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

Scientific Concept of Development

2007 Interim Report

For more information please visit our website:
www.csec.com

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Operational

		For the six months ended 30 June 2007	2006	Percentage change %
Commercial coal production	(Million tonnes)	**76.6**	66.9	14.5
Coal sales	(Million tonnes)	**97.8**	80.8	21.0
Of which: Export	(Million tonnes)	**12.2**	12.4	(1.6)
Turnover of coal transported by self-owned railways	(Billion tonne km)	**56.6**	47.8	18.4
Seaborne coal	(Million tonnes)	**64.1**	57.1	12.3
Of which: Huanghua Port	(Million tonnes)	**39.8**	39.6	0.5
Shenhua Tianjin Coal Dock	(Million tonnes)	**9.2**	–	–
Gross power generation	(Billion kwh)	**36.02**	23.10	55.9
Total power output dispatch	(Billion kwh)	**33.70**	21.60	56.0

Financial

		For the six months ended 30 June 2007	2006 (restated)	Percentage change %
Per share				
Earnings per share	(RMB)	**0.570**	0.476	19.8
Equity attributable to equity shareholders per share	(RMB)	**3.91**	3.27	19.6
For the period				
Revenues	(RMB million)	**38,331**	29,533	29.8
Profit for the period	(RMB million)	**12,284**	9,774	25.7
Profit attributable to equity shareholders of the Company	(RMB million)	**10,315**	8,607	19.8

	As at 30 June 2007 RMB million	As at 31 December 2006 RMB million	Percentage change %
Total assets	**171,975**	163,148	5.4
Total liabilities	**83,578**	78,447	6.5
Total equity	**88,397**	84,701	4.4
Of which: Equity attributable to equity shareholders of the Company	**70,708**	66,771	5.9

In this report:

- The "Company", "China Shenhua", "we", "us" and "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 all of its subsidiaries;
- The "Group" means the Company and its subsidiaries;
- Coal production figures are quoted in tonnes of commercial coal, unless otherwise specified; and
- All prices are quoted exclusive of value-added tax, unless otherwise specified.

Dear Shareholders:

China Shenhua achieved outstanding operating and financial results and continued its rapid growth in the first half of 2007. The Company's results and growth were primarily attributable to the continued economic growth of China, the strong coal market and the Company's sound management practices. On behalf of the Board, I am pleased to present the Interim Report for the six months ended 30 June 2007.

Exceptional performance in the capital markets

As at 30 June 2007, the total market capitalisation of China Shenhua reached US$63,190 million, a rise of 44.8% over the total market capitalisation of the Company as at 31 December 2006, thereby surpassing the increase in the Hang Seng China Enterprises Index over the same period by 29 percentage points. On 31 May 2007, the H Shares of China Shenhua were incorporated into the MSCI Index. The Company has thus become a major stock indicator in the Asia-Pacific capital markets. The operating results and prospects of the Company have captured the attention and recognition of the international capital markets.

Robust growth in financial and business performance

Chen Biting
Chairman

The dedicated efforts of our entire staff contributed to our successful financial results for the six months ended 30 June 2007. As compared to the same period of 2006, our revenues grew by 29.8% to RMB38,331 million, the profit from operations rose by 25.0% to RMB16,452 million and the profit attributable to equity shareholders of the Company for the period rose by 19.8% to RMB10,315 million. Accordingly, our financial results continued to register steady, robust and rapid growth.

In the first half of 2007, both the sales volume and production volume of our coal segment witnessed strong growth. The Company continued to be an industry leader among listed energy companies in China and internationally. For the six months ended 30 June 2007, as compared to the same period of 2006, our coal sales volume grew by 21.0% to 97.8 million tonnes and the commercial coal production rose by 14.5% to 76.6 million tonnes. In the first half of 2007, the Company commenced the use of large mining supports of a height of 6.3 metres in the Shangwan mine at Shendong Mines and the fully mechanised mining face of the Yujialiang mine at Shendong Mines was extended to 400 metres. Both of these technologies established new world records for coal mines and effectively enhanced mining efficiency. The introduction of new extraction and mining technologies at the Heidaigou open-cut mine at Zhunge'er Mines laid the foundation for increasing the production capacity of the mine. At the same time, the coal mine upgrade at the Wulanmulun mine at Shendong Mines and construction at the Ha'erwusu open-cut mine at Zhunge'er Mines are steadily underway.

In the first half of 2007, the fatality rate per million tonnes of raw coal production in our mines was nil. During the same period, the average fatality rate per million tonnes of raw coal production at major State-owned coal mines was 0.436 and the average fatality rate per million tonnes of national raw coal production was 1.630.

Our integrated transportation system comprises railways and ports which have been developed in conjunction with our coal production needs, thereby enhancing the efficiency and capacity of transportation. In the first half of 2007, as compared to the same period in 2006, the turnover of coal transported by our self-owned railways rose by 18.4% to 56.6 billion tonne km and seaborne coal sales rose by 12.3% to 64.1 million tonnes. Huangwan Railway and Shenhua Tianjin Coal Dock, which commenced operation in the latter half of 2006, played a significant role in the first half of 2007. Huangwan Railway and Shenhua Tianjin Coal Dock recorded a transportation volume of 9.2 million tonnes of seaborne coal, thereby becoming key elements to the extension of our large-scale integrated transportation network. Works on the technical upgrade of the railway stations for Shenshuo Railway and capacity expansion works on the Huanghua Port and the Shenhua Tianjin Coal Dock are in progress.

In the first half of 2007, the Company's power generation increased substantially. As at 30 June 2007, the total installed capacity of our operating power plants rose by 40.2% over 30 June 2006 to 12,560 MW. As compared to the same period of 2006, our gross power generation rose by 55.9% to 36.02 billion kwh. A new 600 MW generation unit commenced operation in the Jinjie Energy integrated project. At the same time, construction of Phase III of Zhunge'er Power, Phase II of Ninghai Power and Phase II of Sanhe Power proceeded in accordance with the respective construction schedules.

Healthy development of the coal industry amid structural adjustments

The national coal market experienced strong supply and demand in the first half of 2007. With the continued rise in the domestic demand for coal, the sales volume of commercial coal nationwide in the first half of 2007 was 1,085.8 million tonnes, representing an increase of 11.9% over the same period of 2006. With respect to the domestic supply of coal, the domestic production volume of raw coal nationwide in the first half of 2007 amounted to 1,081.9 million tonnes, representing an increase of 11.4% over the same period of 2006. A total of 2,811 small coal mines nationwide were shut down in the first half of the year.

In the first half of 2007, the domestic export volume of coal nationwide amounted to 23.1 million tonnes, representing a decrease of 27.1% as compared to the first half of 2006. The import volume was 27.1 million tonnes in the first half of 2007, representing an increase of 48.1% over the first half of 2006. The net import volume of coal nationwide was 4.0 million tonnes in the first half of 2007. As import volume of coal increased and export volume decreased in the first half of 2007, the changes for import and export as compared to the same period of 2006 amounted to 17.4 million tonnes. Changes in China's coal import and export trends have had a profound impact on the Asia-Pacific coal market.

In the first half of 2007, the nationwide transportation volume of coal by railway amounted to 599.1 million tonnes, representing an increase of 10.1% over the first half of 2006. The transit volume of coal at key coal ports amounted to 226.1 million tonnes, representing an increase of 17.2% over the first half of 2006. Due to the distinguishing features of coal resource distribution and coal consumption distribution in China, there has been an inherent tendency for coal to be delivered from the west to the east and from the north to the south. It is therefore anticipated that the transportation capacity of railways will fail to satisfy the long-term demands for coal transportation. The insufficient railway transportation capacity has continued to be the major bottleneck in the supply-demand balance of coal in China.

Healthy structural adjustments to China's coal industry were made in the first half of 2007. Construction of large-scale coal production bases has been encouraged and the process of small coal mine closure has been accelerated. In light of this, consumption of coal remained strong, production increased incrementally and the railway transportation capacity for coal remained tightly constrained. The value of coal as a scarce resource has been made apparent through the supply-demand balance, the marketisation of coal and increased policy costs. As a result, the price of coal in the first half of the year exhibited a steady upward trend.

Supply and demand of power stabilised and balanced

In the first half of 2007, power consumption in China continued to experience fast growth, albeit at a slower rate of increase. Power supply continued to increase, thereby alleviating the previous acute demand.

From the demand perspective, power consumption by the general public continued its rapid rate of increase. In the first half of 2007, national power consumption reached 1,514.95 billion kwh, representing an increase of 15.5% over the same period of 2006. Such increase exceeded GDP growth. Industrial power consumption accounted for 1,152.07 billion kwh of total national power consumption, representing an increase of 17.2% over the first half of 2006. Of particular importance was the increase in power consumption by heavy industry of 18.8% as the sector became the major driver for power consumption.

From the perspective of power generation and supply in the first half of 2007, the total installed capacity of power generation equipment with capacity of 6,000 KW or above amounted to 620 million KW, representing an increase of 20.8% over the same period of 2006. Of the aggregate capacity, 500 million kilowatts were attributable to installed coal-fired equipment, representing an increase of 23.0% over the same period of 2006. The average utilisation hours of coal-fired generation equipment nationwide amounted to 2,638 hours, representing a decrease of 103 hours as compared to the same period of 2006. These statistics demonstrated that the previous acute situation relating to excess demand has been further alleviated.

In the first half of 2007, the small coal-fired power generation units nationwide which were closed down due to their high energy consumption and high pollution had an aggregate capacity of 5.51 million KW, which accounted for 55.1% of the State's closure target for 2007 of 10 million KW.

Outlook

In order to promote positive and rapid development of the macroeconomy, the State will further strengthen and improve macroeconomic control with a view to managing investment growth, enhancing energy conservation and reducing emissions. It is anticipated that China's economy will continue to register steady and rapid growth and the demand for energy will remain strong for the remaining half of the year.

It is expected that the State will continue to persist with the consolidation and closure of small coal mines. The State continued to implement a pilot project for the sustainable development of the coal industry and a policy of limiting coal exports while encouraging coal imports. It is anticipated that the demand for coal will continue to experience comparatively strong and steady growth so that coal supply and demand will generally be balanced in the remaining part of the year. It is expected that the spot price for coal sales will generally remain high despite certain fluctuations.

It is expected that the power industry will continue to implement policies of encouraging industry consolidation, energy conservation, pollutant emissions reduction and phasing out of small coal-fired power generation units. It is expected that in the latter part of 2007, the supply-demand balance for power will be generally achieved. There may be a decline in the average utilisation hours of the power generation units nationwide and power shortages or oversupply may occur in certain regions or during certain periods.

China Shenhua will continue to adhere to its operating model by integrating its coal, railways, ports and power segments and coordinating the development of all business segments while expanding its scale of operation and boosting its profitability. The Company will endeavour to develop and acquire new resources in China and overseas in order to realise sustainable development. The Company will continue to study the advanced enterprise management experience of domestic and overseas corporations so as to enhance our corporate governance practices and achieve increased transparency. The Company will continue to raise our environmental protection awareness in the areas of energy conservation and reduction of pollutants in order to proactively fulfil our corporate social responsibility obligations and to achieve socially harmonious development.

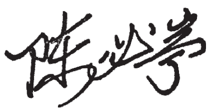
The efforts to improve the coordinated development of all segments mainly comprise the following:

- With the objectives of production capacity expansion, enhancement of efficiency and recovery rate and cost control, we aim to promote technological innovations at our Shendong Mines and to effect technological upgrading of our existing mines. We hope to accelerate the progress of the localisation of equipment manufacturing. We will continue to carry out technological transformations to certain mines in our Wanli Mines and to construct the Ha'erwusu open-cut mine and its ancillary facilities as scheduled;

- Through the upgrade of engines and vehicles, the replacement of railway tracks, the renovation of loading stations and bridge reinforcement, we primarily aim to improve the transportation capacity of Shenshuo Railway and Dazhun Railway; and

- We will effectively manage the power generation units which have recently commenced operation to ensure stability, safety and long-term running cycles.

Both the Board and I strive to live up to the invaluable trust placed on us by shareholders and work closely with our entire staff to maintain our leading position in the coal industry both in China and internationally in order to continuously create value for our shareholders.



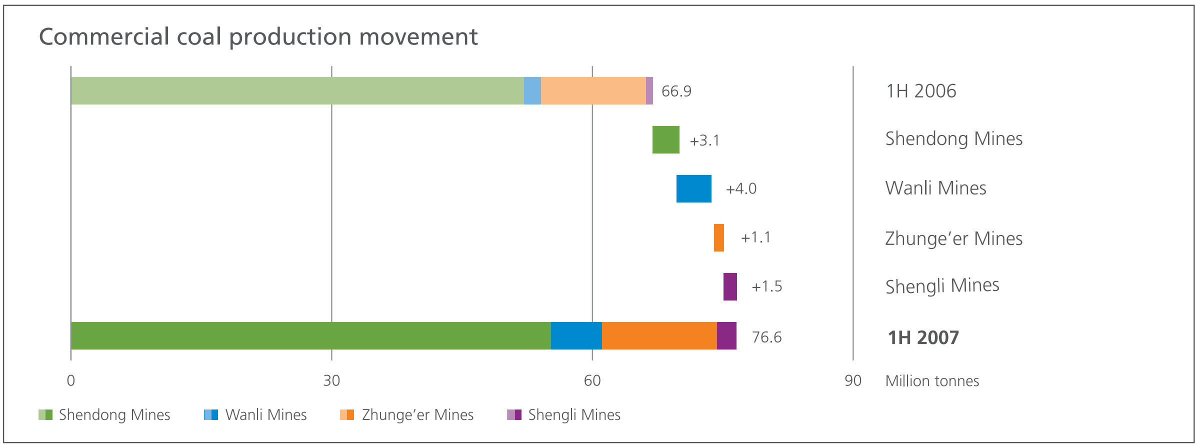
Chen Biting
Chairman

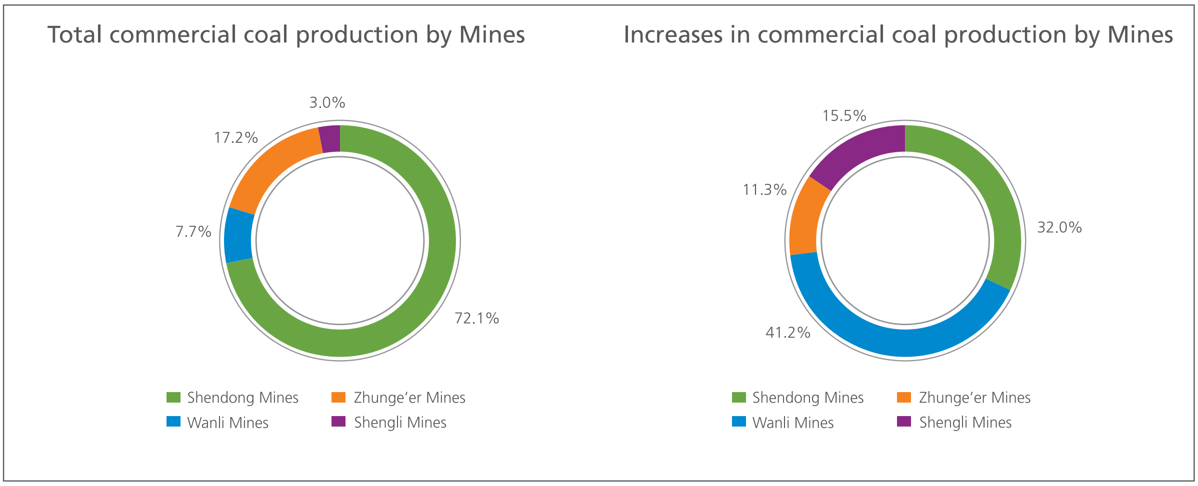
Beijing, China
17 August 2007

Coal segment

Coal production

Commercial coal production	For the six months ended 30 June 2007 Million tonnes	2006 Million tonnes	Percentage change %
Shendong Mines	**55.2**	52.1	6.0
Bulianta	**8.2**	9.9	(17.2)
Daliuta-Huojitu	**9.1**	9.5	(4.2)
Yujialiang	**8.9**	8.0	11.3
Shangwan	**6.0**	6.2	(3.2)
Halagou	**6.0**	6.0	–
Kangjiatan	**6.1**	4.8	27.1
Shigetai	**4.4**	2.5	76.0
Wulanmulun	**3.3**	2.3	43.5
Jinjie	**1.3**	–	–
Others	**1.9**	2.9	(34.5)
Wanli Mines	**5.9**	1.9	210.5
Zhunge'er Mines	**13.2**	12.1	9.1
Heidaigou	**13.2**	12.1	9.1
Shengli Mines	**2.3**	0.8	187.5
Total	**76.6**	66.9	14.5





In the first half of 2007, the Company achieved excellent operating results in its coal segment with the increase in coal production having been maintained steadily. Commercial coal production amounted to 76.6 million tonnes, representing an increase of 9.7 million tonnes or 14.5% over the first half of 2006; coal sales volume amounted to 97.8 million tonnes, representing an increase of 17.0 million tonnes or 21.0% as compared with the same period in 2006. During the first half of 2007, our raw coal production of 81.0 million tonnes accounted for 7.5% of the national raw coal production of 1,081.9 million tonnes; our export sales volume of 12.2 million tonnes accounted for 52.8% of the national coal export volume of 23.1 million tonnes. Our domestic seaborne coal sales amounted to 51.9 million tonnes, which accounted for 25.9% of the national port transshipment volume of domestic coal of 200.6 million tonnes.

Our Shendong Mines continued to maintain our leading position among the underground mines around the world both in terms of production volume and production efficiency of underground workers. Shendong Mines include six mines each with annual production capacity of 10 million tonnes, which are Bulianta mine, Daliuta mine, Yujialiang mine, Halagou mine, Shangwan mine and Kangjiatan mine. In the first half of 2007, the commercial coal production of Shendong Mines amounted to 55.2 million tonnes, representing 72.1% of the total commercial coal production of our Company for the same period. In the first half of 2007, the production volume of Shendong Mines increased 3.1 million tonnes as compared with the same period in 2006, representing 32.0% of our total increase in commercial coal production volume of 9.7 million tonnes. Based on the annualised production volume for the first half of 2007, the production efficiency of commercial coal of underground workers in Shendong Mines was 28,358 tonnes per capita per annum. Breakthroughs in technological upgrading and revamp have been made consistently at Shendong Mines. In January 2007, the first 400 metre super long combined mining face in China was put into operation in the Yujialiang mine; in May, the world's largest 6.3 metre supports were put into operation in the mining face at the Shangwan mine; and in June, the first underground water purification system for coal mines in China was put into operation in the Yujialiang mine.

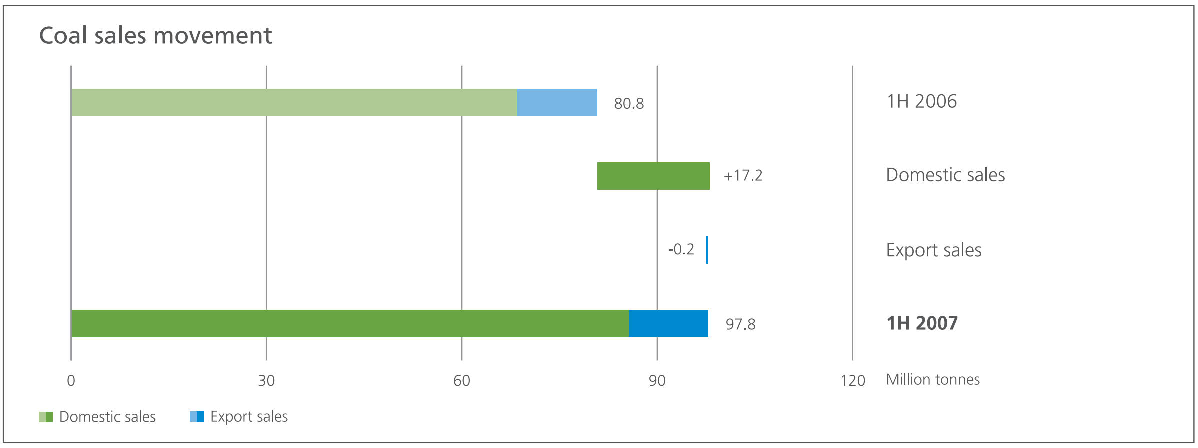
In Wanli Mines, following technological revamp, mechanical mining has been substantially enhanced and both the integrated mining technology and production capacity of the mines have been increased. The production volume of Wanli Mines in the first half of the year amounted to 5.9 million tonnes, representing an increase of 210.5% over the same period in 2006. The increase in production volume of Wanli Mines in the first half of the year as compared to the same period in 2006, was 4.0 million tonnes, representing 41.2% of our total increase in commercial coal production volume of 9.7 million tonnes.

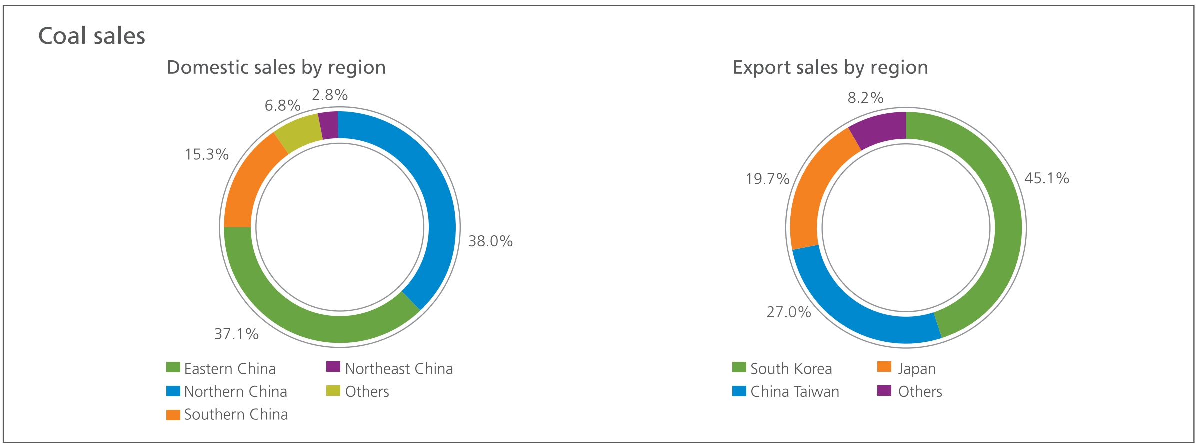
The production volume of Heidaigou mine of the Zhunge'er Mines in the first half of 2007 amounted to 13.2 million tonnes, representing an increase of 9.1% as compared with the same period in 2006. The increase of Zhunge'er Mines in the first half of the year as compared with the same period in 2006 was 1.1 million tonnes, representing 11.3% of our total increase in commercial coal production volume of 9.7 million tonnes. Advanced technology and equipment such as bucket wheel excavators, single-bucket scrapes with trucks and casting mining and electric wheel with cars for individual loads over 300 tonnes have been progressively applied in the Heidaigou mine and the Ha'erwusu mine which is being constructed. In March 2007, the first throw blasting was successfully implemented in the Heidaigou open-cut mine, thereby reducing the transport distance of strippings between the stripped area and mined out areas, which in turn helps to reduce the mining cost.

While proceeding with the construction of the Shengli No. 1 open-cut mine of Shengli Mines, the production volume of Shengli Mines amounted to 2.3 million tonnes in the first half of 2007, representing an increase of 187.5% as compared with the same period in 2006. The production volume of Shengli Mines in the first half of 2007 increased 1.5 million tonnes as compared with the same period in 2006, which accounted for 15.5% of our total increase in commercial coal production volume of 9.7 million tonnes.

Coal sales

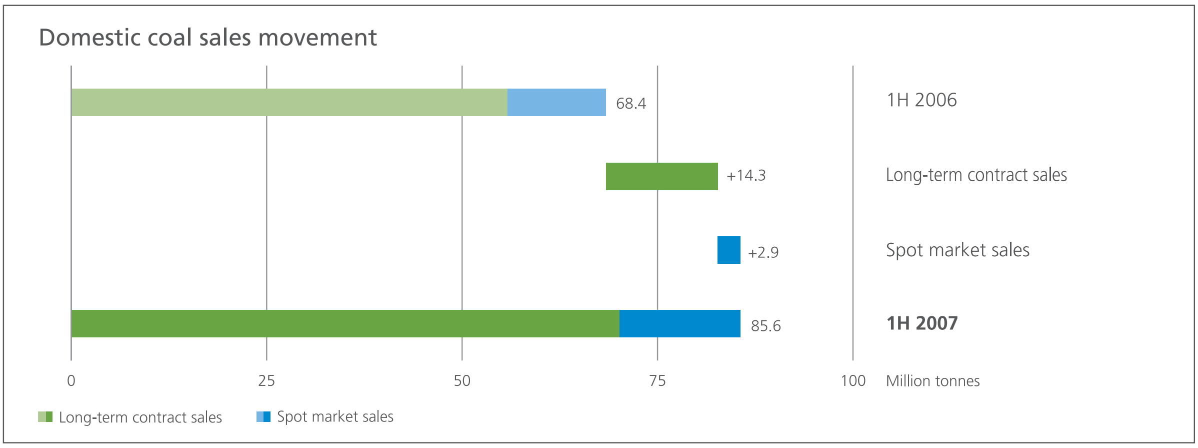
	For the six months ended 30 June 2007 Million tonnes	2006 Million tonnes	Percentage change %
Domestic sales	**85.6**	68.4	25.1
Northern China	**32.5**	24.0	35.4
Eastern China	**31.8**	28.2	12.8
Southern China	**13.1**	10.6	23.6
Northeast China	**2.4**	3.6	(33.3)
Others	**5.8**	2.0	190.0
Export sales	**12.2**	12.4	(1.6)
South Korea	**5.5**	4.0	37.5
China Taiwan	**3.3**	3.3	–
Japan	**2.4**	2.3	4.3
Others	**1.0**	2.8	(64.3)
Total	**97.8**	80.8	21.0

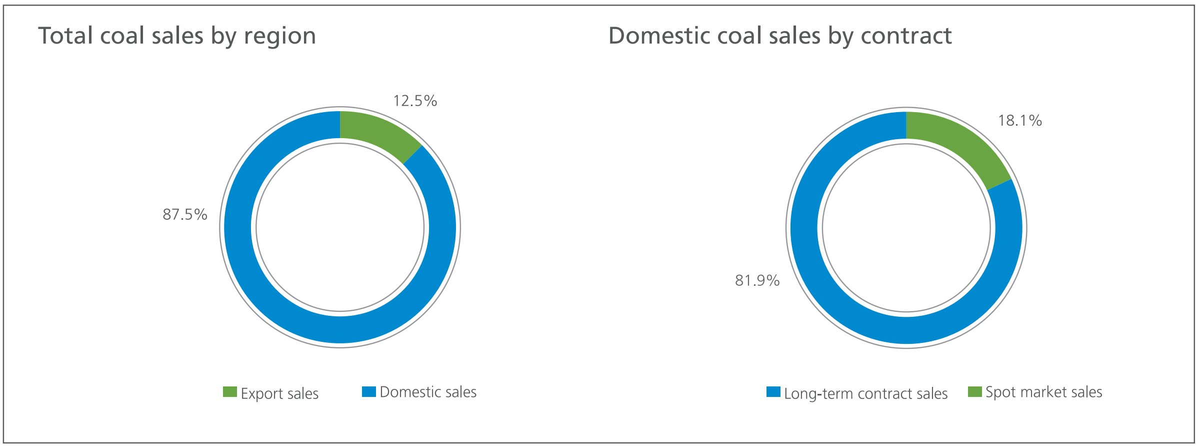




Since the beginning of 2007, we have been taking the initiative to communicate in a timely manner with key customers both in China and overseas so as to gain an advantage in price discussions. We shall communicate with our major customers in the approaching summer to solicit their views and recommendations for the supply of Shenhua coal so that the supply to important customers can be maintained. We strongly believe the good marketing strategies can both capture market share and maintain healthy and long-term relationships with our customers.

	For the six months ended 30 June 2007 Sales volume Million tonnes	2007 Percentage %	2006 Sales volume Million tonnes	2006 Percentage %
Total domestic sales	**85.6**	**87.5**	68.4	84.7
Long-term contract sales	**70.1**	**71.7**	55.8	69.1
Mine mouth	**–**	**–**	1.0	1.3
Direct arrival (along rail lines)	**24.7**	**25.3**	17.3	21.4
Seaborne (FOB)	**45.4**	**46.4**	37.5	46.4
Spot market sales	**15.5**	**15.8**	12.6	15.6
Mine mouth	**4.5**	**4.6**	1.7	2.1
Direct arrival (along rail lines)	**4.5**	**4.6**	3.6	4.5
Seaborne (FOB)	**6.5**	**6.6**	7.3	9.0
Export sales	**12.2**	**12.5**	12.4	15.3
Total	**97.8**	**100.0**	80.8	100.0





(1) Domestic sales

During the first half of 2007, the Company sold 85.6 million tonnes of coal in the domestic market, accounting for 87.5% of the commercial coal sales of the Company. Domestic long-term contract sales was 70.1 million tonnes, accounting for 71.7% of our total sales of commercial coal. Domestic long-term contract seaborne coal sales amounted to 45.4 million tonnes, which accounted for 46.4% of our total sales of commercial coal. Domestic spot market sales was 15.5 million tonnes, which accounted for 15.8% of our total sales of commercial coal.

Domestic coal sales to the five largest external customers was 9.1 million tonnes, accounting for 10.6% of the Company's total domestic sales. Sales to the largest external customer was 2.2 million tonnes, which accounted for 2.6% of the Company's total domestic sales. Our five largest domestic external customers are either power generation companies or fuel companies.

(2) Export sales

During the first half of 2007, the Company exported 12.2 million tonnes of coal, which accounted for 12.5% of the Company's commercial coal sales. 97.0% of export sales was conducted under long-term contracts.

The Company's sales to the five largest export customers was 8.8 million tonnes, which accounted for 72.1% of the Company's total export sales. Sales to the largest export customer was 3.6 million tonnes, which accounted for 29.5% of our total export sales. Our five largest customers of export sales are either power generation companies or fuel companies.

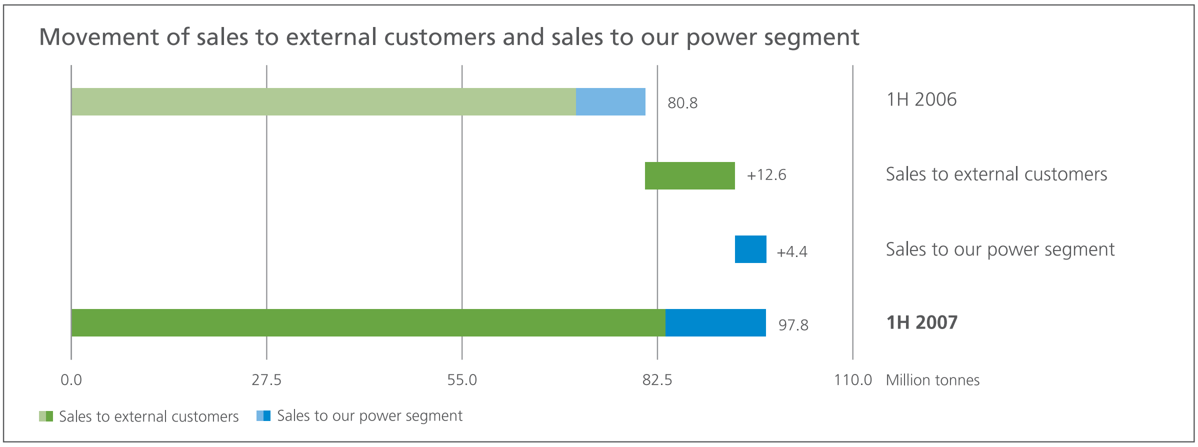
(3) Sales to external customers and our power segment

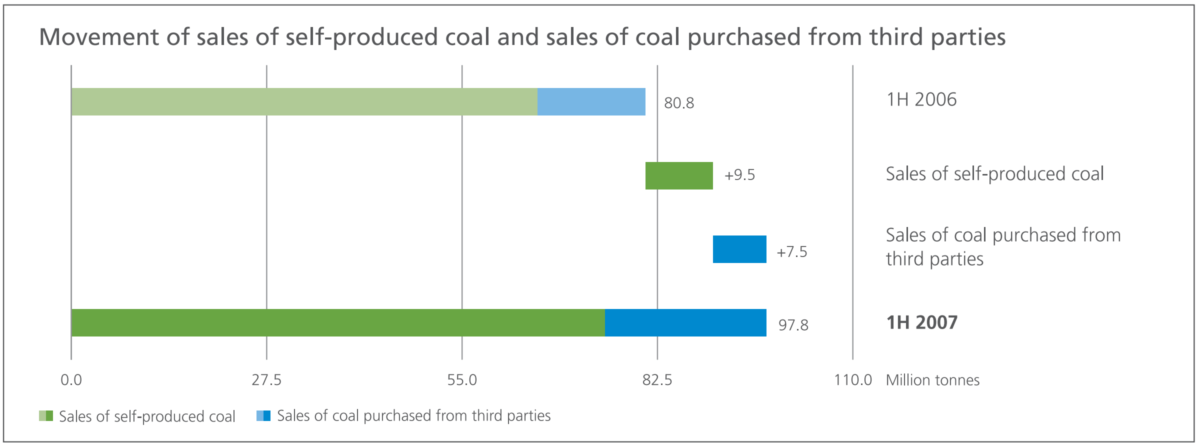
In the first half of 2007, sales to external customers further increased to 83.6 million tonnes, representing an increase of 17.7% over the same period in 2006 and accounting for 85.5% of our total sales of commercial coal.

With a larger number of generation units having been commissioned in 2006, the Company's sales to our power segment in the first half of 2007 increased substantially to 14.2 million tonnes, representing an increase of 44.9% over the same period in 2006 and accounting for 14.5% of our total sales volume of commercial coal.

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

In the first half of 2007, coal purchased from third parties by the Company amounted to 22.7 million tonnes, accounting for 23.2% of the Company's commercial coal sales and representing an increase of 7.5 million tonnes or 49.3% as compared to the same period in 2006.



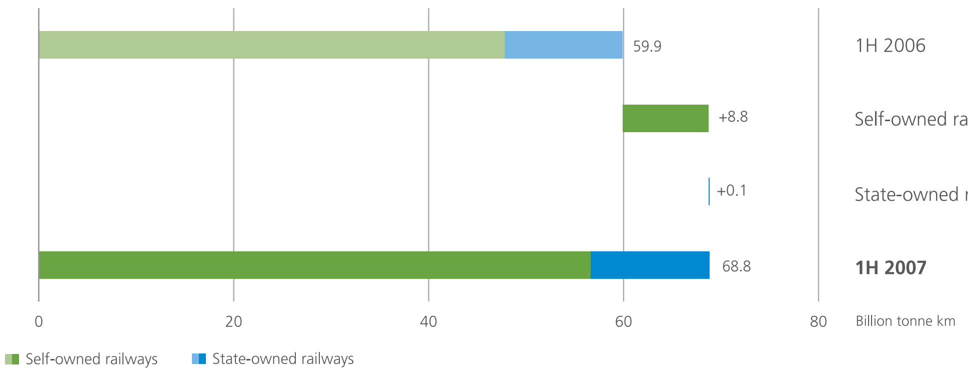


Coal transportation

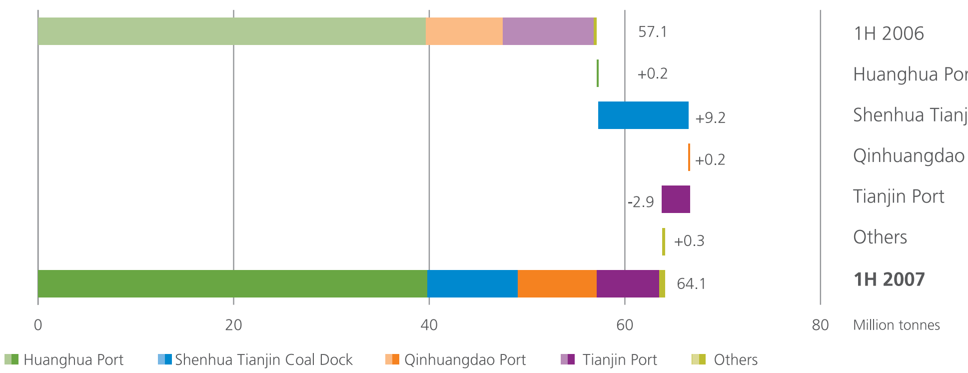
Turnover of coal transportation	For the six months ended 30 June 2007 Billion tonne km	 2006 Billion tonne km	Percentage change %
Self-owned railways	**56.6**	47.8	18.4
State-owned railways	**12.2**	12.1	0.8
Total	**68.8**	59.9	14.9

Seaborne coal	Million tonnes	Million tonnes	%
Self-owned ports	**49.0**	39.6	23.7
Huanghua Port	**39.8**	39.6	0.5
Shenhua Tianjin Coal Dock	**9.2**	–	–
Third-party ports	**15.1**	17.5	(13.7)
Qinhuangdao Port	**9.5**	9.3	2.2
Tianjin Port	**5.0**	7.9	(36.7)
Others	**0.6**	0.3	100.0
Total	**64.1**	57.1	12.3

Turnover of coal transportation movement



Seaborne coal sales movement



In the first half of 2007, the turnover of coal transportation of the Company was 68.8 billion tonne km, representing an increase of 8.9 billion tonne km, or 14.9%, as compared with the same period in 2006. In the first half of 2007, the turnover of coal transportation by the Company's self-owned railways amounted to 56.6 billion tonne km, representing an increase of 8.8 billion tonne km or 18.4% over the same period in 2006. The turnover of coal transportation by self-owned railways accounted for 82.3% of total turnover of coal transportation.

Railway transportation is an important link to connect the production and sale of coal and our self-owned railways represent the competitive strength of China Shenhua over other domestic coal enterprises. In the first half of 2007, through technological revamp of stations, the replacement with seamless heavy rails and the gradual increase of C70A high loading rail vehicles, and improvements in dispatch coordination, we have increased the turnover rate of trucks, and continued to increase our railway transportation capacity.

In the first half of 2007, Huanghua Port and Shenhua Tianjin Coal Dock, our self-owned ports, achieved a total seaborne coal sales of 49.0 million tonnes, representing an increase of 9.4 million tonnes or 23.7% over the same period in 2006. In the first half of 2007, we achieved a total seaborne coal sales of 64.1 million tonnes, which accounted for 65.5% of the Company's commercial coal sales in the first half of 2007.

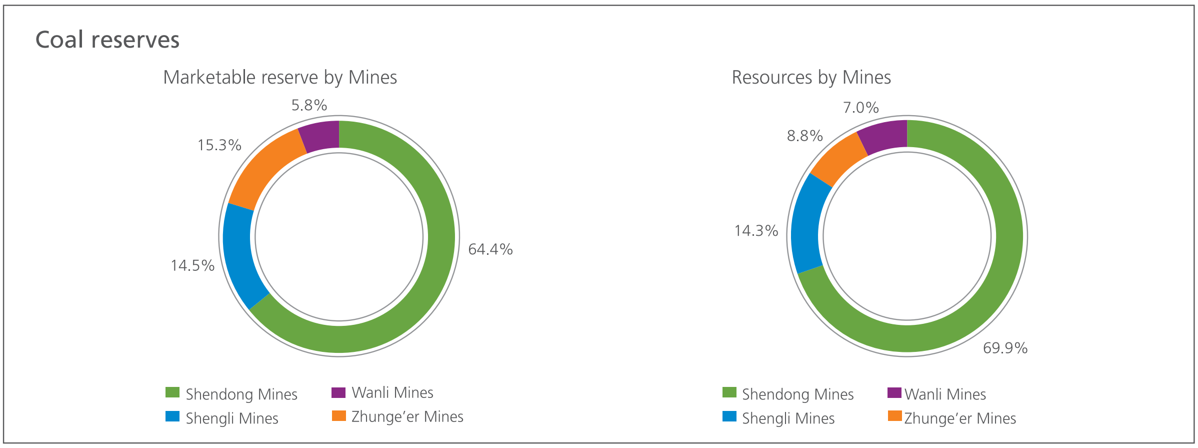
In June 2007, the widening and dredging works for water routes of Huanghua Port commenced. Upon completion, this will allow fully loaded 50,000-tonne class vessels to sail through the port all year round, thus raising navigation capacity. Feasibility studies of Phase II of Shenhua Tianjin Coal Dock have also commenced.

Coal reserves*

		As at 30 June 2007			
	Method of mining	**Marketable reserve Million tonnes**	**Percentage %**	**Resources Million tonnes**	**Percentage %**
Shendong Mines	Underground	3,858	64.4	10,387	69.9
Wanli Mines	Underground	348	5.8	1,043	7.0
Zhunge'er Mines	Open-cut	916	15.3	1,302	8.8
Shengli Mines	Open-cut	867	14.5	2,131	14.3
Total		**5,989**	**100.0**	**14,863**	**100.0**

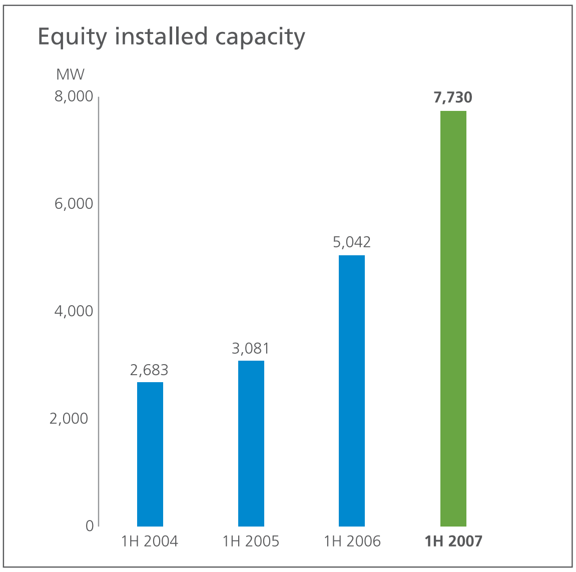
* Under the Australian Code of Reporting of Mineral Resources and Ore Reserves, effective since December 2004 ("JORC Code")

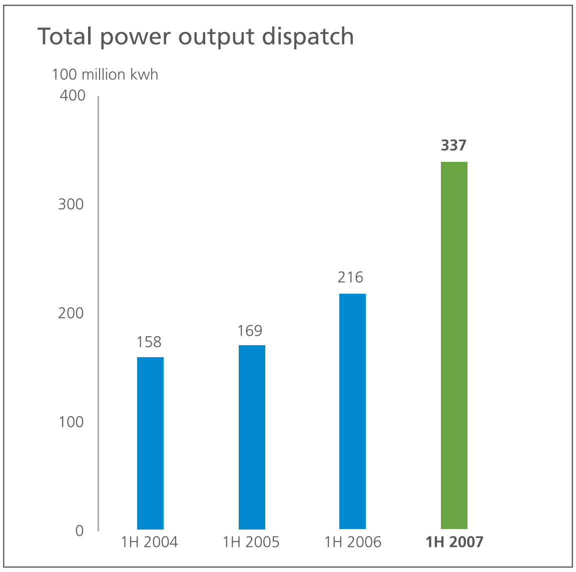
As at 30 June 2007, the Company's marketable coal reserves reached 5.989 billion tonnes according to the JORC Code. Based on commercial coal production in 2006, the Company has coal resources which may be exploited for approximately a further 43 years. In the first half of 2007, the Company obtained coal mining permits for the Qianshipan mine, the Ciyaowan mine and the Tanggonggou mine, which increased the Company's marketable coal reserves.



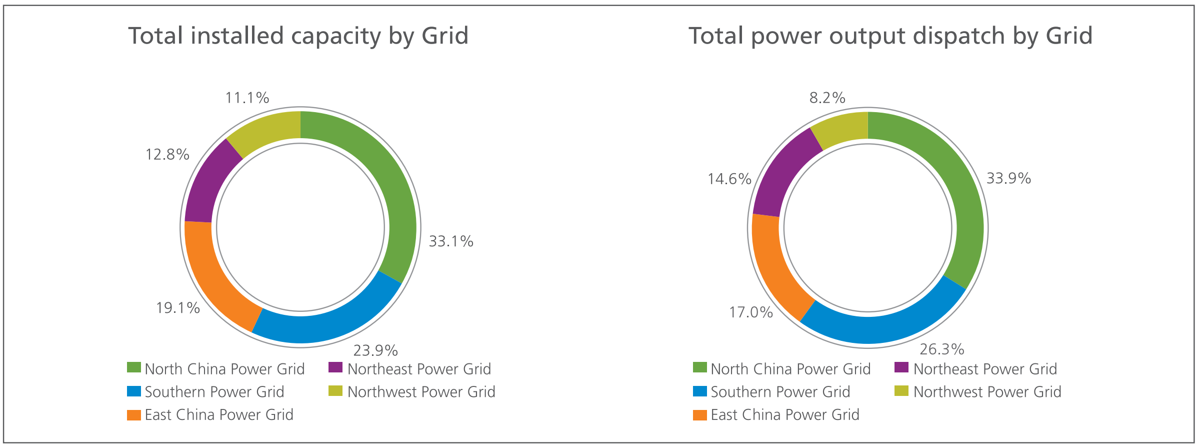
Power segment

Operating power plants	Regional grid	As at 30 June 2007 Installed capacity MW	For the six months ended 30 June 2007 Gross power generation 100 million kwh	Total power output dispatch 100 million kwh	Average utilisation hours Hour	Standard coal consumption rate of power dispatch g/kwh
Huanghua Power	North China Power Grid	1,200	33.2	31.6	2,770	327
Panshan Power	North China Power Grid	1,000	26.2	24.7	2,625	329
Sanhe Power	North China Power Grid	700	22.6	21.4	3,228	324
Guohua Zhunge'er	North China Power Grid	660	21.1	19.4	3,192	330
Beijing Thermal	North China Power Grid	400	12.1	10.7	3,014	261
Zhunge'er Power	North China Power Grid	200	7.3	6.4	3,628	410
Suizhong Power	Northeast Power Grid	1,600	52.0	49.3	3,249	331
Ninghai Power	East China Power Grid	2,400	61.0	57.3	2,543	327
Jinjie Energy	Northwest Power Grid	1,200	23.3	21.2	2,915	346
Shenmu Power	Northwest Power Grid	200	6.9	6.3	3,456	396
Taishan Power	Southern Power Grid	3,000	94.5	88.7	3,151	318
Total / weighted average		**12,560**	**360.2**	**337.0**	**2,963**	**328**





Distribution of power plants	As at 30 June 2007 Installed capacity MW	As at 30 June 2007 Percentage %	For the six months ended 30 June 2007 Power output dispatch 100 million kwh	For the six months ended 30 June 2007 Percentage %
North China Power Grid	4,160	33.1	114.2	33.9
Northeast Power Grid	1,600	12.8	49.3	14.6
East China Power Grid	2,400	19.1	57.3	17.0
Northwest Power Grid	1,400	11.1	27.5	8.2
Southern Power Grid	3,000	23.9	88.7	26.3
Total	**12,560**	**100.0**	**337.0**	**100.0**



As at 30 June 2007, we controlled and operated 11 coal-fired power plants with the total installed capacity and equity installed capacity of 12,560 MW and 7,730 MW respectively, representing an increase of 40.2% and 53.3% over the same period in 2006. Our equity installed capacity accounted for 61.5% of our total installed capacity. On 1 May 2007, No. 2 generation unit of Jinjie Energy (600MW) passed the 168-hour test and was put into operation. As at 30 June 2007, the Company's average unit capacity reached 465 MW.

In the first half of 2007, our gross power generation was 36.02 billion kwh, representing an increase of 12.92 billion kwh, or 55.9%, as compared to the same period in 2006; total power output dispatch was 33.70 billion kwh, representing an increase of 12.10 billion kwh or 56.0% as compared to the same period in 2006; the average utilisation hours of power generation units reached 2,963 hours, representing a decrease of 96 hours, as compared with the same period in 2006. Despite this, we still maintained our leading position in the industry in China, 325 hours higher than the average utilisation hours of 2,638 hours by national generation facilities for coal-fired generation during the same period.

In the first half of 2007, coal consumption by the Company's power generation business amounted to 14.7 million tonnes; of which 14.2 million tonnes of Shenhua coal were consumed, accounting for 96.6% of the total coal consumption. The standard coal consumption rate of power dispatch was 328 g/kwh which was in line with the same period in 2006.

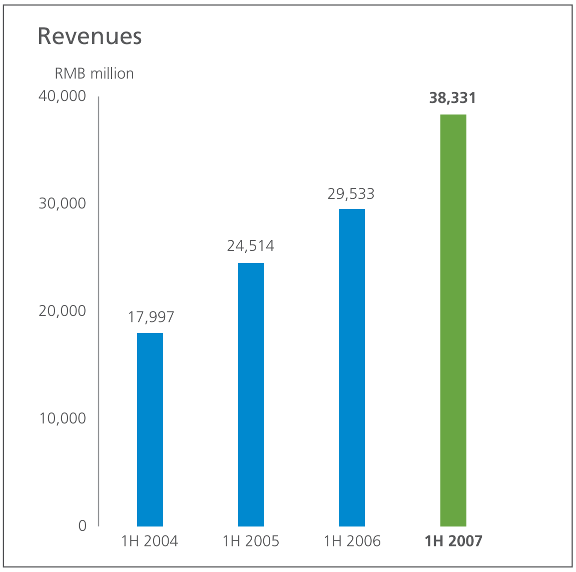
The following discussion and analysis should be read together with the audited financial statements and related notes of the Group as set out in this report.

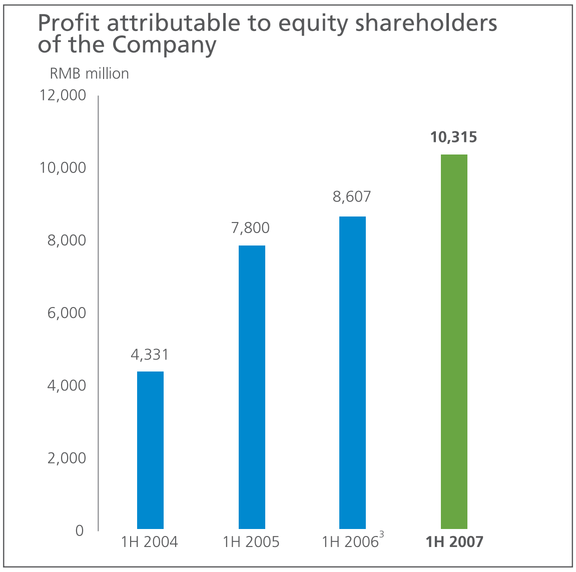
Overview

For the six months ended 30 June 2007, the profit before income tax of the Group amounted to RMB15,394 million, representing an increase of 27.4% over the first half of 2006. The profit attributable to equity shareholders of the Company amounted to RMB10,315 million in the first half of 2007, representing an increase of 19.8% over the first half of 2006. Earnings per share of the Company was RMB0.570 in the first half of 2007.

For the six months ended 30 June 2007, the revenues from operations in our coal and power segments reached record highs. Coal revenue grew from RMB22,303 million for the six months ended 30 June 2006 to RMB26,328 million for the same period in 2007, representing an increase of 18.0%. The growth in coal revenue was attributable to increases in the volume of coal production and sales and the raised coal prices. Due to the significant increases in the installed capacity of our power segment in the second half of 2006, power output dispatch significantly increased and on-grid tariff also increased for the six months ended 30 June 2007. Power revenue increased from RMB6,479 million for the six months ended 30 June 2006 to RMB11,079 million for the six months ended 30 June 2007, representing an increase of 71.0%.

For the six months ended 30 June 2007, our return on total assets was 6.0% and our return on net assets was 14.6%. EBITDA[1] increased from RMB16,384 million for the six months ended 30 June 2006 to RMB20,541 million for the same period in 2007, representing an increase of 25.4%. Our total debt capitalisation ratio[2] was 40.1% as at 30 June 2007.





Notes:

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

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

3 Figure for the first half of 2006 has been restated as a result of the application of pooling-of-interests method on the acquisition of Jinjie Energy.

The following is a comparison of the financial results for the six months ended 30 June 2006 and 30 June 2007 respectively:

Consolidated results of operations

Revenues

For the six months ended 30 June 2007, revenues were RMB38,331 million, representing an increase of RMB8,798 million or 29.8% for the same period in 2006. The increase was mainly attributable to increased coal production and sales, with the prices of certain types of coal rising; the new power plants which commenced operation in 2006 started to fully operate in 2007, thereby resulting in increased power output dispatch; and the policy of linking the coal prices and power tariff implemented on 30 June 2006, resulted in increased average on-grid tariff.

The proportion of coal revenue to total operating revenues decreased from 75.5% for the six months ended 30 June 2006 to 68.7% for the same period in 2007, while the proportion of power revenue to total operating revenues increased from 21.9% for the six months ended 30 June 2006 to 28.9% for the same period in 2007.

Cost of revenues

For the six months ended 30 June 2007, cost of revenues amounted to RMB19,290 million, representing an increase of RMB4,810 million or 33.2% as compared to the same period in 2006.

The main reasons for the increase are as follows:

- Coal purchased from third parties increased significantly to RMB4,723 million for the six months ended 30 June 2007, representing an increase of RMB1,722 million or 57.4% over the same period in 2006. The increase was mainly attributable to the increase in the volume and prices of coal purchased from third parties in 2007.

- Materials, fuel and power substantially increased to RMB2,323 million for the six months ended 30 June 2007, representing an increase of RMB952 million or 69.4% as compared to the same period in 2006. The increase was mainly attributable to the substantial increase in power generation in the power segment, together with the corresponding substantial increase in coal consumption by power generation units and in the prices of coal. As the production volume of our coal segment increased, the consumption and price of raw materials and spare parts also increased.

- Personnel expenses amounted to RMB1,743 million for the six months ended 30 June 2007, representing an increase of RMB459 million or 35.7% as compared to the same period in 2006. The increase was mainly attributable to wage adjustments as a result of improved operational results and the increased number of employees in our coal mines and newly operated power plants.

- Depreciation and amortisation amounted to RMB3,747 million for the six months ended 30 June 2007, representing an increase of RMB769 million or 25.8% as compared to the same period in 2006. The increase was mainly attributable to our business development and the increase in property, plant and equipment in power plants, coal mines, ports and railways.

- Repairs and maintenance remained relatively constant for the six months ended 30 June 2007, amounting to RMB1,309 million and representing an increase of RMB22 million or 1.7% as compared to the same period in 2006.

- Transportation charges amounted to RMB3,359 million for the six months ended 30 June 2007, representing an increase of RMB394 million or 13.3% as compared to the same period in 2006. The increase was mainly attributable to the increase in sales volume of our coal segment, resulting in increased transportation charges.

- Other expenses amounted to RMB2,086 million for the six months ended 30 June 2007, representing an increase of RMB492 million or 30.9% as compared to the same period in 2006. The increase was mainly attributable to the increase in coal selection and mining fees, sales taxes and surcharges which rose with the increase in coal production and sales and the increase in environmental protection costs and resources compensation fees.

Selling, general and administrative expenses

Selling, general and administrative expenses amounted to RMB2,370 million for the six months ended 30 June 2007, representing an increase of RMB531 million or 28.9% over the same period in 2006. The increase was mainly attributable to the expansion of the Company's production scale, the increase in personnel expenses and taxes.

Profit from operations

For the six months ended 30 June 2007, profit from operations amounted to RMB16,452 million, representing an increase of RMB3,294 million or 25.0% as compared to the same period in 2006.

Net finance costs

For the six months ended 30 June 2007, net finance costs amounted to RMB1,279 million, representing an increase of RMB57 million or 4.7% as compared to the same period in 2006.

Income tax

For the six months ended 30 June 2007, income tax amounted to RMB3,110 million, representing an increase of RMB799 million or 34.6% as compared to the same period in 2006. The effective tax rate increased from 19.1% for the six months ended 30 June 2006 to 20.2% for the same period in 2007, representing an increase of 1.1 percentage points. The increase was mainly attributable to the increase in taxable profits in our power segment and Shuohuang Railway which are subject to the applicable tax rate of 33%.

Profit attributable to equity shareholders of the Company

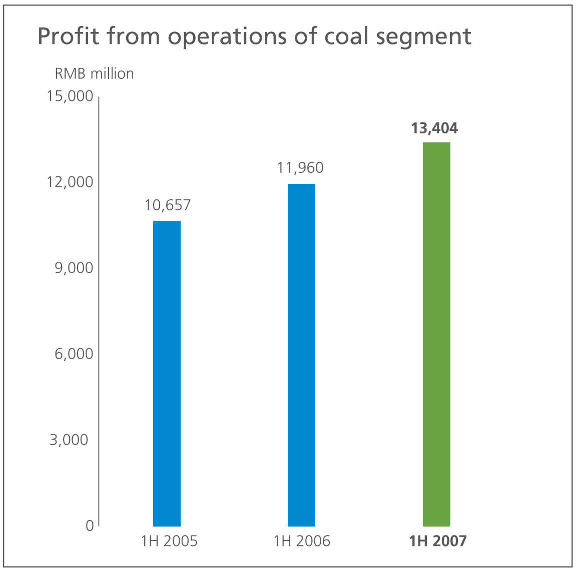
For the six months ended 30 June 2007, profit attributable to equity shareholders of the Company was RMB10,315 million, representing an increase of RMB1,708 million or 19.8% as compared to the same period in 2006.

Operating results by segment

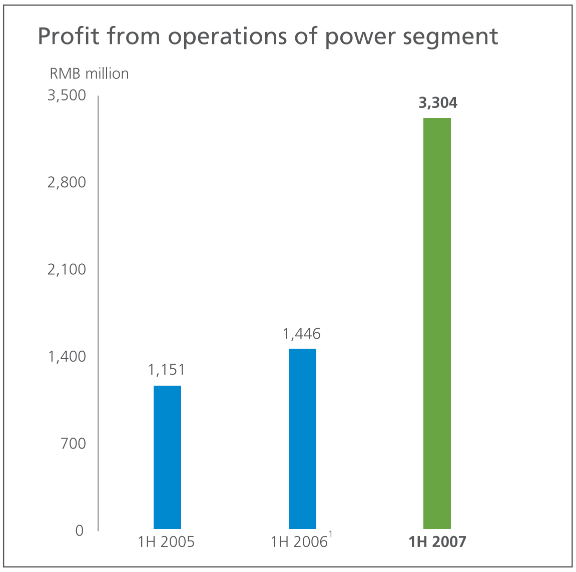
The Group conducts production, sales and transportation of coal, power generation and related business through two main business segments: the coal segment and the power segment.

Segment information

	For the six months ended 30 June									
	Coal		Power		Corporate and others		Eliminations		Total	
	2007 RMB million	2006 RMB million	**2007 RMB million**	2006 RMB million	**2007 RMB million**	2006 RMB million	**2007 RMB million**	2006 RMB million	**2007 RMB million**	2006 RMB million
Revenue										
External sales	**27,176**	23,044	**11,155**	6,489	**–**	–	**–**	–	**38,331**	29,533
Inter-segment sales	**4,549**	2,844	**40**	37	**–**	–	**(4,589)**	(2,881)	**–**	–
Total operating revenues	**31,725**	25,888	**11,195**	6,526	**–**	–	**(4,589)**	(2,881)	**38,331**	29,533
Cost of revenues										
Cost of coal purchased from third parties	**(4,723)**	(3,001)	**–**	–	**–**	–	**–**	–	**(4,723)**	(3,001)
Cost of coal production	**(5,240)**	(3,894)	**–**	–	**–**	–	**1,478**	772	**(3,762)**	(3,122)
Cost of coal transportation	**(6,042)**	(5,236)	**–**	–	**–**	–	**975**	588	**(5,067)**	(4,648)
Power cost	**–**	–	**(7,280)**	(4,616)	**–**	–	**2,113**	1,453	**(5,167)**	(3,163)
Others	**(553)**	(544)	**(18)**	(2)	**–**	–	**–**	–	**(571)**	(546)
Total cost of revenues	**(16,558)**	(12,675)	**(7,298)**	(4,618)	**–**	–	**4,566**	2,813	**(19,290)**	(14,480)
Selling, general and administrative expenses	**(1,586)**	(1,203)	**(556)**	(456)	**(228)**	(180)	**–**	–	**(2,370)**	(1,839)
Other operating expenses, net	**(177)**	(50)	**(37)**	(6)	**(5)**	–	**–**	–	**(219)**	(56)
Profit / (loss) from operations	**13,404**	11,960	**3,304**	1,446	**(233)**	(180)	**(23)**	(68)	**16,452**	13,158
Operating margin (%)	**42.3**	46.2	**29.5**	22.2						



Profit from operations of coal segment



Profit from operations of power segment

Note:

1. Figure for the first half of 2006 has been restated as a result of the application of pooling-of-interests method on the acquisition of Jinjie Energy.

Coal segment

Overall analysis

(1) Revenues

For the six months ended 30 June 2007, coal segment revenues amounted to RMB31,725 million, representing an increase of RMB5,837 million or 22.5% as compared to the same period in 2006. The increase was mainly attributable to the sales volume increasing from 80.8 million tonnes for the six months ended 30 June 2006 to 97.8 million tonnes for the same period in 2007, representing an increase of 21.0%. During the same period, the weighted average sales price of coal increased from RMB311.1/tonne to RMB315.6/tonne, representing an increase of 1.4%.

The following is a breakdown of the Group's coal sales volume and price by market for the six months ended 30 June 2006 compared with that for the six months ended 30 June 2007:

Coal sales

	For the six months ended 30 June			
	2007		2006	
(By market)	**Sales volume Million tonnes**	**Sales price RMB/tonne**	Sales volume Million tonnes	Sales price RMB/tonne
Total domestic sales volume / weighted average price	**85.6**	**307.3**	68.4	297.5
Long-term contract sales volume / weighted average price	**70.1**	**314.5**	55.8	295.0
Mine mouth	**–**	**–**	1.0	129.6
Direct arrival (along rail lines)	**24.7**	**237.2**	17.3	226.9
Seaborne (FOB)	**45.4**	**356.6**	37.5	331.0
Spot market sales volume / weighted average price	**15.5**	**274.6**	12.6	308.5
Mine mouth	**4.5**	**95.8**	1.7	89.4
Direct arrival (along rail lines)	**4.5**	**284.5**	3.6	277.9
Seaborne (FOB)	**6.5**	**392.1**	7.3	376.0
Export sales volume / price	**12.2**	**374.6**	12.4	386.1
Total sales volume / weighted average price	**97.8**	**315.6**	80.8	311.1

Sales of our coal segment were mainly targeted at the domestic market. For the six months ended 30 June 2007, the Group's revenues from domestic sales amounted to RMB26,317 million, representing an increase of RMB5,969 million or 29.3% as compared to the same period in 2006. The increase was mainly attributable to the increased coal prices and sales volume. The Group's domestic sales volume increased from 68.4 million tonnes for the six months ended 30 June 2006 to 85.6 million tonnes for the same period in 2007, representing an increase of 25.1%. During the same period, the proportion of domestic sales volume to total sales volume increased from 84.7% for the six months ended 30 June 2006 to 87.5% for the same period in 2007. The weighted average price for domestic sales increased from RMB297.5/tonne for the six months ended 30 June 2006 to RMB307.3/tonne for the same period in 2007, representing an increase of 3.3%.

Domestic sales of the coal segment mainly comprised of sales from long-term contracts. For the six months ended 30 June 2007, the revenues from domestic sales from long-term contracts amounted to RMB22,036 million, representing an increase of RMB5,616 million or 34.2% as compared to the same period in 2006. The increase was mainly attributable to the increase in sales volume and the rise in coal prices. The Group's domestic coal sales under long-term contracts increased from 55.8 million tonnes for the six months ended 30 June 2006 to 70.1 million tonnes for the same period in 2007, representing an increase of 25.6%. During the same period, the proportion of domestic sales volume under long-term contracts to domestic sales increased from 81.6% to 81.9%. The weighted average price for domestic sales under long-term contracts increased from RMB295.0/tonne for the six months ended 30 June 2006 to RMB314.5/tonne for the same period in 2007, representing an increase of 6.6%. The buoyant domestic coal market and the Group's continuous enhancement of the quality of market sales have contributed to increased sales volume and prices of domestic sales.

Domestic seaborne coal sales consisted of sales under long-term contracts and spot sales. For the six months ended 30 June 2007, revenues from our domestic seaborne coal sales amounted to RMB18,741 million, representing an increase of RMB3,651 million or 24.2% as compared to the same period in 2006. Domestic seaborne coal sales increased from 44.8 million tonnes for the six months ended 30 June 2006 to 51.9 million tonnes for the same period in 2007, representing an increase of 15.8%. During the same period, the proportion of domestic seaborne coal sales to total domestic sales decreased from 65.5% to 60.6%. The price for domestic seaborne coal sales increased from RMB336.8/ tonne to RMB361.1/ tonne, representing an increase of 7.2%.

For the six months ended 30 June 2007, revenues from export sales of the coal segment amounted to RMB4,560 million, representing a decrease of RMB239 million or 5.0% as compared to the same period in 2006. The Group's export sales volume decreased from 12.4 million tonnes for the six months ended 30 June 2006 to 12.2 million tonnes for the same period in 2007, representing a decrease of 1.6%. During the same period, the proportion of export sales volumes to total sales volume decreased from 15.3% to 12.5% and the price for export sales decreased from RMB386.1/tonne to RMB374.6/ tonne, representing a decrease of 3.0%. The main factors contributing to such changes include: (a) the appreciation of Renminbi: With the appreciation of Renminbi, the applicable average exchange rate of US Dollars to Renminbi fell from 8.0329 for the six months ended 30 June 2006 to 7.7121 for the same period in 2007. Renminbi appreciation of 4.0% led to the decrease in export sales prices when translated into Renminbi; and (b) the cancellation of the export tax rebate: The applicable rate of export tax rebate in the first half of 2007 was nil, as compared to the applicable rate of tax rebate of 8% in the first half of 2006. This led to lower settlement prices in export contracts in the first half of 2007 when compared to the first half of 2006.

The following is a breakdown of coal sales volume and price by customer segment for the six months ended 30 June 2006 compared with those for the six months ended 30 June 2007:

	For the six months ended 30 June					
	2007			2006		
(By customer segment)	**Sales volume Million tonnes**	**Percentage %**	**Sales price RMB/tonne**	Sales volume Million tonnes	Percentage %	Sales price RMB/tonne
Sales to external customers	**83.6**	**85.5**	**314.7**	71.0	87.9	314.0
Long-term contract sales	**69.2**	**70.8**	**319.4**	58.0	71.8	312.7
Spot market sales	**14.4**	**14.7**	**292.4**	13.0	16.1	318.2
Sales to the Group's power segment	**14.2**	**14.5**	**321.1**	9.8	12.1	290.2
Total coal sales volume / weighted average price	**97.8**	**100.0**	**315.6**	80.8	100.0	311.1

For the six months ended 30 June 2007, revenues from sales to external customers amounted to RMB26,328 million, representing an increase of RMB4,025 million or 18.0% as compared to the same period in 2006. During the same period, the Group's sales to external customers increased from 71.0 million tonnes to 83.6 million tonnes, representing an increase of 17.7%. The proportion of sales volume to external customers to the total sales volume decreased from 87.9% to 85.5%. The price of sales to external customers increased from RMB314.0/tonne to RMB314.7/tonne, representing an increase of 0.2%.

Coal sales by our coal segment to our power segment is part of the Group's unique integrated operating model. For the six months ended 30 June 2007, revenues from sales to the Group's power segment amounted to RMB4,549 million, representing an increase of RMB1,705 million or 60.0% as compared to the same period in 2006. The increase was mainly attributable to the increase in coal consumption resulting from the increase in power generation by the power plants, which were put into operation in 2006 and started to fully operate in the first half of 2007, and the rise in coal prices. Sales to the Group's power segment increased from 9.8 million tonnes for the six months ended 30 June 2006 to 14.2 million tonnes for the same period in 2007, representing an increase of 44.9%. During the same period, the proportion of the sales volume of the Group's power segment to total sales volume increased from 12.1% to 14.5%. The price of sales to our power segment increased from RMB290.2/tonne to RMB321.1/tonne, representing an increase of 10.6%.

(2) Cost of revenues

For the six months ended 30 June 2007, cost of revenues of our coal segment amounted to RMB16,558 million, representing an increase of RMB3,883 million or 30.6% as compared to the same period in 2006. The increase was mainly attributable to the increase in the cost of coal purchased from third parties, the increase in coal production costs, as well as the increase in coal transportation costs.

The following is a comparison of the unit cost for our coal segment for the six months ended 30 June 2006 and 30 June 2007 respectively:

	For the six months ended 30 June 2007			For the six months ended 30 June 2006
	Self-produced coal operations RMB/tonne	**Operations of coal purchase from third parties** RMB/tonne	**Coal segment** RMB/tonne	Coal segment RMB/tonne
Cost of production / cost of purchase	**69.8**	**207.8**	**101.8**	71.5
Cost of transportation	**63.6**	**55.8**	**61.8**	78.3
Total of unit cost	**133.4**	**263.6**	**163.6**	149.8

For the six months ended 30 June 2007, the coal segment unit cost was RMB163.6/tonne, representing an increase of RMB13.8/tonne or 9.2% as compared to the same period in 2006. The unit cost for self-produced coal was RMB133.4/tonne and the unit cost for operations of coal purchase from third parties was RMB263.6/tonne.

(3) Selling, general and administrative expenses

For the six months ended 30 June 2007, selling, general and administrative expenses of the coal segment amounted to RMB1,586 million, representing an increase of RMB383 million or an increase of 31.8% over the same period in 2006. The increase was mainly attributable to an increase in personnel expenses as a result of improved operational results, increase in head count and the increase in sales taxes and surcharges.

(4) Profit from operations

For the six months ended 30 June 2007, profit from operations of the coal segment amounted to RMB13,404 million, representing an increase of RMB1,444 million or 12.1% as compared to the same period in 2006. During the same period, the operating margin of the coal segment decreased from 46.2% for the six months ended 30 June 2006 to 42.3% for the same period in 2007. In the first half of 2007, the increase in the volume of coal purchased from third parties, for which the gross profit margin was less than that for self-produced coal operations, resulted in the decrease in the operating margin for the coal segment.

Analysis of self-produced coal operations

(1) Revenues

For the six months ended 30 June 2007, the revenues from self-produced coal operations in the coal segment amounted to RMB23,044 million.

(2) Cost of revenues

The following is a breakdown of the cost of production for self-produced coal operations for the six months ended 30 June 2007:

	For the six months ended 30 June 2007	
	Cost RMB million	**Unit cost RMB/tonne**
Cash cost	4,027	53.6
Materials, fuel and power	1,081	14.4
Personnel expenses	764	10.2
Repairs and maintenance	544	7.3
Others	1,638	21.7
Depreciation and amortisation	1,213	16.2
Total cost of production for self-produced coal operations	**5,240**	**69.8**

The following is a breakdown of the cost of transportation for self-produced coal operations for the six months ended 30 June 2007:

	For the six months ended 30 June 2007	
	Cost RMB million	**Unit cost RMB/tonne**
Cash cost	4,048	53.9
Materials, fuel and power	532	7.1
Personnel expenses	448	6.0
Repairs and maintenance	258	3.4
Third party transportation cost	2,709	36.1
Others	101	1.3
Depreciation and amortisation	725	9.7
Total cost of transportation for self-produced coal operations	**4,773**	**63.6**

(3) Profit from operations

Profit from self-produced coal operations of the Group's coal segment for the six months ended 30 June 2007 amounted to RMB11,474 million. The operating margin of the self-produced coal operations amounted to 49.8%.

Analysis of operations of coal purchase from third parties

(1) Revenues

The coal purchased from third party by the Group was partly re-sold upon delivery through our transportation system, thereby contributing to revenues and profit, and partly blended with the self-produced coal in order to satisfy the quality requirements of our customers. For the six months ended 30 June 2007, the revenues from the operations of coal purchase from third parties amounted to RMB7,833 million.

(2) Cost of revenues

The cost of revenues of the Group in respect of the operations of coal purchase from third parties for the six months ended 30 June 2007 was as follows:

	For the six months ended 30 June 2007	
	Cost RMB million	**Unit cost RMB/tonne**
Cost of purchase	4,723	207.8
Cost of transportation	1,269	55.8
Total	**5,992**	**263.6**

(3) Profit from operations

Profit from operations for the operations of coal purchase from third parties amounted to RMB1,686 million for the six months ended 30 June 2007, which accounted for 12.6% of the profit from operations of the coal segment. The operating margin was 21.5%. The operations of coal purchase from third parties contribute to revenues and profit of the Group, better utilise our transportation system and increase our coal transportation and sales volume, thereby enabling us to increase our coal market share.

Power segment

In the first half of 2007, the power generation of the Group's power segment increased rapidly. The installed capacity of power generation units increased by 600 MW in the first half of the year from the end of 2006. As at 30 June 2007, the Group controlled and operated 11 coal-fired power plants with total installed capacity of 12,560 MW. In the first half of 2007, there was a significant increase in the profitability of the power segment, which became a key component of the Group's integrated operations.

(1) Revenues

Revenues of the power segment increased from RMB6,526 million for the six months ended 30 June 2006 to RMB11,195 million for the same period in 2007, representing an increase of 71.5%. The increase was mainly attributable to the increase in the power output dispatch from 21.60 billion kwh in the first half of 2006 to 33.70 billion kwh in the same period of 2007, representing an increase of 56.0%. The weighted average power tariff increased from RMB295/MWh in the first half of 2006 to RMB326/MWh for the same period in 2007, representing an increase of 10.5%.

The power tariffs of our power segment for the six months ended 30 June 2006 compared to those for the same period in 2007 were as follows:

		For the six months ended 30 June			
		2007		2006	
Operating power plants	**Regional grid**	**Power output dispatch 100 million kwh**	**Average power tariff RMB/MWh**	Power output dispatch 100 million kwh	Average power tariff RMB/MWh
Huanghua Power	North China Power Grid	**31.6**	**298**	0.3	214
Panshan Power	North China Power Grid	**24.7**	**341**	27.0	333
Sanhe Power	North China Power Grid	**21.4**	**307**	18.8	306
Guohua Zhunge'er	North China Power Grid	**19.4**	**207**	20.0	201
Beijing Thermal	North China Power Grid	**10.7**	**382**	10.3	373
Zhunge'er Power	North China Power Grid	**6.4**	**174**	7.3	169
Suizhong Power	Northeast Power Grid	**49.3**	**303**	50.0	221
Ninghai Power	East China Power Grid	**57.3**	**369**	13.0	344
Jinjie Energy	Northwest Power Grid	**21.2**	**222**	–	–
Shenmu Power	Northwest Power Grid	**6.3**	**246**	5.9	232
Taishan Power	Southern Power Grid	**88.7**	**381**	63.4	362
Total power output dispatch / weighted average power tariff		**337.0**	**326**	216.0	295

(2) Cost of revenues

The cost of revenues in the power segment mainly included fuel cost, personnel expenses, repairs and maintenance, depreciation and amortisation. The cost of revenues in our power segment increased from RMB4,618 million for the six months ended 30 June 2006 to RMB7,298 million for the same period in 2007, representing an increase of 58.0%. The increase was mainly attributable to increased fuel consumption as a result of the increase in installed capacity and power generation and raised fuel prices and a corresponding increase in personnel expenses with the increase in the number of employees employed by power plants newly put into operation.

			For the six months ended 30 June 2007	
Operating power plants	**Location**	**Regional grid**	**Fuel cost RMB/MWh**	**Standard coal price RMB/tonne**
Huanghua Power	Hebei	North China Power Grid	136	418
Panshan Power	Tianjin	North China Power Grid	132	399
Sanhe Power	Hebei	North China Power Grid	130	401
Guohua Zhunge'er	Inner Mongolia	North China Power Grid	77	232
Beijing Thermal	Beijing	North China Power Grid	100	385
Zhunge'er Power	Inner Mongolia	North China Power Grid	95	228
Suizhong Power	Liaoning	Northeast Power Grid	153	461
Ninghai Power	Zhejiang	East China Power Grid	174	530
Jinjie Energy	Shaanxi	Northwest Power Grid	82	236
Shenmu Power	Shaanxi	Northwest Power Grid	65	164
Taishan Power	Guangdong	Southern Power Grid	172	540
Weighted average			**143**	**438**

The fuel cost for the Group's power segment increased from RMB127/MWh for the six months ended 30 June 2006 to RMB143/MWh for the same period in 2007, representing an increase of 12.6%. The standard coal price increased from RMB391/tonne for the six months ended 30 June 2006 to RMB438/tonne for the same period in 2007, representing an increase of 12.0%.

(3) Selling, general and administrative expenses

Selling, general and administrative expenses of the Group's power segment increased from RMB456 million for the six months ended 30 June 2006 to RMB556 million for the same period in 2007, representing an increase of 21.9%. The increase was mainly attributable to the expansion of the production scale, increased wages as a result of increase in the number of employees and the increase in depreciation.

(4) Profit from operations

Profit from operations in our power segment increased from RMB1,446 million for the six months ended 30 June 2006 to RMB3,304 million for the same period in 2007, representing an increase of 128.5%. During the same period, the operating margin of the power segment increased from 22.2% to 29.5%. The increase was mainly attributable to the higher investment by the Group in higher margin power plants located in the coastal regions as compared to power plants in other regions, the significant increase in power generation and the increase in power tariff exceeding the increase in cost of power generation.

Cash flow

As at 30 June 2007, the Group's cash and cash equivalents amounted to RMB15,283 million, representing a decrease of RMB218 million or 1.4%, as compared with the cash and cash equivalents of RMB15,501 million as at 1 January 2007. Of this, net cash from operating activities increased from RMB10,404 million for the six months ended 30 June 2006 to RMB12,075 million for the same period in 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 RMB7,650 million for the six months ended 30 June 2006 to RMB9,889 million for the same period in 2007, representing an increase of 29.3%. Net cash used in financing activities decreased from RMB2,917 million for the six months ended 30 June 2006 to RMB2,404 million for the same period in 2007.

Assets and liabilities

Property, plant and equipment

The book value of the Group's property, plant and equipment increased from RMB136,432 million as at 1 January 2007 to RMB142,810 million as at 30 June 2007, representing an increase of RMB6,378 million or 4.7%. The increase was mainly attributable to the amount of RMB4,057 million transferred from construction in progress for the six months ended 30 June 2007, which mainly comprised coal mines of RMB1,791 million, railways of RMB429 million, ports of RMB65 million and power plants of RMB1,772 million.

The net book value of the Group's property, plant and equipment increased from RMB107,859 million as at 1 January 2007 to RMB110,746 million as at 30 June 2007, representing an increase of RMB2,887 million or 2.7%.

As at 30 June 2007, the net book value 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 accounted for 10.1%, 10.4%, 12.9%, 31.0%, 33.8% and 1.8% of the net book value of property, plant and equipment respectively.

Construction in progress

As at 30 June 2007, the Group's construction in progress amounted to RMB18,851 million, representing an increase of RMB4,736 million or 33.6% over the construction in progress of RMB14,115 million as at 31 December 2006. The increase was mainly attributable to the net effect of the amount of RMB4,057 million transferred to property, plant and equipment and an increase in construction in progress of RMB8,793 million for the six months ended 30 June 2007. As at 30 June 2007, our construction in progress mainly comprised coal mines of RMB7,826 million, railways of RMB1,815 million, ports of RMB433 million, power plants of RMB8,653 million and others of RMB124 million.

Accounts receivable and bills receivable

As at 30 June 2007, our net accounts receivable and bills receivable, net amounted to RMB6,012 million, representing an increase of RMB1,152 million or 23.7% over the RMB4,860 million as at 31 December 2006. The turnover days of accounts receivable and bills receivable increased from 19.2 days for the six months ended 30 June 2006 to 25.8 days for the same period in 2007. The increase in turnover days was mainly attributable to the substantial increase in revenues of the power segment, where the credit period for such receivables is normally longer than that of the coal segment, thereby increasing the turnover days.

Borrowings

As at 30 June 2007 and 31 December 2006, details of our borrowings were as set out below:

	As at 30 June 2007 RMB million	As at 31 December 2006 RMB million
Short-term borrowings and current portion of long-term borrowings	**14,928**	14,842
Long-term borrowings, less current portion	**44,115**	40,840
Total borrowings	**59,043**	55,682
Less:		
Cash and cash equivalents	**15,283**	15,501
Time deposits with original maturity over three months	**98**	8
Net borrowings	**43,662**	40,173

As at 30 June 2007, the Group had RMB53,498 million of borrowings denominated in Renminbi, RMB5,122 million denominated in Japanese Yen and RMB423 million denominated in US Dollars.

Significant investments

For the six months ended 30 June 2007, the Group had no new significant external investment.

Significant acquisitions and disposals

On 8 June 2007, CLP Guohua Power Company Limited ("CLP Guohua"), a non-wholly owned subsidiary of the Company, entered into an equity sale and purchase agreement with North China Power Grid Co., Ltd. ("NCPG") to purchase a 15% equity interest held by NCPG in Tianjin Guohua Panshan Power Generation Company ("Panshan Power"). The Company also entered into an equity sale and purchase agreement with Liaoning Power Company ("LPPC") to purchase a 15% equity interest held by LPPC in Suizhong Power Company Limited ("Suizhong Power") on the same date. For the six months ended 30 June 2007, the Group did not conduct any substantial disposals of assets.

Exchange rate risk

The operations of the Group are affected by the exchange rate of Renmimbi. In the first half of 2007, net exchange gain, which mainly arose from debts denominated in foreign currencies, amounted to RMB292 million. Export sales reduced by RMB37 million as a result of the exchange rate. Exchange rate changes led to savings of RMB19 million on imported equipment.

Commodity value risk

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

Industry risk

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

Contingent liabilities

As at 30 June 2007, the Group had no significant contingent liabilities.

(1) Bank guarantees

As at 30 June 2007, no assets of the Group were encumbered.

(2) Environmental protection responsibility

The Group has been operating in China for many years. China has implemented comprehensive environmental protection regulations which affect the operations of our coal and power generation business. It is impossible to anticipate the environmental protection legislation that may be enacted in the future. However, such legislation may materially impact on the Group. Despite this, based on current legislation, the management believes that other than as provided for in the financial statements, there are currently no environmental protection obligations that may have a material adverse effect on the Group's financial condition.

(3) Contingent legal liabilities

As at 30 June 2007, the Group was not involved in any material litigation or arbitration. To the Group's knowledge, there are no material litigation or claims which are pending or threatened against the Group. As at 30 June 2007, the Group was the defendant in certain non-material litigation as well as the plaintiff in litigation arising from the ordinary course of business. The likely outcome of these contingent liabilities, litigation and other legal proceedings is not certain. However, the management believes that any possible legal liability which may be incurred will not have a material adverse effect on the Group's financial condition.

(4) Group's insurance

Consistent with our understanding of customary practice for PRC coal mining entities, the Group maintained fire, liability and other property insurance covering significant property, equipment and inventory of our coal operations for the six months ended 30 June 2007.

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

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

As at 30 June 2007, the insured value of the properties of companies under the Group amounted to RMB106,208 million and insurance premium amounted to RMB75 million for the six months ended 30 June 2007.

	Completed in the first half of 2007 RMB million	Percentage %	Budget for 2007 RMB million	Percentage to completion %
Coal segment	8,145	68.8	16,904	48.2
Of which: Mines	6,356	53.7	12,114	52.5
Railways	1,564	13.2	3,840	40.7
Ports	225	1.9	950	23.7
Power segment	3,654	30.9	10,303	35.5
Corporate and others	31	0.3	220	14.1
Total	**11,830**	**100.0**	**27,427**	**43.1**

Coal mines

Shendong Mines: In the first half of 2007, capital expenditure amounted to RMB2,824 million, which was used in further expanding and enhancing the production capacity and constructing the ancillary facilities in Shendong Mines and in promoting the use of domestically-made equipment. These mainly included the technological revamp to coal mines such as the Yujialiang mine, Halagou mine and Shigetai mine and the purchasing of mining equipment as well as repairs, maintenance and upgrading programmes, and construction of ancillary living facilities for the mine workers.

Wanli Mines: In the first half of 2007, capital expenditure amounted to RMB1,374 million, which was mainly used in the continued construction of Bu'ertai mine and the technological revamp to the various production mines so as to increase their production capacity and production efficiency. Construction for Bu'ertai mine, a key construction project of Wanli Mines, proceeded according to schedule so that the mine is prepared for the commencement of production in 2008. Moreover, technological revamp was carried out in mines such as the Cuncaota mine, the Liuta mine, the Changhangou mine and the Tanggonggou mine with the related equipment purchased.

Zhunge'er Mines: In the first half of 2007, capital expenditure amounted to RMB1,601 million, which was mainly used in the continued construction of Ha'erwusu open-cut mine and ancillary works such as coal preparation plants, and the installation and trial run of drag bucket excavators in the Heidaigou open-cut mine. Construction of the Ha'erwusu mine, which has a designed annual production capacity of 20 million tonnes, has been steadily underway. In March 2007, construction of the coal selection plant commenced at the Ha'erwusu mine, which will have an annual raw coal selection capacity of 20 million tonnes.

Shengli Mines: In the first half of 2007, capital expenditure amounting to RMB223 million was used in the continued construction of Shengli No. 1 open-cut mine, which has an annual designed production capacity of 20 million tonnes. Construction mainly involved stripping and ground works, installation and purchase of equipment.

Others: In the first half of 2007, capital expenditure amounted to RMB334 million, which was mainly used in the purchase of equipment such as de-ironing machine for the coal sales centre.

Railways

In the first half of 2007, capital expenditure amounted to RMB1,564 million, which was mainly used in the construction of the maintenance centre for trucks and the purchase of new trucks and equipment.

Baoshen Railway: mainly used in the construction of the designated railway for Bu'ertai mine and double-line of the section of Baoshen Railway from the Batuta mine to the Ciyaowan mine to meet the needs of coal transportation from the Bu'ertai mine and the Shigetai mine.

Shenshuo Railway: mainly used in enhancing the annual transportation capacity and the purchase of equipment such as electrical railway vehicles.

Shuohuang Railway: mainly used in the revamp works of Suning North Station and the construction of the vehicle maintenance centre and purchase of equipment, partial replacement with seamless rails and construction of the ancillary railway for Phase III machines for rotary railcar dumpers of Huanghua Port.

Dazhun Railway: mainly used in enhancing the transportation capacity.

Rolling Stock Branch: mainly used in the purchase of C70A railway vehicles for coal transportation and construction of the information management system for the trucks.

Ports

In the first half of 2007, capital expenditure amounted to RMB225 million, which was used in the expansion of the operation capacity of the ports.

Huanghua Port: mainly used in enhancing the coal handling capacity and navigation capacity of the port. Dredging and widening works of certain shipping routes commenced in June 2007 and is expected to be completed by the end of September. Upon completion, 50,000-tonne fully loaded vessels will be able to sail through the port on an all-day basis.

Shenhua Tianjin Coal Dock: mainly used in the construction of the fourth machine turnover line and the feasibility study works for Phase II of the project.

Power

In the first half of 2007, the capital expenditure amounted to RMB3,654 million, which was mainly used in the technological revamp (including the de-sulphur facilities) to Phase I and Phase II of Jinjie Energy, Phase II of Sanhe Power, Phase III of Guohua Zhunge'er, Phase II of Ninghai Power and the operating power plants. In the first half of 2007, a 600 MW Unit No.2 at Phase I of Jinjie Energy was put into operation, and Phase II of Huanghua Power has been approved by the National Development and Reform Commission.

We plan to satisfy the funding demand of our capital expenditure by using cash from operating activities, short-term and long-term borrowings as well as other debt or equity financing.

Note: Our current plans for future capital expenditure may change subject to our business development (including potential acquisitions), progress of our capital items, market conditions, our prospects for future business conditions and the necessary permits and approval required to be obtained from the regulatory authorities. Other than any legal requirements, we do not accept any obligation in respect of the announcement of any information updating the capital expenditure plans.

Perfecting our internal control system

From the time of listing, the Company has committed to progressively establishing an internal control system which is sound, effective and reasonable. Since June 2006, our Company has comprehensively analysed and reviewed our existing internal control system pursuant to the requirement of code provision C.2.1 of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Based on our evaluation and diagnosis of current internal controls and major risks at the Company headquarters level, we completed the preparation of our Internal Control Manual and our Manual on Self-evaluation of Control. The main aims of the Internal Control Manual include: the establishment of a platform for the Company's internal control system and risk management; the clear provision for internal control units and an outline of their scope of duties; the establishment of flow control for major risk management and business administration; the evaluation and monitoring of the two types of aforementioned flow controls; the continuous improvement of the basic procedures and methods of our internal control implementation system; and the proposal of specific requirements for internal control support, such as the establishment of internal control culture, comprehensive risk management and information dissemination. The aforementioned measures ensure the realisation of the Company's objectives using the bottom-up approach and instillation of an internal control culture using the top-down approach. These approaches provide for interaction between the Company headquarters and the subsidiaries and branches of the Company and continuously enhance the corporate governance standard of our closed-circuit control system. The measures will enhance the Company's implementation of key management processes and the control, monitoring and evaluation of flow controls. The measures will also minimise day-to-day operational, financial and compliance risks.

Subsequent to the establishment of the Company's internal monitoring and control system, which placed key control activities at its core and integrated operations and management, the Company continued to develop the system based on the experience gained. The Company is currently establishing a strategic financial management system. Through the provision of professional financial analysis, workflow efficiency will be enhanced and financial management and control will be strengthened.

In addition, the Company has conducted special internal audits on various aspects of production and operation, including staff remuneration, connected transactions, cost of production, construction in progress and tax expenses. In addition, the Company conducted comprehensive internal audits of the interim financial statements of the Company's branches and subsidiaries.

Compliance with Code on Corporate Governance Practices

The Company is committed to high standards of corporate governance and has taken measures to comply with the provisions in the Code. The board of directors of the Company (the "Board") believes that the Company has complied with the provisions set out in the Code and there has been no material deviations from the Code during the six months ended 30 June 2007.

Compliance with Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted a code of conduct which is largely based on the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"). The current code adopted by the Company is on terms no less exacting than the required standards set out in the Model Code. Having made specific enquiry of all the directors of the Company, all the directors have confirmed that they have strictly complied with the required standards set out in the Model Code for the six months ended 30 June 2007.

Audit Committee

The Company has appointed independent non-executive directors and established the Audit Committee in accordance with the requirements of the Listing Rules to appoint independent auditors and oversee their work. All members of the Audit Committee of the Board are appointed from the independent non-executive directors of the Company. The current members are Dr. Chen Xiaoyue (who is Chairman of the Audit Committee and has appropriate professional qualifications and experience in financial matters), Mr. Huang Yicheng and Mr. Anthony Francis Neoh.

The Audit Committee has reviewed the Company's interim financial statements for the six months ended 30 June 2007.

Change of director

Mr. Yun Gongmin was appointed as a non-executive director of the Company at the 2006 annual general meeting on 15 May 2007.

Management of connected transactions

The Company has prepared the "Rules Governing Decisions on Connected Transactions of China Shenhua Energy Company Limited" and the "Measures Regarding Management of Connected Transactions of China Shenhua Energy Company Limited" in order to regulate and strengthen our management of connected transactions. The Company has established a connected transactions team, which is led directly by the Chief Financial Officer and is responsible for the management of connected transactions. The Company has prepared a breakdown of the annual caps for disclosed connected transactions and has provided this breakdown to each of the branches and subsidiaries, which are in turn respectively responsible for the control of the assigned connected transactions in order to ensure that our connected transactions are conducted in accordance with the relevant rules and requirements and that the total transaction amount does not exceed the annual cap approved in the shareholders' general meeting. Pursuant to the provisions of the relevant rules of the Company, any proposed new connected transaction must, prior to entering into such transaction, satisfy the procedural rules under the applicable Listing Rules relating to reporting, disclosure and independent shareholders' approval.

During the Company's annual general meeting for 2006 on 15 May 2007, certain connected transactions agreements were renewed and the annual caps for the connected transactions from 2008 to 2010 were approved. In addition, the annual caps for certain connected transactions in 2007 were adjusted and approved during the annual general meeting.

Following the acceptance of the Group's bids to acquire equity interests in Panshan Power held by NCPG and equity interests in Suizhong Power held by LPPC, the Board of the Company announced on 8 June 2007 that CLP Guohua, a non-wholly owned subsidiary of the Company, and the Company entered into equity sale and purchase agreements with NCPG and LPPC respectively to acquire 15% equity interests in Panshan Power and Suizhong Power respectively.

Our philosophy on investor relations: improving corporate image and enhancing shareholder value

The management of the Company has placed strong emphasis on investor relations since its listing. Through various channels including financial results release conferences, global roadshows, investors' annual meetings, visits to the Company and teleconferences, we have carried out active and open communications with investors and analysts in order to assist them to fully understand our management philosophy, development strategies and operational situation. Meanwhile, we listen to and consider the recommendations of investors through various channels in order to continuously improve our operational situation and to optimise shareholder value.

Further heightening our influence on international capital markets

The Company's share price has been climbing since the first day of trading in 2007. The Company's share price on 29 June 2007 was HK$27.3, representing a rise of 90.2% from the end of June 2006, outperforming the 33.8% increase of the Hang Seng Index and the 76.9% increase of the Hang Seng China Enterprises Index during the same period.

In March, China Shenhua was ranked No. 423 on the Forbes Global 2000 list. In May, China Shenhua's H shares were added as a constituent of the MSCI Index weighted at 2.59%, thus furthering the improvement of the Company's position in the capital markets. In July, China Shenhua was described by prominent domestic securities media such as the Shanghai Securities News as one of the "most influential overseas listed Chinese companies in 2006".

Adhering to multi-channel, active and interactive communication

In the first half of 2007, the management team interacted with the capital markets through various channels and methods under the leadership of the Chairman and President of the Company.

Under the leadership of the Chairman, the management team hosted the 2006 annual results release conference and the 2006 shareholders' annual general meeting in Hong Kong, which provided for direct interaction between investors and the management of the Company.

The management has met investors and analysts with an aggregate of 300 meeting attendances through various means such as results roadshows, international investment forums and annual investment meetings. Meanwhile, the investor relations staff of the Company have met the investors and analysts with an aggregate of over 300 meeting attendance through various means of visits and teleconferences.

Adhering to reverse roadshows to allow investors to understand our operations through first-hand observation

The Company held its annual reverse roadshow in June 2007. 38 analysts and fund managers from over 30 investment banks and funds worldwide participated in site visits to the Shenhua Tianjin Coal Dock, Shuohuang Railway, Sanhe Power, Shendong Mines and the direct coal liquefaction sites of the Group in order to familiarise themselves with China Shenhua's production management and construction situation. China Shenhua's management, managers of the branches and subsidiaries and other key personnel who constitute the backbone of the Company participated in the reverse roadshow activities and introduced the Company's strategies, financial and specific production operations to the Company's investors. In this way, investors were provided with the opportunity to thoroughly understand China Shenhua's operational model and operational situation through first-hand observation.

Broadening scope of roadshows to encourage investment by institutional groups

In 2007, the Company extended the scope of its roadshows to cover North Europe in order to meet with the influential local institutional investors. At the same time, the Company also approached university funds in the United States. The Company convincingly presented its business model and investment opportunities to the institutional groups, thereby enhancing China Shenhua's brand visibility and influence internationally.

Continuously improving investor relations

In order to further enhance the quality of our investor relations, the Company has continuously constructed and improved its internal investor relations management system and workflows.

Establishing investor database

Our investor database covers the major investors the Company has met with since its listing. The database details information such as the respective investor's key concerns, means of contact and feedback, thus providing an effective means of support for the Company to improve its communication with investors.

Establishing information officer system

In order to effect an unobstructed and effective information collection, processing, dissemination and feedback system and to achieve centralised, timely, accurate and complete information disclosure, the Company further improved its information officer system in May 2007. Information officers cover the business backbone of the key departments of the Company's headquarters, branches and subsidiaries.

Improving quality of annual report preparation

Taking into account the practical realities of business, we have re-arranged the structure of our annual report and added an industry analysis section in order to provide ample economic background information on the industry for investors. By transforming the overall cost analysis of our coal segment into separate descriptions for the self-produced coal and purchased coal businesses, we provide guidance to investors in adapting their model for analysis of our coal business.

More refined day-to-day information disclosure

Since January 2007, the Company has disclosed its operational data and relevant industry information on its website monthly. Information disclosed on various channels, particularly on the Company's website, has been more updated and more timely.

Establishing new information disclosure workflow system pursuant to changes to the Stock Exchange's information disclosure rules

We have familiarised ourselves with the relevant requirements of the Electronic Submission System ("ESS") through our participation in the Stock Exchange's training course for the use of the system. In accordance with the relevant requirements of the Stock Exchange, we have established a new workflow system for information disclosure to ensure compliance with the rules of the Stock Exchange.

Key activities for investor relations in the first half of 2007

Date	Matter	Keynote presentation	One-one meeting	Investors' attendance
January 2007	Participation in the China Concept Conference held by Deutsche Bank	√	10	24
	Participation in the 7th Greater China Conference held by UBS AG	√	8	18
March 2007	Announcement of 2006 annual results	–	–	60
	Global non-deal roadshow held by the Company's management	√	80	142
	Bulk commodities and independent power companies reception day held by Goldman Sachs	√	9	54
	Asian Investment Conference held by Credit Suisse	√	9	30
April 2007	2007 China Conference held by JPMorgan	√	11	36
May 2007	2006 Annual General Meeting	√	–	–
	2007 China Investment Forum held by CLSA	√	12	36
June 2007	2007 annual reverse roadshow organised by the Company	–	–	38

Share capital structure

The share capital structure of the Company as at 30 June 2007 is set out below:

Type of shares	Number of shares	Approximate percentage of issued share capital (%)
Domestic shares	14,691,037,955	81.21
H shares	3,398,582,500	18.79
Total	**18,089,620,455**	**100.00**

Dividends

Following shareholders' approval at the annual general meeting for 2006 held on 15 May 2007, the Company paid the dividends for 2006 to shareholders on 20 June 2007.

The directors do not propose the payment of an interim dividend for the six months ended 30 June 2007.

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.

Based on the Company's audited financial statements for the six months ended 30 June 2007, the consolidated distributable reserves under the PRC Accounting Rules and Regulations amounted to RMB22,544 million was lower than the consolidated distributable reserves under IFRSs amounted to RMB26,114 million. Following the lower one among the two, the Company's maximum amount to be distributable to shareholders was RMB22,544 million.

Subject to approvals of A share issue from the shareholders at the extraordinary general meeting of the Company to be held on 24 August 2007 and from the relevant regulatory authorities, the directors authorised by the Board resolved to make special dividends of RMB22,544 million distributable to the Company's shareholders (excluding A share shareholders). Upon satisfaction of the above conditions, the directors intend to arrange for the distribution of RMB16,799 million. Regarding the remaining RMB5,745 million, the directors will only distribute it after the audit of 2007 annual financial statements is completed and the Company's distributable reserves are higher than the planned distribution amount. The detailed distribution plan of special dividends is yet to be finalised and announced. If the Company does not issue A shares, the Company will not make any special dividend distribution in respect of the distributable reserves as at 30 June 2007.

Material litigation and arbitration

As at 30 June 2007, the Company was not involved in any material litigation and arbitration and so far as the Company is aware of, no material litigation or claim was pending or was threatened or made against the Company.

Purchase, sale or redemption of securities of the Company

For the six months ended 30 June 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities.

Employees

As at 30 June 2007, the Company had 47,209 employees, representing an increase of 2,193 employees or 4.9% over 31 December 2006.

Share Appreciation Rights Scheme

In order to provide stock incentive to senior management and staff holding key positions of the Company and to further strengthen the link between the performance of senior management and staff holding key positions and shareholder returns, the Company has introduced a Share Appreciation Rights Scheme (the "Scheme") for senior management and staff holding key positions. The Scheme aims to link the financial interests of senior management and staff holding key positions with the Company's future results and H-share performance. The Scheme will not result in the issue or transfer of shares. For this reason, the share appreciation rights will not dilute the shareholding of the Company's shareholders.

Share appreciation rights of 2.80 million and 3.235 million were granted to senior management and staff holding key positions of the Company in 2005 and 2006 respectively, accounting for 0.18% of the total 3.399 billion shares issued overseas as overseas listed foreign shares (H shares). No share appreciation rights were granted during the six months ended 30 June 2007.

Disclosure of interests

As at 30 June 2007, to the knowledge of the directors of the Company, each of the following persons (other than directors, the president and supervisors of the Company) had an interest and/or short positions in the Company's shares which falls to be recorded in the specified register pursuant to section 336 of Part XV of the Securities and Futures Ordinance (the "SFO"):

Name of shareholder	Capacity	Type of 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 Corporation Limited	Beneficial owner	Domestic	Long Position	14,691,037,955	100	81.21
AllianceBernstein L.P.	Investment manager, interest of controlled corporation	H	Long Position	296,901,150	8.74	1.64
JPMorgan Chase & Co.	Beneficial owner, investment manager, custodian	H	Long Position	249,160,252	7.33	1.37
	Custodian	H	Lending Pool	179,173,452	5.27	0.98
Merrill Lynch & Co., Inc	Interest of controlled corporation	H	Long Position	204,949,879	6.03	1.13
	Interest of controlled corporation	H	Short position	5,513,176	0.16	0.03
Taurus Investments S.A.	Beneficial owner	H	Long Position	155,612,000	5.08	0.86
The Capital Group Companies, Inc.	Investment manager	H	Long Position	170,474,500	5.02	0.94

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 30 June 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.

As at 30 June 2007, none of the directors, the president or supervisors of the Company had any interests and/or short positions in the shares or underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (as defined by Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions deemed to be owned by any directors, the president or supervisors, under the SFO), or which was required to be recorded in the register to be kept by the Company under section 352 of the SFO, or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Other significant matters

1. As it is estimated that the supply of natural gas from the East Sea may not fully satisfy the demand of normal operation of Zhejiang Guohua Yuyao Gas-fired Power Company Limited ("Yuyao Power") in the short term, the management of the Company considered such impact on the fixed assets of Yuyao Power and recognised an impairment loss of RMB100 million in the profit and loss during the period.

2. According to the resolutions passed at the 15th meeting of the first session of the Board on 30 June 2007, the Board resolved:

    (1) to apply to the Shanghai Stock Exchange for approval of the listing of not more than 1.8 billion A shares and to propose to the general meeting to authorise the Board to deal with matters relating to the A share issue pursuant to the relevant rules and regulations of the China Securities Regulatory Commission, The Stock Exchange of Hong Kong Limited and Shanghai Stock Exchange and to grant authority to the Board to delegate such authorisation as required; and

    (2) to acquire 100% equity interests in Shenhua Group Shenfu Dongsheng Coal Company Limited and Shenhua Shendong Power Company Limited, which are held by Shenhua Group Corporation Limited.

    The above matters are subject to (i) approval from shareholders at the extraordinary general meeting to be held on 24 August 2007; and (ii) approvals from the China Securities Regulatory Commission and other relevant regulatory authorities.

    For detailed content of the aforementioned matters, please refer to the relevant announcements and circulars posted on the websites of the Company and The Stock Exchange of Hong Kong Limited on 2 July 2007 and 9 July 2007 respectively.

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 interim financial statements of China Shenhua Energy Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 41 to 97, which comprise the consolidated balance sheet as at 30 June 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the six-month period 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. 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 interim financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2007 and of the Group's profit and cash flows for the six-month period then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

KPMG
Certified Public Accountants

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

17 August 2007

Consolidated income statement

for the six months ended 30 June 2007

(Expressed in Renminbi)

	Note	Six months ended 30 June **2007** **RMB million**	 *2006* *RMB million* *(unaudited)* (restated – Note 1)
Revenues			
Coal revenue		**26,328**	22,303
Power revenue		**11,079**	6,479
Other revenues	5	**924**	751
Total operating revenues	4	**38,331**	29,533
Cost of revenues			
Coal purchased from third parties		**(4,723)**	(3,001)
Materials, fuel and power		**(2,323)**	(1,371)
Personnel expenses		**(1,743)**	(1,284)
Depreciation and amortisation		**(3,747)**	(2,978)
Repairs and maintenance		**(1,309)**	(1,287)
Transportation charges		**(3,359)**	(2,965)
Others	6	**(2,086)**	(1,594)
Total cost of revenues		**(19,290)**	(14,480)
Selling, general and administrative expenses		**(2,370)**	(1,839)
Other operating expense, net		**(219)**	(56)
Total operating expenses	7	**(21,879)**	(16,375)
Profit from operations		**16,452**	13,158
Finance income	8	**475**	104
Finance expenses	8	**(1,754)**	(1,326)
Net finance costs		**(1,279)**	(1,222)
Investment income		**31**	7
Share of profits less losses of associates		**190**	142
Profit before income tax		**15,394**	12,085
Income tax	9	**(3,110)**	(2,311)
Profit for the period		**12,284**	9,774
Attributable to:			
Equity shareholders of the Company		**10,315**	8,607
Minority interests		**1,969**	1,167
Profit for the period		**12,284**	9,774
Dividends payable to equity shareholders of the Company attributable to the period			
Dividends resolved and proposed after the balance sheet date	11	**–**	–
Earnings per share (RMB)	12		
- Basic		**0.570**	0.476
- Diluted		**0.570**	0.476

The notes on pages 47 to 97 form part of these interim financial statements.

Consolidated balance sheet

at 30 June 2007

(Expressed in Renminbi)

	Note	**At 30 June 2007 RMB million**	*At 31 December 2006 RMB million*
Non-current assets			
Property, plant and equipment, net	13	**110,746**	107,859
Construction in progress	14	**18,851**	14,115
Intangible assets	15	**1,130**	1,133
Interest in associates	16	**2,262**	2,369
Other investments	17	**1,071**	1,066
Other non-current financial assets	18	**310**	–
Lease prepayments		**5,624**	4,848
Deferred tax assets	24	**1,437**	1,569
Total non-current assets		**141,431**	132,959
Current assets			
Inventories	19	**5,989**	4,761
Available-for-sale investments	20	**–**	2,000
Accounts and bills receivable, net	21	**6,012**	4,860
Prepaid expenses and other current assets	22	**3,162**	3,059
Time deposits with original maturity over three months	23	**98**	8
Cash and cash equivalents	23	**15,283**	15,501
Total current assets		**30,544**	30,189
Total assets		**171,975**	163,148
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	25	**14,928**	14,842
Short-term bonds		**445**	–
Current portion of long-term payable	29	**249**	88
Accounts and bills payable	26	**8,619**	9,133
Income tax payable		**1,465**	2,193
Accrued expenses and other payables	27	**8,461**	6,977
Total current liabilities		**34,167**	33,233
Net current liabilities		**(3,623)**	(3,044)
Total assets less current liabilities		**137,808**	129,915
Non-current liabilities			
Long-term borrowings, less current portion	25	**44,115**	40,840
Long-term payable, less current portion	29	**3,295**	2,426
Accrued reclamation obligations	28	**1,002**	942
Deferred tax liabilities	24	**999**	1,006
Total non-current liabilities		**49,411**	45,214
		88,397	84,701
Equity			
Share capital	30	**18,090**	18,090
Reserves		**52,618**	48,681
Equity attributable to equity shareholders of the Company		**70,708**	66,771
Minority interests		**17,689**	17,930
Total equity		**88,397**	84,701

Approved and authorised for issue by the board of directors on 17 August 2007.

Chen Biting
Chairman

Ling Wen
Director and President

The notes on pages 47 to 97 form part of these interim financial statements.

Consolidated statement of changes in equity

for the six months ended 30 June 2007

(Expressed in Renminbi)

	Equity attributable to equity shareholders of the Company										
	Share capital *RMB million (Note 30)*	***Share premium*** *RMB million (Note i)*	***Capital reserve*** *RMB million (Note ii)*	***Revaluation reserve*** *RMB million (Note iii)*	***Future development fund*** *RMB million (Note iv)*	***Statutory reserves*** *RMB million (Note v)*	***Other reserves*** *RMB million (Note vi)*	***Retained earnings*** *RMB million*	***Total*** *RMB million*	***Minority interests*** *RMB million*	***Total equity*** *RMB million*
At 1 January 2006 (as previously reported)	18,090	20,813	(6,591)	7,184	881	3,128	839	13,038	57,382	15,107	72,489
Adjustment for the acquisition of Jinjie Energy (Note 1)	–	–	–	–	–	–	509	(14)	495	3	498
At 1 January 2006 (as restated)	18,090	20,813	(6,591)	7,184	881	3,128	1,348	13,024	57,877	15,110	72,987
Profit for the period	–	–	–	–	–	–	–	8,607	8,607	1,167	9,774
Appropriations	–	–	–	–	295	–	–	(295)	–	–	–
Dividend approved during the period (Note 11)	–	–	–	–	–	–	–	(7,404)	(7,404)	–	(7,404)
Capital contributions from minority interests	–	–	–	–	–	–	–	–	–	286	286
Distributions to minority interests	–	–	–	–	–	–	–	–	–	(689)	(689)
At 30 June 2006 (unaudited)	18,090	20,813	(6,591)	7,184	1,176	3,128	1,348	13,932	59,080	15,874	74,954
At 1 January 2007	**18,090**	**20,813**	**(6,591)**	**7,180**	**1,578**	**4,742**	**169**	**20,790**	**66,771**	**17,930**	**84,701**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**10,315**	**10,315**	**1,969**	**12,284**
Appropriations	**–**	**–**	**–**	**–**	**–**	**910**	**–**	**(910)**	**–**	**–**	**–**
Realisation/reassessment of deferred tax (Note 24)	**–**	**–**	**–**	**–**	**–**	**–**	**(117)**	**6**	**(111)**	**(67)**	**(178)**
Dividend approved during the period (Note 11)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(6,150)**	**(6,150)**	**–**	**(6,150)**
Restatement of profit appropriations for prior years	**–**	**–**	**–**	**–**	**–**	**(485)**	**–**	**485**	**–**	**–**	**–**
Write back of future development fund	**–**	**–**	**–**	**–**	**(1,578)**	**–**	**–**	**1,578**	**–**	**–**	**–**
Capital contributions from minority interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**337**	**337**
Acquisition of minority interests	**–**	**–**	**–**	**–**	**–**	**–**	**(117)**	**–**	**(117)**	**(845)**	**(962)**
Distributions to minority interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,635)**	**(1,635)**
At 30 June 2007	**18,090**	**20,813**	**(6,591)**	**7,180**	**–**	**5,167**	**(65)**	**26,114**	**70,708**	**17,689**	**88,397**

The notes on pages 47 to 97 form part of these interim financial statements.

Consolidated statement of changes in equity (continued)

for the six months ended 30 June 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.

(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 six months ended 30 June 2007, the Company transferred RMB910 million (30 June 2006: Nil (unaudited)), being 10% of the current period'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 effective from the 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.

Statutory public welfare fund

Prusuant 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 the statutory surplus reserve.

The directors have not proposed any appropriation to the discretionary surplus reserve for the six months ended 30 June 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 shareholders' equity, net of minority interests.

Other reserves also include the difference between the consideration paid over the amount of the underlying net assets of the interests acquired in Shaanxi Guohua Jinjie Energy Corporation (Note 1) and a subsidiary's minority interests.

The notes on pages 47 to 97 form part of these interim financial statements.

Consolidated cash flow statement

for the six months ended 30 June 2007

(Expressed in Renminbi)

	Note	Six months ended 30 June 2007 RMB million	2006 RMB million (unaudited) (restated – Note 1)
Net cash from operating activities	(a)	**12,075**	10,404
Investing activities			
Capital expenditure		**(10,150)**	(7,904)
Lease prepayments		**(839)**	(380)
Purchase of investments		**(883)**	(74)
Proceeds from disposal of investments		**2,036**	620
Proceeds from disposal of property, plant and equipment		**37**	30
Increase in time deposits with original maturity over three months		**(90)**	–
Maturity of time deposits with original maturity over three months		**–**	58
Net cash used in investing activities		**(9,889)**	(7,650)
Financing activities			
Proceeds from bank and other borrowings		**20,654**	16,552
Repayments of bank and other borrowings		**(16,966)**	(11,669)
Proceeds from bonds issued		**445**	–
Dividend paid to minority interests		**(724)**	(682)
Contributions from minority interests		**337**	286
Dividend paid to equity shareholders of the Company		**(6,150)**	(7,404)
Net cash used in financing activities		**(2,404)**	(2,917)
Net decrease in cash and cash equivalents		**(218)**	(163)
Cash and cash equivalents, at the beginning of the period		**15,501**	19,863
Cash and cash equivalents, at the end of the period		**15,283**	19,700

The notes on pages 47 to 97 form part of these interim financial statements.

Consolidated cash flow statement (continued)

for the six months ended 30 June 2007

(Expressed in Renminbi)

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

	Six months ended 30 June 2007 RMB million	Six months ended 30 June 2006 RMB million (unaudited) (restated – Note 1)
Profit before income tax	**15,394**	12,085
Adjustments for:		
Depreciation and amortisation	**3,899**	3,084
Impairment losses on property, plant and equipment	**113**	–
Investment income	**(31)**	(7)
Gain on acquisition of minority interests in a subsidiary	**(79)**	–
Interest income	**(134)**	(104)
Share of profits less losses of associates	**(190)**	(142)
Net interest expense	**1,596**	1,233
Loss on remeasurement of derivative financial instruments to fair value	**109**	25
Unrealised foreign exchange (gain)/loss	**(327)**	64
Net loss on disposal of property, plant and equipment	**94**	27
	20,444	16,265
Increase in accounts and bills receivable	**(1,152)**	(847)
Increase in inventories	**(1,231)**	(563)
Increase in prepaid expenses and other current assets	**(807)**	(964)
Decrease in accounts and bills payable	**(406)**	(216)
Increase in accrued expenses and other payables	**331**	364
Cash generated from operations	**17,179**	14,039
Interest received	**134**	104
Interest paid	**(1,656)**	(1,424)
Dividend received from investments	**309**	134
Income tax paid	**(3,891)**	(2,449)
Net cash from operating activities	**12,075**	10,404

The notes on pages 47 to 97 form part of these interim financial statements.

Notes to the financial statements

for the six months ended 30 June 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" or the "Parent Company"), a state-owned enterprise under the direct supervision of the State Council of the PRC. Prior to the establishment of the Company, the coal production and power generation operations were carried on by various mining companies and power plant entities wholly owned or controlled by Shenhua.

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

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

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

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") (the "Acquisition") from Beijing Guohua Power Company Limited ("Beijing Guohua Power"), a subsidiary of Shenhua, at a consideration of RMB1,162 million. The Acquisition was completed in August 2006.

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

The unaudited results of operations for the six months ended 30 June 2006 previously reported by the Group and Jinjie Energy and the combined amounts presented in the accompanying consolidated interim financial statements are set out below:

	The Group (as previously reported) *RMB million*	***Jinjie Energy*** *RMB million*	***Combined*** *RMB million*
Results of operations for the six months ended 30 June 2006 (unaudited):			
Revenues	29,533	–	29,533
Profit/(loss) from operations	13,171	(13)	13,158
Profit/(loss) for the period	9,785	(11)	9,774
Basic earnings per share (RMB)	0.476	–	0.476

2 Significant accounting policies

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB"). IFRSs include International Accounting Standards ("IAS") and interpretations. These financial statements also comply with the disclosure provisions applicable to the interim financial report 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. The adoption of these new and revised IFRSs did not result in substantial changes in the Group's accounting policies applied in these interim financial statements for the two periods presented. Note 3 provides information on the new and amended disclosures included in the financial statements from the adoption of the new and revised IFRSs.

(b) Basis of preparation of the financial statements

The consolidated interim financial statements for the six months ended 30 June 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 judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

2 Significant accounting policies (continued)

(b) Basis of preparation of the financial statements (continued)

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 37.

(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 period 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.

2 Significant accounting policies (continued)

(d) Associates

An associate is an entity in which the Group 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 period, including any impairment loss on goodwill relating to the investment in associates recognised for the period (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.

(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 period, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other investments in debt and equity securities

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

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

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

2 Significant accounting policies (continued)

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

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

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

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

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

(g) Derivative financial instruments

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

(h) Cash and cash equivalents

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

(i) Property, plant and equipment

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

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

2 Significant accounting policies (continued)

(i) Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

2 Significant accounting policies (continued)

(j) Lease prepayments

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

(k) Construction in progress

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

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

(l) Intangible assets (other than goodwill)

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

(m) Impairment losses

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

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

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

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

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

2 Significant accounting policies (continued)

(m) Impairment losses (continued)

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

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

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

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

(ii) Impairment of other assets

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

— property, plant and equipment;

— construction in progress;

— intangible assets;

— investments in associates; and

— goodwill.

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

— Calculation of recoverable amount

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

— 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.

2 Significant accounting policies (continued)

(m) Impairment losses (continued)

(ii) Impairment of other assets (continued)

— 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 period in which the reversals are recognised.

(n) Inventories

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

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

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

(o) Interest-bearing borrowings

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

(p) Trade and other payables

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

(q) Trade and other receivables

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

2 Significant accounting policies (continued)

(r) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

(ii) Provisions and contingent liabilities

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

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

(s) Revenue recognition

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

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

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

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

2 Significant accounting policies (continued)

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

(v) Obligations for land reclamation

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

(w) Operating leases

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

(x) Employee benefits

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

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

2 Significant accounting policies (continued)

(x) Employee benefits (continued)

(ii) Defined contribution retirement plans

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

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

(iii) Share appreciation rights

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

(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 period 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 period, 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.

2 Significant accounting policies (continued)

(y) Income tax (continued)

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

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

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

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

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 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 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) Dividends

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

(ab) Related parties

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

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

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

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

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

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

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

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

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

(ac) Earnings per share

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

2 Significant accounting policies (continued)

(ad) Segment reporting

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

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

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

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

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

(ae) Determination of fair values

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

(i) Trade and other receivables

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

(ii) Derivatives

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

2 Significant accounting policies (continued)

(ae) Determination of fair values (continued)

(iii) Non-derivative financial liabilities

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

(iv) Share appreciation rights

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

3 Adoption of new/revised IFRSs

The Group has adopted the amendments to IAS 1, *Presentations of Financial Statements*, and IFRS 7, *Financial Instruments: Disclosure*, with effective from 1 January 2007.

As a result of the adoption of the new/revised policies, information regarding the Group's objectives, policies and process of managing capital and additional disclosures on the Group's financial risk management are included in the interim financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see Note 40).

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

	Six months ended 30 June	
	2007	2006
	RMB million	RMB million
		(unaudited)
Rendering of transportation and other services	**834**	653
Sale of ancillary materials and other goods	**84**	89
Others	**6**	9
	924	751

6 Cost of revenues – others

	Six months ended 30 June	
	2007	2006
	RMB million	RMB million
		(unaudited)
Coal selection and minery fees	**484**	357
Coal extraction service costs	**109**	215
Sales taxes and surcharges	**256**	223
Dredging expenses	**168**	104
Relocation compensation expenses	**177**	103
Operating lease charges	**88**	73
Resources compensation fees	**77**	54
Environmental protection costs	**85**	53
Cost of sale of ancillary materials and other goods	**58**	36
Public utilities expenses	**52**	26
Others	**532**	350
	2,086	1,594

7 Total operating expenses

	Six months ended 30 June	
	2007	2006
	RMB million	RMB million
		(unaudited)
		(restated – Note 1)
Personnel expenses, including	**2,554**	1,955
- contribution to retirement plans	**277**	260
- share appreciation rights expense	**31**	6
Depreciation and amortisation	**3,899**	3,084
Net loss on disposal of property, plant and equipment	**94**	27
Cost of inventories (Note)	**16,290**	12,051
Research and development costs	**13**	24
Auditors' remuneration, including	**9**	5
- audit services	**8**	5
- tax services	**1**	–
Operating lease charges on properties	**120**	103
Provisions for accounts receivable, other receivables and inventories	**203**	2
Impairment losses on property, plant and equipment	**113**	–

Note:

Cost of inventories includes RMB4,082 million (30 June 2006: RMB3,037 million (unaudited)) for the six months ended 30 June 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)

	Six months ended 30 June 2007 RMB million	2006 RMB million (unaudited) (restated – Note 1)
Interest income	**134**	104
Foreign exchange gain	**341**	–
Finance income	**475**	104
Interest on loans from banks and other financial institutions, and other borrowings wholly repayable within five years	**(1,795)**	(1,514)
Less: Interest expense capitalised*	**199**	281
Net interest expense	**(1,596)**	(1,233)
Loss on remeasurement of derivative financial instruments to fair value	**(109)**	(25)
Foreign exchange loss	**(49)**	(68)
Finance expenses	**(1,754)**	(1,326)
Net finance costs	**(1,279)**	(1,222)
* Interest expense was capitalised in construction in progress at the following rates per annum	**1.8%-7.2%**	1.8%-6.156%

9 Income tax

Income tax in the consolidated income statement represents:

	Six months ended 30 June 2007 RMB million	2006 RMB million (unaudited) (restated – Note 1)
Provision for PRC income tax	**3,163**	2,376
Deferred taxation (Note 24)	**(53)**	(65)
	3,110	2,311

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

	Six months ended 30 June 2007 RMB million	2006 RMB million (unaudited) (restated – Note 1)
Profit before income tax	**15,394**	12,085
Expected PRC income tax expense at a statutory tax rate of 33% (Note i)	**5,080**	3,988
Effect of change in tax rate (Note ii)	**(140)**	–
Differential tax rate on subsidiaries' income (Note i)	**(1,811)**	(1,551)
Non-deductible expenses (Note iii)	**64**	81
Tax effect in respect of associates' income	**(63)**	(47)
Other non-taxable income	**(2)**	–
Tax losses not recognised	**76**	1
Others	**(94)**	(161)
	3,110	2,311

9 Income tax (continued)

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 of 7.5% or 15%.

(ii) On 1 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 will take effect on 1 January 2008. As a result of the new tax law, the statutory income tax rate currently adopted by the Company and its subsidiaries will change from 33% to 25% with effective from 1 January 2008. The existing preferential tax rate currently enjoyed by the Company will also be gradually transited to the new standard rate of 25% over a five-year transitional period. As the detailed instruction for the transition to the new tax rate is yet to be issued, the Group estimated that the applicable income tax rate under the preferential tax policy will be expired at the shorter of the existing preferential tax period and the five-year transitional period. The change in the carrying amount of the deferred tax assets and liabilities, as a result of the change in tax rate, is reflected in the financial statements of the Group for the six months ended 30 June 2007.

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

10 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB6,817 million (30 June 2006: RMB6,580 million (unaudited)) which has been dealt with in the financial statements of the Company.

11 Dividends

(a) The directors do not propose the payment of an interim dividend for the six months ended 30 June 2007 (30 June 2006 : Nil (unaudited)).

On 30 June 2007, the board of directors resolved that, subject to the shareholders' approval, the Company will apply (i) to the relevant regulatory authorities for the allotment and issue of not more than 1.8 billion ordinary shares ("A Shares"); and (ii) to the Shanghai Stock Exchange for the listing of A Shares ("A Share Issue"). The A Share Issue is subject to (i) approval from the shareholders at the extraordinary general meeting of the Company to be held on 24 August 2007; and (ii) approvals from the relevant regulatory authorities.

As part of the structure of the A Share Issue, the Company's domestic state-owned shares and H share shareholders will be entitled to the distributable reserves of the Group as at 30 June 2007. The amount of such distributable reserves shall be 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. Subject to the approval of A Share Issue, the distribution of the distributable reserves will be implemented by the board of directors in accordance with the authorisation given by the shareholders in respect thereof. If the Company does not issue A Shares, the Company will not make any special dividend distribution in respect of the distributable reserves as at 30 June 2007.

11 Dividends (continued)

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

	Six months ended 30 June	
	2007	2006
	RMB million	RMB million (unaudited)
Special dividend to Shenhua in respect of previous financial year, resolved and paid during the period	**–**	5,143
Final dividend in respect of the previous financial year, approved and paid during the period	**6,150**	2,261
	6,150	7,404

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

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

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 declared and was paid during the period.

12 Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2007 was based on the profit attributable to equity shareholders of the Company for the period of RMB10,315 million (30 June 2006: RMB8,607 million as restated and unaudited) and the weighted average number of shares in issue during the six months ended 30 June 2007 of 18,090 million (30 June 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 periods.

13 Property, plant and equipment, net

	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	10,568	10,612	14,663	26,968	39,461	3,060	105,332
Additions	22	93	556	48	1,173	298	2,190
Transferred from construction in progress	3,743	762	4,702	15,049	5,319	525	30,100
Disposals	(86)	(220)	(573)	(45)	(119)	(147)	(1,190)
At 31 December 2006	14,247	11,247	19,348	42,020	45,834	3,736	136,432
Representing:							
Cost	6,142	4,514	11,137	19,856	15,197	1,609	58,455
Valuation – 2003 (Note (b))	8,105	6,733	8,211	22,164	30,637	2,127	77,977
	14,247	11,247	19,348	42,020	45,834	3,736	136,432
Accumulated depreciation and impairment losses:							
At 1 January 2006	2,318	889	4,752	6,440	6,899	1,504	22,802
Charge for the year	656	389	1,438	1,790	1,700	338	6,311
Impairment losses (Note (e))	–	–	147	–	–	–	147
Written back on disposals	(19)	(28)	(467)	(25)	(38)	(110)	(687)
At 31 December 2006	2,955	1,250	5,870	8,205	8,561	1,732	28,573
Net book value:							
At 31 December 2006	11,292	9,997	13,478	33,815	37,273	2,004	107,859
Cost/valuation:							
At 1 January 2007	**14,247**	**11,247**	**19,348**	**42,020**	**45,834**	**3,736**	**136,432**
Additions	**107**	**1,662**	**144**	**2**	**894**	**152**	**2,961**
Transferred from construction in progress	**104**	**149**	**1,579**	**1,772**	**362**	**91**	**4,057**
Disposals	**(41)**	**–**	**(470)**	**(26)**	**(51)**	**(52)**	**(640)**
At 30 June 2007	**14,417**	**13,058**	**20,601**	**43,768**	**47,039**	**3,927**	**142,810**
Representing:							
Cost	**6,353**	**6,325**	**12,860**	**21,630**	**16,453**	**1,852**	**65,473**
Valuation – 2003 (Note (b))	**8,064**	**6,733**	**7,741**	**22,138**	**30,586**	**2,075**	**77,337**
	14,417	**13,058**	**20,601**	**43,768**	**47,039**	**3,927**	**142,810**
Accumulated depreciation and impairment losses:							
At 1 January 2007	**2,955**	**1,250**	**5,870**	**8,205**	**8,561**	**1,732**	**28,573**
Charge for the period	**330**	**313**	**771**	**1,123**	**1,092**	**191**	**3,820**
Impairment losses (Note (e))	**–**	**–**	**–**	**100**	**13**	**–**	**113**
Written back on disposals	**(9)**	**–**	**(355)**	**(6)**	**(33)**	**(39)**	**(442)**
At 30 June 2007	**3,276**	**1,563**	**6,286**	**9,422**	**9,633**	**1,884**	**32,064**
Net book value:							
At 30 June 2007	**11,141**	**11,495**	**14,315**	**34,346**	**37,406**	**2,043**	**110,746**

13 Property, plant and equipment, net (continued)

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

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

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

(c) Had property, plant and equipment been carried at cost less accumulated depreciation, the historical carrying amounts as at 30 June 2007 would have been as follows:

	At 30 June 2007 RMB million	*At 31 December 2006 RMB million*
Buildings	**10,832**	10,971
Mining structures and mining rights	**7,056**	5,479
Mining related machinery and equipment	**13,847**	13,038
Generators and related machinery and equipment	**34,291**	33,752
Railway and port transportation structures	**35,513**	35,321
Furniture, fixtures, motor vehicles and other equipment	**2,178**	2,160
	103,717	100,721

(d) Up to the date of this report, the Group was in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB2,794 million as at 30 June 2007 (31 December 2006: RMB2,977 million), of which RMB102 million related to newly acquired properties for the six months ended 30 June 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 property, plant and equipment which were obsolete, damaged or that could not generate future economic benefits were provided against for impairment for the six months ended 30 June 2007 and for the year ended 31 December 2006 respectively.

14 Construction in progress

	At 30 June 2007 RMB million	*At 31 December 2006 RMB million*
At the beginning of the period/year	**14,115**	21,910
Additions	**8,793**	22,305
Transferred to property, plant and equipment	**(4,057)**	(30,100)
At the end of the period/year	**18,851**	14,115

The construction in progress as at 30 June 2007 are mainly related to mining, generators and related machinery and equipment.

15 Intangible assets

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

	At 30 June 2007 RMB million	*At 31 December 2006 RMB million*
At the beginning of the period/year	**1,133**	1,293
Additions	**76**	140
Amortisation	**(79)**	(300)
At the end of the period/year	**1,130**	1,133

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

16 Interest in associates

	At 30 June 2007 RMB million	*At 31 December 2006 RMB million*
Share of net assets	**2,262**	2,369

The Group's interest in associates are individually and in aggregate not material to the Group's financial condition or results of operations for the period. The Group's associates are unlisted and established in the PRC. Details of the Group's principal associates as at 30 June 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***
Hebei Guohua Dingzhou Power Co., Ltd.	Limited company	RMB931 milllon	41%	41%	–	Power generation
Zhejiang Jiahua Power Co., Ltd.	Limited company	RMB2,055 milllon	20%	20%	–	Power generation
Inner-Mongolia Haibowan Power Co., Ltd.	Limited company	RMB280 milllon	40%	40%	–	Power generation
Inner-Mongolia Jingda Power Co., Ltd.	Limited company	RMB455 milllon	30%	30%	–	Power generation
Shenhua Finance Co., Ltd.	Limited company	RMB700 milllon	33%	21%	19%	Provision of financial services

17 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 period. As there is no quoted market price in an active market for these investments, they are stated at cost less impairment losses.

18 Other non-current financial assets

Other non-current financial assets represented entrusted loan to an associate (31 December 2006: Nil) through a PRC state-owned bank. The loan is interest bearing at 0.44175% per month and is receivable within two years.

19 Inventories

	At 30 June 2007 RMB million	*At 31 December 2006 RMB million*
Coal	**1,672**	1,487
Materials and supplies	**4,317**	3,274
	5,989	4,761

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

	Six months ended 30 June	
	2007 RMB million	*2006 RMB million (unaudited)*
Carrying amount of inventories sold	**16,090**	12,049
Write down of inventories	**200**	2
	16,290	12,051

20 Available-for-sale investments

On 29 December 2006, the Group entered into two fund management contracts with Industrial and Commercial Bank of China ("ICBC") with a total principal of RMB2,000 million. The 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 may 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.

21 Accounts and bills receivable, net

	At 30 June 2007 RMB million	At 31 December 2006 RMB million
Accounts receivable	**5,519**	4,331
Impairment losses for bad and doubtful accounts	**(22)**	(20)
	5,497	4,311
Bills receivable	**515**	549
	6,012	4,860

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

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

	At 30 June 2007 RMB million	At 31 December 2006 RMB million
Current	**6,009**	4,803
Within one year	**3**	53
Between one and two years	**–**	4
	6,012	4,860

The movement of impairment losses for bad and doubtful accounts was as follows:

	At 30 June 2007 RMB million	At 31 December 2006 RMB million
At the beginning of the period/year	**20**	23
Impairment loss recognised	**2**	3
Impairment loss written back	**–**	(6)
At the end of the period/year	**22**	20

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:

	At 30 June 2007 million	At 31 December 2006 million
United States Dollars	**USD163**	USD89

22 Prepaid expenses and other current assets

	At 30 June 2007 RMB million	*At 31 December 2006 RMB million*
Amounts due from Shenhua	**49**	52
Prepayments in connection with construction work and equipment purchases	**1,689**	2,144
Prepaid expenses and deposits	**989**	624
Amounts due from associates	**150**	50
Other receivables	**130**	149
Entrusted loan to a third party	**86**	–
Advances to staff	**69**	40
	3,162	3,059

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

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

	At 30 June 2007 million	*At 31 December 2006 million*
United States Dollars	**USD1**	USD14
Hong Kong Dollars	**HK$90**	HK$494

24 Deferred tax assets and liabilities

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

	Assets		***Liabilities***		***Net balance***	
	At 30 June 2007 RMB million	*At 31 December 2006 RMB million*	**At 30 June 2007 RMB million**	*At 31 December 2006 RMB million*	**At 30 June 2007 RMB million**	*At 31 December 2006 RMB million*
Allowances, primarily for receivables and inventories	**68**	69	**–**	–	**68**	69
Property, plant and equipment	**308**	253	**(615)**	(734)	**(307)**	(481)
Lease prepayments	**669**	857	**–**	–	**669**	857
Tax losses carried forward, net of valuation allowance	**11**	11	**–**	–	**11**	11
Tax allowable expenses not yet incurred	**–**	–	**(384)**	(272)	**(384)**	(272)
Unrealised profits from sales within the Group	**108**	90	**–**	–	**108**	90
Accrued salaries not yet paid	**123**	90	**–**	–	**123**	90
Pre-operating expenses written off	**41**	58	**–**	–	**41**	58
Others	**109**	141	**–**	–	**109**	141
Deferred tax assets/(liabilities)	**1,437**	1,569	**(999)**	(1,006)	**438**	563

24 Deferred tax assets and liabilities (continued)

Movements in temporary differences are as follows:

	At 1 January 2007 RMB million	*Recognised in consolidated income statement RMB million*	*Recognised in shareholder's equity RMB million*	*At 30 June 2007 RMB million*
Allowances, primarily for receivables and inventories	**69**	**(1)**	**–**	**68**
Property, plant and equipment	**(481)**	**174**	**–**	**(307)**
Lease prepayments	**857**	**(10)**	**(178)**	**669**
Tax losses carried forward, net of valuation allowances	**11**	**–**	**–**	**11**
Tax allowable expenses not yet incurred	**(272)**	**(112)**	**–**	**(384)**
Unrealised profits from sales within the Group	**90**	**18**	**–**	**108**
Accrued salaries not yet paid	**90**	**33**	**–**	**123**
Pre-operating expenses written off	**58**	**(17)**	**–**	**41**
Others	**141**	**(32)**	**–**	**109**
Net deferred tax assets	**563**	**53**	**(178)**	**438**

	At 1 January 2006 RMB million	*Recognised in consolidated income statement RMB million*	*At 31 December 2006 RMB million*
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

25 Borrowings

Short-term borrowings comprise:

	At 30 June 2007 RMB million	*At 31 December 2006 RMB million*
Borrowings from banks and other financial institutions	**10,168**	9,255
Current portion of long-term borrowings	**4,760**	5,587
	14,928	14,842

Interest rates per annum on short-term borrowings were:

	At 30 June 2007	*At 31 December 2006*
Borrowings from banks and other financial institutions	**4.698%-6.16%**	4.185%-5.508%
Current portion of long-term borrowings	**2.3%-7.2%** **L+0.6%-1.8%**	2.3%-6.156% L+0.6%-1.8%

Long-term borrowings comprise:

		At 30 June 2007 RMB million	*At 31 December 2006 RMB million*
Loans from banks and other financial institutions *			
Renminbi denominated	Interest rates ranging from 3.6% to 7.2% per annum with maturities through 28 December 2023	**43,337**	40,286
US Dollars denominated	Interest rate at L+0.6% -1% per annum with maturities through 20 June 2020	**416**	564
Japanese Yen denominated	Interest rates ranging from 1.8% to 4.45% or L+1.8% per annum with maturities through 20 March 2031	**5,122**	5,577
		48,875	46,427
Less: current portion of long-term borrowings		**(4,760)**	(5,587)
		44,115	40,840

* At 30 June 2007, the balance includes an entrusted loan from the Parent Company amounting to RMB1,000 million (31 December 2006: RMB1,000 million).

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

The above borrowings are unsecured.

25 Borrowings (continued)

The long-term borrowings were repayable as follows:

	At 30 June 2007 RMB million	At 31 December 2006 RMB million
Within one year or on demand	**4,760**	5,587
After one year but within two years	**5,873**	6,298
After two years but within five years	**14,638**	13,738
After five years	**23,604**	20,804
	48,875	46,427

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

	At 30 June 2007 million	At 31 December 2006 million
United States Dollars	**USD55**	USD72
Japanese Yen	**JPY82,836**	JPY84,979

The Group had unsecured banking facilities amounting to RMB39,028 million as at 30 June 2007 (31 December 2006: RMB8,072 million). As at 30 June 2007, the unutilised banking facilities amounted to RMB13,570 million (31 December 2006: RMB4,789 million). Such banking facilities would be drawn down in accordance with the level of working capital and planned capital expenditure of the Company and its subsidiaries.

26 Accounts and bills payable

	At 30 June 2007 RMB million	At 31 December 2006 RMB million
Accounts payable	**8,505**	8,465
Bills payable	**114**	668
	8,619	9,133

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

	At 30 June 2007 RMB million	At 31 December 2006 RMB million
Within one year	**8,271**	8,705
One to two years	**152**	262
Two to three years	**57**	139
Over three years	**139**	27
	8,619	9,133

26 Accounts and bills payable (continued)

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

	At 30 June 2007 million	*At 31 December 2006 million*
United States Dollars	**USD25**	USD21
Hong Kong Dollars	**–**	HK$84
Euros	**EUR14**	EUR11

RMB59 million (31 December 2006: RMB101 million) of the accounts and bills payable are expected to be settled after more than one year.

27 Accrued expenses and other payables

	At 30 June 2007 RMB million	*At 31 December 2006 RMB million*
Accrued staff wages and welfare benefits	**1,900**	1,364
Accrued interest payable	**83**	73
Accrued taxes other than income tax	**1,454**	1,555
Other accrued expenses and payables	**3,097**	2,191
Fair value of derivative financial instruments	**355**	246
Customer deposits and receipts in advances	**1,572**	1,548
	8,461	6,977

At 30 June 2007, the Group had amounts payable to related parties amounting to RMB205 million (31 December 2006: RMB211 million).

Accrued expenses and payables with an amount of RMB234 million (31 December 2006: RMB241 million) are expected to be settled after more than one year.

28 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 30 June 2007 are adequate. The accrual is necessarily based on estimates and therefore, the ultimate liability may exceed or be less than such estimates.

	At 30 June 2007 RMB million	*At 31 December 2006 RMB million*
At the beginning of the period/year	**942**	852
Addition	**38**	40
Accretion expense	**22**	50
At the end of the period/year	**1,002**	942

29 Long-term payable

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

30 Share capital

	At 30 June 2007 RMB million	*At 31 December 2006 RMB million*
Registered, issued and fully paid:		
14,691,037,955 domestic state-owned ordinary shares of RMB1.00 each	**14,691**	14,691
3,398,582,500 H shares of RMB1.00 each	**3,399**	3,399
	18,090	18,090

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

In 2005, the Company issued 3,089,620,455 H shares with a par value of RMB1.00 each, at a price of HK$7.50 per H share by way of a global initial public offering to Hong Kong and overseas investors. 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. A total of 3,398,582,500 shares were listed on the Stock Exchange.

31 Commitments and contingent liabilities

(a) Capital commitments

As at 30 June 2007, the Group had capital commitments for acquisition and construction of land and buildings and equipment, and for the acquisition of subsidiaries as follows:

	At 30 June 2007 RMB million	*At 31 December 2006 RMB million*
Authorised and contracted for		
- Land and buildings	**5,610**	4,333
- Equipment	**11,125**	9,542
- Subsidiaries	**3,328**	–
	20,063	13,875
Authorised but not contracted for		
- Land and buildings	**10,402**	12,639
- Equipment	**11,483**	12,550
	21,885	25,189

31 Commitments and contingent liabilities (continued)

(b) Operating lease commitments

The Group leases business premises through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments nor impose restrictions on dividends, additional debt and/or further leasing. As at 30 June 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:

	At 30 June 2007 RMB million	*At 31 December 2006 RMB million*
Within one year	**57**	43
After one year but within five years	**156**	152
After five years	**91**	109
	304	304

(c) Financial guarantees issued

The maximum liability of the Group at 31 December 2006 under the single guarantee issued was a banking facility made by Shenhua Finance Company Limited ("Shenhua Finance") to an associate of the Company of RMB310 million. Such guarantee was released in June 2007 through an entrusted loan issued by a subsidiary to the associate (see Note 32(a)).

(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.

32 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.

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:

		Six months ended 30 June	
		2007	*2006*
		RMB million	*RMB million*
			(unaudited)
			(restated – Note 1)
Interest income	(i)	**10**	1
Purchases of ancillary materials and spare parts	(ii)	**(349)**	(243)
Ancillary and social services	(iii)	**(232)**	(176)
Transportation services income	(iv)	**19**	23
Interest expense	(v)	**(24)**	(27)
Purchase of coal	(vi)	**(762)**	(656)
Sale of coal	(vii)	**800**	780
Property leasing	(viii)	**(21)**	(19)
Transportation services expense	(ix)	**(135)**	(68)
Repairs and maintenance services expense	(x)	**(1)**	–
Coal export agency expense	(xi)	**(34)**	(35)
Entrusted loan (to)/repaid by a related party		**(410)**	100
Income from equipment installation and construction work	(xii)	**2**	–
Purchase of equipment and construction work	(xiii)	**(218)**	(42)
Other income	(xiv)	**38**	24
Repayment to a related party		**–**	(1,200)
Net deposits received from a related party		**965**	–

32 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 its associate. The applicable interest rate is determined in accordance with the prevailing savings deposit rate.

(ii) Purchases of ancillary materials and spare parts represent purchase of materials and utility supplies from Shenhua Group related to the Group's operations.

(iii) Ancillary and social services represent expenditures for social welfare and support services such as property management, water and electricity supply, and canteen paid to Shenhua Group.

(iv) Transportation services income represents income earned from its associate and Shenhua Group in respect of coal transportation services.

(v) Interest expense represents interest incurred in respect of borrowings from Shenhua Group. The applicable interest rate is determined in accordance with the prevailing borrowing rate.

(vi) Purchase of coal represents coal purchased from Shenhua Group.

(vii) Sale of coal represents income from sale of coal to its associates and Shenhua Group.

(viii) Property leasing represents rental charge in respect of properties leased from Shenhua Group.

(ix) Transportation services expense represents expense related to coal transportation services provided by its associates.

(x) Repairs and maintenance services expense represents expense related to machinery repairs and maintenance services provided by Shenhua Group.

(xi) Coal export agency expense represents expense related to coal export agency services provided by Shenhua Group.

(xii) Income from equipment installation and construction work represents equipment installation and construction service provided to Shenhua Group.

(xiii) Purchase of equipment and construction work represents expense related to purchase of equipment and construction work from Shenhua Group.

(xiv) 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.

32 Related party transactions (continued)

(a) Transactions with Shenhua and its affiliates ("Shenhua Group") and the associates of the Group (continued)

In connection with the Restructuring, the Company and Shenhua Group entered into a number of agreements effective as at 1 January 2004, which were subsequently revised as stated below. The terms of the principal agreements impacting the results of operations of the Company are summarised as follows:

(a) The Company entered into a three-year mutual supply agreement expiring 31 December 2006 which was subsequently extended to 31 December 2007 in the revised agreement with the Parent Company for the mutual provision of production supplies and ancillary services. In 2007, the agreement was further extended to 31 December 2010. Pursuant to the agreements, Shenhua Group provides the Company with the production supplies, such as explosives, fuses, oil products, and other related or similar production supplies and services; ancillary production services including security, logistics and support services, tendering services, other related or similar services and use of the information network system; and ancillary administrative services, such as social security and pension management service and staff data recording services. On the other hand, the Company provides Shenhua Group with water supplies, rolling stock management, railway management, rail transportation and other related or similar production supplies or services and use of the information network system.

The products and services provided under the agreement, other than the 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 unless the other party is unable to obtain similar production supplies and ancillary services from third parties.

(b) The Company entered into a three-year coal supply agreement expiring 31 December 2006 which was subsequently extended to 31 December 2007 in the revised agreement with the Parent Company. In 2007, the agreement was further extended to 31 December 2010. Pursuant to the agreements, the Group and Shenhua Group supply coal to each other in accordance with their needs. The coal supplied is charged at the prevailing market price. Each party is entitled to purchase coal from any independent third party if such a third party is able to provide coal to it on better terms and conditions than those offered by the other party.

Each party may terminate the supply of coal by giving six months' prior written notice to the other party. However, if the Company cannot conveniently purchase coal from a third party, Shenhua Group may not terminate the supply of coal under any circumstances.

32 Related party transactions (continued)

(a) Transactions with Shenhua and its affiliates ("Shenhua Group") and the associates of the Group (continued)

(c) The Company entered into a three-year financial services agreement expiring 31 December 2006 which was subsequently terminated on 24 May 2005 with Shenhua Finance, a subsidiary of Shenhua and an associate of the Company. The Company entered into a new financial services agreement which was effective from 21 July 2006 to 31 December 2007 with Shenhua Finance on 21 July 2006. The agreement was revised and extended to 31 December 2010 on 23 March 2007. Pursuant to the new agreement, Shenhua Finance provides financial services to the Group. The terms and conditions of such services should not be less favourable than the terms and conditions of financial services rendered to other members of Shenhua Group by Shenhua Finance and by other financial institutions. The interest rate for the Group's deposit with Shenhua Finance should not be lower than the lowest limit fixed by the PBOC for the same type of deposit. The interest rate for loans made by Shenhua Finance to the Company should not be higher than the highest limit fixed by PBOC for the same type of loan. The fees charged by Shenhua Finance for the provision of other financial services shall be fixed according to the rate of fees chargeable by the PBOC or the China Banking Regulatory Commission.

(d) The Company entered into a ten-year property leasing agreement expiring 31 December 2013 which was subsequently extended to 31 December 2014 in the revised agreement with the Parent Company. Pursuant to the agreements, the Group leases certain properties from Shenhua Group and vice versa. No rent is payable by the Company before Shenhua Group obtains the relevant certificate of property ownership for that piece of property. The rental charges will be based on comparable market rates. If Shenhua Group negotiates to sell a leased property to a third party, the Company has a pre-emptive right to purchase such property under terms no less favourable to the Company. The lessee may sub-let any of the properties with the consent of lessor. During the term of the property leasing agreement, the Group may increase or decrease the lease areas of the properties by providing three months' written notice.

(e) The Company entered into a ten-year land leasing agreement expiring 31 December 2013 which was subsequently extended to 31 December 2024 in the revised agreement with the Parent Company, which may be renewed upon request by the Company for another 20 years on the same terms (subject to the prevailing market rent) by giving one month's written notice prior to expiry of the land leasing agreement. The annual rent is determined between the parties based on the relevant laws and regulations then in force and the local market rate. The rights of the Group to use land under the land leasing agreement may not be sub-let. The Group may at any time during the term of the land leasing agreement terminate the lease of any parcel of land leased under the land leasing agreement by providing three months' written notice.

(f) The Company entered into a three-year agency agreement expiring 31 December 2006 which was subsequently extended to 31 December 2007 in the revised agreement with the Parent Company for the export of coal on the Company's behalf. In 2007, the agreement was further extended to 31 December 2010. Shenhua Group is appointed as a non-exclusive export agent of the Company in priority over other export agencies if the terms of export services offered by it are equal or more favourable than other export agencies. Pursuant to the agreements, Shenhua Group is entitled to receive an agency fee based on the relevant market rates or lower rates. Currently, the rate is 0.7% of the free on board price of each tonne of coal exported by Shenhua Group on the Company's behalf.

32 Related party transactions (continued)

(a) Transactions with Shenhua and its affiliates ("Shenhua Group") and the associates of the Group (continued)

(g) The Company and one of its subsidiaries entered into a three-year agency agreement expiring 31 December 2006 which was subsequently extended to 31 December 2007 in the revised agreement with the Parent Company for the sale of coal by the Company's subsidiary on behalf of Shenhua Group to minimise any potential competition between Shenhua Group and the Company. In 2007, the agreement was futher extended to 31 December 2010. The Company's subsidiary is appointed as the exclusive sales agent for Shenhua Group for thermal coal and non-exclusive sales agent for coking coal. The unit selling price for sales the Company's subsidiary makes as agent will be determined by the Company's subsidiary according to the spot market price, subject to confirmation by Shenhua Group. Pursuant to the agreements, the Company's subsidiary is entitled to receive an agency fee which is based on its related costs incurred plus a profit margin of 5% for sale of coal outside the Inner Mongolia Autonomous Region. The Company's subsidiary does not charge any fee for sales of coal within the Inner Mongolia Autonomous Region.

(h) The Company entered into a ten-year trademark license agreement expiring 31 December 2013 which was subsequently amended by a supplemental agreement with the Parent Company. Pursuant to the agreements, Shenhua Group has granted the Group a non-exclusive licence to use the registered trademarks in the PRC. The trademarks licensed under the trademark license agreement may be used by the Group on a royalty-free basis for a term of ten years, which is renewable for another term of ten years if so agreed by both parties. Shenhua Group has agreed to maintain at its own cost the registration of such trademarks during the term of the trademarks license agreement. Shenhua Group has also agreed to be responsible for the expenses for enforcement against any infringement of the licensed trademarks by third parties.

(i) The Company entered into a three-year coal supply agreement expiring 31 December 2006 which was subsequently extended to 31 December 2007 in the revised agreement with Heibei Guohua Dingzhou Power Generation Co., Ltd. ("Dingzhou", an associate of the Company). In 2007, the agreement was further extended to 31 December 2010. Pursuant to the agreements, the Company's subsidiary supplies coal to Dingzhou. The coal supplied is determined in accordance with the prevailing market price. Each party may terminate the supply of coal at any time by providing six months' prior written notice to the other party.

(j) A subsidiary of the Company entered into a one-year maintenance agreement with effect from 1 January 2004 which was subsequently renewed for two more years to 31 December 2006 in the renewed agreement with Dingzhou. Pursuant to the agreements, the Company's subsidiary provides rail line maintenance services to Dingzhou on a daily basis.

32 Related party transactions (continued)

(a) Transactions with Shenhua and its affiliates ("Shenhua Group") and the associates of the Group (continued)

Amounts due from/to Shenhua Group and the associates of the Group:

	Note	**At 30 June 2007 RMB million**	At 31 December 2006 RMB million
Cash and cash equivalents		**504**	1,469
Accounts receivable		**23**	112
Prepaid expenses and other current assets	22	**199**	102
Other non-current financial assets	18	**310**	–
Total amounts due from Shenhua Group and the associates of the Group		**1,036**	1,683
Accounts payable		**513**	345
Accrued expenses and other payables	27	**205**	211
Long-term borrowings	25	**1,000**	1,000
Total amounts due to Shenhua Group and the associates of the Group		**1,718**	1,556

The deposits placed with an associate of the Group and the entrusted loans granted to the related parties generate interest based on prevailing bank interest rates published by PBOC. The long-term borrowings bear an interest rate at 5.25% per annum. Other than the above, amounts due from/to Shenhua Group and the associates of the Group bear no interest, are unsecured and are repayable in accordance with normal commercial terms.

Acquisition of a subsidiary

Pursuant to a resolution passed at the Directors' meeting on 10 March 2006, the Company acquired a 70% stake in Jinjie Energy from Beijing Guohua Power at a consideration of RMB1,162 million. The Acquisition was completed in August 2006 (see Note 1).

Following the Acquisition of Jinjie Energy, certain transactions between Jinjie Energy and Shenhua Group and the associates of the Group were considered as related party transactions in these financial statements and the disclosures in this regard for the six months ended 30 June 2006 were restated accordingly.

32 Related party transactions (continued)

(b) Key management personnel emoluments

Key management personnel receive compensation in the form of fees, salaries, housing and other allowances, benefits in kind, discretionary bonuses, share appreciation rights and retirement scheme contributions.

Key management personnel compensation of the Group is summarised as follows:

	Six months ended 30 June	
	2007	2006
	RMB million	RMB million (unaudited)
Short-term employee benefits	**2**	4
Post-employment benefits	**1**	1
Share appreciation rights expense	**20**	6
	23	11

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 33.

(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.

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.

32 Related party transactions (continued)

(d) Transactions with other state-controlled entities in the PRC (continued)

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

	Six months ended 30 June	
	2007	*2006*
	RMB million	*RMB million*
		(unaudited)
Coal revenue	**14,009**	11,017
Power revenue	**10,941**	6,351
Transportation costs	**1,852**	2,268
Interest income	**124**	77
Interest expenses	**1,643**	1,136

(ii) Balances with other state-controlled entities, including state-controlled banks in the PRC

	At 30 June	*At 31 December*
	2007	*2006*
	RMB million	*RMB million*
Accounts receivable	**4,000**	3,217
Cash and time deposits at banks	**14,872**	14,039
Short-term borrowings and current portion of long-term borrowings	**14,928**	14,842
Long-term borrowings, less current portion	**43,115**	39,840

33 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 six months ended 30 June 2007 were RMB277 million (30 June 2006: RMB260 million as restated and unaudited).

On 19 November 2005, the Company's board of directors approved a scheme of share appreciation rights for the senior management of the Group with a term of 10 years with effect from 15 June 2005. No shares will be issued under this scheme. The rights will be granted in units with each unit representing one H share of the Company.

The rights to the units will have an exercise period of six years from the date of grant and can be exercised after the second, third and fourth anniversary of the date of grant and the total number of the rights exercised by an individual may not in aggregate exceed one-third, two-thirds and 100% respectively, of the total rights granted to the individual.

Upon exercise of the said rights, the exercising participant will, subject to the restrictions under the scheme, receive a payment in RMB, after deducting any applicable withholding tax, equal to the product of the number of rights exercised and the difference between the exercise price and market price of the H shares of the Company at the time of exercise.

33 Employee benefits plan (continued)

No share appreciation rights was granted during the six months ended 30 June 2007 (30 June 2006: Nil (unaudited)). The Company recognised a compensation expense over the applicable vesting period. The compensation expense recognised for the six months ended 30 June 2007 amounted to RMB31 million (30 June 2006: RMB6 million (unaudited)). The exercise price of granted share appreciation rights as approved by the board of directors is HK$7.90 or HK$11.80. As at 30 June 2007, 6 million (31 December 2006: 6 million) share appreciation rights were outstanding.

34 Segment information

The Group's risks and rates of return are affected predominantly by differences in the products and services it produces. The Group's primary format for reporting segment information is business segments with geographical segments as its secondary format.

Business segments:

The Group has two reportable segments as follows:

(1) Coal operations – which produces coal from surface and underground mines, and the sale and transportation of coal to external customers and the power segment. The Group primarily sells its coal under long-term coal supply contracts which typically allow the parties to make annual price adjustments.

(2) Power operations – which uses coal, sourced from the coal mining segment of the Group 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 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.

34 Segment information (continued)

(a) Income statement

The following table presents segmental information:

	Six months ended 30 June									
	Coal		Power		Corporate and others (Note)		Eliminations		Total	
	2007 RMB million	2006 RMB million (unaudited)	**2007 RMB million**	2006 RMB million (unaudited) (restated – Note 1)	**2007 RMB million**	2006 RMB million (unaudited)	**2007 RMB million**	2006 RMB million (unaudited)	**2007 RMB million**	2006 RMB million (unaudited) (restated – Note 1)
Revenues										
External sales	**27,176**	23,044	**11,155**	6,489	**–**	–	**–**	–	**38,331**	29,533
Inter-segment sales	**4,549**	2,844	**40**	37	**–**	–	**(4,589)**	(2,881)	**–**	–
Total operating revenues	**31,725**	25,888	**11,195**	6,526	**–**	–	**(4,589)**	(2,881)	**38,331**	29,533
Cost of revenues										
Coal purchased from third parties	**(4,723)**	(3,001)	**–**	–	**–**	–	**–**	–	**(4,723)**	(3,001)
Cost of coal production	**(5,240)**	(3,894)	**–**	–	**–**	–	**1,478**	772	**(3,762)**	(3,122)
Cost of coal transportation	**(6,042)**	(5,236)	**–**	–	**–**	–	**975**	588	**(5,067)**	(4,648)
Power cost	**–**	–	**(7,280)**	(4,616)	**–**	–	**2,113**	1,453	**(5,167)**	(3,163)
Others	**(553)**	(544)	**(18)**	(2)	**–**	–	**–**	–	**(571)**	(546)
Total cost of revenues	**(16,558)**	(12,675)	**(7,298)**	(4,618)	**–**	–	**4,566**	2,813	**(19,290)**	(14,480)
Selling, general and administrative expenses	**(1,586)**	(1,203)	**(556)**	(456)	**(228)**	(180)	**–**	–	**(2,370)**	(1,839)
Other operating expenses, net	**(177)**	(50)	**(37)**	(6)	**(5)**	–	**–**	–	**(219)**	(56)
Profit/(loss) from operations	**13,404**	11,960	**3,304**	1,446	**(233)**	(180)	**(23)**	(68)	**16,452**	13,158
Reconciliation of profit from operations to profit for the period:										
Net financing costs									**(1,279)**	(1,222)
Investment income									**31**	7
Share of profits less losses of associates									**190**	142
Income tax									**(3,110)**	(2,311)
Profit for the period									**12,284**	9,774

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

34 Segment information (continued)

(b) Balance sheet

Assets and liabilities dedicated to a particular segment's operations are included in that segment's total assets and liabilities. Assets which benefit more than one segment are considered to be corporate assets and are not allocated. "Unallocated assets" consists primarily of cash and cash equivalents, time deposits, investments and deferred tax assets. "Unallocated liabilities" consists primarily of short-term and long-term borrowings, income tax payable and deferred tax liabilities.

Interests in and earnings from associates are included in the segments in which the associates operate. Information on interest in associates is included in Note 16.

	At 30 June 2007 RMB million	*At 31 December 2006 RMB million*
Assets		
Segment assets		
Coal	**89,912**	82,131
Power	**60,743**	57,016
Combined segment assets	**150,655**	139,147
Interest in associates		
Coal	**734**	657
Power	**1,528**	1,712
Total interest in associates	**2,262**	2,369
Unallocated assets	**19,058**	21,632
Total assets	**171,975**	163,148
Liabilities		
Segment liabilities		
Coal	**(17,862)**	(12,847)
Power	**(4,748)**	(5,457)
Combined segment liabilities	**(22,610)**	(18,304)
Unallocated liabilities	**(60,968)**	(60,143)
Total liabilities	**(83,578)**	(78,447)

34 Segment information (continued)

(c) Other segment information

	Six months ended 30 June							
	Coal		Power		Corporate and others (Note)		Total	
	2007 RMB million	2006 RMB million (unaudited)	**2007 RMB million**	2006 RMB million (unaudited) (restated – Note 1)	**2007 RMB million**	2006 RMB million (unaudited)	**2007 RMB million**	2006 RMB million (unaudited) (restated – Note 1)
Capital expenditure	**8,145**	4,596	**3,654**	3,233	**31**	45	**11,830**	7,874
Depreciation and amortisation	**2,407**	2,011	**1,491**	1,072	**1**	1	**3,899**	3,084
Share of profits less losses of associates	**81**	35	**109**	107	**–**	–	**190**	142
Impairment losses on property, plant and equipment	**13**	–	**100**	–	**–**	–	**113**	–

Segment capital expenditure is the total cost incurred during the period 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

	Six months ended 30 June	
	2007 RMB million	2006 RMB million (unaudited)
Domestic markets	**33,771**	24,734
Export sales – Asia Pacific markets	**4,397**	4,727
Export sales – other markets	**163**	72
Total operating revenues	**38,331**	29,533

(ii) Segment assets

The location of all the Group's production or service facilities and other assets is in the PRC.

35 Distributable reserves

The movement of shareholders' equity of the Company is as follows:

	Share capital RMB million (Note 30)	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 (as previously reported)	18,090	20,813	3,128	2,203	9,700	53,934
Adjustment for acquisition of Jinjie Energy (Note 1)	–	–	–	509	–	509
At 1 January 2006 (as restated)	18,090	20,813	3,128	2,712	9,700	54,443
Profit for the period	–	–	–	–	7,536	7,536
Dividend approved during the period (Note 11)	–	–	–	–	(7,404)	(7,404)
At 30 June 2006 (unaudited)	18,090	20,813	3,128	2,712	9,832	54,575
At 1 January 2007	**18,090**	**20,813**	**4,742**	**2,116**	**14,975**	**60,736**
Profit for the period	**–**	**–**	**–**	**–**	**9,635**	**9,635**
Appropriations	**–**	**–**	**910**	**–**	**(910)**	**–**
Realisation/reassessment of deferred tax	**–**	**–**	**–**	**(88)**	**6**	**(82)**
Dividend approved during the period (Note 11)	**–**	**–**	**–**	**–**	**(6,150)**	**(6,150)**
Restatement of profit appropriations for prior years	**–**	**–**	**(485)**	**–**	**485**	**–**
Write back of future development fund	**–**	**–**	**–**	**(1,358)**	**1,358**	**–**
At 30 June 2007	**18,090**	**20,813**	**5,167**	**670**	**19,399**	**64,139**

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 Group		The Company	
	2007 RMB million	2006 RMB million (unaudited)	**2007 RMB million**	2006 RMB million (unaudited)
At 30 June	**22,544**	12,856	**16,799**	9,054

The above amounts were determined in accordance with the PRC Accounting Rules and Regulations.

36 Financial risk management

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The carrying amounts of cash and cash equivalents, time deposits, investments, accounts and bills receivable, other receivables and available-for-sale investments represent the Group's maximum exposure to credit risk in relation to these financial assets. Substantially all of the Group'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 major customers are power plants, metallurgical companies and power grid companies, which accounted for significant amounts of the Group's total operating revenues during the period. The Group has no significant credit risk with any of these customers since the Group maintains long-term and stable business relationships with these large customers in the coal and power industries. Accounts receivable are typically unsecured and denominated in RMB, and are derived from revenues earned from operations arising in the PRC. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on accounts receivable. The impairment losses on bad and doubtful accounts have been within management's expectations.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet. The maximum exposure to credit risk at the reporting date was:

	At 30 June 2007 RMB million	*At 31 December 2006 RMB million*
Available-for-sale financial assets	**1,071**	3,066
Loans, receivables and time deposits	**9,582**	7,927
Cash and cash equivalents	**15,283**	15,501
	25,936	26,494

Except for the financial guarantees given by the Group as set out in Note 31(c), the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the balance sheet date is disclosed in Note 31(c).

(b) Currency risk

Except for export sales which are transacted in US Dollars, all of the revenue-generating operations of the Group are transacted in RMB, which is not fully convertible into foreign currencies. On 1 January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the PBOC. However, the unification of the exchange rate does not imply convertibility of RMB into Hong Kong Dollars or other foreign currencies. All foreign exchange transactions must take place through the PBOC or other institutions authorised to buy and sell foreign exchange. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

In addition, the Group incurs foreign currency risk on borrowings that are denominated in a currency other than RMB. The currencies giving rise to this risk are primarily US Dollars and Japanese Yen. To reduce the risk, the Group has entered into forward exchange contracts, details of which are set out in Note (d) below.

36 Financial risk management (continued)

(c) Interest rate risk

The interest rates and terms of repayment of the Group's borrowings are disclosed in Note 25. To reduce the interest rate exposure to fixed rate borrowings, the Group has entered into interest rate swaps, details of which are set out in Note (d) below.

(d) Fair values

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32. Fair value estimates, methods and assumptions, set forth below for the Group's financial instruments, are made solely to comply with the requirements of IAS 32 and should be read in conjunction with the financial statements. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgement is required to interpret market data to develop the estimates of fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following summarises the major methods and assumptions used in estimating the fair values of the Group's financial instruments.

Long-term borrowings: The fair values of long-term borrowings are estimated by discounting future cash flows using current market interest rates offered to the Group for borrowings with substantially the same characteristics and maturities. As at 30 June 2007, the carrying amounts and fair values of the Group's long-term borrowings are as follows:

	At 30 June 2007		*At 31 December 2006*	
	Carrying amount RMB million	***Fair value RMB million***	*Carrying amount RMB million*	*Fair value RMB million*
Long-term borrowings	**48,875**	**48,976**	46,427	46,597

Derivatives: Forward exchange contracts are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate. For interest rate swaps broker quotes are used. Those quotes are 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.

Derivatives outstanding at 30 June 2007 in connection with the fixed rate borrowings denominated in Japanese Yen are as follows:

Remaining term to maturity	***The Group receives*** *(notional amount Japanese Yen million)*	***Interest revenues***	***The Group pays*** *(notional amount US Dollars million)*	***Interest charges***
After one year but within five years	**3,422**	Fixed 2.3%	**30**	6-month L-1.14% to 6-month L-1.12%
After five years	**23,736**	Fixed 1.8% to 2.6%	**205**	Fixed 2.95% to 4.45% or 6-month L-2.36% to 6-month L-0.29%
	27,158		**235**	

36 Financial risk management (continued)

(d) Fair values (continued)

Derivatives outstanding at 31 December 2006 in connection with the fixed rate borrowings denominated in Japanese Yen are as follows:

Remaining term to maturity	***The Group receives*** *(notional amount Japanese Yen million)*	***Interest revenues***	***The Group pays*** *(notional amount US Dollars million)*	***Interest charges***
After one year but within five years	3,693	Fixed 2.3%	33	6-month L-1.14% to 6-month L-1.12%
After five years	25,089	Fixed 1.8% to 2.6%	216	Fixed 2.95% to 4.45% or 6-month L-2.36% to 6-month L-0.29%
	28,782		249	

The carrying amount and the fair value of the Group's derivative financial instruments are as follows:

	At 30 June 2007		*At 31 December 2006*	
	Carrying amount RMB million	***Fair value RMB million***	*Carrying amount RMB million*	*Fair value RMB million*
Derivative financial instruments - liabilities	**355**	**355**	246	246

Change in fair value is recognised as net financing costs in the consolidated income statement.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

The fair values of all other financial instruments approximate their carrying amounts due to the nature or short-term maturity of these instruments.

(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.

The schedule of the contractual maturities of borrowings and unutilised banking facilities, and commitments are disclosed in Notes 25 and 31 respectively.

36 Financial risk management (continued)

(f) 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 monitors the return on capital, which the Group defines as total shareholders' equity excluding minority interests, and the level of dividends to shareholders.

There were no change 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.

37 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.

37 Accounting estimates and judgements (continued)

Impairments

In considering the impairment losses that may be required for certain of the Group's assets which include property, plant and equipment, construction in progress, intangible assets, and investments in associates (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, 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.

Depreciation

Other than the mining structures and mining rights, property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Obligations for land reclamation

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

Derivative financial instruments

In determining the fair value of the derivative financial instruments, considerable judgement is required to interpret market data used in the valuation techniques. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

38 Subsequent events

The following significant transaction took place subsequent to 30 June 2007:

On 10 July 2007, the Company issued a circular to the shareholders for a proposed acquisition of the entire equity interests in Shenhua Shenfu Dongsheng Coal Company Limited ("Shendong Coal") and Shenhua Shendong Power Company Limited ("Shendong Power") from Shenhua, at a consideration of RMB1,170 million and RMB2,158 million respectively. The principal activities of Shendong Coal and Shendong Power are the provision of ancillary services and generation and sale of electricity respectively. The acquisition is subject to the approval from the shareholders at the extraordinary general meeting to be held on 24 August 2007.

39 Immediate and ultimate controlling party

At 30 June 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.

40 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ending 31 December 2007

Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the annual accounting period ending 31 December 2007 and which have not been adopted in these financial statements:

	Effective for accounting period beginning on or after
IFRS 8, *Operating Segments*	1 January 2009
IFRIC 11, *IFRS 2 – Group and Treasury Share Transactions*	1 March 2007
IFRIC 12, *Service Concession Agreements*	1 January 2008
IFRIC 13, *Customer Loyalty Programmes*	1 July 2008
IFRIC 14, *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	1 January 2008
IAS 23, *Borrowing costs (March 2007)*	1 January 2009

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far the Group believes that the adoption of IFRIC 11, IFRIC 12, IFRIC 13 and IFRIC 14 are not applicable to any of the Group's operations and that the adoption of the rest of the above amendments, new standards and new interpretations is unlikely to have a significant impact on the Group's results of operations and financial position.

41 Comparative figures

Certain comparative figures have been adjusted or re-classified as a result of the application of pooling-of-interests method on the acquisition of Jinjie Energy or to conform with the current period's presentation.

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(4) Joint Company Secretaries
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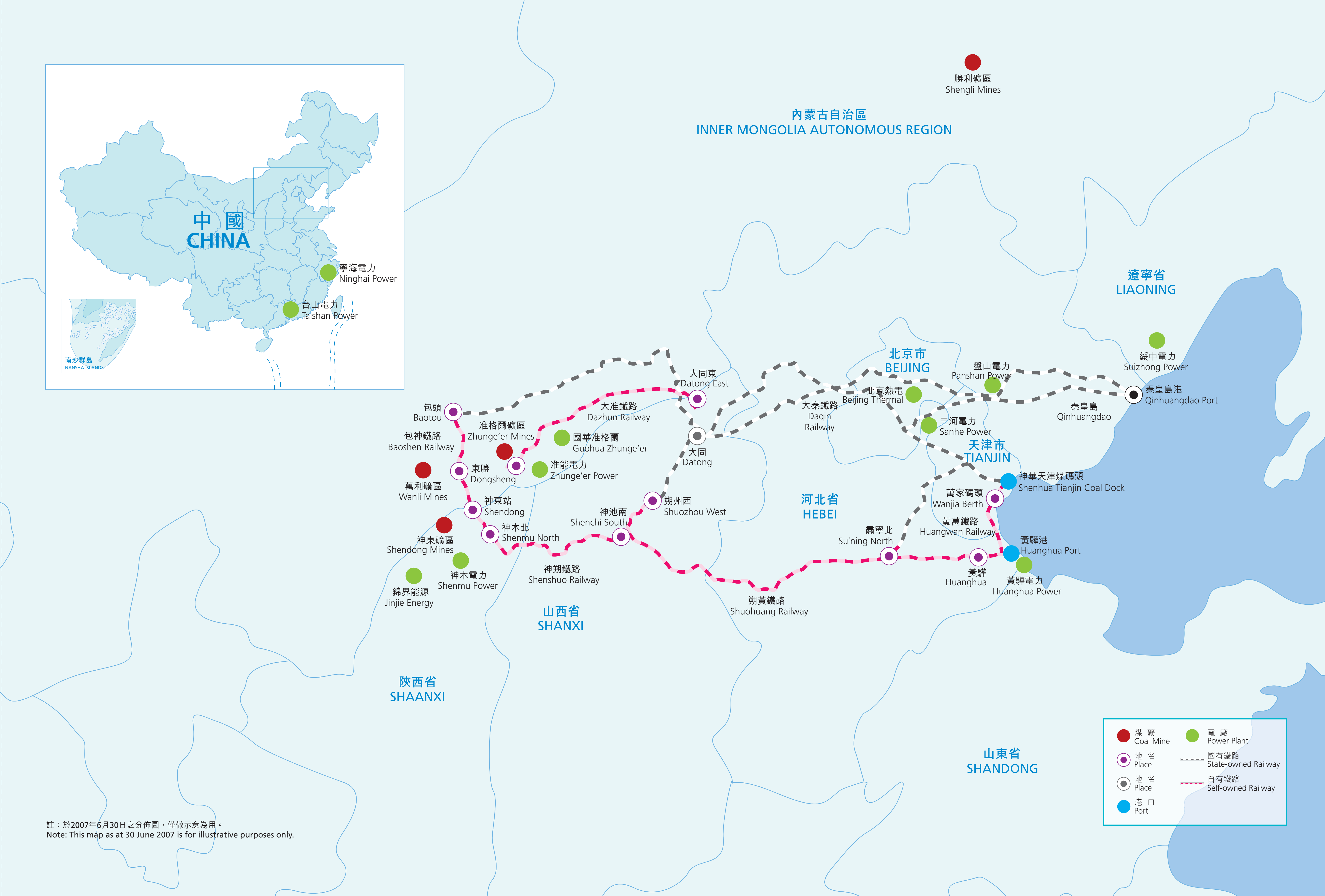
(11) Listing Information
H Share
The Stock Exchange of Hong Kong Limited
Stock code: 1088
Listing Date: 15 June 2005

Map of China Shenhua's Assets

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



註：於2007年6月30日之分佈圖，僅做示意為用。
Note: This map as at 30 June 2007 is for illustrative purposes only.