procedures of Meetings of the Board of Directors of China Shenhua Energy Company Limited" and the "Rules and Procedures of Meetings of the Supervisory Committee of China Shenhua Energy Company Limited" were approved by way of ordinary resolutions at the 1st Extraordinary General Meeting for 2007 held on 24 August 2007. Such amendments were made in connection with the offering and listing of the A Shares of the Company. For details, please refer to in the "Notice of Extraordinary General Meeting" dated 10 July 2007 and the "Announcements on the Voting Results of Extraordinary General Meeting held in 2007" dated 24 August 2007 of the Company.

Corresponding amendments to the number of shares and share capital of the Company set out in the Articles of Association of the Company have been made by the authorized directors upon completion of the offering and listing of A Shares pursuant to the authorisation granted by the shareholders at the 1st Extraordinary General Meeting for 2007 of the Company. The amended Articles of Association have been filed with the State Administration for Industry and Commerce upon registration of the change in registered capital.

Shareholders' rights

As the owners of the Company, the shareholders of the Company are entitled to the rights as stipulated in laws, administrative regulations and the Articles of Association. The shareholders' general meeting is the highest authority of the Company, through which shareholders exercise their rights. In the reporting period, the Company held its annual general meeting for 2006 and the 1st Extraordinary General Meeting for 2007. At the 1st Extraordinary General Meeting for 2007, amendments to the Articles of Association of the Company were approved by way of a special resolution, which provides that "shareholders shall enjoy rights and assume liabilities on the basis of the classes and number of shares they held; and shareholders holding the same class of shares shall enjoy the same rights and assume the same liabilities". As such, the Company has established a corporate governance structure that ensures the adequate exercise of rights by shareholders in the mainland China and Hong Kong and equality among all shareholders, particularly the minority shareholders. The Company held two shareholders' general meetings in the reporting period in accordance with the scope authority of shareholders' general meetings, at which the significant events of the Company including the issue of A Shares were considered and approved by all shareholders and the connected transactions such as the acquisitions of Shendong Coal and of Shendong Power were approved by the independent shareholders.

Share Interests of Directors, Supervisors and Senior Management

As at 31 December 2007, none of the directors, supervisors or senior management had any interest or short position in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO"), (Chapter 571 of the Laws of Hong Kong) which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified by the directors and supervisors to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

As at 31 December 2007, the Company had not granted any equity securities or warrants to its directors, supervisors and senior management or their respective spouses or children under the age of 18.

Substantial Shareholders' Interests and Short Positions in the Company

As at 31 December 2007, persons set out in the table below had an interest or short position in the Company's shares as recorded in the register required to be kept under section 336 of the SFO (Chapter 571 of the Laws of Hong Kong):

Name of shareholder	Capacity	H/domestic shares	Nature of interest	No. of H/ domestic shares held	Percentage of H/domestic shares over all issued H/domestic shares respectively (%)	Percentage of total share capital of the Company (%)
Shenhua Group	Beneficial owner	Domestic	N/A	14,691,037,955	89.08	73.86
JPMorgan Chase & Co	Beneficial owner, investment manager	H	Long position	277,027,092	8.15	1.39
	Custodian	H	Short position	71,527,467	2.10	0.36
		H	Lending pool	135,450,992	3.99	0.68
UBS AG	Beneficial owner, person holding secured interests in the shares	H	Long position	270,072,969	7.95	1.36
	Interest of Corporation controlled by substantial Share holder		Short position	98,278,387	2.89	0.49
Taurus Investments SA	Beneficial owner	H	Long position	155,612,000	5.08	0.78

Notes: Information hereby disclosed is based on the information available on the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk).

Save as disclosed above, as far as the directors of the Company are aware, as at 31 December 2007, no interest and/or short position was held by any person in the shares or underlying shares of the Company (as the case may be) which is required to be recorded in the register and kept by the Company under section 336 of Part XV of the SFO, or was otherwise a substantial shareholder (as defined in the Listing Rules) of the Company.

Functions of the Board of Directors

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

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

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

The Board is responsible for preparing the financial statements for each financial year to give a true and fair view of the Company's financial position, its results and cash flow for the relevant period. In preparing the financial statements for the year ended 31 December 2007, the Board has adopted and applied the appropriate accounting policies in arriving at a prudent, fair and reasonable judgments and estimates, and has prepared the financial statements on a going concern basis. The Board is responsible for duly maintaining accounting records which reasonably and accurately disclose the financial position of the Company. Board meeting was convened at least once every quarter and whenever important is made.

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

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

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.

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

Other than their own service contracts, none of the directors and supervisors has any actual personal interest, directly or indirectly, in the material contracts made by the Company or any of its subsidiaries in 2007.

Attendance of Directors at Board Meetings in 2007

Number of meetings	5	
	Attendance in person Number of times	Attendance by proxy Number of times
Executive Directors		
Chen Biting	5	–
Ling Wen	5	–
Non-executive Directors		
Yun Gongmin*	3	–
Zhang Xiwu	4	1
Zhang Yuzhuo	5	–
Han Jianguo	3	2
Independent Non-executive Directors		
Huang Yicheng	4	1
Anthony Francis Neoh	5	–
Chen Xiaoyue	5	–

Note: Mr. Yun Gongmin was appointed as a director of the Company at the 2007 annual general meeting on 15 May 2007. Mr. Yun attended a total of three board meetings held subsequent to 15 May 2007.

For details of the daily operation of the Board and the work experience and tenure of the directors, please refer to the sections "Directors, Supervisors, Senior Management and employees" and "Directors' Report" of this report.

Performance of duties by independent directors

In the reporting period, the independent directors of the Company strictly complied with the requirements of relevant laws and regulations, the Articles of Association and relevant rules and procedures, they maintained their independence required for independent directors, performed their functions of supervision, participated in the making of important decisions of the Company. Therefore the independent directors of the Company played an key role in the monitoring of the operation of the Company and protected the lawful interests of minority shareholders. The Company has facilitated and ensured that proper conditions are in place for independent directors to perform their duties.

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.

1. Attendance of independent directors at board meetings

Name of independent director	Number of board meetings held in 2007	Attendance in person	Attendance by proxy	Absent	Remark
Huang Yicheng	5	4	1	–	Huang Yicheng appointed Chen Xiaoyue as his proxy to attend and vote at the 17th board meeting
Neoh Anthony Francis	5	5	–	–	
Chen Xiaoyue	5	5	–	–	

2. Particulars of independent directors' objections

In the reporting period, the independent directors of the Company did not raise any objection to the resolutions of the Board and other resolutions of the Company for the year.

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. Details of the principal duties, the number of meetings and the work done by the Audit Committee during the year are set out in the relevant sections of Chapter 10 of this report.

Directors' Remuneration

The Board of the Company established a Remuneration Committee consisting of two independent non-executive directors and one executive director. The Chairman is Mr. Anthony Francis Neoh, and the members are Dr. Chen Xiaoyue and Dr. Ling Wen. The committee would, when it is necessary, engage external professional advisers to give assistance and/or suggestions in relation to the matters concerned. Details of the principal duties, the number of meetings and the work done by the Remuneration Committee during the year are set out in the relevant sections of Chapter 10 of this report.

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.

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

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

Details of the principal duties, the number of the meetings and the work done by Nomination Committee during the year are set out in the relevant sections of Chapter 10 of this report.

Implementation of the internal control system

The Company's internal control system was established to standardize the organizational structure of internal control and set out basic rules for management control. This laid a solid foundation for the establishment of sound, effective and reasonable internal accounting controls. The Company improved its corporate governance structure by establishing a mechanism among the Board, the Supervisory Committee and the Management in relation to decision-making, supervision and operation management. In pursuance of its corporate culture, the Company learned from advanced international experience and combined its corporate development with the moral and cultural training for its employees. Through the establishment of code of conduct for employees and the implementation of various policies and rules, the Company was able to effectively integrate and improve its internal control and business development, thereby improving its ability to operate in accordance with the applicable laws and rules for continuous development.

The Company has established internal control supervision departments, including, the Internal Control Audit Department and the Legal Affairs Department.

The Company has established an Audit Committee of the Board, which ensures the management of the Company performed its duties to establish effective information disclosure mechanisms and rules for internal financial control of reporting through reviewing and discussing the mechanisms and the relevant rules with the management of the Company. The Audit Committee also supervises and examines the Company's financial control, information disclosure mechanisms and procedures, internal control and risk management systems. The Company's self-evaluation report on internal control is reviewed by the Board on annual basis.

The Company takes various measures to supervise and examine its internal control and its implementation systems in respect of the preparation of accounting statements in accordance with the Accounting Standards for Enterprises, so as to ensure the full implementation of its internal control systems. Various separate or joint audits are carried out by the audit department and other relevant departments of the Company on annual basis. This facilitates the implementation of the relevant rules, mitigate the Company's operating risks, strengthen internal control, optimize the allocation of our resources and enhance our operational management.

Auditors' Remuneration

KPMG and KPMG Huazhen are the Company's external auditors. Pursuant to a resolution resolved at the Company's 2006 annual general meeting, the external auditors were re-appointed and their fees would be determined by an authorised team of directors. The Company's audit fees for the year ended 31 December 2007 were RMB54,205,000. For detailed analysis of audit fees, please refer to the contents of "Significant Events" in Chapter 14.

General Meetings

In the reporting period, the Company held two general meetings in strict compliance with the notification, convening and holding procedures of general meetings stipulated by relevant laws and regulations and the Articles of Association, details of which are as follows.

(I) Annual general meeting

The Company held the annual general meeting for the year of 2006 on 15 May 2007 in Hong Kong. Announcement of the resolutions passed at the meeting was published in Hong Kong South China Morning Post, Economic Times and the website of the Stock Exchange of Hong Kong Limited on 16 May 2007.

(II) Extraordinary general meeting

The Company held the first extraordinary general meeting for the year of 2007 on 24 August 2007 in Hong Kong. Announcement of the resolutions passed at the meeting was published on the website of the Stock Exchange of Hong Kong Limited on 24 August 2007.

Directors' Report

The main contents of the Directors' Report include:

A. Management discussion and analysis

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

(II) 2007 industrial position and operating environment

(III) Business review and operating results by segment

1. Coal

(1) Coal production

(2) Coal resources

(3) Coal sales

(4) Operating results of coal segment

- **(a) Revenues**
- **(b) Cost of revenues**
- **(c) Profit from operations**

2. Railway

(1) Railway operation

(2) Operating results of railway segment

- **(a) Revenues**
- **(b) Cost of revenues**
- **(c) Profit from operations**

3. Port

(1) Port operation

(2) Operating results of port segment

- **(1) Revenues**
- **(2) Cost of revenues**
- **(3) Profit from operations**

4. Power

(1) Power generation

(2) Progress of construction projects

(3) Operating results of power segment

- **(1) Revenues**
- **(2) Cost of revenues**
- **(3) Profit from operations**

(IV) Consolidated results of operations

- **(I) Notes to consolidated income statement**
- **(II) Notes to consolidated balance sheet**
- **(III) Notes to consolidated cash flow statement**

(V) Operating results of principal subsidiaries and joint venture

(VI) Future development strategies and business plans

(VII) Capital expenditure

(VIII) Major risks exposed to the Company

B. Investments by the Company

C. Changes in the Company's accounting policies and accounting estimates or reasons for correction of significant accounting errors and their impacts

D. Explanations for the selection of principal accounting policies and significant accounting estimates

E. Daily work of the Board of Directors

F. Proposal on profit distribution

G. Other disclosure matters

A Management discussion and analysis

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

In recent years, China Shenhua set development target to build an integrated energy company featuring essential security, quality and efficiency, technological innovation, resource saving and harmonious development. Facing numerous challenges and opportunities, the Company accomplished the following objectives in 2007:

- Persistence on energy integration management model;
- Combination of organic growth with consolidation and acquisition;
- Based on the development of the coal business, to keep and improve the competitive advantages of the Company by coordinating the development of railway, port and power businesses;
- Persistence on combination of innovation with standardization, refining management, regulating internal processes within the Company, preventing and controling risks and improving the quality of management of the Company; and
- Promotion of international operation.

In 2007, through the joint efforts of the Company's Board of Directors, senior management and all the employees, further improvements have been made in respect of various indicators of business operations.

Based on financial statements prepared in accordance with the International Financial Reporting Standards, 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 assets[1] of the Group amounted to 10.1% (2006: 11.9 %), representing a decrease of 1.8% compared with 2006. The average return on net assets[2] was 20.6% (2006: 27.2%) representing a decrease of 6.6% compared with 2006. EBITDA[3] 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 ratio[4] 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, investment returns, Share of profit less losses of associates profits tax and depreciation and amortization. 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. 2007 industrial position and operating environment of the Company

China Shenhua has a unique competitive advantage comprising of coal, railway, port and power businesses and is a leader in the coal industry of China. The Company produced 167 million tonnes of raw coal in 2007, accounting for 6.6% of the total national production of 2.536 billion tonnes. The amount of commercial coal was 209 million tonnes, accounting for 8.1% of the national coal consumption of 2.58 billion tonnes, resulting in the top position in market share in the coal industry of China. As the domestic coal industry is fragmented, recently the government issued various policies such as "Policy on Coal Industry" to implement the consolidation strategy of coal source with large coal groups, promote the safety, workers' health and environmental protection of coal industry. The consolidation policy can speed up the development of the Company. However, we will also face challenges like keen competitors, increase in cost and complicated environment. Please refer to Chapter 11 "Business Environment" of this report for details.

III. Business review and operating results by segment

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

Segment report prepared under IFRSs

	Coal		Railway		Port		Power		Corporate and others (Note)		Elimination		Total	
	2007 RMB million	2006 RMB million (restated)	**2007 RMB million**	2006 RMB million (restated)	**2007 RMB million**	2006 RMB million (restated)	**2007 RMB million**	2006 RMB million (restated)	**2007 RMB million**	2006 RMB million (restated)	**2007 RMB million**	2006 RMB million (restated)	**2007 RMB million**	2006 RMB million (restated)
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
Operating margin (%)	**27.4**	31.2	**52.9**	50.4	**19.0**	12.3	**24.1**	25.9						
Reconciliation of profit from operations to profit of the year :														
Profit from operations													**32,497**	27,491
Net finance 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.

1. Coal

(1) Coal production

Table 10.1: Commercial coal production

	2005 Million tonnes	2006 Million tonnes	**2007 Million tonnes**	06-07 Percentage change %
Shendong 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
Yujialiang	15.5	16.1	**16.5**	2.5
Shangwan	11.5	12.1	**12.1**	–
Halagou	12.3	12.1	**12.1**	–
Kangjiatan	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
Total	121.4	136.6	**158.0**	15.7

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, Yujialiang 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

Table 10.2: Coal resources & reserves under China National Standard

	Method of mining	**As at 31 December 2007** Recoverable reserve 100 Million tonnes	**As at 31 December 2007** Resource 100 Million tonnes	As at 31 December 2006 Recoverable reserve 100 Million tonnes	As at 31 December 2006 Resource 100 Million tonnes
Shendong 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		**114.82**	**180.24**	90.99	148.52

Table 10.3: Coal resources & reserves under JORC* Standard

	Method of mining	**As at 31 December 2007** Marketable reserve 100 Million tonnes	**As at 31 December 2007** Resource 100 Million tonnes	As at 31 December 2006 Marketable reserve 100 Million tonnes	As at 31 December 2006 Resource 100 Million tonnes
Shendong 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		**73.20**	**180.24**	59.56	148.52

* *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

Table 10.4: Coal sales by region

		2005 Million tonnes	2006 Million tonnes	**2007 Million tonnes**	06-07 Percentage change %
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	South Korea	23.3	23.9	**24.0**	0.4
	China Taiwan	8.3	7.8	**9.7**	24.4
	Japan	6.7	6.1	**6.6**	8.2
	Others	4.4	4.6	**5.0**	8.7
		3.9	5.4	**2.7**	(50.0)
Total		144.4	171.1	**209.1**	22.2

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.

Table 10.5: Sales volume and price of coal by market

Coal sales	**2007**		2006	
	Sale volume Million tonnes	**Sales price RMB/ tonne**	Sales volume Million tonnes	Sales price RMB/ tonne
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 mian 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.

Table 10.6: 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

Table 10.7: 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%.

2. Railway

By making full use of the integrated transportation system consisting of self-owned railway and ports, the Group solved the universal problem of transportation bottleneck that other domestic coal producers may face, which let the Group enjoy a unique competitive advantage in the coal industry. Based on the 5 self-owned railways, not only can the Group continuously transport coal to ports and sell to markets all over China and other countries, but we also have sufficient room to adjust the sales volume of coal so as to get more market share within coastal regions provide customers with steady and sufficient coal products.

(1) Railway operation

Table 10.10: Turnover of railway transportation

	2005 Billion tonne km	2006 Billion tonne km	**2007 Billion tonne km**	06-07 Percentage 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)
Total turnover of coal transportation	108.1	124.4	**141.8**	14.0

Currently, the Group owns and operates five railways, including Shuohuang Railway, Shenshuo Railway, Dazhun Railway, Baoshen Railway and Huangwan Railway, with an aggregate length of approximately 1,367 km. Of which, Shenshuo-Shuohuang Railway is one of China's two major railways for the coal transportation from the western regions to the eastern regions of China. The Group transports its coal mainly through self-owned railways and, at the same time, part of the coal is transported through state-owned railways.

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

Table 10.10: 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
Cost of internal transportation	**5,956**	5,048
Cost of external transportation	**846**	636
Sub-total	**6,802**	5,684
Others	**131**	132
Cost of revenues	**6,933**	5,816

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%.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3. Port

Besides enjoying self-owned railways specialised in coal transportation, the Group also owns and operates Huanghua Port and Shenhua Tianjin Coal Dock with the annual capacity for seaborne coal over 100 million tonnes.

(1) Port operation

Table10.10: Seaborne coal sales

	2005 Million tonnes	2006 Million tonnes	**2007 Million tonnes**	06-07 Percentage 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	100.2	117.7	**130.3**	10.7

The Group owns and operates Huanghua Port and Shenhua Tianjin Coal Dock, which have become the major transportation hub for the coal sales to domestic coastal markets and overseas markets. Of which, Huanghua Port is the second largest port for seaborne coal in China. In addition, the Group transports coal through Qinhuangdao Port, Tianjin Port and other third-party ports as well.

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.

The three berths at Shenhua Tianjin Coal Dock which was put into operation at the end of 2006 had gradually increased its coal throughput capacity in 2007, seaborne coal sales reaching 19.2 million tonnes. In September 2007, the phase I project of Shenhua Tianjin Coal Dock passed project acceptance inspection carried out by Ministry of Communications. In 2007, Shenhua Tianjin Coal Dock loaded coal on 9 vessels which with capacity over 150,000 tonnes with prompt delivery and highly efficient service, thereby Shenhua Tianjin Coal Dock won good appraisals from ship owners.

(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

Table 10.11: 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
Cost of internal transportation	**1,309**	1,118
Cost of external transportation	**62**	46
Other operating costs	**7**	–
Cost of revenues	**1,378**	1,164

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%.

4. Power

(1) Power generation

Table 10.12: Installed capacity of power plants

	Location	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		12,631	2,460	15,091	9,286

Table 10.13: Comprehensive performance indicators of power plants in 2007

	Regional grid	Gross power generation 100 million kwh	Total power output dispatch 100 million kwh	Average utilisation hours Hour	Standard coal consumption rate for power dispatching g/kwh
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		797.4	743.5	5,995	332

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 increases 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 cosnumption. 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 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.

Table10.14: Power tariff of power plants

	Regional grid	**2007 Power tariff RMB/MWh**	2006 (restated) 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
Weighted average		**321**	312

(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.

Table 10.15: Fuel cost and standard coal price of power plants

		2007		2006 (restated)	
Operating power plants	Regional grid	**Fuel cost RMB/ MWh**	**Standard coal price RMB/ tonne**	Fuel cost RMB/ MWh	Standard coal price RMB/ tonne
Huanghua Power	North China Power Grid	**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
Shendong Coal	Northwest Power Grid	**40**	**101**	21	36
Shendong 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.

(IV) Consolidated results of operations

1. Notes to consolidated income statement

(1) Revenues

Table 10.16: Revenues

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

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

Table 10.17: Cost of revenues

	2007 RMB million	2006 (restated) RMB million	Percentage 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
Total	**43,773**	33,055	32.4

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%.

2. 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

Table 10.18: 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).

(III) 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.

(V) Operating results of main subsidiaries and joint venture

No.	Company (Enterprise) Name	Nature of Operation	Main Products or Services	Registered Capital (RMB'0000)	Total Assets (RMB'0000)	Net Assets (RMB'0000)	Net Profits (attributable to Parent Company) (RMB'0000)
1	GLP Guohua Power Co., Ltd	Electricity enterprise	Generation of power and sale of power output	163,676.02	1,196,774.21	398,211.21	23,536.46
2	Guangdong Guohua Yuedian Taishan Power Co., Ltd	Electricity enterprise	Generation of power and sale of power output	270,000.00	1,131,601.84	331,173.51	136,750.21
3	Heibei Guohua Cangdong Power Co., Ltd	Electricity enterprise	Generation of power and sale of power output	100,000.00	596,453.95	139,848.32	20,112.13
4	Zhejiang Guohua Zhenang Power Co., Ltd	Electricity enterprise	Generation of power and sale of power output	175,340.00	1,167,023.85	259,375.14	76,903.30
5	Zhejiang Guohua Yuyao Gas-fired Power Co., Ltd.	Electricity enterprise	Generation of power and sale of power output	17,000.00	207,601.29	5,790.92	-26,899.82
6	Hebei Guohua Dingzhou Power Co., Ltd.	Electricity enterprise	Generation of power and sale of power output	93,073.00	429,570.90	123,521.64	20,480.55
7	Suizhong Power Co., Ltd.	Electricity enterprise	Generation of power and sale of power output	262,453.00	809,207.08	279,567.10	14,363.45
8	Shenhua Zhunge'er Energy Co., Ltd. Coal mine operation power output	Electricity enterprise, Generation of power and sale of	Coal mining and development;	710,234.33	1,188,382.71	1,034,517.41	161,055.94
9	Shenhua Beidian Shengli Energy Co., Ltd.	Coal mine operation	Coal mining and development	52,500.00	164,088.47	64,610.10	10,157.01
10	Beijing Shenhua Changyun High-tech Coal Blending Co., Ltd.	Technical service	Coal blending technology research	20,000.00	53,765.55	52,253.79	35,570.55
11	Beijing Shenhua Hengyun Energy Technology Co., Ltd.	Coal transportation and sale	Coal purchase and sale	5,000.00	84,807.51	14,835.16	98,351.59
12	Shenhua Group Shenfu Dongsheng Coal Co., Ltd.	Integrated service	Provide integrated service	21,500.00	304,746.42	113,278.94	11,385.19
13	Shenhua Huanghua Port Administration Co.,Ltd.	Port	Offer port service	182,000.00	731,341.08	174,977.79	14,750.07
14	Shuohuang Railway Development Co., Ltd.	Railway operation	Offer transportation service	588,000.00	1,868,856.03	923,688.27	338,505.86
15	Shenhua Baoshen Railway Co., Ltd	Railway operation	Offer transportation service	100,387.00	222,262.71	131,607.95	17,081.72

The Company holds 52.7% of the equity interest in Shuohuang Railway. Shuohuang Railway is one of the main railway used to transport the Company's coal. Revenues of Shuohuang Railway Company amounted to RMB7.960 billion, operating profit amounted to RMB4.903 billion, net profit attributable to the parent company was RMB3.357 billion, representing 17.0% of the net profit attributable to shareholders of the Company of RMB19.766 billion.

During the reporting period the Company acquired the 100% equity interests in Shendong Coal and Shendong Power held by Shenhua Group, details of which are set out in Paragraph 1 in Part (III) "Acquisition and Sale of Assets, Takeovers and Mergers during the reporting period" in Chapter 14.

(VI) Future Development Strategy and Business Plan

1. 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. The 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.

2. 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 will be amounted to 177 million tonnes, representing an increase of 12.0% as compared with 2006. The sales volume of coal will be amounted to 224 million tonnes, representing an increase of 7.1% as compared with 2006. Gross power generation for the year will be 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 bargainning 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.

(VII) Capital Expenditure

Table 10.19 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
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.

(VIII) 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 economny. 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.

B. Investments of the Company

Capital expenditure of the Company for the period covered by the report amounted to RMB30.051 billion, an increase of RMB3.734 billion or 14.2% over last year.

(I) Uses of funds raised

In September 2007 the Company issued 1.8 billion A shares in an initial public offering. The issue price was RMB36.99 per share. The net amount of funds raised was RMB65.988 billion. The amount of funds raised was collected on 28th September 2007. The amount of funds raised used during the reporting period was RMB24.434 billion, of which the amount invested was RMB8.434 billion, the amount used to replenish working capital of the Company and for general business use was RMB16.000 billion. The balance which has not been used was RMB41.554 billion. The main projects for which funds raised were spent included:

	Name of project committed (including projects committed for funds raised in prospectus etc. and subsequent projects)	Does it belong to change or not	Amount committed (RMB'000)	Actual amount invested (RMB'000)	Does it meet the requirements Returns generated	Did it achieve the of scheduled progress	projected rate of return
Coal	Halagou Mine project	No	169,300	169,300		Yes	
	Buértai mine construction project	No	344,815	197,202		Yes	
	Háerwusu open–cut mine project	No	538,600	244,313		Yes	
	Sub-total		1,052,715	610,815			
Railway	Construction of Train Dispatching Command System		2,028			Yes	
	Construction of extension of the 2nd line of Baoshen Railway from Shigetai to Ciyaowan	No	4,553	4,553		Yes	
	Construction of extension of the 2nd line of Baoshen Railway from Dongsheng to Shigetai		5,311			Yes	
	Purchase locomotive	No	16,800	16,800		Yes	
	Yijing substation, control of pollution by power station	No	3,649	3,649		Yes	
	Truck management information system		547			Yes	
	Shenshuo railway infrared detecting encryption works		300			Yes	
	Purchase coal gondola car C70	No	160,000	148,943		Yes	
	Sub-total		193,188	173,945			
Port	Huanghua Port car dumper improvement works		4,426			Yes	
	Sub-total		4,426				
Power	Hebei Sanhe Power phase II		31,602			Yes	
	Inner Mongolia Guohua Zhunge'er Power expansion project	No	35,400	33,394		Yes	
	Zhejiang Ninghai Power phase II	No	105,822	20,340		Yes	
	Phase II of Shaanxi Jinjie coal and power integration project		64,050			Yes	
	Hebei Huanghua power plant phase II	No	48,690	4,950		Yes	
	Hebei Dingzhou phase II		45,500			Yes	
	Liaoning Suizhong phase II		87,482			Yes	
	Sub-total		418,546	58,684			
	Total		**1,668,875**	**843,444**			
Others	Supplement operating capital of the Company and general business use	No	1,600,000	1,600,000	N/A	N/A	N/A
	Acquisition of strategic assets	No	3,329,963		N/A	N/A	N/A
	Total		**6,598,838**	**2,443,444**			

In accordance with the Regulations on the Use of Proceeds of the Company, the proceeds are placed in special bank accounts and the use of such proceeds are regulated and strictly managed by the Company. The Company has opened a special current account with the Industrial and Commercial Bank of China, Bank of China, China Construction Bank and Bank of Communications respectively to place the proceeds from the offering of A Shares. Some of the proceeds are placed in special accounts as time deposits or seven-day notice deposits as long as they have not been utilized.

As at 31 December 2007, the balance of the special accounts for such proceeds amounted to RMB41.970 billion, slightly more than the balance of the proceeds due to the interests accrued, etc.

(II) Projects not financed by funds raised

1. Shendong Coal Branch Yujialiang 4^{-3} coal project

The total amount of investment for this project was RMB680 million. In 2007, the project has been invested about RMB100 million. As at the end of 2007, the main portions of the project that have been completed included the roadway project, ground construction project and part of the installation works. It is expected to be completed in 2008.

2. Shendong Coal Branch Shangwan coal mine coal supplying base for coal liquefaction project

The total amount of investment for this project is RMB2.01 billion. The capacity of Phase I of this project is 13.5 million tonnes/year. An amount of RMB850 million has been invested in 2007. As at the end of 2007, the main portions of the project completed included underground panel and working surface building, the project of the roadway in the third panel for ventilation, transportation and storage, the primary shaft for coal liquefaction, the purchase of equipment and installation works, and the construction of the ground surface washing system.

3. Shendong Coal Brach Shigetai mine technological transformation and expansion of thin coal seam mining project

The total amount of investment for this project was RMB680 million. An amount of RMB550 million has been invested in 2007. As at the end of 2007, 90% roadway project was completed; the main portions of the project which have been completed included the purchase of long-wall equipment, the installation of main transportation equipments, underground water drainage, underground power supply, power supply system transformation for ground units, the installation of equipment for sewage recycling. It is expected to be completed in 2008.

4. Shendong Coal Brach Wulanmulun mine transformation and expansion project

The total amount of investment for this project was RMB290 million. An amount of RMB190 million has been invested in 2007. As at the end of 2007, the first mining face roadway and the front cave floor project were finished. It is expected to be completed in 2008.

5. Zhunge'er Energy Heidaigou mine technological transformation and upgrading project

The Company holds 57.8% of the equity in that company. The total amount of investment for this project was RMB1.1 billion. Raw coal production outputs upon completion of the project will be 20 million tonnes/year. An amount of RMB260 million has been invested in 2007. During the reporting period, the investment expenditure was spent on the final payment and installing expense.

6. Jinfeng Coal Branch Changhangou mine technological transformation and upgrading project

The total amount of investment for this project was RMB1.51 billion, annual coal production output was 10 million tonnes/year upon its completion. An amount of RMB680 million has been invested in 2007. As at the end of 2007, the project was ready for acceptance inspection.

7. **Shengli 1st open-cut coal mine project of Beidian Shengli Energy Co., Ltd.**
The Company holds 63.2% of the equity in that company. The total amount of investment for this project was RMB2.56 billion. The capacity of Phase I of this project is 20 million tonnes/year. An amount of RMB620 million has been invested in 2007. As at the end of 2007, the phase I project was ready for 10 million tonnes trial production. It is expected to be completed in 2010.

8. **Shuohuang Railway Co. Ltd. Shuohuang Railway capacity expansion project**
The Company holds 52.7% of the equity in that company. The total amount of investment for this project was RMB910 million. An amount of RMB85 million has been invested in 2007. As at the end of 2007, Suning North Station has been put into operation, and the construction of the signal building in Shizhuang Station has commenced. Completion of the project is expected to be in 2009.

9. **Huanghua Port Co.,Ltd. Huanghua Port expansion project**
The Company holds 70% of the equity in that company. The total amount of investment for this project was RMB480 million. An amount of RMB180 million has been invested in 2007. The construction of the project commenced operation in 2007 and completion is expected in 2008.

10. **Huanghua Port Co., Ltd. Huanghua Port follow-up project in sea channel broadening and dredging**
The Company holds 70% of the equity in that company. The total amount of investment for this project was RMB280 million. During the period of the report, the bottom of the sea channel has been broaden from 140 meter to 170 meter, while the depth of the channel has been adjusted from -11.5 meter to -13 meter.

C. Changes in the Company's accounting policies and accounting estimates or reasons for rectification of major accounting errors and their impacts

During the reporting period there was no change in the Company's accounting policies, accounting estimates nor rectification of major accounting errors.

D. Explanation for the selection of major accounting policies and important accounting estimates

Please refer to note 3 of the section "Financial statements (international)" for significant accounting policies and accounting estimates.

E. Daily work of the Board of Directors

(I) Details of Board of Directors' Meetings

1. The Company held the thirteenth meeting of the first session of the Board of Directors on 22 January 2007, and resolutions were passed by way of written resolution. Resolutions were passed in relation to the appointment of Mr. Ling Wen (a director of the Company) to the Strategic Committee and Mr. Ling Wen cearing to act as the chief financial officer of the Company, the appointment of Ms. Zhang Kehui as chief financial officer of the Company, the incorporation of China Shenhua Energy Company Dangsheng Coal Branch Company, and the acquisition of Panshan Power and Suizhong Power.

2. The Company held the fourteenth meeting of the first session of the Board of Directors on 23 March 2007 by way of physical meeting in Beijing. Resolutions were passed in relation to adoption of "China Shenhua Energy Company Limited 2006 Directors' Report", "China Shenhua Energy Company Limited 2006 Audited Financial Statements", "China Shenhua Energy Company Limited Announcement of Results for the year ended 31 December 2006" and "China Shenhua Energy Company Limited 2006 Annual Report", China Shenhua Energy Company Limited profit distribution proposal for the year 2006, China Shenhua Energy Company Limited directors' and supervisors' remuneration for the year 2006, China Shenhua Energy Company Limited remuneration for the Chief Executive Officer and other members of senior management for the year 2006, re-engagement of external auditors, execution of follow up agreements for connected transactions, adjustment of cap for some connected transactions for 2007, Nomination of Mr. Yun Gongmin being appainted a director of China Shenhua Energy Company Limited at annual general meeting, on appointment of Mr. Ling Wen as a member to the First Session of Safety, Health and Environmental Protection Committee under the Board of Directors of China Shenhua Energy Company Limited, mandate given to the Board of Directors of China Shenhua Energy Company Limited for issuance of shares, amendment to the proposal of the incorporating China Shenhua Energy Company Limited Jinfeng Coal Branch Company, registration and incorporation of Hebei Guohua Dingzhou No. 2 Power Generation Company Limited, "China Shenhua Energy Company Limited Internal Control Handbook" and "China Shenhua Energy Company Limited Self Assessment Handbook" and on the proposal of convening the 2006 annual general meeting of China Shenhua Energy Company Limited. The Board of Directors submitted the relevant proposals to the 2006 annual general meeting of the Company for approval.

3. The Company held the fifteenth meeting of the first session of the Board of Directors on 30 June 2007 by way of physical meeting in Beijing. Resolutions were passed in relation to the issuance and listing of A shares by the Company amendment of "China Shenhua Energy Company Limited Articles of Association", amendment of "China Shenhua Energy Company Limited Shareholders' Meetings Rules ", amendment of "China Shenhua Energy Company Limited Directors' Meetings Rules", acquisition of certain assets of Shenhua Group Corporation Limited, convening the first shareholders' meeting, appointment of Mr. Yun Gongmin to the first Strategy Committee of the Board of Directors, registration and incorporation of China Shenhua Energy Company Limited Haerwusu Coal Branch Company, and the registration and incorporation of China Shenhua Energy Company Limited Shengli Energy Branch Company. The Board of Directors has submitted these proposal to the first special general meeting of the Company of 2007 for approval.

4. The Company held the sixteenth meeting of the first session of the Board of Directors on 17 August 2007 by way of physical meeting in Beijing. Resolutions were passed in relation to the passing of "China Shenhua Energy Company Limited 2007 Interim Report" and "China Shenhua Energy Company Limited Announcement of Interim Results for 2007", on the proposal of "China Shenhua Energy Company Limited audited International Financial Report as at 30 June 2007" and "China Shenhua Energy Company Limited second phase of three years audited reviewed domestic financial report", China Shenhua Energy Company Limited distributable profit and distribution proposal as at 30th June 2007, use of funds from the last fund raising, the "Administration system on the uses of funds raised" and amendments to rules of respective committees of the Board.

5. The Company held the seventeenth meeting of the first session of the Board of Directors on 21 December 2007 by way of physical meeting in Beijing. For resolutions passed by the Board of Directors please refer to the resolution announcement of resolutions of "China Shenhua Energy Company Limited Announcement of Resolutions of the Seventeenth Meeting of the First Session of the Board of Directors" which was published on "China Securities Journal" and "Shanghai Securities News" on 24 December 2007.

(II) Implementation of resolutions passed in shareholders meetings by the Board

The Board has strictly carried out various resolutions passed shareholders meetings of the Company.

1. Implementation of resolutions passed in the 2006 annual general meeting by the Board

Resolutions	Contents	Status
The 4th ordinary resolution	Reviewed and approved the profit distribution plan of the company and authorized the Board of Directors to appoint directors to carry out the actual profit distribution	Implemented
The 5th ordinary resolution	Reviewed and approved remuneration for the Company's directors and supervisors and authorized the Board of Directors to determine remuneration for each director and supervisor for 2006.	Implemented
The 6th ordinary resolution	Reviewed and approved the re-engagement of the accounting firm and authorize the directors to determine its remuneration.	Implemented
The 7th ordinary resolution	Reviewed and approved the extension and signing of certain agreements on connected transactions, approved the caps of connected transactions for 2008 to 2010 and authorized the Board to appoint Mr. Chen Biteng and Mr. Ling Wen as members to take all necessary actions as required by the Listing Rules of the Hong Kong Stock Exchange.	Implemented
The 8th ordinary resolution	Reviewed and approved amendments to and set the new caps of certain connected transactions for the year 2007, and authorized the Board to appoint Mr. Chen Biteng and Mr. Ling Wen to take all necessary actions as required for amending the Upper Limits of connected transactions.	Implemented

2. Implementation of resolutions passed in the first extraordinary general meeting for 2007 by the Board

	Contents	Status
The 1st special resolution	(1) the Board be authorized to deal, in its absolute discretion, with matters in relation to the offering and listing of shares in accordance with the relevant requirements and arrangements of the China Securities Regulatory Commission, Hong Kong Stock Exchange and Shanghai Stock Exchange and to delegate such authorization; (2) Reviewed and approved the profit distribution proposal of the company and authorized the Board of Directors to appoint directors to carry out the actual profit distribution	(1) A Shares have been issued pursuant to such authorization; (2) The aggregate amount of special dividends was approximately RMB22.544 billion, RMB16.799 billion has been distributed, the balance of RMB5.745 billion will be distributed after annual audit in 2007.

(III) Summary work report of the audit committee of the Board

The Audit Committee under the Board comprises of independent directors including Dr. Chen Xiaoyue, Mr. Neoh Anthony Francis and Mr. Huang Yicheng respectively, with Dr. Chen Xiaoyue as the chairman.

During the reporting period, the Audit Committee carried out its duties strictly in accordance with the "Rules and Procedures of Meetings of the Audit Committee under the Board of Directors" and formulated the "Rules on the work of the Audit Committee of the Board of Directors" ("Rules of Work"). The Rules of Work regulates the supervisory procedures of the Audit committee in the compilation of the Company's financial statements and during the process of audit. The Audit Committee held four meetings during 2007 and has carried out all essential procedures during the 2007 audit.

Name	Date	Venue	Attendee	Resolutions passed
The ninth meeting	20 March 2007	Beijing	Chen Xiaoyue, Huang Yicheng, Neoh Anthony Francis	1. "China Shenhua Energy Company Limited 2006 audited financial statements", 2. "China Shenhua Energy Company Limited profit distribution report for the year ended 31 December 2006" 3. "Continuation in the execution of Agreements on Connected Transactions" 4. "Proposed adjustments to the caps of some connected transactions for 2007" 5. "Proposal on the registration and incorporation of Hebei Guohua Dingzhou No.2 Power Generation Company Limited" 6. "Proposal on the continuous re-engagement of the external auditor" 7. "Proposal on audit fee for the audit on China Shenhua Energy Company Limited for the year 2006" 8. "China Shenhua Energy Company Limited Internal Control Handbook" and "China Shenhua Energy Company Limited Self Assessment Handbook" 9. "China Shenhua Energy Company Limited Internal Control Review Report" 10. "China Shenhua Energy Company Limited Effectiveness of Internal Control System Review Report" 11. "Proposal on the change in the person responsible for internal control in China Shenhua Energy Company Limited" 12. "China Shenhua Energy Company Limited 2007 Internal Control Work Plan"
The tenth meeting	30 June 2007	Beijing	Chen Xiaoyue, Huang Yicheng, Neoh Anthony Francis	1. "Proposal on acquisition of certain assets of Shenhua Group Corporation Limited".

Name	Date	Venue	Attendee	Motions passed
The eleventh meeting	16 August 2007	Beijing	Chen Xiaoyue, Huang Yicheng, Neoh Anthony Francis	1. "Proposal of "China Shenhua Energy Company Limited audited financial report for the six months ended 30th June 2007", 2. "Proposal on China Shenhua Energy Company Limited Distributable Profits as at 30th June 2007", 2. "Proposal on uses of funds from the last fund raising" 3. "Proposal on Explanatory Notes to the uses of funds raised from the last fund raising" 4. "Proposal on "Administrative system on the uses of funds raised" 5. "Proposal on amendments to "By-laws of Board Meetings of China Shenhua Energy Company Limited" 6. Attend presentation by the internal audit department on "China Shenhua Energy Company Limited report on internal audit work for the first half of 2007 and work plan for the second half of 2008."
The twelfth meeting	20 December 2007	Beijing	Chen Xiaoyue, Huang Yicheng, Neoh Anthony Francis	1. "Proposal on China Shenhua Energy Company Limited 2008 financial planning" 2. "Proposal on amendments to "China Shenhua Energy Company Limited system on decisions for connected transactions" 3. "Proposal on the establishment of the joint venture of Tianjin Guohua Jinneng Power Generation Company Limited which involves connected transactions" 4. "Proposal on the establishment of the equity joint venture of Jiangsu Guohua Chenjiagang Power Generation Company Limited which involves connected transactions" 5. "Proposal on the interim audit for 2007 and audit fee for the listing of A shares of China Shenhua Energy Company Limited"

On 20 December 2007, the Audit Committee, KPMG Huazhen and KPMG ("the Company Auditors") held a meeting to discuss and confirm the timetable for auditing of the financial statements for the year. On 8 January 2008, the Audit Committee reviewed the Company Auditors' audit work plan for the Company's self assessment report on internal controls. On 17 January 2008, the Audit Committee further discussed the audit work plan for internal controls with the Company Auditors. On 22 February 2008, the Audit Committee reviewed the unaudited consolidated financial statements prepared by the Company. On 4 March 2008, the Audit Committee visited Guohua Power Branch Company to conduct an on-site inspection, examined the closing status of annual financial statements, reviewed the financial statements together with the preliminary audit report and the Company's self-assessment report on internal controls. On 8 March 2008, the Audit Committee reviewed the Company's self-assessment report on internal controls again. On 14 March 2008, the Audit Committee voted and resolved to submit the audited financial statements and the self-assessment report on internal controls to the Board of Directors for approval.

During the course of preparation of the annual report, the Audit Committee engaged the Company's Internal Audit Department to supervise the preparation of the financial statements, the timely submission of audit report (including draft) by the Company Auditors, ensure the timely completion of the preparation of the Company's financial statements and the audit work.

Prior to the commencement of the Company Auditors' work, the Audit Committee reviewed the financial statements prepared by the Company and considered that the financial statements are able to reflect the Company's financial condition and operating results. Following the commencement of the Company Auditors' work, the Audit Committee discussed and confirmed the audit work plan of the financial statements for the year with the Company Auditors. During the course of audit, the Audit Committee kept in touch with the Company Auditors, discussed audit issues with the Company Auditors on site, ensured the Company Auditors submitted their audit reports within the agreed timeframe. When the Company Auditors issued preliminary audit report, the Audit Committee reviewed the Company's financial statements again and noted in paper that they considered the Company's financial statements truly, accurately and completely reflect the state of affairs of the Company. In addition, the Audit Committee reviewed and submitted the Company Auditors' audit work summary for the year and a resolution for the re-appointment or change of auditors. Based on following up, understanding of the Company Auditors' annual audit work and reviewing the 2007 audit work summary, the Audit Committee considered that the Company Auditors completed all the engagements at a very good standard with reference to all the required professional standards, including exercising due care, independence, objectivity, fairness. Therefore, they suggest the Company to re-appoint KPMG Huazhen and KPMG as the auditors of the Company for the year 2008.

(IV) Summary work report of the remuneration committee of the Board

The Remuneration Committee under the Board comprises of members including Mr. Neoh Anthony Francis, Dr. Ling Wen and Dr. Chen Xiaoyue, with Mr. Neoh Anthony Francis as the chairman.

The main duties of the Remuneration Committee is to formulate the remuneration plan for the directors, supervisors, president and other senior management, and make proposals to the Board on (including but not limited to) the criteria, procedures and the main systems of performance assessment, key incentive and punishment plans and systems, examine how directors, supervisors, the president and other senior management of the Company perform their duties and carry out annual performance assessment on them, and supervise implementation of the remuneration system of the Company. The Remuneration Committee is authorized by the Board to fix the specific remuneration, including non-monetary benefits, pension and compensation (including compensation for loss or termination of duties or appointment) for all the directors, supervisors, the president and other members of the senior management, to ensure that none of the directors (or his connected person(s)) fixes his own remuneration, and to carry out any other matter as authorized by the Board.

The Remuneration Committee held three meetings during 2007. Details of the meetings are as follows:

Name	Date	Place	Attendee	Resolutions were passed
The 7th meeting	22 March 2007	Review of document	Neoh Anthony Francis, Ling Wen, Chen Xiaoyue	1. "Proposal on the remuneration of the directors and supervisors of China Shenhua Energy Company Limited for the year 2006" 2. "Proposal on the remuneration of the president and other members of senior management of China Shenhua Energy Company Limited for the year 2006"
The 8th meeting	17 August 2007	Beijing	Neoh Anthony Francis, Ling Wen, Chen Xiaoyue	1. "Proposal on amendments to the Rules and Procedures of Meetings of the Remuneration Committee under the Board of Directors"
The 9th meeting	20 December 2007	Beijing	Neoh Anthony Francis, Ling Wen, Chen Xiaoyue	1. "Proposal on 2008 Performance Assessment Responsibility Report of China Shenhua Energy Company Limited" 2. "Proposal on the granting of 2007 Plan for the granting of share appreciation right of China Shenhua Energy Company Limited"

During the reporting period, the Remuneration Committee reviewed our remuneration management system and the remuneration level for the directors, supervisors, the president and other senior management in the year 2007, and is of the view that the Company has a well-established remuneration management system which highlights performance assessment and reflects the economic-benefit-centered philosophy of a listing company and political, social and economical responsibility of a state-holding enterprise. The Remuneration Committee agrees on the remuneration management system of the Company, and is of the view that the share appreciation rights scheme (and its implementation) is in compliance with relevant regulations in respect of its authorization, and its of terms of rights of exercise have been observed.

(V) Summary work report other specialized committees of the Board

Strategy Committee

Name	Date	Place	Attendee	Resolutions were passed
The 7th meeting	15 August 2007	Review of document	Chen Biteng, Yun Gongmin, Zheng Xiwu, Ling Wen	1. Amendment to the "Rules and Procedures of Meetings of the Strategy Committee under the Board of Directors of China Shenhua Energy Company Limited"
The 8th meeting	20 December 2007	Beijing	Chen Biteng, Yun Gongmin, Zheng Xiwu, Ling Wen	1. "Proposal on the 2008 Business Plan and Capital Expenditure Budget of China Shenhua Energy Company Limited" 2. "Proposal on the South Sumatra coal power plant project in Indonesia" 3. "Proposal on the acquisition of part of the equity in Shenhua Debote Conveyor Belt Machine Co., Ltd."

Nomination Committee

Name	Date	Place	Attendee	Resolutions were passed
The 2nd meeting	22 January 2007	Review of document	Chen Biteng, Huang Yicheng, Neoh Anthony Francis, Chen Xiaoyue	1. "Proposal on the appointment of Mr. Ling Wen to the Strategy Committee" 2. "Proposal on Mr. Ling Wen ceases to act as the Chief Financial Officer of the Company and the appointment of Ms. Zhang Kehui as the Chief Financial Officer of the Company"
The 3rd meeting	22 March 2007	Review of document	Chen Biteng, Huang Yicheng, Neoh Anthony Francis, Chen Xiaoyue	1. "Proposal on the election of Mr. Yun Gongmin as a director to the Board of Director of the Company" 2. "Proposal on the appointment of Mr. Ling Wen, a director, to the Safety, Health and Environment Committee under the First Session of the Board of Directors"
The 4th meeting	30 June 2007	Beijing	Chen Biteng, Huang Yicheng, Neoh Anthony Francis, Chen Xiaoyue	1. "Proposal on the appointment of Mr. Yun Gongmin to the Strategy Committee under the First Session of the Board of Directors"
The 5th meeting	17 August 2007	Beijing	Chen Biteng, Huang Yicheng, Neoh Anthony Francis, Chen Xiaoyue	1. Proposal on the "Amendments to the Rules and Procedures of Meetings of the Nomination Committee under the Board of Directors of China Shenhua Energy Company Limited"

Safety, Health and Environment Committee

Name	Date	Place	Attendee	Resolutions were passed
The 5th meeting	23 March 2007	Review of document	Huang Yicheng, Zhang Yuzhuo, Ling Wen, Han Jianguo	1. "Summary Report on Safety, Health and Environment work of China Shenhua Energy Company Limited"
The 6th meeting	17 August 2007	Beijing	Huang Yicheng, Zhang Yuzhuo, Ling Wen	1. "Proposal on amendments to the 'Rules and Procedures of Meetings of the Safety, Health and Environment Committee under the Board of Directors of China Shenhua Energy Company Limited"

F. 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.

G. 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.

For details, please refer to the announcement titled "Special Dividends and Closure of Register of Members" as published on the websites of both the Hong Kong Stock Exchange and the Shanghai Stock Exchange on 25 October 2007.

The following are made pursuant to the Hong Kong Listing Rules:

Structure of Share Capital

The table below sets out the structure of the share capital of the Company as at 31 December 2007:

Types of shares	Number of shares	Proportion (%)
A shares	16,491,037,955	82.91
H shares	3,398,582,500	17.09
Total	19,889,620,455	100.00

Major Customers and Suppliers

The largest external customer and the five largest external customers of the Company accounted for approximately 8.4% and 26.2% respectively of the Company's revenues for the year ended 31 December 2007.

For the year ended 31 December 2007, the total amount of purchases made by the Company from its five largest suppliers amounted to RMB9,272 billion, and accounted for 16.4% of the total purchases for the year. The amount of purchases from the largest supplier amounted to RMB3,283 billion, and accounted for 5.8% of the total purchases for the year. As far as the Company is aware, none of the directors, their associates and shareholders who are interested in more than 5% of the share capital of the Company has any interest in the five largest suppliers and external customers.

Purchase, Sale or Repurchase of Shares of the Company

For the year ended 31 December 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.

Minimum Public Float

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

Property, Plant and Equipment

Additions to the property, plant and equipment of the Group for the year ended 31 December 2007 amounted to RMB5.928 billion. Details of movements are shown under note 15 of the section "Financial statements (international)" of this report.

Distributable Reserves

As at 31 December 2007, the aggregate amount of reserves which is available for distribution to the equity shareholders of the Company was RMB12,631 million.

Shareholding of Substantial Shareholders

Details are set out in the section 8"Corporate Governance Report" of this report.

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

Details are set out in the relevant section of Chapter 8 "Corporate Governance Report" of this report.

Employee Retirement Plan

In accordance with applicable laws and regulations, the Company participated in various retirement plans organised by municipal and provincial governments for employees. Details are set out in note 37 of the section "Financial statements (international)" of this report.

Remuneration

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

Service Contracts

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

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

Remuneration of the Directors and Supervisors

Details of the remuneration of the Company's directors and supervisors are set out in note 10 "Financial statements (international)" of this report.

Subsidiaries

Details of the principal subsidiaries of the Company are contained in note 18 of "Financial statement (international)" of this report.

Pre-emptive rights

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

Taxation

For the year ended 31 December 2007, no foreign shareholder who is not resident of the PRC is liable for Individual or Enterprise Income Tax, Capital Gains Tax, Stamp Duty or Estate Duty of the PRC in relation to their holding of shares of the Company. Shareholders shall consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of the Company's H shares.

Business Environment[1]

(I) Macroeconomic environment

In 2007, the China economy grew rapidly with an increase in GDP of 11.4%. Since the rapid growth in economy resulted signs of over-heated economy and significant inflation pressure, the aim of the macro-economic control policy for 2008 confirmed by the central government is mainly targeted at preventing the economy from growing rapidly to overheating, as well as preventing commodity price changing from structural growth into obvious inflation. It is expected that economic growth rate for 2008 would be around 10%.

According to the estimates of IMF, the global economy continued its growth in 2007. The growth rate was approximately 4.9%, of which growth rate for developed economies was 2.6%, while growth rate of Asian countries was as high as 9.6%.

It is generally expected that, in 2008, some countries, (such as the USA), will be affected by the US sub-prime mortgage crisis resulting in slow down of economic growth, while other economies in the world will maintain a momentum of growth, amongst which emerging economies such as China and India will maintain rapid economic growth.

In recent years, rapid growth of the world economy has spurred rapid increase in demand for production materials and energy. International crude oil price skyrocketed to exceed the level of 100 US dollars, while coal price continued to rise. On 21 February 2008, the spot price of Australian BJ thermal coal rose to the record price of US$130.95/tonne. The growth of the world economy and the China economy, particularly the rapid progress of urbanization and industrialization of China, will provide impetus to the continuous and rapid growth in major coal consumption industries, (such as power, steel, building materials and chemical industry, etc.) which in turn lead to increase in the demand for coal.

1 This section is for information only and does not constitute any proposal for investment. The Company has done its best to ensure the accuracy and reliability of information in this section, but does not assume any liability or provide any form of guarantee for the accuracy, completeness or effectiveness of all or part of its content. If there is any error or omission, the Company does not assume any liability. The content in this section may contain certain forward looking statements based on subjective assumption and judgment of future politics and economy; therefore there may exist uncertainties in these statements. The Company does not have any responsibility in updating the information or correcting any subsequent error that may appear. The opinions, estimation or other data contained herein may be changed or revoked by the Company at any time without notification.

(II) Environment of the coal industry

1. The Coal Market in China

	2006	2007	**2008 forecast**
Coal Consumption (Million tonnes)	2,370	2,580	**2,740**
Coal Supply (Million tonnes)	2,380	2,536	**2,750**
Coal Transportation by railway (Million tonnes)	1,120	1,221	**1,290**
Daqin Line (Million tonnes)	250	300	**350**
Shenshuo-Shuohuang Line (Million tonnes)	110	130	**139**
Houyue Line (Million tonnes)	105	120	**130**
Coal Import (Million tonnes)	38	51	**50**
Coal Export (Million tonnes)	63	53	**50**

Review of 2007

In terms of demand, domestic demand for coal continued to grow. In 2007, mainland coal consumption was 2,580 million tonnes, representing an increase of 8.9% as compared with 2006. The main reason for the growth was due to the rapid development of coal consumption industries, such as thermal power generation, steel, building material and chemical industries. Thermal power generation achieved a growth rate of 14.6% as compared with 2006, the year-on-year increase in output of crude steel was 15.7%. The year-on-year increase on output of the cement was 13.5%, and the year-on-year increase on output of the chemical fertilizer was 10.2%.

In terms of supply, the domestic supply of coal grew continuously. In 2007, the national output of raw coal was 2,536 million tonnes, representing an increase of 6.6% as compared with 2006. New coal mines put into production added about 280 million tonnes capacity to output for the whole year, which pushed up the volume of output, while the close of small coal mines, strict restriction against production in excess of capacity and reduction in the output of old mines are factors which accounted for reduction in output. During the year, 5,244 small coal mines were shut down, and an aggregate capacity of 170 million tonnes was closed. Since the start of mine closures in 2005, 11,115 mines have been shut down with a net capacity reduction of 250 million tonnes.

In terms of coal transportation, the railway transportation capacity grew steadily. In 2007 the mainland railway transportation capacity for coal reached 1,221 million tonnes; representing an increase of 9.0% as compared with 2006, of which the coal transportation capacity of Daqin line was 300 million tonnes, representing an increase of 50 million tonnes as compared with 2006; the coal transportation capacity of Shenshuo-Shuohuang line was 130 million tonnes, representing an increase of 20 million tonnes as compared with 2006; and the coal transportation capacity of Houyue line was 120 million tonnes, representing an increase of 15 million tonnes as compared with 2006. In China, most of Coal Reserves and output is in the Northwest part, while most of coal consumption is in the Southeast Part. Consequently, railway coal transportation capacity has been unable to meet the demand for coal transportation for a long time. Based on the situation of 2007, it is evident that the output capacity of the main coal production regions exceeded its transportation capacity, and insufficient transportation capacity existed from time to time, showing that bottle-necks still exist in railway transportation of coal.

In terms of import and export, coal export volume in 2007 amounted to 53 million tonnes, representing a decrease of 15.9% as compared with 2006; Coal import volume was 51 million tonnes, representing an increase of 34.2% as compared with 2006. Net export volume for the year amounted to 2 million tonnes, representing a year-to-year decrease of 92.0%. Changes in the import and export volumes were due to the high domestic demand for coal and the policy of restraining "export" and encouraging "import" as well as the appreciation in the value of Renminbi.

To summarize, coal consumption in China remained robust in 2007, the supply and demand were in general balance, and growth in output was maintained. However, some capacity was restricted by capacity of railway transportation. In some areas, production is limited by transportation capacity, while there was supply shortage in winter and summer in some areas. Affected by the aforesaid and the increase of policy costs, coal price grew relatively rapidly during the year. Taking Qinhuangdao 6,000 Calorie premier blending FOB (6,000 FOB) spot price as an example, the price increased by 16% throughout the year, while the contract price of thermal coal for 2008 (as confirmed at the end of 2007) increased by more than 10%.

Prospect for 2008

In terms of demand, it is expected that demand for coal in China will keep on growing rapidly. It is forecasted that the four major coal consumption industries, i.e., power, steel, building material and chemical, will have additional demand of approximately 205 million tonnes of coal, and China's national coal demand is expected to be approximately 260 million tonnes. Due to factors such as energy conservation and reduction in pollutant emission, the demand for coal is expected to decrease by 100 million tonnes. The demand for coal is forecasted to amount to 2,740 million tonnes in 2008.

In terms of supply, the supply of coal is expected to maintain a steady growth. The increased production capacity released this year as a result of fixed imvestment in coal mines over the past few years is anticipated to be 240 million tonnes. However, the bottle-neck in railway transportation restricts the release of production capacity and the growth of coal supply. Coal output in 2008 for the whole country is anticipated to be 2,750 million tonnes.

In terms of coal transportation, it is expected that the increase in railway transportation capacity for 2008 will remain insufficient to satisfy demand for coal transportation. It is expected that railway transportation capacity for coal will increase approximately by 70 million tonnes, with the Daqin line increasing by approximately 50 million tonnes, the Shenshuo-Shuohuang line by 9 million tonnes, and the Houyue line by approximately 10 million tonnes. In 2008, production will be enhanced by 220 million tonnes by key state owned mines across the country and major local state owned mines, of which the five major coal producing regions of Shanxi, Inner Mongolia, Shaanxi, Henan and Anhui will add an aggregate of 170 million tonnes to output. However, transportation capacity will still be a bottleneck which limits release of production capacity in some areas.

In terms of import and export, affected by the policy of restraining export and encouraging import, the appreciation in the value of Renminbi and the high international coal spot price, it is expected that the volume of coal export and import in China will not change significantly, in comparison to that of 2007. In January 2008, the volume of coal imported by China was 4.24 million tonnes, representing a year-on-year decrease of 9.9%; while export volume was 5.75 million tonnes, representing an increase of 74.8% as compared with 2006. The net export volume was 1.51 million tonnes.

In terms of national policy, in 2007 the government promulgated important directives including the "11th 5-Year-Plan of the Coal Industry "and the "National Coal Industry Policy", to support key state-owned coal mines to integrate and restructure resources in peripheral areas based on the basis of major efforts made in the consolidation and closures of small coal mines that took place last year. Furthermore, the change in the levy of resource tax confirmed in the second half of 2007 from a volume based to ad valorem levy may be implemented in 2008. The pilot taxation policy of "two levies and one fee" which was carried out in Shanxi in 2007 may be popularized national-wide in 2008, while relevant measures taken by the government in respect of the safety and health of employees, and for the administration of environmental governance of coal enterprises will further increase the policy costs of coal, causing coal price to increase.

In general, demand for energy in 2008 will still be robust due to rapid economic growth in China. The demand for coal by major coal consumption industries, including the power, steel, building materials and chemical industries will remain strong. As for coal supply, the strict state control on investment in fixed assets in the coal industry and bottle-necks which exist in railway transportation of coal, will restrict the coal production capacity release in 2008 . It is expected that the supply and demand for coal national-wide will be in general balance in 2008. The supply of certain coal products in different areas during some periods will be limited or excessive, due to the impact of the bottle-necks in railway transportation and seasonal factors. Furthermore, as a result of the factors including increase of costs for policy reasons, there is still room for future increase in coal price.

(2) The Asia Pacific coal market

Review of 2007

In terms of demand, the major coal importing countries and regions in the Asia-Pacific market are Japan, Korea, Taiwan of China, India and mainland of China. The volume of new demand for coal in 2007 was 47 million tonnes. In 2007, the volume of coal imported by Japan amounted to 186 million tonnes, an increase of 4.8% as compared with 2006, due to factors including decrease in power generated by a nuclear power plant as a result of an accident there, the increase of coal consumption in the country as a result of bad weather, and the increase in the import of low heat coal. The import volume of Korea was 88 million tonnes, representing an increase of 9.7% as compared with 2006. The demand for coal in India rose steadily with its growing economy in the past few years. In 2007 India imported 50 million tonnes of coal, representing an increase of 24.0% as compared with 2006.

In terms of supply, coal exporting countries in the Asia-Pacific market include Australia, Indonesia, China, Vietnam, South Africa and Russia. In 2007, coal supply from Australia and Indonesia was affected by bad weather and insufficient port facilities. As a result, their supply capacity had not been fully utilized, resulting in a slowdown in the growth of coal export. The export volume of Australia for the year was 250 million tonnes, representing an increase of 4.8% as compared with 2006. The export volume of coal from Indonesia was 180 million tonnes, representing an increase of 11.1% as compared with 2006, In China, the net export volume was 2 million tonnes, representing a decrease of 92.0% as compared with 2006. The export volume of Vietnam was 32.2 million tonnes, representing an increase of 12.7% as compared with 2006. Export from South Africa and Russia to Asia remained at the similar level as the previous year due to strong domestic demand and relatively high transportation costs.

In terms of transportation, international coal transportation was mainly affected by the rate of ocean freight and coal loading capability at the ports. Growth in the transportation capacity in Australia slowed down in 2007 due to bad weather and construction for port expansion. The port of Newcastle in Australia transported 84.8 million tonnes of coal in the entire year, an increase of 5 million tonnes from 2006. From the aspect of ocean transportation, the demand for bulk commodity remained strong in 2007. In particular, the increase of demand for iron ore by China and India resulted in continuous tight ocean transportation capacity and high ocean freight charges.

Overall, the supply of coal in the Asia-Pacific market was relatively limited in 2007, and there was a significant rise in coal price. The demand for coal in China and India, the insufficiency of supply from Australia and Indonesia, and the depreciation in the value of the US dollar all contributed to the price hike of coal in 2007. The price of Australian BJ coal increased from US$51.2 per tonne at the beginning of the year to US$ 89.5 per tonne at the end of the year.

Prospects for 2008

In terms of demand, in 2008 the demand for coal in the Asia-Pacific market will remain robust, with increase in demand of 15 to 20 million tonnes which mainly arises from India and Korea. It is expected that India will increase import of coal by 10 million tonnes. In 2008, 2.3 MW of coal-fired power generator units will be put into production in Korea which will create increased demand of 6 million tonnes for coal. In 2008 there will be a slight year-on-year decrease in coal import of China due to factors including high international coal price and ocean freight.

In terms of supply, the supply of coal in the Asia-Pacific market in 2008 tends to be slightly limited. There will be little change in the volume of export from Australia because it still suffers from insufficient transportation capacity at the ports and by railway. The production capacity of high heat coal of Indonesia is limited. The growth in coal export volume in 2008 will slow down as a result of factors such as limits railway and port transportation capacity and rainy season weather. It is expected that coal export volume from Indonesia will be about 190 million tonnes, representing an increase of 10 million tonnes as compared with 2006. China's export volume will maintain at the same level as last year. In order to satisfy domestic demand, the total volume of coal exported from Vietnam will decrease to 22 million tonnes in 2008. There will be little change in the export of coal to Asia by South Africa as a result of increase in domestic demand.

In terms of transportation, the coal transportation of Australia will continue to be affected by the port expansion construction . As part of the expansion project will be completed by the end of 2008. By then, Australia may increase its coal supply to the Asia-Pacific market. As for marine transportation, as the demand for bulk commodity is unlikely to decrease, it is expected that in 2008, marine transportation capacity will be intense and the rate of ocean freight will remain high.

Overall, in 2008 the demand for coal in the Asia-Pacific market will be strong, while the supply will be relatively short. Consumption and imports of coal in main coal importing countries are expected to increase. Growth in the supply of coal by Australia and Indonesia will slow down as Australia is restrained by transportation capacity and Indonesia is affected by the rainy seasons. In addition, the policy of coal export and import in China change, so that coal supply in the Asia-Pacific market appears intense. It is expected that the supply of coal in 2008 will be tense seasonally and periodically, while spot coal price will fluctuate at high levels and contract coal price will rise year-on-year.

(3) Power market environment

Review of 2007

In terms of demand for power, power consumption by the entire society grew relatively fast, with a growth rate higher than GDP growth. In 2007, power consumption of the entire society reached 3245.8 billion kilowatt-hours, representing an increase of 14.2% as compared with 2006, of which the heavy industry consumed 2,006.4 billion kilowatt-hours, representing an increase of 17.3% as compared with 2006; consumption by rural and urban residents accounted for 358.4 billion kilowatt-hours, representing an increase of 10.6% as compared with 2006.

In terms of power generation and supply, the construction of power projects continued to maintain at a fast pace in 2007. In China, the installed power generating capacity of power generating units was 713 million kilowatts, representing an increase of 14.4% as compared with 2006. Of which, the capacity of thermal power generator units amounted to 554 million kilowatts, representing an increase of 14.6% as compared with 2006. The national power output reached a historical high of 3,255.9 billion kilowatt-hours in 2007, representing an increase of 14.4% as compared with 2006, of which, thermal power generated amounted to 2,698.0 billion kilowatt-hours, representing an increase of 13.8% as compared with 2006. The average utilization hours of the generators nationwide further decreased. In China, the utilization hours of power plants of 6,000 kilowatt or above was 5,011 hours on average, representing a decrease of 187 hours as compared with 2006. Of which, the number of utilization hours of thermal power plants was 5,316 hours on average, representing a decrease of 296 hours as compared with 2006, which demonstrated that the power supply and demand have further balanced.

In terms of policy, under the pressure of adjusting and controlling inflation, the state has not implemented the policy of linkage between coal and electricity prices, while the reduction of energy consumption and emission of pollutants have been continuously intensified. During the year, small thermal power plants involving an aggregate capacity of 14.38 million kilowatts were shut down. The national coal consumption for power supply was 357 grams/kilowatt-hours, representing a decrease of 10 grams/kilowatt-hours compared with 2006. In June 2007, the government took relevant policies to enforce the construction of environmental protection facilities for power plants. As at the end of 2007, the aggregated desulfurized generators installed reached 0.27 billion kilowatts, which accounted for approximately half of the total installed capacity of generators.

Overall, the supply and demand of power in 2007 were in general balance, with some regions in the country suffering from limited supply and some suffering from over supply for different time periods. In terms of regional distribution, seasonal or partly short supply of power appeared in eastern China, northern China, central China and southwestern China. The power supply was still tight in southern China.

Prospects for 2008

In terms of power demand, demand for power will remain robust in 2008. The co-relation between power demand and our macro economy is clear. The country's power elastic figure has been maintained at over 1.2 for the last 5 years. Taking energy conservation and reduction of emission of pollutants into consideration, power demand is expected to increase by 12.5% in 2008 with the rapid economic development. In 2008, power consumption by the entire society is predicted to reach 3.7 trillion kilowatt-hours and the power elastic figure will be 1.2.

In terms of power generation and supply, the overall capacity of the newly installed power generator units in 2008 will be approximately 94 million kilowatt-hours. The capacity of power generators installed in the country is expected to reach 800 million kilowatts, representing an increase of 11.3% as compared with 2006. The utilization hours of generations will decrease further, and is forecasted to be 5,000 hours in 2008, of which the utilization hours of thermal power plant will be 5,300 hours.

In terms of government policy, 2008 is the third year of the reduction of energy consumption and emission of pollutants project, and state control is expected to strengthen stealily. The state requires that by 2010 installed capacity of thermal desulfurized generators shall reach 0.45 billion kilowatts, while at the same time the government has plans to shut down small thermal generators with an aggregate capacity of 13 million kilowatts in 2008. While the coal price keeping rising, the coal and power linkage policy in the near future is possible once inflation pressure eases.

In conclusion, in 2008 supply and demand of power in the country will be in general balance, with shortages and surpluses of power supply in certain regions at certain periods. The tight supply of power will ease. In terms of regional distribution, the power supplies and demands in the power grids in northern and eastern China will be in general balance; while there will be surpluses in the power grids in central, northeastern and northwestern China as a whole; power supply tends to be tight in the power grid of southern China; whereas supply will be tense in certain areas including Zhejiang and Guangdong.

Investor Relations

(I) The innovative concept of IRM

The concept of China Shenhua Investor Relations Management ("IRM") is "communicating positively and interactively and sharing success with investors". It is one of the highest goals pursued by China Shenhua for corporate governance with focus on respecting shareholders' interests and generating benefit. It involves listening to and adopting reasonable views and recommendations of the shareholders, continuously enhancing operating performance of the Company, reporting the Company's financial and business information to shareholders on a true and fair basis and emphasising on dividend payout to shareholders.

The continuous business expansion of China Shenhua requires new capital injection. The strategic adjustments optimization of structure as well as response potential risks both need to communicate with international and domestic investors constantly. Through such, investors would recognise the Company's growth, participate in the development of the Company, know investment risks, and support the Company's development in long term. These are the substances of China Shenhua's IRM concept.

1. Elaboration on China Shenhua's IRM Concept

Each step of development of China Shenhua is closely related to investors' support and understanding. The investors constantly build investment value ideology and gradually intensify the awareness of the protection in the process of growing and upgrade of the Company. The relations management work of China Shenhua investors has gradually become mature. In 2007, China Shenhua continued to actively and fully focus on investor relations management. After successful listing of H shares and A shares, China Shenhua positioned IRM concept on "communicating actively and interactively and sharing success with investors."

The IRM concept of China Shenhua aims to promote positive interaction between the Company and investors through information disclosure and communication, build the trustworthiness among domestic and foreign investors, as well as enhance understanding and recognition of investors of the Company and maximize the Company's value and shareholder's interests. China Shenhua believes proper and sufficient information disclosure and active interaction and communication with investors will eventually enhance the recognition of the Company by its investors.

At the same time, enhancing IRM would improve the investment value of the Company. Establishing mutual trust relationship with investors is beneficial for a good market image of the Company and would strengthen the investors' confidence in the Company, and thereby render long-term capital support from investors assessable.

IRM is an important factor of the management of China Shenhua . China Shenhua has placed its investor relations management as part of its strategic management. China Shenhua will continue to adopt constructive advices from both domestic and international capital market, improve operation and management structure of the Company, enhance core competitiveiness, realise the maximization of shareholders' interests and the Company's continuous and rapid development.

2. Positioning of China Shenhua's IRM

- **Formulating and implementing capital market plans consistent with the Company's business operations.** To achieve better IRM arrangement, China Shenhua commenced with formulating capital market planning and reasonably guiding expectations of the Company from the domestic and foreign capital market. Since the capital market planning is an important part of the Company's development strategy, effective synergy between it and the Company's business developing strategy is necessary for the support of the Company's overall strategy by the capital market planning as well as the effective guidance of capital market planning by the overall strategy.

- **Realizing business expansion driven by capital.** Further intensification on the operational model of integrated business of coal mining, power, railway and port is the development direction of China Shenhua. Continuous expansion of the Company's business scale must rely on strong support of both domestic and foreign capital market. Successful listing of the Company in both Hong Kong and Shanghai, provided capital support for the Company's organic growth and merge and acquisition.

- **Sustaining continuous growth with core competitiveness.** The Company's continuous growth is the reason why investors invest the Company. Becoming a "century-old" company is the Company's development target. China Shenhua strives to realize sustainable development of the Company through the operational model of integrating coal mining, power, railway and port.

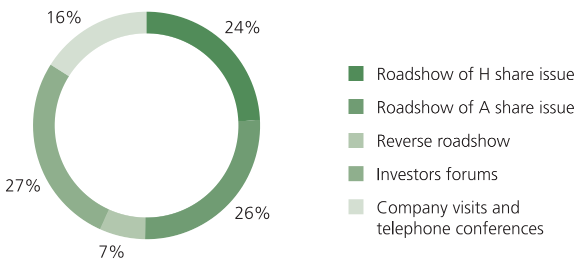
- **Establishing a sound equity culture and management structure.** The equity culture of China Shenhua means that the Company has a concept of respecting and providing returns to investors, which is one of the management targets of the Company. It involves listening to and adopting reasonable opinions and advices of the investors and striving to enhance the Company's results of operations and truly reporting the Company's financial and business information to the investors and stressing on providing dividend to investors. It is only with the establishment of a complete management structure on the basis of a sound equity culture will the IRM work of China Shenhua be realised.

- **Enhancing IRM work to the strategic management level of the Company.** China Shenhua strongly realises that, IRM is not merely information disclosure, but a work closely related to the existence and development of the Company which has to be considered and improved on the strategic level of the Company. The development of China Shenhua requires support from various aspects, of which the support of investors is the most direct way. Therefore, the concept of actively and interactively communicating and sharing success with investors means that China Shenhua needs to achieve win-win results with domestic and foreign investors and build up the future. The Company grows with the investors through a good operation of business and the guarantee of profitability and growth prospective, so as to build up a good image in capital market to further support the business development of the Company and to truly realise the sound interaction of business operation and capital operation.

(II) Highly effective implementation of IRM

In 2007, China Shenhua, through various means such as results announcement meetings, global roadshow, A Shares roadshow, reverse roadshow, investors forums, company visits and telephone conferences, conducted active and frank communications with investors and analysts. China Shenhua has met analysts and fund managers around 2,310 people. Among which:

Through global roadshow of H shares, China Shenhua met analysts and fund managers around 560 people. Through roadshow of A share issue, China Shenhua met analysts and fund managers around 600 people. Through reverse road-shows, China Shenhua met analysts and fund managers around 150 people. Through investors forums, China Shenhua met analysts and fund managers around 630 people. Through company visits and telephone conferences, China Shenhua met analysts and fund managers around 370 people.



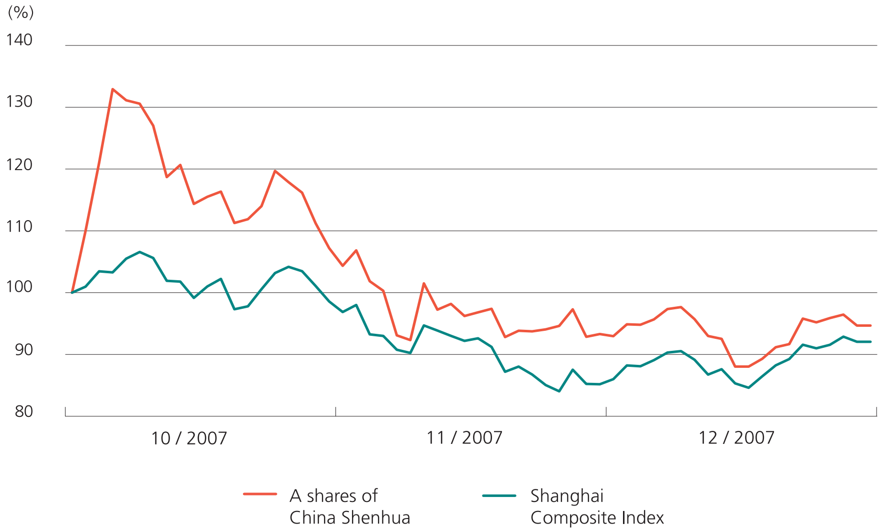
Major activities of investors relations in 2007

Time	Content of investor relation activities	Meeting speech	Number of one to one meeting	People met
January 2007	Deutsche Bank China Concept Forum	Yes	10	24
	UBS Group Seventh Greater China Seminar	Yes	8	18
March 2007	Announcement of 2006 Results	–	–	60
	Management Global Non-Transaction Roadshow	Yes	80	142
	Goldman Sachs China Large Commodity and Independent Power Companies Reception Date	Yes	9	54
	Credit Suisse Asian Region Investment Annual Meeting	Yes	9	30
April 2007	Morgan Chase 2007 China Investment Meeting	Yes	11	36
May 2007	2006 Shareholders' Annual General Meeting	–	–	–
	CLSA 2007 China Investment Forum	Yes	12	36
June 2007	2007 Reverse Roadshow	–	–	38
July 2007	Merrill Lynch Pacific Coastal Investment Forum	–	8	40
	2007 Coal and Related Industries Investment and Outlook Seminar	Yes	6	200
	CLSA Large Commodity Investor Reception Date	–	7	37
	Blue Chip Listed Companies Investment Seminar	Yes	22	200
August 2007	2007 Interim Results Announcement Meeting	–	–	–
September 2007	A Share Issue Roadshow	Yes	33	600
October 2007	Guosen Securities Seminar	Yes	–	100
	Citibank Greater China Investment Forum	Yes	–	–
	Paribas Peregrine China Forum	Yes	–	20
November 2007	A Share Reverse Roadshow	Yes	–	90
	Goldman Sachs China Investment Forefront Meeting	Yes	5	20
	Morgan Stanley Asia Pacific Forum	Yes	–	100
December 2007	Japan Roadshow	Yes	10	50
	TX Investment Strategic Meeting	Yes	–	60

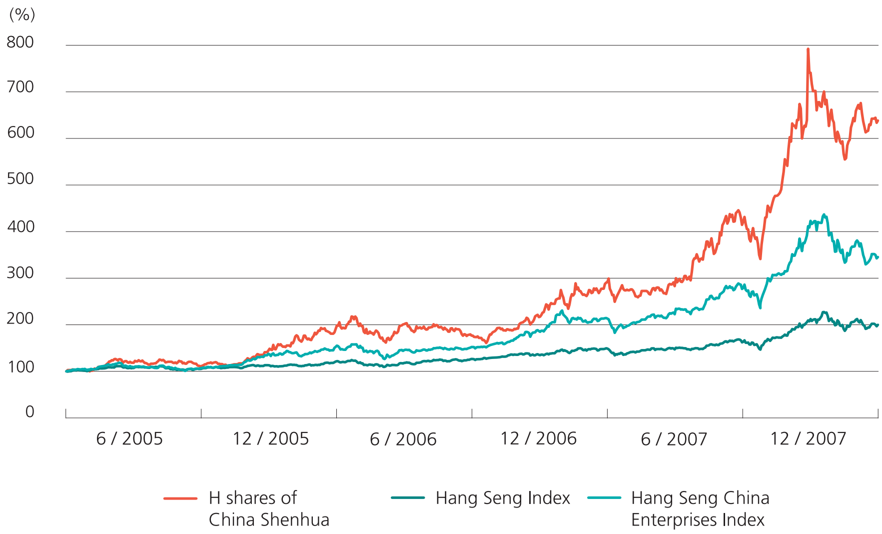
(III) High recognition of capital market

Excellent share price performance

Price performance of A shares of China Shenhua



Price performance of H Shares of China Shenhua



Indexes in which the company is included and awards obtained

2005 Best IPO in Asia
"Asia Money"

2006 Best Corporate Governance in Asia
"Asia Finance"

2006 Most Influential Overseas Listed Company
"Shanghai Securities Journal"

2006 NO.1 Coal and Consumable Fuel Company
in the World "Platts"

2007 Top 50 Enterprises Most Capable of Generating
Long-term Yield in Asia Pacific Region "Forbes"

2006 Best Corporate Governance Disclosure Award-Gold
Award for H Share Company "HKICPA"

2007 Listed Company with Most Investment Value
"China Social Sciences Institute"

2007 Best Shareholder Appraised Company in Asia
"Institution Investors"

2007 China Best Mining Industry Company
"Global Finance"

China Top Ten Best Investor Relation Company
"hexun.com"

2007 Listed Company with Best Return Value
"Huaxia Daily"

MSCI Index
Effective from 31 May 2007

Dow Jones China 88 Index
Effective from 11 October 2007

FTSE Xinhua A Share Index
Effective from 22 October 2007

SSE Index
Effective from 23 October 2007

Cninfo Indices
Effective from 29 October 2007

Hang Seng China AH Indices
Effective from 5 November 2007

Hang Seng Index
Effective from 10 December 2007

SSE Corporate Governance Index
Effective from 2 January 2008

Asia Finance 100 Blue Chip Index
Effective from 2 January 2008

Supervisory Committees' Report

In accordance with the Articles of Association, the Supervisory Committee of the Company consists of three members, namely Mr. Xu Zufa, Chairman of the Supervisory Committee, Mr. Wu Gaoqian, supervisor, and Mr. Li Jianshe, employee representative supervisor.

(I) Operation of the Supervisory Committee

In the reporting period, in compliance with the requirements of the Articles of Association and the Rules and Procedures of Meetings of the Supervisory Committee and in light of the actual conditions, the Supervisory Committee conducted two on-site examinations on the operations and the financial position of the Company and reviewed the interim and annual financial statements of the Company. In 2007, the Supervisory Committee held three meetings, details of the date, venue,attendance as well as matters discussed/ resolved during such meetings are summarised as follows:

1. On 22 March 2007, the 8th meeting of the First Session of Supervisory Committee of the Company was held in Beijing. The meeting was attended by all supervisors and presented by relevant personnel from the financial department of the Company. At the meeting, the Final Budget Report of the Company for the Year 2006, the Profit Distribution Plan for the year 2006, the Work Report of the Supervisory Committee for the Year 2006 and the Highlights of the Work of the Supervisory Committee for the Year 2007 were considered and approved.

2. On 28 June 2007, the 9th meeting of the First Session of Supervisory Committee of the Company was held by way of written resolution and the Supervisors considered and approved Amendments to the Rules and Procedures of the Supervisory Committee of China Shenhua Energy Company Limited.

3. On 16 August 2007, the 10th meeting of the First Session of Supervisory Committee of the Company was held in Beijing. The meeting was attended by all supervisors and presented by relevant personnel from the Financial Department of the Company. At the meeting, the Interim Financial Report of the Company for the Year 2007 was considered and approved and the Report of Use of the Proceeds from the Initial Public Offering of the Company was considered.

The three meetings were convened and held in compliance with the relevant provisions of the Company Law and the Articles of Association. During the reporting period, the supervisors attended the annual general meeting of the Company for the year 2006 and the first extraordinary general meeting for the year 2007 and attended the five Board meetings of the Company in 2007 and twelve regular meetings convened by the President. The supervisors duly supervise the lawful operation of the Company at such meetings.

(II) Independent opinion issued by the Supervisory Committee

1. Independent opinion on the lawful operation of the Company

In accordance with the laws and regulations of the jurisdiction where the Company is listed, the Supervisory Committee has duly overseen and examined the convening procedures and resolutions of Board meetings, implementation by the Board of Directors of the resolutions of general meetings, performance by senior management of the Company of their duties and the establishment and consistent implementation of the internal management system of the Company.

The Supervisory Committee takes the view that the Board of Directors and senior management of the Company have acted in strict accordance with the Company Law, the Securities Law, the Articles of Association and other relevant regulations and rules of the jurisdiction where the Company is listed, have performed their duties with integrity and diligence and implemented the resolutions of, and exercised the power granted by, the general meetings; and that the decisions and operations are in compliance with the laws and regulations and the Articles of Association. In examining the financial position of the Company and overseeing the performance by the directors and senior management of the Company of their duties, the Supervisory Committee is not aware of any act prejudicial to the interests of the Company and its shareholders, or any act in breach of laws and regulations, the Articles of Association and the rules and regulations of the Company. The Supervisory Committee futher takes the view that the Company has established a sound internal control system.

2. Independent opinion of the Supervisory Committee on the financial position of the Company

The Supervisory Committee has effected two examinations on the financial position of the Company and duly reviewed the Company's annual financial statements for the year ended 31 December 2006, the Company's profit distribution plan for the year 2006 and the Company's interim financial report ended 30 June 2007.

The Supervisory Committee is of the opinion that the financial statements of the Company give an objective, true and fair view of the financial position and the operating results of the Company in all material aspects and that the final budget report is true and reliable.

3. Independent opinion of the Supervisory Committee on the actual use of the proceeds from the latest fund-raising exercise of the Company

In the reporting period, the proceeds from the initial public offering of the H shares of the Company were fully utilized and the actual use of the proceeds was in line with that set out in the prospectus issued by the Company in relation to the listing of its H Shares.

The net proceeds from the latest fund-raising exercise of the Company were RMB65.988 billion from the issue of A Shares in September 2007, RMB24.434 billion was used in 2007, of which RMB8.434 billion was used for investing in and updating the coal, power and transportation system of the Company, RMB16 billion was used as working capital of the Company and for normal commercial purpose. The actual use of such proceeds was in line with that set out in the prospectus issued by the Company in relation to the listing of its A shares.

4. Independent opinion of the Supervisory Committee on the acquisitions or disposals of assets by the Company

In the reporting period, the Company acquired the entire equity interests in Shendong Coal and Shendong Power from Shenhua Group and 15% equity interests in Suizhong Power held by Liaoning Power Company. The subsidiary of the Company, CLP Guohua, acquired 15% equity interests in Panshan Power held by North China Power Gird Co., Ltd. The Company did not enter into any significant disposal of assets and the Supervisory Committee is not aware of any insider dealing or any act prejudicial to the interests of shareholders or resulting in loss of assets of the Company.

5. Independent opinion of the Supervisory Committee on connected transactions of the Company

In the reporting period, the Company completed the acquisitions of the entire equity interests in Shendong Coal for a consideration of RMB1,169,893,900, the entire equity interests in Shendong Power for a consideration of RMB2,158,596,200, 15% equity interests in Suizhong Power for a consideration of RMB390 million and the acquisition of 15% equity interests in Panshan Power by the Company's subsidiary CLP Guohua for a consideration of RMB480 million. The acquisitions of the equity interests in Shendong Coal and Shendong Power were approved at the first extraordinary general meeting of the Company in 2007 and the acquisition of 15% equity interests in Suizhong Power and Panshan Power were approved by the Board of Directors of the Company. All the transactions have been approved by independent directors.

The Supervisory Committee is of opinion that the connected transactions of the Company in 2007 were carried out under the principles of fairness and equality and have been constantly monitored and regulated, the consideration of such transactions are reasonable and the amounts of such transactions are within the caps as approved by competent regulatory authorities. The Supervisory Committee is not aware of any act prejudicial to the interests of the shareholders.

In 2008, the Supervisory Committee will continue to perform its duties with diligence to protect the interests of the Company and its shareholders in accordance with the Company Law and the Articles of Association.

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) Equity held by the Company in other listed companies and equity investment in financial institutions

Name of the company held	Amount of Initial investment (RMB million)	Number of shares held	Percentage of the direct and indirect shareholding (%)	Book value at the end of the period (RMB million)
Shenhua Finance	161	—	40	428

(III) 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.

(IV) Details on implementation of stock option incentive plan during the reporting period

During the reporting period, the Company did not implement any stock option incentive plan which involves the issue of new shares in the Company or which has impact on the shareholding structure of the Company.

(V) Material related party transactions of the Company during the reporting period

1. Related party transaction related to daily operation

In accordance with the requirements of relevant securities regulatory authorities of the PRC, material related party transactions are disclosed as follows.

(1) Material related party transactions relating to the purchase of products and acceptance of services

Unit: RMB million

Related parties	Particulars of related party transactions	Pricing principles of related party transactions	Consideration of related party transactions	Amount of related party transactions	As a percentage of amount of similar transactions (%)	Settlement of related party transactions	Market price	Effect of related party transactions on the Company's profits
Shenhua Finance	Repayment of short-term borrowings	–	–	1,000	2.02	In cash	–	–

1) Repayment of short-term borrowings was made by the Group to Shenhua Finance, a subsidiary of Shenhua Group.

(2) Material related party transactions relating to the sales of products and provision of services

Unit: RMB million

Related party parties	Particulars of related party transactions	Pricing principles of related party transactions	Consideration of related party transactions	Amount of related party transactions	As a percentage of amount of similar transactions (%)	Settlement of related party transactions	Market price	Effect of related party transactions on the Company's profits
Guohua Taicang Power Company Limited	Sale of coal	Market price	–	1,107	1.99	In cash	–	–
Shenhua Finance	Net changes in deposits	–	–	1,036	-2.68	In cash	–	–

1) The Group sold coal to Guohua Taicang Power Company Limited, a subsidiary of Shenhua Group.

2) Net changes in the Group's deposits with Shenhua Finance, a subsidiary of Shenhua Group.

The above related party transactions were entered into in the normal course of business of the Company and represent an insignificant proportion of similar transactions.

The Group's related party transactions are principally priced based on market price and are subject to strict disclosure procedures in respect of internal control. These transactions are also subject to review by independent directors and approval by shareholders at the general meetings, without any negative effect on the independence of the Group.

Note: repayment of short-term borrowings to Shenhua Finance as a percentage of the amount of similar transactions equals to the repayment amount divided by the cash paid by the Group for settlement of liabilities during the reporting period; net changes in deposits with Shenhua Finance as a percentage of the amount of similar transactions equals to the net changes in deposits divided by the net changes in the balance of the Group's bank deposits during the reporting period.

2. Material related party transactions regarding transfer of assets and equity interests

During the reporting period, material related party transactions regarding transfer of assets and equity interests include: the Company's acquisition of 100% equity interests in Shendong Coal and Shendong Power held by Shenhua Group. For details, please refer to item 1 of part (3) "Acquisition and sale of assets, takeovers and mergers during the reporting period".

3. Debt assets/liabilities due from/due to related parties

Unit: Million Currency: RMB

Related Party	Relationship	Funds provided to related parties Transaction Amount	Balance	Funds provided by related parties to the Company Transaction Amount	Balance
Shenhua Group and its subsidiaries	Holding companies and its subsidiaries	–	–	2,118	2,656
Other related party		1,105	1,249	514	–
Total		1,105	1,249	2,632	2,656

The amount and balance of the above debt assets/liabilities due from/due to related parties only includes non-operational flow of other receivables, other payables, short-term borrowings, long-term borrowings, other current assets, other long-term assets between the Group and related parties.

4. Appropriation of funds in 2007

As at the end of the reporting period, there is no appropriation of the Company's non-operational funds by controlling shareholders and its subsidiaries.

The following disclosures in the following" Connected Transactions" section are made under the Listing Rules of the Hong Kong Stock Exchange.

(VI) Connected transactions

The following are the major connected transactions of the Group in 2007 under the Hong Kong Listing Rules:

Exempted connected transactions

Non-competition agreements

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

Non-exempted continuing connected transactions

Unit: RMB million

Connected parties and transaction	Provision of products and services to connected parties amount of transactions	Purchase of products and services from connected parties amount of transactions
1. Export agency agreement entered into with Shenhua Group	–	74.01
2. Agency sales agreement entered into with Shenhua Group and the Xisanju Company of Inner-Mongolia Transportation & Sale Company	14.12	–
3. Mutual supply of products and services agreement with Shenhua Group	38.86	1,673.52
4. Mutual coal supply agreement with Shenhua Group	1,165.66	1,623.32
5. Financial services agreement with Shenhua Financial	2,596.49[Note]	–
6. Coal supply agreement with Dingzhou Power	725.57	–
7. Coal supply framework agreement with Jiangsu Guoxin	37.74	–
8. Coal supply framework agreement with Tianjin Jinneng	17.07	–
9. Coal supply framework agreement with China Datang	54.63	–

Note: The actual average maximum daily balance in 2007.

With the continuous development of the Group, according to the internal estimate of the demand for continuing connected transactions and operating positions, the Group expects the original annual caps of certain connected transactions of 2007 do not satisfy the demand of the Group. Therefore, the Group revised the annual caps for 2007 of the following connected transactions:

1. Agreements on mutual supply of products and service

(i) The total value of the materials and ancillary services provided to the Group by Shenhua Group in 2007; and

(ii) The total value of the materials and ancillary services provided to Shenhua Group by the Group in 2007; and

2 The total value of coal supplied to the Group by Shenhua Group in 2007 under Agreement on Mutual Supply of Coal.

The revised caps are :(1) the annual cap of the materials and ancillary services supplied to the Group by Shenhua Group in 2007 was revised from RMB1,120.10 million to RMB2,617.58 million;(2) the annual cap of the materials and ancillary services supplied to Shenghua Group by the Group in 2007 was revised from RMB300 million to RMB595.34 million; (3)the annual cap of coal supplied to the Group by Shenhua Group was revised from RMB2,500 million to RMB5,647.70 million.

In addition, when the Company was listed in the Stock Exchange in 2005, certain continuing connected transactions were exempted by the Hong Kong Stock Exchange from strict compliance with the relevant requirements of Chapter 14A of the Listing Rules. This exemption will expire on 31 December 2007. The Company expects that, after the expiry of the exemption, certain continuing connected transactions will continue. Therefore, save for the de minimis continuing connected transactions, the Company entered into new agreements in respect of the non-exempted continuing connected transactions in accordance with the requirements of the Hong Kong Listing Rules on 23 March 2007.

During the reporting period, the material continuing connected transactions of the Company are as follows:

(1) "Coal Export Agency Agreement"

According to the PRC laws, exporters of coal must obtain export operation right by holding valid export licences or entrust other companies with valid export licences to export coal as agents. Shenhua Coal Transportation & Sale, a subsidiary of Shenhua Group, is one of the four companies in China which hold valid coal export licences. Under the current domestic supervision system, coal export licence is not allowed to be transferred, therefore, the coal export operation right of Shenhua Group can not be transferred to the Company. As the Company will continue to sell coal and related products to foreign customers, the Company entered into the Coal Export Agency Agreement with Shenhua Group (on behalf of itself and its subsidiary, Coal Transportation & Sale) on 24 May 2005.

The major terms of the agreement are as follows:

- The agreement took effect from 1 January 2005 and the term is 3 years, which may be extended as required by the Company. Shenhua Group renewed the agreement with the Company in 2007 and extended the term to the end of 2010. The agreement has been approved by the Board of Directors of the Company, and this matter was published on South China Morning Post, Hong Kong Economic Times and the website of the Hong Kong Stock Exchange on 27 March 2007.
- The parties agree that Shenhua Group will provide non-exclusive agency service for the export of coal products to the Company. The Company may entrust other enterprises with coal export operation right to export coal products as its agent, however, if the conditions of export agency obtained from any third party are equal or less favorable than those provided by Shenhua Group, priority will be given to Shenhua Group to be selected as the Company's agent for the export of coal products;
- The parties agree that the commission charged by Shenhua Group from the Company shall be determined based on the market price or price lower than the market price. At present, Shenhua Group charges commission for export agency at 0.7% of the FOB price for each tonne of coal exported;
- The customers of exported coal will be selected by the Company and the export price of coal shall be confirmed by the Company and determined based on the price under the annual contract or bid price of spot purchase.

For the year ended 31 December 2007, the annual cap of the expenses paid to Shenhua Group by the Company was RMB107.70 million. The actual amount of agency fee was RMB74.01 million. The settlement was made by cash.

(2) "Coal Agency Sales Agreement with the Xisanju Companies"

In order to reduce potential competition in respect of the thermal coal business among the Xisanju Companies and the Company, on 24 May 2005, the Company and its subsidiary Inner-Mongolia Transportation & Sale Company (representing itself and the Xisanju Companies) executed the Coal Sale Agency Agreement with Shenhua Group. According to the agreement, the Company was entrusted as an exclusive sales agent for sale of all thermal coal produced by the Xisanju Companies and non-exclusive sales agent for sale of agglomerating coal produced by the Xisanju Companies in China.

The major terms of the agreement are as follows:

- The agreement took effect on 1 January 2005 and the terms is 3 years, which may be extended as required by the Company. Shenhua Group renewed the agreement with the Company in 2007 and extended the term to the end of 2010. The agreement has been approved by the Board of Directors of the Company and this matter was published on South China Morning Post, Hong Kong Economic Times and the website of the Hong Kong Stock Exchange on 27 March 2007;
- All the thermal coal products produced by the Xisanju Companies of Shenhua Group shall be sold by the Company as its exclusive agent. The specific sale work will be undertaken by Inner-Mongolia Transportation & Sale Company, Shenhua Group and the Xisanju Companies shall not otherwise sell on its own or entrust any third party to sell the thermal coal products produced by the Xisanju Companies in China. The sale price of coal under the agency shall be determined based on the price of the local market then and shall be confirmed by Shenhua Group;
- No commission will be charged for coal sold in Inner-Mongolia by the Xisanju Companies; the commission for sale of coal outside Inner-Mongolia for the Xisanju Companies (including thermal coal and agglomerating coal) is calculated based on the formula of "cost + 5% profit".

For the year ended 31 December 2007, the annual cap of the expenses to be payable by the Xisanju Companies was RMB18.80 million. The actual amount of agency fee was RMB14.12 million. The settlement was made by cash.

(3) "Agreement on Mutual Supply of Products and Services"

After the reorganization of Shenhua Group, the establishment of the Company and the offering of H shares, Shenhua Group retains part of its assets and business to provide several products and ancillary services for the core business of the Company. Furthermore, the Company also provides certain products and services to Shenhua Group to support the development of the business retained by Shenhua Group. The Company executed the Agreement on Mutual Supply of Products and Services with Shenhua Group on 24 May 2005.

The major terms of the agreement are as follows:

- The agreement took effect on 1 January 2005 and the term is 3 years, which may be extended if agreed by both parties. Shenhua Group renewed the agreement with the Company in 2007 and extended the term to the end of 2010. The agreement has been approved at the shareholders' general meeting of the Company held on 15 May 2007 and this matter was published on South China Morning Post, Hong Kong Economic Times and the website of the Hong Kong Stock Exchange on 16 May 2007;
- Shenhua Group and the Company will provide services to each other to use of hardware facilities of information system for free;

- Products and services provided by Shenhua Group to the Company include the ancillary services for business operations such as refined oil, civil blasting supply, security service and logistics and some administrative services; the products and services provided by the Company to Shenhua Group include water supply, management of cars, railway transportation and other related or similar products and services;
- The principle of price determination for provision of products and services: If there is a price fixed by the government, then the price fixed by the government will be executed; if there is no fixed price but the government has recommended a price, such recommended price will be executed; if there are neither fixed price nor recommended price, the market price (including bidding price) will be executed; If no aforesaid three prices exist or it is impossible to apply the aforesaid principles to the actual transactions, then the agreed price (i.e. "cost + 5% profit") will be executed;

For the year ended 31 December 2007, (1) the annual cap of the expenses to be paid to Shenhua Group for the provision of products and ancillary services was RMB2,617.58 million. The actual amount of expenses was RMB1,673.52 million. The settlement was made by cash; (2) The annual cap of the income arising from the provision of products and ancillary services to Shenhua Group was RMB595.34 million. The actual amount of income was RMB38.86 million. The settlement was made by cash.

(4) "Agreement on Mutual Supply of Coal"

The Company purchases some coal from the subsidiaries of Shenhua Group such as the Xisanju Companies, to satisfy the need for coal blend and other requirements. The Company also sells small quantity of coal to certain subsidiaries of Shenhua Group that engage in trading of coal. The Company and Shenhua Group executed the Agreement on Mutual Supply of Coal on 24 May 2005.

The major terms of the agreement were as follows:

- The agreement took effect on 1 January 2005 and the term is 3 years, which may be extended if agreed by both parties. Shenhua Group renewed the agreement with the Company in 2007 and extended the term to the end of 2010. The agreement has been approved at the shareholders' general meeting of the Company held on 15 May 2007 and this matter was published on South China Morning Post, Hong Kong Economic Times and the website of the Hong Kong Stock Exchange on 16 May 2007;
- Market price will be adopted for the mutual supply of coal;
- Priority will be given to each other when one party purchases coal products from the other party unless the terms of sale provided by a third party are more favorable.

For the year ended 31 December 2007, (1) the annual cap of expenditures arising from the provision of coal by Shenhua Group to the Company was RMB5,647.70 million. The actual amount of expenditure was RMB1,623.32 million. The settlement was made by cash; (2) The annual cap of incomes arising from the provision of coal by the Company to Shenhua Group was 2,000 million. The actual amount of income was RMB1,165.66 million. The settlement was made by cash.

(5) "Agreement on Financial Service"

On 21 July 2006, the Company executed the Agreement on Financial Service with Shenhua Finance, a subsidiary of Shenhua Group.

The major terms of the agreement are as follows:

- The agreement was effective from 21 July 2006 to 31 December 2007. Shenhua Finance renewed the agreement with the Company in 2007 and extended the term to the end of 2010. The agreement has been approved by the Board of Directors of the Company and this matter was published on South China Morning Post, Hong Kong Economic Times and the website of the Hong Kong Stock Exchange on 27 March 2007;
- Shenhua Finance provides various financial services to the Company including accepting money deposit, handling bill acceptance and discount services, providing security, providing financial services such as entrusted loan and entrusted investment, etc;
- Shenhua Finance undertakes to provide financial services of the same kind under conditions no less favorable than those provided by Shenhua Finance to other members of Shenhua Group and those provided by other financial institutions to the Company at that time;
- The interest rate for the Company's deposits with Shenhua Finance shall not be lower than the lowest interest rate specified by the People's Bank of China for deposit of the same type. In addition to the above, the interest rate for the Company's deposits with Shenhua Finance shall be equal to or above the interest rate determined for the same type of deposit placed by other members of Shenhua Group with Shenhua Finance, and shall be equal to or above the interest rate of the same type of deposit services provided by commercial banks to the Company generally, whichever is higher; The interest rate for loans granted to the Company by Shenhua Finance shall not be higher than the highest interest rate specified by the People's Bank of China for loans of the same type. In addition to the above, the interest rate for loans granted to the Company by Shenhua Finance shall be equal to or below the interest rate determined for the same type of loans granted by Shenhua Finance to other members of Shenhua Group, and shall be equal to or below the interest rate of the same type of loans granted by commercial banks to the Company generally, whichever is the lower; the fees charged by Shenhua Finance for other financial services provided shall be determined based on the rate of fees specified by the People's Bank of China or the China Banking Regulatory Commission.

For the year ended 31 December 2007 the cap for the average maximum daily balance of deposit with Shenhua Finance was RMB3,400.00 million and the actual average maximum daily balance of deposit with Shenhua Finance was RMB2,596.49 million.

(6) "Coal Supply Agreement" with Dingzhou Power

Hebei Province Construction and Investment Company ("Hebei Construction") holds 40.5% equity interests in a subsidiary of the Company, Huanghua Power, while at the same time, it also holds 40.5% of equity interests in Dingzhou Power. According to the Hong Kong Listing Rules, Hebei Construction is a connected person of the Company, while Dingzhou Power is an associate of Hebei Construction and therefore constituted a connected person of the Company. Accordingly, the supply of coal to Dingzhou Power by Beijing Guohua Logistics Company Limited ("Guohua Logistics"), a subsidiary of the Company, constituted connected transactions of the Company. The Company (on behalf of itself and its subsidiary Guohua Logistics) executed the Coal Supply Agreement with Dingzhou Power on 24 May 2005, under which Guohua Logistics will supply coal to Dingzhou Power.

The major terms of the agreement were as follows:

- The agreement took effect on 1 January 2005 and the term is 3 years. Dingzhou Power renewed the agreement with the Company in 2007 and extended the term to the end of 2010. The agreement has been approved by the Board of Directors of the Company and this matter was published on South China Morning Post, Hong Kong Economic Times and the website of the Hong Kong Stock Exchange on 27 March 2007;
- Market price will be adopted for the sale of coal;
- The Company agrees that it shall supply coal products to Dingzhou Power on priority basis unless the terms given by any third party is more favorable than those provided by Dingzhou Power; Dingzhou Power also agrees that it shall purchase coal products from the Company on priority basis unless the terms provided by any third party is more favorable than those given by the Company.
- Either party may cease to supply coal by giving at least 6 months prior written notice to the other party.

Dingzhou Power became a subsidiary of the Company on 29 December 2007. Therefore, the supply of coal by the Company to Dingzhou Power no longer constitutes connected transactions of the Company since then. The annual cap of income arising from coal supplied to Dingzhou Power for the period ended 28 December 2007 was RMB989.80 million. The actual amount of income was RMB725.57 million. The settlement was made by cash.

(7) "Framework Agreement on Supply of Coal" executed with Jiangsu Guoxin Group

In order to standardize and increase central monitoring of its contractual relationships, the Company has sought to enter into framework agreements with customers which are part of a single corporate group. The Company executed a "Framework Agreement on Supply of Coal" with Jiangsu Guoxin Asset Management Group Company Limited ("Jiangsu Guoxin") (on behalf of itself and its subsidiaries and associates) on 21 August 2007. The Company established Jiangsu Guohua Chenjiagang Power Company Limited ("Chenjiagang Power") with Jiangsu Guoxin on 21 December 2007. The Company holds 55% equity in Chenjiagang Power and Jiangsu Guoxin holds the remaining 45% equity thereof. Since then, the transactions between the Company and Jiangsu Guoxin and its subsidiaries and associates constitute connected transactions of the Company. This matter was published on the websites of Shanghai Stock Exchange and the Hong Kong Stock Exchange on 23 December 2007, and was also published on China Securities Journal and Shanghai Securities News on 24 December 2007.

The major terms of "Framework Agreement on Supply of Coal" are as follows:

- The term of the agreement is 4 years commencing on 21 August 2007 and expiring on 20 August 2011;
- The Company sells coal to Jiangsu Guoxin and its subsidiaries and associates. The sales prices are specified in the sales contracts.

From 21 December 2007 to the end of the year, the Company received sales revenue of RMB34.74 million for the sales of coal to Jiangsu Guoxin, its subsidiary and associates. The settlement was made by cash.

(8) "Framework Agreement on Supply of Coal" executed with Tianjin Jinneng Investment Company

In order to standardize and increase central monitoring of its contractual relationships, the Company has sought to enter into framework agreements with customers which are part of a single corporate group. The Company executed the "Framework Agreement on Supply of Coal" with Tianjin Jinneng Investment Company ("Tianjin Jinneng") (on behalf of itself, its subsidiaries and associates) on 20 September 2007. The Company established Tianjin Guohua Jingneng Power Company Limited ("Jinneng Power") with Tianjin Jinneng on 21 December 2007. The Company holds 65% equity interest in Jinneng Power while Tianjin Jinneng holds the remaining 35% equity thereof. Since then, transactions between the Company, Tianjin Jinneng and its subsidiaries and associates constitute connected transactions of the Company. This matter was published on the websites of Shanghai Stock Exchange and the Hong Kong Stock Exchange on 23 December 2007, and was also published on China Securities Journal and Shanghai Securities News on 24 December 2007.

The major terms of the "Framework Agreement on Supply of Coal" are as follows:

- The term of the agreement commences from the date of execution and expires on 31 December 2010.
- The prices for sale of coal under this framework agreement will be determined based on the market prices, namely, the price charged by an independent third party for supply of coal of the same grade based on the normal commercial terms concluded in the normal commercial conditions in the same region or its vicinity, or the price of coal of the same grade supplied to or purchased from an independent third party by the parties separately based on the normal commercial terms concluded in the normal commercial conditions.

For the period from 21 December 2007 to the year end, the Company received sales revenues of approximately RMB17.07 million for sale of coal to Tianjin Jinneng and its subsidiaries and associates under the Framework Agreement on Supply of Coal. The settlement was made by cash.

(9) "Framework Agreement on Supply of Coal" executed with China Datang Corporation

In order to standardize and increase central monitoring of its contractual relationships, the Company has sought to enter into framework agreements with customers which are part of a single corporate group. The Company executed the "Framework Agreement on Supply of Coal" with China Datang Corporate ("China Datang") (on behalf of itself and its subsidiaries and associates) on 25 September 2007. Dingzhou Power became a subsidiary of the Company on 29 December 2007. Hebei Datang Generation Limited ("Hebei Datang"), a wholly owned subsidiary of China Datang, acquired 19% equity interest in Dingzhou Power on the same day, therefore the transactions between the Company and China Datang, its subsidiaries and associates constitute connected transactions of the Company since then. This matter was published on the websites of Shanghai Stock Exchange and the Hong Kong Stock Exchange on 2 January 2008, and was also published on China Securities Journal and Shanghai Securities News on 3 January 2008.

The major terms of the "Framework Agreement on Supply of Coal" are as follows:

- The term of the agreement commences from the date of execution and expires on 31 December 2010.
- The price for sale of coal under this framework agreement will be determined based on the market prices, namely, the price charged by an independent third party for supply of coal of the same grade based on the general commercial terms concluded in the normal commercial conditions in the same region or its vicinity, or the price of coal of the same grade supplied to or purchased from an independent third party by the parties separately based on the general commercial terms concluded in the normal commercial conditions.

During the period since 29 December 2007 to the year end, the Company received sales revenues of approximately RMB54.63 million for supply of coal to China Datang, its subsidiaries and associates under the agreement. The settlement was made by cash.

Non-exempted connected transactions

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. On 31 December 2006, 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 completion of these acquisitions took place on 31August 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 the operating efficiency of power generation, maintenance of the daily operation of the Company's key mines, improvement of corporate governance 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 for the year, respectively.

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 the 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 of the Company's total profit.

On 8 June 2007, CLP Guohua, a subsidiary of the Group, 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 the 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 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 for the year.

The Independent Non-executive Directors of the Company have confirmed to the Board of Directors of the Company that they have reviewed the non-exempted continuing connected transactions and are of the view that: (A) those transactions were in the ordinary course of business of the Company;(B)those transactions were on ordinary commercial terms, or if comparable transactions were not sufficient to judge whether the terms of those transactions were ordinary commercial terms, then those transactions were on terms no less favourable than the terms obtained from or provided (as the case may be) by independent third party; (C)those transactions were conducted on the terms of the relevant transactions and the terms of the transactions were fair and reasonable and in compliance with the benefits of the shareholders of the Company as a whole. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Hong Kong Listing Rules.

The auditor of the Company has reviewed the continuing connected transactions (1) to (6) above (hereinafter referred to as "transactions") and issued letters to the Board of Directors, indicating that: (1) those transactions have been approved by the Board of Directors of the Company; (2) they were not aware of any indications which would make them believe that those connected transactions were not conducted in line with the terms of the agreements of the relevant transactions or their prices were not made in line with the Group's pricing policy; and (3) they were not aware of any matters which would make them believe that the annual aggregate amount of each class of connected transactions exceed the annual cap as disclosed in the announcements made by the Company.

Certain related party transaction as disclosed in note 36 of the section "Financial statements (international)" of this report also constituted connected transactions under the Hong Kong Listing Rules required to be disclosed in accordance with Chapter 14A of the Hong Kong Listing Rules.

(VII) Material Contract and Performance Thereof

1. During the reporting period, there was no trust arrangement over, contracting and lease of assets of other companies by the Company or other companies having trust on, contracting and leasing the Company's assets and no such arrangement subsisted in the reporting period.

2. Major security

Unit: RMB million

Security given by the Company to external parties (excluding security given for subsidiaries)						
Name of the party for which security was given	Date of provision of security (execution date of agreement)	Security amount	Type of security	Security period	Has performance been completed or not	security given on behalf of connected party (Yes or No)
–	–	–	–	–	–	–
Total amount of security given during the reporting period						–
Total balance of security outstanding at the end of the reporting period						–
Security given by the Company for subsidiaries						
Total amount of security given for subsidiaries during the reporting period						–
Total amount of security given for subsidiaries outstanding at the end of the period						1,576
Total amount of security given by the Company (including securities given for subsidiaries)						
Total amount of security						1,576
Total amount of security as a percentage of net assets of the Company						1.3%
Of which:						
Amount of security given for shareholder, actual controller or their connected parties						–
Amount of security given directly or indirectly as collateral for debts of parties with debt asset ratio exceeding 70%						1,376
The portion of total amount of security which exceeded 50% of net assets						–
The total amount of the above 3 items						1,376

As at the end of the reporting period, the Company undertook joint and several guarantee for seven loans of Suizhong Power and Huanghua Harbor, subsidiaries of the Company. The guarantee amounted to RMB1,576 million. The above seven loans contracts were signed before the establishment of the Company. The original guarantor was Shenhua Group and Beijing Guohua Power Limited Liability Company. In November 2004 when reorganization was ongoing and the Company was being established, according to the relevant arrangement of the reorganization and relevant bank requirements, the guarantees of the above loans were undertaken by the Company.

The operation of Suizhong Power was stable. Huanghua Harbor is an important vehicle of seaborne transportation of China Shenghua's Coal. The financial status and profitability of the two companies are satisfactory. There was no obvious signs showing the Company might bear joint and several liability due to the above guarantee.

Save for the above guarantee to holding subsidiaries, the Company had no other guarantee during the reporting period and there existed no guarantee contract not fully implemented.

The Independent Non-executive Directors of the Company are of the view that:

(1) the external guarantee balance of China Shenhua at the end of 2007, was an extension of the events before the establishment of the Company. There were no external guarantee event after the establishment of the Company;

(2) The information disclosure of China Shenhua in relation to the above external guarantee events was true and complete;

(3) with regards to future external guarantee, the Company shall continue to comply with approval and disclosure procedure in strict compliance with the laws, regulations and the relevant regulations of the "Article of Associations" of the Company.

3. Finance by Mandate

(1) The company entrusted RMB1.5 billion to China Industrial and Commercial Bank for investment and financial services. The type of financial vehicle is corporate assets management plan of China Industrial and Commercial Bank (balance type). The term of the mandate is from 29 December 2006 to 28 June 2007. The anticipated annual return is expected to be 2.8%. The principal actually recovered was RMB1.5 billion and the actual amount of returns was RMB21 million.

(2) The company entrusted RMB500 million to China Industrial and Commercial Bank for investment and financial services. The type of financial vehicle is corporate assets management plan of China Industrial and Commercial Bank (principal protected type). The term of the mandate is from 29 December 2006 to 28 June 2007. The anticipated annual return is expected to be 2.4%. The actual amount of principal repaid was RMB500 million and the actual amount of returns was RMB6 million.

The two entrusted funds were all managed as principal-protected type of financial service. The principal amounts were fully recovered on schedule in June 2007. The actual returns were consistent with the provisions of the agreements. The above two entrusted funds followed statutory procedures in compliance with the Articles of Associations of the Company.

4. Other material contracts

During the year the Company has not entered into any material contract

(VIII) Commitment by the Company or shareholders holding over 5% shares

Shenhua Group, the controlling shareholder of the Company, made the following commitments during the reporting period or which persisted during the reporting period

1. Commitments: the company concluded an "Agreement on the Avoidance of Competition within the Industry" with Shenhua Group during the reorganization of Shenhua Group and the establishment of the Company. In this agreement, Shenhua Group committed not to compete with the Company in respect of our principal business in any domestic or overseas region and granted the Company an option and priority to acquire potential competing businesses.

   Performance of the Commitments: Shenhua Group has strictly complied with its commitments since they were made, to avoid competition with the company and has never violated the aforesaid commitments.

2. Commitments: Among the real properties used by the Company, land use right certificates of two pieces of land leased by Shenhua Group to Shenshuo Railway of the Company under the Agreement on Lease of Land Use Right have not been obtained when the H shares were issued. The total area of the two pieces of land is 3.20 million square meters; furthermore, the Company has not obtained the certificates of house ownership of 175 real properties, of which the total area is about 101,043.87 square meters. When the Company's H Shares were issued. Shenhua Group has committed to the Company to obtain land use right certificates for the two pieces of land in the name of Shenhua Group and to lease the same to the Company and to assist and procure that the certificates of house ownership of the 175 real properties are granted to the Company or its subsidiaries.

   Performance of Commitments: Land use right certificates of the two pieces of land leased to Shenshuo Railway by Shenhua Group have been obtained. Up to the end of this Reporting Period, certificates of house ownership or title certification of 126 out of 175 real properties have been obtained for a total area of 90,024.21 square meters; certificates of house ownership of another 3 real properties of a total area of 1,294.39 square meters are under application, other real estates were demolished in line with the requirements of mine construction and operation.

3. Commitments: When the Company's A shares were issued, Shenhua Group committed not to transfer or entrust others to manage the shares in the Company which it holds directly and indirectly for 36 months from the date when the Company's shares were listed on the Shanghai Stock Exchange, nor to allow the Company to acquire those shares.

   Performance of the Commitments: Shenhua Group strictly complied with and did not violate its commitments during the year.

(IX) Appointment, removal of accounting firm

KPMG Huazhen and KPMG were re-appointed as PRC and international auditors, respectively, at the Company's 2006 annual general meeting held on 15 May 2007. In 2007, the auditors' total remuneration amounted to RMB54,205,000 (including audit fee relating to A shares listing of RMB16,000,000), comprising PRC audit fees of RMB30,705,000 and international audit fees of RMB23,500,000.

(X) Sanction and rectification of the listed company and its directors, supervisors, officers, shareholders and ultimate controllers

During the Reporting Period, the Company and its Directors, Supervisors, Officers, Shareholders and Ultimate Controllers have not been subjected to any investigation by relevant authorities, mandatory measures by judicial department, delivery to judicial authorities or charges of criminal liabilities, investigations by the China Securities Regulatory Commission ("CSRC"), administrative sanction imposed by CSRC, inadmission to the stock market, punishment by other administrative department due to non-eligibility or public criticism by the stock exchange.

(XI) Other material matters

The Company had no other material matters during the reporting period.

(XII) Directory of Information Disclosure

Event	Name of newspaper and column	Date of publication	Website and search directory
Circular on 2007 Power Purchase Agreements Continuing Connected Transactions	South China Morning Post Hong Kong Economic Times (Hong Kong)	23 January 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Continuing Connected Transactions - 2007 Power Purchase Agreements Announcement	South China Morning Post Hong Kong Economic Times (Hong Kong)	13 March 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Announcement on Annual Results for the year ended 31 December 2006	South China Morning Post Hong Kong Economic Times (Hong Kong)	23 March 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Announcement on Revised Caps for Certain Existing Continuing Connected Transactions in respect of 2007 and Renewal of Continuing Connected Transactions in respect of 2008-2010	South China Morning Post Hong Kong Economic Times (Hong Kong)	27 March 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
2006 Annual Report	South China Morning Post Hong Kong Economic Times (Hong Kong)	27 March 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Notice of Annual General Meeting	South China Morning Post Hong Kong Economic Times (Hong Kong)	30 March 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Reply slip for Notice of Annual General Meeting	South China Morning Post Hong Kong Economic Times (Hong Kong)	2 April 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Proxy Form for Annual General Meeting	South China Morning Post Hong Kong Economic Times (Hong Kong)	2 April 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Circular on Revised Caps for Certain Continuing Connected Transactions in respect of 2007 and Renewal of Continuing Connected Transactions in respect of 2008-2010 and Proposed Appointment of New Non-executive Director	–	2 April 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Announcement on Voting Results of the Annual General Meeting	South China Morning Post Hong Kong Economic Times (Hong Kong)	15 May 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Connected Transactions - Announcement on the Acquisition of Equity Interests in Power Plant	South China Morning Post Hong Kong Economic Times (Hong Kong)	11 June 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Announcement on the Acquisition of 100% Equity Interests in Shendong Coal and Shendong Power	—	2 July 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Announcement on (1) Proposed A Share Offering and Listing; (2) Proposed Amendments to the Articles of Association and Rules and Procedures of Meetings of Shareholders, the Board and the Supervisory Committee	—	2 July2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Notice of Extraordinary General Meeting	—	9 July 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Reply slip for Notice of Extraordinary General Meeting	—	9 July 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Proxy Form for Extraordinary General Meeting	—	9 July 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Circular on the Acquisition of 100% Equity Interests in Shendong Coal and Shendong Power	—	9 July 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Circular on (1) Proposed A Share Offering and Listing; (2) Proposed Amendments to the Articles of Association and Rules and Procedures of Meetings of Shareholders, the Board and the Supervisory Committee	—	9 July 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)

Event	Name of newspaper and column	Date of publication	Website and search directory
Notice of Board Meeting on 17 August	—	6 August 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
2007 Interim Results Announcement	—	19 August 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
2007 Interim Report	—	21 August 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Announcement on Voting Results of Extraordinary General Meeting	—	24 August 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Prospectus for the IPO of China Shenhua A shares (draft for filing)	—	13 September 2007	Shanghai Stock Exchange (www.sse.com.cn)
Prospectus for the IPO of China Shenhua A shares (draft for filing)	—	13 September 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Announcement on the Proposed A Share Issue	—	13 September 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Announcement on CSRC Approval of the A Share Issue and Commencement of Price Consultation for the A Share Issue	—	18 September 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Letter of Intent on invitation for Initial Public Offering of A Share of China Shenhua	—	18 September 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Letter of Intent on invitation for Initial Public offering of A Shares of China Shenhua	—	19 September 2007	Shanghai Stock Exchange (www.sse.com.cn)
Extracts of Letter of Intent on invitation for Initial Public Offering of A Share of China Shenhua	China Securities Journal A09-12, Shanghai Securities News A13-19 Securities Times A16-19	19 September 2007	Shanghai Stock Exchange (www.sse.com.cn)
Appendixes to the Letter of Intent on invitation for Initial Public Offering of A Share of China Shenhua	—	19 September 2007	Shanghai Stock Exchange (www.sse.com.cn)
Announcement on Arrangement for the issue for the IPO of A shares by China Shenhua and Price Consultation	China Securities Journal A1, Shanghai Securities News A1, Securities Times A20 Securities Daily B3	19 September 2007	Shanghai Stock Exchange (www.sse.com.cn)
Announcement of Roadshow on the Internet for the IPO of A shares by China Shenhua	China Securities Journal A04, Shanghai Securities News A6, Securities Times A4, Securities Daily A4	21 September 2007	Shanghai Stock Exchange (www.sse.com.cn)
Announcement on Determination of Price Range for the A Share Issue	—	23 September 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Announcement of the IPO of Shenhua A shares Off the Internet	China Securities Journal A09-10, Shanghai Securities News A4-5	24 September 2007	Shanghai Stock Exchange (www.sse.com.cn)
Announcement on Application for Subscription for A Shares of Shenhua IPO with Funds on the Internet	China Securities Journal A10-11, Shanghai Securities News A6	24 September 2007	Shanghai Stock Exchange (www.sse.com.cn)
Announcement of the Result of Price Consultation for the IPO of China Shenhua A shares and Range of Offer Price	China Securities Journal A09, Shanghai Securities News A4-5	24 September 2007	Shanghai Stock Exchange (www.sse.com.cn)

Event	Name of newspaper and column	Date of publication	Website and search directory
Announcement on the Offer Price of China Shenhua IPO of A shares, Results of Issue Off the Internet and the Ratio of Successful Subscription on the internet	China Securities Journal A09, Shanghai Securities News D5-6	26 September 2007	Shanghai Stock Exchange (www.sse.com.cn)
Announcement of Results for Successful Applicant Selected by Shaking Numbers in Respect of Funds on the internet for Shenhua IPO of A shares	China Securities Journal A09, Shanghai Securities News A7	27 September 2007	Shanghai Stock Exchange (www.sse.com.cn)
Announcement on Determination of Offer Size and Offer Price	—	27 September 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Clarification Announcement	—	28 September 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Announcement on Unusual Price and Trading Volume Movement	—	4 October 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Announcement of Listing of China Shenhua	—	7 October 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Prospectus of China Shenhua IPO of A Shares	—	7 October 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Announcement on the Completion of A Share Issue	—	7 October 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Announcement of Listing of China Shenhua	China Securities Journal A08, Shanghai Securities News C2	8 October 2007	Shanghai Stock Exchange (www.sse.com.cn)
Prospectus of China Shenhua	—	8 October 2007	Shanghai Stock Exchange (www.sse.com.cn)
China Shenhua Articles of Association	—	8 October 2007	Shanghai Stock Exchange (www.sse.com.cn)
Announcement on Unusual Price and Trading Volume Movements	—	11 October 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
China Shenhua H share Announcement		12 October 2007	Shanghai Stock Exchange (www.sse.com.cn)
Overseas Regulatory Announcement - Announcement on Irregular Fluctuation in Share Trading	—	14 October 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
China Shenhua Announcement on Irregular Fluctuation in Share Trading	China Securities Journal B08, Shanghai Securities News A9	15 October 2007	Shanghai Stock Exchange (www.sse.com.cn)
Overseas Regulatory Announcement - Announcement on Major Operational Data for September 2007	—	15 October 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
China Shenhua Announcement on Major Operational data of September 2007	China Securities Journal A20, Shanghai Securities News D24	16 October 2007	Shanghai Stock Exchange (www.sse.com.cn)
Announcement on Special Dividends and Closure of Register of Members	—	25 October 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
China Shenhua H share Announcement	—	26 October 2007	Shanghai Stock Exchange (www.sse.com.cn)
Overseas Regulatory Announcement - Announcement in Project Progress	—	28 October 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
China Shenhua Announcement in Project Progress	China Securities Journal D37, Shanghai Securities News A8	29 October 2007	Shanghai Stock Exchange (www.sse.com.cn)
Overseas Regulatory Announcement on Major Operational Data of October 2007	—	15 November 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)

Event	Name of newspaper and column	Date of publication	Website and search directory
China Shenhua Announcement on Major Operational Data of October 2007	China Securities Journal D04, Shanghai Securities News A22	16 November 2007	Shanghai Stock Exchange (www.sse.com.cn)
Overseas Regulatory Announcement - Announcement on the Reception of Investors by China Shenhua	—	20 November 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Announcement on the Reception of Investors by China Shenhua	China Securities Journal B08, Shanghai Securities News D24	21 November 2007	Shanghai Stock Exchange (www.sse.com.cn)
Overseas Regulatory Announcement - Announcement on Change of Scope of Consolidated Financial Statements	—	25 November 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Announcement on Change of Scope of Consolidated Financial Statements	China Securities Journal B08, Shanghai Securities News A9	26 November 2007	Shanghai Stock Exchange (www.sse.com.cn)
Overseas Regulatory Announcement - China Shenhua Announcement	—	27 November 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
China Shenhua Announcement	China Securities Journal D13, Shanghai Securities News D17	28 November 2007	Shanghai Stock Exchange (www.sse.com.cn)
Overseas Regulatory Announcement - Announcement on Change of Registered Capital and Filing of the Articles of Association	—	13 December 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Announcement on Change of Registered Capital and Filing of the Articles of Association	China Securities Journal D05, Shanghai Securities News D24	14 December 2007	Shanghai Stock Exchange (www.sse.com.cn)
Overseas Regulatory Announcement on Major Operational Data for November 2007	—	16 December 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
China Shenhua Announcement on Major Operational Data for November 2007	China Securities Journal C08, Shanghai Securities News A22	17 December 2007	Shanghai Stock Exchange (www.sse.com.cn)
Overseas Regulatory Announcement - Announcement on Resolutions of the 17th Meeting of the First Session of the Board of Directors	—	23 December 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Announcement on Continuing Connected Transaction	—	23 December 2007	The Stock Exchange of Hong Kong Limited (www.hkex.com.hk)
Announcement on Resolutions of the 17th Meeting of the First Session of the Board of Directors	China Securities Journal D04, Shanghai Securities News A16	24 December 2007	Shanghai Stock Exchange (www.sse.com.cn)
China Shenhua Announcement	China Securities Journal D04, Shanghai Securities News A16	24 December 2007	Shanghai Stock Exchange (www.sse.com.cn)

Explanation on "Directory for Information Disclosure"

(1) "—"refers to disclosure on the specified website only, without publication of the full text on newspapers. The Hong Kong Stock Exchange has implemented the "Electronic Disclosure Project" since 25 June 2007. According to that project, the full text of H Share announcements of the Company do not have to be published in newspapers as from 25 June 2007; according to the Listing Rules of Shanghai Stock Exchange, some A Share announcements can be disclosed on the internet without the need for publication in the newspapers.

(2) The Company's A Shares were listed on Shanghai Stock Exchange on 9 October 2007, according to the disclosure requirements of the Listing Rules of the places of listing, the Company will disclose relevant contents of announcements simultaneously in both places of listing which are both listed here.

Report of the PRC Auditor

KPMG Huazhen

KPMG-A(2008)AR No. 0067

All Shareholders of China Shenhua Energy Company Limited:

We have audited the accompanying financial statements of China Shenhua Energy Company Limited (the "Company"), which comprise the consolidated balance sheet and balance sheet as at 31 December 2007, the consolidated income statement and income statement, the consolidated statement of changes in equity and statement of changes in equity, the consolidated cash flow statement and cash flow statement for the year then ended, and the notes to the financial statements.

1. Management's responsibility for the financial statements

The Company's management is responsible for the preparation of these financial statements in accordance with the China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China. This responsibility includes: (1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

2. Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China's Auditing Standards for the Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

3. Opinion

In our opinion, the financial statements comply with the requirements of China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the consolidated financial position and financial position of the Company as at 31 December 2007, and the consolidated results of operations and results of operations and the consolidated cash flows and cash flows of the Company for the year then ended.

KPMG Huazhen

Certified Public Accountants
Registered in the People's Republic of China

Wang Jie

Beijing, the People's Republic of China

Wang Xia

15 March 2008

Financial Statements (PRC)

Consolidated balance sheet

as at 31 December 2007
(Expressed in millions of Renminbi Yuan)

Assets	*Note*	***2007***	*2006* (restated)
Current assets			
Cash at bank and on hand	6	**53,436**	15,766
Financial assets held for trading	24	**37**	–
Available-for-sale financial assets	7	**–**	2,000
Bills receivable	8	**756**	600
Accounts receivable	9	**5,886**	4,677
Prepayments	10	**2,682**	2,565
Other receivables	11	**2,569**	1,600
Inventories	12	**6,337**	4,880
Other current assets	13	**424**	50
Total current assets		**72,127**	32,138
Non-current assets			
Long-term equity investments	14	**3,811**	4,109
Fixed assets	15	**116,370**	101,976
Construction in progress	16	**18,713**	12,172
Construction materials	17	**3,645**	3,013
Intangible assets	18	**21,310**	17,338
Long-term deferred expenses	19	**1,007**	1,082
Deferred tax assets	20	**901**	704
Other non-current assets	21	**937**	–
Total non-current assets		**166,694**	140,394
Total assets		**238,821**	172,532

These financial statements have been approved by the board of directors on 15 March 2008.

Chen Biting	**Zhang Kehui**	**Hao Jianxin**	(Company stamp)
Legal Representative	Chief Financial Officer	Chief Accountant	

The notes on pages 159 to 242 form part of these financial statements.

Consolidated balance sheet (continued)

as at 31 December 2007
(Expressed in millions of Renminbi Yuan)

Liabilities and shareholders' equity	*Note*	***2007***	*2006* (restated)
Current liabilities			
Short-term loans	23	**4,903**	10,805
Financial liabilities held for trading	24	**–**	246
Short-term bonds payable	25	**1,453**	–
Bills payable	26	**169**	668
Accounts payable	27	**8,905**	8,830
Receipts in advance	28	**1,228**	1,027
Staff costs payable	29	**1,537**	1,440
Taxes payable	4(c)	**4,244**	4,071
Interest payable		**151**	73
Dividends payable		**1,538**	–
Other payables	30	**3,077**	3,289
Current portion of long-term loans	31	**5,293**	5,587
Current portion of long-term payables	33	**873**	88
Total current liabilities		**33,371**	36,124
Non-current liabilities			
Long-term loans	32	**49,718**	42,427
Long-term payables	33	**5,239**	3,575
Provisions	34	**1,018**	942
Deferred tax liabilities	20	**659**	729
Total non-current liabilities		**56,634**	47,673
Total liabilities		**90,005**	83,797
Shareholders' equity			
Share capital	35	**19,890**	18,090
Capital reserve	36	**87,701**	26,998
Surplus reserves	37	**6,263**	4,257
Retained earnings	37/38	**14,396**	19,585
Total equity attributable to equity shareholders of the Company		**128,250**	68,930
Minority interests	5(c)	**20,566**	19,805
Total shareholders' equity		**148,816**	88,735
Total liabilities and shareholders' equity		**238,821**	172,532

These financial statements have been approved by the board of directors on 15 March 2008.

Chen Biting	**Zhang Kehui**	**Hao Jianxin**	(Company stamp)
Legal Representative	Chief Financial Officer	Chief Accountant	

The notes on pages 159 to 242 form part of these financial statements.

Balance sheet

as at 31 December 2007
(Expressed in millions of Renminbi Yuan)

Assets	*Note*	***2007***	*2006*
Current assets			
Cash at bank and on hand	6	**51,914**	13,937
Financial assets held for trading	24	**37**	–
Available-for-sale financial assets	7	**–**	2,000
Bills receivable	8	**543**	56
Accounts receivable	9	**2,026**	1,401
Prepayments	10	**1,970**	2,267
Dividends receivable		**2,465**	97
Other receivables	11	**7,067**	6,854
Inventories	12	**4,453**	2,670
Other current assets	13	**10,537**	2,000
Total current assets		**81,012**	31,282
Non-current assets			
Long-term equity investments	14	**29,319**	24,413
Fixed assets	15	**26,135**	22,531
Construction in progress	16	**8,847**	3,322
Construction materials	17	**287**	341
Intangible assets	18	**11,646**	7,998
Long-term deferred expenses	19	**316**	323
Deferred tax assets	20	**430**	317
Other non-current assets	21	**377**	377
Total non-current assets		**77,357**	59,622
Total assets		**158,369**	90,904

These financial statements have been approved by the board of directors on 15 March 2008.

Chen Biting	**Zhang Kehui**	**Hao Jianxin**	(Company stamp)
Legal Representative	Chief Financial Officer	Chief Accountant	

The notes on pages 159 to 242 form part of these financial statements.

Balance sheet (continued)

as at 31 December 2007
(Expressed in millions of Renminbi Yuan)

Liabilities and shareholders' equity	*Note*	***2007***	*2006*
Current liabilities			
Short-term loans	23	**1,500**	2,900
Financial liabilities held for trading	24	**–**	246
Bills payable	26	**–**	1
Accounts payable	27	**5,085**	3,511
Receipts in advance	28	**1,047**	958
Staff costs payable	29	**953**	871
Taxes payable	4(c)	**2,379**	2,526
Interest payable		**54**	50
Other payables	30	**1,764**	1,050
Current portion of long-term loans	31	**1,822**	2,201
Current portion of long-term payables	33	**873**	88
Other current liabilities		**679**	–
Total current liabilities		**16,156**	14,402
Non-current liabilities			
Long-term loans	32	**12,897**	11,544
Long-term payables	33	**4,756**	3,299
Provisions	34	**624**	568
Deferred tax liabilities	20	**296**	234
Total non-current liabilities		**18,573**	15,645
Total liabilities		**34,729**	30,047
Shareholders' equity			
Share capital	35	**19,890**	18,090
Capital reserve	36	**87,621**	23,748
Surplus reserves	37	**6,263**	4,257
Retained earnings	37/38	**9,866**	14,762
Total shareholders' equity		**123,640**	60,857
Total liabilities and shareholders' equity		**158,369**	90,904

These financial statements have been approved by the board of directors on 15 March 2008.

Chen Biting	**Zhang Kehui**	**Hao Jianxin**	(Company stamp)
Legal Representative	Chief Financial Officer	Chief Accountant	

The notes on pages 159 to 242 form part of these financial statements.

Consolidated income statement

for the year ended 31 December 2007
(Expressed in millions of Renminbi Yuan)

	Note	2007	2006 (restated)
Operating income	39	**82,107**	65,186
Less: Operating costs	40	**40,716**	30,696
Business taxes and surcharges	41	**1,832**	1,543
Selling expenses		**522**	453
Administrative expenses		**6,624**	5,944
Financial expenses	42	**2,666**	2,114
Impairment loss	43	**709**	210
Add: Gain/(loss) from changes in fair value	44	**283**	(23)
Investment income	45	**638**	559
(Including: Income from investment in associates)		**567**	552
Operating profit		**29,959**	24,762
Add: Non-operating income	46	**209**	249
Less: Non-operating expenses	47	**539**	382
(Including: Loss from disposal of non-current assets)		**326**	220
Profit before income tax		**29,629**	24,629
Less: Income tax expenses	48	**6,481**	5,237
Net profit for the year		**23,148**	19,392
(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:	59(a)		
Basic earnings per share (RMB)		**1.066**	0.919
Diluted earnings per share (RMB)		**1.066**	0.919

These financial statements have been approved by the board of directors on 15 March 2008.

Chen Biting	**Zhang Kehui**	**Hao Jianxin**	(Company stamp)
Legal Representative	Chief Financial Officer	Chief Accountant	

The notes on pages 159 to 242 form part of these financial statements.

Income statement

for the year ended 31 December 2007
(Expressed in millions of Renminbi Yuan)

	Note	2007	2006
Operating income	39	**65,198**	53,234
Less: Operating costs	40	**44,077**	34,591
Business taxes and surcharges	41	**990**	880
Selling expenses		**445**	379
Administrative expenses		**2,983**	2,589
Financial expenses	42	**458**	568
Impairment loss	43	**254**	142
Add: Gain/(loss) from changes in fair value	44	**283**	(23)
Investment income	45	**6,983**	2,586
(Including: Income from investment in associates)		**351**	437
Operating profit		**23,257**	16,648
Add: Non-operating income	46	**46**	159
Less: Non-operating expenses	47	**345**	216
(Including: Loss on disposal of non-current assets)		**200**	124
Profit before income tax		**22,958**	16,591
Less: Income tax expenses	48	**2,770**	2,349
Net profit for the year		**20,188**	14,242

These financial statements have been approved by the board of directors 15 March 2008.

Chen Biting	**Zhang Kehui**	**Hao Jianxin**	(Company stamp)
Legal Representative	Chief Financial Officer	Chief Accountant	

The notes on pages 159 to 242 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2007
(Expressed in millions of Renminbi Yuan)

	Note	***2007***	*2006* (restated)
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		**90,080**	69,755
Refund of taxes		**48**	35
Other cash received relating to operating activities		**1,150**	1,049
Sub-total of cash inflows from operating activities		**91,278**	70,839
Cash paid for goods and services		**(36,431)**	(26,169)
Cash paid to and for employees		**(5,950)**	(3,857)
Cash paid for all types of taxes		**(16,090)**	(10,959)
Other cash paid relating to operating activities	49(d)	**(2,872)**	(5,289)
Sub-total of cash outflows from operating activities		**(61,343)**	(46,274)
Net cash flow from operating activities	49(a)	**29,935**	24,565
Cash flows from investing activities:			
Cash received from disposal of investments		**2,154**	911
Cash received from return on investments		**495**	311
Net cash received from disposal of fixed assets and intangible assets		**136**	479
Cash received on maturity of time deposits with financial institutions		**517**	58
Other cash received relating to investing activities		**622**	263
Sub-total of cash inflows from investing activities		**3,924**	2,022
Cash paid for acquisition of fixed assets and intangible assets		**(28,073)**	(25,712)
Net cash paid for acquisition of subsidiaries	5(b)	**(3,328)**	(1,162)
Cash paid for acquisition of investments		**(2,724)**	(2,324)
Cash paid for time deposits with financial institutions		**(541)**	–
Sub-total of cash outflows from investing activities		**(34,666)**	(29,198)
Net cash flow from investing activities		**(30,742)**	(27,176)

These financial statements have been approved by the board of directors on 15 March 2008.

Chen Biting	**Zhang Kehui**	**Hao Jianxin**	(Company stamp)
Legal Representative	Chief Financial Officer	Chief Accountant	

The notes on pages 159 to 242 form part of these financial statements.

Consolidated cash flow statement (continued)

for the year ended 31 December 2007
(Expressed in millions of Renminbi Yuan)

	Note	2007	2006 (restated)
Cash flows from financing activities:			
Cash received from investment		**654**	1,458
Net proceeds from issuance of A shares		**65,988**	–
Cash received from shareholders		**199**	669
Cash received from borrowings		**48,140**	32,674
Cash received from issuance of bonds		**1,453**	–
Sub-total of cash inflows from financing activities		**116,434**	34,801
Cash repayments of borrowings		**(49,603)**	(25,890)
Cash paid for dividends, profits distribution or interest		**(28,378)**	(11,477)
(Including: Dividends and profits paid to minority shareholders by subsidiaries)		**(1,929)**	(1,190)
Sub-total of cash outflows from financing activities		**(77,981)**	(37,367)
Net cash flow from financing activities		**38,453**	(2,566)
Net increase/(decrease) in cash and cash equivalents	49(b)	**37,646**	(5,177)
Add: Cash and cash equivalents at the beginning of the year		**15,758**	20,935
Cash and cash equivalents at the end of the year		**53,404**	15,758

These financial statements have been approved by the board of directors on 15 March 2008.

Chen Biting	**Zhang Kehui**	**Hao Jianxin**	(Company stamp)
Legal Representative	Chief Financial Officer	Chief Accountant	

The notes on pages 159 to 242 form part of these financial statements.

Cash flow statement

for the year ended 31 December 2007
(Expressed in millions of Renminbi Yuan)

	Note	2007	2006
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		**70,573**	58,764
Refund of taxes		**–**	3
Other cash received relating to operating activities		**681**	321
Sub-total of cash inflows from operating activities		**71,254**	59,088
Cash paid for goods and services		**(45,857)**	(34,172)
Cash paid to and for employees		**(2,401)**	(1,461)
Cash paid for all types of taxes		**(7,968)**	(5,458)
Other cash paid relating to operating activities		**(905)**	(570)
Sub-total of cash outflows from operating activities		**(57,131)**	(41,661)
Net cash flow from operating activities	49(a)	**14,123**	17,427
Cash flows from investing activities:			
Cash received from disposal of investments		**4,638**	2,675
Cash received from return on investments		**4,528**	2,420
Net cash received from disposal of fixed assets and intangible assets		**46**	384
Cash received on maturity of time deposits with financial institutions		**108**	–
Other cash received relating to investing activities		**585**	224
Sub-total of cash inflows from investing activities		**9,905**	5,703
Cash paid for acquisition of fixed assets and intangible assets		**(12,557)**	(9,561)
Net cash paid for acquisition of subsidiaries	5(b)	**(3,328)**	(1,162)
Cash paid for acquisition of investments		**(12,658)**	(6,967)
Cash paid for time deposits with financial institutions		**(118)**	–
Sub-total of cash outflows from investing activities		**(28,661)**	(17,690)
Net cash flow from investing activities		**(18,756)**	(11,987)
Cash flows from financing activities:			
Net proceeds from issuance of A shares		**65,988**	–
Cash received from borrowings		**21,943**	3,708
Sub-total of cash inflows from financing activities		**87,931**	3,708
Cash repayments of borrowings		**(21,557)**	(5,838)
Cash paid for dividends, profits distribution or interest		**(23,774)**	(8,089)
Sub-total of cash outflows from financing activities		**(45,331)**	(13,927)
Net cash flow from financing activities		**42,600**	(10,219)
Net increase/(decrease) in cash and cash equivalents	49(b)	**37,967**	(4,779)
Add: Cash and cash equivalents at the beginning of the year		**13,937**	18,716
Cash and cash equivalents at the end of the year		**51,904**	13,937

These financial statements have been approved by the board of directors on 15 March 2008.

Chen Biting
Legal Representative

Zhang Kehui
Chief Financial Officer

Hao Jianxin
Chief Accountant

(Company stamp)

The notes on pages 159 to 242 form part of these financial statements.

Consolidated statement of changes in shareholders' equity

for the year ended 31 December 2007
(Expressed in millions of Renminbi Yuan)

		Equity attributable to equity shareholders of the Company						
	Note	*Share capital*	*Capital reserve*	*Surplus reserves*	*Retained earnings*	*Sub-total*	*Minority interests*	*Total shareholders' equity*
Beginning balance of 2006		18,090	24,934	2,832	12,191	58,047	15,575	73,622
Effect on consolidation of Shendong Coal and Shendong Power	2(b)	–	2,557	–	(392)	2,165	1,190	3,355
Beginning balance of 2006 (restated)		18,090	27,491	2,832	11,799	60,212	16,765	76,977
Changes in equity for the year								
1. Net profit for the year		–	–	–	16,620	16,620	2,772	19,392
2. Shareholders' contributions and decrease of capital								
– Capital contributions by shareholders	36	–	669	–	–	669	1,458	2,127
– Consideration for the acquisition of Jinjie Energy	1	–	(1,162)	–	–	(1,162)	–	(1,162)
3. Appropriation of profits								
– Appropriation for surplus reserve	37	–	–	1,425	(1,425)	–	–	–
– Distributions to shareholders	38	–	–	–	(7,404)	(7,404)	(1,178)	(8,582)
– Distributions to shareholders of Shendong Power		–	–	–	(5)	(5)	(12)	(17)
Ending balance of 2006		18,090	26,998	4,257	19,585	68,930	19,805	88,735
Beginning balance of 2007		**18,090**	**26,998**	**4,257**	**19,585**	**68,930**	**19,805**	**88,735**
Changes in equity for the year								
1. Net profit for the year		**–**	**–**	**–**	**19,766**	**19,766**	**3,382**	**23,148**
2. Gain and loss recognised directly in equity		**–**	**–**	**–**	**–**	**–**	**–**	**–**
3. Issuance of A shares	35	**1,800**	**64,782**	**–**	**–**	**66,582**	**–**	**66,582**
4. A shares issue expenses	36	**–**	**(594)**	**–**	**–**	**(594)**	**–**	**(594)**
Sub-total of 1 to 4 above		**1,800**	**64,188**	**–**	**19,766**	**85,754**	**3,382**	**89,136**
5. Shareholders' contributions and decrease of capital								
– Capital contributions by shareholders	36	**–**	**199**	**–**	**–**	**199**	**654**	**853**
– Acquisition of minority interests		**–**	**(97)**	**–**	**–**	**(97)**	**(865)**	**(962)**
– Effect of consolidation of Dingzhou	37	**–**	**–**	**(13)**	**13**	**–**	**1,027**	**1,027**
– Consideration for the acquisitions of Shendong Coal and Shendong Power	1	**–**	**(3,587)**	**–**	**–**	**(3,587)**	**–**	**(3,587)**
6. Appropriation of profits								
– Appropriation for surplus reserves	37	**–**	**–**	**2,019**	**(2,019)**	**–**	**–**	**–**
– Distributions to shareholders	38	**–**	**–**	**–**	**(22,949)**	**(22,949)**	**(3,437)**	**(26,386)**
Ending balance of 2007		**19,890**	**87,701**	**6,263**	**14,396**	**128,250**	**20,566**	**148,816**

These financial statements have been approved by the board of directors on 15 March 2008.

Chen Biting	**Zhang Kehui**	**Hao Jianxin**	(Company stamp)
Legal Representative	Chief Financial Officer	Chief Accountant	

The notes on pages 159 to 242 form part of these financial statements.

Statement of changes in shareholders' equity

for the year ended 31 December 2007
(Expressed in millions of Renminbi Yuan)

	Note	*Share capital*	*Capital reserve*	*Surplus reserves*	*Retained earnings*	*Total shareholders' equity*
Beginning balance of 2006		18,090	24,425	2,832	9,349	54,696
Changes in equity for the year						
1. Net profit for the year		–	–	–	14,242	14,242
2. Shareholders' contributions and decrease of capital						
– Adjustment for acquisition of Jinjie Energy	1	–	(677)	–	–	(677)
3. Appropriation of profits						
– Appropriation for surplus reserves	37	–	–	1,425	(1,425)	–
– Distributions to shareholders	38	–	–	–	(7,404)	(7,404)
Ending balance of 2006		18,090	23,748	4,257	14,762	60,857
Beginning balance of 2007		**18,090**	**23,748**	**4,257**	**14,762**	**60,857**
Changes in equity for the year						
1. Net profit for the year		**–**	**–**	**–**	**20,188**	**20,188**
2. Issuance of A shares	35	**1,800**	**64,782**	**–**	**–**	**66,582**
3. A shares issuance expenses	36	**–**	**(594)**	**–**	**–**	**(594)**
4. Shareholders' contributions and decrease of capital						
– Capital contributions by shareholders		**–**	**–**	**–**	**–**	**–**
– Effect of consolidation of Dingzhou	37	**–**	**–**	**(13)**	**(116)**	**(129)**
– Consideration for the acquisitions of Shendong Coal and Shendong Power	2(b)	**–**	**(315)**	**–**	**–**	**(315)**
5. Appropriation of profits						
– Appropriation for surplus reserves	37	**–**	**–**	**2,019**	**(2,019)**	**–**
– Distributions to shareholders	38	**–**	**–**	**–**	**(22,949)**	**(22,949)**
Ending balance of 2007		**19,890**	**87,621**	**6,263**	**9,866**	**123,640**

These financial statements have been approved by the board of directors on 15 March 2008.

Chen Biting	**Zhang Kehui**	**Hao Jianxin**	(Company stamp)
Legal Representative	Chief Financial Officer	Chief Accountant	

The notes on pages 159 to 242 form part of these financial statements.

Notes to the financial statements

(Expressed in millions of Renminbi Yuan)

1 Company status

China Shenhua Energy Company Limited (the "Company") was a company limited by shares established in the People's Republic of China (the "PRC") on 8 November 2004.

The Company was established with the approval of the State Council, solely founded by Shenhua Group Corporation Limited ("Shenhua Group"). Shenhua Group transferred its coal production and sales, railways and port transportation and power generation businesses ("core businesses") related assets and liabilities as at 31 December 2003 to the Company. The assets and liabilities were valued by Beijing China Enterprise Appraisal Company Limited. The net asset value based on valuation was RMB18,612 million. Such valuation result was approved by the State-owned Assets Supervision and Administration Commission of the State Council ("SASAC"), an approval of Guo Zi Chan Quan [2004] No. 1010 "Approval regarding assets valuation project of Shenhua Group Corporation Limited for establishing a company limited by shares under restructuring aiming at domestic and overseas listing" on 6 November 2004.

In addition, pursuant to the Guo Zi Chan Quan [2004] No. 1011 "Reply to the issue regarding management of state-owned equity arising from the establishment of China Shenhua Energy Company Limited by Shenhua Group Corporation Limited" issued by the SASAC, 15 billion shares with a par value of RMB1.00 each were issued to Shenhua Group, the amount of which is equivalent to 80.5949% of the above net asset value transferred from Shenhua Group to the Company. The excess of net assets over the paid-in capital of RMB3,612 million was recorded in the capital reserve of the Company.

The Company and its subsidiaries (the "Group") took over the coal mining, power generation and transportation businesses of Shenhua Group.

In June and July 2005, the Company issued 3,398,582,500 H shares with a par value of RMB1.00 which have been listed on the Stock Exchange of Hong Kong Limited ("the Stock Exchange"). These H shares were issued by way of a global initial public offering to Hong Kong and overseas investors at a price of HK$7.50 per share.

In September 2007, the Company issued 1,800,000,000 A shares with a par value of RMB1.00 at a price of RMB36.99 per share which have been listed on the Shanghai Stock Exchange in October 2007. These A shares were issued to domestic institutional investors and natural persons in the PRC.

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 Group. 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 Group, 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.

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 Group, at a consideration of RMB1,162 million. The acquisition was approved by the SASAC on 3 August 2006 pursuant to Guo Zi Chan Quan [2006] No. 945 "Reply to issue regarding the state-owned share transfer of Shaanxi Guohua Jinjie Energy Corporation", and was completed on 31 August 2006.

Please refer to Note 5 for details of the Company's principal subsidiaries, which are included in the consolidation scope of the Group. The details include name, business nature, registered capital, cost of investment and shareholding percentage.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

2 Basis of preparation

These financial statements have been translated into English from the Company's financial statements issued in Chinese.

(a) Statement of compliance

The financial statements have been prepared in accordance with the requirements of the China Accounting Standards for Business Enterprises (2006) ("CAS") issued by the Ministry of Finance ("MOF"). The comparative figures of the financial statements for the year ended 31 December 2006 have been presented based on the Company's balance sheet as at 1 January 2007 and the retrospective application of CAS No. 38 "First-time adoption of China Accounting Standards for Business Enterprises" and CAS Explanatory Notice No. 1 regarding the requirements of first-time adoption of CAS for entities who have prepared financial statements under both the PRC accounting standards and the International Financial Reporting Standards, which are available to the public. The comparative figures of the financial statements for the year ended 31 December have been prepared by the Company in accordance with the accounting policies set forth in Note 3.

In addition, these financial statements also, in all material respects, comply with the disclosure requirements of "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports" as revised by the China Securities Regulatory Commission ("CSRC") in 2007.

(b) Restatement

As the Company, Jinjie Energy, Shendong Coal and Shendong Power were under common control of Shenhua Group, the above acquisitions have been reflected as a combination of entities under common control. Accordingly, the consolidated financial statements of the Group prior to these acquisitions have been restated that the assets and liabilities of Jinjie Energy, Shendong Coal and Shendong Power have been accounted for at historical cost and included the results of operations of Jinjie Energy, Shendong Coal and Shendong Power on a combined basis. The difference between the carrying values of the net assets acquired and the considerations 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 statement of changes in equity.

(c) Accounting year

The accounting year of the Group is from 1 January to 31 December.

(d) Measurement basis

The measurement basis used in the preparation of the financial statements is historical cost basis except for the assets and liabilities set out below:

– Available-for-sale financial assets (see Note 3(l))

– Financial liabilities held for trading (see Note 3(l))

(e) Functional currency and presentation currency

The Company's functional currency is Renminbi. These financial statements are presented in Renminbi.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

3 Significant accounting policies and accounting estimates

(a) Business combination and consolidated financial statements

(i) Business combination involving entities under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets and liabilities obtained are measured at the carrying amounts as recorded by the enterprise being absorbed at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of consideration paid for the combination (or the total face value of shares issued) is adjusted to share premium in the capital reserve. If the balance of share premium is insufficient, any excess is adjusted to retained earnings. The combination date is the date on which the Group effectively obtains control of the enterprise being absorbed.

(ii) Business combination involving entities not under common control

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. The cost of a business combination paid by the Group is the aggregate of the fair value at the acquisition date of assets given, liabilities incurred or assumed, and equity securities issued by the Group, in exchange for control of the acquiree plus any cost directly attributable to the business combination. The difference between the fair value and the carrying amount of the assets given is recognised in profit or loss. The acquisition date is the date on which the Group effectively obtains control of the acquiree.

The Group, at the acquisition date, allocates the cost of the business combination by recognising the acquiree's identifiable asset, liabilities and contingent liabilities at their fair value at that date.

Any excess of the cost of a business combination over the Group's interest in the fair value of the acquiree's identifiable net assets is recognised as goodwill (See Note 3(j)).

Any excess of the Group's interest in the fair value of the acquiree's identifiable net assets over the cost of a business combination is recognised in profit or loss.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

3 Significant accounting policies and accounting estimates (continued)

(a) Business combination and consolidated financial statements (continued)

(iii) Consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Where the Company combines a subsidiary during the reporting period through a business combination involving entities under common control, the financial statements of the subsidiary are included in the consolidated financial statements as if the combination had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established. Therefore the opening balances and the comparative figures of the consolidated financial statements are restated. In the preparation of the consolidated financial statements, the subsidiary's assets, liabilities and results of operations are included in the consolidated balance sheet and the consolidated income statement, respectively, based on their carrying amounts in the subsidiary's financial statements, from the date that common control was established.

Where the Company acquires a subsidiary during the reporting period through a business combination involving entities not under common control, the identifiable assets, liabilities and results of operations of the subsidiaries are consolidated into consolidated financial statements from the date that control commences, base on the fair value of those identifiable assets and liabilities at the acquisition date.

Minority interest is presented separately in the consolidated balance sheet within equity. Net profit or loss attributable to minority shareholders is presented separately in the consolidated income statement below the net profit line item.

Where the amount of losses attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the equity of the subsidiary, the excess, and any further losses attributable to the minority shareholders, are allocated against the equity attributable to the Company except to the extent that the minority shareholders have a binding obligation under the articles of association or an agreement and are able to make additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the equity attributable to the Company until the minority shareholders' share of losses previously absorbed by the Company has been recovered.

When the accounting period or accounting policies of a subsidiary are different from those of the Company, the Company makes necessary adjustments to the financial statements of the subsidiary based on the Company's own accounting period or accounting policies. Intra-group balances and transactions, and any unrealised profit or loss arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

3 Significant accounting policies and accounting estimates (continued)

(b) Translation of foreign currencies

When the Group receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate on the date of the receipt. Other foreign currency transactions are, on initial recognition, translated to Renminbi at the spot exchange rates on the dates of the transactions.

A spot exchange rate is an exchange rate quoted by the People's Bank of China.

Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange at the balance sheet date. The resulting exchange differences are recognised in profit or loss, except those arising from the principals and interests on foreign currency borrowings specifically for the purpose of acquisition, construction or production of qualifying assets (see Note 3(r)). Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to Renminbi using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the exchange differences are recognised in profit or loss, except for the differences arising from the translation of available-for-sale financial assets, which is recognised in capital reserve.

(c) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

(d) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost of inventories comprises all costs of purchase, costs of conversion and other costs. Inventories are initially measured at their actual cost. Cost of inventories is calculated using the weighted average method. In addition to the purchasing cost of raw materials, work in progress and finished goods include direct labour costs and an appropriate allocation of production overheads.

Any excess of the cost over the net realisable value of each class of inventories is recognised as a provision for diminution in the value of inventories. Net realisable value is the estimated selling price in the normal course of business less the estimated costs to completion and the estimated expenses and related taxes necessary to make the sale.

The Group maintains a perpetual inventory system.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

3 Significant accounting policies and accounting estimates (continued)

(e) Long-term equity investments

(i) Investment in subsidiaries

In the Group's consolidated financial statements, investments in subsidiaries are accounted for in accordance with the principles described in Note 3(a)(iii).

In the Company's financial statements, investments in subsidiaries are accounted for using the cost method. The investments are stated at cost less impairment losses (see Note 3(k)) in the balance sheet. At initial recognition, such investments are measured as follows:

– The initial investment cost of a long-term equity investment obtained through a business combination involving entities under common control is the absorbing enterprise's share of the subsidiary's equity at the combination date. The difference between the initial investment cost and the carrying amounts of the consideration given is adjusted to share premium in capital reserve. If the balance of the share premium is insufficient, any excess is adjusted to retained earnings.

– The initial investment cost of a long-term equity investment obtained through a business combination involving entities not under common control is the cost of acquisition determined at the acquisition date.

– An investment in a subsidiary acquired otherwise than through a business combination is initially recognised at actual payment cost if the Group acquires the investment by cash, or at the value stipulated in the investment contract or agreement if an investment is contributed by investors.

(ii) Investment in associates

An associate is an enterprise over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an investee but is not control or joint control over those policies.

An investment in an associate is accounted for using the equity method, unless the investment is classified as held for sale. The investment is classified as held for sale when the Group has made a decision and signed a non-cancellable agreement on the transfer of the investment with the transferee, and the transfer is expected to be completed within one year. The investment held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Any excess of its carrying amount over fair value less costs to sell is recognised as a provision for impairment loss of the investment.

At year-end, the Group makes provision for impairment loss of investments in associates (see Note 3(k)).

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

3 Significant accounting policies and accounting estimates (continued)

(e) Long-term equity investments (continued)

(ii) Investment in associates (continued)

An investment in an associate is initially recognised at actual payment cost if the Group acquires the investment by cash, at the fair value of the equity securities issued if an investment is acquired by issuing equity securities, or at the value stipulated in the investment contract or agreement if an investment is contributed by an investor.

The Group makes the following accounting treatments when using the equity method:

– Where the initial investment cost of a long-term equity investment exceeds the Group's interest in the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially recognised at the initial investment cost. Where the initial investment cost is less than the Group's interest in the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially recognised at the investor's share of the fair value of the investee's identifiable net assets, and the difference is charged to profit or loss.

– After the acquisition of the investment, the Group recognises its share of the investee's net profits or losses as investment income or losses, and adjusts the carrying amount of the investment accordingly. Once the investee declares any cash dividends or profits distributions, the carrying amount of the investment is reduced by that attributable to the Group.

  The Group recognises its share of the investee's net profits or losses after making appropriate adjustments to align the accounting policies or accounting periods with those of the Group based on the fair values of the investee's individual separately identifiable assets at the time of acquisition. Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated for the part attributable to the Group calculated based on its share of the associates or jointly controlled enterprises. Unrealised losses resulting from transactions between the Group and its associates are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

– The Group discontinues recognising its share of net losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that in substance forms part of the Group's net investment in the associate is reduced to zero, except to the extent that the Group has an obligation to assume additional losses. Where net profits are subsequently made by the associate, the Group resumes recognising its share of those profits only after its share of the profits exceeds the share of losses not recognised.

(iii) Other long-term equity investments

Other long-term equity investments refer to investments for which the Group does not have the right to control, have joint control or exercise significant influence over the investees, and for which the investments are not quoted in an active market and their fair value cannot be reliably measured.

Such investments are initially recognised at the cost determined in accordance with the same principles as those for jointly controlled enterprises and associates, and then accounted for using the cost method. At year-end the Group makes provision for impairment losses on such investments (see Note 3(k)).

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

3 Significant accounting policies and accounting estimates (continued)

(f) Fixed assets

Fixed assets represent the tangible assets held by the Group for use in the production of goods or supply of services for rental to others or for operation and administrative purposes with useful lives over one year.

Fixed assets are stated in the balance sheet at cost or valuation amount less accumulated depreciation and impairment losses (see Note 3(k)). Valuation amount represents the value of the assets adjusted to the accounting record based on the valuation carried out in accordance with regulations.

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use.

Where the individual component parts of an item of fixed asset have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognised as a separate fixed asset.

The subsequent costs including the cost of replacing part of an item of fixed assets are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of fixed assets are recognised in profit or loss as incurred.

Gains or losses arising from the retirement or disposal of an item of fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Other than mining structures which are depreciated on a units-of-production method, fixed assets are depreciated over their estimated useful lives as set out below on a straight-line basis, after taking into account for estimated residual values (rate of residual values ranged from 0 to 5%):

	Estimated useful life
Building	20-50 years
Mining related machinery and equipment	5-18 years
Generator and related machinery and equipment	20-30 years
Railways and port structures	30-45 years
Furniture, fixture, motor vehicle and other equipment	5-10 years

Useful lives, residual values and depreciation methods are reviewed at least each year-end.

(g) Construction in progress

Construction in progress is stated in the balance sheet at cost or valuation amount less impairment losses (see Note 3(k)). (Valuation amount represents the value of the assets adjusted to the accounting record based on the valuation carried out in accordance with regulations.) All direct and indirect costs related to the purchase or construction of fixed assets, incurred before ready for its intended use, are capitalised as construction in progress. Those costs include borrowing costs for the acquisition, construction or production of qualifying fixed assets.

Construction in progress is transferred to fixed assets when it is ready for its intended use. No depreciation is provided against construction in progress.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

3 Significant accounting policies and accounting estimates (continued)

(h) Operating lease charges

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term.

(i) Intangible assets

Intangible assets are stated in the balance sheet at cost or valuation amount less accumulated amortisation (where the estimated useful life is definite) and impairment losses (see Note 3(k)). Valuation amount represents the value of the assets adjusted to the accounting record based on the valuation carried out in accordance with regulations. For an intangible asset with definite useful life, its cost or valuation amount less residual value and impairment loss is amortised on the straight-line method or units-of-production method over its estimated useful life. Land use rights are amortised on the straight-line method over the period of 30 to 50 years. Mining rights are amortised on a units-of-production method over proved and probable coal reserves.

An intangible asset is regarded as having an indefinite useful life and is not amortised when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group. At the balance sheet date, the Group did not have any intangible assets with indefinite useful lives.

Expenditures on an internal research and development project are classified into expenditures on the research phase and expenditures on the development phase. Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products or processes before the start of commercial production or use.

Expenditures on research phase are recognised in profit or loss when incurred. Expenditures on development phase are capitalised if development costs can be measured reliably, the product or process is technically and commercially feasible, and the Group intends to and has sufficient resources to complete development. Capitalised development costs are stated at cost less impairment losses (see Note 3(k)). Other development expenditures are recognised as expenses in the period in which they are incurred.

(j) Goodwill

Goodwill represents the excess of cost of acquisition over the Group's interest in the fair value of the identifiable net assets of the acquiree under the business combination involving entities not under common control.

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net asset acquired at the date of exchange.

Goodwill is not amortised and is stated at cost less accumulated impairment losses (see Note 3(k)). On disposal of an asset group or a set of asset groups, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

3 Significant accounting policies and accounting estimates (continued)

(k) Impairment of non-financial long-term assets

The carrying amounts of the following assets are reviewed at each balance sheet date based on the internal and external sources of information to determine whether there is any indication of impairment:

– fixed assets

– construction in progress and construction materials

– intangible assets with finite useful life

– long-term equity investments in subsidiaries and associates

If any indication exists that an asset may be impaired, recoverable amount of the asset is estimated. In addition, for goodwill and intangible assets with indefinite useful lives, the Group estimates the recoverable amount of intangible assets with indefinite useful lives at least each year and the recoverable amounts of goodwill at least each year-end, irrespective of whether there is any indication of impairment or not. Goodwill is tested for impairment together with its related asset groups or sets of asset groups.

An asset group is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. An asset group is composed of assets directly relating to cash-generation. Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group's operations and how management makes decisions about continuing or disposing of the Group's assets.

The recoverable amount of an asset, asset group or set of asset groups is the higher of its fair value less costs to sell and its present value of expected future cash flows.

An asset's fair value less costs to sell is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss. A provision for impairment loss of the asset is recognised accordingly. Impairment losses related to an asset group or a set of asset groups first reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, that the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs to sell (if determinable), the present value of expected future cash flows (if determinable) and zero.

An impairment loss is not reversed in subsequent periods.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

3 Significant accounting policies and accounting estimates (continued)

(l) Financial instruments

Financial instruments comprise cash at bank and on hand, investments in debt, receivables, payables, loans, bonds payable and share capital, etc.

(i) Recognition and measurement of financial assets and financial liabilities

A financial asset or financial liability is recognised in the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument.

The Group classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs. Subsequent to initial recognition financial assets and liabilities are measured as follows:

– Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading)

A financial asset or financial liability is classified as at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is a derivative.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

– Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Subsequent to initial recognition, receivables are subsequently stated at amortised cost using the effective interest method.

– Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available for sales and other financial assets which do not fall into any of the above categories.

An investment in equity instrument which does not have a quoted market price in an active market and whose fair value cannot be reliably measured is measured at cost subsequent to initial recognition.

Besides investments in equity instruments whose fair value cannot be measured reliably as described above, subsequent to initial recognition, other available-for-sale financial assets are measured at fair value and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets, which are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is removed from equity and recognised in profit or loss.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

3 Significant accounting policies and accounting estimates (continued)

(l) Financial instruments (continued)

(i) Recognition and measurement of financial assets and financial liabilities (continued)

– Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Among other financial liabilities, financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Where the Group issues a financial guarantee, subsequent to initial recognition, the guarantee is measured at the higher of the amount initially recognised less accumulated amortisation and the amount of a provision determined in accordance with the principles of contingent liabilities (see Note 3(o)).

Except for the other financial liabilities described above, subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

(ii) Impairment of financial assets

The carrying amounts of financial assets (other than those at fair value through profit or loss) are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided.

– Receivables

Receivables are assessed for impairment both on an individual basis and on a collective group basis.

Where impairment is assessed on an individual basis, an impairment loss in respect of a receivable is calculated as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

The assessment is made collectively where receivables share similar credit risk characteristics (including those having not been individually assessed as impaired), based on their historical loss experiences, and adjusted by the observative figures reflecting present economic conditions.

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

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

3 Significant accounting policies and accounting estimates (continued)

(l) Financial instruments (continued)

(ii) Impairment of financial assets (continued)

– Available-for-sale financial assets and other long-term equity investments

Available-for-sale financial assets and other long-term equity investments are assessed for impairment on an individual basis.

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that has been recognised directly in equity is removed from equity and recognised in profit or loss even though the financial asset has not been derecognised.

If, after an impairment loss has been recognised on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. An impairment loss recognised for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

For other long-term equity investments (see Note 3(e)(iii)), the amount of the impairment loss is measured as the difference between the carrying amount of the investment and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

(iii) Determination of fair values

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price and, for a financial asset to be acquired or a financial liability assumed, it is the current asking price.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. The Group calibrates the valuation technique and tests it for validity periodically.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

3 Significant accounting policies and accounting estimates (continued)

(l) Financial instruments (continued)

(iv) Derecognition of financial assets and financial liabilities

A financial asset is derecognised if the Group's contractual rights to the cash flows from the financial asset expire or if the Group transfers substantially all the risks and rewards of ownership of the financial asset to another party.

Where a transfer of a financial asset in its entirely meets the criteria of the derecognition, the difference between the two amounts below is recognised in profit or loss:

– carrying amount of the financial asset transferred

– the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised directly in shareholders' equity.

The Group derecognises a financial liability (or part of it) only when the underlying present obligation (or part of it) is discharged.

(v) Equity instrument

An equity instrument is a contract that proves the ownership interest of the assets after deducting all liabilities in the Company.

The consideration received by the Company from the issuance of equity instruments net of transaction costs is recognised in share capital and capital reserve.

Consideration and transaction costs paid by the Company for repurchasing its own equity instrument are deducted from shareholders' equity.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

3 Significant accounting policies and accounting estimates (continued)

(m) Employee benefits

Employee benefits are all forms of considerations given and other related expenditures incurred in exchange for services rendered by employees. Except for termination benefits, employee benefits are recognised as a liability in the period in which the associated services are rendered by employees, with a corresponding increase in cost of relevant assets or expenses in the current period.

(i) Retirement benefits

Pursuant to the relevant laws and regulations of the PRC, the Group has joined a defined contribution basic retirement scheme for the employees arranged by local Labour and Social Security Bureaus. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the government organisation. The contributions are charged to profit or loss on an accrual basis. When employees retire, the local Labour and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees. The Group does not have any other obligations in this respect.

(ii) Housing fund and other social insurances

Besides the retirement benefits, pursuant to the relevant laws and regulations of the PRC, the Group has joined defined social security contributions for employees, such as a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes contributions to the housing fund and other social insurances mentioned above at the applicable rates based on the employees salaries. The contributions are recognised as cost of assets or charged to profit or loss on an accrual basis.

(iii) Share-based payments

Share-based payments transactions in the Group are cash-settled share-based payments.

Where the Group receives services from employees by incurring a liability to deliver cash or other assets for amounts that are determined based on the price of shares or other equity instruments, the service received from employees is measured at the fair value of the liability incurred. If the rights under cash-settled share-based payment vest immediately, the Group, on the grant date, recognises related costs or expenses at an amount equal to the fair value of the liability incurred, with a corresponding increase in liability. If the rights under a cash-settled share-based payment do not vest until the completion of services for a vesting period, or until the achievement of a specified performance condition, the Group, at each balance sheet date during the vesting period, recognises the services received for the current period as related costs or expenses, with a corresponding increase in liability, at an amount equal to the fair value of the liability based on the best estimate of the outcome of vesting.

(iv) Termination benefits

When the Group terminates the employment relationship with employees before the employment contracts have expired, or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision for the termination benefits provided, is recognised in profit or loss when both of the following conditions have been satisfied:

- The Group has a formal plan for the termination of employment or has made an offer to employees for voluntary redundancy, which will be implemented shortly

- The Group is not allowed to withdraw from termination plan or redundancy offer unilaterally.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

3 Significant accounting policies and accounting estimates (continued)

(n) Income tax

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable calculated at the applicable tax rate on taxable income for the year, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible losses and tax credits carryforward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or tax loss). Deferred tax is not recognised for taxable temporary differences arising from the initial recognition of goodwill.

At the balance sheet date, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates that are expected to be applied in the period when the asset is realised or the liability is settled in accordance with tax laws.

(o) Provisions and contingent liabilities

A provision is recognised if, as a result of a past event, the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

In terms of a possible obligation resulting from a past transaction or event, whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow can not be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

(p) Revenue recognition

Revenue is the gross inflow of economic benefit in the periods arising in the course of the Group's ordinary activities when the inflows result in increase in shareholder's equity, other than increase relating to contributions from shareholders. Revenue is recognised in profit or loss when it is probable that the economic benefits will flow to the Group, the revenue and costs can be measured reliably and the following respective conditions are met:

(i) Revenue from sales of coal is recognised when the significant risks and awards of ownership of goods have been transferred to the buyer.

(ii) Revenue from sale of power is recognised upon the transmission of electric power to the power grid companies.

(iii) Revenue from the rendering of railway and port transportation services is recognised upon the performance of services.

(iv) Interest income is recognised on a time proportion basis with reference to the principal outstanding and the applicable effective interest rate.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

3 Significant accounting policies and accounting estimates (continued)

(q) Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to the Group at no consideration except for the capital contribution from the government as a shareholder of the Group. Special funds such as investment grants allocated by the government, if clearly defined in official documents as part of capital reserve are dealt with as capital contributions, and not regarded as government grants.

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions associated with the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount that is received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at its fair value.

A government grant related to an asset is recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset. A grant that compensates the Group for expenses to be incurred in the subsequent periods is recognised initially as deferred income and recognised in profit or loss in the same periods in which the expenses are recognised. A grant that compensates the Group for expenses incurred is recognised in profit or loss immediately.

(r) Borrowing costs

Borrowing costs incurred directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset.

Except for the above, other borrowing costs are recognised as financial expenses in the income statement when incurred.

In the capitalisation period, the amount of interest (including amortisation of any discount or premium on borrowing) to be capitalised in each accounting period is determined as follows:

- Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of interest to be capitalised is the interest expense calculated using effective interest rates during the period less any interest income earned from depositing the borrowed funds or any investment income on the temporary investment of those funds before being used on the asset.
- Where funds are borrowed generally and used for the acquisition, construction or production of a qualifying asset, the amount of interest to be capitalised on such borrowings is determined by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditures on the asset over the above amounts of specific borrowings. The capitalisation rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

The effective interest rate is determined as the rate that exactly discounts estimated future cash flow through the expected life of the borrowing or, when appropriate, a shorter period to the carrying amount of the borrowings.

The capitalisation period is the period from the date of commencement of capitalisation of borrowing costs to the date of cessation of capitalisation, excluding any period over which capitalisation is suspended. Capitalisation of borrowing costs commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities of acquisition, construction or production that are necessary to prepare the asset for its intended use or sale are in progress, and ceases when the assets become ready for their intended use or sale. Capitalisation of borrowing costs is suspended when the acquisition, construction or production activities are interrupted abnormally and the interruption lasts over three months.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

3 Significant accounting policies and accounting estimates (continued)

(s) Obligations for land reclamation

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

(t) Provision for production maintenance and production safety expenses

Pursuant to the rules and regulations of the related government authorities in the PRC, the Group has to accrue for production maintenance expenses based on coal production volume, which are used to maintain production and technical improvement of coal mines. The Group also accrues for production safety expenses, which are used for enhancing safety standards of coal production machineries and mining structure facilities. Provisions for production maintenance and production safety expenses are charged as expense and credited to long term payables. The balance of long term payables is reduced when the expenditure is occurred. For capital expenditures relating to production maintenance and production safety payments, the long-term payable is reduced and fixed assets are recognised with the same amount credited to accumulated depreciation. No further depreciation is provided on usage.

(u) Dividends appropriated to investors

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised and declared after the balance sheet date, are not recognised as a liability at the balance sheet date but disclosed in the notes separately.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

3 Significant accounting policies and accounting estimates (continued)

(v) Related parties

If the Company has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Company or the Group and one or more parties are subject to common control, jointly control, or significant influence from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Company or the Group is under common control only from the State and that have no other related party relationships are not regarded as related parties of the Company or the Group. The Company's and the Group's related parties include, but are not limited to:

(i) the Company's parent;

(ii) the Company's subsidiaries;

(iii) enterprises that are controlled by the Company's parent;

(iv) investors that have joint control over the Company;

(v) investors that exercise significant influence over the Group;

(vi) associates of the Company and the Group;

(vii) principal individual investors and close family members of such individuals;

(viii) key management personnel of the Group and close family members of such individuals;

(ix) key management personnel of the Company's parent;

(x) close family members of key management personnel of the Company's parent; and

(xi) other enterprises that are controlled, jointly controlled or significantly influenced by principal individual investors, key management personnel of the Group, and close family members of such individuals.

Besides the related parties stated above determined in accordance with the requirements of CAS (2006), the following enterprises and individuals are considered as (but not restricted to) related parties of the Company and the Group based on the disclosure requirements of Administrative Procedures on the Information Disclosures of Listed Companies issued by the CSRC:

(xii) enterprises that hold 5% or more of the Company's shares or persons that act in concert;

(xiii) individuals who directly or indirectly hold 5% or more of the Company's shares and close family members of such individuals;

(xiv) enterprises that satisfy any of the aforesaid conditions in (i), (iii) and (xii) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement;

(xv) individuals who satisfy any of the aforesaid conditions in (viii), (ix) and (xiii) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement; and

(xvi) enterprises, other than the Company and subsidiaries controlled by the Company, which are controlled directly or indirectly by an individual defined in (viii), (ix), (viii) or (xv), or in which such individual assumes the position of a director or senior executive.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

3 Significant accounting policies and accounting estimates (continued)

(w) Segment reporting

Segment information is presented in respect of Group's business and geographical segments. A business segment is a distinguishable component of the Group that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other component. A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment, which is subject to risks and rewards that are different from those of other segments. In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

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

Segment capital expenditure is the total cost incurred during the period to acquire or construct segment fixed assets, constructions in progress, construction materials and intangible assets and long-term deferred expenses.

Unallocated items mainly comprise interest income and expenses, dividend income, investment income or loss arising from long-term equity investment, non-operating income and expenses, and income tax expenses.

(x) Significant accounting estimates and judgements

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Notes 50 and 52 contain information about the assumptions and their risk factors relating to share-based payments and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(i) Impairment of non-financial long-term assets

As described in Note 3(k), non-financial long-term assets are reviewed at each balance sheet date to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, impairment loss is provided.

The recoverable amount of an asset (asset group) is the greater of its net selling price and its present value of expected future cash flows. Since a market price of the asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing value in use, significant judgements are exercised over the asset's production, selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the production, selling price and related operating expenses based on reasonable and supportable assumption.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

3 Significant accounting policies and accounting estimates (continued)

(x) Significant accounting estimates and judgements (continued)

(ii) Depreciation and amortisation

As described in Note 3(f) and 3(i), fixed assets and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives or units-of-production method after taking into account residual value. The estimated useful lives and the remaining proved and probable coal reserves are regularly reviewed to determine the depreciation and amortisation costs charged in each reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. Proved and probable coal reserve estimates are determined according to the economically recoverable coal reserve set out in JORC standard (JORC is the standard of reporting mineral resource amount and mineral reserve in Australia, taking effective from December 2004). If there is a change in the estimation, the amount of depreciation or amortisation is revised prospectively.

Engineering estimates of the Group's coal reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated coal reserves can be designated as proved and probable. Proved and probable coal reserve estimates are updated at regular basis and have taken into account recent production and technical information of each mine. In addition, as prices and cost levels change from year to year, the estimates of proved and probable coal reserves are also subject to change. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation and amortisation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation and amortisation expenses and impairment loss.

(iii) Obligations for land reclamation

As described in Note 3(s), the estimation of the liabilities for final reclamation and mine closure involves the estimates of the amount and timing for the future cash spending. After revised for inflation, the estimated expenditure is discounted with the discount rate that used for reflecting current market assessments of the time value of money and the risks specific to the liability, to ensure the obligation recognised could reflect the present value of estimated liabilities. The Group considers the factors including future production volume and development plan, the geological structure of the mining regions and reserve volume to determine the scope, amount and timing of reclamation and mine closure works to be performed. Determination of the effect of these factors involves judgements from the Group and the estimated liabilities may turn out to be different from the actual expenditure to be incurred. The discount rate used by the Group may also be altered to reflect the changes in the market assessments of the time value of money and the risks specific to the liability, such as change of the borrowing rate and inflation rate in the market. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation will be recognised at the appropriate discount rate.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

4 Taxation

(a) The types of taxes applicable to the Group's sale of goods and rendering of services include business tax, value added tax (VAT), and resources tax. Their tax rates are as follows:

Business tax rate:	3-5%
VAT rate:	13-17%
Resources tax rate:	RMB3.2 per tonne on coal sales (2006: RMB2.3-3.2 per tonne)

(b) Income tax

Except for the entities listed below, the Group's applicable income tax rate for the year ended 31 December 2007 was 33% (2006: 33%).

Effective from 1 January 2008, the Group's applicable income tax rate is 25%.

Details of the preferential tax treatments enjoyed by the Group for the year ended 31 December 2007 are as follows:

Company/branch name	*Preferential tax rate*	*Reason*	
Shenhua Zhunge'er Energy Co., Ltd.	15%	Preferential tax policy enjoyed by enterprise with operation in the western developing region of the PRC	Note (i)
China Shenhua Energy Company Limited Wanli Coal Branch	15%	Preferential tax policy enjoyed by enterprise with operation in the western developing region of the PRC	Note (i)
China Shenhua Energy Company Limited Shendong Coal Branch	15%	Preferential tax policy enjoyed by enterprise with operation in the western developing region of the PRC	Note (i)
Shenhua Beidian Shengli Energy Co., Ltd.	15%	Preferential tax policy enjoyed by enterprise with operation in the western developing region of the PRC	Note (i)
Shenhua Baoshen Railway Co., Ltd.	15%	Preferential tax policy enjoyed by enterprise with operation in the western developing region of the PRC	Note (i)
China Shenhua Energy Company Limited Shenshuo Railway Branch	15%	Preferential tax policy enjoyed by enterprise with operation in the western developing region of the PRC	Note (i)
CLP Guohua Power Co., Ltd.	16.5%	Preferential tax policy enjoyed by foreign investment enterprise	Note (ii)
Inner Mongolia Guohua Zhunge'er Power Generation Co., Ltd.	15%	Preferential tax policy enjoyed by enterprise with operation in the western developing region of the PRC	Note (i)
China Shenhua Energy Company Limited Coal Sales Centre Dongsheng Settlement Department	15%	Preferential tax policy enjoyed by enterprise with operation in the western developing region of the PRC	Note (i)
China Shenhua Energy Company Limited Jinfeng Coal Branch	15%	Preferential tax policy enjoyed by enterprise with operation in the western developing region of the PRC	Note (i)

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

4 Taxation (continued)

(b) Income tax (continued)

Note (i): In accordance with Cai Shui [2001] No. 202 "Notice from Ministry of Finance, State Administration of Taxation and China Customs regarding the issue of enterprise income tax preferential policy related to western developing region " and Guo Shui Fa [2002] No.47 "Notice from State Administration of Taxation regarding execution of tax policies related to western developing region", enterprises may enjoy the reduced enterprise income tax rate at 15% from year 2001 to 2010.

Note (ii): In accordance with income tax law of the People's Republic of China for foreign invested enterprises and foreign enterprises, enterprises may enjoy the reduced enterprise income tax at 15%. According to Jing Guo Shui Wai Pi Fu [2002] No. 1-17 "Reply on application of income tax reduction and exemption for productional foreign invested enterprises by CLP Guohua Power Co., Ltd.", CLP Guohua Power Co., Ltd. was exempted from local income tax from year 2002 to 2006, and allowed a 50% reduction of local income tax from year 2007 to 2011.

Note (iii): 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.

The preferential policies enjoyed by the entities with operations in the western developing region of the PRC according to Note (i) 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 over the five-year transtitional period.

The deferred tax assets and liabilities have been remeasured for the change in applicable tax rates as a result of the new tax law, and were reflected in the Group's financial statements as at 31 December 2007.

(c) Taxes payable

	The Group		***The Company***	
	2007	*2006* (restated)	***2007***	*2006*
VAT payable	**945**	1,105	**539**	758
Business tax payable	**88**	90	**52**	60
Income tax payable	**2,198**	2,196	**1,030**	1,227
Education surcharge payable	**34**	67	**32**	50
Resources tax payable	**121**	92	**109**	85
Mineral resources compensation fee	**162**	136	**152**	131
Sustainable development fund	**92**	–	**92**	–
Withholding tax	**42**	81	**29**	24
Others	**562**	304	**344**	191
Total	**4,244**	4,071	**2,379**	2,526

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

5 Business combination and consolidated financial statements

(a) As at 31 December 2007, the consolidated financial statements of the Company included the following major subsidiaries, which are limited or limited liability companies registered and operating in the PRC. They are controlled by China Shenhua Energy Company Limited. The details are set out below:

Name	Organisation code	Registration place	Business nature	Business scope	Registered capital as at 31 December 2007	Cost of investment as at 31 December 2007	Cost of investment as at 31 December 2006	Direct/indirect shareholding percentage or voting rights 2007	2006
Shenhua Baoshen Railway Co., Ltd.	S1090000000033	Inner Mongolia Autonomous Region	Domestic non-financial institution enterprise	Transportation services	**1,004**	**1,975**	1,841	**88%**	88%
Shenhua Huanghua Harbor Administration Co. Ltd.	S1110200000031	Hebei Province	Domestic non-financial institution enterprise	Harbour and port services	**1,820**	**1,192**	1,192	**70%**	70%
Shuohuang Railway Development Co., Ltd.	S1100000000033	Beijing	Domestic non-financial institution enterprise	Transportation services	**5,880**	**3,914**	3,914	**53%**	53%
Shenhua Zhunge'er Energy Co., Ltd.	70125242-X	Inner Mongolia Autonomous Region	Domestic non-financial institution enterprise	Coal mining and development, generation and sales of electricity	**7,102**	**3,730**	3,730	**58%**	58%
Shenhua Beidian Shengli Energy Co., Ltd.	75666924-9	Inner Mongolia Autonomous Region	Domestic non-financial institution enterprise	Coal mining and development	**525**	**332**	188	**63%**	63%
Shenhua Tianjin Coal Dock Co. Ltd.	76126618-8	Tianjin	Domestic non-financial institution enterprise	Harbour and port services	**1,264**	**695**	695	**55%**	55%
CLP Guohua Power Co., Ltd.	71093978-4	Beijing	Domestic non-financial institution enterprise	Generation and sales of electricity	**1,637**	**1,252**	1,252	**51%**	51%
CLP Guohua Shenmu Power Co., Ltd.	710920856	Shaanxi Province	Domestic non-financial institution enterprise	Generation and sales of electricity	**316**	**161**	161	**51%**	51%
Suizhong Power Co., Ltd.	120771168	Liaoning Province	Domestic non-financial institution enterprise	Generation and sales of electricity	**2,625**	**1,646**	1,276	**65%**	50%
Inner Mongolia Guohua Zhunge'er Power Generation Co., Ltd.	70141988-3	Inner Mongolia Autonomous Region	Domestic non-financial institution enterprise	Generation and sales of electricity	**1,004**	**906**	689	**68%**	68%
Hebei Guohua Cangdong Power Co., Ltd.	73560544-9	Hebei Province	Domestic non-financial institution enterprise	Generation and sales of electricity	**1,000**	**609**	510	**51%**	51% Note 2
Zhejiang Guohua Zheneng Power Co., Ltd.	74103517-1	Zhejiang Province	Domestic non-financial institution enterprise	Generation and sales of electricity	**1,753**	**1,441**	1,085	**60%**	60% Note 2
Guangdong Guohua Yuedian Taishan Power Co., Ltd.	72784029-7	Guangdong Province	Domestic non-financial institution enterprise	Generation and sales of electricity	**2,700**	**2,649**	2,649	**80%**	80%
Beijing Shenhua Changyun High Technology Coal Blending Co., Ltd.	63439244-8	Beijing	Domestic non-financial institution enterprise	Coal blending technology research	**200**	**413**	413	**100%**	100%
Shaanxi Guohua Jinjie Energy Corporation	75524797-6	Shaanxi Province	Domestic non-financial institution enterprise	Generation and sales of electricity, coal mining and development	**1,063**	**720**	720	**70%**	70%
Hebei Guohua Dingzhou Power Co., Ltd.	60111040-8	Hebei Province	Domestic non-financial institution enterprise	Generation and sales of electricity	**931**	**610**	–	**41%**	N/A Note 3
Shenhua Group Shenfudongsheng Coal Co., Ltd.	71092393-4	Shaanxi Province	Domestic non-financial institution enterprise	Integration services	**215**	**1,068**	–	**100%**	N/A Note 4
Shenhua Shendong Power Co., Ltd.	S3130000000003	Shaanxi Province	Domestic non-financial institution enterprise	Generation and sale of electricity	**2,000**	**2,204**	–	**100%**	N/A Note 4

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

5 Business combination and consolidated financial statements (continued)

(a) As at 31 December 2007, the consolidated financial statements of the Company included the following major subsidiaries, which are limited or limited liability companies registered and operating in the PRC. They are controlled by China Shenhua Energy Company Limited. The details are set out below: (continued)

For the year ended 31 December 2007, there was no material change in the major subsidiaries included in the consolidated financial statements, expect for those as mentioned in Notes iii and iv bellow:

Except for Hebei Guohua Dingzhou Power Co. Ltd. ("Dingzhou") as mentioned in Note iii below, the subsidiaries of the Company have been acquired through business combinations involving entities under common control.

Note i: As mentioned in Note 1, Shenhua Group transferred its core businesses related assets and liabilities to the Company and these assets and liabilities have been revalued. Accordingly, the Company recognised the initial investment cost of these subsidiaries at valuation.

Note ii: The capital injections of the above companies have been approved by their respective Board of Directors. Since the revised business licenses have not yet been issued, there are differences between the registered capital and the paid-in-capital.

Note iii: As at 15 November 2007, the shareholders of Dingzhou resolved to revise Dingzhou's articles of association such that the Company has the power to nominate the majority portion of directors in the board, and the Group obtains control over Dingzhou on. Dingzhou has been consolidated in the Group's consolidated financial statements according to the revised articles of association which has taken effect from 29 December 2007. The financial information of Dingzhou as at 31 December 2007 is set out as follows:

	At 31 December 2007 ***Carrying value***
Current assets	**374**
Total assets	**4,762**
Current liabilities	**1,507**
Total liabilities	**3,036**
Total equity	**1,726**

Note iv: As mentioned in Note 1, the Company acquired Shendong Power and Shendong Coal on 31 August 2007. The acquisition is considered as a business combination under common control. Therefore, Shendong Power and Shendong Coal were included in the consolidated financial statements.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

5 Business combination and consolidated financial statements (continued)

(b) Business combinations under common control in 2006 and 2007

As at 31 August 2006, the cash consideration of RMB1,162 million paid by the Company is the cost of investment in the 70% equity interest in Jinjie Energy, which has been consolidated.

Jinjie Energy was established in Shaanxi Province of the PRC, the principal activities are generation and sale of electricity, coal mining and development. The Company and Jinjie Energy were under the common control of Shenhua Group before the combination.

Jinjie Energy adopted the Accounting Standards for Business Enterprises before combination, which are different from the accounting policies adopted by the Company. Adjustments have been made on the financial statements of Jinjie Energy for the year ended 31 December 2006 to conform with the Company's accounting policies. The adjusted financial information of Jinjie Energy is set out below:

	For the period from 1 January 2006 to 31 August 2006
Revenues	–
Net loss	15

Details of the carrying value of the assets and liabilities:

	At 31 August 2006 Carrying value
Current assets	49
Total assets	4,819
Current liabilities	1,821
Total liabilities	4,154
Total shareholders' equity	665

At 31 August 2007, the Company acquired the entire equity interests of Shendong Coal and Shendong Power. Their entire equity interests have been consolidated (see Note 1).

Both Shendong Coal and Shendong Power were established in Shaanxi Province of the PRC, the principal activities of Shendong Coal and Shendong Power are the provision of ancillary services and generation and sale of electricity. The Company, Shendong Coal and Shendong Power were under the common control of Shenhua Group before the combination.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

5 Business combination and consolidated financial statements (continued)

(b) Business combinations under common control in 2006 and 2007 (continued)

Shendong Coal and Shendong Power adopted the Accounting Standards for Business Enterprises before combination, which are different from the accounting policies adopted by the Company. Adjustments have been made on the financial statements of Shendong Coal and Shendong Power for the year ended 31 December 2006 to conform with the Company's accounting policies. The adjusted financial information of Shendong Coal and Shendong Power is set out below:

	For the period from 1 January 2007 to 31 August 2007	*For the period from 1 January 2006 to 31 December 2006*
Shendong Coal		
Revenues	**712**	453
Net profit	**77**	117
Net profit attributable to equity shareholders of the Company	**75**	117
Minority interests	**2**	–
Shendong Power		
Revenues	**432**	493
Net profit	**24**	121
Net (loss)/profit attributable to equity shareholders of the Company	**(15)**	67
Minority interests	**39**	54

The carrying value of assets and liabilities are as below:

	31 August 2007 Carrying value	*31 December 2006 Carrying value*
Shendong Coal		
Current assets	**713**	614
Total assets	**3,014**	2,896
Current liabilities	**1,620**	1,531
Total liabilities	**1,922**	1,884
Total equity attributable to equity shareholders of the Company	**1,068**	993
Minority interests	**24**	19
Total equity	**1,092**	1,012
Shendong Power		
Current assets	**1,801**	1,335
Total assets	**7,393**	6,316
Current liabilities	**1,190**	1,360
Total liabilities	**3,601**	2,799
Total equity attributable to equity shareholders of the Company	**2,204**	2,020
Minority interests	**1,588**	1,497
Total equity	**3,792**	3,517

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

5 Business combination and consolidated financial statements (continued)

(c) Minority interests in each of the major subsidiaries are set out below:

	The Group	
Name of entities	***2007***	*2006* (restated)
Shuohuang Railway Development Co., Ltd.	**4,693**	5,373
Shenhua Zhunge'er Energy Co., Ltd.	**4,555**	3,863
Suizhong Power Co., Ltd.	**1,066**	1,505
Shenhua Shendong Power Co., Ltd.	**1,660**	1,496
CLP Guohua Power Co., Ltd.	**1,235**	1,346
Tianjin Guohua Panshan Power Generation Co., Ltd.	**607**	923
Hebei Guohua Dingzhou Power Co., Ltd.	**1,027**	–
Others	**5,723**	5,299
Total	**20,566**	19,805

6 Cash at bank and on hand

	The Group			
	2007		*2006*	
	Original currency	***RMB/ RMB equivalents***	*Original currency*	*RMB/ RMB equivalents* (restated)
Cash on hand				
– Renminbi		**5**		2
Sub-total		**5**		2
Cash at bank and other financial institutions				
Saving deposits				
– Renminbi		**52,731**		13,626
– United States Dollars	**12**	**90**	13	98
– Hong Kong Dollars	**84**	**78**	494	496
Sub-total		**52,899**		14,220
Time deposits				
– Renminbi		**32**		–
– United States Dollars	**–**	**–**	1	8
Sub-total		**32**		8
Deposits at related parties				
Saving deposits				
– Renminbi		**500**		1,536
Sub-total		**500**		1,536
Total		**53,436**		15,766

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

6 Cash at bank and on hand (continued)

	The Company			
	2007		*2006*	
	Original currency	***RMB/ RMB equivalents***	*Original currency*	*RMB/ RMB equivalents*
Cash on hand				
– Renminbi		**4**		1
Sub-total		**4**		1
Cash at bank and other financial institutions				
Saving deposits				
– Renminbi		**51,538**		12,132
– Hong Kong Dollars	**79**	**74**	491	493
Sub-total		**51,612**		12,625
Time deposits				
– Renminbi		**10**		–
Sub-total		**10**		–
Deposits at related parties				
Saving deposits				
– Renminbi		**288**		1,311
Sub-total		**288**		1,311
Total		**51,914**		13,937

As at 31 December 2007, the Group and the Company did not have cash at bank or other monetary funds that are pledged as security or blocked and their realisation is restricted (2006: Nil).

The above cash and bank deposits denominated in foreign currencies were translated into RMB at the rates of exchange as follows:

	2007	*2006*
United States Dollars: RMB	**7.3046**	7.8087
Hong Kong Dollars: RMB	**0.9364**	1.0047

7 Available-for-sale financial assets

As at 31 December 2006, available-for-sale financial assets of the Group and the Company represented two fund management contracts entered with Industrial and Commercial Bank of China ("ICBC") with a total principal of RMB2,000 million. The securities that ICBC could invest in include trust funds, government bonds, financial bonds, bills, enterprise bonds, short-term financial coupons and other bonds. Both contracts had been matured on 28 June 2007.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

8 Bills receivable

	The Group 2007	The Group 2006 (restated)	The Company 2007	The Company 2006
Bank acceptance bills	**756**	225	**543**	56
Commercial acceptance bills	**–**	375	**–**	–
Total	**756**	600	**543**	56

Bills receivable held by the Group and the Company are due within one year.

There was no amount due from shareholders who hold 5% or more in the Company's voting rights included in the above balance of bills receivable.

9 Accounts receivable

(a) Accounts receivable by customer type:

	The Group 2007	The Group 2006 (restated)	The Company 2007	The Company 2006
Amounts due from subsidiaries	**–**	–	**224**	209
Amounts due from other related parties	**80**	124	**19**	115
Amounts due from third parties	**5,910**	4,597	**1,786**	1,088
Sub-total	**5,990**	4,721	**2,029**	1,412
Less: Provision for bad and doubtful debts	**104**	44	**3**	11
Total	**5,886**	4,677	**2,026**	1,401

The Group's and the Company's accounts receivable from related parties accounted for 1% and 12% (2006: 3% (restated) and 23%) of the total accounts receivable respectively.

There was no amount due from shareholders who hold 5% or more in the Company's voting rights included in the above balance of accounts receivable.

As at 31 December 2006 and at 31 December 2007, the total amounts of accounts receivable due from the Group's and the Company's top five individuals are as follows:

	The Group 2007	The Group 2006 (restated)	The Company 2007	The Company 2006
Amounts	**2,974**	2,299	**898**	550
Years past due	**Within one year**	Within one year	**Within one year**	Within one year
Percentage of accounts receivable	**50%**	49%	**44%**	39%

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

9 Accounts receivable (continued)

(b) The ageing analysis of accounts receivable is as follows:

	The Group		The Company	
	2007	2006 (restated)	**2007**	2006
Within 1 year (inclusive)	**5,895**	4,604	**2,028**	1,399
1 and 2 years (inclusive)	**7**	100	**–**	2
2 and 3 years (inclusive)	**79**	–	**1**	–
Over 3 years	**9**	17	**–**	11
Total	**5,990**	4,721	**2,029**	1,412

The ageing is counted starting from the date accounts receivable is recognised.

The movements of the Group's and Company's provision for bad and doubtful accounts on accounts receivable are set out in Note 22.

10 Prepayments

The ageing analysis of prepayments is as follows:

	The Group				The Company			
	2007		2006		**2007**		2006	
	Amount	**Percentage**	Amount (restated)	Percentage (restated)	**Amount**	**Percentage**	Amount	Percentage
Within 1 year (inclusive)	**2,624**	**98%**	2,481	97%	**1,928**	**98%**	2,194	97%
1 and 2 years (inclusive)	**54**	**2%**	40	1%	**41**	**2%**	31	1%
2 and 3 year (inclusive)	**2**	**0%**	44	2%	**1**	**0%**	42	2%
Over 3 years	**2**	**0%**	–	–	**–**	**–**	–	–
Total	**2,682**	**100%**	2,565	100%	**1,970**	**100%**	2,267	100%

The ageing is counted starting from the date prepayment is recognised.

Prepayments aged over one year mainly represent the deposits for subsequent purchases.

As at 31 December 2007, the Group and the Company did not have individual prepayment that represents 30% or more of the total prepayment balance (2006: Nil).

There was no amount due from shareholders who hold 5% or more in the Company's voting rights included in the above balance of prepayments.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

11 Other receivables

(a) Other receivables classified by customer type:

	The Group		The Company	
	2007	2006 (restated)	**2007**	2006
Amounts due from subsidiaries	**–**	–	**5,581**	6,511
Amounts due from other related parties	**125**	1,060	**4**	14
Amounts due from third parties	**2,554**	669	**1,510**	375
Sub-total	**2,679**	1,729	**7,095**	6,900
Less: Provision for bad and doubtful debts	**110**	129	**28**	46
Total	**2,569**	1,600	**7,067**	6,854

The Group's and the Company's other receivables from related parties accounted for 5% and 79% (2006: 61% (restated) and 95%) of the total other receivable respectively.

As at 31 December 2007, the total amounts of other receivables due from the Group's and the Company's top five individuals were as follows:

	The Group		The Company	
	2007	2006 (restated)	**2007**	2006
Amounts	**1,511**	1,045	**6,064**	6,602
Years past due	**Within one year**	Within one year	**Within one year**	Within one year
Percentage of other receivables	**56%**	60%	**85%**	96%

Except for the balances disclosed in Note 56, there was no amount due from shareholders who hold 5% or more in the Company's voting rights included in the above balance of other receivables.

(b) The ageing analysis of other receivables is as follows:

	The Group		The Company	
	2007	2006 (restated)	**2007**	2006
Within 1 year (inclusive)	**2,412**	1,436	**7,014**	6,835
1 and 2 years (inclusive)	**87**	133	**68**	16
2 and 3 years (inclusive)	**111**	44	**–**	6
Over 3 years	**69**	116	**13**	43
Total	**2,679**	1,729	**7,095**	6,900

The ageing is counted starting from the date the other receivables is recognised.

Other receivables of the Group mainly represent deposits from suppliers and payments made on behalf of others.

Other receivables of the Company mainly represent the amounts due from subsidiaries for working capital, deposits from suppliers and payments made on behalf of others.

The movements of the Group's and the Company's provision for bad and doubtful accounts on other receivables are set out in Note 22.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

12 Inventories

The movements of inventories for the year are set out below:

The Group	***Beginning balance of 2007***	***Additions during the year***	***Reductions during the year***	***Ending balance of 2007***
Coal	**1,497**	**34,673**	**(34,754)**	**1,416**
Auxiliary materials, spare parts and small instruments	**3,704**	**19,495**	**(17,773)**	**5,426**
Sub-total	**5,201**	**54,168**	**(52,527)**	**6,842**
Less: Provision for diminution in value of inventories	**321**	**257**	**(73)**	**505**
Total	**4,880**	**53,911**	**(52,454)**	**6,337**

The Group	*Beginning balance of 2006 (restated)*	*Additions during the year (restated)*	*Reductions during the year (restated)*	*Ending balance of 2006 (restated)*
Coal	1,140	28,608	(28,251)	1,497
Auxiliary materials, spare parts and small instruments	2,855	8,717	(7,868)	3,704
Sub-total	3,995	37,325	(36,119)	5,201
Less: Provision for diminution in value of inventories	306	36	(21)	321
Total	3,689	37,289	(36,098)	4,880

The Company	***Beginning balance of 2007***	***Additions during the year***	***Reductions during the year***	***Ending balance of 2007***
Coal	**934**	**44,412**	**(43,669)**	**1,677**
Auxiliary materials, spare parts and small instruments	**1,936**	**15,054**	**(13,829)**	**3,161**
Sub-total	**2,870**	**59,466**	**(57,498)**	**4,838**
Less: Provision for diminution in value of inventories	**200**	**254**	**(69)**	**385**
Total	**2,670**	**59,212**	**(57,429)**	**4,453**

The Company	*Beginning balance of 2006*	*Additions during the year*	*Reductions during the year*	*Ending balance of 2006*
Coal	751	36,173	(35,990)	934
Auxiliary materials, spare parts and small instruments	1,416	6,698	(6,178)	1,936
Sub-total	2,167	42,871	(42,168)	2,870
Less: Provision for diminution in value of inventories	203	2	(5)	200
Total	1,964	42,869	(42,163)	2,670

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

12 Inventories (continued)

The above provision for diminution in value of inventories represent the impairment loss on obsolete auxiliary materials, spare parts and small instruments.

As at 31 December 2006 and 2007, there was no borrowing cost capitalised in the Group and the Company's inventory balances.

The Group and the Company's inventories aged over three years mainly represent auxiliary materials, spare parts and small instruments, the net carrying values were RMB660 million and RMB243 million respectively (2006: RMB559 million (restated) and RMB185 million).

13 Other current assets

Other current assets represent entrusted loans. The Company's entrusted loans mainly represent entrusted loans to subsidiaries and associates through banks.

14 Long-term equity investments

	The Group		*The Company*	
	2007	*2006* (restated)	***2007***	*2006*
Investments in unlisted subsidiaries	**–**	–	**26,402**	21,108
Investments in unlisted associates	**2,779**	3,043	**1,902**	2,289
Other unlisted long-term equity investments	**1,040**	1,071	**1,015**	1,016
Sub-total	**3,819**	4,114	**29,319**	24,413
Less: Provision for impairment	**8**	5	**–**	–
Total	**3,811**	4,109	**29,319**	24,413

(a) Details of the investments in principal unlisted subsidiaries of the Company are set out below:

Name of investee	***Beginning balance of 2007***	***Additions for the year***	***Ending balance of 2007***
Shenhua Shendong Power Co., Ltd.	**–**	**2,204**	**2,204**
Shenhua Group Shenfu Dongsheng Coal Co., Ltd.	**–**	**1,068**	**1,068**
Suizhong Power Co., Ltd.	**1,276**	**370**	**1,646**
Zhejiang Guohua Zheneng Power Co., Ltd.	**1,085**	**356**	**1,441**
Inner Mongolia Guohua Zhunge'er Power Generation Co., Ltd.	**689**	**217**	**906**
Shenhua Beidian Shengli Energy Co., Ltd.	**188**	**144**	**332**

Name of investee	*Beginning balance of 2006*	*Additions for the year*	*Ending balance of 2006*
Shaanxi Guohua Jinjie Energy Corporation	–	720	720
Shenhua Tianjin Coal Dock Co., Ltd.	352	343	695
Zhejiang Guohua Zheneng Power Co., Ltd.	758	327	1,085
Shenhua Baoshen Railway Co., Ltd.	1,622	219	1,841
Hebei Guohua Cangdong Power Co., Ltd.	327	183	510
Inner Mongolia Guohua Zhunge'er Power Generation Co., Ltd.	572	117	689

The details of the subsidiaries are set out in Note 5.

The Company did not have contingent liability which was related to investments in subsidiaries.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

14 Long-term equity investments (continued)

(b) Details of the investments in principal unlisted associates of the Group are set out below:

Name of investee	*Organisation code*	*Registered place*	*Business nature*	*Principal activities*	***Registered capital as at 31 December 2007***	*Proportion of equity interest directly and indirectly held by the Company* ***2007***	*2006*
Zhenjiang Jiahua Power Co., Ltd.	73031859-8	Zhejiang Province	Domestic non-financial institution enterprise	Generation and sale of electricity	**2,055**	**20%**	20%
Shenhua Finance Co., Ltd.	71092747-6	Beijing	Domestic financial institution enterprise	Finance services	**700**	**40%**	40%
Inner Mongolia Menghua Haibowan Power Co., Ltd.	11467159-0	Inner Mongolia	Domestic non-financial institution enterprise	Generation and sale of electricity	**436**	**40%**	40%
Inner Mongolia Jingda Power Co., Ltd.	73613673-6	Inner Mongolia	Domestic non-financial institution enterprise	Generation and sale of electricity	**472**	**30%**	30%
Zhuhai New Century Shipping Co., Ltd.	73215939-1	Guangdong Province	Domestic non-financial institution enterprise	Provision of transportation services	**514**	**50%**	50%
Tianjin Yuanhua Ocean Shipping Co., Ltd.	70057071-7	Tianjin	Domestic non-financial institution enterprise	Provision of transportation services	**360**	**44%**	44%

Name of investee	*Investment cost*	***Beginning balance of 2007***	***Addition for the year***	***Share of profits under the equity method***	***Dividend received***	***Associate changed to subsidiary***	***Ending balance of 2007***
Hebei Guohua Dingzhou Power Co., Ltd.	610	**739**	**–**	**72**	**(112)**	**(699)**	**–**
Zhejiang Jiahua Power Co., Ltd.	411	**582**	**–**	**145**	**(140)**	**–**	**587**
Shenhua Finance Co., Ltd.	309	**379**	**–**	**98**	**(49)**	**–**	**428**
Inner Mongolia Menghua Haibowan Power Co., Ltd.	139	**245**	**–**	**29**	**(76)**	**–**	**198**
Inner Mongolia Jingda Power Co., Ltd.	141	**210**	**–**	**15**	**–**	**–**	**225**
Zhuhai New Century Shipping Co., Ltd.	259	**186**	**112**	**55**	**(7)**	**–**	**346**
Tianjin Yuanhua Ocean Shipping Co., Ltd.	188	**43**	**169**	**48**	**(19)**	**–**	**241**

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

14 Long-term equity investments (continued)

(b) Details of the investments in principal unlisted associates of the Group are set out below: (continued)

Name of entities	*Investment cost*	*Beginning balance of 2006*	*Addition for the year*	*Share of profits under the equity method*	*Dividend received*	*Ending balance of 2006*
Hebei Guohua Dingzhou Power Co., Ltd.	610	731	–	114	(106)	739
Zhejiang Jiahua Power Co., Ltd.	411	501	–	156	(75)	582
Shenhua Finance Co., Ltd.	309	366	–	56	(43)	379
Inner Mongolia Menghua Haibowan Power Co., Ltd.	139	202	–	43	–	245
Inner Mongolia Jingda Power Co., Ltd.	141	175	31	51	(47)	210
Zhuhai New Century Shipping Co., Ltd.	147	102	70	19	(5)	186
Tianjin Yuanhua Ocean Shipping Co., Ltd.	19	30	–	23	(10)	43

Other unlisted equity investments represent the Group's investments in entities which are mainly engaged in operations other than coal and power operations, in which the Group has over 20% equity interests but the investment costs are not significant, and the Group has no significant influence over its management on these entities.

As at 31 December 2007, the Group had no individually significant other equity investments and no individually significant impairment loss on long-term equity investments.

The Group did not have unrecognised investment loss for the current period and accumulated amounts.

For the year ended 31 December 2007, there was no restriction on the ability of the associates to transfer capital to its investees.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

15 Fixed assets

	The Group						
	Buildings	*Mining structures*	*Mining related machinery and equipment*	*Generators and related machinery and equipment*	*Railway and port transportation structures*	*Furniture, fixtures, motor vehicles and other equipment*	*Total*
Cost/valuation:							
Beginning balance of 2006(restated)	11,415	2,619	14,662	27,698	39,444	3,228	99,066
Additions for the year	58	93	556	91	1,173	301	2,272
Transfer from construction in progress	4,237	762	4,702	16,763	5,319	648	32,431
Disposals	(175)	(85)	(573)	(76)	(119)	(154)	(1,182)
Ending balance of 2006 (restated)	15,535	3,389	19,347	44,476	45,817	4,023	132,587
Beginning balance of 2007	**15,535**	**3,389**	**19,347**	**44,476**	**45,817**	**4,023**	**132,587**
Additions for the year	**136**	**300**	**151**	**50**	**1,326**	**559**	**2,522**
Transfer from construction in progress	**621**	**687**	**5,161**	**9,186**	**1,617**	**224**	**17,496**
Disposals	**(107)**	**(118)**	**(735)**	**(85)**	**(140)**	**(170)**	**(1,355)**
Through addition of a subsidiary	**545**	**–**	**–**	**3,667**	**–**	**78**	**4,290**
Ending balance of 2007	**16,730**	**4,258**	**23,924**	**57,294**	**48,620**	**4,714**	**155,540**
Accumulated depreciation:							
Beginning balance of 2006 (restated)	2,503	578	5,818	6,583	6,890	1,587	23,959
Charge for the year	707	162	2,301	1,840	1,700	405	7,115
Written back on disposals	(67)	(16)	(467)	(36)	(34)	(112)	(732)
Ending balance of 2006 (restated)	3,143	724	7,652	8,387	8,556	1,880	30,342
Beginning balance of 2007	**3,143**	**724**	**7,652**	**8,387**	**8,556**	**1,880**	**30,342**
Charge for the year	**723**	**301**	**2,144**	**2,420**	**2,120**	**611**	**8,319**
Written back on disposals	**(35)**	**(62)**	**(477)**	**(39)**	**(73)**	**(119)**	**(805)**
Through addition of a subsidiary	**87**	**–**	**–**	**635**	**–**	**42**	**764**
Ending balance of 2007	**3,918**	**963**	**9,319**	**11,403**	**10,603**	**2,414**	**38,620**
Provision for impairment:							
Beginning balance of 2006 (restated)	70	–	–	13	10	57	150
Charge for the year	–	–	147	–	–	–	147
Written back on disposals	(11)	–	–	(12)	(3)	(2)	(28)
Ending balance of 2006 (restated)	59	–	147	1	7	55	269
Beginning balance of 2007	**59**	**–**	**147**	**1**	**7**	**55**	**269**
Charge for the year	**26**	**–**	**–**	**340**	**13**	**1**	**380**
Written back on disposals	**(6)**	**–**	**(77)**	**–**	**(2)**	**(14)**	**(99)**
Ending balance of 2007	**79**	**–**	**70**	**341**	**18**	**42**	**550**
Net book value:							
Ending balance of 2007	**12,733**	**3,295**	**14,535**	**45,550**	**37,999**	**2,258**	**116,370**
Ending balance of 2006 (restated)	12,333	2,665	11,548	36,088	37,254	2,088	101,976

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

15 Fixed assets (continued)

The Company

	Buildings	*Mining structures*	*Mining related machinery and equipment*	*Generators and related machinery and equipment*	*Railway and port structures*	*motor vehicles transportation equipment*	*Furniture, fixtures, and other*	*Total*
Cost/valuation:								
Beginning balance of 2006	2,060	1,670	10,987	5	11,075	825		26,622
Additions for the year	16	93	421	–	836	169		1,535
Transfer from construction in progress	414	701	3,856	–	15	113		5,099
Disposals	(24)	(85)	(554)	–	(38)	(86)		(787)
Ending balance of 2006	2,466	2,379	14,710	5	11,888	1,021		32,469
Beginning balance of 2007	**2,466**	**2,379**	**14,710**	**5**	**11,888**	**1,021**		**32,469**
Additions for the year	**120**	**287**	**140**	**–**	**950**	**205**		**1,702**
Transfer from construction in progress	**411**	**485**	**4,112**	**–**	**267**	**68**		**5,343**
Disposals	**(33)**	**(118)**	**(657)**	**–**	**(8)**	**(62)**		**(878)**
Ending balance of 2007	**2,964**	**3,033**	**18,305**	**5**	**13,097**	**1,232**		**38,636**
Accumulated depreciation:								
Beginning balance of 2006	444	497	3,449	5	2,655	432		7,482
Charge for the year	77	141	1,948	–	546	141		2,853
Written back in disposals	(6)	(16)	(452)	–	(7)	(63)		(544)
Ending balance of 2006	515	622	4,945	5	3,194	510		9,791
Beginning balance of 2007	**515**	**622**	**4,945**	**5**	**3,194**	**510**		**9,791**
Charge for the year	**111**	**277**	**1,867**	**–**	**695**	**269**		**3,219**
Written back in disposals	**(14)**	**(62)**	**(450)**	**–**	**(2)**	**(51)**		**(579)**
Ending balance of 2007	**612**	**837**	**6,362**	**5**	**3,887**	**728**		**12,431**
Provision for impairment:								
Beginning balance of 2006	–	–	–	–	–	–		–
Charge for the year	–	–	147	–	–	–		147
Ending balance of 2006	–	–	147	–	–	–		147
Beginning balance of 2007	**–**	**–**	**147**	**–**	**–**	**–**		**147**
Charge for the year	**–**	**–**	**–**	**–**	**–**	**–**		**–**
Written off for the year	**–**	**–**	**(77)**	**–**	**–**	**–**		**(77)**
Ending balance of 2007	**–**	**–**	**70**	**–**	**–**	**–**		**70**
Net book value:								
Ending balance of 2007	**2,352**	**2,196**	**11,873**	**–**	**9,210**	**504**		**26,135**
Ending balance of 2006	1,951	1,757	9,618	–	8,694	511		22,531

As required by the relevant PRC rules and regulations with respect to the Restructuring, the fixed assets of the Group as at 31 December 2003 were revalued by Beijing China Enterprise Appraisal Co., Ltd. The result of the revaluation was recognised in the financial statements of the Group in 2003 and subsequent years.

As at 31 December 2007, the Group had no individually significant fixed assets which were temporarily idle or pending for disposal.

As at 31 December 2007, the Group had no individually significant fully depreciated fixed assets which were still in use.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

15 Fixed assets (continued)

Pursuant to the advice from technical department, certain property, plant and equipment which were obsolete, damaged or that could not generate future economic benefits were provided against for impairment for the years ended 31 December 2007 and 31 December 2006 respectively.

Up to the approval date of these financial statements, the Group was in the process of applying for or changing registration of the title certificates of certain buildings with an aggregate carrying value of approximately RMB3,368 million as at 31 December 2007, of which RMB757 million related to newly acquired properties in 2007. The directors are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned buildings.

Certain new power plants of the Group are in the process of obtaining requisite permits from the relevant government authorities at 31 December 2007. The directors of the Company are of the opinion that the Group will be able to obtain the requisite permits in due course.

16 Construction in progress

	The Group		***The Company***	
	2007	*2006* (restated)	***2007***	*2006*
Cost:				
Beginning balance of the year	**12,172**	20,795	**3,322**	1,619
Additions for the year	**23,301**	23,808	**10,868**	6,802
Transfer to fixed assets	**(17,496)**	(32,431)	**(5,343)**	(5,099)
Through addition of a subsidiary	**736**	–	**–**	–
Ending balance of the year	**18,713**	12,172	**8,847**	3,322

The carrying amounts at the end of the year included capitalised borrowing cost of RMB409 million (2006: RMB504 million as restated). The annual interest rate at which the borrowing costs capitalised for the current year by the Group was 5.91% (2006: 5.02% as restated).

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

16 Construction in progress (continued)

At the 31 December 2007, the Group's major construction in progress is set out as follows:

Project name	*Budget amount*	***Beginning balance of 2007***	***Additions for the year***	***Transfer to fixed assets***	***Ending balance of 2007***	*Percentage of input budget*	*Source of fundings*
Harerwusu open-cut mine	5,166	**768**	**2,886**	**(2)**	**3,652**	71%	Listing proceeds
Wanli Bu'ertai project	3,705	**1,105**	**1,403**	**–**	**2,508**	68%	Listing proceeds
Shenhua Yili energy power project	3,626	**939**	**1,054**	**–**	**1,993**	55%	Working capital and loan financing
Guohua Zheneng Phase II construction	8,735	**316**	**1,401**	**–**	**1,717**	20%	Listing proceeds and loan financing
Guohua Cangdong Phase II construction	4,419	**167**	**882**	**–**	**1,049**	24%	Listing proceeds and loan financing
Shengli No.1 open-cut mine project	2,968	**437**	**707**	**(272)**	**872**	48%	Listing proceeds and loan financing
Guohua Dingzhou Phase II construction	4,293	**–**	**751**	**(15)**	**736**	17%	Listing proceeds and loan financing
Jinjie Energy Phase II power project	4,548	**512**	**2,269**	**(2,083)**	**698**	61%	Listing proceeds and loan financing
Shanwan mine coal supplier project	2,012	**91**	**850**	**(419)**	**522**	48%	Working capital and loan financing
Zhunge'er open-cut mine draglines project	691	**144**	**324**	**–**	**468**	68%	Working capital and loan financing

17 Construction materials

	The Group		***The Company***	
	2007	*2006* (restated)	***2007***	*2006*
Construction materials related to construction of power generators	**3,189**	2,232	**23**	–
Others	**456**	781	**264**	341
Total	**3,645**	3,013	**287**	341

Construction materials of the Company mainly represent construction equipment for infrastructure and related supplies.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

18 Intangible assets

		The Group		
	Land use rights	***Mining rights***	***Others***	***Total***
Cost/valuation:				
Beginning balance of 2006 (restated)	7,070	10,155	59	17,284
Addition for the year	1,177	–	45	1,222
Decrease for the year	(4)	(135)	–	(139)
Ending balance of 2006 (restated)	8,243	10,020	104	18,367
Beginning balance of 2007	**8,243**	**10,020**	**104**	**18,367**
Addition for the year	**939**	**3,407**	**60**	**4,406**
Through addition of a subsidiary	**101**	**–**	**39**	**140**
Ending balance of 2007	**9,283**	**13,427**	**203**	**22,913**
Accumulated amortisation:				
Beginning balance of 2006 (restated)	319	319	9	647
Charge for the year	151	233	13	397
Decrease for the year	–	(15)	–	(15)
Ending balance of 2006 (restated)	470	537	22	1,029
Beginning balance of 2007	**470**	**537**	**22**	**1,029**
Charge for the year	**206**	**336**	**21**	**563**
Through addition of a subsidiary	**–**	**–**	**11**	**11**
Ending balance of 2007	**676**	**873**	**54**	**1,603**
Carrying amounts:				
Ending balance of 2007	**8,607**	**12,554**	**149**	**21,310**
Ending balance of 2006 (restated)	7,773	9,483	82	17,338

		The Company		
	Land use rights	***Mining rights***	***Others***	***Total***
Cost/valuation:				
Beginning balance of 2006	1,234	7,483	1	8,718
Addition for the year	9	–	1	10
Decrease for the year	(4)	(135)	–	(139)
Ending balance of 2006	1,239	7,348	2	8,589
Beginning balance of 2007	**1,239**	**7,348**	**2**	**8,589**
Addition for the year	**592**	**3,407**	**8**	**4,007**
Ending balance of 2007	**1,831**	**10,755**	**10**	**12,596**
Accumulated depreciation:				
Beginning balance of 2006	52	302	–	354
Charge for the year	31	220	1	252
Decrease for the year	–	(15)	–	(15)
Ending balance of 2006	83	507	1	591
Beginning balance of 2007	**83**	**507**	**1**	**591**
Charge for the year	**34**	**324**	**1**	**359**
Ending balance of 2007	**117**	**831**	**2**	**950**
Carrying amounts:				
Ending balance of 2007	**1,714**	**9,924**	**8**	**11,646**
Ending balance of 2006	1,156	6,841	1	7,998

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

18 Intangible assets

The above land use rights of the Group were acquired from third parties.

As at 31 December 2006 and 2007, the carrying amount of the Group and the Company did not contain capitalised borrowing cost.

Up to the approval date of these financial statements, the Group was in the process of applying for or changing registration of the title certificates of certain land use rights with a carrying amount of RMB1,057 million as at 31 December 2007, of which RMB776 million were newly acquired during the year ended 31 December 2007. The directors are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned lands.

As required by the relevant PRC rules and regulations with respect to the Restructuring, the intangible assets of the Group at 31 December 2003 were revalued by Beijing China Enterprise Appraisal Co., Ltd. The result of the revaluation was recognised in the financial statements of the Group in 2003 and subsequent years.

The revalued intangible assets mainly include land use rights, entity level software purchased from third parties and mining rights.

The valuation of land use rights is based on characteristics specific to the individual land taking into consideration of the views and the experience of the valuers and experts. Two approaches among market approach, direct capitalisation approach, residual approach, cost approach and the adjustment approach of benchmark land value index have been adopted for valuation of land.

As for the valuation of purchased software, which are on sales and currently have no upgraded version in the market, the revaluation amount is based on the price of similar software. If there is upgraded version in the market, the valuation is based on the price of similar software with upgraded version less the cost for upgrading the software; as for software not available in the market, the valuation is based on original purchase cost and the discount rate estimated based on the price fluctuation trend (Valuation amount = original purchase price x (1-discount rate)).

Mining rights are valued in accordance with "Guidance of Valuation of Mining Rights". Income approach is adopted for mines and in production discounted cash flow approach for mines in construction.

19 Long-term deferred expenses

	The Group		***The Company***	
	2007	*2006* (restated)	***2007***	*2006*
Railway route access	**601**	618	**210**	215
Others	**406**	464	**106**	108
Total	**1,007**	1,082	**316**	323

Others mainly represent expenditures for the public facilities which are not owned by the Company and are ancillary to the infrastructure projects of power generation.

As at 31 December 2007, the remaining amortisation period of the Group's railway route access ranges from 17 to 44 years, the remaining amortisation period of other long-term deferred expenses ranges from 2 to 18 years.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

20 Deferred tax assets and liabilities

2007

	The Group				The Company			
	Deductible temporary difference	Deferred tax assets	Taxable temporary difference	Deferred tax liabilities	Deductible temporary difference	Deferred tax assets	Taxable temporary difference	Deferred tax liabilities
Provision for diminution in value of inventories and losses	405	67	–	–	297	44	–	–
Provision for bad and doubtful debts	13	2	–	–	–	–	–	–
Provision for impairment losses, depreciation and losses of fixed assets and construction in progress	1,586	268	(1,996)	(498)	608	119	(584)	(146)
Tax losses carried forward (Note (i))	114	29	–	–	–	–	–	–
Unrealised profits from sales within the Group	606	113	–	–	305	46	–	–
Accrued salaries not yet paid	926	194	–	–	556	115	–	–
Others	924	228	(641)	(161)	423	106	(601)	(150)
Deferred tax assets/(liabilities)	4,574	901	(2,637)	(659)	2,189	430	(1,185)	(296)

2006

	The Group				The Company			
	Deductible temporary difference (restated)	Deferred tax assets (restated)	Taxable temporary difference (restated)	Deferred tax liabilities (restated)	Deductible temporary difference	Deferred tax assets	Taxable temporary difference	Deferred tax liabilities
Provision for diminution in value of inventories and losses	349	61	–	–	228	34	–	–
Allowance for doubtful accounts	31	8	–	–	20	6	–	–
Provision for impairment losses, depreciation and losses of fixed assets and construction in progress	1,363	219	(1,958)	(610)	526	89	(398)	(117)
Tax losses carried forward (Note (i))	34	11	–	–	–	–	–	–
Unrealised profits from sales within the Group	471	90	–	–	471	90	–	–
Accrued salaries not yet paid	415	89	–	–	230	35	–	–
Others	694	226	(361)	(119)	191	63	(355)	(117)
Deferred tax assets/(liabilities)	3,357	704	(2,319)	(729)	1,666	317	(753)	(234)

Note (i): Deferred tax asset has been recognised in respect of the Group's cumulative tax loss as there will be sufficient future taxable profits during the tax effective period for the utilisation of which deferred tax differences.

21 Other non-current assets

Other non-current assets represent entrusted loans with maturity over one year. Entrusted loans of the Company mainly represent the entrusted loans to subsidiaries through banks. Entrusted loans of the Group mainly represent the entrusted loans to associates through banks.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

22 Impairment loss

As at 31 December 2007, impairment losses of the Group are set out as below:

	Note	Beginning balance of 2007	Provision for the year	Decrease for the year Written back	Decrease for the year Written off	Ending balance of 2007
Receivables						
Including: Accounts receivable	9	**44**	**75**	**(6)**	**(9)**	**104**
Other receivables	11	**129**	**12**	**(12)**	**(19)**	**110**
Sub-total		**173**	**87**	**(18)**	**(28)**	**214**
Inventories	12	**321**	**257**	**–**	**(73)**	**505**
Long-term equity investments	14	**5**	**3**	**–**	**–**	**8**
Fixed assets	15	**269**	**380**	**–**	**(99)**	**550**
Total		**768**	**727**	**(18)**	**(200)**	**1,277**

	Note	Beginning balance of 2006 (restated)	Provision for the year (restated)	Decrease for the year Written back (restated)	Decrease for the year Written off (restated)	Ending balance of 2006 (restated)
Receivables						
Including: Accounts receivable	9	37	14	(6)	(1)	44
Other receivables	11	102	36	(8)	(1)	129
Sub-total		139	50	(14)	(2)	173
Inventories	12	306	36	(14)	(7)	321
Long-term equity investments	14	–	5	–	–	5
Fixed assets	15	150	147	–	(28)	269
Total		595	238	(28)	(37)	768

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

22 Impairment loss (continued)

As at 31 December 2007, impairment losses of the Company are set out as below:

	Note	Beginning balance of 2007	Provision for the year	Decrease for the year Written back	Decrease for the year Written off	Ending balance 2007
Receivables						
Including: Accounts receivable	9	**11**	**4**	**(4)**	**(8)**	**3**
Other receivables	11	**46**	**6**	**(6)**	**(18)**	**28**
Sub-total		**57**	**10**	**(10)**	**(26)**	**31**
Inventories	12	**200**	**254**	**–**	**(69)**	**385**
Fixed assets	15	**147**	**–**	**–**	**(77)**	**70**
Total		**404**	**264**	**(10)**	**(172)**	**486**

	Note	Beginning balance of 2006	Provision for the year	Decrease for the year Written back	Decrease for the year Written off	Ending balance 2006
Receivables						
Including: Accounts receivable	9	13	3	(5)	–	11
Other receivables	11	51	–	(5)	–	46
Sub-total		64	3	(10)	–	57
Inventories	12	203	2	–	(5)	200
Fixed assets	15	–	147	–	–	147
Total		267	152	(10)	(5)	404

Please refer to the respective notes for details of impairment losses recognised.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

23 Short-term loans

	The Group				The Company			
	2007		2006		**2007**		2006	
	Original currency	**RMB/RMB equivalent**	Original currency	RMB/RMB equivalent (restated)	**Original currency**	**RMB/RMB equivalent**	Original currency	RMB/RMB equivalent
Loans from banks and other financial institutions								
– Renminbi		4,894		9,255		–		2,000
– United States Dollars	1	9	–	–	–	–	–	–
Sub-total		4,903		9,255		–		2,000
Loans from subsidiaries								
– Renminbi		–		–		1,500		900
Loans from related party								
– Renminbi		–		1,550		–		–
Total		4,903		10,805		1,500		2,900

The above short-term loans denominated in foreign currency were translated into RMB at the rates of exchange as follows:

	The Group and the Company	
	2007	2006
United States Dollars: RMB	**7.3046**	7.8087

As at 31 December 2007, the weighted average interest rate of the Group's short-term RMB loans was 5.38% per annum (2006: 4.91% (restated)), while short-term United States Dollars loans at 6.16% per annum (2006: Not applicable)

As at 31 December 2007, the Group did not have overdue short-term loans (2006: Nil).

Guarantee or security of short-term loans are analysed as follows:

	The Group		The Company	
	2007	2006 (restated)	**2007**	2006
Unsecured loans	**4,903**	10,774	**1,500**	2,900
Secured loans (Note (i))	**–**	31	**–**	–
Total	**4,903**	10,805	**1,500**	2,900

Note (i): The above secured loans are secured by certain rights to reveune from power generation.

Except for the balance disclosed in Note 56, no amount due to shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of short-term loans.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

24 Financial assets/liabilities held for trading

Financial assets held for trading

	The Group and the Company	
	2007	*2006*
Fair value of derivative financial instruments	**37**	–

Financial liabilities held for trading

	The Group and the Company	
	2007	*2006*
Fair value of derivative financial instruments	**–**	246

Financial instruments represent interest rate swap contract.

The swap contracts are carried at fair value. Subsequent change in the fair value is recognised in the income statement. The fair value is estimated using discount cash flow method.

25 Short-term bonds payable

As at 31 December 2007 the Group's short-term bonds mainly represent one year short-term bonds underwritten by ICBC, bearing interest rate ranging from 3.95% to 4.40% (2006: Nil).

26 Bills payable

Bills payable of the Group and the Company represent bank acceptance bills which are repayable within one year.

There is no amount due to shareholders who hold 5% or more voting right of the Company included in the balance of bills payable.

27 Accounts payable

Ageing analysis of accounts payable is set out as below:

	The Group				*The Company*			
	2007		*2006*		***2007***		*2006*	
	Amount	***Percentage of total accounts payable***	*Amount (restated)*	*Percentage of total balance (restated)*	***Amount***	***Percentage of total accounts payable***	*Amount*	*Percentage of total balance*
Within 1 year (inclusive)	**8,526**	**96%**	8,366	95%	**4,942**	**97%**	3,331	95%
1 and 2 years (inclusive)	**200**	**2%**	290	3%	**35**	**1%**	43	1%
2 and 3 years (inclusive)	**39**	**0%**	143	2%	**6**	**0%**	134	4%
Over 3 years	**140**	**2%**	31	0%	**102**	**2%**	3	0%
Total	**8,905**	**100%**	8,830	100%	**5,085**	**100%**	3,511	100%

There is no amount due to shareholders who hold 5% or more voting right of the Company is included in the balance of accounts payable.

As at 31 December 2007, the Group and the Company had no individually significant accounts payable aged over one year.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

28 Receipts in advance

As at 31 December 2007, the Group and the Company had no individually significant receipts in advance from customers aged over one year.

There is no amount due to shareholders who hold 5% or more voting right of the Company is included in the balance of receipts in advance.

29 Staff costs payable

	The Group			
	Beginning balance of 2007	***Accrued during the year***	***Paid during the year***	***Ending balance of 2007***
Salaries, bonus and allowances	**747**	**3,716**	**(3,617)**	**846**
Staff welfare fees	**159**	**491**	**(650)**	**–**
Social security insurance	**226**	**1,056**	**(908)**	**374**
Including:				
Medical insurance premium	**7**	**166**	**(148)**	**25**
Basic old age insurance premium	**85**	**530**	**(506)**	**109**
Annuity premium	**108**	**292**	**(196)**	**204**
Unemployment insurance premium	**18**	**32**	**(30)**	**20**
Injury insurance premium	**8**	**36**	**(28)**	**16**
Housing fund	**87**	**424**	**(396)**	**115**
Labour union fee and education fund	**48**	**179**	**(156)**	**71**
Share appreciation rights expense	**23**	**112**	**(19)**	**116**
Others	**150**	**69**	**(204)**	**15**
Total	**1,440**	**6,047**	**(5,950)**	**1,537**

	The Group			
	Beginning balance of 2006 (restated)	*Accrued during the year* (restated)	*Paid during the year* (restated)	*Ending balance of 2006* (restated)
Salaries, bonus and allowances	704	2,473	(2,430)	747
Staff welfare fees	157	395	(393)	159
Social security insurance	201	674	(649)	226
Including:				
Medical insurance premium	6	86	(85)	7
Basic old age insurance premium	135	333	(383)	85
Annuity premium	43	229	(164)	108
Unemployment insurance premium	8	17	(7)	18
Injury insurance premium	9	9	(10)	8
Housing fund	65	228	(206)	87
Labour union fee and education fund	50	86	(88)	48
Share appreciation rights expense	1	22	–	23
Others	154	87	(91)	150
Total	1,332	3,965	(3,857)	1,440

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

29 Employee benefits payable (continued)

		The Company		
	Beginning balance of 2007	***Accrued during the year***	***Paid during the year***	***Ending balance of 2007***
Salaries, bonus and allowances	**586**	**1,293**	**(1,474)**	**405**
Staff welfare fees	**68**	**186**	**(254)**	**–**
Social security insurance	**114**	**570**	**(372)**	**312**
Including:				
Medical insurance premium	**7**	**90**	**(76)**	**21**
Basic old age insurance premium	**16**	**225**	**(199)**	**42**
Annuity premium	**89**	**207**	**(72)**	**224**
Unemployment insurance premium	**1**	**21**	**(8)**	**14**
Injury insurance premium	**1**	**27**	**(17)**	**11**
Housing fund	**47**	**198**	**(158)**	**87**
Labour union fee and education fund	**10**	**84**	**(66)**	**28**
Share appreciation rights expense	**23**	**112**	**(19)**	**116**
Others	**23**	**40**	**(58)**	**5**
Total	**871**	**2,483**	**(2,401)**	**953**

		The Company		
	Beginning balance of 2006	*Accrued during the year*	*Paid during the year*	*Ending balance of 2006*
Salaries, bonus and allowances	486	996	(896)	586
Staff welfare fees	78	142	(152)	68
Social security insurance	124	380	(390)	114
Including:				
Medical insurance premium	6	53	(52)	7
Basic old age insurance premium	67	174	(225)	16
Annuity premium	41	150	(102)	89
Unemployment insurance premium	3	1	(3)	1
Injury insurance premium	7	2	(8)	1
Housing fund	45	3	(1)	47
Labour union fee andeducation fund	18	13	(21)	10
Share appreciation rights expense	1	22	–	23
Others	3	21	(1)	23
Total	755	1,577	(1,461)	871

Cash-settled share-based payments refer to Note 50.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

30 Other payables

	The Group **2007**	2006 (restated)	*The Company* **2007**	2006
Deposits	**632**	547	**20**	20
Payable for transportation expense	**11**	80	**10**	19
Payable for repairs and maintenance	**22**	49	**16**	3
Payable for acquisition of equity	**371**	117	**259**	131
Investment funds received in advance	**430**	430	**–**	–
Others	**1,611**	2,066	**1,459**	877
Total	**3,077**	3,289	**1,764**	1,050

Ageing analysis on other payables is as follows:

	The Group **2007** Amount	**2007** Percentage of total other payables	2006 Amount (restated)	2006 Percentage of total other payables (restated)	*The Company* **2007** Amount	**2007** Percentage of total other payables	2006 Amount	2006 Percentage of total other payables
Within 1 year (inclusive)	**2,277**	**74%**	1,809	55%	**1,673**	**95%**	956	91%
1 and 2 years (inclusive)	**186**	**6%**	660	20%	**18**	**1%**	22	2%
2 and 3 years (inclusive)	**382**	**12%**	69	2%	**5**	**0%**	70	7%
Over 3 years	**232**	**8%**	751	23%	**68**	**4%**	2	0%
Total	**3,077**	**100%**	3,289	100%	**1,764**	**100%**	1,050	100%

As at 31 December 2007, the Group and the Company had no individually significant other payables aged over one year.

Except for the balances disclosed in Note 56, no amount due to shareholders who hold 5% or more voting right of the Company is included in the above balance of other payables.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

31 Current portion of long-term loans

	The Group					
	2007			*2006*		
	Original currency	***RMB/RMB equivalent***	***Annual interest***	*Original currency*	*RMB/RMB equivalent (restated)*	*Annual interest*
Loans from banks and other financial institutions						
– Renminbi		**4,667**	**3.60%-7.20%**		5,003	3.60%-6.16%
– United States Dollars	**–**	**–**	**N/A**	35	276	L+0.60%
– Japanese Yen	**5,096**	**326**	**2.30%-4.45%; L+1.80%**	4,689	308	2.30%-4.45%; L+1.80%
Sub-total		**4,993**			5,587	
Loans from related party						
– Renminbi		**300**	**7.29%**		–	N/A
Total		**5,293**			5,587	

	The Company					
	2007			*2006*		
	Original currency	***RMB/RMB equivalent***	***Annual interest***	*Original currency*	*RMB/RMB equivalent*	*Annual interest*
Loans from banks and other financial institutions						
– Renminbi		**1,576**	**5.27%-6.16%**		1,700	5.18%-5.51%
– United States Dollars	**–**	**–**	**N/A**	35	276	L+0.60%
– Japanese Yen	**3,848**	**246**	**2.30%-4.45%**	3,434	225	2.30%-4.45%
Total		**1,822**			2,201	

L: London Interbank Offered Rate

The above loans denominated in foreign currency were translated into Renminbi at the rates of exchange as follows:

	The Group and the Company	
	2007	*2006*
United States Dollars: Renminbi	**7.3046**	7.8087
Japanese Yen: Renminbi	**0.0641**	0.0656

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

31 Current portion of long-term loans (continued)

The guarantee or security of current portion of long-term loans are analysed as follows:

	The Group		The Company	
	2007	2006 (restated)	**2007**	2006
Credit loans	**3,070**	3,689	**1,822**	2,201
Guarantee loans (Note (i))	**270**	202	**–**	–
Secured loans (Note (ii))	**1,953**	1,696	**–**	–
Total	**5,293**	5,587	**1,822**	2,201

Note (i): As at 31 December 2007, RMB170 million (2006: RMB141 million (restated)) included in the loan balance of the Group was cross-guaranteed by the Company and its subsidiaries.

Note (ii): The above secured loans are secured by certain rights to revenue from power generation.

32 Long-term loans

	The Group					
	2007			2006		
	Original currency	**RMB/RMB equivalent**	**Annual interest**	Original currency	RMB/RMB equivalent (restated)	Annual interest
Loans from banks and other financial institutions						
– Renminbi		**42,448**	**3.60%-7.20%**		34,282	3.60%-6.16%
– United States Dollars	**42**	**305**	**L+1.00%**	37	288	L+1.00%
– Japanese Yen	**75,200**	**4,818**	**1.80%-4.45%**	80,290	5,269	1.80%-4.45%; L+1.80%
Sub-total		**47,571**			39,839	
Loans from related party						
– Renminbi		**2,147**	**5.25%-7.29%**		2,588	5.18%-5.25%
Total		**49,718**			42,427	

	The Company					
	2007			2006		
	Original currency	**RMB/RMB equivalent**	**Annual interest**	Original currency	RMB/RMB equivalent	Annual interest
Loans from banks and other financial institutions						
– Renminbi		**7,079**	**3.60%-6.72%**		5,356	3.60%-6.16%
– Japanese Yen	**75,200**	**4,818**	**1.80%-4.45%**	79,047	5,188	1.80%-4.45%
Sub-total		**11,897**			10,544	
Loans from related party						
– Renminbi		**1,000**	**5.25%**		1,000	5.25%
Total		**12,897**			11,544	

L: London Interbank Offered Rate

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

32 Long-term loans (continued)

The above loans denominated in foreign currency were translated into Renminbi at the rates of exchange as follows:

	The Group and the Company	
	2007	*2006*
United States Dollars: Renminbi	**7.3046**	7.8087
Japanese Yen: Renminbi	**0.0641**	0.0656

Guarantee or security of long-term loans are analysed as follows:

	The Group		*The Company*	
	2007	*2006* (restated)	***2007***	*2006*
Unsecured loans	**28,773**	21,672	**12,897**	11,544
Guarantee loans (Note (i))	**2,570**	3,160	**–**	–
Secured loans (Note (ii))	**18,375**	17,595	**–**	–
Total	**49,718**	42,427	**12,897**	11,544

Note (i): As at 31 December 2007, certain of the Group's loans amounting to RMB1,406 million (2006: RMB1,811 million (restated)) were guaranteed by the Company for its subsidiaries.

Note (ii): The above secured loans are secured by certain rights to revenue from power generation.

The maturity analysis of the Group's and the Company's long-term loans are set out below:

	The Group		*The Company*	
	2007	*2006* (restated)	***2007***	*2006*
Due after 1 year but within 2 years (inclusive)	**5,114**	6,648	**796**	2,028
Due after 2 years but within 3 years (inclusive)	**8,030**	5,563	**2,250**	903
Due after 3 years	**36,574**	30,216	**9,851**	8,613
Total	**49,718**	42,427	**12,897**	11,544

Except for the balances disclosed in Note 56, no amount due to shareholders who hold 5% or more voting right of the Company is included in the above balance of long-term loans.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

33 Long-term payables

	The Group		The Company	
	2007	2006 (restated)	**2007**	2006
Production maintenance and safety expenses	**1,277**	944	**1,024**	873
Mining rights payable	**4,716**	2,514	**4,561**	2,514
Less: Current portion	**(873)**	(88)	**(873)**	(88)
Others	**119**	205	**44**	–
Total	**5,239**	3,575	**4,756**	3,299

The payments for production maintenance and safety expenses are determined based on the coal mines nature in accordance with the standards prescribed in the regulations, which have been recorded in the long-term payables.

Mining rights payable mainly represents payable for acquisition of mining rights which is to be settled over the execution period of the contracts on an annual basis. The annual payment is determined by fixed rates on a per tonne basis with reference to the annual production volume of the acquired mines or annual fixed amounts stipulated in the acquisition agreements.

No amount due to shareholders who hold 5% or more voting right of the Company is included in the above balance of long-term payable.

34 Provisions

Estimated liabilities represent accrued reclamation obligations. The accrual for reclamation costs has been determined based on management's best estimates. However, so far as the effect on the land from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to change in the near term. The Group believes that the accrued reclamation obligations at 31 December 2007 are adequate. The accrual is necessarily based on estimates and therefore, the ultimate liability may exceed or be less than such estimates.

	The Group		The Company	
	2007	2006 (restated)	**2007**	2006
Beginning balance of the year	**942**	852	**568**	497
Addition for the year	**76**	40	**59**	40
Accretion expense	**40**	50	**32**	31
Paid during the year	**(40)**	–	**(35)**	–
Ending balance of the year	**1,018**	942	**624**	568

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

35 Share capital

Details of the Company's share capital as at 31 December are as follows:

	The Group and the Company	
	2007	*2006*
Registered, issued and fully paid		
(1) Shares subject to selling restrictions		
– domestic shares held by Shenhua Group	**–**	14,691
– A shares held by Shenhua Group	**14,691**	–
– A shares held by other individuals	**540**	–
(2) Shares not subject to selling restrictions		
– A share	**1,260**	–
– H share	**3,399**	3,399
Total	**19,890**	18,090
Balance at the beginning of the year	**18,090**	18,090
Issue of A shares	**1,800**	–
Balance at the end of the year	**19,890**	18,090

The Company was incorporated on 8 November 2004. According to the notice Guo Zi Chan Quan [2004] No. 1011 "Reply to the Issue Regarding Management of State-Owned Equity by Shenhua Group Corporation Limited for establishment of China Shenhua Energy Company Limited" issued by State-owned Assets Supervision and Administration Commission of the State Council, 15 billion domestic state-owned shares with a par value of RMB1.00 each were issued and all held by Shenhua Group, the amount of which is equivalent to 80.5949% of the net assets of RMB18,612 million transferred from Shenhua Group to the Company. The remaining balance of RMB3,612 million not converted as share capital was recorded in the Company's capital reserve (see Note 1). As at 31 December 2004, registered and fully paid share capital of the Company amounted to RMB15 billion.

In June and July 2005, the Company issued 3,398,582,500 H shares with a par value of RMB1.00 each listed on Hong Kong Stock Exchange. As part of the global initial public offering, 308,962,045 domestic state-owned ordinary shares of RMB1.00 each owned by Shenhua Group were converted into H shares and sold to Hong Kong and overseas investors at a price of HK$7.50 per H share.

In September 2007, the Company issued 1,800,000,000 domestic listed A shares with a par value of RMB1.00 each at RMB36.99 by way of A Share Issue to natural persons and institutional investors in the PRC.

All A shares and H shares rank pari passu in all material aspects.

The above issued and fully paid share capital have been verified by KPMG Huazhen. Capital verification reports, KPMG-A(2004)CRNo.0071, KPMG-A(2006)CRNo.0007 and KPMG-A(2007)CRNo.0030 were issued on 6 November 2004, 10 March 2006 and 28 September 2007 respectively.

Following the A Shares Issue and pursuant to the requirements of the relevant authorities, all the domestic stated-owned ordinary shares existed before the A Shares Issue (i.e. ordinary shares of the Company held by Shenhua Group) have become circulative and registered in China Securities Depository and Clearing Co., Ltd . These shares rank pari passu in all material aspects with other listed A shares except for the lockup periods. Shenhua Group has undertaken that for a period of 36 months commencing on the date on which the A shares are listed on the Shanghai Stock Exchange, it will not transfer, put on trust or allow any A shares to be repurchased by the Company.

The 540,000,000 shares sold through internet were allowed to be circulative after 3 months from the issuing date (i.e.9 October 2007). These shares are circulative on 9 January 2008.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

36 Capital reserve

The movements in capital reserve are set out below:

	The Group		
	Share premium	***Others (Note i)***	***Total***
Beginning balance of 2006	20,813	4,121	24,934
Effect on the beginning balance for consolidation of Shendong Coal and Shendong Power	–	2,557	2,557
Beginning balance of 2006 (restated)	20,813	6,678	27,491
Capital contributions by shareholders (Note ii)	–	669	669
Consideration for the acquisition of Jinjie Energy	–	(1,162)	(1,162)
Ending balance of 2006	20,813	6,185	26,998
Beginning balance of 2007	**20,813**	**6,185**	**26,998**
Acquisition of minority interests	**–**	**(97)**	**(97)**
Consideration for acquisition of Shendong Coal and Shendong Power	**–**	**(3,587)**	**(3,587)**
A share Listing	**64,782**	**–**	**64,782**
A share Listing fee	**(594)**	**–**	**(594)**
Capital contributions by shareholders (Note ii)	**–**	**199**	**199**
Ending balance of 2007	**85,001**	**2,700**	**87,701**

	The Company		
	Share premium	***Others (Note i)***	***Total***
Beginning balance of 2006	20,813	3,612	24,425
Adjustment for acquisition of Jinjie Energy	–	(677)	(677)
Ending balance 2006	20,813	2,935	23,748
Beginning balance of 2007	**20,813**	**2,935**	**23,748**
A share Listing	**64,782**	**–**	**64,782**
A share Listing fee	**(594)**	**–**	**(594)**
Adjustment for acquisition of Shendong Coal and Shendong Power	**–**	**(315)**	**(315)**
Ending balance of 2007	**85,001**	**2,620**	**87,621**

Note i: Others mainly represent premium on state-owned shares and difference of net assets acquired and consideration paid in business combinations involving entities under common control.

Note ii: As mentioned in Note 1, the Company completed the acquisition of Shendong Coal and Shendong Power on 31 August 2007. Shenhua Group injected capital to Shendong Power amounting to RMB699 million in 2006. Subsequently and before the acquisition on 31 August 2007, Shenhua Group injected additional RMB199 million to Shendong Power.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

37 Surplus reserves

The movements in surplus reserves are set out below:

	The Group and the Company			
	Statutory surplus reserve	***Statutory public welfare fund***	***Discretionary surplus reserve***	***Total***
Beginning balance of 2006	1,416	1,416	–	2,832
Transferred from statutory public welfare fund (Note (ii))	1,416	(1,416)	–	–
Profit appropriation	1,425	–	–	1,425
Ending balance of 2006	4,257	–	–	4,257
Beginning balance of 2007	**4,257**	**–**	**–**	**4,257**
Effect on acquisition of Dingzhou (Note (iii))	**(13)**	**–**	**–**	**(13)**
Profit appropriation	**2,019**	**–**	**–**	**2,019**
Ending balance of 2007	**6,263**	**–**	**–**	**6,263**

Note (i): Pursuant to the Articles of Association of the Company, profit appropriation plans are set out below:

(a) Appropriation of 10% of the net profit to the statutory surplus reserve;

(b) After the appropriation of the statutory surplus reserve, appropriation of the discretionary surplus reserve upon resolution in the shareholders' meeting.

Note (ii): According to No.167 of the PRC Company Law commencing from 1 January 2006, the Company is no longer required to make profit appropriation to the statutory public welfare fund. Pursuant to the "Notice on the Accounting Treatment of Business Enterprises in relation to the Enactment of the Company Law" issued by the Ministry of Finance, the balance of this fund (RMB1,416 million) as at 31 December 2005 was transferred to the statutory surplus reserve.

Note (iii): As stated in Note 5 (a), Dingzhou has been included in the Company's consolidated financial statements on 29 December 2007. According to the accounting regulations, long-term equity investment is accounted for under an equity method until the requirements for business combinations are fulfilled. On acquisition, the carrying amount of long-term equity investment under equity method is adjusted to their original costs, through retained earnings and capital reserve, long-term investment in the subsidiary using equity method before acquisition date should be retrospectively adjusted by using cost method and the surplus reserves should be adjusted accordingly.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

38 Appropriation of Profits

Pursuant to the Articles of Association of the Company, the amount of retained profits available for distribution to equity shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with International Financial Reporting Standards.

On 27 March 2005, the directors proposed and the sole shareholder approved that the distributable profit 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 Group. On 10 March 2006, the board of directors resolved to pay a special cash dividend to Shenhua Group amounting to RMB5,143 million.

On 10 March 2006, the board of directors also proposed the final cash dividend for the year ended 31 December 2005 to all equity shareholders amounted to RMB2,261 million (RMB0.125 per share).

The above two dividend distributions were approved at the annual general meeting held on 12 May 2006.

On 23 March 2007, the board of directors proposed to pay the final cash dividend for the year ended 31 December 2006 to all equity shareholders amounted to RMB6,150 million (RMB0.34 per share). Such dividend distribution was approved at the annual general meeting held on 15 May 2007.

As part of the structure of the A Share Issue, the Company's domestic state-owned shares and H share shareholders are entitled to the distributable reserves of the Group as at 30 June 2007. The amount of such distributable reserves are the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with International Financial Reporting Standards after the appropriation to reserves. Pursuant to the extraordinary general meeting of the Company held on 24 August 2007 and the approval from the directors, a special dividends of RMB22,544 million was approved for distribution to the Company's H share shareholders and Shenhua Group, subject to certain conditions. All requirements for distribution of special dividends have been fulfilled by the Company.

On 25 October 2007, the directors duly authorised by the shareholders declared special dividends of RMB16,799 million to shareholders whose names appeared on the H share register of members of the Company on 14 November 2007 and Shenhua Group. 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.

On 15 March 2008, board of directors proposed to pay the final cash dividend for the year ended 31 December 2007 to all equity shareholders amounted to RMB3,580 million (RMB0.18 per share). The above dividend distribution is proposed for approval at the forthcoming annual general meeting.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

39 Operating income

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. Operating income represent the aggregate of the value of goods sold and services provided.

	The Group		The Company	
	2007	2006 (restated)	**2007**	2006
Operating income from principal activities				
– Coal revenue	**55,741**	45,948	**63,860**	52,061
– Power revenue	**23,922**	17,056	**–**	–
– Transportation revenue	**1,346**	1,185	**678**	1,030
Sub-total	**81,009**	64,189	**64,538**	53,091
Other revenues	**1,098**	997	**660**	143
Total	**82,107**	65,186	**65,198**	53,234

The Group's sales to the top five customers for the year amounted to RMB21,549 million, or 26% of the total sales.

40 Operating cost

	The Group		The Company	
	2007	2006 (restated)	**2007**	2006
Coal purchased from third parties	**10,719**	6,935	**16,355**	12,928
Materials, fuel and power	**6,276**	3,764	**2,483**	1,309
Personnel expenses	**3,960**	2,677	**1,544**	1,076
Depreciation and amortisation	**8,681**	7,515	**3,554**	3,077
Transportation charges	**6,845**	6,259	**16,800**	13,436
Others	**4,235**	3,546	**3,341**	2,765
Total	**40,716**	30,696	**44,077**	34,591

Please refer to Note 51 for details of the operating costs by the nature of operation.

41 Business taxes and surcharges

		The Group		The Company	
	Basis	**2007**	2006 (restated)	**2007**	2006
Land appreciation tax	30% to 50% on related added values	**9**	2	**–**	–
Business tax	3% or 5% on related operating revenues	**595**	496	**177**	158
City maintenance and construction tax	1% to 7% on VAT and business tax paid	**441**	385	**262**	240
Education surcharge	3% on VAT and business tax paid	**277**	222	**144**	130
Resources tax	RMB2.3-3.2 per tonne on coal sales	**510**	438	**407**	352
Total		**1,832**	1,543	**990**	880

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

42 Financial expenses

	The Group		The Company	
	2007	2006 (restated)	**2007**	2006
Interest expense from loans and payables	**3,816**	3,082	**1,064**	861
Less: Interest expense capitalised	**399**	447	**11**	17
Net interest expenses	**3,417**	2,635	**1,053**	844
Interest income from deposits	**(622)**	(263)	**(585)**	(224)
Net exchange gain	**(129)**	(258)	**(10)**	(52)
Total	**2,666**	2,114	**458**	568

43 Impairment loss

	The Group		The Company	
	2007	2006 (restated)	**2007**	2006
Receivables	**69**	36	**–**	(7)
Inventories	**257**	22	**254**	2
Long-term equity investments	**3**	5	**–**	–
Fixed assets	**380**	147	**–**	147
Total	**709**	210	**254**	142

44 Gain/ (loss) from change in fair value

	The Group and the Company	
	2007	2006
Fair value gain/(loss) on swap contracts	**283**	(23)

45 Investment income

	The Group		The Company	
	2007	2006 (restated)	**2007**	2006
Long-term equity investments				
– Income from equity investments accounted for under equity method	**567**	552	**351**	437
– Income from equity investments accounted for under cost method	**8**	2	**6,414**	2,068
Net gain on disposal of investments	**6**	1	**6**	1
Net gain on sale of available-for-sale financial assets	**27**	–	**27**	–
Income from entrusted loans	**30**	4	**185**	80
Total	**638**	559	**6,983**	2,586

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

45 Investment income (continued)

The analysis of investment income from the Group's major long-term equity investees accounted for under equity method is as follows:

	The Group 2007	The Group 2006 (restated)	The Company 2007	The Company 2006
Associates				
Hebei Guohua Dingzhou Power Co., Ltd.	**72**	114	**–**	114
Zhejiang Jiahua Power Co., Ltd.	**145**	156	**145**	156
Shenhua Finance Co., Ltd.	**98**	56	**52**	30
Inner Mongolia Menghua Haibowan Power Co., Ltd.	**29**	43	**29**	43
Inner Mongolia Jingda Power Co., Ltd.	**15**	51	**15**	51
Zhuhai New Century Shipping Co., Ltd.	**55**	19	**55**	19
Tianjin Yuanhua Shipping Co., Ltd.	**48**	23	**48**	23
Other associates	**105**	90	**7**	1
Total	**567**	552	**351**	437

46 Non-operating income

	The Group 2007	The Group 2006 (restated)	The Company 2007	The Company 2006
Gain on disposal of mining rights	**–**	101	**–**	101
Insurance compensation	**1**	2	**–**	1
Gain on disposal of fixed assets	**27**	52	**24**	42
Penalty income	**20**	15	**16**	6
Gain on disposal of wastages	**14**	12	**4**	2
Subsidy income (Note)	**51**	35	**–**	–
Written off of long-term payables	**3**	9	**1**	3
Gain on acquisition of investments	**79**	–	**–**	–
Others	**14**	23	**1**	4
Total	**209**	249	**46**	159

Note:

	The Group 2007	The Group 2006 (restated)	The Company 2007	The Company 2006
VAT refund (Note)	**48**	35	**–**	–
Other subsidy income	**3**	–	**–**	–
Total	**51**	35	**–**	–

Note: The Group received a VAT refund of RMB8 million from the State for the heat supply projects for the year ended 31 December 2007. The Group also received a VAT refund of RMB12 million in accordance with the relevant document issued by the Shanghai Lu Wan government. In addition, the Group received a VAT refund of RMB28 million from the State for the resource utilisation for the year ended 31 December 2007.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

47 Non-operating expenses

	The Group		The Company	
	2007	2006 (restated)	**2007**	2006
Losses on disposal of fixed assets	**326**	220	**200**	124
Donations	**117**	95	**111**	77
Others	**96**	67	**34**	15
Total	**539**	382	**345**	216

48 Income tax expenses

(a) Income tax expenses for the year represent:

	The Group		The Company	
	2007	2006 (restated)	**2007**	2006
Current tax expense for the year	**6,737**	5,266	**2,821**	2,363
Deferred taxation (Note 20)	**(256)**	(29)	**(51)**	(14)
Total	**6,481**	5,237	**2,770**	2,349

(b) Reconciliation between income tax expense and accounting profit is as follows:

	The Group		The Company	
	2007	2006 (restated)	**2007**	2006
Profit before taxation	**29,629**	24,629	**22,958**	16,591
Expected income tax expenses at a tax rate of 33% (Note(i))	**9,778**	8,128	**7,576**	5,475
Tax effect of differential tax rate on branches' and subsidiaries' income (Note (i))	**(3,314)**	(2,925)	**(2,847)**	(2,346)
Change in tax rate (Note4(b))	**(117)**	–	**(33)**	–
Tax effect of non-deductible expenses (Note (ii))	**232**	136	**70**	53
Tax effect in respect of associates' income	**(187)**	(182)	**(116)**	(144)
Tax effect of other non-taxable income	**(2)**	–	**(1,756)**	(683)
Tax effect of tax losses not recognised	**162**	140	**1**	39
Others	**(71)**	(60)	**(125)**	(45)
Income tax expenses	**6,481**	5,237	**2,770**	2,349

Note (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.

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

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

48 Income tax (continued)

(c) The analysis of deferred tax expenses is set out below:

	The Group 2007	The Group 2006 (restated)	The Company 2007	The Company 2006
Origination and reversal of temporary differences	**(139)**	(29)	**(18)**	(14)
Change in tax rate (Note 4(b))	**(117)**	–	**(33)**	–
	(256)	(29)	**(51)**	(14)

49 Supplemental information to the cash flow statement

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

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

(b) Change in cash and cash equivalents:

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

Cash and cash equivalents held by the Group and the Company are cash on hand and demand deposits (see Note 6).

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

49 Supplemental information to the cash flow statement (continued)

(c) Cash and cash equivalents are as follows:

	The Group		*The Company*	
	2007	*2006* (restated)	***2007***	*2006*
Cash at bank and on hand				
– Cash and cash equivalents	**53,404**	15,758	**51,904**	13,937
– Time deposits	**32**	8	**10**	–
Closing balance of cash at bank and on hand	**53,436**	15,766	**51,914**	13,937
Less: Time deposits	**32**	8	**10**	–
Closing balance of cash and cash equivalents	**53,404**	15,758	**51,904**	13,937

(d) In 2006, Jinjie Energy repaid a borrowing for working capital amounting to RMB1,200 million received from Beijing Guohua Power Co., Ltd in 2005, which was disclosed in "Other cash paid relating to operating activities" of the consolidated cash flow statement for the year ended 31 December 2006.

50 Share-based payment

The Group and the Company has exercised share-based payments rights amounting to RMB23 million to be settled by cash, of which RMB19 million has been settled.

The Group's share-based payment plan is for return of employees' service .

On 19 November 2005, the Company's board of directors approved a scheme of share appreciation rights ("the Scheme") for the senior management of the Group with a term of 10 years with effect from 15 June 2005. No shares will be issued under the Scheme. The rights are granted in units with each unit representing one H share of the Company.

The rights to the units will have an exercise period of six years from the date of grant and can be exercised after the second, third and fourth anniversary of the date of grant and the total number of the rights exercised by an individual may not in aggregate exceed one-third, two-thirds and 100% respectively, of the total rights granted to the individual.

Upon exercise of the said rights, the exercising participant will, subject to the restrictions under the Scheme, receive a payment in RMB, after deducting any applicable withholding tax, equal to the product of the number of rights exercised and the difference between the exercise price and market price of the H shares of the Company at the time of exercise. The weighted average exercise price at the date of exercise for share appreciation rights exercised during the year was RMB39.

The estimate of share appreciation rights of the company is measured based on Black-Scholes (Financial numerical value model) Option-Pricing Model, the major parameters of which includes the exercise price of share appreciation rights, expected period, expected fluctuation rate of share price, expected rate of return, risk free interest and market price of shares. The above parameters are established according to relevant article of the Scheme and historical transaction data of H share of the company.

The exercise price of granted share appreciation rights as at 31 December 2007 is HK$7.90, HK$11.8 or HK$33.8 (2006: HK$7.90 or HK$11.80), the remaining contractual period ranges from four to six years (2006: five or six years).

The share appreciation right expense of the Company recognised for the year ended 31 December 2007 amounted to RMB112 million (2006: RMB22 million).

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

50 Share-based payment (continued)

The number of granted share appreciation rights is set out below:

	The Group and the Company	
	2007	2006
	million	million
Granted at the beginning of the year	**6.0**	2.8
Granted for the year	**2.4**	3.2
Exercised for the year	**0.6**	–
Granted at the end of the year	**7.8**	6.0

51 Segment reporting

In accordance with the Group's internal financial reporting process, business segment information is chosen as the reporting format and geographical segment information as its secondary reporting format. The Group comprises four business segments as follows:

(i) Coal operation – which produces coal from surface and underground mines, and the sale of coal to external customers and the power segment.

(ii) Railway operation – which provides railway transportation services to the coal mining segment and external customers.

(iii) Port operation – which provides loading, transportation and storage services to the coal mining segment and external customers.

(iv) Power operation – which uses coal, sourced from the coal mining segment and purchased from external suppliers, to generate electric power for sale to external power grid companies and to the coal segment.

The segments were determined primarily because the Group manages its coal, railway, port and power generation businesses separately. The reportable segments are each managed separately due to differences in their operating distribution and production processes and gross margin characteristics.

The Group evaluates the performance and allocates resources to its reportable segments on an income from operations basis, without considering the effects of finance costs or investment income. The accounting policies of the Group's reportable segments are the same as those described in the significant accounting policies (see Note 3). Corporate administrative costs and assets are not allocated to the operating segments; instead, operating segments are charged for direct corporate services. Inter-segment transfer pricing is based on market prices or prices pre-determined by the relevant governmental authority.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

51 Segment reporting (continued)

Reportable information on each of the Group business segment is set out as follows:

	Coal		Railway		Port		Power		Corporate and others		Eliminations		Total	
	2007	2006 (restated)	2007	2006 (restated)	2007	2006 (restated)	2007	2006 (restated)	2007	2006 (restated)	2007	2006 (restated)	2007	2006 (restated)
Operating income:														
Including: External transaction	56,246	46,559	1,455	1,254	103	75	24,303	17,298	–	–	–	–	82,107	65,186
Inter-segment transaction	9,703	6,744	14,755	11,704	1,878	1,494	84	83	–	–	(26,420)	(20,025)	–	–
Total operating income	65,949	53,303	16,210	12,958	1,981	1,569	24,387	17,381	–	–	(26,420)	(20,025)	82,107	65,186
Operating costs	(44,512)	(34,600)	(5,330)	(4,129)	(1,230)	(1,017)	(15,952)	(10,899)	–	–	26,308	19,949	(40,716)	(30,696)
Business taxes and surcharges	(1,015)	(930)	(530)	(402)	(63)	(50)	(224)	(161)	–	–	–	–	(1,832)	(1,543)
Selling expenses	(458)	(401)	(22)	(33)	–	–	(42)	(19)	–	–	–	–	(522)	(453)
Administrative expenses	(2,310)	(1,886)	(1,704)	(1,747)	(294)	(263)	(2,010)	(1,829)	(306)	(219)	–	–	(6,624)	(5,944)
Impairment loss	(262)	(191)	–	–	(13)	–	(434)	(19)	–	–	–	–	(709)	(210)
Segmental profit	17,392	15,295	8,624	6,647	381	239	5,725	4,454	(306)	(219)	(112)	(76)	31,704	26,340
Financial expenses													(2,666)	(2,114)
Gain/(loss) from changes in fair value													283	(23)
Investment income													638	559
Operating profit													29,959	24,762
Non-operating income													209	249
Non-operating expenses													(539)	(382)
Profit before income tax													29,629	24,629
Less: Income tax expenses													(6,481)	(5,237)
Net profit for the year													23,148	19,392
Supplementary information:														
Depreciation and amortisation	3,463	3,229	1,695	1,392	641	480	3,233	2,696	3	2	–	–	9,035	7,799
Capital expenditure	16,425	10,243	3,124	4,021	504	1,209	10,850	11,900	84	121	–	–	30,987	27,494

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

51 Segment reporting (continued)

Assets and liabilities dedicated to a particular segment's operations are included in that segment's total assets and liabilities. Assets which benefit more than one segment are considered to be corporate assets and are not allocated. Unallocated assets consists primarily of cash and cash equivalents, time deposits, investments and deferred tax assets. Unallocated liabilities consists primarily of short-term and long-term borrowings, interest payable, short-term bonds, income tax payable and deferred tax liabilities.

Interests in and earnings from associates are included in the segments in which the associates operate. Information on interest in associates is included in Note 14.

	2007	*2006* (restated)
Assets		
Segment assets		
Coal	**55,199**	42,262
Railway	**36,847**	31,747
Port	**10,409**	10,574
Power	**75,801**	63,846
Combined segment assets	**178,256**	148,429
Interest in associates		
Coal	**1,215**	767
Railway	**122**	108
Port	**6**	4
Power	**1,436**	2,164
Total interest in associates	**2,779**	3,043
Unallocated assets	**57,786**	21,060
Total assets	**238,821**	172,532
Liabilities		
Segment liabilities		
Coal	**(14,221)**	(11,814)
Railway	**(3,242)**	(2,072)
Port	**(759)**	(877)
Power	**(5,512)**	(6,054)
Combined segment liabilities	**(23,734)**	(20,817)
Unallocated liabilities	**(66,271)**	(62,980)
Total liabilities	**(90,005)**	(83,797)

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

51 Segment reporting (continued)

Geographical segments

Geographical segments of the Group (by location of customers) are set out below:

(1) Domestic markets – customers which are located in the PRC

(2) Asia Pacific markets – customers which are located in the Asia Pacific region but outside the PRC, primarily locate in Korea and Japan

(3) Other markets –customers which are located outside the PRC and the Asia Pacific region

(i) External transactions

	2007	*2006* (restated)
Domestic markets	**72,541**	56,069
Asia Pacific markets	**9,222**	8,825
Other markets	**344**	292
Total	**82,107**	65,186

(ii) Segment assets

The location of all the Group's production or service facilities and other assets is in the PRC.

52 Financial risk management

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group and the Company are also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

These risks are limited by the Group's and the Company's financial management policies and practices described below.

(a) Credit risk

The carrying amounts of cash and cash equivalents, other current assets, other non-current assets, receivables, derivative financial instruments and available-for-sale investments represent the Group's and the Company's maximum exposure to credit risk in relation to these financial assets. Substantially all of the Group's and the Company's cash and cash equivalents are held in major financial institutions located in the PRC, which management believes are of high credit quality. The Group's and the Company's major customers are power plants, metallurgical companies and power grid companies, which accounted for significant amounts of the Group's and the Company's total operating revenues during the year. The Group and the Company have no significant credit risk with any of these customers since the Group and the Company maintain long-term and stable business relationships with these large customers in the coal and power industries. The Group and the Company perform ongoing individual credit evaluations of its customers' financial condition and generally does not require collateral on accounts receivable. The allowance for doubtful debts has been within management's expectations.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount (after provision) of each financial asset, including derivative financial instruments, in the balance sheet after deducting any impairment allowance. Except for the financial guarantees given by the Group and the Company as set out in Note 54(a), the Group and the Company do not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the balance sheet date is disclosed in Note 54(a).

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

52 Financial risk management (continued)

(b) Foreign currency risk

The Group and the Company incur foreign currency risk on borrowings that are denominated in a currency other than Renminbi. The currency giving rise to this risk is primarily Japanese Yen.

The Group's and the Company's Japanese Yen borrowings are disclosed in Note 31 and 32.

At 31 December 2007, it is estimated that if the Japanese Yen foreign exchange rate increased by 2%, with all other variables remaining constant, the Group's profit after tax and retained profits would decrease by approximately RMB69 million (2006: decrease by RMB74 million (restated)).

At 31 December 2007, it is estimated that if the Japanese Yen foreign exchange rate increased by 2%, with all other variables remaining constant, the Company's profit after tax and retained profits would decrease by approximately RMB68 million (2006: decrease by RMB71 million).

(c) Interest rate risk

The cash at bank and on hand of the Group and the Company are disclosed in Note 6. Most of the cash at bank and on hand are at variable rate.

The interest rates and the terms of repayment of the Group's and the Company's borrowings are disclosed in Notes 23, 31 and 32. Most of the borrowings are variable rate borrowings.

At 31 December 2007, it is estimated that a general increase of 100 basis points in interest rates, with all other variables remaining constant, would increase the Group's and the Company's profit after tax and retained profits by approximately RMB361 million and RMB349 million respectively (2006: increase by RMB109 million (as restated) and RMB93 million respectively).

At 31 December 2007, it is estimated that a general increase of 100 basis points in interest rates, with all other variables remaining constant, would decrease the Group's and the Company's profit after tax and retained profits by approximately RMB397 million and RMB75 million respectively (2006: decrease by RMB381 million (as restated) and RMB75 million respectively).

The above sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the Group's and the Company's exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

52 Financial risk management (continued)

(d) Fair values

The following summarises the major methods and assumptions used in estimating the fair values of the Group's and the Company's financial instruments. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgement is required to interpret market data to develop the estimates of fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group and the Company could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Long-term borrowings: The fair values of long-term borrowings are estimated by discounting future cash flows using current market interest rates offered to the Group and the Company for borrowings with substantially the same characteristics and maturities. As at 31 December 2007, the carrying amounts and fair values of the Group's and the Company's long-term borrowings are as follows:

	The Group				***The Company***			
	2007		*2006*		***2007***		*2006*	
	Carrying amount	***Fair value***	*Carrying amount (restated)*	*Fair value (restated)*	***Carrying amount***	***Fair value***	*Carrying amount*	*Fair value*
Long-term borrowings (including current portion)	**55,011**	**55,229**	48,014	48,184	**14,719**	**14,976**	13,745	13,950

Derivatives mainly represent interest swaps. The fair value of the interest rate swaps are based on discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument having a similar maturity at the balance sheet date.

Change in fair value is recognised as gain or loss from changes in fair value in the consolidated income statement.

Except for the above mentioned financial instruments, the fair values of all other financial instruments approximate their carrying amounts due to the nature or short-term maturity of these instruments.

(e) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligation as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Group's reputation.

The Group closely monitors cash flow requirements and optimising its cash return. The Group prepares cash flow forecasts and ensures it has sufficient cash for the servicing of operation, financial, and capital obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

52 Financial risk management (continued)

(e) Liquidity risk (continued)

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

The Group	***Carrying amount***	***Total contractual undiscounted cash flow***	***Within 1 year or on demand***	***More than 1 year but less than 2 years***	***More than 2 years but less than 5 years***	***More than 5 years***
			2007			
Borrowings	**59,914**	**73,783**	**13,562**	**8,075**	**28,835**	**23,311**
Short-term bonds	**1,453**	**1,504**	**1,504**	**–**	**–**	**–**
Payables	**18,651**	**18,651**	**18,651**	**–**	**–**	**–**
Income tax payable	**2,198**	**2,198**	**2,198**	**–**	**–**	**–**
	82,216	**96,136**	**35,915**	**8,075**	**28,835**	**23,311**

The Group	*Carrying amount* (restated)	*Total contractual undiscounted cash flow* (restated)	*Within 1 year or on demand* (restated)	*More than 1 year but less than 2 years* (restated)	*More than 2 years but less than 5 years* (restated)	*More than 5 years* (restated)
			2006			
Borrowings	58,819	69,186	19,023	8,817	19,533	21,813
Payables	17,202	17,202	17,202	–	–	–
Income tax payable	2,196	2,196	2,196	–	–	–
	78,217	88,584	38,421	8,817	19,533	21,813

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

52 Financial risk management (continued)

(e) Liquidity risk (continued)

			2007			
The Company	***Carrying amount***	***Total contractual undiscounted cash flow***	***Within 1 year or on demand***	***More than 1 year but less than 2 years***	***More than 2 years but less than 5 years***	***More than 5 years***
Borrowings	**16,219**	**19,311**	**4,058**	**1,410**	**5,649**	**8,194**
Payables	**10,931**	**10,931**	**10,931**	**–**	**–**	**–**
Income tax payable	**1,030**	**1,030**	**1,030**	**–**	**–**	**–**
	28,180	**31,272**	**16,019**	**1,410**	**5,649**	**8,194**

			2006			
The Company	*Carrying amount*	*Total contractual undiscounted cash flow*	*Within 1 year or on demand*	*More than 1 year but less than 2 years*	*More than 2 years but less than 5 years*	*More than 5 years*
Borrowings	16,645	19,066	5,745	2,519	3,665	7,137
payables	7,740	7,740	7,740	–	–	–
Income tax payable	1,227	1,227	1,227	–	–	–
	25,612	28,033	14,712	2,519	3,665	7,137

(f) Equity price risk

All of the Group's and the Company's unquoted investment are held for long-term strategic purposes. Their performance is assessed at least annually based on the information available to the Group and the Company, together with an assessment of their relevance to the Group's long-term strategic plans.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

53 Commitments

(a) Capital commitments

As at 31 December, the capital commitments of the Group and the Company are summarised as follows:

	The Group		*The Company*	
	2007	*2006* (restated)	***2007***	*2006*
Authorised and contracted for				
– Land and buildings	**5,228**	4,825	**1,747**	863
– Equipment	**18,139**	11,123	**4,260**	1,540
– Investment in an associate	**84**	–	**84**	–
Sub-total	**23,451**	15,948	**6,091**	2,403
Authorised but not contracted for				
– Land and buildings	**19,099**	12,639	**7,568**	3,573
– Equipment	**23,512**	12,550	**7,078**	7,859
Sub-total	**42,611**	25,189	**14,646**	11,432
Total	**66,062**	41,137	**20,737**	13,835

(b) Operating lease commitments

As at 31 December, the future minimum lease payments under non-cancellable operating leases of properties, fixed assets and so on were payable as follows:

	The Group		*The Company*	
	2007	*2006* (restated)	***2007***	*2006*
Within 1 year (inclusive)	**71**	43	**51**	25
1 and 2 years (inclusive)	**49**	41	**31**	23
2 and 3 year (inclusive)	**38**	37	**21**	20
Over 3 years	**160**	183	**93**	97
Total	**318**	304	**196**	165

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

54 Contingent liabilities

(a) Financial guarantees issued

As at the balance sheet date, the Group issued the guarantees as below:

(i) guarantees in respect of loans granted to the related parties and third parties; and

(ii) guarantees in respect of loans granted to subsidiaries.

As at the balance sheet date, the directors do not consider the Group will probably be requested for compensation as a result of any guarantee issued. As at 31 December 2006, the maximum liability of the Group under the guarantee issued was RMB310 million. In June 2007, such guarantee was released through an entrusted loan issued by a subsidiary to the associate.

At 31 December 2007, the maximum liability of the Company under guarantees issued in respect of bank loans drawn by certain subsidiaries of the Company was RMB1,576 million (2006: RMB1,966 million as restated).

(b) Legal contingencies

The Group is a defendant in certain lawsuits as well as the plaintiff in other proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

(c) Environmental contingencies

To date, the Group has not incurred any significant expenditure for environmental remediation, is currently not involved in any environmental remediation, and apart from the provision for land reclamation costs, has not accrued any further amounts for environmental remediation relating to its operations. Under the existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved, and may move further towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include (i) the exact nature and extent of the contamination at various sites including, but not limited to coal mines and land development areas, whether operating, closed or sold; (ii) the extent of required cleanup efforts; (iii) varying costs of alternative remediation strategies; (iv) changes in environmental remediation requirements; and (v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under future environmental legislation cannot reasonably be estimated at present, and could be material.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

55 Non-adjusting post balance sheet events

Up to the date of the report, the Group has non-adjusting post balance sheet events as below:

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

On the same day, board of directors proposed to pay the final cash dividend for the year ended 31 December 2007 to all equity shareholders amounted to RMB3,580 million (RMB0.18 per share). The above dividend distribution to be approved at the forthcoming annual general meeting, and has not been recognised as a liability at the balance sheet date.

The above mentioned special cash dividend and final cash dividend are not recognised as liabilities on the balance sheet date.

56 Related party relationships and transactions

(a) Information on the parent company of the Company is set out below:

Company name	:	Shenhua Group Corporation Limited
Organization	:	10001826-7
Registered place	:	22 Andingmen Xibinhe Road, Dongcheng District, Beijing
Business nature	:	Develop and operate Shenfu Dongsheng coal mines and its ancillary railways, power stations, ports, navigation fleets; develop the above business related industries, included sales of coal and products, mineral products, chemical materials, chemical products, textiles, construction materials, machineries, electronic equipment and office equipment.
Registered capital	:	RMB23,200,000,000
Shareholding percentage	:	73.86%

The above registered capital was changed from RMB2,580 million to RMB23,200 million in 2006.

(b) For the information on the subsidiaries of the Company, refer to Note 5.

(c) Transactions between the Group and the Company with the key management personnel

	2007	*2006*
Remuneration of key management personnel		
– Short-term employee benefits	**5**	4
– Post-employment benefits	**1**	1
– Share appreciation rights expense	**69**	17
Total	**75**	22

The above transactions with key management personnel were conducted under normal commercial terms or relevant agreements.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

56 Related party relationships and transactions (continued)

(d) Except for the transactions with key management personnel, the transaction amounts and the balances with other related parties are set out below:

(i) Other related parties not having the ability to exercise control over the Group and the Company and have related party transactions with the Group

(1) Related parties under common control or with significant influence
Shenhua Mengxi Coal Chemical Co., Ltd.
China Shenhua Coal Liquefaction Co., Ltd.
Shenhua Baotou Mining Co., Ltd.
Shenhua Wuda Mining Co., Ltd.
Shenhua Haibowan Mining Co., Ltd.
Shenhua Tianhong Trading Co., Ltd.
Shenhua Group Materials Trading Co., Ltd.
Shenhua International trade Co., Ltd.
Shenhua (Beijing) Remote Sensing & Geo-Engineering Co., Ltd.
Neimenggu Xinmeng Coal Co., Ltd.
Shenhua Wuhai Coke Co., Ltd.
Beijing Guohua Electric Corporation
Shenhua Coal Trading Co., Ltd.
Shanxi Jinshen Energy Co., Ltd.
Shenhua Ningxia Coal Co., Ltd.
Guohua Ebara Environmental Engineering Co., Ltd.
Guohua Taicang Power Co., Ltd.
Jiangsu Zhenjiang Power Co., Ltd.
Shenhua Baorixile Energy Co., Ltd.

(2) The Company has significant influence on:
Zhuhai New Century Shipping Limited
Tianjin Yuanhua Shipping Co., Ltd.
Huanghua China Shipping Agency Co., Ltd.
Shenhua Finance Co., Ltd.
Inner Mongolia Zhunge'er Energy and Gaugue Power Co., Ltd.
Shendong Tianlong Group Corporation
Inner Mongolia Yili Chemicals Co., Ltd.
Shenhua DBT Leather Belt Co., Ltd.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

56 Related party relationships and transactions (continued)

(d) Except for the transactions with key management personnel, the transaction amounts and the balances with other related parties are set out below: (continued)

(ii) The Group and the Company had the following transactions with Shenhua Group and other related parties that were carried out in the normal course of business:

		The Group		*The Company*	
	Note	***2007***	*2006* (restated)	***2007***	*2006*
Interest income	(1)	**40**	21	**198**	88
Purchases of ancillary materials and spare parts	(2)	**913**	651	**498**	357
Ancillary and social services	(3)	**262**	129	**776**	484
Transportation services income	(4)	**49**	70	**440**	359
Interest expense	(5)	**184**	125	**85**	54
Purchase of coal	(6)	**2,346**	2,567	**15,322**	12,199
Sale of coal	(7)	**2,399**	2,514	**9,681**	7,712
Property leasing	(8)	**37**	40	**20**	24
Transportation services expense	(9)	**358**	276	**11,048**	8,040
Repairs and maintenance services expense	(10)	**8**	3	**8**	4
Coal export agency expense	(11)	**74**	67	**74**	67
Income from equipment installation and construction work	(12)	**18**	29	**530**	114
Purchase of equipment and construction work	(13)	**843**	353	**526**	277
Sale of long-term assets	(14)	**–**	296	**–**	296
Other income	(15)	**121**	56	**74**	18
Repayment to a related party	49(d)	**–**	1,200	**–**	–
Entrusted loan to/(repaid) by related parties		**1,261**	(50)	**8,337**	740
Short-term loan repaid to/ (obtained from) related parties		**1,550**	(1,550)	**(600)**	(600)
Entrusted loan obtained from related parties		**–**	–	**679**	–
Long-term loan repaid to/ (obtain from) related parties		**141**	(271)	**–**	–
Net deposits (received from)/ placed with a related party		**(1,036)**	1,022	**(1,023)**	1,311
Acquisition of subsidiaries	5(b)	**–**	–	**3,587**	1,162

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

56 Related party relationships and transactions (continued)

(d) Except for the transactions with key management personnel, the transaction amounts and the balances with other related parties are set out below: (continued)

(ii) The Group and the Company had the following transactions with Shenhua Group and other related parties that were carried out in the normal course of business: (continued)

(1) Interest income represents interest earned from deposits placed with a related party and entrusted loans to related parties. The applicable interest rate is determined in accordance with the prevailing savings deposit rate and the prevailing savings lending rate respectively.

The Group's interest income earned from the related parties accounted for 6.13% (2006: 7.87% as restated) of similar deals for the year ended 31 December 2007. The Company's interest income earned from the related parties accounted for 25.71% (2006: 28.95%) of similar deals for the year ended 31 December 2007.

(2) Purchases of ancillary materials and spare parts represent purchase of materials and utility supplies related to the Group's and the Company's operations from the related parties.

The Group's purchases of ancillary materials and spare parts from the related parties accounted for 4.68% (2006: 7.47% as restated) of similar deals for the year ended 31 December 2007. The Company's purchases of ancillary materials and spare parts from the related parties accounted for 3.31% (2006: 5.33%) of similar deals for the year ended 31 December 2007.

(3) Ancillary and social services represent expenditures for social welfare and support services such as property management, water and electricity supply, and canteen expense paid to the related parties.

(4) Transportation services income represents income earned from the related parties in respect of coal transportation services.

The Group's income of transportation services from the related parties accounted for 3.64% (2006: 5.91% as restated) of similar deals for the year ended 31 December 2007. The Company's income of transportation services from the related parties accounted for 64.90% (2006: 34.85%) of similar deals for the year ended 31 December 2007.

(5) Interest expense represents interest incurred in respect of borrowings from the related parties. The applicable interest rate is determined in accordance with the prevailing borrowing rate.

(6) Purchase of coal represents coal purchased from the related parties.

The Group's purchase of coal from the related parties accounted for 20.21% (2006: 35.83% as restated) of similar deals for the year ended 31 December 2007. The Company's purchase of coal from the related parties accounted for 93.68% (2006: 94.36%) of similar deals for the year ended 31 December 2007.

(7) Sale of coal represents income from sale of coal to the related parties.

The Group's sale of coal from the related parties accounted for 4.30% (2006: 5.47% as restated) of similar deals for the year ended 31 December 2007. The Company's sale of coal from the related parties accounted for 15.16% (2006: 14.81%) of similar deals for the year ended 31 December 2007.

(8) Property leasing represents rental charge in respect of properties leased from the related parties.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

56 Related party relationships and transactions (continued)

(d) Except for the transactions with key management personnel, the transaction amounts and the balances with other related parties are set out below: (continued)

(ii) The Group and the Company had the following transactions with Shenhua Group and other related parties that were carried out in the normal course of business: (continued)

(9) Transportation services expense represents expense related to transportation services provided by the related parties.

The Group's transportation services expense paid to the related parties accounted for 5.23% (2006: 4.41% as restated) of similar deals for the year ended 31 December 2007. The Company's transportation services expense paid to the related parties accounted for 65.76% (2006: 59.84%) of similar deals for the year ended 31 December 2007.

(10) Repairs and maintenance services expense represents expense related to machinery repairs and maintenance services provided by the related parties.

(11) Coal export agency expense represents expense related to coal export agency services provided by the related parties.

(12) Income from equipment installation and construction work represents equipment installation and construction service provided to the related parties.

(13) Purchase of equipment and construction work represents expense related to purchase of equipment and construction service provided by the related parties.

The Group's purchase of equipment and construction service provided by the related parties accounted for 3.26% (2006: 1.35% as restated) of similar deals for the year ended 31 December 2007. The Company's purchase of equipment and construction service provided by the related parties accounted for 4.18% (2006: 3.32%) of similar deals for the year ended 31 December 2007.

(14) Sale of long-term assets represent sale of long term assets such as land use rights, mining rights and fixed assets to the related parties.

(15) Other income includes agency income, repairs and maintenance service income, sales of ancillary materials and spare parts, management fee income and sales of water and electricity.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

56 Related party relationships and transactions (continued)

(d) Except for the transactions with key management personnel, the transaction amounts and the balances with other related parties are set out below: (continued)

(iii) Amounts due from/to and loans due to Shenhua Group are set out below:

	The Group		***The Company***	
	2007	*2006* (restated)	***2007***	*2006*
Other receivables	**2**	926	**2**	–
Short-term loans	**–**	(1,550)	**–**	–
Interest payable	**(50)**	–	**(50)**	–
Other payables	**(321)**	(113)	**(321)**	(113)
Long-term loans	**(1,000)**	(1,287)	**(1,000)**	(1,000)

(iv) Amounts due from/to and loans due to other related parties are set out below:

	The Group		***The Company***	
	2007	*2006* (restated)	***2007***	*2006*
Cash at bank and on hand	**500**	1,536	**288**	1,311
Accounts receivable	**80**	124	**243**	324
Prepayments	**153**	55	**141**	57
Net other receivables	**89**	98	**5,583**	6,525
Other current assets	**224**	50	**10,337**	2,000
Other non-current assets	**937**	–	**377**	377
Short-term loans	**–**	–	**(1,500)**	(900)
Accounts payable	**(529)**	(711)	**(1,572)**	(1,326)
Receipts in advance	**(1)**	(11)	**(5)**	(242)
Interest payable	**–**	–	**(4)**	–
Other payables	**(211)**	(597)	**(135)**	(113)
Current portion of long-term loans	**(300)**	–	**–**	–
Current portion of long-term payables	**–**	–	**(679)**	–
Long-term loans	**(1,147)**	(1,301)	**–**	–
Guarantees	**–**	(310)	**(1,576)**	(1,966)

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

56 Related party relationships and transactions (continued)

(e) Related party transaction agreements between the Group and the other related parties and agreements between the Company and the other related parties

(i) The Company has entered into a mutual supply agreement with Shenhua Group for the mutual provision of production supplies and ancillary services. Pursuant to the agreements, Shenhua Group provides the Company with the production supplies and services; ancillary production services including use of the information network system and ancillary administrative services. On the other hand, the Company provides Shenhua Group with water supplies, rolling stock management, railway management, railway transportation, and other related or similar production supplies or services and use of the information network system.

The products and services provided under the agreement, other than the sharing of use of the information network system free of charge, are provided in accordance with the following pricing policy:

- price prescribed by the state (including any price prescribed by any relevant local government), if applicable;
- where there is no state-prescribed price but where there is a state-guidance price, then the state-guidance price;
- where there is neither a state-prescribed price nor a state-guidance price, the market price; or
- where none of the above is applicable or where it is not practical to apply the above pricing policies in reality, the price agreed between the relevant parties shall be the reasonable costs incurred in providing the goods or services plus a profit margin of 5% of such costs.

Each party may terminate the provision of production supplies and ancillary services on six months' prior written notice. However, if the Group cannot conveniently purchase similar production supplies and ancillary services from third parties, Shenhua Group may not terminate the agreement.

(ii) The Company entered into coal mutual supply or supply agreements with Shenhua Group, Dingzhou (which became a subsidiary of the Company since 29 December 2007, see Note 5(a)), Shendong Tianlong Group Corporation and Jiangsu Zhenjiang Power Company Limited. The coal mutually supplied or supplied is charged at the prevailing market price.

(iii) The Company entered into a financial services agreement with Shenhua Finance Company Limited ("Shenhua Finance"). Pursuant to the agreement, Shenhua Finance provides financial services to the Group. The interest rate for the Group's deposit with Shenhua Finance should not be lower than the lowest limit fixed by the PBOC for the same type of deposit. The interest rate for loans made by Shenhua Finance to the Company should not be higher than the highest limit fixed by PBOC for the same type of loan. The fees charged by Shenhua Finance for the provision of other financial services shall be fixed according to the rate of fees chargeable by the PBOC or the China Banking Regulatory Commission.

(iv) The Company entered into a property leasing agreement with Shenhua Group for leasing of certain properties to each other. No rent is payable by the Company before Shenhua Group obtains the relevant certificate of property ownership for that piece of property. The rental charges will be based on comparable market rates. If the lessor negotiates to sell a leased property to a third party, the lessee has a pre-emptive right to purchase such property under terms no less favourable to the lessee.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

56 Related party relationships and transactions (continued)

(e) Related party transaction agreements between the Group and the other related parties and agreements between the Company and the other related parties (continued)

(v) The Company entered into a land leasing agreement with Shenhua Group. The annual rent is determined between the parties based on the relevant laws and regulations then in force and the local market rate. The Group is not allowed to sub-let the leased land.

(vi) The Company entered into an agency agreement with Shenhua Group for the export of coal on the Company's behalf. Pursuant to the agreements, Shenhua Group is entitled to receive an agency fee based on the relevant market rates or lower rates. Currently, the rate is 0.7% of the free on board price of each tonne of coal exported by Shenhua Group on the Company's behalf. Shenhua Group is appointed as a non-exclusive export agent of the Company in priority over other export agencies if the terms of export services offered by it are equal or more favourable than other export agencies.

(vii) The Company and one of its subsidiaries entered into an agency agreement with Shenhua Group for the sale of coal. The Company's subsidiary is appointed as the exclusive sales agent for Shenhua Group for thermal coal and non-exclusive sales agent for coking coal. The unit selling price for sales the Company's subsidiary makes as agent will be determined by the Company's subsidiary according to the spot market price, subject to confirmation by Shenhua Group. Pursuant to the agreements, the Company's subsidiary is entitled to receive an agency fee which is based on its related costs incurred plus a profit margin of 5% for sale of coal outside the Inner Mongolia Autonomous Region. The Company's subsidiary does not charge any fee for sales of coal within the Inner Mongolia Autonomous Region.

(viii) The Company entered into a trademark license agreement with Shenhua Group. Pursuant to the agreement, Shenhua Group has granted the Group a non-exclusive licence to use the registered trademarks in the PRC. Shenhua Group has agreed to maintain at its own cost the registration of such trademarks during the term of the trademarks license agreement. Shenhua Group has also agreed to be responsible for the expenses for enforcement against any infringement of the licensed trademarks by third parties.

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

57 Comparative figure

As disclosed in Note 2, the acquisition of Shendong Coal and Shendong Power have been accounted for as business combination involving entities under common control. Accordingly, Shendong Coal and Shendong Power have been included in the consolidated financial statements with comparative figures restated. Relevant comparative figures have been adjusted.

58 Extraordinary gain and loss

In accordance with "Questions and answers on the Preparation of Information Disclosures of Companies Issuing Public Shares No.1 – Extraordinary Gain and Loss" (2007 revised), the extraordinary gain and loss of the Group is listed as follows:

	The Group	
	2007	*2006* (restated)
Non-operating income		
– Subsidy income	**43**	21
– Others	**158**	214
Investment income		
– Net gain on disposal of investments	**6**	1
– Income from entrusted loans	**30**	4
– Net gain from available-for-sale financial assets	**27**	–
Net profit from beginning of the year to acquisition date of subsidiaries acquired under common control	**123**	223
Non-operating expenses	**(539)**	(382)
Tax effect in respect of the above items	**18**	35
Total	**(134)**	116
Attributable to: Equity shareholders of the Company	**(68)**	199
Minority shareholders	**(66)**	(83)

Notes to the financial statements (continued)

(Expressed in millions of Renminbi Yuan)

59 Earnings per share and return on net assets

(a) The Group's earnings per share

	2007 Basic/diluted	*2006 Basic/diluted* (restated)
Net profit attributable to the Company's ordinary shareholders of the Company inclusive of extraordinary gain and loss	**19,766**	16,620
Net profit attributable to the Company's ordinary shareholders of the Company net of extraordinary gain and loss	**19,834**	16,421
Weighted average number of the Company's ordinary shares in issue during the year (million shares)	**18,540**	18,090
Earnings per share inclusive of extraordinary gain and loss (RMB)	**1.066**	0.919
Earnings per share net of extraordinary gain and loss (RMB)	**1.070**	0.908

	2007	*2006*
Issued ordinary shares at the beginning of the year	**18,090**	18,090
Ordinary shares issued and sold during the year (Note 35)	**1,800**	–
Weighted average number of ordinary shares at the end of the year	**18,540**	18,090

The Group had no dilutive potential ordinary shares outstanding for the years presented.

(b) The Group's return on net assets

In accordance with "Regulation on the Preparation of Information Disclosures of Companies issuing Public Shares No.9 – Calculation and Disclosure of Return on Net Assets and Earnings Per Share" (2007 revised) issued by the CSRC, the Group's return on net assets calculated is as follows:

	2007	*2006* (restated)
Net profit attributable to the Company's shareholders inclusive of extraordinary gain and loss	**19,766**	16,620
Net profit attributable to the Company's shareholders of extraordinary gain and loss	**19,834**	16,421
Year-end equity attributable to the Company's ordinary equity shareholders	**128,250**	68,930
Weighted average of equity attributable to the Company's ordinary equity shareholders	**98,590**	64,571
Return on net assets inclusive of extraordinary gain and loss		
– Fully diluted	**15.41%**	24.11%
– Weighted average	**20.05%**	25.74%
Return on net assets net of extraordinary gain and loss		
– Fully diluted	**15.47%**	23.82%
– Weighted average	**20.12%**	25.43%

Report of the International Auditor

Independent auditor's report to the shareholders of China Shenhua Energy Company Limited

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

We have audited the consolidated financial statements of China Shenhua Energy Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 245 to 314, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

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

15 March 2008

Consolidated income statement

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	5	**2,444**	2,182
Total operating revenues	4	**82,107**	65,186
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	6	**(4,576)**	(3,777)
Total cost of revenues		**(43,773)**	(33,055)
Selling, general and administrative expenses		**(5,144)**	(4,359)
Other operating expense, net		**(693)**	(281)
Total operating expenses	7	**(49,610)**	(37,695)
Profit from operations		**32,497**	27,491
Finance income	8	**1,034**	521
Finance expenses	8	**(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	9	**(6,742)**	(5,394)
Profit for the year		**24,037**	20,523
Attributable to:			
Equity shareholders of the Company		**20,581**	17,644
Minority interests		**3,456**	2,879
Profit for the year		**24,037**	20,523
Dividends to equity shareholders of the Company			
Dividends declared during the year	13	**22,949**	7,404
Dividends resolved and proposed after the balance sheet date	13	**9,325**	6,150
Earnings per share (RMB)	14		
– Basic		**1.110**	0.975
– Diluted		**1.110**	0.975

The notes on pages 253 to 314 form part of these financial statements.

Consolidated balance sheet

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	15	**131,059**	113,371
Construction in progress	16	**22,358**	15,185
Intangible assets	17	**1,162**	1,172
Interest in associates	19	**2,754**	2,808
Other investments	20	**1,031**	1,066
Other non-current financial assets	21	**937**	–
Lease prepayments		**5,931**	5,051
Deferred tax assets	27(b)	**1,679**	1,569
Total non-current assets		**166,911**	140,222
Current assets			
Inventories	22	**6,337**	4,880
Available-for-sale investments	23	**–**	2,000
Accounts and bills receivable, net	24	**6,642**	5,277
Prepaid expenses and other current assets	25	**5,712**	4,215
Time deposits with original maturity over three months	26	**32**	8
Cash and cash equivalents	26	**53,404**	15,758
Total current assets		**72,127**	32,138
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	28	**10,196**	16,392
Short-term bonds	29	**1,453**	–
Current portion of long-term payables	32	**873**	88
Accounts and bills payable	30	**9,074**	9,498
Income tax payable	27(a)	**2,198**	2,196
Accrued expenses and other payables	31	**9,577**	7,950
Total current liabilities		**33,371**	36,124
Net current assets/(liabilities)		**38,756**	(3,986)
Total assets less current liabilities		**205,667**	136,236
Non-current liabilities			
Long-term borrowings, less current portion	28	**49,718**	42,427
Long-term payables, less current portion	32	**3,962**	2,630
Accrued reclamation obligations	33	**1,018**	942
Deferred tax liabilities	27(b)	**1,165**	1,006
Total non-current liabilities		**55,863**	47,005
Net assets		**149,804**	89,231
Equity			
Share capital	34	**19,890**	18,090
Reserves		**109,898**	51,694
Equity attributable to equity shareholders of the Company		**129,788**	69,784
Minority interests		**20,016**	19,447
Total equity		**149,804**	89,231

Approved and authorised for issue by the board of directors on 15 March 2008.

Chen Biting
Chairman

Ling Wen
Director and President

The notes on pages 253 to 314 form part of these financial statements.

Balance sheet

at 31 December 2007
(Expressed in Renminbi)

	Note	***2007 RMB million***	*2006 RMB million*
Non-current assets			
Property, plant and equipment, net	15	**38,247**	30,899
Construction in progress	16	**9,134**	3,664
Intangible assets	17	**322**	324
Investments in subsidiaries	18	**24,747**	19,687
Investments in associates	19	**1,373**	1,480
Other investments	20	**1,001**	1,002
Other non-current financial assets	21	**377**	377
Lease prepayments		**1,135**	566
Deferred tax assets	27(b)	**920**	886
Total non-current assets		**77,256**	58,885
Current assets			
Inventories	22	**4,453**	2,670
Available-for-sale investments	23	**–**	2,000
Accounts and bills receivable, net	24	**2,569**	1,457
Prepaid expenses and other current assets	25	**22,076**	11,218
Time deposits with original maturity over three months	26	**10**	–
Cash and cash equivalents	26	**51,904**	13,937
Total current assets		**81,012**	31,282
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	28	**3,322**	5,101
Current portion of long-term payables	32	**873**	88
Accounts and bills payable	30	**5,085**	3,512
Income tax payable	27(a)	**1,030**	1,227
Accrued expenses and other payables	31	**5,846**	4,474
Total current liabilities		**16,156**	14,402
Net current assets		**64,856**	16,880
Total assets less current liabilities		**142,112**	75,765
Non-current liabilities			
Long-term borrowings, less current portion	28	**12,897**	11,544
Long-term payables, less current portion	32	**3,732**	2,426
Accrued reclamation obligations	33	**624**	568
Deferred tax liabilities	27(b)	**722**	491
Total non-current liabilities		**17,975**	15,029
Net assets		**124,137**	60,736
Equity			
Share capital	34	**19,890**	18,090
Reserves		**104,247**	42,646
Total equity		**124,137**	60,736

Approved and authorised for issue by the board of directors on 15 March 2008.

Chen Biting
Chairman

Ling Wen
Director and President

The notes on pages 253 to 314 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2007
(Expressed in Renminbi)

	Equity attributable to equity shareholders of the Company										
	Share capital RMB million (Note 34)	*Share premium* RMB million (Note i)	*Capital reserve* RMB million (Note ii)	*Revaluation reserve* RMB million (Note iii)	*Future development fund* RMB million (Note iv)	*Statutory reserves* RMB million (Note v)	*Other reserves* RMB million (Note vi)	*Retained earnings* RMB million (Note v)	*Total* RMB million	*Minority interests* RMB million	*Total equity* 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 13)	–	–	–	–	–	–	–	(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
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 (Note 1)	**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 (Note 27)	**–**	**–**	**–**	**–**	**–**	**–**	**(120)**	**9**	**(111)**	**(67)**	**(178)**
Dividend declared (Note 13)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(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 (Note 18)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**808**	**808**
At 31 December 2007	**19,890**	**85,001**	**(6,591)**	**7,180**	**–**	**6,263**	**(230)**	**18,275**	**129,788**	**20,016**	**149,804**

The notes on pages 253 to 314 form part of these financial statements.

Consolidated statement of changes in equity (continued)

for the year ended 31 December 2007
(Expressed in Renminbi)

Notes:

(i) The share premium represents the difference between the total amount of the par value of shares issued and the amount of the net proceeds received upon the global initial public offering in 2005 and the issue of A shares in 2007.

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

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

(iv) Pursuant to the relevant PRC regulations, the Group was required to make a transfer to future development fund based on RMB7.00 to RMB8.00 per tonne of raw coal mined (net of usage) before 1 January 2007. The fund can only be used for the future development of the coal mining business and is not available for distribution to shareholders. Due to the change in the relevant PRC regulations effective from 1 January 2007, the Group is not required to maintain the future development fund and an adjustment was made to transfer the future development fund as at 1 January 2007 of RMB1,578 million to retained earnings pursuant to the PRC Accounting Rules and Regulations.

(v) Statutory reserves

Statutory surplus reserve

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

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

For the year ended 31 December 2007, the Company transferred RMB2,019 million (2006: RMB1,614 million), being 10% of the current year's net profit as determined in accordance with the PRC Accounting Rules and Regulations, to this reserve.

The Group adopted the Accounting Standards for Business Enterprise (2006) ("new PRC Accounting Standards") and other regulations promulgated by the Ministry of Finance on 15 February 2006 with effect from 1 January 2007. Appropriations to statutory surplus reserves for prior years were restated due to the change in net profit arising from the prior year adjustments made under the new PRC Accounting Standards.

The notes on pages 253 to 314 form part of these financial statements.

Consolidated statement of changes in equity (continued)

for the year ended 31 December 2007
(Expressed in Renminbi)

Notes:

(v) Statutory reserves (continued)

Statutory public welfare fund

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

Discretionary surplus reserve

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

The directors have not proposed any appropriation to the discretionary surplus reserve in 2007 and 2006.

(vi) In connection with the Restructuring (as defined in Note 1), the land use rights of the Group were revalued as required by the relevant PRC rules and regulations as at 31 December 2003. The revalued amount will serve as the tax base for future years. The land use rights were not revalued for financial reporting purpose and accordingly, a deferred tax asset was created with an increase in equity attributable to equity shareholders of the Company.

Other reserves also include the difference between the consideration paid over the amount of the underlying net assets of the interests acquired in Shenhua Shenfu Dongsheng Coal Company Limited, Shenhua Shendong Power Company Limited, Shaanxi Guohua Jinjie Energy Corporation (Note 1) and minority interest in a subsidiary.

The notes on pages 253 to 314 form part of these financial statements.

Consolidated cash flow statement

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)	**25,626**	22,069
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		**517**	58
Net cash used in investing activities		**(29,933)**	(27,558)
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		**41,953**	312
Net increase/(decrease) in cash and cash equivalents		**37,646**	(5,177)
Cash and cash equivalents, at the beginning of the year		**15,758**	20,935
Cash and cash equivalents, at the end of the year		**53,404**	15,758

The notes on pages 253 to 314 form part of these financial statements.

Consolidated cash flow statement (continued)

for the year ended 31 December 2007
(Expressed in Renminbi)

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

	2007 ***RMB million***	*2006* *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)
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)
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	**25,626**	22,069

The notes on pages 253 to 314 form part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2007
(Expressed in Renminbi)

1 Principal activities and organisation

Principal activities

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

Organisation

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

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

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

In June 2005, the Company issued 2,785,000,000 H shares with a par value of RMB1.00 each, at a price of 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 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.

1 Principal activities and organisation (continued)

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.

Reconciliation of the results of operations for the year ended 31 December 2006, the financial conditions as at 31 December 2006 and the equity attributable to equity shareholders of the Company as at 31 December 2006 and 1 January 2006 previously reported by the Group and the restated amounts presented in the consolidated financial statements are set out below:

	The Group (as previously reported) *RMB million*	***Shendong Coal*** *RMB million*	***Shendong Power*** *RMB million*	***The Group (as restated)*** *RMB million*
Results of operations for the year ended 31 December 2006:				
Revenues	64,240	453	493	65,186
Profit from operations	27,296	51	144	27,491
Profit for the year	20,285	117	121	20,523
Basic earnings per share (RMB)	0.965	0.006	0.004	0.975
Financial conditions as at 31 December 2006:				
Current assets	30,189	614	1,335	32,138
Total assets	163,148	2,896	6,316	172,360
Current liabilities	33,233	1,531	1,360	36,124
Total liabilities	78,447	1,883	2,799	83,129
Equity attributable to equity shareholders of the Company	66,771	993	2,020	69,784
Minority interests	17,930	20	1,497	19,447
Equity attributable to equity shareholders of the Company as at 1 January 2006	57,877	873	1,292	60,042

2 Significant accounting policies

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries and the Group's interest in associates.

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

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

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are disclosed in Note 41.

2 Significant accounting policies (continued)

(c) Subsidiaries and minority interests

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

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

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

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

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

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

2 Significant accounting policies (continued)

(d) Associates

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

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

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

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

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

(e) Goodwill

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

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

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

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

2 Significant accounting policies (continued)

(f) Other investments in debt and equity securities

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

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

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in Notes 2(s)(iv) and 2(s)(v).

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

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

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

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

(g) Derivative financial instruments

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

2 Significant accounting policies (continued)

(h) Cash and cash equivalents

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

(i) Property, plant and equipment

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

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

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

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

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

2 Significant accounting policies (continued)

(i) Property, plant and equipment (continued)

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from revaluation reserve to retained earnings.

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

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

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

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

(j) Lease prepayments

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

(k) Construction in progress

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

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

(l) Intangible assets (other than goodwill)

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

2 Significant accounting policies (continued)

(m) Impairment losses

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

Investments in debt and equity securities (other than investments in subsidiaries and associates: see Note 2(m)(ii)) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

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

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

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

2 Significant accounting policies (continued)

(m) Impairment losses (continued)

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

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

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable, whose recovery is considered doubtful but not remote. In this case, the allowance for doubtful debts is recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

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

— property, plant and equipment;

— construction in progress;

— intangible assets;

— investments in subsidiaries and associates;

— other investments; and

— lease prepayments.

2 Significant accounting policies (continued)

(m) Impairment losses (continued)

(ii) Impairment of other assets (continued)

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

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

— Reversals of impairment losses

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

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

2 Significant accounting policies (continued)

(m) Impairment losses (continued)

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 2(m)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sales equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(n) Inventories

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

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

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

(o) Interest-bearing borrowings

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

2 Significant accounting policies (continued)

(p) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with Note 2(r)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Trade and other receivables

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

(r) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

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

(ii) Provisions and contingent liabilities

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

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

2 Significant accounting policies (continued)

(s) Revenue recognition

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

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

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

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

(iv) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(v) Interest income is recognised as it accrues using the effective interest method.

(t) Borrowing costs

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

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

(u) Translation of foreign currencies

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

2 Significant accounting policies (continued)

(v) Obligations for land reclamation

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

(w) Operating leases

Operating lease payments are charged to the income statement on a straight-line basis over the period of the respective leases, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

(x) Employee benefits

(i) Short-term employee benefits

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

(ii) Defined contribution retirement plans

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

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

(iii) Share appreciation rights

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

2 Significant accounting policies (continued)

(x) Employee benefits (continued)

(iv) Termination benefits

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

(y) Income tax

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

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

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

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

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

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

2 Significant accounting policies (continued)

(y) Income tax (continued)

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

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

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

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(z) Research and development costs

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

2 Significant accounting policies (continued)

(aa) Related parties

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

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

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

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

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

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

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

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

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

(ab) Segment reporting

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

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

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

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

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

3 Adoption of new and revised IFRSs

The 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 these 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*. These disclosures are provided throughout these financial statements, in particular in Note 40.

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. These new disclosures are set out in Note 39.

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 (see Note 44).

4 Revenues

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

5 Other revenues

	2007 ***RMB million***	*2006* *RMB million* (restated – Note 1)
Rendering of transportation and other services	**1,833**	1,819
Sale of ancillary materials and other goods	**485**	279
Others	**126**	84
	2,444	2,182

6 Cost of revenues – others

	2007	*2006*
	RMB million	*RMB million*
		(restated – Note 1)
Coal selection and minery fees	**1,051**	830
Coal extraction service costs	**242**	573
Sales taxes and surcharges	**544**	456
Dredging expenses	**301**	379
Relocation compensation expenses	**415**	192
Operating lease charges	**144**	171
Resources compensation fees	**160**	147
Environmental protection costs	**219**	158
Cost of sale of ancillary materials and other goods	**347**	181
Public utilities expenses	**277**	139
Others	**876**	551
	4,576	3,777

7 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 (Note)	**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

Note:

Cost of inventories includes RMB7,982 million (2006: RMB5,707 million as restated) for the year ended 31 December 2007, relating to personnel expenses, depreciation and amortisation, operating lease charges and write down of inventories which amounts are also included in the respective amounts disclosed separately above for each of these types of expenses.

8 Finance income/(expenses)

	2007 *RMB million*	2006 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**	–
Finance income	**1,034**	521
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
Net interest expense	**(3,417)**	(2,635)
Loss on remeasurement of derivative financial instruments to fair value	**–**	(23)
Finance expenses	**(3,417)**	(2,658)
Net finance costs	**(2,383)**	(2,137)
* Interest expense was capitalised in construction in progress at the following rates per annum	**1.80%-7.29%**	1.80%-6.16%

9 Income tax

Income tax in the consolidated income statement represents:

	2007 *RMB million*	2006 RMB million (restated – Note 1)
Provision for PRC income tax (Note 27(a))	**6,737**	5,266
Deferred taxation (Note 27(b))	**5**	128
	6,742	5,394

9 Income tax (continued)

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

	2007 ***RMB million***	*2006* *RMB million* (restated – Note 1)
Profit before income tax	**30,779**	25,917
Expected PRC income tax expense at a statutory tax rate of 33% (Note i)	**10,157**	8,553
Effect of change in tax rate (Note ii)	**(140)**	–
Tax effect of differential tax rate on branches and subsidiaries' income (Note i)	**(3,467)**	(2,964)
Tax effect of non-deductible expenses (Note iii)	**232**	136
Tax effect of non-taxable income	**(2)**	–
Tax effect in respect of share of profits less losses of associates	**(207)**	(186)
Tax effect of tax losses not recognised	**162**	140
Tax credit of domestic equipment purchases	**–**	(169)
Others	**7**	(116)
Actual tax expense	**6,742**	5,394

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.

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

10 Directors' and supervisors' emoluments

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

	2007					
	Fees RMB million	Basic salaries, housing and other allowances and benefits in kind RMB million	Discretionary bonuses RMB million	Share appreciation rights RMB million (Note)	Retirement scheme contributions RMB million	Total RMB million
Executive directors						
Chen Biting	–	–	–	7.77	–	7.77
Ling Wen	–	0.29	0.52	6.10	0.19	7.10
Non-executive directors						
Zhang Xiwu	–	–	–	7.00	–	7.00
Zhang Yuzhuo	–	–	–	6.49	–	6.49
Han Jianguo	–	–	–	5.48	–	5.48
Yun Gongmin (appointed on 15 May 2007)	–	–	–	0.17	–	0.17
Independent non-executive directors						
Huang Yicheng	0.45	–	–	–	–	0.45
Anthony Francis Neoh	0.45	–	–	–	–	0.45
Chen Xiaoyue	0.45	–	–	–	–	0.45
Supervisors						
Xu Zufa	–	–	–	4.71	–	4.71
Wu Gaoqian	–	0.24	0.22	0.06	0.11	0.63
Li Jianshe	–	0.20	0.21	–	0.05	0.46
	1.35	0.73	0.95	37.78	0.35	41.16

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

Note: Please refer to Note 37 for details of the share appreciation rights.

11 Individuals with highest emoluments

Of the five highest paid individuals of the Group, four (2006: four) are directors of the Company for the year ended 31 December 2007 whose emoluments are included in Note 10 above.

The following table sets out the emoluments of the Group's remaining one (2006: one) highest paid individual for the year ended 31 December 2007 who is not a director nor a supervisor of the Company:

	2007 RMB million	*2006 RMB million*
Basic salaries, housing and other allowances and benefits in kind	**0.27**	0.25
Discretionary bonuses	**0.42**	0.29
Share appreciation rights	**5.33**	1.16
Retirement scheme contributions	**0.14**	0.12
	6.16	1.82

The emoluments of this individual is within the following band:

	Number of individual	
	2007	*2006*
RMB1,404,600 – RMB1,872,800 (equivalent to HKD1,500,001 to HKD2,000,000)	**–**	1
RMB6,086,600 – RMB6,554,800 (equivalent to HKD6,500,001 to HKD7,000,000)	**1**	–
	1	1

12 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB14,075 million (2006: RMB12,519 million) which has been dealt with in the financial statements of the Company.

13 Dividends

(a) Dividends proposed after the balance sheet date

	2007 ***RMB million***	*2006* *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
	9,325	6,150

(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 (Note 13(b)) 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.

13 Dividends (continued)

(b) Dividends approved and paid during the year

	2007 ***RMB million***	*2006* *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 13(a)(i))	**16,799**	–
Final dividend in respect of the previous financial year, approved and paid during the year	**6,150**	2,261
	22,949	7,404

(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.

14 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.

15 Property, plant and equipment, net

The Group

	Buildings RMB million	Mining structures and mining rights RMB million	Mining related machinery and equipment RMB million	Generators and related machinery and equipment RMB million	Railway and port transportation structures RMB million	Furniture, fixtures, motor vehicles and other equipment RMB million	Total RMB million
Cost/valuation:							
At 1 January 2006 (restated-Note 1)	11,451	12,772	14,663	27,534	39,461	3,214	109,095
Additions	58	93	556	91	1,173	301	2,272
Transferred from construction in progress	4,237	762	4,702	16,763	5,319	648	32,431
Disposals	(175)	(220)	(573)	(76)	(119)	(153)	(1,316)
At 31 December 2006 (restated-Note 1)	15,571	13,407	19,348	44,312	45,834	4,010	142,482
Representing:							
Cost (restated-Note 1)	7,555	6,674	11,137	22,179	15,197	1,889	64,631
Valuation – 2003 (Note (b)) (restated-Note 1)	8,016	6,733	8,211	22,133	30,637	2,121	77,851
	15,571	13,407	19,348	44,312	45,834	4,010	142,482
Accumulated depreciation and impairment losses:							
At 1 January 2006 (restated-Note 1)	2,577	889	4,752	6,583	6,899	1,593	23,293
Charge for the year	705	389	1,438	1,831	1,700	381	6,444
Impairment losses (Note (f))	–	–	147	–	–	–	147
Written back on disposals	(79)	(28)	(467)	(48)	(37)	(114)	(773)
At 31 December 2006 (restated-Note 1)	3,203	1,250	5,870	8,366	8,562	1,860	29,111
Net book value:							
At 31 December 2006 (restated-Note 1)	12,368	12,157	13,478	35,946	37,272	2,150	113,371
Cost/valuation:							
At 1 January 2007	**15,571**	**13,407**	**19,348**	**44,312**	**45,834**	**4,010**	**142,482**
Additions	**136**	**3,708**	**151**	**50**	**1,326**	**557**	**5,928**
Through addition of a subsidiary	**516**	**–**	**–**	**3,138**	**–**	**79**	**3,733**
Transferred from construction in progress	**621**	**687**	**5,161**	**9,186**	**1,617**	**224**	**17,496**
Disposals	**(107)**	**(118)**	**(735)**	**(85)**	**(140)**	**(170)**	**(1,355)**
At 31 December 2007	**16,737**	**17,684**	**23,925**	**56,601**	**48,637**	**4,700**	**168,284**
Representing:							
Cost	**8,828**	**11,069**	**16,449**	**34,553**	**18,140**	**2,749**	**91,788**
Valuation – 2003 (Note (b))	**7,909**	**6,615**	**7,476**	**22,048**	**30,497**	**1,951**	**76,496**
	16,737	**17,684**	**23,925**	**56,601**	**48,637**	**4,700**	**168,284**
Accumulated depreciation and impairment losses:							
At 1 January 2007	**3,203**	**1,250**	**5,870**	**8,366**	**8,562**	**1,860**	**29,111**
Charge for the year	**696**	**591**	**1,637**	**2,412**	**2,105**	**523**	**7,964**
Through addition of a subsidiary	**82**	**–**	**–**	**549**	**–**	**43**	**674**
Impairment losses (Note (f))	**26**	**–**	**–**	**340**	**13**	**1**	**380**
Written back on disposals	**(41)**	**(62)**	**(554)**	**(39)**	**(75)**	**(133)**	**(904)**
At 31 December 2007	**3,966**	**1,779**	**6,953**	**11,628**	**10,605**	**2,294**	**37,225**
Net book value:							
At 31 December 2007	**12,771**	**15,905**	**16,972**	**44,973**	**38,032**	**2,406**	**131,059**

15 Property, plant and equipment, net (continued)

The Company

	Buildings RMB million	Mining structures and mining rights RMB million	Mining related machinery and equipment RMB million	Generators and related machinery and equipment RMB million	Railway and port transportation structures RMB million	Furniture, fixtures, motor vehicles and other equipment RMB million	Total RMB million
Cost/valuation:							
At 1 January 2006	2,060	9,152	10,988	5	11,075	825	34,105
Additions	16	93	421	–	836	169	1,535
Transferred from construction in progress	414	701	3,856	–	15	113	5,099
Disposals	(24)	(220)	(553)	–	(38)	(86)	(921)
At 31 December 2006	2,466	9,726	14,712	5	11,888	1,021	39,818
Representing:							
Cost	747	4,069	9,809	1	2,943	598	18,167
Valuation – 2003 (Note (b))	1,719	5,657	4,903	4	8,945	423	21,651
	2,466	9,726	14,712	5	11,888	1,021	39,818
Accumulated depreciation and impairment losses:							
At 1 January 2006	444	796	2,648	5	2,655	387	6,935
Charge for the year	73	358	1,295	–	547	120	2,393
Impairment losses (Note (f))	–	–	147	–	–	–	147
Written back on disposals	(6)	(28)	(452)	–	(7)	(63)	(556)
At 31 December 2006	511	1,126	3,638	5	3,195	444	8,919
Net book value:							
At 31 December 2006	1,955	8,600	11,074	–	8,693	577	30,899
Cost/valuation:							
At 1 January 2007	**2,466**	**9,726**	**14,712**	**5**	**11,888**	**1,021**	**39,818**
Additions	**120**	**3,694**	**138**	**–**	**950**	**205**	**5,107**
Transferred from construction in progress	**411**	**485**	**4,112**	**–**	**267**	**68**	**5,343**
Disposals	**(33)**	**(118)**	**(657)**	**–**	**(8)**	**(62)**	**(878)**
At 31 December 2007	**2,964**	**13,787**	**18,305**	**5**	**13,097**	**1,232**	**49,390**
Representing:							
Cost	**1,278**	**8,248**	**14,059**	**1**	**4,160**	**871**	**28,617**
Valuation – 2003 (Note (b))	**1,686**	**5,539**	**4,246**	**4**	**8,937**	**361**	**20,773**
	2,964	**13,787**	**18,305**	**5**	**13,097**	**1,232**	**49,390**
Accumulated depreciation and impairment losses:							
At 1 January 2007	**511**	**1,126**	**3,638**	**5**	**3,195**	**444**	**8,919**
Charge for the year	**82**	**548**	**1,403**	**–**	**694**	**153**	**2,880**
Written back on disposals	**(14)**	**(62)**	**(527)**	**–**	**(2)**	**(51)**	**(656)**
At 31 December 2007	**579**	**1,612**	**4,514**	**5**	**3,887**	**546**	**11,143**
Net book value:							
At 31 December 2007	**2,385**	**12,175**	**13,791**	**–**	**9,210**	**686**	**38,247**

15 Property, plant and equipment, net (continued)

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

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

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

(c) Had all the property, plant and equipment been carried at cost less accumulated depreciation under the cost model, the carrying amounts of each class of total property, plant and equipment as at 31 December 2007 would have been as follows:

	2007	*2006*
	RMB million	*RMB million*
		(restated – Note 1)
Buildings	**12,470**	12,048
Mining structures and mining rights	**11,524**	7,639
Mining related machinery and equipment	**16,566**	13,038
Generators and related machinery and equipment	**44,920**	35,885
Railway and port transportation structures	**36,157**	35,321
Furniture, fixtures, motor vehicles and other equipment	**2,541**	2,301
	124,178	106,232

(d) Up to the date of this report, the Group was in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB3,368 million as at 31 December 2007 (2006: RMB2,977 million as restated), of which RMB757 million related to newly acquired properties in 2007. The directors are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

(e) Certain new power plants of the Group are in the process of obtaining requisite permits from the relevant government authorities at 31 December 2007. The directors of the Company are of the opinion that the Group will be able to obtain the requisite permits in due course.

(f) Certain property, plant and equipment which were obsolete, damaged or that could not generate future economic benefits were provided against for impairment for the years ended 31 December 2007 and 31 December 2006 respectively.

16 Construction in progress

	The Group		The Company	
	2007	*2006*	**2007**	*2006*
	RMB million	*RMB million* (restated – Note 1)	**RMB million**	*RMB million*
At the beginning of the year	**15,185**	23,750	**3,664**	1,680
Additions	**23,933**	23,866	**10,813**	7,083
Through addition of a subsidiary	**736**	–	**–**	–
Transferred to property, plant and equipment	**(17,496)**	(32,431)	**(5,343)**	(5,099)
At the end of the year	**22,358**	15,185	**9,134**	3,664

The construction in progress as at 31 December 2007 are mainly related to mining, generators and related machinery and equipment.

17 Intangible assets

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

	The Group		The Company	
	2007	*2006*	**2007**	*2006*
	RMB million	*RMB million* (restated – Note 1)	**RMB million**	*RMB million*
At the beginning of the year	**1,172**	1,293	**324**	344
Additions	**190**	179	**36**	4
Through addition of a subsidiary	**27**	–	**–**	–
Amortisation	**(176)**	(300)	**(22)**	(24)
Disposal	**(51)**	–	**(16)**	–
At the end of the year	**1,162**	1,172	**322**	324

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

18 Investments in subsidiaries

	The Company 2007 RMB million	2006 RMB million
Unlisted shares, at cost	**24,747**	19,687

The Company's subsidiaries are unlisted and established in the PRC. Details of the Company's principal subsidiaries as at 31 December 2007 are as follows:

Name of the Company	*Type of legal entity*	*Particulars of registered capital*	*% held by the Company*	*Principal activities*
Shenhua Zhunge'er Energy Co., Ltd.	Limited company	RMB7,102 million	58%	Coal mining and development
Shuohuang Railway Development Co., Ltd.	Limited company	RMB5,880 million	53%	Provision of transportation services
Shenhua Huanghua Harbor Administration Co., Ltd.	Limited company	RMB1,820 million	70%	Provision of harbour and port services
Shenhua Baoshen Railway Co., Ltd.	Limited company	RMB1,004 million	88%	Provision of transportation services
Guangdong Guohua Yuedian Taishan Power Co., Ltd.	Limited company	RMB2,700 million	80%	Generation and sale of electricity
CLP Guohua Power Co., Ltd.	Limited company	RMB1,637 million	51%	Generation and sale of electricity
Hebei Guohua Dingzhou Power Co., Ltd. (Note)	Limited company	RMB931 million	41%	Generation and sale of electricity

Note: Pursuant to a resolution passed in the shareholders' meeting of Heibei Guohua Dingzhou Power Generation Co., Ltd. ("Dingzhou") on 15 November 2007, the articles of association of Dingzhou have been amended on 29 December 2007 such that the Company has obtained control over the majority of the board of directors of Dingzhou.

As a result, Dingzhou has been accounted for as a subsidiary and consolidated in the Group's consolidated financial statements with effect from 29 December 2007. The financial position of Dingzhou as at 29 December 2007 is set out as follows:

	RMB million
Current assets	374
Total assets	4,393
Current liabilities	1,507
Total liabilities	3,036
Total equity	1,357

19 Interest in associates

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB million	RMB million (restated – Note 1)	**RMB million**	RMB million
Unlisted shares, at cost	**–**	–	**1,373**	1,480
Share of net assets	**2,754**	2,808	**–**	–
	2,754	2,808	**1,373**	1,480

The Group's interests in associates are individually and in aggregate not material to the Group's financial condition or results of operations for the year. The Group's associates are unlisted and established in the PRC. Details of the Group's principal associates as at 31 December 2007 are as follows:

			Proportion of ownership interest			
Name of the Company	*Type of legal entity*	*Particulars of registered capital*	*Group's effective interest*	*% held by the Company*	*% held by the Company's subsidiaries*	*Principal activities*
Zhejiang Jiahua Power Co., Ltd.	Limited company	RMB2,055 million	20%	20%	–	Power generation
Inner-Mongolia Menghua Haibowan Power Co., Ltd.	Limited company	RMB280 million	40%	40%	–	Power generation
Inner-Mongolia Jingda Power Co., Ltd.	Limited company	RMB455 million	30%	30%	–	Power generation
Shenhua Finance Co., Ltd. ("Shenhua Finance")	Limited company	RMB700 million	33%	21%	19%	Provision of financial services
Zhuhai Tianjin Yuanhua Shipping Co., Ltd.	Limited company	RMB360 million	44%	44%	–	Provision of transportation services
New Century Shipping Ltd.	Limited company	RMB514 million	50%	50%	–	Provision of transportation services

20 Other investments

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

21 Other non-current financial assets

Other non-current financial assets of the Group represented entrusted loans to associates (2006: Nil) through PRC state-owned banks. The loans bear interest at rates ranging from 5.30% to 7.74% per annum and are receivable over periods ranging from two to five years.

Other non-current financial assets of the Company represented entrusted loans to a subsidiary (2006: RMB377 million) through a PRC state-owned bank. The loans bear interest at rates ranging from 5.20% to 5.43% per annum and are receivable within seven years.

22 Inventories

	The Group		***The Company***	
	2007	*2006*	***2007***	*2006*
	RMB million	*RMB million*	***RMB million***	*RMB million*
		(restated – Note 1)		
Coal	**1,416**	1,497	**1,677**	934
Materials and supplies	**4,921**	3,383	**2,776**	1,736
	6,337	4,880	**4,453**	2,670

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

	The Group	
	2007	*2006*
	RMB million	*RMB million*
		(restated – Note 1)
Carrying amount of inventories sold	**36,218**	27,150
Write down of inventories	**257**	36
Reversal of write down of inventories	**–**	(14)
	36,475	27,172

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

23 Available-for-sale investments

On 29 December 2006, the Group entered into two fund management contracts with Industrial and Commercial Bank of China Limited ("ICBC") with a total principal of RMB2,000 million. The return from the investments was expected to be in the range of 2.4% to 2.8% per annum. The securities that ICBC could invest in include trust funds, government bonds, financial bonds, bills, enterprise bonds, short-term financial coupons and other bonds. Both the contracts matured on 28 June 2007 and a total return of RMB27 million was received.

24 Accounts and bills receivable, net

	The Group		*The Company*	
	2007	*2006*	***2007***	*2006*
	RMB million	*RMB million* (restated – Note 1)	***RMB million***	*RMB million*
Accounts receivable				
Shenhua	**35**	113	**19**	111
Subsidiaries	**–**	–	**224**	209
Associates	**45**	11	**–**	4
Third parties	**5,910**	4,597	**1,786**	1,088
	5,990	4,721	**2,029**	1,412
Allowance for doubtful debts	**(104)**	(44)	**(3)**	(11)
	5,886	4,677	**2,026**	1,401
Bills receivable	**756**	600	**543**	56
	6,642	5,277	**2,569**	1,457

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:

	The Group		*The Company*	
	2007	*2006*	***2007***	*2006*
	RMB million	*RMB million* (restated – Note 1)	***RMB million***	*RMB million*
Current	**6,516**	5,147	**2,568**	1,448
Within one year	**125**	126	**1**	7
Between one and two years	**1**	4	**–**	2
	6,642	5,277	**2,569**	1,457

The movement of allowance for doubtful debts was as follows:

	The Group		*The Company*	
	2007	*2006*	***2007***	*2006*
	RMB million	*RMB million* (restated – Note 1)	***RMB million***	*RMB million*
At the beginning of the year	**44**	37	**11**	13
Impairment loss recognised	**75**	14	**4**	3
Impairment loss written back	**(6)**	(6)	**(4)**	(5)
Impairment loss written off	**(9)**	(1)	**(8)**	–
At the end of the year	**104**	44	**3**	11

24 Accounts and bills receivable, net (continued)

The ageing analysis of accounts and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	The Group		***The Company***	
	2007	*2006*	***2007***	*2006*
	RMB million	*RMB million* (restated – Note 1)	***RMB million***	*RMB million*
Neither past due nor impaired	**6,516**	5,147	**2,568**	1,448
Within one year	**124**	125	**1**	4
	6,640	5,272	**2,569**	1,452

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

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

	The Group		***The Company***	
	2007	*2006*	***2007***	*2006*
	RMB million	*RMB million* (restated – Note 1)	***RMB million***	*RMB million*
United States Dollars	**USD179**	USD89	**USD179**	USD89

25 Prepaid expenses and other current assets

	The Group		***The Company***	
	2007	*2006*	***2007***	*2006*
	RMB million	*RMB million* (restated – Note 1)	***RMB million***	*RMB million*
Fair value of derivative financial instruments	**37**	–	**37**	–
Prepayments in connection with construction work and equipment purchases	**1,941**	2,144	**1,260**	2,015
Prepaid expenses and deposits	**2,002**	690	**1,130**	494
Amounts due from Shenhua and its affiliates (Note 36(a))	**153**	972	**140**	52
Amounts due from subsidiaries	**–**	–	**18,380**	8,558
Amounts due from associates (Note 36(a))	**228**	64	**4**	50
Other receivables	**1,091**	303	**898**	25
Entrusted loan to a third party	**200**	–	**200**	–
Advances to staff	**60**	42	**27**	24
	5,712	4,215	**22,076**	11,218

In the Company's balance sheet, the balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment. As for the entrusted loan to a third party, it is bearing interest at 6.57% per annum and is repayable on 28 June 2008.

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

At 31 December 2007, the Group and the Company had placed time deposits with an associate amounting to RMB500 million and RMB288 million respectively (2006: RMB1,536 million (as restated) and RMB1,311 million respectively).

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

	The Group		***The Company***	
	2007	*2006*	***2007***	*2006*
	RMB million	*RMB million* (restated – Note 1)	***RMB million***	*RMB million*
United States Dollars	**USD12**	USD14	**–**	–
Hong Kong Dollars	**HKD80**	HKD494	**HKD79**	HKD491

27 Income tax in the balance sheet

(a) Current taxation in the balance sheet

	The Group		***The Company***	
	2007	*2006*	***2007***	*2006*
	RMB million	*RMB million* (restated – Note 1)	***RMB million***	*RMB million*
Provision for PRC income tax for the year	**6,737**	5,266	**2,821**	2,364
Through addition of a subsidiary	**47**	–	**–**	–
Provisional income tax paid	**(4,586)**	(3,070)	**(1,791)**	(1,137)
	2,198	2,196	**1,030**	1,227

(b) Deferred tax assets and liabilities

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

The Group

	Assets		***Liabilities***		***Net balance***	
	2007	*2006*	***2007***	*2006*	***2007***	*2006*
	RMB million	*RMB million* (restated – Note 1)	***RMB million***	*RMB million* (restated – Note 1)	***RMB million***	*RMB million* (restated – Note 1)
Allowances, primarily for receivables and inventories	**69**	69	**–**	–	**69**	69
Property, plant and equipment	**494**	253	**(657)**	(734)	**(163)**	(481)
Lease prepayments	**655**	857	**–**	–	**655**	857
Tax losses carried forward, net of valuation allowance	**29**	11	**–**	–	**29**	11
Tax allowable expenses not yet incurred	**–**	–	**(508)**	(272)	**(508)**	(272)
Unrealised profits from sales within the Group	**113**	90	**–**	–	**113**	90
Accrued salaries not yet paid	**194**	90	**–**	–	**194**	90
Pre-operating expenses written off	**47**	58	**–**	–	**47**	58
Others	**78**	141	**–**	–	**78**	141
Deferred tax assets/(liabilities)	**1,679**	1,569	**(1,165)**	(1,006)	**514**	563

27 Income tax in the balance sheet (continued)

(b) Deferred tax assets and liabilities (continued)

The Company

	Assets		*Liabilities*		*Net balance*	
	2007 RMB million	*2006 RMB million*	***2007 RMB million***	*2006 RMB million*	***2007 RMB million***	*2006 RMB million*
Allowances, primarily for receivables and inventories	**44**	40	**–**	–	**44**	40
Property, plant and equipment	**274**	106	**(296)**	(232)	**(22)**	(126)
Lease prepayments	**441**	533	**–**	–	**441**	533
Tax allowable expenses not yet incurred	**–**	–	**(426)**	(259)	**(426)**	(259)
Unrealised profits from sales within the Company	**46**	90	**–**	–	**46**	90
Accrued salaries not yet paid	**115**	35	**–**	–	**115**	35
Others	**–**	82	**–**	–	**–**	82
Deferred tax assets/(liabilities)	**920**	886	**(722)**	(491)	**198**	395

Movements in temporary differences are as follows:

The Group

	At 1 January 2007 RMB million **(restated – Note 1)**	***Recognised in consolidated income statement RMB million***	***Recognised in equity RMB million***	***Through addition of a subsidiary RMB million***	***At 31 December 2007 RMB million***
Allowances, primarily for receivables and inventories	**69**	**–**	**–**	**–**	**69**
Property, plant and equipment	**(481)**	**196**	**–**	**122**	**(163)**
Lease prepayments	**857**	**(24)**	**(178)**	**–**	**655**
Tax losses carried forward, net of valuation allowances	**11**	**18**	**–**	**–**	**29**
Tax allowable expenses not yet incurred	**(272)**	**(236)**	**–**	**–**	**(508)**
Unrealised profits from sales within the Group	**90**	**23**	**–**	**–**	**113**
Accrued salaries not yet paid	**90**	**103**	**–**	**1**	**194**
Pre-operating expenses written off	**58**	**(22)**	**–**	**11**	**47**
Others	**141**	**(63)**	**–**	**–**	**78**
Net deferred tax assets	**563**	**(5)**	**(178)**	**134**	**514**

27 Income tax in the balance sheet (continued)

(b) Deferred tax assets and liabilities (continued)

The Group

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

The Company

	At 1 January 2007 RMB million	***Recognised in income statement RMB million***	***Recognised in shareholder's equity RMB million***	***At 31 December 2007 RMB million***
Allowances, primarily for receivables and inventories	**40**	**4**	**–**	**44**
Property, plant and equipment	**(126)**	**104**	**–**	**(22)**
Lease prepayments	**533**	**(10)**	**(82)**	**441**
Tax allowable expenses not yet incurred	**(259)**	**(167)**	**–**	**(426)**
Unrealised profits from sales within the Company	**90**	**(44)**	**–**	**46**
Accrued salaries not yet paid	**35**	**80**	**–**	**115**
Others	**82**	**(82)**	**–**	**–**
Net deferred tax assets	**395**	**(115)**	**(82)**	**198**

The Company

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

28 Borrowings

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

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB million	RMB million (restated – Note 1)	**RMB million**	RMB million
Borrowings from banks and other financial institutions	**4,903**	10,805	**–**	2,000
Loans from subsidiaries	**–**	–	**1,500**	900
Current portion of long-term borrowings	**5,293**	5,587	**1,822**	2,201
	10,196	16,392	**3,322**	5,101

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

	The Group		The Company	
	2007	2006 (restated – Note 1)	**2007**	2006
Borrowings from banks and other financial institutions	**4.70%-6.16%**	3.80%-5.51%	**–**	4.39%-5.51%
Loans from subsidiaries	**–**	–	**4.10%**	2.28%-2.70%
Current portion of long-term borrowings	**2.30%-7.29%; L+1.80%**	2.30%-6.16%; L+0.60%-1.80%	**2.30%-5.91%**	2.30%-6.16%; L+0.60%

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

		The Group		The Company	
		2007	2006	**2007**	2006
		RMB million	RMB million (restated – Note 1)	**RMB million**	RMB million
Loans from banks and other financial institutions *					
Renminbi denominated	Interest rates ranging from 3.60% to 7.29% per annum with maturities through 1 September 2025	**49,562**	41,873	**9,655**	8,056
US Dollars denominated	Interest rate at L+1.00% per annum with maturities through 20 June 2020	**305**	564	**–**	276
Japanese Yen denominated	Interest rates ranging from 1.80% to 4.45% or L+1.80% per annum with maturities through 20 March 2031	**5,144**	5,577	**5,064**	5,413
		55,011	48,014	**14,719**	13,745
Less: current portion of long-term borrowings		**(5,293)**	(5,587)	**(1,822)**	(2,201)
		49,718	42,427	**12,897**	11,544

* At 31 December 2007, both the Group and the Company had an entrusted loan from Shenhua amounting to RMB1,000 million (2006: RMB2,837 million (as restated) and RMB1,000 million respectively).

At 31 December 2007, the Group had an entrusted loan from Shenhua Finance amounting to RMB1,447 million (2006: RMB1,301 million as restated).

28 Borrowings (continued)

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

The above borrowings are unsecured.

The long-term borrowings were repayable as follows:

	The Group		The Company	
	2007	*2006*	**2007**	*2006*
	RMB million	*RMB million* (restated – Note 1)	**RMB million**	*RMB million*
Within one year or on demand	**5,293**	5,587	**1,822**	2,201
After one year but within two years	**5,114**	6,648	**796**	2,028
After two years but within five years	**22,518**	14,975	**4,245**	2,635
After five years	**22,086**	20,804	**7,856**	6,881
	55,011	48,014	**14,719**	13,745

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

	The Group		The Company	
	2007	*2006*	**2007**	*2006*
	RMB million	*RMB million* (restated – Note 1)	**RMB million**	*RMB million*
United States Dollars	**USD43**	USD72	**–**	USD35
Japanese Yen	**JPY80,296**	JPY84,979	**JPY79,048**	JPY82,481

The Group had unsecured banking facilities amounting to RMB48,708 million as at 31 December 2007 (2006: RMB8,072 million as restated). As at 31 December 2007, the unutilised banking facilities amounted to RMB23,072 million (2006: RMB4,789 million as restated). Such banking facilities would be drawn down in accordance with the level of working capital and planned capital expenditure of the Company and its subsidiaries.

29 Short-term bonds

The bonds bear interest at rates ranging from 3.95% to 4.40% per annum and are repayable within one year.

30 Accounts and bills payable

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB million	RMB million (restated – Note 1)	**RMB million**	RMB million
Accounts payable				
Shenhua	**326**	343	**117**	155
Subsidiaries	**–**	–	**1,252**	804
Associates	**203**	368	**203**	367
Third parties	**8,376**	8,119	**3,513**	2,185
	8,905	8,830	**5,085**	3,511
Bills payable	**169**	668	**–**	1
	9,074	9,498	**5,085**	3,512

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.

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

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB million	RMB million (restated – Note 1)	**RMB million**	RMB million
United States Dollars	**USD56**	USD21	**USD56**	USD16
Hong Kong Dollars	**–**	HKD84	**–**	–
Euros	**EUR17**	EUR11	**EUR17**	EUR11

31 Accrued expenses and other payables

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB million	RMB million (restated – Note 1)	**RMB million**	RMB million
Accrued staff wages and welfare benefits	**1,537**	1,440	**953**	843
Accrued interest payable	**151**	73	**54**	50
Accrued taxes other than income tax	**2,046**	1,875	**1,349**	1,083
Other accrued expenses and payables	**3,984**	2,742	**2,423**	1,273
Fair value of derivative financial instruments	**–**	246	**–**	246
Customer deposits and receipts in advances	**1,859**	1,574	**1,067**	979
	9,577	7,950	**5,846**	4,474

At 31 December 2007, the Group and the Company had amounts payable to Shenhua and its affiliates amounting to RMB565 million and RMB452 million respectively (2006: RMB192 million (as restated) and RMB186 million respectively) and amounts payable to associates both amounting to RMB18 million (2006: RMB529 million (as restated) and RMB14 million respectively).

Accrued expenses and other payables with an amount of RMB236 million (2006: RMB241 million as restated) are expected to be settled after more than one year.

32 Long-term payables

Long-term payables mainly represent payables for acquisition of mining rights which are to be settled over the period of production on an annual basis. The annual payment is determined by fixed rates on a per tonne basis with reference to the annual production volume of the acquired mines or annual fixed amounts stipulated in the acquisition agreements.

33 Accrued reclamation obligations

The accrual for reclamation costs has been determined based on management's best estimates. However, so far as the effect on the land from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to change in the near term. The Group believes that the accrued reclamation obligations at 31 December 2007 are adequate. The accrual is necessarily based on estimates and therefore, the ultimate liability may exceed or be less than such estimates.

	The Group		***The Company***	
	2007 ***RMB million***	*2006* *RMB million* (restated – Note 1)	***2007*** ***RMB million***	*2006* *RMB million*
At the beginning of the year	**942**	852	**568**	497
Addition	**76**	40	**59**	40
Accretion expense	**40**	50	**32**	31
Payment	**(40)**	–	**(35)**	–
At the end of the year	**1,018**	942	**624**	568

34 Share capital

	2007 ***RMB million***	*2006* *RMB million*
Registered, issued and fully paid:		
16,491,037,955 domestic listed A shares of RMB1.00 each	**16,491**	–
14,691,037,955 domestic stated-owned ordinary shares of RMB1.00 each	**–**	14,691
3,398,582,500 H shares of RMB1.00 each	**3,399**	3,399
	19,890	18,090

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

In 2005, the Company issued 3,089,620,455 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. In addition, 308,962,045 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.

In September 2007, the Company issued 1,800,000,000 A shares with a par value of RMB1.00 each at a price of RMB36.99 per A share to natural persons and institutional investors in the PRC ("A Shares Issue").

Following the A Shares Issue and pursuant to the requirements of the relevant authorities, all the 14,691,037,955 domestic stated-owned ordinary shares existed before the A Shares Issue (i.e. ordinary shares of the Company held by Shenhua) have become circulative. Shenhua has undertaken that for a period of 36 months commencing on the date on which the A shares are listed on the Shanghai Stock Exchange, it will not transfer, put on trust or allow any A shares to be repurchased by the Company.

All A shares and H shares rank pari passu in all material aspects.

35 Commitments and contingent liabilities

(a) Capital commitments

As at 31 December 2007, the Group had capital commitments for land and buildings, equipment and investments as follows:

	The Group		The Company	
	2007	*2006*	**2007**	*2006*
	RMB million	*RMB million* (restated – Note 1)	**RMB million**	*RMB million*
Authorised and contracted for				
- Land and buildings	**5,228**	4,825	**1,747**	863
- Equipment	**18,139**	11,123	**4,260**	1,540
- Investment in an associate	**84**	–	**84**	–
	23,451	15,948	**6,091**	2,403
Authorised but not contracted for				
- Land and buildings	**19,099**	12,639	**7,568**	3,573
- Equipment	**23,512**	12,550	**7,078**	7,859
	42,611	25,189	**14,646**	11,432

(b) Operating lease commitments

Operating lease commitments mainly represent business premises lease through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments nor impose restrictions on dividends, additional debt and/or further leasing. As at 31 December 2007, future minimum lease payments under non-cancellable operating leases on business premises having initial or remaining lease terms of more than one year are payable as follows:

	The Group		The Company	
	2007	*2006*	**2007**	*2006*
	RMB million	*RMB million* (restated – Note 1)	**RMB million**	*RMB million*
Within one year	**71**	43	**51**	25
After one year but within five years	**161**	152	**92**	82
After five years	**86**	109	**53**	58
	318	304	**196**	165

(c) Financial guarantees issued

The Group had not issued guarantee to any third party as at 31 December 2007.

At 31 December 2006, the maximum liability of the Group under a guarantee issued in respect of a banking facility made by Shenhua Finance to an associate of the Company was RMB310 million. Such guarantee was released in June 2007 through an entrusted loan issued by a subsidiary to the associate (see Note 36(a)).

At 31 December 2007, the maximum liability of the Company under guarantees issued in respect of bank loans drawn by certain subsidiaries of the Company was RMB1,576 million (2006: RMB1,966 million).

35 Commitments and contingent liabilities (continued)

(d) Legal contingencies

The Group is a defendant in certain lawsuits as well as the plaintiff in other proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

(e) Environmental contingencies

To date, the Group has not incurred any significant expenditures for environmental remediation, is currently not involved in any environmental remediation, and apart from the provision for land reclamation costs, has not accrued any further amounts for environmental remediation relating to its operations. Under the existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved, and may move further towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include (i) the exact nature and extent of the contamination at various sites including, but not limited to coal mines and land development areas, whether operating, closed or sold; (ii) the extent of required cleanup efforts; (iii) varying costs of alternative remediation strategies; (iv) changes in environmental remediation requirements; and (v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under future environmental legislation cannot reasonably be estimated at present, and could be material.

36 Related party transactions

(a) Transactions with Shenhua and its affiliates ("Shenhua Group") and the associates of the Group

The Group is controlled by Shenhua and has significant transactions and relationships with Shenhua and its affiliates. Related parties refer to enterprises over which Shenhua is able to exercise significant influence or control. The Group also has entered into transactions with its associates, over which the Group can exercise significant influence. Because of the above relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

Pursuant to a resolution passed at the extraordinary general meeting on 24 August 2007, the Company acquired the entire equity interests in Shendong Coal and Shendong Power from Shenhua (see Note 1). Following the acquisitions of Shendong Coal and Shendong Power, certain transactions between Shendong Coal, Shendong Power, Shenhua Group and the associates of the Group in 2006 were considered as related party transactions in these financial statements and the disclosures of the related party transactions in this regard for the year ended 31 December 2006 were restated accordingly.

The Group had the following transactions with Shenhua Group and the associates of the Group that were carried out in the normal course of business:

		2007	*2006*
		RMB million	*RMB million* (restated – Note 1)
Interest income	(i)	**40**	21
Purchases of ancillary materials and spare parts	(ii)	**(913)**	(651)
Ancillary and social services	(iii)	**(262)**	(129)
Transportation services income	(iv)	**49**	70
Interest expense	(v)	**(184)**	(125)
Purchase of coal	(vi)	**(2,201)**	(2,567)
Sale of coal	(vii)	**1,832**	1,716
Property leasing	(viii)	**(37)**	(40)
Transportation services expense	(ix)	**(358)**	(276)
Repairs and maintenance services expense	(x)	**(8)**	(3)
Coal export agency expense	(xi)	**(74)**	(67)
Income from equipment installation and construction work	(xii)	**17**	29
Purchase of equipment and construction work	(xiii)	**(843)**	(353)
Sales of long-term assets	(xiv)	**–**	296
Other income	(xv)	**121**	56

36 Related party transactions (continued)

(a) Transactions with Shenhua and its affiliates ("Shenhua Group") and the associates of the Group (continued)

(i) Interest income represents interest earned from deposits placed with and entrusted loans to associates. The applicable interest rate is determined in accordance with the prevailing bank interest rates published by PBOC.

Net deposits withdrawn from the associate amounted to RMB1,036 million and net deposits placed with the associate amounted to RMB1,022 million (as restated) during the years ended 31 December 2007 and 2006 respectively.

Entrusted loans made to the associates amounted to RMB1,261 million and entrusted loans repaid by the associates amounted to RMB50 million (as restated) during the years ended 31 December 2007 and 2006 respectively.

(ii) Purchases of ancillary materials and spare parts represent purchase of materials and utility supplies from Shenhua Group related to the Group's operations.

(iii) Ancillary and social services represent expenditures for social welfare and support services such as property management, water and electricity supply, and canteen expense paid to Shenhua Group and certain associates.

(iv) Transportation services income represents income earned from its associate and Shenhua Group in respect of coal transportation services.

(v) Interest expense represents interest incurred in respect of borrowings from Shenhua Group. The applicable interest rate is determined in accordance with the prevailing borrowing rate which was ranging from 5.18% to 5.91% per annum during the year ended 31 December 2007 (2006: 3.80% to 5.91% per annum as restated).

Entrusted loans repaid to Shenhua Group amounted to RMB1,691 million and entrusted loans obtained from Shenhua Group amounted to RMB1,821 million (as restated) during the years ended 31 December 2007 and 2006 respectively.

(vi) Purchase of coal represents coal purchased from Shenhua Group and certain associates.

(vii) Sale of coal represents income from sale of coal to Shenhua Group and certain associates.

(viii) Property leasing represents rental charge in respect of properties leased from Shenhua Group.

(ix) Transportation services expense represents expense related to coal transportation services provided by Shenhua Group and certain associates.

(x) Repairs and maintenance services expense represents expense related to machinery repairs and maintenance services provided by Shenhua Group and certain associates.

(xi) Coal export agency expense represents expense related to coal export agency services provided by Shenhua Group.

(xii) Income from equipment installation and construction work represents equipment installation and construction service provided to Shenhua Group and certain associates.

(xiii) Purchase of equipment and construction work represents expense related to purchase of equipment and construction work from Shenhua Group and certain associates.

(xiv) Sale of long-term assets represents sale of land use rights, mining rights and property, plant and equipment to an associate.

(xv) Other income includes agency income, repairs and maintenance service income, sales of ancillary materials and spare parts, management fee income, sales of water and electricity, etc.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

36 Related party transactions (continued)

(a) Transactions with Shenhua and its affiliates ("Shenhua Group") and the associates of the Group (continued)

The Group entered into a number of agreements with Shenhua Group and associates of the Group. The terms of the principal agreements are summarised as follows:

(a) The Group has entered into a mutual supply agreement for the mutual provision of production supplies and ancillary services with Shenhua Group. Pursuant to the agreement, Shenhua Group provides the Company with the production supplies and services, ancillary production services including the use of the information network system and ancillary administrative services. On the other hand, the Company provides Shenhua Group with water supplies, rolling stock management, railway management, railway transportation and other related or similar production supplies or services and use of the information network system.

The products and services provided under the agreement, other than the sharing of use of the information network system which is free of charge, are provided in accordance with the following pricing policy:

- price prescribed by the state (including any price prescribed by any relevant local government), if applicable;
- where there is no state-prescribed price but where there is a state-guidance price, then the state-guidance price;
- where there is neither a state-prescribed price nor a state-guidance price, the market price; or
- where none of the above is applicable or where it is not practical to apply the above pricing policies in reality, the price to be agreed between the relevant parties shall be based on reasonable costs incurred in providing the goods or services plus a profit margin of 5% of such costs.

(b) The Group has entered into certain coal supply agreements with Shenhua Group, certain associates and Dingzhou, an associate of the Group before 29 December 2007 (Note 18). The coal supplied is charged at the prevailing market price.

(c) The Group has entered into a financial services agreement with Shenhua Finance. Pursuant to the agreement, Shenhua Finance provides financial services to the Group. The interest rate for the Group's deposits with Shenhua Finance should not be lower than the lowest limit fixed by the PBOC for the same type of deposit. The interest rate for loans made by Shenhua Finance to the Company should not be higher than the highest limit fixed by PBOC for the same type of loan. The fees charged by Shenhua Finance for the provision of other financial services shall be determined according to the rates chargeable by the PBOC or the China Banking Regulatory Commission.

(d) The Group has entered into a property leasing agreement with Shenhua Group for leasing of certain properties to each other. No rent is payable by the Company before Shenhua Group obtains the relevant property ownership certificate. The rental charges are based on comparable market rates. If Shenhua Group negotiates to sell a leased property to a third party, the Company has a pre-emptive right to purchase such property under terms no less favourable than other third party.

36 Related party transactions (continued)

(a) Transactions with Shenhua and its affiliates ("Shenhua Group") and the associates of the Group (continued)

(e) The Group has entered into a land leasing agreement with Shenhua Group. The annual rent is determined based on the local market rate. The Company is not allowed to sub-let the leased land.

(f) The Group has entered into an agency agreement for the export of coal with Shenhua Group. Shenhua Group is appointed as a non-exclusive export agent of the Company and is entitled to receive an agency fee based on the relevant market rates or lower rates. Currently, the rate is 0.7% of the free on board sales price of price of coal exported.

(g) The Group entered into an agency agreement for the sale of coal with Shenhua Group. The Group is appointed as the exclusive sales agent of Shenhua Group for thermal coal and non-exclusive sales agent for coking coal. The unit selling price is determined based on the spot market price, subject to confirmation by Shenhua Group and the Group is entitled to receive an agency fee, which is based on its related costs incurred plus a profit margin of 5% for sales of coal outside the Inner Mongolia Autonomous Region. No agency fee is charged for sales of coal within the Inner Mongolia Autonomous Region.

(h) The Group has entered into agreements with Shenhua Group under which the Group has been granted the right to use certain trademarks. Shenhua Group bears its own cost for the registration of such trademarks during the term of the trademarks license agreement and expenses for enforcement against any infringement of the licensed trademarks by third parties.

Amounts due from/to Shenhua Group and the associates of the Group:

	Note	***2007*** ***RMB million***	*2006* *RMB million* (restated – Note 1)
Cash and cash equivalents	26	**500**	1,536
Accounts receivable	24	**80**	124
Prepaid expenses and other current assets	25	**381**	1,036
Other non-current financial assets	21	**937**	–
Total amounts due from Shenhua Group and the associates of the Group		**1,898**	2,696
Borrowings	28	**2,447**	4,138
Accounts payable	30	**529**	711
Accrued expenses and other payables	31	**583**	721
Total amounts due to Shenhua Group and the associates of the Group		**3,559**	5,570

During the year ended 31 December 2006, the Group repaid RMB1,200 million to Shenhua Group.

Other than the interest rates disclosed in Notes (i) and (v) above, amounts due from/to Shenhua Group and the associates of the Group bear no interest, are unsecured and are repayable in accordance with normal commercial terms.

36 Related party transactions (continued)

(b) Key management personnel emoluments

Key management personnel receive compensation in the form of fees, basic salaries, housing and other allowances, benefits in kind, discretionary bonuses, share appreciation rights and retirement scheme contributions.

Key management personnel compensation of the Group is summarised as follows:

	2007 ***RMB million***	*2006* *RMB million* (restated – Note 1)
Short-term employee benefits	**5**	4
Post-employment benefits	**1**	1
Share appreciation rights expense	**69**	17
	75	22

Total remuneration is included in "personnel expenses" as disclosed in Note 7.

(c) Contributions to post-employment benefit plans

The Group participates in various defined contribution post-employment benefit plans organised by municipal and provincial governments for its employees. Further details of the Group's post-employment benefit plans are disclosed in Note 37.

(d) Transactions with other state-controlled entities in the PRC

The Company is a state-controlled entity and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government ("state-controlled entities") through its government authorities, agencies, affiliations and other organisations.

Other than those transactions with Shenhua Group and the associates of the Group as disclosed above, the Group conducts certain business activities with other state-controlled entities which include but are not limited to the following:

— Power sales;
— Sales and purchases of coal;
— Transportation services;
— Construction work of railway;
— Purchases of ancillary materials and spare parts;
— Ancillary and social services; and
— Financial services arrangements.

36 Related party transactions (continued)

(d) Transactions with other state-controlled entities in the PRC (continued)

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled. The Group has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether the counterparties are state-controlled entities or not.

Having considered the potential for transactions to be impacted by related party relationships, the Group's buying, pricing strategy and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements, the directors are of the opinion that the following transactions with other state-controlled entities require disclosure:

(i) Transactions with other state-controlled entities, including state-controlled banks in the PRC

	2007 ***RMB million***	*2006* *RMB million* (restated – Note 1)
Coal revenue	**30,430**	22,405
Power revenue	**23,692**	16,638
Transportation costs	**3,932**	4,799
Interest income	**601**	245
Interest expenses	**3,407**	2,858

(ii) Balances with other state-controlled entities, including state-controlled banks in the PRC

	2007 ***RMB million***	*2006* *RMB million* (restated – Note 1)
Accounts receivable	**4,167**	3,340
Cash and time deposits at banks	**52,931**	14,228
Borrowings	**57,467**	54,681

37 Employee benefits plan

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 17% to 20% of the salaries, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group's contributions for the year ended 31 December 2007 were RMB621 million (2006: RMB386 million as restated).

On 19 November 2005, the Company's board of directors approved a scheme of share appreciation rights for the senior management of the Group with a term of 10 years with effect from 15 June 2005. No shares will be issued under this scheme. The rights will be granted in units with each unit representing one H share of the Company.

The rights to the units will have an exercise period of six years from the date of grant and can be exercised after the second, third and fourth anniversary of the date of grant and the total number of the rights exercised by an individual may not in aggregate exceed one-third, two-thirds and 100% respectively, of the total rights granted to the individual.

37 Employee benefits plan (continued)

Upon exercise of the said rights, the exercising participant will, subject to the restrictions under the scheme, receive a payment in RMB, after deducting any applicable withholding tax, equal to the product of the number of rights exercised and the difference between the exercise price and market price of the H shares of the Company at the time of exercise.

The Company granted 2.4 million share appreciation rights during the year ended 31 December 2007 (2006: 3.2 million) and recognised a compensation expense over the applicable vesting period. The compensation expense recognised for the year ended 31 December 2007 amounted to RMB112 million (2006: RMB22 million). The exercise price of granted share appreciation rights as approved by the board of directors is HKD7.90, HKD11.80 or HKD33.80 depending on the grant date. As at 31 December 2007, 8.4 million (2006: 6.0 million) share appreciation rights were outstanding.

38 Segment information

The Group's risks and rates of return are affected predominantly by differences in the products and services it produces. The Group's primary format for reporting segment information is business segments with geographical segments as its secondary format.

Business segments:

The Group has four reportable segments as follows:

(1) Coal operations – which produces coal from surface and underground mines, and the sale of coal to external customers and the power segment. The Group primarily sells its coal under long-term coal supply contracts which typically allow the parties to make annual price adjustments.

(2) Railway operations – which provides railway transportation services to the coal mining segment and external customers. The rates of freight charges billed to the coal mining segment and external customers are consistent and do not exceed the maximum amounts approved by the relevant government authorities.

(3) Port operations – which provides loading, transportation and storage services to the coal mining segment and external customers. The Group charges service fees and other expenses, which are reviewed and approved by the relevant government authorities.

(4) Power operations – which uses coal, sourced from the coal mining segment and purchased from external suppliers, to generate electric power for sale to external power grid companies and to the coal segment. The sales of power are not subject to long-term minimum power supply obligations. Electric power is sold to the power grid companies in accordance with planned power output at the tariff rates as approved by the relevant government authorities. Electric power produced in excess of the planned power output is sold at the tariff rate as agreed upon with the respective power grid companies which are generally lower than the tariff rates for planned power output.

The segments were determined primarily because the Group manages its coal, railway, port and power generation businesses separately. The reportable segments are each managed separately due to differences in their operating, distribution and production processes and gross margin characteristics.

The Group evaluates the performance and allocates resources to its reportable segments on an income from operations basis, without considering the effects of finance costs or investment income. The accounting policies of the Group's reportable segments are the same as those described in the significant accounting policies (see Note 2). Corporate administrative costs and assets are not allocated to the operating segments; instead, operating segments are charged for direct corporate services. Inter-segment transfer pricing is based on market prices or prices pre-determined by the relevant governmental authority.

38 Segment information (continued)

(a) Income statement

The following table presents segmental information:

	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 million	RMB million (restated - Note 1)	**RMB million**	RMB million (restated - Note 1)	**RMB million**	RMB million (restated - Note 1)	**RMB million**	RMB million (restated - Note 1)	**RMB million**	RMB million (restated - Note 1)	**RMB million**	RMB million (restated - Note 1)	**RMB million**	RMB million (restated - 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.

38 Segment information (continued)

(b) Balance sheet

Assets and liabilities dedicated to a particular segment's operations are included in that segment's total assets and liabilities. Assets which benefit more than one segment are considered to be corporate assets and are not allocated. "Unallocated assets" consists primarily of cash and cash equivalents, time deposits, investments and deferred tax assets. "Unallocated liabilities" consists primarily of short-term and long-term borrowings, interest payable, short-term bonds, income tax payable and deferred tax liabilities.

Interests in and earnings from associates are included in the segments in which the associates operate. Information on interest in associates is included in Note 19.

	2007 RMB million	*2006 RMB million* (restated – Note 1)
Assets		
Segment assets		
Coal	**57,528**	43,975
Railway	**35,888**	30,649
Port	**10,275**	10,551
Power	**74,063**	62,489
Combined segment asset	**177,754**	147,664
Interest in associates		
Coal	**1,195**	746
Railway	**117**	103
Port	**6**	4
Power	**1,436**	1,955
Total interest in associates	**2,754**	2,808
Unallocated assets	**58,530**	21,888
Total assets	**239,038**	172,360
Liabilities		
Segment liabilities		
Coal	**(12,944)**	(10,867)
Railway	**(3,242)**	(2,072)
Port	**(759)**	(847)
Power	**(5,512)**	(6,054)
Combined segment liabilities	**(22,457)**	(19,840)
Unallocated liabilities	**(66,777)**	(63,289)
Total liabilities	**(89,234)**	(83,129)

38 Segment information (continued)

(c) *Other segment information*

	Coal		Railway		Port		Power		Corporate and others (Note)		Total	
	2007 RMB million	*2006 RMB million* (restated - Note 1)	**2007 RMB million**	*2006 RMB million* (restated - Note 1)	**2007 RMB million**	*2006 RMB million* (restated - Note 1)	**2007 RMB million**	*2006 RMB million* (restated - Note 1)	**2007 RMB million**	*2006 RMB million* (restated - Note 1)	**2007 RMB million**	*2006 RMB million* (restated - Note 1)
Capital expenditure	**15,823**	9,846	**2,960**	3,098	**504**	1,209	**10,703**	12,043	**61**	121	**30,051**	26,317
Depreciation and amortisation	**2,754**	2,308	**1,618**	1,336	**620**	474	**3,145**	2,624	**3**	2	**8,140**	6,744
Share of profits less losses of associate	**251**	160	**28**	16	**4**	2	**344**	386	**–**	–	**627**	564
Impairment losses on property, plant and equipment	**114**	147	**–**	–	**–**	–	**266**	–	**–**	–	**380**	147

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

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

Geographical segments:

The Group has three geographical segments by location of customers as follows:

(1) Domestic markets – external customers which are located in the PRC.

(2) Asia Pacific markets – export sales to customers which are located outside the PRC and primarily to customers in Korea and Japan.

(3) Other markets – export sales to customers which are located outside the PRC and the Asia Pacific region.

(i) Revenues

	2007 RMB million	*2006 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
Total operating revenues	**82,107**	65,186

(ii) Segment assets

The location of all the Group's production or service facilities and other assets is in the PRC.

39 Capital and reserves

(a) Distributable reserves

The movement of shareholders' equity of the Company is as follows:

	Share capital RMB million (Note 34)	*Share premium* RMB million	*Statutory reserves* RMB million	*Capital and other reserves* RMB million	*Retained earnings* RMB million	*Total* RMB million
At 1 January 2006	18,090	20,813	3,128	2,712	9,700	54,443
Profit for the year	–	–	–	–	14,859	14,859
Appropriations	–	–	1,614	587	(2,201)	–
Dividend declared (Note 13)	–	–	–	–	(7,404)	(7,404)
Realisation of deferred tax	–	–	–	(17)	17	–
Revaluation surplus realised	–	–	–	(4)	4	–
Consideration for the acquisition of Jinjie Energy (Note 1)	–	–	–	(1,162)	–	(1,162)
At 31 December 2006	18,090	20,813	4,742	2,116	14,975	60,736
At 1 January 2007	**18,090**	**20,813**	**4,742**	**2,116**	**14,975**	**60,736**
Issuance of A shares	**1,800**	**64,782**	**–**	**–**	**–**	**66,582**
A shares issue expenses	**–**	**(594)**	**–**	**–**	**–**	**(594)**
Profit for the year	**–**	**–**	**–**	**–**	**20,759**	**20,759**
Appropriations	**–**	**–**	**2,019**	**–**	**(2,019)**	**–**
Realisation/reassessment of deferred tax	**–**	**–**	**–**	**(91)**	**9**	**(82)**
Dividend declared (Note 13)	**–**	**–**	**–**	**–**	**(22,949)**	**(22,949)**
Restatement of profit appropriations for prior years	**–**	**–**	**(498)**	**–**	**498**	**–**
Write back of future development fund	**–**	**–**	**–**	**(1,358)**	**1,358**	**–**
Aquisitions of Shendong Coal and Shendong Power (Note 1)	**–**	**–**	**–**	**3,272**	**–**	**3,272**
Consideration for the acquisitions of Shendong Coal and Shendong Power (Note 1)	**–**	**–**	**–**	**(3,587)**	**–**	**(3,587)**
At 31 December 2007	**19,890**	**85,001**	**6,263**	**352**	**12,631**	**124,137**

According to the Company's Articles of Association, the amount of retained profits available for distribution to equity shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with IFRSs after the appropriation to reserves as detailed in Note (v) to the consolidated statement of changes in equity.

The aggregate amount of retained profits available for distribution to equity shareholders of the Company was:

	The Company **2007** **RMB million**	*2006* *RMB million*
At 31 December	**9,866**	14,762

The above amounts were determined in accordance with the PRC Accounting Rules and Regulations.

39 Capital and reserves (continued)

(b) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares to reduce debts.

The Group monitors capital using a gearing ratio which is total liabilities divided by total assets. The Group aims to maintain the gearing ratio at a reasonable level. The Group's gearing ratio as at 31 December 2007 was 37% (2006: 48%).

There were no changes in the Group's approach to capital management compared with previous years. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

40 Financial risk management

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group and the Company are also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

These risks are limited by the Group's and the Company's financial management policies and practices described below.

(a) Credit risk

The carrying amounts of cash and cash equivalents, time deposits, accounts and bills receivable, other receivables, derivative financial instruments and available-for-sale investments represent the Group's and the Company's maximum exposure to credit risk in relation to these financial assets. Substantially all of the Group's and the Company's cash and cash equivalents are held in major financial institutions located in the PRC, which management believes are of high credit quality. The Group's and the Company's major customers are power plants, metallurgical companies and power grid companies, which accounted for significant amounts of the Group's and the Company's total operating revenues during the year. The Group and the Company have no significant credit risk with any of these customers since the Group and the Company maintain long-term and stable business relationships with these large customers in the coal and power industries. The Group and the Company perform ongoing individual credit evaluations of its customers' financial condition and generally does not require collateral on accounts receivable. The allowance for doubtful debts has been within management's expectations.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet after deducting any impairment allowance. Except for the financial guarantees given by the Group and the Company as set out in Note 35(c), the Group and the Company do not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the balance sheet date is disclosed in Note 35(c).

40 Financial risk management (continued)

(b) Currency risk

(i) Exposure

Except for export sales which are transacted in US Dollars, all of the revenue-generating operations of the Group and the Company are transacted in RMB, which is not fully convertible into foreign currencies. On 1 January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the PBOC. However, the unification of the exchange rate does not imply convertibility of RMB into Hong Kong Dollars or other foreign currencies. All foreign exchange transactions must take place through the PBOC or other institutions authorised to buy and sell foreign exchange. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

With the authorisation from the PRC government, the PBOC announced that the PRC government reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies on 21 July 2005.

In addition, the Group and the Company incur foreign currency risk on borrowings that are denominated in a currency other than RMB. The currency giving rise to this risk is primarily Japanese Yen.

The Group's and the Company's Japanese Yen borrowings are disclosed in Note 28.

(ii) Sensitivity analysis

At 31 December 2007, it is estimated that if the Japanese Yen foreign exchange rate increased by 2%, with all other variables remaining constant, the Group's profit after tax and retained profits would decrease by approximately RMB69 million (2006: decrease by RMB74 million as restated).

(c) Interest rate risk

(i) Exposure

The interest rates and terms of repayment of the Group's and the Company's borrowings are disclosed in Note 28. Most of the borrowings are variable rate borrowings.

(ii) Sensitivity analysis

Financial assets

At 31 December 2007, it is estimated that a general increase of 100 basis points in interest rates, with all other variables remaining constant, would increase the Group's profit after tax and retained profits by approximately RMB361 million (2006: increase by RMB109 million as restated).

Financial liabilities

At 31 December 2007, it is estimated that a general increase of 100 basis points in interest rates, with all other variables remaining constant, would decrease the Group's profit after tax and retained profits by approximately RMB397 million (2006: decrease by RMB381 million as restated).

40 Financial risk management (continued)

(d) Fair values

The following summarises the major methods and assumptions used in estimating the fair values of the Group's and the Company's financial instruments. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgement is required to interpret market data to develop the estimates of fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group and the Company could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Long-term borrowings: The fair values of long-term borrowings are estimated by discounting future cash flows using current market interest rates offered to the Group and the Company for borrowings with substantially the same characteristics and maturities. As at 31 December 2007, the carrying amounts and fair values of the Group's and the Company's long-term borrowings are as follows:

	The Group				***The Company***			
	2007		*2006*		***2007***		*2006*	
	Carrying amount RMB million	***Fair value RMB million***	*Carrying amount RMB million* (restated – Note 1)	*Fair value RMB million* (restated – Note 1)	***Carrying amount RMB million***	***Fair value RMB million***	*Carrying amount RMB million*	*Fair value RMB million*
Long-term borrowings (included current portion)	**55,011**	**55,229**	48,014	48,184	**14,719**	**14,976**	13,745	13,950

Derivatives mainly represent interest swaps. The fair value of the interest rate swaps are based on discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument having a similar maturity at the balance sheet date.

Change in fair value is recognised as finance income or expense in the consolidated income statement.

Except for the above mentioned financial instruments, the fair values of all other financial instruments approximate their carrying amounts due to the nature or short-term maturity of these instruments.

(e) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligation as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Group's reputation.

The Group closely monitors cash flow requirements and optimising its cash return. The Group prepares cash flow forecasts and ensures it has sufficient cash for the servicing of operation, financial, and capital obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

40 Financial risk management (continued)

(e) Liquidity risk (continued)

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

	2007					
	Carrying amount RMB million	Total contractual undiscounted cash flow RMB million	Within 1 year or on demand RMB million	More than 1 year but less than 2 years RMB million	More than 2 years but less than 5 years RMB million	More than 5 years RMB million
Borrowings	**59,914**	**73,783**	**13,562**	**8,075**	**28,835**	**23,311**
Short-term bonds	**1,453**	**1,504**	**1,504**	**–**	**–**	**–**
Accounts and bills payable, accrued expenses and other payables	**18,651**	**18,651**	**18,651**	**–**	**–**	**–**
Income tax payable	**2,198**	**2,198**	**2,198**	**–**	**–**	**–**
	82,216	**96,136**	**35,915**	**8,075**	**28,835**	**23,311**

	2006					
	Carrying amount RMB million (restated - Note 1)	Total contractual undiscounted cash flow RMB million (restated - Note 1)	Within 1 year or on demand RMB million (restated - Note 1)	More than 1 year but less than 2 years RMB million (restated - Note 1)	More than 2 years but less than 5 years RMB million (restated - Note 1)	More than 5 years RMB million (restated - Note 1)
Borrowings	58,819	69,186	19,023	8,817	19,533	21,813
Accounts and bills payable, accrued expenses and other payables	17,202	17,202	17,202	–	–	–
Income tax payable	2,196	2,196	2,196	–	–	–
	78,217	88,584	38,421	8,817	19,533	21,813

(f) Equity price risk

All of the Group's and the Company's unquoted investment are held for long-term strategic purposes. Their performance is assessed at least annually based on the information available to the Group and the Company, together with an assessment of their relevance to the Group's long-term strategic plans.

41 Accounting estimates and judgements

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in Note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

Coal reserves

Engineering estimates of the Group's coal reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated coal reserves can be designated as "proved" and "probable". Proved and probable coal reserve estimates are updated at regular basis and have taken into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable coal reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expenses and impairment loss. Depreciation rates are determined based on estimated proved and probable coal reserve quantity (the denominator) and capitalised costs of mining structures and mining rights (the numerator). The capitalised cost of mining structures and mining rights are amortised based on the units of coal produced.

Impairments

In considering the impairment losses that may be required for certain of the Group's assets which include property, plant and equipment, construction in progress, intangible assets, investments in subsidiaries and associates, lease prepayments and other investments (Note 2(m)(ii)), the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sale volume, selling price and amount of operating costs.

In considering the impairment losses that may be required for current receivables and other financial assets, future cashflows need to be determined. One of the key assumptions that has to be applied is about the ability of the debtors to settle the receivables. Notwithstanding that the Group has used all available information to make this estimation, inherent uncertainty exists and actual write-offs may be higher than the amount estimated.

41 Accounting estimates and judgements (continued)

Depreciation

Other than the mining structures and mining rights, property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Obligations for land reclamation

The estimation of the liabilities for final reclamation and mine closure involves the estimates of the amount and timing for the future cash spending as well as the discount rate used for reflecting current market assessments of the time value of money and the risks specific to the liability. The Group considers the factors including future production volume and development plan, the geological structure of the mining regions and reserve volume to determine the scope, amount and timing of reclamation and mine closure works to be performed. Determination of the effect of these factors involves judgements from the Group and the estimated liabilities may turn out to be different from the actual expenditure to be incurred. The discount rate used by the Group may also be altered to reflect the changes in the market assessments of the time value of money and the risks specific to the liability, such as change of the borrowing rate and inflation rate in the market. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation will be recognised at the appropriate discount rate.

Derivative financial instruments and share appreciation rights

In determining the fair value of the derivative financial instruments and share appreciation rights, considerable judgement is required to interpret market data used in the valuation techniques. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

42 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.

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.

Further details are disclosed in Note 13(a).

43 Immediate and ultimate controlling party

At 31 December 2007, the directors consider the immediate parent and ultimate controlling party of the Group to be Shenhua Group Corporation Limited, a state-owned enterprise established in the PRC.

44 Possible impact of amendments, new standards and interpretations issued but not yet effective for year ended 31 December 2007

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position, while IFRS 8, *Operating segments*, which is effective for annual periods beginning on or after 1 January 2009, may result in new or amended disclosures in the financial statements.

45 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.

In addition, as a result of adopting IFRS 7, *Financial instruments: Disclosures*, and the amendments to IAS 1, *Presentation of financial statements: Capital disclosures*. Certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in Note 3.

Reconciliation of differences between consolidated financial statements prepared under the PRC Accounting Rules and Regulations ("PRC GAAP") and International Financial Reporting Standards ("IFRSs")

(a) Effects of major differences between the profit attributable to equity shareholders of the Company under the PRC GAAP and IFRSs are analysed as follows:

	Note	***2007*** ***RMB million***	*2006* *RMB million*
Profit attributable to equity shareholders of the Company under the PRC GAAP		**19,766**	16,620
Adjustments:			
Production maintenance expense and safety production expense	(i)	**929**	1,090
Revaluation of land use rights	(ii)	**112**	99
Tax adjustments and others	(iii)	**(226)**	(165)
Total		**815**	1,024
Profit attributable to equity shareholders of the Company under IFRSs		**20,581**	17,644

(b) Effects of major differences between the equity attributable to equity shareholders of the Company under the PRC GAAP and IFRSs are analysed as follows:

	Note	***2007*** ***RMB million***	*2006* *RMB million*
Equity attributable to equity shareholders of the Company under the PRC GAAP		128,250	68,930
Adjustments:			
Production maintenance expense and safety production expense	(i)	3,593	2,664
Revaluation of land use rights	(ii)	(2,049)	(2,161)
Tax adjustments and others	(iii)	(6)	351
Total		1,538	854
Equity attributable to equity shareholders of the Company under IFRSs		129,788	69,784

Notes:

(i) 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.

(ii) Revaluation of land use rights

Under the PRC GAAP, land use rights are carried at revalued amounts 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.

(iii) Tax adjustments and others

It mainly represents tax effects of the above differences.

The following consolidated financial information is extracted from the consolidated financial statements of the Group prepared under International Financial Reporting Standards:

Consolidated Income Statement

	Years ended 31 December				
	2003 *RMB million* (restated*)	*2004* *RMB million* (restated*)	*2005* *RMB million* (restated*)	*2006* *RMB million* (restated*)	***2007*** ***RMB million***
Revenues					
Coal revenue	17,596	28,079	39,926	45,948	**55,741**
Power revenue	7,027	9,963	11,086	17,056	**23,922**
Other revenues	2,479	1,778	1,976	2,182	**2,444**
Total operating revenues	27,102	39,820	52,988	65,186	**82,107**
Cost of revenues					
Coal purchased from third parties	(1,844)	(3,326)	(4,339)	(6,935)	**(10,719)**
Materials, fuel and power	(1,924)	(2,861)	(3,050)	(3,764)	**(6,276)**
Personnel expenses	(1,614)	(1,627)	(2,180)	(2,677)	**(3,960)**
Depreciation and amortisation	(3,734)	(4,856)	(5,283)	(6,456)	**(7,785)**
Repairs and maintenance	(1,559)	(2,183)	(2,701)	(3,187)	**(3,612)**
Transportation charges	(3,715)	(4,110)	(5,152)	(6,259)	**(6,845)**
Others	(2,890)	(2,688)	(2,865)	(3,777)	**(4,576)**
Total cost of revenues	(17,280)	(21,651)	(25,570)	(33,055)	**(43,773)**
Selling, general and administrative expenses	(2,273)	(2,582)	(3,540)	(4,359)	**(5,144)**
Other operating expense, net	(325)	(166)	(335)	(281)	**(693)**
Total operating expenses	(19,878)	(24,399)	(29,445)	(37,695)	**(49,610)**
Profit from operations	7,224	15,421	23,543	27,491	**32,497**
Deficit on revaluation of property, plant and equipment	(518)	–	–	–	**–**
Finance income	142	217	895	521	**1,034**
Finance expenses	(3,273)	(2,577)	(2,955)	(2,658)	**(3,417)**
Net finance costs	(3,131)	(2,360)	(2,060)	(2,137)	**(2,383)**
Gain on debt restructuring	613	–	–	–	**–**
Investment income/(loss)	190	9	23	(1)	**38**
Share of profits less losses of associates	46	198	461	564	**627**
Profit before income tax	4,424	13,268	21,967	25,917	**30,779**
Income tax	(855)	(2,781)	(4,082)	(5,394)	**(6,742)**
Profit for the year	3,569	10,487	17,885	20,523	**24,037**
Attributable to:					
Equity shareholders of the Company	2,873	8,850	15,489	17,644	**20,581**
Minority interests	696	1,637	2,396	2,879	**3,456**
Profit for the year	3,569	10,487	17,885	20,523	**24,037**
Basic earnings per share (RMB)	0.192	0.590	0.929	0.975	**1.110**
Diluted earnings per share (RMB)	0.192	0.590	0.929	0.975	**1.110**

Condensed Consolidated Balance Sheet

	As at 31 December				
	2003	*2004*	*2005*	*2006*	***2007***
	RMB million	*RMB million*	*RMB million*	*RMB million*	***RMB million***
	(restated*)	(restated*)	(restated*)	(restated*)	
Property, plant and equipment, net	67,707	73,970	85,802	113,371	**131,059**
Total non-current assets	84,600	97,413	120,346	140,222	**166,911**
Total current assets	11,475	16,768	29,080	32,138	**72,127**
Total current liabilities	22,737	26,230	25,988	36,124	**33,371**
Total non-current liabilities	44,502	48,398	47,096	47,005	**55,863**
	28,836	39,553	76,342	89,231	**149,804**
Equity attributable to equity shareholders of the Company	17,208	26,353	60,042	69,784	**129,788**
Minority interests	11,628	13,200	16,300	19,447	**20,016**
Total equity	28,836	39,553	76,342	89,231	**149,804**

* Please refer to note 1 in the section "Financial Statements (International)" of this report.

Documents Available for Inspection

1. The financial statements signed and stamped by the legal representative, the person in charge of accounting affairs and the person in charge of the accounting department;

2. The original document of the auditors' report stamped by the accounting firm and signed and stamped by the certified public accountants;

3. The original copies of all documents and announcements of the Company publicly disclosed in the newspapers designated by China Securities Regulatory Commission during the reporting period; and

4. The annual report for the year 2007 published on the website of the Hong Kong Stock Exchange.

China Shenhua Energy Company Limited
Chen Biting
Chairman

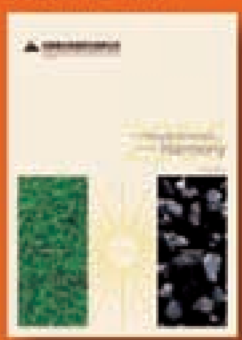
15 March 2008

Definitions

Abbreviation	Full name
Shenhua Group	Shenhua Group Corporation Limited
China Shenhua	China Shenhua Energy Company Limited
Shendong Coal Branch	China Shenhua Shendong Coal Branch
Wanli Coal Branch	China Shenhua Wanli Coal Branch
Jinfeng Coal Branch	China Shenhua Jinfeng Coal Branch
Ha'erwusu Coal Branch	China Shenhua Ha'erwusu Coal Branch
Zhunge'er Energy	Shenhua Zhunge'er Energy Company Limited
Beidian Shengli Energy	Shenhua Beidian Shengli Energy Co., Ltd.
Shengli Branch	China Shenhua Shengli Branch
Shendong Coal	Shenhua Group Shenfu Dongsheng Coal Company Limited
Shendong Power	Shenhua Shendong Power Company Limited
Shenshuo Railway Branch	China Shenhua Shenshuo Railway Branch
Rolling Stock Branch	China Shenhua Rolling Stock Branch
Shuohuang Railway	Shuohuang Railway Development Co., Ltd.
Baoshen Railway	Shenhua Baoshen Railway Co., Ltd.
Huanghua Port	Shenhua Huanghua Harbor Administration Co., Ltd.
Shenhua Tianjin Coal Dock	Shenhua Tianjin Coal Dock Co., Ltd
Guohua Power Branch	China Shenhua Guohua Power Branch
CLP Guohua	CLP Guohua Power Co., Ltd.
Beijing Thermal	CLP Guohua Power Co., Ltd. Beijing Thermal Power Branch
Panshan Power	Tianjin Guohua Panshan Power Generation Co. Ltd
Sanhe Power	Sanhe Power Generation Co., Ltd
Guohua Zhunge'er	Inner Mongolia Guohua Zhunge'er Power Generation Company
Ninghai Power	Zhejiang Guohua Zheneng Power Generation Co., Ltd
Shenmu Power	CLP Guohua Shenmu Power Co., Ltd
Taishan Power	Guangdong Guohua Yuedian Taishan Electric Power Co., Ltd.
Huanghua Power	Hebei Guohua Candong Power Company

Abbreviation	Full name
Suizhong Power	Suizhong Power Co., Ltd
Jinjie Energy	Shaanxi Guohua Jinjie Energy Co., Ltd
Dingzhou Power	Hebei Guohua Dingzhou Power Co., Ltd
Yuyao Power	Zhejiang Guohua Yuyao Gas-fired Power Co.,Ltd
Zhunge'er Power	Power assets controlled and operated by Shenhua Zhunge'er Energy Company Limited by Shenhua Zhunge'er Energy Company Limited
The Xisanju Companies	Shenhua Group Wuda Mining Company Limited, Shenhua Group Haibowan Mining Company Limited and Shenhua Group Baotou Mining Company Limited, all of which are subsidiaries of Shenhua Group, and their respective subsidiaries
Shenhua Finance	Shenhua Finance Company
Shenhua Trading	Shenhua Coal Trading Company Limited

2006 Annual Report



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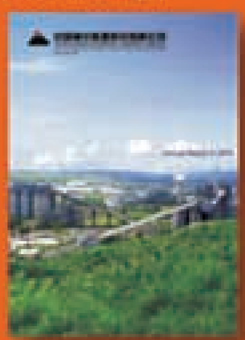

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