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 Sode:1088

Annual Report 2008

Whatever the Weather, We Lead

Whatever the Weather,

Asset Distribution Diagram

煤礦 Coal Mine

1. 神東礦區 Shendong Mines
2. 萬利礦區 Wanli Mines
3. 准格爾礦區 Zhunge'er Mines
4. 勝利礦區 Shengli Mines
5. 沃特馬克煤礦 Watermark Coal Project

鐵路 Railway

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

港口 Port

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

電廠 Power

13. 黃驊電力 Huanghua Power
14. 盤山電力 Panshan Power
15. 三河電力 Sanhe Power
16. 國華准格爾 Guohua Zhunge'er
17. 北京熱電 Beijing Thermal
18. 准能電力 Zhunge'er Power
19. 綏中電力 Suizhong Power
20. 寧海電力 Ninghai Power
21. 錦界能源 Jinjie Energy
22. 神木電力 Shenmu Power
23. 台山電力 Taishan Power
24. 神東電力 Shendong Power
25. 神東煤炭 Shendong Coal
26. 南蘇煤電項目 PT.GH EMM Indonesia
27. 珠海風能項目 Zhuhai Wind Energy Project

國有鐵路 State-owned Railway

自有鐵路 Self-owned Railway

地名 Place

註：於2008年12月31日之分佈圖，僅做示意。
Note: This map as at 31 December 2008 is for illustrative purpose only.

We Lead

Throughout modern history, coal has always been the precious resource to keep warm, provide energy and give human comfort. Now, more than ever, coal not only has been the staple for people's living, but also the fundamental product to pull the world economy out of recession towards long-term prosperity.

In these hard times, our human and natural foundations, strength and confidence place us in the position to not only face challenge, but to overcome it and succeed eventually - whatever the weather.

Contents

Important notice

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

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

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

Dr. Zhang Xiwu, Chairman of the Company, Ms. Zhang Kehui, Chief Financial Officer, and Mr. Hao Jianxin, General Manager of the Financial Department, warrant the authenticity and completeness of the financial statements in this annual report.

There are certain forward-looking statements in this report made on the basis of subjective assumptions and judgments on future policy and economy, which are subject to risks, uncertainties and assumptions. Actual outcome may differ materially from the above-mentioned forward-looking statements. Investors should be aware that undue reliance on or use of such information may lead to risks of investment.

Company Profile

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

2. Legal Representative: Zhang Xiwu

3. The Secretary to the Board of Directors: Huang Qing
   Tel: (8610) 5813 3399
   Fax: (8610) 8488 2107
   E-mail: 1088@csec.com
   Contact Address: 12th Floor, Zhouji Tower, 16 Ande Road, Dongcheng District, Beijing, China

   Representative of Securities Affairs: Chen Guangshui
   Tel: (8610) 5813 3355
   Fax: (8610) 8488 2107
   E-mail: 1088@csec.com
   Contact Address: 11th Floor, Zhouji Tower, 16 Ande Road, Dongcheng District, Beijing, China

4. Registered Address: 22 Andingmen Xibinhe Road, Dongcheng District, Beijing, China
   Office Address: 12th Floor, Zhouji Tower, 16 Ande Road, Dongcheng District, Beijing, China
   Post Code: 100011
   Internet Website: http://www.csec.com or http://www.shenhuachina.com
   E-mail: 1088@csec.com

5. Newspapers for Information Disclosure: China Securities Journal, Shanghai Securities News and Securities Times
   Internet website designated by China Securities Regulatory Commission for publishing A shares annual report: http://www.sse.com.cn
   Internet website designated by The Stock Exchange of Hong Kong Limited for publishing H shares annual report: http://www.hkex.com.hk
   The above reports available at: 11th Floor, Zhouji Tower, 16 Ande Road, Dongcheng District, Beijing, China

6. A shares Listed in: The Shanghai Stock Exchange
   Stock Short Name for A shares: 中國神華
   Stock Code for A shares: 601088
   Listing Date: 9 October 2007

   H shares listed in: The Stock Exchange of Hong Kong Limited
   Stock Short Name for H shares: 中國神華
   Stock Code for H shares: 01088
   Listing Date: 15 June 2005

7. Date of first business registration: 8 November 2004
   Location of first business registration: Beijing
   Date of change in business registration: 13 January 2009
   Location of change in business registration: Beijing
   Registration Number of Corporate Business License: 1000001003928
   Tax Registration Number: Jing Guo Shui Dong Zi No. 110101710933024;
   Di Shui Jing Zi No. 110101710933024000
   Organisation Code: 71093302-4

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

9. Joint Company Secretaries
   Huang Qing, Ng Chai Ngee (Hong Kong practising solicitor)

10. Authorised Representatives
    Ling Wen, Huang Qing

11. Investor Contacts
    Investor Relations Department, China Shenhua Energy Company Limited
    Address: 11th Floor, Zhouji Tower, 16 Ande Road, Dongcheng District, Beijing, China
    Postal Code: 100011
    Tel: (8610) 5813 3399 or (8610) 5813 3355
    Fax: (8610) 8488 2107
    E-mail: ir@csec.com or 1088@csec.com

12. PRC Legal Advisor
    King & Wood
    Address: 40th Floor, Office Tower A, Beijing Fortune Plaza, 7 Dongsanhuan Zhonglu, Chaoyang District, Beijing, China

    Hong Kong Legal Advisor
    Herbert Smith
    Address: 23rd Floor, Gloucester Tower, 15 Queen's Road Central, Hong Kong

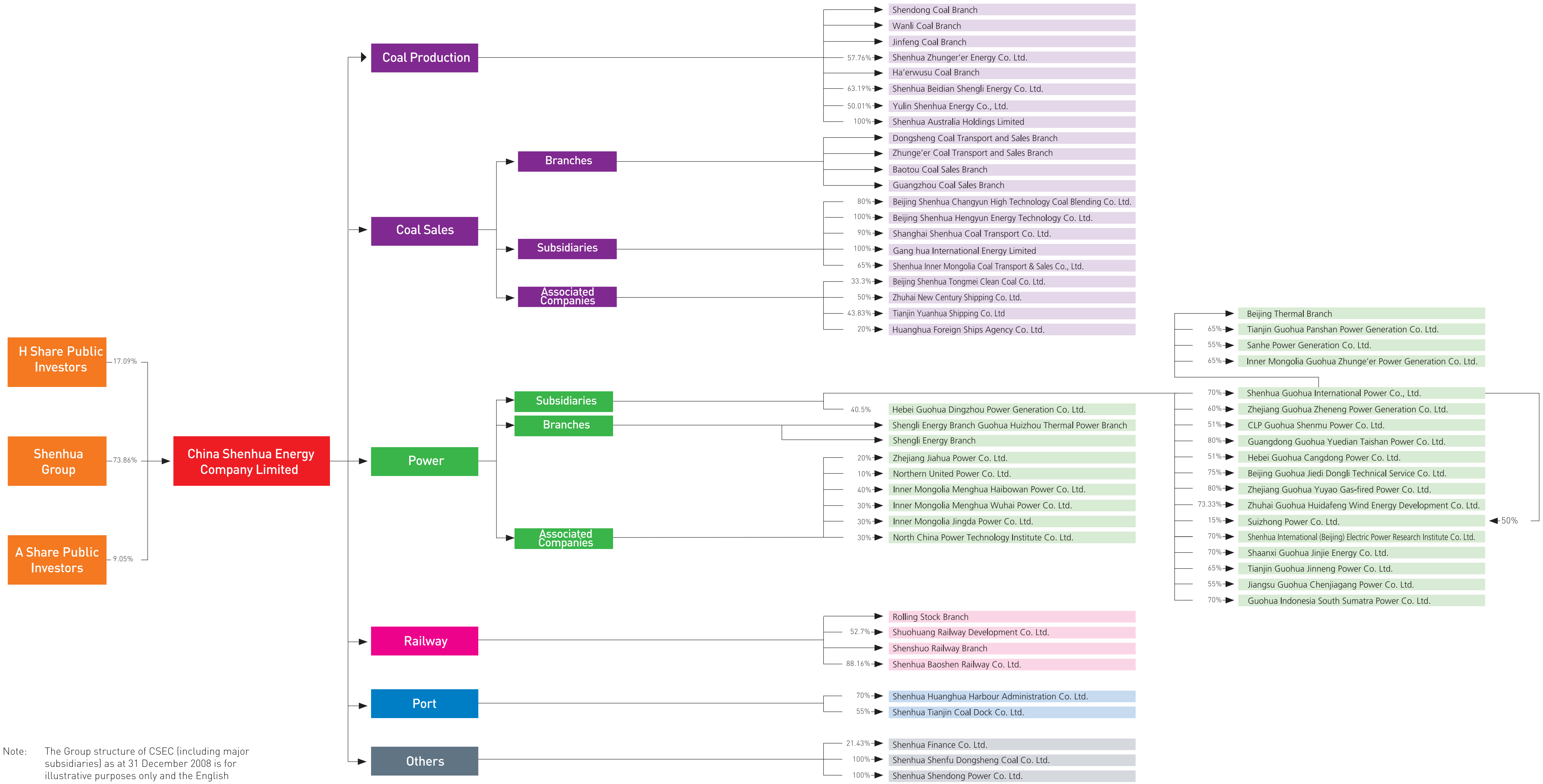
13. Hong Kong Representative Office
    Address: Room B, 60th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong

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

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

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

Group Structure

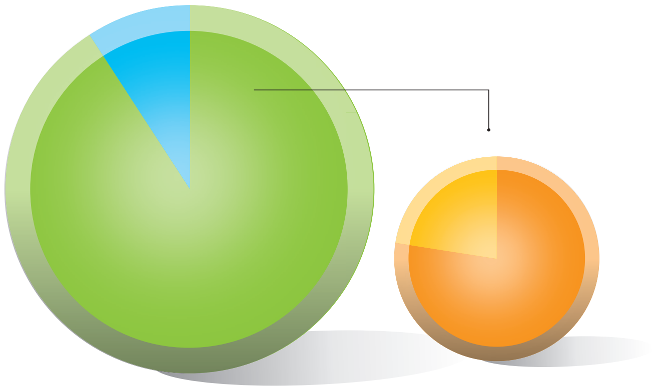


Note: The Group structure of CSEC (including major subsidiaries) as at 31 December 2008 is for illustrative purposes only and the English names are for identification purposes only.

Results Highlights

Commercial Coal Production

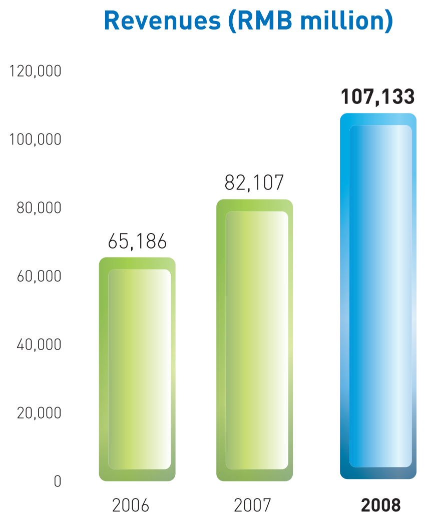
Commercial Coal Sales

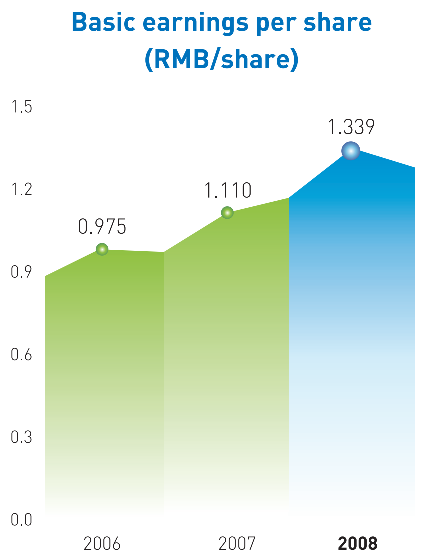


Operational

		2008	2007	Percentage change %
Commercial coal production	(Million tonnes)	**185.7**	158.0	17.5
Commercial coal sales	(Million tonnes)	**232.7**	209.1	11.3
Of which: Export	(Million tonnes)	**21.2**	24.0	(11.7)
Turnover of self-owned railway transportation	(Billion tonne km)	**123.3**	116.7	5.7
Seaborne coal	(Million tonnes)	**139.4**	130.3	7.0
Of which: Huanghua Port	(Million tonnes)	**78.2**	81.2	(3.7)
Shenhua Tianjin Coal Dock	(Million tonnes)	**22.9**	19.2	19.3
Gross power generation	(Billion kwh)	**97.80**	79.74	22.6
Total power output dispatch	(Billion kwh)	**90.29**	74.35	21.4

		As at 31 December 2008	As at 31 December 2007	Percentage change %
Recoverable coal reserve (under PRC standard)	(Million tonnes)	**11,457**	11,482	(0.2)
Marketable coal reserve (under JORC standard)	(Million tonnes)	**7,139**	7,320	(2.5)





Financial

		2008	2007	Percentage change %
Revenues	(RMB million)	**107,133**	82,107	30.5
Profit for the year	(RMB million)	**29,899**	24,037	24.4
Profit attributable to equity shareholders of the Company	(RMB million)	**26,641**	20,581	29.4
Earnings per share	(RMB per share)	**1.339**	1.110	20.6
Final dividend for the year (included tax) Note	(RMB per share)	**0.46**	0.18	N/A

		As at 31 December 2008	As at 31 December 2007	Percentage change %
Total assets	(RMB million)	**275,540**	238,527	15.5
Total liabilities	(RMB million)	**103,797**	88,723	17.0
Total equity	(RMB million)	**171,743**	149,804	14.6
Of which: equity attributable to equity shareholders of the Company	(RMB million)	**147,432**	129,788	13.6
Equity attributable to equity shareholders per share	(RMB per share)	**7.41**	6.53	13.5

Note: The annual final dividend declared in 2007 was based on the operating results for the period from 1 July 2007 to 31 December 2007.

In this report:

- The "Group", "Company", "China Shenhua","we", "us"or "our"each refers to China Shenhua Energy Company Limited, a joint stock limited company established in the People's Republic of China ("PRC") on 8 November 2004, and unless otherwise specified in the context, includes all of its subsidiaries;
- Coal production figures are quoted in tonnes of commercial coal, unless otherwise specified;
- All prices are quoted exclusive of value-added tax, unless otherwise specified;
- All financial indicators are denominated in RMB, unless otherwise specified;
- All relevant terms used in this report and their definitions are contained in the definitions section of this report; and
- This report is prepared in Chinese and English respectively. In case of any discrepancies, the Chinese version shall prevail.

Chairman's Statement

To Our Shareholders,

ZHANG Xiwu
Chairman

In 2008, the Board of Directors of China Shenhua (the "Board") has led and worked with all its staff and has continued to lead its peers in the industry worldwide. By leveraging on its unique business model integrated with coal, railway, port and power business, strong capital and healthy and stable financial performance, the Company responded calmly to dramatic changes of the operating environment, adjusted its structure and captured opportunities, thereby achieving remarkable results in return on equity, sales, production technology, business development, strategic layout and corporate governance. The Company has continued to maintain its fast-growing momentum. As at 31 December 2008, the total market capitalization of China Shenhua reached US$49.496 billion, ranking it first among global listed coal companies and second among global mining companies in terms of market capitalization. China Shenhua is a reliable large-scale energy company with substantial income, steady operations and sustainable growth.

On behalf of the Board, I am delighted to present the 2008 annual report of China Shenhua and report on its performance for the period.

Stable growth of results performance and return on equity of the Company

In 2008, China Shenhua hit another historical record again.

- Revenues reached RMB107.133 billion, representing a year-on-year increase of RMB25.026 billion or 30.5%.
- Profit for the year attributable to equity shareholders of the Company reached RMB26.641 billion, representing a year-on-year increase of RMB6.06 billion or 29.4%.
- Net cash generated from operating activities reached RMB40.618 billion, representing a year-on-year increase of RMB14.992 billion or 58.5%.
- Basic earnings per share reached RMB1.339, representing a year-on-year increase of RMB0.229 or 20.6%.
- The Board has recommended the distribution of a final dividend for the year of RMB0.46 per share (inclusive of tax). The percentage of cash dividend accounted for 34.4% of earnings per share.

Continuous and steady growth in production and operation

In 2008, the coal segment produced commercial coal of 185.7 million tonnes and sold coal of 232.7 million tonnes, representing an increase of 27.7 million tonnes and 23.6 million tonnes over 2007 respectively or a year-on-year increase of 17.5% and 11.3%. The proportion of the sales volume of self-produced coal to total sales for 2008 increased to 79.8%, representing a year-on-year increase of 4.2 percentage points. China Shenhua has become the largest listed company in the PRC and the world in terms of coal production volume and sales volume. In 2008, the Company exported coal of 21.2 million tonnes and continued to maintain its position as the largest coal exporter in the PRC. The fatality rate per million tonnes of raw coal of the Company was zero, which created the best record in the coal industry of the PRC.

The Company managed to maximize its benefits by optimizing its coal sales structure, making timely adjustment to its sales strategy and endeavouring to overcome the impact of significant market fluctuation on sales. The average coal selling price for the whole year reached RMB378.6 per tonne, representing a year-on-year increase of 21.0%. Domestic long-term seaborne coal contract price reached RMB408.6 per tonne, representing a year-on-year increase of 13.4%. Domestic seaborne coal sales volume under long-term contract was 95.6 million tonnes, accounting for 41.1% of the total sales volume of the Company. Export selling price reached RMB577.2 per tonne, representing a year-on-year increase of 45.0%.

The Company continued to speed up mine construction and upgrade. Construction of mines of the "10-million tonnes" class in Shendong Mines was perfected. By extending the working face and promoting application of technologies such as domestic manufactured 6.3-metre high mining hydraulic supporters, the Company facilitated construction of comprehensive large-scale outstanding model mines through coal production, equipment maintenance, scientific research and teaching, recycled use of resources, environmental protection and residential area management. The Bu'ertai Coal Mine of Wanli Mines adopted advanced underground comprehensive mining technologies with a production volume of 5.3 million tonnes. The technological reform of Heidaigou Coal Mine of Zhunge'er Mines was completed. Large-scale open-cut mine dragline bucket operated at its designed capacity, resulting in a sharp increase in production efficiency and a reduction in mining costs. The production volume of Zhunge'er Mines reached 29.3 million tonnes, representing a year-on-year increase of 16.3%. The production volume of Shengli Mines exceeded 10 million tonnes for the first time and reached 10.9 million tonnes, representing a year-on-year increase of 75.8%.

The Company has maintained its leading position in coal reserve among its peers of the world. As at 31 December 2008, by reference to the PRC standard, recoverable coal reserve of China Shenhua reached 11,457 million tonnes. By reference to the internationally recognized JORC standard, the Company had marketable coal reserve of 7,139 million tonnes.

The Company made real progress in its overseas development strategy. In October 2008, the Company won its bid for the mining lease in the Watermark exploration area of Australia. It is initially estimated that thermal coal resources of the area exceeds one billion tonnes. The Company has taken its first step in developing coal resources overseas. The Company has also invested in a coal and power integrated project in the South Sumatra Province of Indonesia, comprising of an open-cut mine with annual capacity 2.3 million tonnes and a 2X150MW coal-fired power plant.

The Company has strengthened the construction of its transportation network to improve scheduling efficiency and to further expand railways and ports capacities. In 2008, the turnover of the Company's self-owned railway transportation reached 123.3 billion tonne km, representing a year-on-year increase of 5.7%. In 2008, the volume of seaborne coal reached 139.4 million tonnes, representing a year-on-year increase of 7.0%.

In 2008, against the backdrop of a drastic decline in domestic power demand, a sharp rise in fuel cost and general losses of power enterprises, the Company strengthened its power segment by refining its management and effectively controlling its costs, thereby achieving the profit target for its power segment. As at 31 December 2008, the Company controlled and operated 14 thermal power plants with a total installed capacity of 18,001 MW, representing a year-on-year increase of 19.3%. The Company has a total of 54 coal-fired generation units with single unit generation capacity reaching 333MW. In addition, the Company also initiated green energy projects and commenced wind power business in Zhuhai, China, the installed capacity of which reached 16 MW.

To contribute to building a harmonious society

The year of 2008 was an extraordinary year for China during which the Chinese people experienced the haze of severe natural disasters such as the snow storm and the strong earthquake in Wenchuan, successfully hosted the Olympic Games and, astronauts of Shenzhou VII made space walk a reality. Being a large energy company, China Shenhua undertakes to fulfill its social responsibility. To ease the tight supply of thermal coal and power and to ensure normal coal and power supply for production and living in areas affected by snow disasters. In early 2008, the Company made great efforts to increase production and better schedule transportation to ensure supply to key thermal coal users and increase fulfillment ratio of thermal coal contracts, and has achieved good results. In the wake of the strong earthquake in Wenchuan, the Company and its staff actively donated money and materials to the disaster-striken areas and gave support to people in such areas to defeat natural disasters and rebuild their homes. The Company also supported the hosting of the Olympic Games in Beijing in various ways, including full guarantee of the supply of coal and power in areas where the Olympic Games was held, participation in the Olympic Torch Relay and arranging volunteer drivers to assist transportation services during the Olympic Games. For detailed information, please refer to the 2008 annual corporate social responsibility report of the Company.

Full confidence in meeting challenges in the new year

Looking ahead into 2009, due to the international financial crisis, it will be the most difficult year of the new century for economic development of the PRC. The Chinese government is implementing the macroeconomic control policy of "expanding domestic demand, maintaining growth and adjusting structure" and has successively introduced new economic stimulus plans and various industry revival plans. Besides, it has also implemented positive financial policies to increase government investment, domestic demand and consumption and facilitate the strategic adjustment of the economic structure. These measures will drive up the development of the economy in the PRC and ensure the achievement of the full-year target of a GDP growth of 8%.

In face of challenges, we are full of confidence. In the coming year, we will strengthen our core competitive edges and boost our professional upgrade and restructuring to achieve sound and fast development.

In 2009, China Shenhua is confronted with various challenges in its operations, which mainly include the following:

- The financial crisis is extending to the fundamentals of the economy and the economy of China and the world are slowing down;
- Affected by the economic downturn in downstream industries, the growth in coal demand has slowed down. Power demand has slowed down due to the changes in the economic environment. The installed capacity will continue to increase while the utilization hours of thermal power generation units will continue to drop;
- Due to the accelerating reorganization of coal and power industry, competition has become intense. Some enterprises have extended production chain and have replicated the integrated operation model of Shenhua;
- Increase in pressure on cost control. Factors such as price increase in raw material, increase in coal mining related tax and increase in investment on energy saving and emission reduction all drive further rises in costs; and
- Challenges to risk prevention. Turbulence and complexity of the market, that have not occurred in previous years, pose severe challenges to the Company on its ability to prevent and manage risks.

China Shenhua has built a solid foundation to cope with challenges in 2009. Our competitive advantages include the following:

- The mature and stable business model of China Shenhua with integrated coal, railway, port and power business, coal production capacity of the "100-million tonnes" class and supporting ancillary transportation systems together ensure considerable market share in coastal thermal coal markets;

- Ample operating cash flow and low gearing ratio ensure sufficient funds for business expansion and strategic development of the Company;

- The Company has abundant coal resource reserve and maintains a leading position in mining technologies and production efficiency; and

- The power segment of the Company has been leading in generation unit operation efficiency among its peers for a period of time and has been equipped with good and refined management.

Therefore, we are full of confidence and have the ability to overcome difficulties and turn them into opportunities. We will actively change our mode of development and increase our efforts on strategy management, resources acquisition, market exploration, refined management, independent innovation, risk control management and talents development and preservation, with a view to creating a solid foundation for the new development cycle.

In the coming years, the Company will step up its efforts to accelerate its development and achieve its grand goals to "pursue scientific development, build a new Shenhua and double economic aggregate output in five years" and will continue to pursue the building of an enterprise featuring intrinsic safety, quality & efficiency, technological innovation, resource preservation and harmonious development with an aim to building a world-leading integrated energy company.

To realize development targets, the Company will mainly carry out the following:

- Coordinate production, transportation and sales focusing on sales, adjust the industrial structure and plan of the Company through investment and capital operation, progressively increase production capacity with the support of specialized ancillaries, adjust development mode with the quality, efficiency and sustainable development as target, with a view to procuring in-depth development of the Company and improve competitiveness of the Company;

- Capture favourable market opportunities to facilitate domestic and overseas acquisition with a focus on new large-scale integrated coal fields, and develop new business growth points by leveraging on integrated competitive advantages of the Company;

- Promote development of the Company towards high-end products, technologies and markets and proceed with intensive processing of coal products in order to increase the added-value of products and develop new markets;

- Enhance the Company's efforts on refining management and strictly control operating costs and expenses with an aim to broaden income sources and reduce expenditure and improve efficiency;

- Increase investment in technological innovation, enhance research and transformation on domestic production of equipment, environmental protection, coal quality improvement, clean-coal-fired power generation, CO_2 capturing and sealing and energy saving and emission reduction to achieve sustainable development of the Company;

- Strengthen risk control, enhance risk prevention awareness, reinforce forward-looking research on decision making and ensure steady development of the Company amidst various unfavourable factors under the current economic environment; and

- Actively develop and preserve talents and endeavour to ensure the well being of its staff to prepare for the long-term development of the Company.

The Board of Directors of China Shenhua and I will, with full confidence, lead all staff to meet challenges and capture opportunities with a view to pursuing continuous development and creating new value for shareholders.

Zhang Xiwu
Chairman

Beijing, PRC
27 March 2009

Directors' Report

Highlights of the Company's Financial and Operational Results for 2008

Business Data Master Table

		2008	2007	Percentage change %
Commercial coal production	(million tonnes)	**185.7**	158.0	17.5
Coal sales volume	(million tonnes)	**232.7**	209.1	11.3
Of which: Export	(million tonnes)	**21.2**	24.0	(11.7)
Turnover of self-owned railway transportation	(billion tonne km)	**123.3**	116.7	5.7
Seaborne coal	(million tonnes)	**139.4**	130.3	7.0
Of which: Huanghua Port	(million tonnes)	**78.2**	81.2	(3.7)
Shenhua Tianjin Coal Dock	(million tonnes)	**22.9**	19.2	19.3
Gross power generation	(billion kwh)	**97.80**	79.74	22.6
Total power output dispatch	(billion kwh)	**90.29**	74.35	21.4

Coal Reserve Table

		As at 31 December 2008	As at 31 December 2007	Percentage change %
Recoverable coal reserve (under PRC Standard)	(100 million tonnes)	**114.57**	114.82	(0.2)
Of which: Shendong Mines		**70.75**	70.33	0.6
Wanli Mines[1]		**5.68**	5.97	(4.9)
Zhunge'er Mines		**26.51**	26.77	(1.0)
Shengli Mines		**11.63**	11.75	(1.0)
Marketable coal reserve (under JORC Standard)	(100 million tonnes)	**71.39**	73.20	(2.5)
Of which: Shendong Mines		**40.22**	41.40	(2.9)
Wanli Mines[1]		**3.16**	3.38	(6.5)
Zhunge'er Mines		**19.49**	19.79	(1.5)
Shengli Mines		**8.52**	8.63	(1.3)
Coal resource	(100 million tonnes)	**179.96**	180.24	(0.2)
Of which: Shendong Mines		**120.41**	118.66	1.5
Wanli Mines[1]		**10.10**	10.55	(4.3)
Zhunge'er Mines		**28.29**	29.77	(5.0)
Shengli Mines		**21.16**	21.26	(0.5)

Coal Sales Analysis Table

	2008 million tonnes	Proportion of domestic sales %	2007 million tonnes	Percentage change %
Domestic sales	**211.5**	100.0	185.1	14.3
By contract type				
Long-term contract	**163.9**	77.5	147.5	11.1
Spot market sales	**47.6**	22.5	37.6	26.6
By transportation mode				
Mine mouth	**22.3**	10.5	13.0	71.5
Direct arrival (along railway line)	**71.0**	33.6	65.8	7.9
Seaborne (port FOB)	**118.2**	55.9	106.3	11.2
By customers				
External customers	**170.4**	80.6	154.5	10.3
The Group's power segment	**41.1**	19.4	30.6	34.3
By region				
Northern China	**86.2**	40.8	82.4	4.6
Eastern China	**85.3**	40.3	67.2	26.9
Southern China	**30.9**	14.6	26.6	16.2
Northeast China	**7.3**	3.5	8.1	(9.9)
Others	**1.8**	0.8	0.8	125.0
By usage				
Thermal coal	**174.5**	82.5	145.1	20.3
Metallurgy	**5.0**	2.4	4.3	16.3
Chemical (coal slurry)	**4.5**	2.1	3.6	25.0
Others	**27.5**	13.0	32.1	(14.3)

	2008 million tonnes	Proportion of export sales %	2007 million tonnes	Percentage change %
Export sale	**21.2**	100.0	24.0	(11.7)
Korea	**8.5**	40.1	9.7	(12.4)
China Taiwan	**5.5**	25.9	6.6	(16.7)
Japan	**5.1**	24.1	5.0	2.0
Others	**2.1**	9.9	2.7	(22.2)
Total sales	**232.7**		209.1	11.3

Coal Production Analysis Table

	2008 million tonnes	2007 million tonnes	Percentage change %
Shendong Mines	**117.8**	110.6	6.5
Bulianta	**20.4**	18.4	10.9
Daliuta-Huojitu	**20.0**	18.7	7.0
Yujialiang	**16.9**	16.5	2.4
Shangwan	**12.5**	12.1	3.3
Halagou	**11.5**	12.1	(5.0)
Baode (Kangjiatan)	**12.0**	11.6	3.4
Shigetai	**9.4**	8.7	8.0
Wulanmulun	**5.0**	5.0	0.0
Jinjie	**7.7**	3.7	108.1
Others	**2.4**	3.8	(36.8)
Zhunge'er Mines	**29.3**	25.2	16.3
Heidaigou	**22.7**	25.2	(9.9)
Ha'erwusu	**6.6**	–	N/A
Wanli Mines	**27.7**	16.0	73.1
Bu'ertai	**5.3**	0.7	657.1
Wanli No.1 mine	**9.2**	5.8	58.6
Liuda mine	**4.7**	3.8	23.7
Cuncaota No. 1 mine	**2.1**	1.6	31.3
Cuncaota No. 2 mine	**3.2**	1.9	68.4
Tanggonggou mine	**3.1**	1.7	82.4
Others	**0.1**	0.5	(80.0)
Shengli Mines	**10.9**	6.2	75.8
Total	**185.7**	158.0	17.5

Railway Business Analysis Table

	2008 billion tonne km	2007 billion tonne km	Percentage change %
Turnover indicators			
Self-owned railways	**123.3**	116.7	5.7
Shenshuo Railway	**31.4**	29.4	6.8
Shuohuang-Huangwan Railway	**74.4**	72.7	2.3
Dazhun Railway	**11.6**	9.8	18.4
Baoshen Railway	**5.9**	4.8	22.9
State-owned railways	**28.1**	25.1	12.0
Total	**151.4**	141.8	6.8

Port Business Analysis Table

	2008 million tonnes	2007 million tonnes	Percentage change %
Self-owned ports	**101.1**	100.4	0.7
Huanghua Port	**78.2**	81.2	(3.7)
Shenhua Tianjin Coal Dock	**22.9**	19.2	19.3
Third-party ports	**38.3**	29.9	28.1
Qinhuangdao Port	**23.4**	18.2	28.6
Tianjin Port	**14.2**	10.7	32.7
Others	**0.7**	1.0	(30.0)
Total	**139.4**	130.3	7.0

Power Business Analysis Table

		2008	2007	Percengate change %
Total coal-fired installed capacity at end of the year	(MW)	**18,001**	15,091	19.3
Average coal-fired installed capacity for the year	(MW)	**17,380**	13,298	30.7
Equity installed capacity	(MW)	**10,777**	9,286	16.1
Average utilization hours	(hours)	**5,615**	5,995	(6.3)
Equivalent usable index[2]		**91.17%**	90.87%	Increased by 0.3 percentage point
Standard coal consumption rate per unit of power generation	(g/kwh)	**309**	310	(0.3)
Standard coal consumption rate per unit of power output dispatch	(g/kwh)	**335**	332	0.9
Thermal coal consumption	(million tonnes)	**42.3**	34.1	24.0
Of which: Shenhua coal ratio	(%)	**92.2%**	89.7%	Increased by 2.5 percentage points

Notes: (1) For Wanli Mines, data on the amount of resources and reserves of the Buertai mine are excluded. For the Buertai mine, the scope of mining rights has been confirmed and the final assessment on mining rights is in progress. Its amount of resources is approximately 3.315 billion tonnes.

(2) Data from Guohua Power Branch under the power segment only.

Highlights of the Company's Financial and Operational Results for 2008

Consolidated income statement

	2008 RMB million	2007 RMB million	Percentage change %
Revenues	**107,133**	82,107	30.5
Less: Cost of revenues	**59,378**	43,773	35.6
Selling, general and administrative expenses	**6,961**	5,144	35.3
Other operating expense, net	**1,119**	693	61.5
Profit from operations	**39,675**	32,497	22.1
Less: Net finance costs	**3,393**	2,383	42.4
Plus: Investment income	**39**	38	2.6
Share of profits less losses of associates	**654**	627	4.3
Profit before income tax	**36,975**	30,779	20.1
Less: Income tax	**7,076**	6,742	5.0
Profit for the year	**29,899**	24,037	24.4
Attributable to :			
Equity shareholders of the Company	**26,641**	20,581	29.4
Minority interests	**3,258**	3,456	(5.7)
Basic earnings per share	**1.339**	1.110	20.6

Breakdown of revenues

	2008 RMB million	2007 RMB million	Percentage change %
Revenues			
Coal revenue	**74,572**	55,741	33.8
Power revenue	**29,393**	23,922	22.9
Transportation revenue	**1,901**	1,346	41.2
Sub-total	**105,866**	81,009	30.7
Other revenues	**1,267**	1,098	15.4
Total operating revenues	**107,133**	82,107	30.5

Breakdown of cost of revenues

	2008 RMB million	2007 RMB million	Percentage change %
Coal purchased from third parties	**15,585**	10,719	45.4
Materials, fuel and power	**8,433**	6,276	34.4
Personnel expenses	**5,343**	3,960	34.9
Depreciation and amortisation	**9,396**	7,785	20.7
Repairs and maintenance	**4,717**	3,612	30.6
Transportation charges	**7,227**	6,845	5.6
Others	**8,677**	4,576	89.6
Total cost of revenues	**59,378**	43,773	35.6

Statement of cash flow from operating activities

	2008 RMB million	2007 RMB million	Percentage change %
Profit before income tax	**36,975**	30,779	20.1
Adjustments for:			
Depreciation and amortisation	**9,893**	8,140	21.5
Impairment losses on property, plant and equipment	**447**	380	17.6
Impairment losses on other investments	**204**	-	N/A
Net loss on disposal of property, plant and equipment	**434**	299	45.2
Investment income	**(39)**	(38)	2.6
Interest income	**(816)**	(622)	31.2
Share of profits less losses of associates	**(654)**	(627)	4.3
Net interest expense	**3,786**	3,417	10.8
Gain on remeasurement of derivative financial instruments to fair value	**(472)**	(283)	66.8
Unrealised foreign exchange loss/(gain)	**843**	(155)	(643.9)
Increase in accounts and bills receivable	**(1,561)**	(1,130)	38.1
Increase in inventories	**(871)**	(1,387)	(37.2)
Decrease/(increase) in prepaid expenses and other assets	**730**	(2,555)	(128.6)
Increase/(decrease) in accounts and bills payable	**304**	(934)	(132.5)
Increase in accrued expenses and other payables, long-term payables and accrued reclamation obligations	**1,960**	2	97,900.0
Interest received	**816**	622	31.2
Interest paid	**(4,521)**	(3,500)	29.2
Income tax paid	**(6,840)**	(6,782)	0.9
Net cash generated from operating activities	**40,618**	25,626	58.5

Sales Price of Coal

	2008		2007		Percentage change in sales price
	Sale volume million tonnes	Sales price RMB/tonne	Sale volume million tonnes	Sales price RMB/tonne	%
Domestic sales	**211.5**	**358.8**	185.1	301.8	18.9
Long-term contract sales	**163.9**	**335.7**	147.5	311.2	7.9
Mine mouth	**10.1**	**78.7**	-	-	N/A
Direct arrival (along railway line)	**58.2**	**260.9**	55.1	228.9	14.0
Seaborne (port FOB)	**95.6**	**408.6**	92.4	360.2	13.4
Spot market sales	**47.6**	**438.1**	37.6	265.2	65.2
Mine mouth	**12.2**	**163.4**	13.0	101.5	61.0
Direct arrival (along railway line)	**12.8**	**387.1**	10.7	289.2	33.9
Seaborne (port FOB)	**22.6**	**614.2**	13.9	399.3	53.8
Export sales	**21.2**	**577.2**	24.0	398.1	45.0
Total	**232.7**	**378.6**	209.1	312.9	21.0
Including: coal sales to the power segment	**41.1**	**329.1**	30.6	316.0	4.1
Coal sales to external customers	**191.6**	**389.2**	178.5	312.3	24.6

Breakdown of cost of operation

	2008			2007			Percentage change in unit cost
	Cost RMB million	Quantity million tonnes	Unit cost RMB/tonne	Cost RMB million	Quantity million tonnes	Unit cost RMB/tonne	%
Coal business							
Purchase cost of coal purchased from third parties	**15,585**	**46.2**	**337.2**	10,719	51.9	206.5	63.3
Production cost of self-produced coal	**17,702**	**186.5**	**94.9**	11,842	157.2	75.3	26.0
Cash cost	**14,368**	**186.5**	**77.0**	9,179	157.2	58.4	31.8
Materials, fuel and power	**4,281**	**186.5**	**23.0**	2,874	157.2	18.3	25.7
Personnel expenses	**2,223**	**186.5**	**11.9**	1,612	157.2	10.3	15.5
Repairs and maintenance	**1,660**	**186.5**	**8.9**	1,485	157.2	9.4	(5.3)
Others	**6,204**	**186.5**	**33.3**	3,208	157.2	20.4	63.2
Depreciation and amortisation	**3,334**	**186.5**	**17.9**	2,663	157.2	16.9	5.9
Transportation cost	**14,847**	**232.7**	**63.8**	12,936	209.1	61.9	3.1

	2008			2007			Percentage change in unit cost
	Cost RMB million	Power generation billion kwh	Unit cost RMB/MWh	Cost RMB million	Power generation billion kwh	Unit cost RMB/MWh	%
Power business							
Materials, fuel and power	**15,372**	**90.29**	**170.3**	11,128	74.35	149.7	13.8
Personnel expenses	**1,339**	**90.29**	**14.8**	1,129	74.35	15.2	(2.6)
Repairs and maintenance	**1,054**	**90.29**	**11.7**	861	74.35	11.6	0.9
Depreciation and amortisation	**3,771**	**90.29**	**41.8**	2,974	74.35	40.0	4.5
Others	**774**	**90.29**	**8.6**	436	74.35	5.9	45.8

A. Management Discussion and Analysis

(I) Overview

In 2008, China Shenhua captured opportunities and coped with difficulties despite severe fluctuations in the economic environment and energy markets. Under the leadership of the Company's Board of Directors, the employees of the Company led by the senior management team of the Company concentrated on the annual targets and made active progress in the construction of the "Five Types of Enterprises" featuring intrinsic safety, quality and efficiency, technological innovation, resource reservation and harmonious development, and thus created a glorious new record in China Shenhua's history. Performance results for 2008 were mainly realized in the following areas:

1. Complete fulfillment of operation targets

In 2008, commercial coal production volume of the Company amounted to 185.7 million tonnes representing a year-on-year increase of 17.5%; sales volume of commercial coal reached 232.7 million tonnes, representing a year-on-year increase of 11.3%; turnover of self-owned railway transportation reached 123.3 billion tonne km, representing a year-on-year increase of 5.7%; seaborne coal sales volume reached 139.4 million tonnes, representing a year-on-year increase of 7.0%; gross power generation and total power output dispatch reached 97.80 billion kwh and 90.29 billion kwh respectively, representing a year-on-year increase of 22.6% and 21.4% respectively.

2. Continuous growth in financial return

Profitability of the Company was further enhanced and corporate value was further improved. Pursuant to the International Financial Reporting Standards, the operating revenues of the Group for 2008 was RMB107.133 billion (2007: RMB82.107 billion), representing a year-on-year increase of 30.5%; profit for the year attributable to equity shareholders of the Company was RMB26.641 billion (2007: RMB20.581 billion), representing a year-on-year increase of 29.4%. Basic earnings per share[1] of the Group was RMB1.339 (2007: RMB1.110), representing a year-on-year increase of 20.6%. As at 31 December 2008, net assets per share of the Group was RMB7.41 (31 December 2007: RMB6.53), representing a year-on-year increase of 13.5%. The Group's return on total assets[2] for 2008 was 10.9% (2007: 10.1%). Return on net assets[3] as at the end of the year was 18.1% (2007: 15.9%), representing a year-on-year increase of 2.2 percentage points; EBITDA[4] was RMB49.568 billion (2007: RMB40.637 billion), representing a year-on-year increase of 22.0%. As at 31 December 2008, the Group's total debt to equity ratio[5] was 30.2%, representing an increase of 1.6 percentage points as compared to 28.6% as at 31 December 2007.

3. Glorious achievement in production safety

In 2008, the Company launched comprehensive risk prevention and controlling policy and strengthened team building and standardized management of safety and quality, with a view to build a fundamentally safe enterprise. As such, the Company achieved a zero fatality rate per million tonnes of raw coal, creating the best record for coal production. Accidents of railway operations exceeding general level were eliminated. Water traffic accidents in the ports were eliminated. Equipment accidents exceeding general level were avoided in power plants. The Company was never involved in environmental pollution events.

1 Basic earning per share is calculated on the basis of the profit for the year attributable to equity shareholders of the Company and the weighted average number of shares for the year.

2 Return on total assets is calculated on the basis of profit for the year and the total assets at the end of the year.

3 Return on net assets as at the end of the year is calculated on the basis of the net assets as at the end of the year attributable to equity shareholders of the Company and the profit attributable to equity shareholders of the Company.

4 EBITDA is a method for the management to assess the performance of the Company. Its definition is profit for the year plus net finance costs, income tax and depreciation and amortization, and net of investment income and share of profits less losses of associates. The EBITDA presented here by the Company is used as extra reference for investors with regard to business performance, as management of the Company considers EBITDA is popularly used by securities analysts, investors and other parties concerned as a criterion for the evaluation of the performance of mining companies, which is believed to be helpful to investors. EBITDA is not yet an item acknowledged by corporate accounting standards. You should not take it as an alternative indicator of profit for the relevant accounting period to evaluate achievements or performances, nor shall it be taken as an alternative indicator for cash flows generated from operating activities to evaluate liquidity. The calculation of EBITDA by the Company may be different from those of other companies; therefore comparability may be limited. In addition, EBITDA is not intended to be the basis for free cash flows that may be used by the management at their discretion, because it does not reflect requirements for cash such as interest expenses, tax payment and repayment of debts, etc.

5 Total debt to equity ratio = [long-term interest bearing debts + short-term interest bearing debts (including bills payable)]/(total debts + total equity)

4. Better regulated internal management

Corporate governance level was improved remarkably, management controling ability was further enhanced and corporate operations were better regulated.

(1) Internal control system was improved by establishing structure, basic rules and management process, and forming closed circuit monitoring system with a mechanism to assure realization of company objectives on a bottom-up basis and to promote the corporate culture of internal control on a top-down basis.

(2) Establishing a strategic financial management system to promote system optimization and process reforms. Currently, the basic framework of the strategic financial management system has been completed, and the Company is actively making efforts to improve the system.

(3) In the process of familiarizing with the regulatory rules of China and Hong Kong, the Company established a regulatory system and mechanism to meet the requirements of market competition, related transactions and information disclosures.

(4) The management system was more comprehensive. Further improvements were made in accordance with the development needs of the Company in 20 management systems which include management system for the use of proceeds by the Company.

5. Breakthroughs made in overseas projects

The Company pursued internationalization strategies actively. The management of the Company continued to follow up on potential overseas projects and initiated a great deal of detailed preliminary work. In 2008, China Shenhua made a new breakthrough in terms of internationalization by winning the mining lease of the Watermark Exploration Area in Australia. In addition, the Company initiated a coal and power integrated project in South Sumatra Province of Indonesia.

6. Remarkable achievement in technology innovation

The Company attached great importance to technology innovations. RMB1.18 billion was invested in technology innovations in 2008. The coal segment achieved preliminary success in the research of home-made continuous mining machines and started the development of home-made 7-meter high hydraulic support system; Zhunge'er Energy Co., Ltd. successfully launched the techniques of reverse dumping of dragline bucket. A great breakthrough was achieved in the "research of simultaneous dehydration and ash-free technique for low caloric value coal". After being processed by the washing and drying techniques, quality of low caloric value coal was improved, thus its selling price increased significantly. The railway segment completed the "study on wireless concurrent operation and control system of loaded vehicles", which made total success on the the full line with the ten thousand tonnage integrated train traction test of Shenshuo-Shuohuang railway. The success provides technical assurance on the implementation of ten thousand tonnage trains on the Shenhua railway system; the first "railway transportation integrative simulated training system" in China was developed, filling up the gap in this area of local research. The power segment was using water saving power generation techniques as its core technology and continued to improve the "research on ten thousand tonnage low temperature and multiple effect desalination technology of sea water" and the "research on 600 MW generator air cooling operating technology".

7. Smooth preliminary work

In 2008, the Company gave top priority to the preliminary work of projects in project management and enhanced communications with relevant parties, therefore the Company made remarkable progress in preliminary work. Coal projects including the two mines technology reform in Wanli and Jinfeng Coal Branches were approved by the State; a number of power projects such as Suizhong power plant phase II were approved by the State; Ganquan railway in Inner Mongolia was approved by the State; key projects completed include Shenshuo Railway 200 million tonnage capacity expansion and feasibility study of capacity expansion at Shuohuang Railway, and acceleration of preliminary work of related railway projects.

8. High prestige in the capital market

The Company established a reputable image in the capital markets on the basis of good results by means of shareholders' annual general meetings, roadshows and results announcements, which allowed the Company to win recognition from investors, research institutions and the media. In 2008, the Company was awarded many honours including the award of the Best Metal and Mining Company in China 2008, China's Top 50 Globally Competitive Companies, Top 50 Best Listed Companies in Asia Pacific, etc.

(II) Management review on operating results by business segment

1 Coal Segment

(1) Coal Resource

As at 31 December 2008, the Group had recoverable coal reserve of 11.457 billion tonnes under the PRC Standard, with resource reserve of 17.996 billion tonnes; whereas the amount of the Group's marketable coal reserve was 7.139 billion tonnes under the JORC Standard with resource reserve of 17.996 billion tonnes.

(2) Coal Production

a Coal production business

The coal segment of the Group comprises Shendong Mines, Zhunge'er Mines, Wanli Mines and Shengli Mines. In 2008, the commercial coal production of the Group achieved 185.7 million tonnes (2007: 158.0 million tonnes), representing an increase of 27.7 million tonnes or 17.5% year-on-year.

The commercial coal production of Shendong Mines was 117.8 million tonnes, representing a year-on-year increase of 6.5%, which accounted for 63.4% of the total commercial coal production of the Company during the same period. Commercial coal production of Shendong Mines increased by 7.2 million tonnes year-on-year accounting for 26.0% of the net increase of 27.7 million tonnes in the commercial coal production of the Company. With continuous technological innovations, Shendong Mines successfully launched the first 400-metre extra long comprehensive mining face in China. Meanwhile, overcoming the difficulties of frequent changes of location and the limited output from the thin coal seams, Shendong Mines played role of backbone mines to renew historical records in three straight years for exceeding 100 million tonnes production in terms of raw coal and commercial coal.

The commercial coal production of Zhunge'er Mines reached 29.3 million tonnes, representing an increase of 16.3% year-on-year. Commercial coal production of Zhunge'er Mines increased by 4.1 million tonnes year-on-year, which accounted for 14.8% of the net increase of 27.7 million tonnes in the commercial coal production of the Company. Zhunge'er Mines attached great importance to complete testing and operation for the dragline bucket at Heidaigou open-cut mine and realized high output on the basis of making full use of advanced equipment. Ha'erwusu open-cut mine was built successfully and commenced pilot production with its production capacity increasing continuously.

Comprehensive working face of underground mine

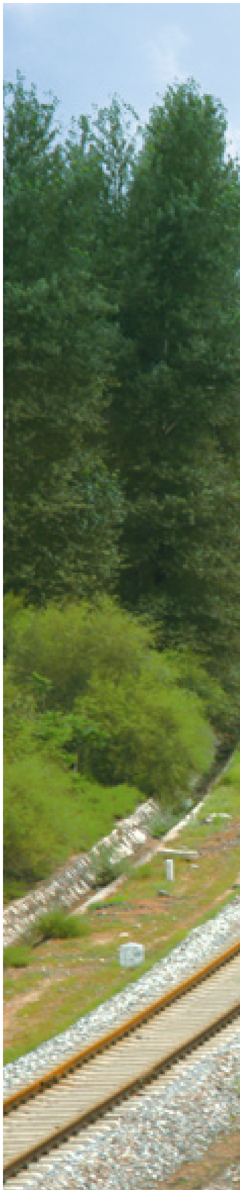
Site overburden-removing work in open-cut mine

The commercial coal production of Wanli Mines was 27.7 million tonnes, representing an increase of 73.1% year-on-year. The commercial coal production volume increased by 11.7 million tonnes year-on-year which accounted for 42.2% of the net increase of 27.7 million tonnes in the commercial coal production of the Company, and became a new driving force for the Company. The old mining technology reform project has been fully completed. Bu'ertai mine, the largest underground mine in the world, was fully constructed with production of 5.3 million tonnes of coal. Wanli No.1 mine renewed the record of using home-made equipment in one mine on one face to produce 10 million tonnes of coal.

The commercial coal production of Shengli Mines reached 10.9 million tonnes, representing an increase of 75.8% year-on-year. Commercial coal production of Shengli Mines increased by 4.7 million tonnes year-on-year, which accounted for 17.0% of the net increase of 27.7 million tonnes in commercial coal production of the Company. Shengli Mines took only 4 years to complete the conversion from a mine with annual production volume of one million tonnes to a large-scale open-cut coal mine with annual production volume of 10 million tonnes.

b Coal production technology and equipment

As at the end of 2008, China Shenhua was operating 4 mining areas with a total of 23 coal mines and 24 mining shafts. Underground mines adopted primarily comprehensive mining techniques, whereas open-cut mines mainly used dragline bucket, electric shovel and automatic tipping vehicles as the main mining techniques. In 2008, the Company completed the"Shenhua production technology and equipment policy directions",which elaborated in the aspects, namely, production scale, geological conditions, production system and technology and equipment, with an aim to drive up the scale and modernization of coal production equipment of the Company, unify coal mine equipment standards and enhance the safety of coal mine production.



China Shenhua achieved significant breakthrough for promotion of home-made equipment in particular the adoption of hydraulic supporters, through which the Company realized domestic manufacture of a full range from 2.4 meters to 6.3 meters hydraulic supporters, thus equipment procurement expenditure of approximately RMB7 billion was saved in recent 3 years. The home-made continuous mining machines had completed pilot test in the underground mine at Shendong Mines and reached the level of imported equipment, while the price was less than 2/3 of the price of imported equipment. Four types of home-made explosive-proof vehicles had finished testing in underground mines. Its primary technology performance reached the level of imported equipment, but the price of equipment was only 1/3 of the price of imported equipment.

In 2008, the research on "Ecological and environmental integrated technology for the prevention of desertification of large coal base" and "Natural theory of coal and the research and application of preventive technology" conducted by the Shendong Mines won the National Science and Technology Progress Award.

Railway transportation for coal in mining area

Automatic sealed coal loading system

c Coal mine production safety

While keeping rapid growth of coal production, the Group made unremitting efforts to improve the safety production level of the coal mines. Our coal safety production record continued to be in the leading position nationwide and even in the international coal industry. The fatality rate per one million tonnes of raw coal by China Shenhua was zero in 2008, while the national fatality rate was 1.182 per one million tonnes of raw coal during the same period.

d Coal quality management

In recent years, the Company adopted a number of measures to stabilize the quality of coal, including facilitating the establishment of a web-based information system on quality of coal, establishing an on-site coal quality management system, inspection and warning mechanism system, web-based information system on coal quality and a processing system for improving coal quality, thus the efficiency of coal quality management was enhanced; the promotion of on-site conversion from low caloric value coal to higher caloric value coal enhanced economic benefits; optimizing the structure of coal products to improve the marketability of China Shenhua; facilitating coal selection plants to adopt full scale washing reform and research on dehydrated coal to enhance the control over coal quality. The Company is the first one in China to initialize the research on the low-temperature coal dehydration technology. So far the basic research has been completed and entered the industrial testing phase. In 2008, the quality of commercial coal sold by the Company was basically stable, of which the average caloric value of commercial coal from the Shendong Mines in 2008 was 5,550 kcal/kg, the average caloric value of commercial coal from Zhunge'er Mines in 2008 was 4,724 kcal/kg, and the average caloric value of commercial coal from Wanli Mines in 2008 was 4,717 kcal/kg. The main type of commercial coal of Shengli Mines in 2008 was lignite.

(3) Coal Sales

In 2008, severe fluctuations occurred in both the domestic and international coal markets, which were roughly divided into two stages: from January to August, the coal market remained tight. Serious natural disasters and other factors further aggravated the tight demand and supply situation. In order to prevent inflation and alleviate the losses suffered by the coal-fired power industry, the National Development and Reform Commission ("NDRC") announced policies twice in June and August respectively to cap the thermal coal spot price and made clear rule on the thermal coal trading price in the thermal coal market. After September, the demand and supply of coal reversed. Under the impact of the financial crisis, demands for industrial raw materials such as steel, chemicals, cement, etc. fell and power demand dropped, which resulted in sharp decline of coal demand within a short time. The coal market performance was reflected by the rapid increasing inventory in society and power plants and sharply declining spot coal price.

The Company, after brewing over the trends carefully, captured the market opportunities to overcome the market fluctuations. In 2008, the Company continued to develop high value-added products for markets on the basis of our original domestic customers. The Company developed new additional coal slurry products and reached agreements with 4 domestic customers. In 2008, the coal sales of the Company was 232.7 million tonnes (2007: 209.1 million tonnes), representing a year-on-year increase of 11.3%. Weighted average coal selling price was RMB378.6/tonne (2007: RMB312.9/tonne), representing a year-on-year increase of 21.0%.

a Domestic Sales

Domestic sales volume of the Company was 211.5 million tonnes in 2008 (2007: 185.1 million tonnes), representing a year-on-year increase of 14.3% and accounted for 90.9% of the total coal sales. In 2008, the national coal transhipment volume for domestic sales through domestic ports reached 462 million tonnes, from which it was estimated that the market share of China Shenhua in coastal seaborne coal markets was approximately 25%. The weighted average domestic coal selling price of the Company was RMB358.8/tonne (2007: RMB301.8/tonne), representing an increase of 18.9% year-on-year.

By types of domestic sales contracts, the sales volume under long-term contract in 2008 was 163.9 million tonnes (2007: 147.5 million tonnes), representing a year-on-year increase of 11.1%, which accounted for 77.5% of domestic sales. Spot coal sales volume was 47.6 million tonnes (2007: 37.6 million tonnes), representing a year-on-year increase of 26.6%, which accounted for 22.5% of domestic sales. The weighted average selling price of coal under domestic long-term contract was RMB335.7/tonne (2007: RMB311.2/tonne), representing an increase of 7.9% year-on-year. The weighted average selling price of coal sales in spot market was RMB438.1/ tonne (2007: RMB265.2/tonne), representing an increase of 65.2% year-on-year.

In 2008, the volume of seaborne coal sales under long-term contract was 95.6 million tonnes (2007: 92.4 million tonnes), representing an increase of 3.5% year-on-year and accounting for 58.3% of the total long-term contract sales, which was the most significant form of long-term contract sales. The mine mouth sales recorded the highest growth to 10.1 million tonnes. The increase of minemouth sales was mainly attributable to long-term the increase in coal sales of Shengli Mines to power plants at mine mouth and the change from spot sales to contract sales. The long-term seaborne contract coal sales price in 2008 was RMB408.6/tonne (2007: RMB360.2/tonne), representing an increase of 13.4% year-on-year, which was the major driving force for the growth of long-term contract price.

In terms of spot sales in 2008, the volume of seaborne coal sales was 22.6 million tonnes (2007: 13.9 million tonnes), representing an increase of 62.6% year-on-year and accounting for 47.5% of the total spot sales, which was the most significant form of the spot sales. The volume of spot sales at mine mouth was 12.2 million tonnes (2007: 13.0 million tonnes), declining by 6.2% year-on-year. For spot sales in 2008, the selling price of seaborne coal was RMB614.2/tonne (2007: RMB399.3/tonne), representing an increase of 53.8% year-on-year, which constituted the major driving force for the growth of the selling price in spot sales.

Large-scale dragline bucket in open-cut mine

In 2008, the sales volume of the Company to the top five domestic external customers was 23.7 million tonnes, which accounted for 13.9% of the total domestic sales volume to external customers. Of which, the sales volume to the largest customer was 7.0 million tonnes, which accounted for 4.1% of total domestic sales volume. The top five domestic customers were either power generation companies or chemical companies.

b **Export Sales**

In 2008, the State government announced measures to restrict coal exports in order to increase the domestic coal supply: (1) by reducing the export quota. The total effective quota issued by domestic authority in 2008 was 47.70 million tonnes, reducing by 32% year-on-year; (2) by imposing 10% custom duty on export thermal coal. In 2008, the national accumulated export volume amounted to 45.59 million tonnes, representing a decrease of 8.22 million tonnes year-on-year.

In 2008, the coal export volume of the Company was 21.2 million tonnes (2007: 24.0 million tonnes), decreasing by 11.7% year-on-year. During the same period, the ratio of export sales to total sales of coal decreased from 11.5% to 9.1% compared to last year. In 2008, the delay of the issuance of coal export quota by the State resulted in a decrease of the Company's coal export.

In 2008, the coal export selling price was RMB577.2/tonne (2007: RMB398.1/tonne), increasing by 45.0% year-on-year. Major factors affecting the export coal price were: (1) positive factor: benefiting from the recording high global coal price in the first half of 2008, the long-term contract price for coal export signed with major customers was higher than the long-term contract price for coal export in 2007; (2) negative factor: in 2008, RMB appreciated over USD. The applicable weighted average exchange rate of USD for settlement of export sales was 6.891 (2007: 7.5863), RMB appreciated by 10.1%, which resulted in a lower export selling price in RMB upon conversion from the USD denominated price.

In 2008, the sales volume of the Group to the top five coal export customers was 13.3 million tonnes, which accounted for 62.7% of the total export volume. Of which, the sales volume to the largest customer was 4.4 million tonnes, which accounted for 20.8% of total export sales volume. The top five coal export customers were either power generation companies or fuel companies.

c **Sales to external customers and internal power segment**

In 2008, coal sales of the Company to external customers was 191.6 million tonnes (2007: 178.5 million tonnes), representing an increase of 7.3% year-on-year. Coal selling price to external customers increased from RMB312.3/tonne to RMB389.2/tonne, representing an increase of 24.6% year on year.

Selling coal to internal power segment was a unique model of integrated operation of the Group. In 2008, along with the increase of the installed capacity of self-owned power plants, demand for coal also increased accordingly. The volume of coal sales to the power segment of the Group was 41.1 million tonnes (2007: 30.6 million tonnes) increasing by 34.3% year-on-year. During the same period, the proportion of sales volume to the power segment of the Group to total coal sales volume increased from 14.6% to 17.7%. Price of sales to power segment of the Group increased from RMB316.0/tonne to RMB329.1/tonne, representing an increase of 4.1%. Coal sales to internal power segment were conducted mainly under long-term contracts. The settling price with internal power segment was determined by reference to the pricing model adopted in previous years for sales to external customers under long term contracts.

(4) Operating Results

a Revenues

Benefiting from the significant increase in the sales volume and price of coal, the revenues from the coal segment of the Group before elimination on consolidation in 2008 were RMB88.834 billion (2007: RMB65.949 billion), representing an increase of 34.7% year-on-year.

b Cost of revenues

In 2008, the cost of revenues of the coal segment of the Group before elimination on consolidation was RMB57.140 billion (2007: RMB45.017 billion), representing an increase of 26.9% year-on-year. Cost of revenues mainly comprises coal purchased from third parties, cost of coal production, cost of coal transportation and others.

In 2008, cost of external coal purchases of the coal segment was RMB15.585 billion (2007: RMB10.719 billion), representing an increase of 45.4% year-on-year. In 2008, the volume of external coal of the coal segment amounted to 46.2 million tonnes (2007: 51.9 million tonnes), declining by 11.0% year-on-year. Unit cost of external coal purchased was RMB337.2/tonne, increasing by RMB130.7/tonne year-on-year, by 63.3%. In 2008, under the impact of snowstorms, safety inspection of domestic coal mines, etc., market for external coal purchased were tightened and price of external coal purchased rose significantly which resulted in a volume reduction in the external coal purchased for the full year.

In 2008, production cost of self-produced coal of the coal segment was RMB17.702 billion (2007: RMB11.842 billion), representing an increase of 49.5% year-on-year. In 2008, unit production cost of self-produced coal by the coal segment was RMB94.9/tonne (2007: RMB75.3/tonne), representing an increase of 26.0% year-on-year. The increase was mainly attributable to the following reasons:

(i) The unit cost of materials, fuel and power was RMB23.0/tonne, an increase of 25.7% over last year. The increase was mainly the result of the increase in expenditures on supporting products and machinery spare parts due to changes in geographical conditions in mines and extension of underground mining areas; the production increase in high-cost mines such as Haerwusu, Jinjie Energy and Wanli Mines resulted in the high consumption of materials, fuel and power; and the increase in the price of fundamental materials such as steel, diesel and explosive products.

(ii) The unit cost of personnel expenses was RMB11.9/tonne, representing an increase of 15.5% over last year. The increase was mainly a result of the increase in the number of employees in mines; and the increase in employees' wages and labour service fee due to the introduction in the Labour Contract Law, changes in rules and regulations concerning the production safety of underground mines and the business growth of the Company.

(iii) The unit cost of others was RMB33.3/tonne, representing an increase of RMB12.9/tonne or 63.2%. The increase was mainly a result of the following:

(a) An increase in unit mining engineering expenses of RMB6.7/tonne over last year, accounting for 51.9% of the increase in unit cost of others. Mining engineering expenses represent trivial tunnel shaft maintenance expenses, ancillary engineering expenses and other mining-related engineering expenses incurred during the coal production. In terms of the operation of underground mines, due to the changes in geographical conditions of certain underground mines in Shendong Mines, the occurrence of complicated geographical structures unfavourable to mining such as faults and gushing water, the mining engineering expenses increased as the mining engineering work and the relocation of the Company increased; in terms of the operation of open-cut mines, engineering expenses increased as the production of Haerwusu open-cut mine and Shengli open-cut mine and the stripping volume increased; in addition, the amortisation derived from the first mining workface in Bu'ertai mine newly put into production also contributed to the increase in unit mining engineering expenses;

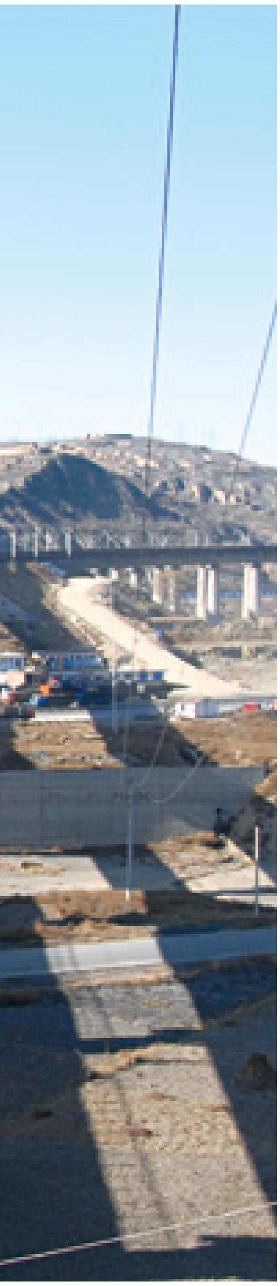
(b) An increase in unit taxes of RMB3.3/tonne, accounting for 25.6% of the increase in unit cost of others. Taxes such as mineral resources compensation fee and land use tax increased as the government raised the tax rates related to coal industry.

(c) An increase in unit coal selection expenses of RMB2.3/tonne, accounting for 17.8% of the increase in unit cost of others. The unit coal selection expenses increased as the Company increased its coal selection proportion in order to ensure the quality of its coal products.

c **Profit from operations**

In 2008, the profit from operations of the Group's coal segment before elimination on consolidation was RMB26.818 billion (2007: RMB18.096 billion), representing an increase of 48.2% year-on-year. During the same period, operating margin of the coal segment increased from 27.4% to 30.2%.

Self-owned electric-powered railway



2. Railway Segment

(1) Business progress

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

The Group owns and operates five railways, including Shuohuang Railway, Shenshuo Railway, Dazhun Railway, Baoshen Railway and Huangwan Railway, with an aggregate length of approximately 1,367 km. Of which, Shenshuo-Shuohuang Railway is one of China's two major railways for the coal transportation from the western regions to the eastern regions of China. In 2008, the turnover of self-owned railway transportation of the Company was 123.3 billion tonne km (2007: 116.7 billion tonne km), representing an increase of 5.7% year-on-year. The turnover of self-owned railway transportation accounted for 81.4% to the total turnover, which was lower than the 82.3% recorded in 2007.

In 2008, the Company continued to progress with the ten thousand tonnage train capacity expansion project with 8 tests conducted consecutively. The Company overcame the difficulties such as numerous bridges, tunnels and bends, deep gradient slopes, small curvatures, etc. and created the new self-owned technology for ten thousand tonnage loading trains. The Company initiated the project of Shenhua road and port transportation scheduling centre for unified management, deployment, direction of all railway lines to timely deploy unloading work and coal types of self-owned ports and accelerate the turnover of motor vehicles and cargo delivery, in preparation for the next step to full operation of the ten thousand tonnage trains. In addition, the Company carried out routine maintenance work on tunnels and railway lines, improved the drainage system of stations, widening road shoulders and repairing slope edges to ensure safety of vehicle operations.

Loading station of electric-powered railway

(2) Operating results

a Revenues

In 2008, revenue of the Group's railway segment before elimination on consolidation were RMB17.526 billion (2007: RMB16.210 billion), representing an increase of 8.1% year-on-year. Revenue from internal transportation of coal in the railway segment was RMB15.576 billion (2007: RMB14.755 billion), representing an increase of 5.6% year-on-year, accounting for 88.9% of the revenues of the railway segment. Meanwhile, some railway of the Group utilized their excessive transportation capacity to provide transportation service for the third parties to receive transportation revenue.

b Cost of revenues

In 2008, the cost of revenues of the Group's railway segment was RMB9.075 billion (2007: RMB6.933 billion), representing an increase of 30.9% year-on-year. The increase was mainly attributable to the increases in unit transportation cost and transportation volume.

Unit transportation cost of the railway segment was RMB0.072/tonne km (2007: RMB0.058/tonne km), representing an increase of 24.1% year-on-year, the increase was mainly attributable to:

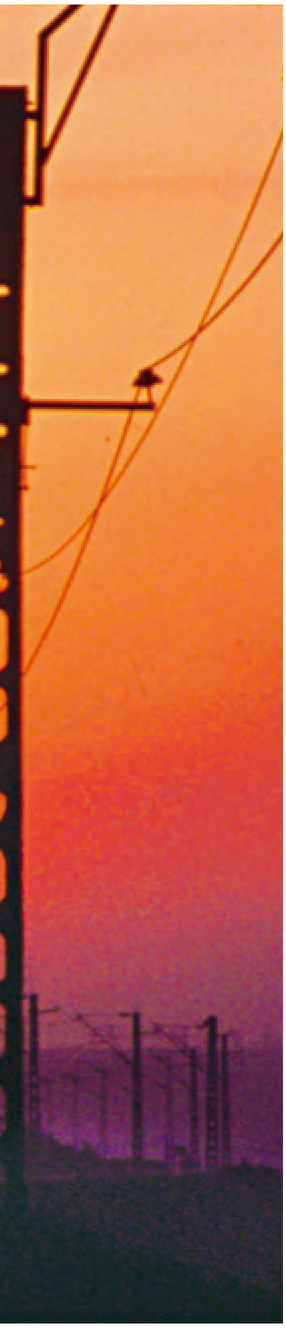
(i) The increase in the price of materials, fuel and power resulted in the increase in the unit cost of materials, fuel and power per tonne km;

(ii) The increase in unit personnel expenses per tonne km resulting from the increase in the salaries and wages of the staff in the railway segment, which in turn was a result of the recruitment of additional employees by the transportation segment, the introduction of the Contract Law, the changes in rules and regulations concerning the operation of railways and the business growth of the Company;

(iii) The increase in unit cost of others per tonne km resulting from railway renovation and the increase in expenditures such as engineering service fee.

c Profit from operations

In 2008, profit from operations of the Group's railway segment before elimination on consolidation was RMB7.758 billion (2007: RMB8.581 billion), representing a decrease of 9.6% year-on-year. The decrease was mainly due to the increase in operating cost which was faster than the increase in revenues. During the same period, operating margin of the railway segment decreased from 52.9% to 44.3%.



Electric-powered railway in dusk

3 Port Segment

(1) Business Progress

The Company owns and operates Huanghua Port and Shenhua Tianjin Coal Dock with annual seaborne coal capacity exceeding 100 million tonnes. Both ports are the major transhipment hubs for the Group's coal sales to domestic coastal markets and overseas markets. Huanghua Port is the second largest port for seaborne coal in China. The Company also transports coal through third party ports such as Qinhuangdao port and Tianjin port. In 2008, the volume of seaborne coal sales of the Company was 139.4 million tonnes, accounting for 59.9% of total commercial coal sales. Of which, the self-owned ports of the Company, namely Huanghua Port and Shenhua Tianjin Coal Dock, completed seaborne coal sales of 101.1 million tonnes, representing an increase of 0.7 million tonnes year-on-year or by 0.7%, which accounted for 72.5% of the total volume of seaborne coal sales of the Company.

Shenhua Tianjin Coal Dock

(2) Operating results

a Operating revenues

In 2008, revenues of the Group's port segment before elimination on consolidation were RMB1.938 billion (2007: RMB1.981 billion), representing a decrease of 2.2% year-on-year. Of which, revenues from internal coal transportation in the port segment were RMB1.856 billion (2007: RMB1.878 billion), representing a decrease of 1.2% year-on-year, which accounted for 95.8% of the revenues of the port segment. The decrease in the revenues of the port segment in 2008 was mainly attributable to the decrease in the total volume of seaborne coal in Huanghua Port, which resulted in changes in income composition.

Coal Loading perth in Huanghua Port

b **Cost of revenues**

In 2008, the cost of revenues of the Group's port segment was RMB1.323 billion (2007: RMB1.378 billion), representing a decrease of 4.0% year-on-year. Unit cost of internal transportation of the port segment was RMB12.5/tonne (2007: RMB13.0/tonne), representing a decrease of 3.8% year-on-year. The decrease was mainly due to the fact that the increase in transportation volume in Shenhua Tianjin Coal Dock diluted the cost; in addition, dredging expenses decreased over last year.

c **Profit from operations**

In 2008, profit from operations of the Group's port segment was RMB0.348 billion (2007: RMB0.376 billion), representing a decrease of 7.4% year-on-year. During the same period, operating margin of the port segment decreased from 19.0% to 18.0%.

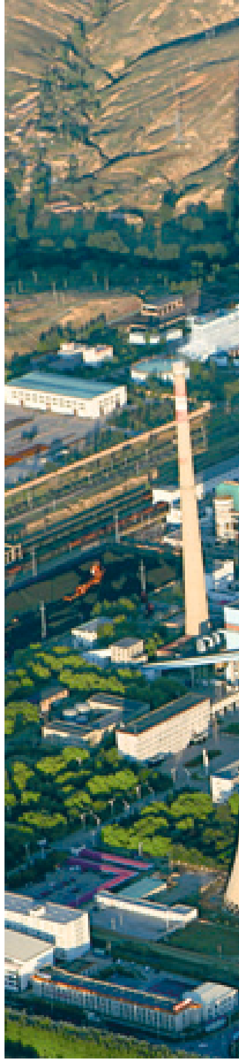
4 Power Segment

(1) Business Progress

As at the end of 2008, the national total installed capacity was 792.53 million kw, representing an increase of 10.3% year-on-year. In 2008, power consumption of the whole society was 3,426.8 billion kwh, representing an increase of 5.2% year-on-year and the growth rate decreased by 9.2 percentage points compared to the previous year. Nationwide power generation was 3,466.8 billion kwh, representing an increase of 5.6% year-on-year, the growth rate was 8.8 percentage points lower than the previous year. Of which, coal-fired power generation amounted to 2,790.0 billion kwh, representing an increase of 2.5% year-on-year, the growth rate was 12.4 percentage points lower than the previous year. The average utilization hours of coal-fired power equipment amounted to 4,911 hours, representing a decrease of 427 hours year-on-year. Under such stringent market conditions, the power segment of the Company maintained stable and relatively rapid development, and was one of the few power plants which was able to maintain profitability in the power industry in 2008.

The Company's power segment achieved mainly the following results in 2008:

- The power segment of the Company mainly operates the coal-fired power generation business and also operates some wind power and gas-fired power generation business. Besides, it also operates Yuyao Gas-fired Power and Zhuhai wind energy with power generation of 180 million kwh and 30 million kwh respectively and power output dispatch of 170 million kwh and 30 million kwh respectively in 2008. In 2008, the gross power generation and total power output dispatch of the power segment of the Company amounted to 97.80 billion kwh and 90.29 billion kwh respectively. As at 31 December 2008, the Company controlled and operated 14 coal-fired power plants with total installed capacity and equity installed capacity reaching 18,001 MW and 10,777 MW respectively. The equity installed capacity accounted for 59.9% of total installed capacity and the average unit capacity was 333 MW. In 2008, gross power generation of the Group's coal-fired generators was 97.59 billion kwh, representing an increase of 17.85 billion kwh or 22.4% year-on-year; the total power dispatch of coal-fired generators was 90.09 billion kwh, representing an increase of 15.74 billion kwh or 21.2% year-on-year; average utilization hours of coal-fired generators amounted to 5,615 hours, which was 704 hours higher than the national average utilization hours of 4,911 hours. The coal consumption of the power generation operations of the Group in 2008 was 42.3 million tonnes, of which 39.0 million tonnes were from internal coal segment, accounting for 92.2%.



Bird eye's View of Suizhong Power

- Enriching operational management measures, optimizing generation units operation and maintenance and repair policy for power generators and enhancing safety and economy of power generators. In the meanwhile, the Company made efforts in risk prevention and control and systematic training sessions for team leaders with an aim to promote refined safe production management. The equivalent usable index of the coal-fired generators in operation of the Company's Guohua Power Branch for the year was 91.17%, representing an increase of 0.3% year-on-year.

- Highlighting the strategy of cost control, optimizing materials procurement management and strengthening the control in infrastructure construction, production and operation activities and staff conduct in order to make good control of various costs and expenses.

- Strengthening economic analysis, following the market closely and active participation in the exchange of power generation rights of replacing small by large exchange transactions. The Company also focused on entering into annual sale and purchase agreements for power supply timely and regulating the process for obtaining power business licence to ensure effective legal protection for the operations of the enterprise.

- Basic completion of the data collection platform for operating cost management. Financial assessment models for power projects with MVA (market economic value added) and CFROI (cash flow return on investment) as the core was developed and initially a system of assessment indicators for appraising short, medium and long-term financial performance was established.

- Apart from coal-fired power generation, the Company also developed green energy projects and operated wind power generation business in Zhuhai area of PRC with installed capacity of 16 MW and power generation of 30 million kwh, which is equivalent to reduce the combustion of standard coal by approximately 10,000 tonnes. The project could satisfy the annual power needs of 30,000 families in Zhuhai city.

Installed capacity of coal-fired power plants in 2008

Power plants	Regional grid	Location	Total installed capacity as at 31 December 2007 MW	**Additions of installed capacity in 2008 MW**	**Total installed capacity as at 31 December 2008 MW**	**Equity installed capacity as at 31 December 2008 MW**
Huanghua Power	North China Power Grid	Hebei	1,200	**–**	**1,200**	**612**
Panshan Power	North China Power Grid	Tianjin	1,000	**–**	**1,000**	**331**
Sanhe Power	North China Power Grid	Hebei	1,300	**–**	**1,300**	**365**
Zhunge'er Power	North China Power Grid	Inner Mongolia	200	**300**	**500**	**289**
Guohua Zhunge'er	North China Power Grid	Inner Mongolia	1,320	**–**	**1,320**	**896**
Beijing Thermal	North China Power Grid	Beijing	400	**–**	**400**	**204**
Dingzhou Power	North China Power Grid	Hebei	–	**1,200**	**1,200**	**486**
Suizhong Power	Northeast Power Grid	Liaoning	1,600	**–**	**1,600**	**1,040**
Ninghai Power	East China Power grid	Zhejiang	2,400	**–**	**2,400**	**1,440**
Jinjie Energy	North China Power Grid	Shaanxi	1,800	**600**	**2,400**	**1,680**
Shenmu Power	Northwest Power Grid	Shaanxi	200	**10**	**210**	**107**
Taishan Power	South China Power Grid	Guangdong	3,000	**–**	**3,000**	**2,400**
Shendong Coal	Northwest/North China Power Grid	Inner Mongolia	324	**–**	**324**	**301**
Shendong Power	Northern China/Shaanxi province local Power Grid	Inner Mongolia	347	**800**	**1,147**	**626**
Total installed capacity			15,091	**2,910**	**18,001**	**10,777**

Performance indicators of coal-fired power plants in 2008

Power plants	Gross power generation 100 million kwh	Total power output dispatch 100 million kwh	Average utilization hours hours	Standard coal consumption rate for power output dispatch g/kwh
Huanghua Power	66.1	62.8	5,509	317
Panshan Power	60.4	56.2	6,043	334
Sanhe Power	65.0	60.7	5,002	335
Zhunge'er Power	21.7	19.4	4,820	423
Guohua Zhunge'er	65.2	59.3	4,942	336
Beijing Thermal	24.2	21.4	6,042	284
Dingzhou Power	64.1	60.5	5,342	325
Suizhong Power	83.2	78.6	5,198	330
Ninghai Power	150.5	142.2	6,269	322
Jinjie Energy	113.7	103.8	5,280	342
Shenmu Power	14.1	12.9	6,979	390
Taishan Power	180.1	168.8	6,004	320
Shendong Coal	19.7	17.3	6,068	389
Shendong Power	47.9	37.0	5,771	424
Total/Weighted average	975.9	900.9	5,615	335

(2) Operating results

a Revenues

In 2008, revenues of the Group's power segment before elimination on consolidation were RMB29.994 billion (2007: RMB24.387 billion), representing an increase of 23.0% year-on-year. The increase was mainly attributable to an increase in the power output dispatch and the on-grid power tariffs.

According to the relevant notice issued by the National Development and Reform Commission, the State government raised the on-grid power tariffs of coal-fired power enterprises twice on 1 July and 20 August 2008 respectively, hence the power segment of the Company benefited from these two tariff adjustments. The average on-grid power tariff (excluding value-added tax) of the Company on 1 July 2008 increased by RMB13.8/MWh or approximately 4.53% higher than the tariff before adjustment (according to the installed capacity calculated on weighted average basis on 30 June 2008); the average on-grid power tariff (excluding value-added tax) of the Company on 20 August 2008 increased by RMB18.3/MWh or approximately 5.74% higher than the tariff before adjustment (according to the installed capacity calculated on weighted average basis on 31 July 2008). On-grid power tariff refers to the power tariff corresponding to power usage as specified in the sale and purchase agreement of power supply entered into between the Company and the power grid company, which is different from the power tariff for power dispatch normally used by our Company.

Power plants	**Power tariff as at 31 December 2008 RMB/MWh**	Power tariff as at 31 December 2007 RMB/MWh
Huanghua Power	**295**	295
Panshan Power	**348**	340
Sanhe Power	**317**	299
Zhunge'er Power	**216**	176
Guohua Zhunge'er	**230**	217
Beijing Thermal	**392**	375
Dingzhou Power	**273**	–
Suizhong Power	**311**	302
Ninghai Power	**373**	363
Jinjie Energy	**258**	216
Shenmu Power	**264**	247
Taishan Power	**399**	382
Shendong Coal	**226**	216
Shendong Power	**244**	199
Weighted average power tariff based on power output dispatch	**320**	321

Power generation units in Taishan Power

Power tariff is the final average selling price of power output dispatch realized in a particular reporting period by the Company, including but not limited to on-grid power tariffs, power generation right exchange tariffs and direct power supply tariffs. Structural changes in the power generation volume of the generators in power plants of the Company in 2008 and 2007 resulted in an increase in the weighted average power tariff based on power output dispatch less than the price adjustment of on-grid power tariffs based on weighted average installed capacity in 2008 as compared to 2007.

b Cost of revenues

Cost of revenues of the Group's power segment before elimination on consolidation in 2008 was RMB22.828 billion (2007: RMB16.753 billion), representing an increase of 36.3% year-on-year.

On-site maintainace for power dispatching grid

The unit cost of revenues of the power segment was RMB247.1/MWh (2007: RMB222.3/MWh), representing an increase of 11.2% over last year. The increase was mainly attributable to the following factors:

(i) The unit cost of materials, fuel and power increased to RMB170.3/MWh, representing an increase of 13.8% over last year and accounting for 68.9% of the unit cost of power sales. Such an increase was mainly due to the significant increase in coal price;

(ii) The unit cost of others increased to RMB8.6/MWh, representing an increase of 45.8% over last year. The unit cost of others increased as a result of the decrease in average utilization hours of the power generation facilities of the Company.

c **Profit from operations**

Profit from operations of the Group's power segment for 2008 was RMB5.088 billion (2007: RMB5.875 billion), representing an decrease of 13.4% year-on-year. During the same period, the operating margin of the power segment decreased from 24.1% to 17.0%.

(III) Management review on the Company's consolidated operating results

1. Consolidated results of operations

(1) Revenues

For the year ended 31 December 2008, revenues of the Group were RMB107.133 billion (2007: RMB82.107 billion), representing an increase of 30.5%. The increase was mainly attributable to the increase in selling price and coal sales volume, and power output dispatch. During the same period, the proportion of coal revenue to total operating revenues increased from 67.9% to 69.6%, while the proportion of power revenue to total operating revenues decreased from 29.1% to 27.4%.

In 2008, the total revenues from the top five customers of the Group was RMB21.413 billion, representing 20.0% of the total operating revenues of the Group.

(2) Cost of revenues

For the year ended 31 December 2008, cost of revenues of the Group was RMB59.378 billion (2007: RMB43.773 billion), representing an increase of 35.6%. The main reasons for the increase as follows:

a An increase in coal purchased from third parties by 45.4% over last year, mainly due to the increase in the price of external coal purchased.

b An increase in materials, fuel and power by 34.4% over last year, mainly due to the increases in coal production and the price of materials, fuel and power.

c An increase in personnel expenses by 34.9% over last year, mainly due to the introduction of the Labour Contract Law, the changes in rules and regulations concerning the operation of railways, the business growth of the Company, the increase in staff wages and the recruitment of employees for the coal segment.

d An increase in depreciation and amortisation by 20.7% over last year, mainly due to the increase in the depreciation of additional property, plant and equipment.

e An increase in repairs and maintenance by 30.6% over last year, mainly due to the increase in repairs and maintenance of the railway segment, which was resulted from maintenance, repair and technical reform conducted by the Company on railways and related facilities with an aim to satisfy higher operation capacity.

f An increase in transportation charges by 5.6% over last year, mainly due to the increase in the turnover of transportation by third party railways.

g An increase in others by 89.6% over last year, mainly due to the increases in mining engineering expenses, coal mine taxes and coal selection fees.

In 2008, the amount of purchases from the top five suppliers of the Group was RMB12.299 billion, representing 20.4% of the total purchases for the year.

(3) Selling, general and administrative expenses

For the year ended 31 December 2008, selling, general and administrative expenses of the Group were RMB6.961 billion (2007: RMB5.144 billion), representing an increase of 35.3%. The increase was mainly due to the increase in related selling and administrative expenses in line with the increase in business volume.

(4) Total operating expenses

For the year ended 31 December 2008, total operating expenses of the Group were RMB67.458 billion (2007: RMB49.610 billion), an increase of 36.0% over last year. Apart from the increases in cost of revenues and selling, general and administrative expenses as mentioned above, the increase was mainly due to the increase in loss on disposal of property, plant and equipment as a result of the assets inspection in 2008; and the increase in provisions for impairment of inventories and accounts receivable.

(5) Income tax

For the year ended 31 December 2008, income tax of the Group was RMB7.076 billion (2007: RMB6.742 billion), representing an increase of 5.0%. The increase was mainly attributable to the increase in the profit before tax of the Company. In addition, due to the reform initiated by the government on enterprise income tax, the statutory income tax rate of the Company was decreased to 25% in 2008.

(6) Profit for the year attributable to equity shareholders of the Company

For the year ended 31 December 2008, profit attributable to equity shareholders of the Company was RMB26.641 billion (2007: RMB20.581 billion), representing an increase of 29.4%.

2. Status of consolidated assets and liabilities

(1) Property, plant and equipment

As at 31 December 2008, property, plant and equipment of the Group was RMB145.253 billion (31 December 2007: RMB131.059 billion), representing an increase of 10.8% over last year. The increase were mainly due to the transfer of projects that were newly put into production to property, plant and equipment.

As at 31 December 2008, the proportion of property, plant and equipment of the Group to total assets amounted to 52.7% (31 December 2007: 54.9%), representing a decrease of 2.2 percentage points over last year.

(2) Construction in progress

As at 31 December 2008, construction in progress of the Group was RMB33.017 billion (31 December 2007: RMB22.358 billion), representing an increase of 47.7%. The increase was mainly due to the fact that certain new construction projects of the power segment and the coal segment in 2008 were not yet completed, for details of such projects, please refer to Note 16 to the financial statements.

(3) Inventories

As at 31 December 2008, inventories of the Group was RMB7.842 billion (31 December 2007: RMB6.337 billion), representing an increase of 23.7%. The increase was mainly attributable to increase in the balance of auxiliary materials, spare parts and small instruments.

(4) Accounts and bills receivable, net

As at 31 December 2008, accounts and bills receivable, net of the Group was RMB8.236 billion (31 December 2007: RMB6.642 billion), representing an increase of 24.0% over last year. The increase was mainly attributable to the increase in the balance of accounts receivable in line with the increase in coal and power sales.

(5) Borrowings

	As at 31 December 2008 RMB million	As at 31 December 2007 RMB million
Short-term borrowings and current portion of long-term borrowings	**18,213**	10,196
Long-term borrowings, less current portion	**56,045**	49,718
Total borrowings	**74,258**	59,914
Less:		
Cash and cash equivalents	**59,054**	53,404
Time deposits with original maturity over three months	**196**	32
Net borrowings	**15,008**	6,478

As at 31 December 2008, the Group had RMB68.275 billion of borrowings denominated in Renminbi, RMB5.689 billion of borrowings denominated in Japanese Yen and RMB0.294 billion of borrowings denominated in US Dollars.

(6) Capital structure

As at 31 December 2008, the gearing ratio (total liabilities/total assets) of the Group was 37.7% (31 December 2007: 37.2%), representing an increase of 0.5 percentage point. The interest cover ratio (profit before interest and tax/interest expense) was 8.4 times (2007: 8.7 times), representing a decrease of 3.4% over last year.

3. Status of consolidated cash flows

As at 31 December 2008, cash and cash equivalents of the Group was RMB59.054 billion (31 December 2007: RMB53.404 billion), representing an increase of 10.6%. Net cash generated from operating activities increased from RMB25.626 billion for the year ended 31 December 2007 to RMB40.618 billion for the year ended 31 December 2008, representing an increase of 58.5%. The increase was mainly attributable to the increase in the volume and selling price of coal sales.

(IV) Capital expenditure plan

1. Principles of the capital expenditure for 2009

The overall principles of the Company's capital expenditure plan for 2009 are: "profit centered, appropriately controlled, properly structured and retaining potential for development". The focus of the investments in 2009 are:

- to continue to improve the construction of mines under construction and the technological upgrade of mines already in operation, to focus on coal mining and the stability of coal quality and to attain the approval of new resources and new mines.
- to speed up the technological improvement of existing railways, to raise the transportation capacity of existing railways while speeding up the construction of new railways, to adpot trains with capacity of 10,000 tonnes, and to use new equipment such as C80 and high powered locomotives with the emphasis on resolving the bottleneck issues of Shenshuo Railway.
- to adopt an appropriately cautious principle on power projects and not to arrange investment on projects without being approved.

2. Capital expenditure plan

Capital expenditure plan	Plan in 2009 RMB 100 million	Accomplished in 2008 RMB 100 million	Percentage change of plan in 2009 to plans accomplished in 2008 %	Percentage of each segment to total in 2009 %
Coal segment	94.80	145.21	(34.7)	31.7
Railway segment	75.60	25.01	202.3	25.3
Port segment	8.10	3.88	108.8	2.7
Power segment	119.60	178.13	(32.9)	40.0
Others	0.97	5.61	(82.7)	0.3
Total	299.07	357.84	(16.4)	100.0

3. Progress of major capital expenditure projects

Unit: RMB 100 million

No.		Project name	Total investment	Construction period	Investment in 2008	Planned investment in 2009
I.		Coal segment				
	1	Bu'ertai mine	47.4	2007-2009	4.9	4.1
	2	Harerwusu open-cut mine	51.7	2006-2009	9.7	–
	3	Shengli No.1 open-cut mine	25.6	2004-2010	1.8	4.8
	4	Huangyuchuan mine	24.9	2007-2010	4.0	9.4
	5	5^{-2} coal project of Daliuta mine	14.0	2008-2010	0.2	2.5
	6	Specialised equipment maintenance center of Shendong Coal Branch	8.9	2007-2009	4.3	0.6
II.		Transportation segment				
	1	Renovation of the second extentional line (Dongsheng to Batuta)	11.4	2008-2010	2.2	4.6
	2	Shenshuo capacity expansion of trains with loading capacity reaching 10,000 tonnes	34.8	2007-2010	5.4	7.0
	3	Purchase of aluminium alloy gondola car C80	22.7	2008-2009	–	22.7
	4	The second extentional line (Dian Daigou to Er Daohe section)	15.7	2006-2011	0.9	8.1
III.		Power segment				
	1	Zhejiang Ninghai Power plant phase II	88.2	2006-2009	46.0	15.6
	2	Huanghua power plant phase II	44.2	2007-2010	25.5	7.9
	3	Dingzhou power plant phase II	42.9	2007-2010	20.1	11.4
	4	Suizhong power plant phase II	77.1	2007-2010	12.0	20.0
	5	South Sumatra project in Indonesia	23.7	2008-2010	0.3	7.0

The current plans of the Company in relation to capital expenditures in the future are subject to the development of the business plans (including potential acquisition), the progress of the investment projects, market conditions, the future prospect of the business development, and acquisition of the requisite permissions and regulatory approvals. Unless required by laws, the Company does not assume any responsibility to update the disclosures on capital expenditure plans. The Company intends to meet its demand of operating capital by cash generated from operation activities, short-term and long-term borrowings, part of the proceeds from the initial public offering and other debt and equity facilities.

(V) Business plans and measures in 2009

Against the backdrop of the implementation of macro-economic control policies of "expanding domestic demands, maintaining growth and adjusting structure" by the Chinese Government and the introduction of new economic stimulus plans and the revival plans for various industries, it is full of challenges and opportunities in the Company's operating environment in 2009. Since it is difficult to conclude the depth of the impact of the economic crisis on our country, and there are uncertainties in the development of coal and power markets, therefore, after serious study, the Board and the senior management of the Company confirmed that the guiding principles of operation in 2009 are: proactive and stable development and laying solid foundation.

The Company's operating targets in 2009 include: the commercial coal output to reach 197 million tonnes, commercial coal sales volume to reach 220 million tonnes, total power generation to reach 94.1 billion kwh, gross power output dispatch to reach 87.1 billion kwh. In order to fulfill the above objectives, the Company will focus on the following:

1. To strengthen the coordination in production, transportation and sales in order to ensure the fulfillment of the production and operation targets

The Company will aim at market demand, strengthening the coordination in production, transportation and sales and reinforcing the co-ordination among its mine, railway, port and power segments so as to ensure the safe, stable and efficient operation of each segment and accomplish production and operation targets for the whole year.

For the coal segment, its main focus is to ensure stable production in the major mine areas and facilitate the dragline bucket of Ha'erwusu Mine to reach its designed capacity and to increase the production output of Wanli Mines. In the meanwhile, the Company will maintain the proper management of coal quality by making full use of the coal washing and selection system for full washing and respond to market flexibly to make adjustments on the basis of different user demand.

For the railway segment, the aims are to optimize the transportation schedule and to strive to increase the carrying capacity of Shenshuo Railway, to do research on the proposal of Shenshuo and Shuohuang railway with train having capacity of 10,000 tonnes, to speed up the upgrade work of 10,000 tonnes train platform for the trains with capacity of 10,000 tonnes, to activate the second line for Dazhun and Baoshen railways, to speed up the construction of Huangda railway and Ganquan railways, to improve the safety and reliability of transportation vehicles, to strengthen the maintenance of vehicles and to continue the transformation work on railway roadbeds, road shoulders and bridges.

For the port segment, the aims are to strengthen the scheduling production, to fully exploit the efficiency of facilities so as to ensure annual targets are met and to actively implement the expansion project for Huanghua Port and to fully promote phase II project of Shenhua Tianjin Coal Dock.

For the power segment, the aims are to enhance the analysis on market demand and supply, to focus on market sales, to positively react to on-grid tariff bidding and energy conservation dispatching, to strive for higher average utilisation hours of the Company under the circumstances of obvious decrease in national power demand and decrease in average utilsation hours, to improve the reliability of the facilities, to reduce the rate of equipment malfunctioning, to better manage operations and to lower operating costs.

2. Strengthen the safety production and strive to realize zero fatality rate per million tonnes of raw coal for the year

In 2009, the Company will endeavor to avoid substantial human accidents and significant environment pollution, so as to realize zero fatality rate per million tonnes of raw coal for the year; propel the implementation of intrinsic security system in a comprehensive manner and do a good job on the treatment and utilization of mine gas, so as to enhance the safety level; promote the advancement and innovation in respect of safety production technology; and push forward the occupational health and environmental protection management.

3. **Broaden revenue base, control cost and improve the profitability**

The Company will actively promote the establishment of strategic financial system, strengthen the accuracy and foreseeability of periodic financial report and reinforce the supporting function of financial decision; strengthen the capital management and financing management and establish intensive material purchasing management system, so as to reduce the purchase costs and enhance the controlling power; strictly control the costs and use activity-oriented costing manner to suppress the rapid increase of the labour cost, maintenance expenses, equipment purchasing spending and material costs; leverage on technology advancement to optimize the coal mine production layout and production organization and promote new technology, new techniques and new equipment, so as to reduce production costs; closely monitor the local taxation policy for the purpose to reduce costs; and establish a constraint mechanism of encouraging costs saving and efficiency improvement on the basis of strict performance checking.

4. **Strengthen investment management and focus on key project construction**

The approval procedure will be performed strictly in accordance with the construction process, with a view to move forward step by step and arrange the construction phase reasonably; strengthen the designing and bidding management of the construction project; and focus on key project construction for the purpose to make sure that it is rolled out step by step. For the coal mine, the Company will attach importance to the construction and the production commencement for the Bu'ertai mine, Ha'erwusu open-cut mine and Huangyuchuan mine; for the railway and port, the focus is the reconstruction and capacity expansion of the trains with 10,000 tonnes of loading capacity for Shenshuo-Shuohuang Railway and the construction of alternate railway lines of Dazhuan Railway and Bazhun Railway, actively promote the construction of phase III of Huanghua Port and phase II of Shenhua Tianjin Coal Dock; and for the power, the importance lies in the construction of key projects, such as phase II of Ninghai and Phase II of Dingzhou, phase II of Suizhong and phase II of Taishan.

5. **Strengthen the team building and intensify the cohesion among the staff**

We will strengthen the building of middle management of the Company, and enhance the staff's awareness of crisis, urgency and responsibility; enhance the knowledge attainments and professional competence of the staff through various means including training, research and discussion; and do research on the talent's career development and long term incentive issues and focus on fostering expert-like, management-knowing and technology-oriented talents, so as to settle the talents strategic reserve and sustainable development problems.

6. **Accelerate capital operation and realize rapid development**

We will actively carry out capital operation to strive for development of reserved resources. We will, based on the existing mine areas and transportation network, make efforts to strive for domestic coal resources. Meanwhile, we will select the power projects with strong power demand and market attractiveness to carry out capital operation in an active manner, and develop overseas projects cautiously to ensure more development space for the Company.

7. **Strengthen risk control and regularize the Company's operation**

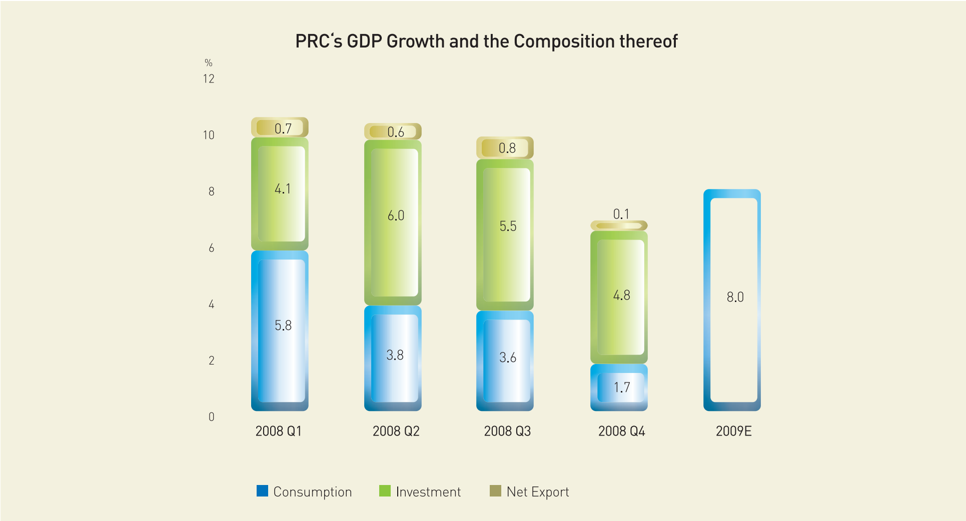
As compared with the international leading energy companies, there are still some disadvantages in many aspects of the Company, such as refined management and workflow system. The Company will continue to improve its management mode. The Company will also enhance the establishment of internal controls to strictly prevent operational risks. In 2009, the Company will actively and prudentially promote the establishment of internal control systems in subsidiaries and branches, and implement the requirements of the Internal Control Manual and Self Assessment Manual.

In general, in 2009 the Company will, in line with the spirit of honesty and diligence, comprehensively strengthen the above-mentioned work to accelerate the development of the Company and turn the crisis into development opportunities, so as to accomplish the operational targets of 2009 and strive for the maximization of the shareholders' interests.

(VI) Business Environment[1]

1. Macroeconomic environment

Due to factors such as the fast spread of the international financial crisis and the significant slowdown in the global economic growth, the PRC economic growth slowed in the fourth quarter of 2008. In 2008, China's GDP grew by 9.0% compared with that of last year. The growth was 4 percentage points lower than that of 2007. According to the estimation by the International Monetary Fund, the global economic growth will slow down to 0.5% in 2009 from 3.4% in the previous year due to the financial crisis.



Sources: National Statistics Bureau of China, Company Research

Due to the slowdown of global economic growth, the growth in demand for energy such as coal has declined. Currently, the demand for primary productive goods and energy is falling and the international crude oil price and coal price are dropping significantly.

Under the macro regulation and control policy of "boosting domestic demand, maintaining growth and adjusting structure", the PRC government has set a goal for GDP growth rate of about 8% in 2009. The macro economic growth in China will also boost the demand for energy such as coal.

2. Environment of the coal industry

(1) The thermal coal market in China

	2008	2007
Coal Consumption (Million tonnes)	**2,740**	2,660
Raw Coal Output (Million tonnes)	**2,793**	2,683
Coal Transportation by Railway (Million tonnes)	**1,345**	1,221
Coal Import (Million tonnes)	**40.40**	51.02
Coal Export (Million tonnes)	**45.43**	53.17

Sources: National Statistics Bureau of China, CCTD, China Customs

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

a **Review of 2008**

In terms of demand, owing to the rapid and steady economic growth, demand for coal was robust and the coal price continued to increase in the first eight months of the year. After September, due to the international financial crisis, growth in demand for coal slowed, the coal inventory stocks increased rapidly and the coal price declined significantly. In 2008, coal consumption in the PRC amounted to 2,740 million tonnes, representing a growth of 3.0% as compared with 2007.

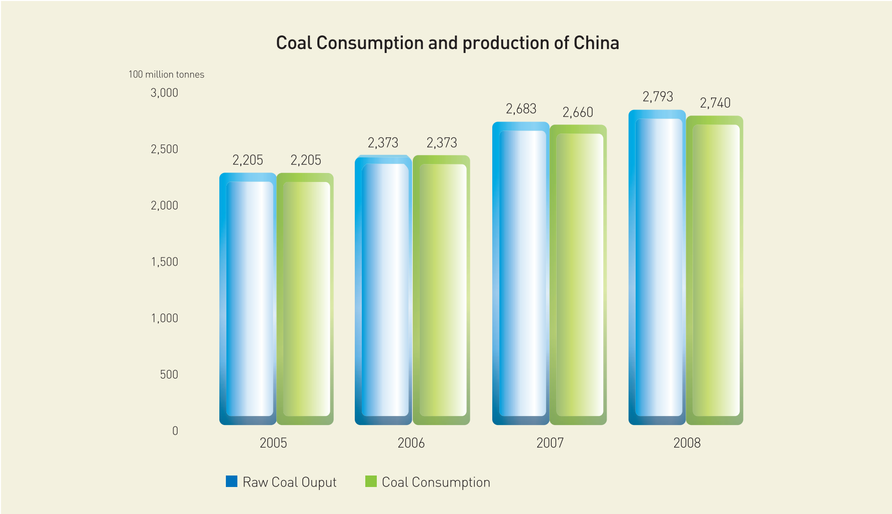
In terms of supply, the domestic supply of coal grew fast in the first eight months. After September, however, the demand and supply of coal reversed. As some coal enterprises took measures to limit production in order to stabilize the coal price, growth in coal supply slowed. In 2008, the national production of raw coal was 2,793 million tonnes, representing an increase of 4.1% as compared with 2007. More efforts were made on the close of small coal mines. During the year, 1,054 small coal mines with an aggregate capacity of approximately 50 million tonnes were shut down. Since the commencement of closures work in 2005, a total of 12,155 small coal mines have been shut down with a capacity reduction of about 300 million tonnes.

In terms of coal transportation, the railway transportation capacity grew steadily. In 2008, the railway transportation capacity for coal reached 1,344.8 million tonnes, representing an increase of 10.2% as compared with 2007.

In terms of import and export, the increase in coal export tariffs and the delay in the issue of export quota by the PRC authority resulted in a decrease in coal export, while higher coal price in the international market resulted in a decrease in coal import. The coal export volume in 2008 amounted to 45.4 million tonnes, representing a decrease of 14.6% as compared with 2007; the coal import volume was 40.4 million tonnes, representing a decrease of 20.8% as compared with 2007. Net export volume for the year amounted to 5.0 million tonnes, representing a year-to-year increase of 2.9 million tonnes.

In terms of national policy, the State launched two temporary interventions to thermal coal spot price in view of the tight supply and surging price of coal in the first half of the year, with a view to ensure domestic coal supply; meanwhile, the State limited coal export by raising coal export tariffs and delaying the issue of export quota.

In summary, the overall trend of the coal in 2008 was good, tight in the earlier part and loose in the later part, and significant movements were seen in the coal price trend during the year. Taking Qinhuangdao 6,000 kcal/kg thermal coal FOB (6,000 FOB) spot price as an example, it reached a high level of RMB1,050-1,080/tonne in July 2008, but fell to RMB610-640/tonne by the end of 2008.



Source: National Statistics Bureau of China

b **Prospect for 2009**

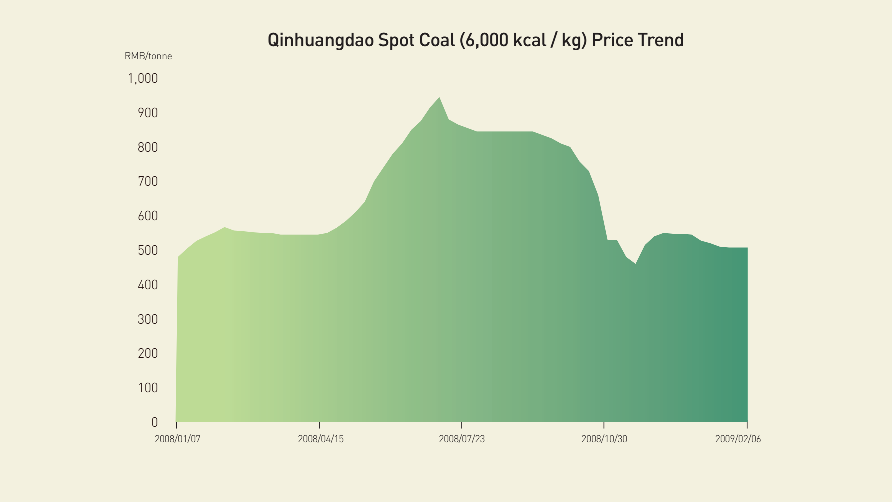
In terms of demand, it is expected that China's industry revival plan implemented in 2009 will enable major coal-consuming industries (including the power industry, the steel-making industry, the construction material industry and the chemical industry) to revive. Due to the continued but slowed growth of the Chinese economy, consumption of thermal coal in the PRC is expected to be the equivalent to or slightly higher than that of last year.

In terms of supply, the increasing production capacity released this year as a result of fixed asset investment in coal mines over the past few years is anticipated to be approximately 200-250 million tonnes. As the increasing production capacity is mainly located in Northwest China, the increasing capacity is partly limited by railway transportation. Closure of additional small coal mines by the PRC authority, active measures taken by some coal mines to limit production to stabilize coal price and the bottle neck in railway transportation will restrict the growth in coal output.

In terms of coal transportation, it is expected that railway transportation capacity for coal will increase by approximately 90 million tonnes in 2009. The smaller gap of coal price between the coal-consuming regions in eastern China and the coal-producing regions in western China will result in a decrease in the costly highway transportation. It is expected that in 2009, railway transportation capacity for coal in North China will be able to satisfy the basic demand, while transportation capacity in Central and Southwest China will be insufficient during peak season of coal consumption.

In terms of import and export, due to slowed growth in demand for coal both at home and abroad, the export volume of coal in China is expected to decrease slightly in 2009. In case the international coal CIF price is lower than the domestic coal price, the volume of coal import in China may increase.

In terms of national policy, Chinese government has stated that this year it will advance the pricing reform of resource products to rationalise the price for coal and electricity, which is expected to relieve the conflicts between the coal price which is determined by market and power tariff by plan. It will further accelerate the reform in railway industry, which might relieve the tight coal railway transportation in a few years. It will improve the resource tax system, and is expected to deepen the coal resource tax reform in 2009. This factor, together with the policy on the increase of coal value added tax rate effective since the beginning of this year, will cause the growth of the policy-driven costs of coal enterprises. Chinese government will further strengthen its supervision on production safety in key industries and rule out outdated production capacity, and support large-scale enterprises in acting as the main force of "going abroad" to conduct international resource cooperation and development.



Source: CCTD

In summary, the demand for coal will be generally stable in 2009, with continuous increase in effective supply and generally loose supply of thermal coal. However, due to the structural contradiction among production, transportation and demand and a number of uncertainties, tight supply may occur in some regions during the peak season. The spot price fluctuation of thermal coal in China will be smaller than that of last year, while the contract price of thermal coal will be higher than that of last year.

(2) The Asia Pacific thermal coal market

a Review of 2008

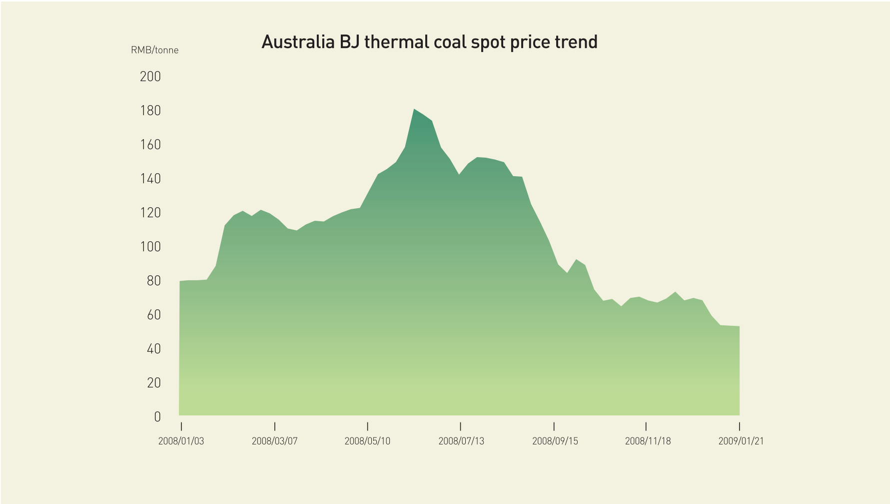
In terms of demand, demand in Japan, Korea and Taiwan remained steady with no significant changes in import volumes. China's coal import volume decreased by 14.6% as compared with last year. India's demand for coal continued to grow with a coal import volume amounting to about 60 million tonnes, an increase of 10 million tonnes over last year.

In terms of supply, there were no significant changes in coal supply in the Asia Pacific market in 2008. Australia's coal export volume remained at almost the same level as in 2007. Indonesia's coal export volume amounted to approximately 185 million tonnes, an increase of 5 million tonnes over last year, among which there was almost no increase in the export volume of medium-high caloric value thermal coal. China's coal export volume decreased by 20.8% year on year.

In summary, the coal supply in Asia Pacific market in the first eight months of 2008 was tight, resulting in significant increases in coal prices. After September, as the global economic conditions changed, demand for coal in the Asia Pacific market dropped, resulting in slump in coal spot price. Coal price saw sharp fluctuations throughout the year. Price of Australian BJ thermal coal reached a high level of USD190.95/tonne from USD89.7/tonne at the beginning of the year, and fell to USD80.5/tonne by the end of the year.

b **Prospect for 2009**

In terms of demand, the increase in demand for coal in Asia Pacific market in 2009 will be mainly from India. The import volume of thermal coal in India is expected to increase by 10 million tonnes in 2009. In case the international coal CIF price is lower than the domestic coal price, the volume of coal import in China may increase in 2009. Due to the global economy slowdown, demand for coal in Japan, South Korea and Taiwan will weaken and the demand for thermal coal in 2009 is expected to remain at the same level or decrease slightly.



Source: CCTD

In terms of supply, the coal supply in Asia Pacific market will increase slightly in 2009. The estimated increase in Australia's export capacity will be approximately 2 million to 3 million tonnes. The coal export in Indonesia will remain to be low calorie value thermal coal, with an expected increase in export capacity of 5 million tonnes. China's export quota for 2009 is expected to be around 50 million tonnes and its export volume is expected to decrease slightly. It is expected that there will be no significant change in the export volumes of South Africa, Russia and Vietnam in 2009.

In summary, the coal supply in Asia Pacific market in 2009 is expected to be relatively balanced. As such and due to the effect brought by fluctuating price of crude oil futures, the spot price of coal in Asia Pacific market will be lower than that in 2008 and the fluctuation will be narrower than that in last year.

3. Power market environment

(1) Review of 2008

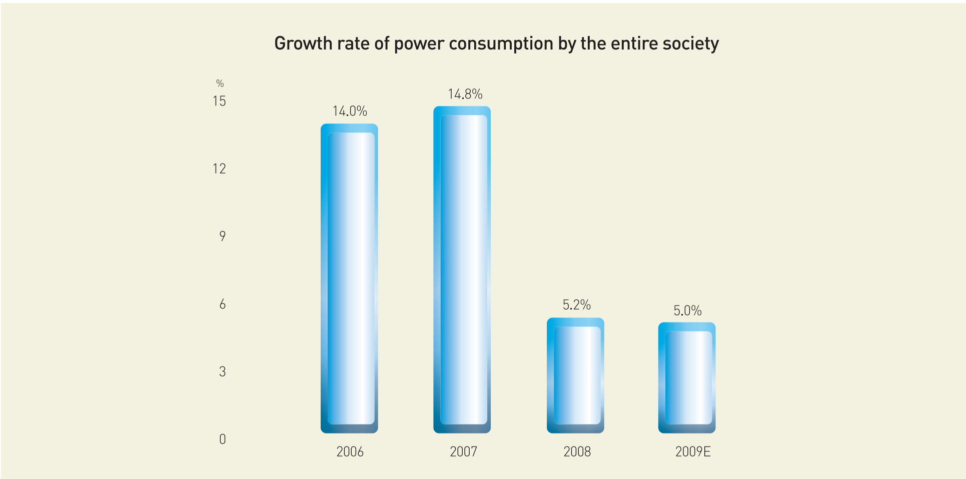
In terms of demand for power, the growth rate of power consumption by the entire society experienced a substantial drop. In 2008, power consumption of the entire society reached 3,426.8 billion kwh, representing a growth rate year on year of 5.2%, which was 9.2 percentage points lower than that in last year.

In terms of power generation and supply, the national power generation reached 3,466.8 billion kwh, representing a growth rate year on year of 5.6%, which was 8.8 percentage points lower than that in last year. Of which, the power generation reached 2,790 billion kwh, representing a growth rate year on year of 2.5%, which was 12.4 percentage points lower than that in last year. The number of utilization hours of power plants amounted to 4,911 hours, representing a decrease of 427 hours as compared to that of last year.

In terms of national policy, the State raised on-grid power tariff for coal-fired power plants twice in 2008, which helped to relieve the operation pressure of electricity enterprises. More efforts were made in the power industry to reduce emission. During the year, small coal-fired power plants involving an aggregate capacity of 16.69 million kilowatts were shut down. The national standard coal consumption for power dispatching was 349 g/kwh, representing a decrease of 7 g/kwh as compared to that of last year.

In summary, except for certain periods during which the power supply was tight due to factors such as natural disasters, the supply and demand for power in the country was in general balance in 2008. As the economy growth slowed down, there appeared a trend for power supply to exceed the demand for power in the second half of the year.

(2) Prospect for 2009



Source: National Statistics Bureau of China, CEC

In terms of demand for power, it is expected that as China's macro regulation and control policies start to be effective, the national demand for power will continue to grow and the power consumption of the entire society will grow at a rate of approximately 5% in 2009.

In terms of power generation and supply, the installed capacity of the country is expected to increase from 0.79 billion kilowatts as at the end of last year to 0.88 billion kilowatts by the end of 2009. The utilisation hours of power generation facilities will decrease further.

In terms of national policy, this year the State will accelerate the reform in power industry and continue to deepen the power tariff reform by improving the pricing mechanism for on-grid power tariff, power tariff for distribution and power tariff for sales and rationalise the price relationship between coal and power, which is expected to relieve the conflicts between the coal price which is determined by market and power price by plan. 2009 is the fourth year of the energy saving and emission reduction project during the "Eleventh Five-year Plan" period. The energy saving and emission reduction project will continue to have adverse effect on demand for power. The government has plans to shut down small thermal generators with an aggregate capacity of 13 million kilowatts in 2009.

In summary, it is expected that the supply of power will be in excess of the demand periodically in 2009. Due to uncertainties such as water supply from reservoirs and laggard construction of power grids, tight supply may occur in some regions during the dry season or the peak hours in summer.

(VII) Major risk exposures and its effects and corresponding measures of the Company

1. Major risk exposures of the Company

(1) Risks of macroeconomic periodical fluctuation

The coal and power industries, in which the Company operates, are the fundamental sectors of for the national economy and are closely correlated to the prosperity of the national economy. Periodical changes of the economy may affect the performance of the Company and cause certain risks to the production of the Company.

(2) Risk of competition in the coal and power industries

The Company's coal business faces competition from other coal producers both in the domestic and international markets. In the domestic market, certain rivals in the coal industry are located close to the coast and therefore have lower transportation costs when they transport coal to target markets and enjoy competitive advantage. The Company's power business mainly competes with the top five power generation corporations in China and other independent power plants. The Company faces competitions in the areas such as acquiring more coal resources and securing favourable dispatch of power and higher on-grid power tariff etc., which may adversely affect the production and operation of the Company.

(3) Risks of insufficient transport capacity

Other than the transportation system of self-owned railways and ports, the Company also transports coal through third party railways and ports. Currently, the external railways and ports are still unable to meet all transport demands for domestic coal. The Company has experienced delay in the process of coal transportation to customers by using external transportation systems. The Company cannot ensure the absence of similar transportation delay in future.

(4) Risks of cost increase

The operating cost of the Company shall increase with expansion in production and sales, including coal selection and mining fees, expenditure for coal mining services, sales tax and ancillary levy, environmental protection expenses, resource compensation fee, raw materials, fuel and power, labour cost, increase in the volumes of coal transported by state owned railways, sundry port charges and shipping freight etc. If the Company's operating income cannot fully offset the increase in operational costs, it may adversely affect the business performance of the Company. Furthermore, Shanxi province imposes sustainable fund, reinhabitation fund and reemployment fund. If these measures are enforced across the whole country, the Company's production cost will increase further. Meanwhile, if the policy of change of resource tax from the "levy on volume" to "levy on price" is enforced, the resource tax rates will be increased which will increase the cost of the Company. Such risks at cost increase may affect the business performance of the Company.

(5) Risks of adjustment of interest rate of loans

Currency policy is an important means for the central government to manage economy. The government adjusts interest rate of deposits and loans, which may affect the interest gains and expenditures of the deposits and loans of the Company. Although the benchmark interest rates of deposits and loans has been reduced recently, the interest rate increase policy may be adopted in the future, which may increase the interest expenditure of the Company.

(6) Risks of foreign exchange rate

The business operations of the Company are subject to the impact of fluctuation of foreign exchange rate in Renminbi. In 2008, exchange loss on foreign currency liabilities of the Company was RMB871 million, and the gain on changes in fair values of foreign currency hedging instruments of the Company was RMB472 million, while the reduction of export income as a result of foreign exchange fluctuation was RMB646 million; the amount of imported equipment cost saved in the year as a result of foreign exchange fluctuation was RMB127 million. The amount of loss to the Company caused by foreign exchange fluctuation in 2008 was RMB918 million. If the exchange rate of Renminbi increase or decrease further, which may affect the Company's profit or loss for the period. At present, there is a lack of financial tools for hedging risks of foreign exchange rate in China, which may, to a certain extent, limit the Company manage risks of foreign exchange.

(7) Risks of changes in national macro industrial control policies

The business activities of the Company are affected by national macro control policies. The levy of sustainable fund, reinhabitation fund and reemployment fund imposed by Shanxi province has increased the cost expenditure of the Company. Any such measures may have adverse effects on the Company's operations. The uncertainties arising from the implementation of similar national industrial macro policies may also generate risks to the Company's operations.

(8) Risks of natural factors such as natural disasters and bad weather

The production and operation activities of the Company will be affected by factors including natural disasters or bad weather. Since the beginning of the year of 2008, certain serious natural disasters have happened in China, which had certain negative impacts on the Company's operations. Factors such as unforeseeable natural disasters and bad weather may bring certain risks to the Company's operations.

(9) Environmental protection responsibility

The Group has been operating in China for many years. Environmental protection laws and regulations are fully enforced in China, which has impact on the coal and power businesses. At present, it is not possible to predict the future legislation on environmental protection, which may have significant impact on the Group. However, according to the existing regulations, the management of the Group is of the view that currently there is not any environmental protection responsibility that may have material adverse effect on the Group's financial position save as the amounts accounted in the financial statements.

(10) Group insurance

In accordance with the industrial practices in the China mining industry as the Group may learn, in 2008, the Group has purchased fire, debt or other property insurances for part of its property, equipment or inventory. The Group has purchased business interruption and third party liability insurance for personal injury or environmental damage that arise from accidents in relation to the Group's premises or certain power plants and vehicles related businesses. As for the transportation business, the Group has purchased property insurance for trucks and car insurance for Huanghua Port. In addition, the Group has purchased policies for occupational accident, medical, third party liability and unemployment insurances in compliance with the requirements of the relevant regulations. The Group has purchased insurance for all self-operated power plants including insurances for property, loss of profits, plants and equipments, work-related injury and third party liability. The Group will continue to review and assess its own risk portfolio, and make necessary and appropriate adjustments to the Group's insurance in accordance with the needs of the Group and practices of the insurance industry in China.

2. Responding measures of the Company

In 2008, the Company carried out systematic risk assessment and risk management in respect of various risks to be confronted with operational environment. In particular, the Company adopted series of responding measures, including revenue increment and expenditure reduction and strict control over investments, against the impact of 2008 international financial crisis. The Company has, based on the risk warning and control, established a management system for safe production of coal mine, and together with capital centralized management system, which will be continuously improved and modified in the practice.

The Company focused on the risk control over significant investment project. With adherence to the principle of prudence, safety and efficiency, the Company established a clear authority system and workflow in respect of investment decision, approval, implementation and supervision. Especially, for the decision of significant investment projects, the Company organized relevant experts, professionals and external institutions to assess and verify the investment risks for the purpose to ensure the controllability of significant investment risks.

The management of the Company has set up realistic operational targets in accordance with the internal and external resources of the Company. The Company treated high risk business in a prudent approach and adopted accounting policies in line with prudent principles. Meanwhile, the Company has further managed the risks that impacted the realization of operational targets by means of budget management and reporting system for significant events, so as to protect the achievement of operational targets of the Company.

(VIII) Operating conditions and results of major subsidiaries and joint ventures

Company	Registered capital RMB'0000	Total assets RMB'0000	Net assets RMB'0000	Net profits (attributable to Parent Company) RMB'0000
Shenhua Guohua International Power Co., Ltd.	400,996.54	748,193.31	544,445.78	11,142.11
Guangdong Guohua Yuedian Taishan Electric Power Co., Ltd.	270,000.00	1,267,089.97	376,475.61	67,923.43
Shaanxi Guohua Jinjie Energy Co., Ltd.	106,308.00	977,882.31	268,490.85	90,869.40
Zhejiang Guohua Zheneng Power Generation Co., Ltd.	234,801.00	1,521,024.69	378,221.61	64,945.62
Shenhua Zhunge'er Energy Company Limited	710,234.33	1,469,301.03	1,300,006.64	177,930.78
Shenhua Beidian Shengli Energy Co., Ltd.	65,960.19	227,455.74	87,824.98	13,405.61
Beijing Shenhua Hengyun Energy Technology Co., Ltd.	5,000.00	148,777.81	24,692.05	98,568.91
Shanghai Shenhua Coal Trading Co., Ltd.	5,000.00	58,185.55	19,941.16	14,314.67
Shenhua Group Shenfu Dongsheng Coal Company Limited	21,500.00	449,531.08	177,445.35	24,173.70
Shuohuang Railway Development Co., Ltd.	588,000.00	1,879,445.16	1,158,932.40	306,241.49
Shenhua Baoshen Railway Co., Ltd.	100,386.81	282,007.10	148,160.11	16,552.16
Yulin Shenhua Energy Company Limited	100,000.00	85,023.43	73,812.51	23,812.51

(IX) Investments of the Company in the reporting period

1. Use of proceeds

In September 2007, the Company issued 1.8 billion A shares in its initial public offering. The issue price was RMB36.99 per share. The net amount of proceeds was RMB65.988 billion, all of which was received by the Company on or before 28 September 2007. The amount of proceeds used during the reporting period was RMB7.168 billion, of which RMB7.168 billion was used for investments. The aggregate amount of proceeds used was RMB31.603 billion, of which RMB15.603 billion was used for investments, and the remaining balance of proceeds which has not been used was RMB34.386 billion (the remaining balance of special accounts is RMB35.291 billion, which was slightly higher than the remaining balance of proceeds due to the accrued interests thereof). The remaining balance of proceeds raised but unutilized was saved in special accounts.

Name of project committed (including projects committed for proceeds in the prospectus etc. and subsequent amended projects)	Whether it is an amended project	Amount committed RMB ten thousand	Actual amount invested from the date of the proceeds received to the end of the reporting period RMB ten thousand	of which: amount invested in 2008 RMB ten thousand	Total return generated (calculated by the total profits generated from the beginning of the year to the end of the year) RMB ten thousand	The percentage of the return generated to the total combined profits of the Company of the same period (%)	Whether progress is on schedule	Whether the estimated return is achieved
1. Investments and renovation of coal, power and transportation system	No	1,668,875	1,408,044	564,600				
of which: Halagou Mine project	No	169,300	169,300	–	102,936	2.79%	Yes	Yes
Buértai mine construction project	No	344,815	344,073	146,871	N/A	N/A	Yes	
Háerwusu open-cut mine project	No	538,600	512,503	268,190	17,355	0.47%	Yes	
Baoshen Railway TDCS Dispatching Command System	No	2,028	–	–	N/A	N/A		
Extension of the 2nd line of Baoshen Railway from Shigetai to Ciyaowan	No	4,553	4,553	–	N/A	N/A	Yes	
Extension of the 2nd line of Baoshen Railway from Dongsheng to Shigetai	No	5,311	–	–	N/A	N/A		
Purchase locomotives	No	16,800	16,800	–	N/A	N/A	Yes	
Yijing substation, control of pollution by power station	No	3,649	3,649	–	N/A	N/A	Yes	
Truck management information system	No	547	547	547	N/A	N/A	Yes	
Shenshuo railway infrared detecting encryption works	No	300	300	300	N/A	N/A	Yes	
Purchase coal gondola car C70	No	160,000	159,200	10,257	N/A	N/A	Yes	
Huanghua Port car dumper improvement works	No	4,426	–	–	N/A	N/A		
Hebei Sanhe Power phase II	No	31,602	–	–	N/A	N/A		
Inner Mongolia Guohua Zhunge'er Power expansion project	No	35,400	33,394	–	N/A	N/A	Yes	
Zhejiang Ninghai Power phase II	No	105,822	69,653	49,313	N/A	N/A	Yes	
Phase II of Shaanxi Jinjie coal and power integration project	No	64,050	18,774	18,774	N/A	N/A	Yes	
Hebei Huanghua power plant phase II	No	48,690	34,517	29,567	N/A	N/A	Yes	
Hebei Dingzhou power plant phase II	No	45,500	31,525	31,525	N/A	N/A	Yes	
Liaoning Suizhong power plant phase II	No	87,482	9,256	9,256	N/A	N/A	Yes	
2. Supplement operating capital of the Company and general business use	No	1,600,000	1,600,000	–	N/A	N/A	N/A	N/A
3. Acquisition of strategic assets	No	3,329,963	152,237	152,237	N/A	N/A	N/A	N/A
Total		6,598,838	3,160,281	716,837				

For the information of use of proceeds of the Company, please refer to the separately announced "Special Report regarding deposit and use of proceeds of the Company".

2. Significant projects not financed by proceeds during the reporting period

Please refer to the section headed "5.1.4 Capital Expenditure" in this report.

B. Daily operations of the Board

Please refer to section 8 "Corporate Governance Structure and Corporate Governance Report" of this report.

C. Profit distributions

In accordance with the requirements of relevant laws and regulations and the Articles of Association, the Company adheres to the profit distribution policy whereby the distributable profits shall be the lower of distributable profits in the financial statements prepared under the Accounting Standards for Business Enterprises and the International Financial Reporting Standards.

Distribution year	Distribution date	Amount of cash dividend per share (inclusive of tax) RMB/share	Amount of cash dividend (inclusive of tax) RMB million	Net profit attributable to shareholders of the Company for the distribution year RMB million	ratio %
Final dividend for 2006	June 2007	0.34	6,150	17,578	35.0
Special dividend for 2007	November 2007 and June 2008	1.13	22,544	20,497	N/A
Final dividend for 2007 (from 1 July 2007 to 31 December 2007)	June 2008	0.18	3,580	20,497	17.5

Please refer to the "Announcement on the Distribution of Final Dividend for 2007" issued on 29 May 2008 for the implementation of profit distribution during the reporting period.

The net profit attributable to shareholders of the Company for 2008 under Accounting Standards for Business Enterprises amounted to RMB26.588 billion, representing basic earnings per share of RMB1.337. The Board recommends payment of final dividend for 2008 in the amount of RMB0.46 per share (inclusive of tax), representing 34.4% of net profit attributable to shareholders of the Company.

The register of members for H share of the Company will be closed from 6 May 2009 to 5 June 2009 (both days inclusive). The record date for the payment of dividends for H share by the Company will be 6 May 2009, i.e. the dividends will be distributed to the H share shareholders whose names appear on the register of members of the Company at the close of 6 May 2009.

Under relevant regulations of China Securities Depository and Clearing Corporation Shanghai Branch and according to the market practice adopted in dividend distribution for A shares, the Company will publish a separate announcement in respect of dividend distribution to holders of A shares for the year 2008 after the Annual General Meeting of 2008 to determine the record date and ex-rights date for dividend distribution to holders of A shares for the year 2008.

In accordance with the Enterprise Income Tax Law of the PRC and its implementation regulations which came into effect on 1 January 2008, the Company is required to withhold enterprise income tax at the rate of 10% on behalf of the non-resident enterprise shareholders whose names appear on the register of members for H share of the Company when distributing dividends to them. Any H shares of the Company registered, including HKSCC Nominees Limited, other nominees, trustees, or other organizations or groups, shall be deemed as shares held by non-resident enterprise shareholder. Therefore, on this basis, enterprise income tax shall be withheld from dividends payable to such shareholder.

Investors should review and consider the above carefully. If any investor intends to have his name registered in the register of members for H share of the Company, please enquire about the relevant procedures with your agents or trustees. The Company has no responsibility and shall not be responsible for confirming the identities of the shareholders. The Company will strictly comply with laws, and withhold and pay enterprise income tax on behalf of the relevant shareholders based on the register of members for H share of the Company as of 6 May 2009. The Company will not entertain any requests relating to any delay in confirming the identity of the shareholders or any errors in the identity of the shareholders.

D. Reasons and effects on the changes in the Company's accounting policies, accounting estimates or correction of major accounting errors

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

E. Explanation for the selection of major accounting policies and significant accounting estimates

Please refer to note 2 of section 12 "Financial Statements" in this report for major accounting policies.

F. Other matters

(I) Major customers and suppliers

The largest external customer and the five largest external customers of the Company accounted for approximately 6.3% and 20.0% respectively of the Company's revenues for the year ended 31 December 2008.

For the year ended 31 December 2008, the total amount of purchases made by the Company from its five largest suppliers amounted to RMB12.299 billion, and accounted for 20.4% of the total purchases for the year. The amount of purchases from the largest supplier amounted to RMB5.09 billion, and accounted for 8.4% of the total purchases for the year. As far as the Company is aware, none of the directors and their associates or shareholders who hold more than 5% of equity interest of the Company has any interest in the five largest suppliers and customers.

(II) Distributable Reserves

As at 31 December 2008, the aggregate amount of reserves which is available for distribution to shareholders of the Company was RMB22.261 billion.

(III) Employee Retirement Plan and Remuneration Policies

In accordance with applicable laws and regulations, the Company participated in various retirement plans for employees organised by municipal and provincial governments. Details are set out in note 37 of the section "Financial Statements" in this report. The Company adopts position remuneration system for its employees, and their remuneration is determined according to factors such as importance of their positions, responsibilities and performances.

(IV) Subsidiaries

Details of the principal subsidiaries of the Company are set out in note 18 of the section "Financial Statement" in this report

(V) Pre-emptive rights

There is no provision regarding pre-emptive rights under the Articles of Association and the laws of the PRC, the Company is not required to issue new shares to its existing shareholders in proportion to their existing shareholdings.

(VI) Taxation

In accordance with the Notice on Taxation of Dividends and Stock (Options) Transfer Income obtained by Foreign-invested Companies, Foreign Companies and Foreign Citizens (Guoshuifa No.045 [1993]) published by the State Administration of Taxation, foreign individuals holding H shares are exempted from paying individual income tax for dividends obtained from companies incorporated in PRC issuing the H shares.

As stipulated by the Notice on Issues relating to Enterprise Income Tax Withholding over Dividends Distributable to Their H-Share Holders Who are Overseas Non-resident Enterprises by Chinese Resident Enterprises published by the State Administration of Taxation (Guoshuihan No. 897 [2008]), when Chinese resident enterprises distribute annual dividends for the year 2008 and years thereafter to their H share shareholders who are overseas non-resident enterprises, enterprise income tax shall be withheld at a uniform rate of 10%. Non-resident enterprises may apply for tax refund in accordance with relevant provisions including taxation agreements/arrangement after receiving dividends. Shareholders should consult their tax advisers regarding the PRC, Hong Kong and other tax implications of owning and disposing of the Company's H shares.

(VII) Charge over assets of the Group

For the year ended 31 December 2008, the Company has not placed any charges over group assets.

(VIII) Significant acquisitions and disposals

For the year ended 31 December 2008, there were no material acquisitions and disposals made by any of the subsidiaries and associated companies of the Company.

Major Financial Data and Indicators

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

A Major Financial Data for the Reporting Period

Unit: RMB million

Items	Amount in the year
Operational profit	37,501
Profit before income tax	36,871
Net profit attributable to equity shareholders of the Company	26,588
Net profit attributable to the Company's shareholders net of extraordinary gain and loss	26,985
Net cash flow from operating activities	44,226

B Differences between China and International Accounting Standards

Unit: RMB million

Items	Net profit attributable to equity shareholders of the Company		Net assets attributable to equity shareholders of the Company	
	2008	2007 (restated)	2008	2007 (restated)
Under the Accounting Standards for Business Enterprises	26,588	20,497	148,967	131,376
Under the International Financial Accounting Standards	26,641	20,581	147,432	129,788

Explanation on the differences between China and international accounting standards:

Under the Accounting Standards for Business Enterprises, land use rights are carried at revalued amounts upon the Restructuring. Under IFRSs, land use rights are carried at the historical cost less accumulated amortisation. Accordingly, the equity attributable to equity shareholders of the Company and the profit attributable to equity shareholders of the Company under IFRSs have not included the valuation surplus of land use rights and any subsequent amortisation and the effect of deferred taxation arisen from the related differences.

C Items and amounts net of extraordinary gain and loss

Unit: RMB million

	Amount in the year
Non-operating income	
– subsidy income	63
– others	208
Investment income	
– Income from entrusted loans	160
Non-operating expenses	(901)
Tax effect in respect of the above items	71
Total	(399)

D Major financial data and indicators for the last three years as of the end of the reporting period

Unit: RMB million

Major financial data	2008	2007 After restatement	2007 Before restatement	Increase/ decrease over the previous year(%)	2006 After restatement	2006 Before restatement
Operating income	**107,133**	82,107	82,107	30.5	65,186	65,186
Operating profit	**36,871**	30,649	29,629	20.3	25,788	24,629
Net profit attributable to equity shareholders of the Company	**26,588**	20,497	19,766	29.7	17,581	16,620
Net profit attributable to the Company's shareholders net of extraordinary gain and loss	**26,985**	20,657	19,834	30.6	17,382	16,421
Basic earnings per share	**1.337**	1.106	1.066	20.9	0.972	0.919
Diluted earnings per share	**1.337**	1.106	1.066	20.9	0.972	0.919
Earnings per share net of extraordinary gain and loss	**1.357**	1.114	1.070	21.8	0.961	0.908
Fully diluted return on net assets (%)	**17.9**	15.6	15.4	Increased by 2.3 percentage points	24.6	24.1
Weighted average return on net assets (%)	**19.0**	20.2	20.1	Decreased by 1.2 percentage points	26.5	25.7
Fully diluted return on net assets net of extraordinary gain and loss (%)	**18.1**	15.7	15.5	Increased by 2.4 percentage points	24.4	23.8
Weighted average return on net assets net of extraordinary gain and loss (%)	**19.3**	20.4	20.1	Decreased by 1.1 percentage points	26.2	25.4
Net cash flow from operating activities	**44,226**	29,935	29,935	47.7	24,565	24,565
Net cash flow from operating activities per share	**2.22**	1.51	1.51	47.0	1.36	1.36

	2008	2007 After restatement	2007 Before restatement	Increase/ decrease over the end of the previous year(%)	2006 After restatement	2006 Before restatement
Total assets	**278,407**	241,045	238,821	15.5	174,257	172,532
Equity attributable to equity shareholders of the Company	**148,967**	131,376	128,250	13.4	71,325	68,930
Net assets per share attributable to equity shareholders of the Company	**7.49**	6.61	6.45	13.3	3.96	3.83

Changes in Equity and Shareholdings of Substantial Shareholders

A Changes in Equity

(I) Changes in shares and shareholding structure during the reporting period

The three-month's lock-up period for the 540,000,000 A shares placed to off-line book-building targets as part of the initial public offering of A shares of the Company in September 2007 expired on 9 January 2008. These A shares are no longer subject to selling restrictions and became tradable on 9 January 2008. Reference is made to the relevant announcements published in China Securities Journal and Shanghai Securities News on 4 January 2008 and the websites of Shanghai Stock Exchange and Hong Kong Stock Exchange on 3 January 2008. For approvals of the changes in shares, please refer to the approval documents related to the initial public offering of A shares of the Company; and registration of changes in shares has been completed in accordance with the requirements of the China Securities Depository and Clearing Corporation Limited.

Unit: shares

	Before		Change (+/-)					After	
	Number	Percentage	New shares issued	Bonus issued	Conversion from reserves	Others	Sub-total	Number	Percentage
I. Shares with selling restrictions									
1. State-owned shares	14,691,037,955	73.86%	–	–	–	–	–	14,691,037,955	73.86%
2. Shares held by domestic corporate	540,000,000	2.72%	–	–	–	-540,000,000	-540,000,000	–	–
Total shares with selling restrictions	15,231,037,955	76.58%	–	–	–	-540,000,000	-540,000,000	14,691,037,955	73.86%
II. Shares without selling restrictions									
1. RMB ordinary shares	1,260,000,000	6.33%	–	–	–	+540,000,000	+540,000,000	1,800,000,000	9.05%
2. Listed foreign shares	3,398,582,500	17.09%	–	–	–	–	–	3,398,582,500	17.09%
Total shares without selling restrictions	4,658,582,500	23.42%	–	–	–	+540,000,000	+540,000,000	5,198,582,500	26.14%
III. Total shares	19,889,620,455	100.00%	–	–	–	–	–	19,889,620,455	100.00%

For the year ended 31 December 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any securities of the Company as defined in the Hong Kong Listing Rules.

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

(II) Changes in shares with selling restrictions

Unit: shares

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

(III) Issue and listing of securities

1. Issue of securities in the last three years

Unit: shares

Type of stocks and their derivative securities	Date of issue	Issue price	Number of shares issued	Date of listing	Number of shares listed
Ordinary A shares	25 September 2007	RMB36.99 per share	1,800,000,000	9 October 2007 and 9 January 2008	1,800,000,000

In September 2007, the Company made an initial public offering of 1.8 billion A shares of the nominal value of RMB1 each at a price of RMB36.99 per share. Of which, 1,260,000,000 shares have been permitted to be listed and traded from 9 October 2007 and 540,000,000 shares have been permitted to be listed and traded from 9 January 2008. Upon completion of the offering of A shares, the Company had a total share capital of 19,889,620,455 shares. A share shareholders held 16,491,037,955 shares, representing 82.91% of the total share capital, of which 14,691,037,955 shares, representing 73.86% of the total share capital, were held by Shenhua Group and 1,800,000,000 shares, representing 9.05% of the total share capital, were held by other A share shareholders; H share shareholders held 3,398,582,500 shares, representing 17.09% of the total share capital. KPMG Huazhen had verified the proceeds from the offering of A shares and issued the Capital Verification Report (KPMG-A (2007) CR No. 0030) on 28 September 2007. The net proceeds from the offering of A shares were RMB65,988 million, of which RMB1,800 million was allocated to new share capital and RMB64,188 million was allocated to capital reserve.

2. Changes in total number of shares and shareholding structure

There were no changes in the total number of shares, the shareholding structure and the assets and liabilities structure of the Company due to bonus issue, capital conversion or placement of shares during the reporting period.

3. Shares held by internal employees

During the reporting period, the Company did not issue any shares to internal employees and there were no existing internal employees shares held by internal employees.

B Shareholders

(I) Total number of shareholders

As at the end of the reporting period, there were a total of 457,947 shareholders of the Company, of which there were 455,090 holders of A shares (including Shenhua Group) and 2,857 holders of H shares.

(II) Shares held by top ten shareholders and top ten shareholders without selling restrictions

The following is an explanation of the related party relationship or parties acting in concert of the shareholders: China Life Insurance Company Limited Bonus Personal Bonus – 005 and China Life Insurance Company Limited – Traditional – Ordinary Insurance Product are different accounts of the same insurance company; China AMC Dividend Mixed Open-end Securities Investment Fund and China AMC Return Securities Investment Fund are different funds under the same company; the fund custodians of China Construction Bank – Bosera Theme Industry Stock Securities Investment Fund, China Construction Bank – China AMC Dividend Mixed Open-end Securities Investment Fund and China Construction Bank – Hua An Hongli Stock Securities Investment Fund are all China Construction Bank Corporation; the fund custodians of Bank of China – China AMC Return Securities Investment Fund and Bank of China – Jia Shi Hu Shen 300 Index Securities Investment Fund are all Bank of China Limited; Other than the above, the Company is not aware of any related party relationship between top ten shareholders without selling restriction and the the top ten shareholders, and whether they are parties acting in concert pursuant to the Measures for the Administration of Acquisition of Listed Companies.

1. Shares held by top ten shareholders

Unit: shares

Name of shareholder	Nature of shareholder	Shareholding percentage	Total number of shares held at the end of the reporting period	Increase or decrease during the reporting period	Number of shares with selling restrictions	Number of shares subject to pledge or lock-up
Shenhua Group	State-owned	73.86%	14,691,037,955	–	14,691,037,955	Nil
HKSCC NOMINEES LIMITED (Note)	Overseas corporate	17.1%	3,391,454,630	+85,970,350	–	Unknown
Bank of Communication – E Fund 50 Index Securities Investment Fund	Others	0.2%	43,811,207	+32,932,294	–	Unknown
Industrial & Commercial Bank of China – Shanghai Index 50 Trading Open-end Index Securities Investment Fund	Others	0.2%	43,338,795	+39,232,152	–	Unknown
China Construction Bank – Bosera Theme Industry Stock Securities Investment Fund	Others	0.2%	42,000,000	+37,913,920	–	Unknown
China Construction Bank – China AMC Dividend Mixed Open-end Securities Investment Fund	Others	0.1%	26,548,873	+22,616,683	–	Unknown
China Life Insurance Company Limited – Traditional – Ordinary Insurance Product – 005L – CT001 Shanghai	Others	0.1%	25,251,100	-2,317,300	–	Unknown
China Construction Bank – Hua An Hongli Stock Securities Investment Fund	Others	0.1%	21,888,880	+9,888,927	–	Unknown
China Life Insurance Company Limited – Bonus – Personal Bonus – 005L – FH002 Shanghai	Others	0.1%	21,847,683	-14,768,717	–	Unknown
Bank of China – China AMC Return Securities Investment Fund	Others	0.1%	21,565,734	+14,983,838	–	Unknown

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

2. Shares held by top ten shareholders without selling restrictions

Unit: shares

Name of shareholder	Number of shares without selling restrictions	Type of shares
HKSCC NOMINEES LIMITED	3,391,454,630	Listed foreign shares
Bank of Communication – E Fund 50 Index Securities Investment Fund	43,811,207	RMB ordinary shares
Industrial & Commercial Bank of China – Shanghai Index 50 Trading Open-end Index Securities Investment Fund	43,338,795	RMB ordinary shares
China Construction Bank – Bosera Theme Industry Stock Securities Investment Fund	42,000,000	RMB ordinary shares
China Construction Bank – China AMC Dividend Mixed Open-end Securities Investment Fund	26,548,873	RMB ordinary shares
China Life Insurance Company Limited – Traditional – Ordinary Insurance Product – 005L – CT001 Shanghai	25,251,100	RMB ordinary shares
China Construction Bank – Hua An Hongli Stock Securities Investment Fund	21,888,880	RMB ordinary shares
China Life Insurance Company Limited – Bonus – Personal Bonus – 005L – FH002 Shanghai	21,847,683	RMB ordinary shares
Bank of China – China AMC Return Securities Investment Fund	21,565,734	RMB ordinary shares
Bank of China – Jia Shi Hu Shen 300 Index Securities Investment Fund	21,185,007	RMB ordinary shares

3. Number of shares held by top ten shareholders with selling restrictions and their selling restrictions

Unit: shares

No.	Name of shareholder with selling restrictions	Number of shares with selling restrictions	Details on trading and listing of shares with selling restrictions: Date on which trading is permitted	Details on trading and listing of shares with selling restrictions: Increase in the number of tradable shares	Selling restrictions
1	Shenhua Group	14,691,037,955	9 October 2010	14,691,037,955	Shenhua Group shall not transfer or entrust others to manage its shares held directly or indirectly, nor shall such shares be acquired by the Company, within 36 months from the date on which the shares of the Company were listed on Shanghai Stock Exchange.

(III) Substantial Shareholders' interests and/or short positions in the shares or underlying shares of the Company

As at 31 December 2008, persons as shown in the table below had an interest and/or short position in the shares or underlying shares of the Company which is required to be recorded in the register to be kept pursuant to section 336 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"):

Name of shareholders	Identity	H/domestic shares	Nature of interest	Number of H/domestic shares held	Percentage of H/domestic shares over entire issued H/domestic shares respectively %	Percentage of total issued share capital of the Company %
Shenhua Group	Beneficial owner	Domestic shares	N/A	14,691,037,955	89.08	73.86
JPMorgan Chase & Co.	Beneficial owner	H shares	Long position	371,781,833	10.94	1.87
	Investment manager		Short position	61,921,804	1.82	0.31
	Custodian		Lending pool	158,198,987	4.65	0.80
The Capital Group Companies, Inc.	Investment manager	H shares	Long position	203,926,225	6.00	1.03
Barclays PLC	Interests of controlled corporation	H shares	Long position	170,331,808	5.01	0.86
			Short position	437,280	0.01	0.002

Note: Information disclosed above is based on information available on the website of the Hong Kong Stock Exchange (www.hkex.com.hk).

Save as disclosed above, as at 31 December 2008, in so far as the directors, president and supervisors of the Company are aware, there was no other interest and/or short position 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 of the Company.

C Changes in controlling shareholders and de facto controllers

(I) Particulars of controlling shareholders and de facto controllers

1. Corporate controlling shareholders

Name of the controlling shareholder:	Shenhua Group Corporation Limited
Legal representative:	Zhang Xiwu
Registered capital:	RMB36,550,344,000
Date of incorporation:	23 October 1995
Principal operating activities or management activities:	State-owned assets operating activities within the scope authorized by the State Council; investment and management activities in various sectors, including resources products (such as coal), coal-based oil, coal chemical, power, thermal, port, various transporation, finance, domestic and international trade and logistics, real estate, high technology and information consultation; planning, organizing, coordinating and managing the production and operating activities of the companies in the Shenhua Group in such sectors; and sales of mineral products, chemical materials, chemical products (other than hazardous chemicals), textiles, construction materials, machinery, electronic equipment and office equipment.

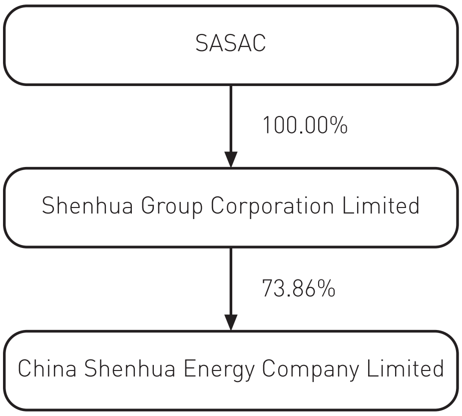
2. De facto controller

Name of the de facto controller: State-owned Assets Supervision and Administration Commission of the State Council ("SASAC")

3. Changes in controlling shareholders and de facto controller

There was no change in the controlling shareholder and the de facto controller of the Company during the reporting period.

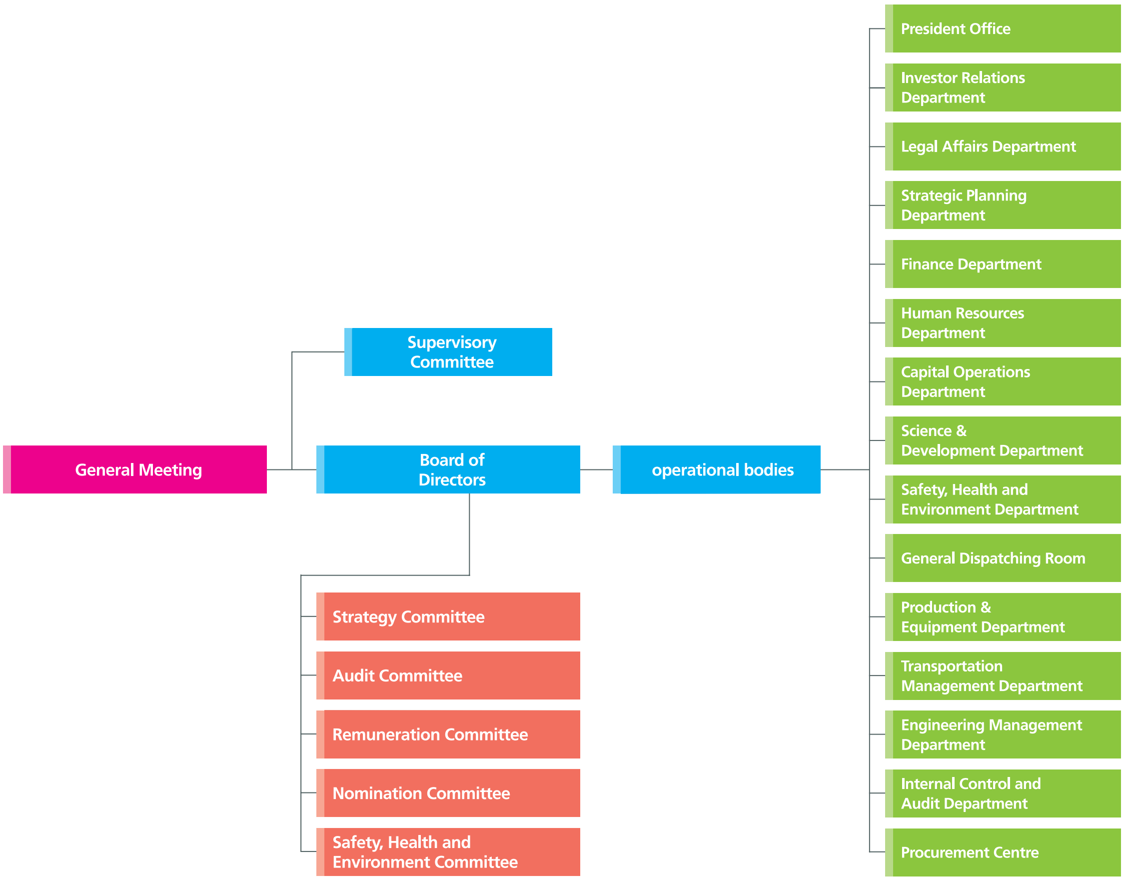
4. Diagram of the equity and controlling relationship between the Company and the de facto controllers



(II) Other Corporate shareholders with more than 10% shareholdings of the Company

As at the end of the reporting period, there was no other corporate shareholder holding more than 10% shareholdings of the Company.

Corporate Governance Structure and Corporate Governance Report



A Brief information on corporate governance

During the reporting period, the Company further improved its corporate governance by establishing a standardized and sound corporate governance structure in strict compliance with the PRC Company Law, Securities Law and other laws and regulations as well as the domestic and foreign regulatory requirements. The Company's standard of corporate governance has been highly recognized in the capital market. In 2008, the Company was granted the "Outstanding Board of Directors" award by the Board of Directors Magazine, was ranked the second in the Corporate Governance List of the Contribution China Summit organized by the Talents Magazine and was granted several awards including but not limited to, the "Hong Kong Corporate Governance Excellence Awards" by the Chamber of Hong Kong Listed Companies.

(I) The Company's compliance with domestic regulatory requirements

There is no material difference between the corporate governance of the Company and the corporate governance requirements under the relevant rules of the China Securities Regulatory Commission ("CSRC"). The Company, the Board and the directors of the Company have not received any administrative punishment, have not been publicly criticized or inspected by the CSRC and have not been condemned by any other regulatory authorities or stock exchange.

In compliance with the "Notice Regarding Matters related to the Commencement of Special Campaigns to Strengthen Corporate Governance of Listed Companies" issued by the CSRC and the "Notice Regarding the Commencement of Special Projects to Prevent From Rebound of Misappropriation of Funds to Improve Corporate Governance" issued by Beijing Securities Regulatory Bureau, the Company carried out a self-investigation during the period from June to July 2008 and compiled the "Self-investigation Report and Rectification Plan Regarding Corporate Governance" and the "Self-investigation Report on Misappropriation of Funds by Related Parties".

The "Self-investigation Report and Rectification Plan Regarding Corporate Governance" was considered and approved by the Board on 30 July 2008, and the revelant announcement was published and reported to the Beijing Securities Regulatory Bureau on 31 July 2008. The Supervisory Committee of the Company (the "Supervisory Committee") reviewed the self-investigation conducted by the Board and management of the Company and issued the "Review Opinion of the Commencement of Projects to Prevent From Rebound of Misappropriation of Funds to Improve Corporate Governance" and reported it to the Beijing Securities Regulatory Bureau on 31 July 2008.

From 11 to 14 November 2008, the Beijing Securities Regulatory Bureau conducted a four-day on-site inspection on corporate governance of the Company. On 24 November 2008, the Company received the "Regulatory Opinion" from the Beijing Securities Regulatory Bureau. As required by the special campaigns for corporate governance and the Beijing Securities Regulatory Bureau, the "Rectification Report on Special Campaigns for Corporate Governance of China Shenhua" was approved by the Board on 26 December 2008 and the relevant announcement was subsequently published and reported to the Beijing Securities Regulatory Bureau on 27 December 2008. In accordance with the new updates of Hong Kong Listing Rules and newly published requirements of the regulatory authorities, the Board also approved the amendments to the Articles of Association and submitted it for consideration and approval at an annual general meeting, amended and improved the "Rules on Work of Manager" and the "Management Rules on Use of Proceeds of China Shenhua Energy Company Limited" and the "System of Disposal of Assets and Guarantee (including pledge of assets)".

(II) The Company's compliance with the "Code on Corporate Governance Practices"

The Company has established its systems in relation to corporate governance practices in accordance with the "Code on Corporate Governance Practices" set out in Appendix 14 of the Hong Kong Listing Rules. The Company was in full compliance with the provisions of the "Code on Corporate Governance Practices" and most of the recommended best practices as specified therein for the year ended 31 December 2008.

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

- In addition to the Audit Committee of the Board (the "Audit Committee"), Remuneration Committee of the Board (the "Remuneration Committee") and Nomination Committee of the Board (the "Nomination Committee"), the Board has also set up the Strategy Committee of the Board (the "Strategy Committee") and Safety, Health and Environment Committee of the Board (the "Safety Health and Environment Committee").

- All the members of the Audit Committee are independent non-executive directors.

The Company has formulated the "Systems of Independent Directors", "Rules on the Work of the Audit Committee of the Board of Directors", "Rules and Procedures of the Meetings of the President", "Working Rules for the President", "Temporary Measures for the Management of Provision of Guarantees", "Management Rules for Disposal of Fixed Assets", "Rules on Work of Annual Report of the Audit Committee of the Board of Directors", amended the "Information Disclosure Policy ", "Rules on the Use of Proceeds" and "Related Party Transactions Decision Making Systems" and further improved its regulatory documents in relation to corporate governance.

The general meetings of the shareholders of Company, the Board and the Supervisory Committee are conducted and held independently and effectively in accordance with the Articles of Association and the respective rules and procedures. The Company's current governance regulatory documents include (but not limited to) the followings:

1. Articles of Association and rules and procedures of meetings:
   (1) Articles of Association;
   (2) Rules and Procedures of Shareholders' General Meetings;
   (3) Rules and Procedures of Meetings of the Board of Directors;
   (4) Rules and Procedures of Meetings of the Supervisory Committee; and
   (5) Rules and Procedures of Meetings of the President.

2. Systems of Independent Directors and meeting rules and procedures and working rules of Board Committees:
   (1) System of Independent Directors;
   (2) Rules and Procedures of Meetings of the Strategy Committee of the Board of Directors;
   (3) Rules and Procedures of Meetings of the Audit Committee of the Board of Directors;
   (4) Rules on Work of the Audit Committee of the Board of Directors;
   (5) Rules and Procedures of Meetings of the Remuneration Committee of the Board of Directors;
   (6) Rules and Procedures of Meetings of the Nomination Committee of the Board of Directors;
   (7) Rules and Procedures of Meetings of the Safety, Health and Environment Committee of the Board of Directors; and
   (8) Rules on Work of Annual Report of the Audit Committee of the Board of Directors.

3. Rules, measures and codes for risk management and use of proceeds:
   (1) Related Party Transactions Decision Making Systems;
   (2) Measures on the management of Related Party Transactions;
   (3) Rules on the management of the Use of Proceeds;
   (4) Model Code on Securities Transactions by Directors;
   (5) Measures on Dealings in the Shares by Employees;
   (6) Internal Control Manual; and
   (7) Manual on Self-assessment.

4. Information disclosure and investor relations policies:
   (1) Information Disclosure Policy;
   (2) Internal Reporting System of Significant Events;
   (3) Rules of Information Disclosure Committee and its Members;
   (4) Investor Relations Policy; and
   (5) Rules of Investors Reception.

According to the Articles of Association, the Company improved the convening, voting and disclosure procedures of Board meetings and rules and procedures of the Board. Procedures for nomination and appointment of directors are in compliance with the relevant requirements. The Company has established a Board whose members are from a variety of background. Members of the Board include domestic and overseas individuals with professional skills. Each director's knowledge base and professional field are professional and complementary in the overall Board structure, which ensure the scientific decision-making of the Board. Currently, the Board comprises of 7 members, 3 of which are independent directors. The directors' extensive experiences in macro economics management, management of the coal industry, financial and accounting management and legal affairs ensures the effectiveness and scientific nature of the Company's significant decisions.

The Board is a decision-making body of the Company. It leads and supervises the Company in a responsible and cost-effective manner. All directors shall act in the best interest of the Company. All the members of the Board understand that they jointly and severally accept full responsibility to all shareholders on matters of management, supervision and operation of the Company. The Board is responsible for making decisions on the following: 1. formulating strategies of the Company; 2. establishing objectives of the management; 3. monitoring performance of the management; and 4. ensuring that the Company implements a prudent and effective control system to assess and manage risks.

The Board is responsible for preparing the financial statements for each financial year to give a true and fair view of the Company's financial position, its results and cash flow for the relevant period. In preparing the financial statements for the year ended 31 December 2008, the Board has adopted the appropriate accounting policies in arriving at a prudent, fair and reasonable judgment and estimation, and has prepared the financial statements on a going concern basis. The Board is responsible for duly maintaining accounting records which reasonably and accurately disclose the financial position of the Company. The Board holds at least one regular meeting on a quarterly basis, or holds an extraordinary meeting when the Company needs to make a significant decision.

The chairman and the president of the Company are Dr. Zhang Xiwu and Dr. Ling Wen respectively. The roles of the chairman and the president are two distinctively separate positions. The chairman can not be the president of the Company concurrently and their respective duties are clearly defined in writing. The chairman is responsible for managing the operation of the Board whereas the president is responsible for the business operations of the Company. The Articles of Association sets out in detail the respective duties of the chairman and the president. The members of senior management other than the directors and the supervisors, are responsible for the daily business operations of the Company and their duties are set out in the section "Directors, Supervisors, Senior Management and Employees" of this chapter.

In considering any matters or transactions at any Board meeting, the directors are required to declare any direct or indirect interests, and shall abstain from voting at the meeting where appropriate. The Company will, during each financial period, require the directors to confirm if they or their associates have entered into any connected transaction with the Company or any of its subsidiaries.

For details of other information set out in the "Code on Corporate Governance Practices" of Appendix 14 of the Hong Kong Listing Rules such as remuneration of the directors and senior management of the Company, security transactions by directors and shareholding interests of directors, supervisors and senior management, attendance of directors at Board meetings, performance by independent directors of their duties and performance by Board Committees of their duties, please refer to the relevant sections of this chapter.

B Directors, Supervisors, Senior Management and Employees

(I) Basic information

1. Basic information about directors, supervisors and senior management members

(1) basic information

Name	Position	Commencement of term of office	End of term of office	Gender	Number of shares held	Stock options of the Company held	Total remuneration received from the Company during the reporting period (before tax) (RMB ten thousand)	Equity incentives granted during the reporting period: Number of shares the options over which can be exercised	Number of shares the options over which have been exercised	Exercise price	Market price of shares at the end of the reporting period	Whether salaries or allowances from shareholders of the Company or their associates have been received
Zhang Xiwu	Chairman	30 December 2008	–	Male	–	–	–	–	–	–	–	Yes
	Executive director	30 December 2008	–									
	Non-executive director	6 November 2004	30 December 2008									
Zhang Yuzhuo	Non-executive director	6 November 2004	–	Male	–	–	–	–	–	–	–	Yes
Ling Wen	Executive director	6 November 2004	–	Male	–	–	84.3	–	–	–	–	No
	President	25 August 2006										
Han Jianguo	Non-executive director	6 November 2004	–	Male	–	–	–	–	–	–	–	Yes
Huang Yicheng	Independent Non-executive director	6 November 2004	–	Male	–	–	45.0	–	–	–	–	No
Neoh Anthony Francis	Independent Non-executive director	6 November 2004	–	Male	–	–	45.0	–	–	–	–	No
Chen Xiaoyue	Independent non-executive director	6 November 2004	–	Male	–	–	45.0	–	–	–	–	No
Xu Zufa	Chairman of Supervisory Committee	6 November 2004	–	Male	–	–	–	–	–	–	–	Yes
Wu Gaoqian	Supervisor	6 November 2004	–	Male	–	–	61.9	–	–	–	–	No
Li Jianshe	Employee representative Supervisor	6 November 2004	–	Male	–	–	45.8	–	–	–	–	No
Hao Gui	Vice president	6 November 2004	–	Male	–	–	89.5	–	–	–	–	No
Wang Jinli	Vice president	6 November 2004	–	Male	–	–	90.2	–	–	–	–	No
Xue Jilian	Vice president	6 November 2004	–	Male	–	–	90.1	–	–	–	–	No
Hua Zeqiao	Vice president	6 November 2004	–	Male	–	–	90.2	–	–	–	–	No
Wang Pingang	Vice president	6 November 2004	–	Male	–	–	89.6	–	–	–	–	No
Huang Qing	Secretary to the Board	6 November 2004	–	Male	–	–	83.7	–	–	–	–	No
Zhang Kehui	Chief financial officer	22 January 2007	–	Female	–	–	82.7	–	–	–	–	No
Total	/			/	–	–	943.0	–	–	–	–	/

Name	Position	Commencement of term of office	End of term of office	Gender	Number of shares held	Stock options of the Company held	Total remuneration received from the Company during the reporting period (before tax) (RMB ten thousand)	Equity incentives granted during the reporting period	Whether salaries or allowances from shareholders of the Company or their associates have been received
Chen Biting	Former chairman, executive director	6 November 2004	30 December 2008	Male	–	–	–	–	Yes
Yun Gongmin	Former non-executive director	15 May 2007	29 August 2008	Male	–	–	–	–	Yes

(2) Disclosure of interests of directors, supervisors and senior management

As at 31 December 2008, none of the directors, supervisors or senior management had any interest or short position in the shares or underlying shares of the Company or any of its associated corporations within the meaning of Part XV of the SFO (Chapter 571 of the Laws of Hong Kong).

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") set out in Appendix 10 of the Hong Kong Listing Rules, requiring the securities transactions of the directors of the Company to be carried out in accordance with the Model Code. The Model Code is also applicable to the senior management of the Company. After a specific inquiry conducted by the Company, all the directors have confirmed that they have fully complied with the Model Code throughout 2008.

(3) Relationship between directors, supervisors and senior management

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

For the year ended 31 December 2008, the Company had not granted any equity securities or warrants to its directors, supervisors and senior management or their respective spouses or children under the age of 18.

(4) Independence of independent non-executive directors

Pursuant to the requirements of the Hong Kong Stock Exchange, the Company confirms the independence of its independent non-executive directors as follows: the Company has received written confirmations from each of the independent non-executive directors confirming their independence in accordance with Rule 3.13 of Hong Kong Listing Rules. The Company is of the view that all of the independent non-executive directors are independent.

2. Directors

Dr. ZHANG Xiwu, aged 50, Chinese

Chairman and executive director

Dr. Zhang Xiwu has served as the chairman and an executive director of the Company since December 2008. Dr. Zhang previously served as a non-executive director of the Company. Dr. Zhang is the chairman of the board of directors of Shenhua Group and Beijing Guohua Power Company. Previously, he served as the general manager of Shenhua Group, vice general manager of Shenhua Group, chairman and general manager of Shenhua Shenfu Dongsheng Coal Company, chairman of Shenhua Dongsheng Coal Company, the manager of the Fine Coal Business Department of Shenhua Group. Prior to joining Shenhua Group in August 1995, Dr. Zhang was the deputy chief of the Bureau of Coal Industry of Jilin province, deputy general manager of the Northeast Inner Mongolia Coal Industry United Company, and department head and and assistant to chief of Inner Mongolia Dayan Mining Bureau. Dr. Zhang is a researcher, and has in-depth industry knowledge of, and over 20 years of operational and management experience in the coal industry in China. He obtained a master's degree and a Ph. D degree from Liaoning University of Engineering and Technology in 1997 and 2003 respectively.

Dr. ZHANG Yuzhuo, aged 46, Chinese

Non-executive director

Dr. Zhang has served as a non-executive director since November 2004. Dr. Zhang is also a director and the general manager of Shenhua Group, chairman of China Shenhua Coal Liquefaction Company Limited and chairman of Shenhua International (Hong Kong) Company Limited. Dr. Zhang was a vice general manager of Shenhua Group. Prior to joining Shenhua Group in December 2001, Dr. Zhang served as the president of the China Coal Research Institute, chairman of China Coal Technology Corporation, chairman of Tiandi Science & Technology Co. Ltd. and deputy general manager of Shandong Yankuang Group Co. Ltd. Dr. Zhang is a researcher, and is experienced in management of research and development and has approximately 20 years of enterprise management experience in the coal industry in China. He graduated in 1982 from Shandong University of Science and Technology with a bachelor's degree, received a master's degree from China Coal Research Institute in 1985 and a Ph.D. degree from the University of Science and Technology of Beijing in 1989. From 1992 to 1996, Dr. Zhang conducted postdoctoral research and study of clean coal technology at the University of Southampton and Southern Illinois University at Carbondale.

Dr. ZHANG Xiwu

Dr. ZHANG Yuzhuo

Dr. LING Wen

Mr. HAN Jianguo

Dr. LING Wen, aged 45, Chinese

Executive director and president

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

Mr. HAN Jianguo, aged 50, Chinese

Non-executive director

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


Mr. HUANG Yicheng


Mr. NEOH Anthony Francis


Dr. CHEN Xiaoyue

2. Directors (continued)

Mr. HUANG Yicheng, aged 82, Chinese
Independent non-executive Director
Mr Huang has served as an independent non-executive director since November 2004. Mr. Huang previously served as the co-chairman of the Sino-Russia Friendship, Peace and Development Committee, deputy director of the Financial and Economic Committee of the Eighth National People's Congress, Minister of the Ministry of Energy and former vice minister of the State Planning Commission. Mr. Huang is a professor level senior engineer.

NEOH Anthony Francis, aged 62, Hong Kong
Independent non-executive director
Mr. Neoh has served as an independent non-executive director since November 2004. Mr. Neoh is a member of the International Advisory Committee of the CSRC and an independent non-executive director of Bank of China Limited. He was previously the chief advisor to the CSRC. He was the Chairman of the Securities and Futures Commission ("SFC") of Hong Kong from 1995 to 1998 and chairman of the Technical Committee of the International Organization of Securities Commissions from 1996 to 1998. From 1991 to 1994, he was a member of the Council and the Listing Committee of the Hong Kong Stock Exchange. He was appointed as queen's counsel (now renamed as senior counsel) in 1990. He was the visiting professor for Nomura Securities International Financial Systems at the Harvard Law School in 2004. He graduated from the University of London with a bachelor of law in 1976. In 2003, Mr. Neoh was granted an honorary doctorate in law by the Chinese University of Hong Kong.

Dr. CHEN Xiaoyue, aged 61, Chinese
Independent non-executive director
Dr. Chen has served as an independent non-executive director since November 2004. Dr. Chen is also an independent non-executive director of China United Telecommunications Corporation Limited and Yunnan Baiyao Group Co., Ltd., director of Accounting Research Institute at Tsinghua University, a consultant to Beijing National Accounting Institute, a professor of Tsinghua University and mentor for doctoral students, and vice president of China Appraisal Society. Dr. Chen was previously the president of Beijing National Accounting Institute, vice dean of the Economic Management School of Tsinghua University, dean of the Department of Accounting of Tsinghua University, and a council member of the Accounting Society of China. Dr. Chen graduated in 1982 from Tsinghua University with a bachelor's degree and received his master's and Ph.D degrees from Tsinghua University in 1984 and 1988 respectively.


Mr. XU Zufa


Mr. WU Gaoqian


Mr. LI Jianshe

3. Supervisors

Mr. XU Zufa, aged 60, Chinese

Chairman of the Supervisory Committee

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

Mr. WU Gaoqian, aged 58, Chinese

Supervisor

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

Mr. LI Jianshe, aged 55, Chinese

Employee representative supervisor.

Mr. Li has served as an employee representative supervisor of the Company since November 2004. Mr. Li has been a vice general manager of Shenhua Huanghua Port Company Limited. Since November 2006, Mr. Li has served as a member of the standing committee and deputy chairman of China Coal Urban Development United Promotion Association. Prior to joining the Company, Mr. Li served as section chief of the General Planning Office of Shenhua Group. Prior to joining Shenhua Group in December 2000, Mr. Li also served as chief of the Secretary Section of General Office of the Ministry of Communications. Mr. Li is a senior engineer and graduated from Beijing University of Technology in 1978.

4. Senior management

Dr. LING Wen, aged 45, Chinese

Executive director and president

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

Dr. HAO Gui, aged 46, Chinese

Vice president

Dr. Hao has served as the vice president who is in charge of the safety management of the Company since November 2004. Prior to joining the Company, Dr. Hao served as the vice chief economist of Shenhua Group, chairman of Shenhua Mengxi Coal Chemical Company Limited, chairman of Shenhua Zhonglian Shuozhou Coal Company, chairman of Zhonglian Economic and Technological Development Company, chief economist of Shenhua Shenfu Fine Coal Company. Prior to joining Shenhua Group in May 1996, Dr. Hao acted as the vice director of the Yanzishan Mine of Datong Coal Mining Bureau and the lecturer at the Economics and Trade School of the China University of Mining and Technology. Dr. Hao is a senior economist and has in-depth industry knowledge with over 15 years of operational and managing experiences in the coal industry in China. He graduated from the China University of Mining and Technology with a bachelor's degree in 1984 and received a master's degree in 1987. He graduated from the China University of Mining and Technology and obtained a doctor's degree in management in 2006.

Dr. WANG Jinli, aged 49, Chinese

Vice president

Dr. Wang has served as the vice president who is in charge of strategic planning and coal production of the Company since November 2004. Prior to joining the Company, Dr. Wang served as the chairman, general manager and deputy general manager of Shenhua Shendong Coal Company, director of Shenhua Port Company, director of the Changchun Coal Technology Centre and director of the Hunchun Coal Mining Bureau. Dr. Wang is a researcher and senior engineer and has approximately 30 years of operational experience in the coal industry in China. He graduated from Jilin University with a bachelor's degree in 1992 and received a master's degree from Liaoning Technical University in 2002. In 2006, he graduated from Liaoning Engineering and Technology University and obtained a doctor's degree. He graduated from the School of Economics and Management in Tsinghua University in February 2009 with a master's degree in EMBA.


Dr. LING Wen


Dr. HAO Gui


Dr. WANG Jinli


Mr. XUE Jilian


Mr. HUA Zeqiao


Mr. WANG Pingang

Mr. XUE Jilian, aged 54, Chinese

Vice president

Mr. Xue has served as the vice president who is in charge of transportation operations of the Company since November 2004. Mr. Xue is also the chairman and general manger of Shuohuang Railway Development Company Limited. Prior to joining Shenhua Group in April 1999, Mr. Xue served as deputy director and chief engineer of Number 16 Engineering Bureau of the Ministry of Railways. Mr. Xue is a professor-level senior engineer and has extensive operational and management experience in large-scale railway construction and rail transportation enterprises. He graduated from Shijiazhuang Railway Institute in 1979, graduated in 1993 from Southwest Jiaotong University with a bachelor's degree, received a master's degree in science and engineering management from Southwest Jiaotong University in 2001, and received a Master of Business Administration degree from Cheung Kong Graduate School of Business in September 2008.

Mr. HUA Zeqiao, aged 57, Chinese

Vice president

Mr. Hua has served as the vice president of the Company who is in charge of sales of the Company since November 2004. Mr. Hua is also the chairman of Shenhua Coal Trading Company Limited. Previously, he served as general manager, deputy general manager and chairman of the Labour Union of Shenhua Coal Trading Company Limited. Prior to joining Shenhua Group in September 1998, he also served as the chief economist of the Jixi Mining Bureau, deputy chief economist and head of the Marketing Office and head of Muleng Mines of the Jixi Mining Bureau. Mr. Hua is a senior economist and has over 30 years of operational and managing experiences in coal production and sales management. He graduated from Harbin Normal University with a bachelor's degree in 1991.

Mr. WANG Pingang, aged 47, Chinese

Vice president

Mr. Wang has served as the vice president who is in charge of power production of the Company since November 2004. Prior to joining the Company, Mr. Wang served as the chief engineer, deputy chief engineer and manager of Power Operations Department of Beijing Guohua Power Company. Previously, he had served as the general manager and party secretary, deputy general manager and chief engineer of Suizhong Power. Prior to joining Shenhua Group in March 1999, he also served as deputy head of the Yuanbaoshan Power Plant. Mr. Wang is a senior engineer and has extensive operational and management experiences in the power industry. He graduated from Northeast China Institute of Electric Power Engineering with dual bachelor's degrees in 1987.

Mr. HUANG Qing

Ms. ZHANG Kehui

4. Senior management (continued)

Mr. HUANG Qing, aged 43, Chinese

Secretary to the board of directors

Mr. Huang has served as the secretary to the Board since November 2004 and is also a co-company secretary of the Company. Mr. Huang is in charge of capital market of the Company. Prior to joining the Company, Mr. Huang served as the deputy director of the General Office of Shenhua Group from 2002 and secretary to the chairman of Shenhua Group since July 2003. Prior to joining Shenhua Group in 1998, he served as the deputy general manager of Hubei Provincial Railway Company and secretary to the vice governor of the Hubei provincial government. Mr. Huang obtained a board secretary certification from Shanghai Stock Exchange in 2004. Mr. Huang is a senior engineer. Mr. Huang graduated from the National University of Defense Technology with a bachelor's degree in 1988 and received a master's degree from Guangxi University in 1991.

Ms. ZHANG Kehui, aged 45, Chinese

Chief financial officer

Ms. Zhang has served as the chief financial officer of the Company who is in charge of financial work of the Company since January 2007. Ms. Zhang has previously acted as the head of the internal-control auditing department of the Company. Prior to joining the Company, Ms. Zhang acted as the deputy manager of financial department of Shenhua Group, assistant to the general manager of Shuohuang Railway Development Company Limited. Being a senior economist, certified accountant in China as well as certified accountant in Australia, Ms. Zhang has extensive experiences in financial management. Ms. Zhang graduated from Shanxi University with a bachelor's degree in 1985 and received a master's degree in Economics from China University of Mining and Technology in 1994.

(II) Positions of directors, supervisors and senior management in controlling shareholder and its associates and other entities

1. Positions held in controlling shareholder

Name	Name of entity	Position held	Commencement of term of office	Expiration of term of office	Whether salaries or allowance were received
Zhang Xiwu	Shenhua Group	Chairman	December 2008	–	Yes
	Beijing Guohua Power Company	Chairman	December 2008	–	No
Zhang Yuzhuo	Shenhua Group	Director and General manager	December 2008	–	Yes
	China Shenhua Coal Liquefaction Company Limited	Chairman	July 2003	–	No
	Shenhua International (Hong Kong) Company Limited	Chairman	March 2005	–	No
Ling Wen	Shenhua Finance Company Limited	Chairman	July 2002	–	No
Han Jianguo	Shenhua Group	Deputy general manager	August 2003	–	Yes
Hua Zeqiao	Shenhua Coal Trading Company Limited	Chairman	March 2004	–	No

2. Positions held in other entities

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

(III) Remuneration policy of existing directors, supervisors and senior management, appraisal system and incentive mechanism for senior management

1. Remuneration policy and determination of directors, supervisors and senior management

The remuneration of directors and supervisors of the Company are proposed by the Remuneration Committee, with reference to international and domestic practices and remuneration of directors and supervisors of large listed companies in China, and submitted to the annual general meeting of the Company for approval after consideration and approval by the Board. The remuneration of senior management of the Company are proposed by the Remuneration Committee in accordance with the "Provisional Measures for the Management of the Annual Remuneration of the Senior Management", and is considered and approved by the Board.

2. Directors and supervisors not receiving allowance from the Company

Chairman Zhang Xiwu, directors Zhang Yuzhuo and Han Jianguo, chairman of the Supervisory Committee Xu Zufa, and Mr. Chen Biting and Mr. Yun Gongmin both of which have retired, do not receive allowance from the Company.

During the reporting period, there were no arrangement in which the directors or supervisors waived any remuneration from the Company. Details of remuneration of directors and supervisors are set out in note 10 to the financial statements in this report.

3. Appraisal system and incentive mechanism for senior management

The Company has adopted a performance appraisal system for senior management which combines annual appraisal and appraisal of operational performance over the terms of office. Such appraisal of the operational performance is conducted based on the letter of responsibility of operational performance signed into by the Board and senior management.

The Company has adopted a share appreciation rights scheme, the grantees of which includes senior management and persons who hold key management positions in the Company. The remuneration in cash of senior management is determined in accordance with the "Provisional Measures on the Management of the Annual Remuneration of Senior Management". In addition, the Board conducts appraisal based on the performance of senior management, and a performance bonus is determined based on the results of appraisal. During the reporting period, the Company did not grant any share appreciation rights to its senior management.

(IV) Movements of directors, supervisors and senior management

Dr. Zhang Xiwu, non-executive director, was elected as chairman of the Company at the 27th meeting of the Board on 30 December 2008 and was appointed as an executive director, member and chairman of the Strategy Committee and member and chairman of the Nomination Committee.

The Board of the Company received a resignation report from the former chairman Mr. Chen Biting on 30 December 2008. Mr. Chen Biting resigned as the chairman, executive director, member and chairman of the Strategy Committee, and member and chairman of the Nomination Committee for age reason, with effect from the date of tendering his resignation report to the Board.

The Board of the Company received a written resignation report from the former director Mr. Yun Gongmin on 29 August 2008. Mr. Yun Gongmin resigned as the non-executive director and member of the Strategy Committee by reason of job adjustment, with effect from the date of tendering his resignation report to the Board.

(V) Directors' and supervisors' interests in material contracts

Save for their service contracts with the Company, none of the directors and supervisors of the Company has any material personal interests, directly or indirectly, in material contracts entered into by the Company or any of its subsidiaries in 2008 and subsisting during the year of 2008.

The Company has entered into service contracts with all its directors and supervisors. None of the directors or supervisors has entered into or proposed to enter into any service contract with members of the Group which can not be determined by the Group within one year without any compensation (other than the statutory compensation).

(VI) Employees of the Company

As at 31 December 2008, the Company had 59,543 employees in total. In 2008, the total number of retired employees in respect of which the Company bears cost was 246. Composition of the employees of the Company is as follows:

1. Education level

Unit: person

Functions	As at 31 December 2008	As at 31 December 2007	Change %
Operation and maintenance	**38,670**	38,227	1.2
Management and administration	**7,455**	6,833	9.1
Finance and accounting	**891**	748	19.1
R&D and technical support	**5,170**	4,948	4.5
Sales and marketing	**1,264**	1,072	17.9
Others	**6,093**	6,999	(12.9)
Total	**59,543**	58,827	1.2

2. Education level

Unit: person

Degrees of education	As at 31 December 2008	As at 31 December 2007	Change %
Postgraduate or above	**572**	438	30.6
University graduate	**9,586**	7,756	23.6
College graduate	**13,288**	11,642	14.1
Specialized secondary school graduate	**13,395**	13,684	(2.1)
Technical school graduate	**6,162**	6,924	(11.0)
High school graduate	**10,732**	11,889	(9.7)
Middle school graduate or below	**5,808**	6,494	(10.6)
Total	**59,543**	58,827	1.2

C Independence of the Company from its controlling shareholder

The Company is independent from its controlling shareholder in terms of business, personnel, assets, organisation and finance.

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

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

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

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

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

D Establishment and improvement of internal control systems

(I) Establishment of internal control systems

In compliance with relevant regulatory requirements and management needs, the Company has formulated series of corporate governance systems and internal control systems since its establishment, which ensures the smooth operation of the Company's business. To ensure its smooth operation, the Company has taken such measures such as formulating and continuously improving its internal control systems after taking into account its capital structure, mode of operation as well as its own specific circumstances. The Company places great emphasis on institutionalized and standardized management and formulated and improved series of standards in 2008, including:

- **Corporate governance**

  The Company formulated the "Rules on the Work of the Audit Committee of the Board of Directors" and the "Independent Directors Systems".

- **Planning management**

  The Company formulated its annual plans on production and operation under the overall planning framework in medium and long term, and distributed them to each production and operational unit for implementation.

- **Financing management:**

  The Company formulated the "Comprehensive Regulation on Management Based Budgeting", "Management Rules for R&D Income and Expenses of the Headquarters" and amended and improved the "Management System for the Use of Proceeds".

- **Procurement management**

  The Company amended the "Centralized Procurement Catalogue of the Headquarters".

- **Project management**

  The Company formulated the "Trial Rules for Proper Implementation of Construction Projects".

- **Legal affairs**

  The Company improved the "Related Party Transactions Decision-making Systems" and formulated the Chinese and English versions of the "Confidentiality Agreement".

- **Contract management**

  The Company improved the contract review procedures and strengthened its supervision and guidance over material contracts of its branches and subsidiaries.

- **Information disclosure and investor relations**

  The Company established and improved the "Information Disclosure Policy" and "Rules of Investor Reception".

- **Performance management**

  The Company introduced the performance evaluation system of enterprises incorporating the five features in 2008.

- **Quality management**

  The Company established and improved the systems for on-site management of coal quality, system for inspection and forecast of coal quality, coal quality information network system and system for coal upgrading and processing.

- **Technological innovation management**

  The Company formulated the "Trial Management Rules for the Energy Saving and Emission Reduction Program".

- **Dispatching management**

  The Company formulated and improved the "Work Procedures for the General Dispatching Room".

- **Safety management**

  The Company formulated the "Guidance Opinion on Gas Control of Coal Mines".

(II) Implementation of internal control system

The Company's internal control system was established to standardize the organizational structure of internal control and set out basic rules for management control. This laid a solid foundation for the establishment of sound, effective and reasonable internal controls. The Company improved its corporate governance structure by establishing a mechanism among general meeting, the Board, the Supervisory Committee and the management in relation to decision-making, supervision and operation management. Under the guidance of its corporate culture, through the establishment of the code of conduct for employees, the enhancement of on-job training and improvement for staff, and the implementation of various policies and rules, the Company was able to effectively integrate and improve its internal control and business development, thereby enhancing its ability to operate in accordance with the applicable laws and rules for continuous development.

The Company has established an Audit Committee, which ensures management of the Company to perform their duties to establish effective information disclosure mechanisms and rules for internal financial control through hearing reports from the management and the financial controller on the Company's operating results and financial position and on-site inspection, reviewing and discussing the mechanisms and procedures of information disclosure and the relevant rules with the management of the Company. The Audit Committee also supervises and examines the Company's financial control, information disclosure mechanisms and procedures, internal controls and risk management systems. The Company's self-assessment reports on internal control and corporate social responsibility are reviewed by the Board on an annual basis.

The Company has established an internal control and audit department, which is responsible for the internal control supervision; other departments of the Company are responsible for guiding and supervising branches and subsidiaries in respect of their specific areas, and are responsible for formulating and improving the specific internal control systems based on their specific functions.

The Company takes various measures to supervise and examine its internal control. In 2008, the internal control and audit department conducted examinations of internal control on a regular and irregular basis, including risk assessment, examination and assessment on annual internal control, supervision of internal control of subsidiaries and branches, as well as internal control examinations throughout daily auditing, which mainly involved management of infrastructure construction, liquidity management and currencies capital management fund. In 2008, the Company conducted various examinations and improvements on internal control, which had been examined by the internal control and audit department and mainly involved corporate governance, financial management, human resources, project management, safety, health and environmental protection and legal affairs. The above examination and supervision helped to facilitate the implementation of the relevant rules, mitigate the Company's operating risks, strengthen internal control, optimize the allocation of our resources and enhance our operational management.

(III) Self-assessment of the Board on the Company's internal control systems and explanation from the auditor

The Board of the Company is of the view that, the Company's internal control system in respect of operation and financial accounting for the year of 2008 has been in compliance with the requirements of relevant regulatory authorities in all material respects and has performed the role of controlling and preventing from material uncontrolled risks, severe management fraud and major errors in procedures. During the process of implementating its internal control, no material uncontrolled risks, severe management fraud and major error in procedures had been identified by the Company in 2008. Accordingly, the Board is of the view that no material defect in the design and implementation of internal control system of the Company had been identified in 2008. Due to the inherent limitations of internal control, differences between understandings of the management on internal control, the changing market environment and the unpredictable factors, however, there is no assurance that there will never be inaccuracy and errors in respect of the Company's internal control.

The Company will continue to improve its internal control system in light of accumulated experiences in management, advices from shareholders, the developing trend of international and domestic internal control and the change in internal and external risks and in accordance with regulatory rules and requirements.

KPMG Huazhen has been engaged by the Company to issue the "Special Statement on the Self-assessment Report (2008) of the Board of China Shenhua Energy Company Limited" in relation to the "Self-assessment Report (2008) on Internal Control of the Board of China Shenhua Energy Company Limited (hereinafter referred to as the "Internal Control Self-assessment Report"), stating that "We have reviewed the Internal Control Self Assessment Report prepared by the Board. Based on our work, we are not aware of any inconsistency in all material aspects between the content of evaluation of internal control related to the preparation of financial statements as included in the Internal Control Self-assessment Report on Internal Control prepared by the Board and our findings derived from our audit of the financial statements of the Company aforesaid".

The full version of the Internal Control Self-assessment Report and the opinion of the auditor on the Internal Control Self-assessment Reports have been disclosed on the website of Shanghai Stock Exchange.

E Daily work of the Board

The Company has formulated a system relating to the decision-making of the Board in accordance with relevant regulatory requirements and the Articles of Association. The Company has established five Board Committees, including the Strategy Committee, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Safety, Health and Environment Committee.

For the year ended 31 December 2008, the Company has held 27 Board meetings, among which 10 were held during the reporting period. The Board operates in strict compliance with the Articles of Association.

(I) Board meetings of the Company

In 2008, the Board has held 10 meetings to implement resolutions passed at the shareholders' meetings, to consider and approve regular reports, related party transactions (including connected transactions) and certain material decisions, and formulate or amend a number of rules and regulations of the Company.

1. The Company held the 18th meeting of the first session of the Board on 28 January 2008 by way of communication voting. Resolutions were passed in relation to the "Independent Directors Rules" and the "Working Procedures for Audit Committee".

2. The Company held the 19th meeting of the first session of the Board on 15 March 2008 by way of physical meeting in Beijing. For resolutions passed by the Board, please refer to the "Announcement on Resolutions of the 19th Meeting of the First Session of Board of Directors of China Shenhua", which was published on the website of Hong Kong Stock Exchange and Shanghai Stock Exchange on 16 March 2008, and China Securities Journal and Shanghai Securities News on 17 March 2008.

3. The Company held the 20th meeting of the first session of the Board on 24 April 2008 by way of physical meeting in Beijing. For resolutions passed by the Board, please refer to the "Announcement on Resolutions of the 20th Meeting of the First Session of Board of Directors of China Shenhua", which was published on the website of Hong Kong Stock Exchange and Shanghai Stock Exchange on 24 April 2008, and China Securities Journal and Shanghai Securities News on 25 April 2008.

4. The Company held the 21st meeting of the first session of the Board on 23 May 2008 by way of communication voting. The resolution in relation to the establishment of Yulin Shenhua Energy Company Limited (榆林神華能源股份有限責任公司) as a joint venture was passed.

5. The Company held the 22nd meeting of the first session of the Board on 30 July 2008 by way of communication voting. For resolutions passed by the Board, please refer to the "Announcement on Resolutions of the 22nd Meeting of the First Session of Board of Directors of China Shenhua", which was published on the website of Hong Kong Stock Exchange and Shanghai Stock Exchange on 30 July 2008, China Securities Journal, Shanghai Securities News and Securities Times on 31 July 2008.

6. The Company held the 23rd meeting of the first session of the Board on 29 August 2008 by way of physical meeting in Beijing. For resolutions passed by the Board, please refer to the "Announcement on Resolutions of the 23rd Meeting of the First Session of Board of Directors of China Shenhua", which was published on the website of Hong Kong Stock Exchange and Shanghai Stock Exchange on 29 August 2008, China Securities Journal, Shanghai Securities News and Securities Times on 30 August 2008.

7. The Company held the 24th meeting of the first session of the Board on 28 October 2008 by way of physical meeting in Beijing. Resolutions in relation to the "Third Quarterly Report for the Year 2008" and the "Third Quarterly Financial Statements for the Year 2008", the "Establishment of Shenhua Australia Holdings Pty Limited and Shenhua Watermark Coal Pty Limited" and the "Establishment of Shenhua Xinjie Energy Company Limited (神華新街能源有限責任公司)" were passed.

8. The Company held the 25th meeting of the first session of the Board on 28 November 2008 by way of communication voting. Resolutions in relation to the "Increase in Registered Capital of Zhejiang Jiahua Power Generation Limited Company" and the "Entering into 2008 Power Generation Rights Trading Agreement with Tianjin Guohua Panshan Power Generation Company" were passed, and published on the website of the Hong Kong Stock Exchange and Shanghai Stock Exchange on 28 November 2008.

9. The Company held the 26th meeting of the first session of the Board on 26 December 2008 by way of communication voting. For resolutions passed by the Board, please refer to the "Announcement on Resolutions of the 26th Meeting of the First Session of the Board of Directors of China Shenhua", which was published on the website of Hong Kong Stock Exchange and Shanghai Stock Exchange on 26 December 2008 China Securities Journal, Shanghai Securities News and Securities Times on 27 December 2008.

10. The Company held the 27th meeting of the first session of the Board on 30 December 2008 by way of communication voting. For resolutions passed by the Board, please refer to the "Announcement on Resolutions of the 27th Meeting of the First Session of Board of Directors of China Shenhua", which was published on the website of Hong Kong Stock Exchange and Shanghai Stock Exchange on 30 December 2008, China Securities Journal, Shanghai Securities News and Securities Times on 31 December 2008.

Attendance of Directors at Board Meetings in 2008

Number of meetings		**10**
	Attendance in person Number of times	**Attendance by proxy Number of times**
Executive Directors		
Zhang Xiwu	9	1
Ling Wen	10	0
Chen Biting (resigned)	9	0
Non-executive Directors		
Zhang Yuzhuo	9	1
Han Jianguo	10	0
Yun Gongmin (resigned)	4	1
Independent Non-executive Directors		
Huang Yicheng	9	1
Neoh Anthony Francis	10	0
Chen Xiaoyue	10	0

(II) Implementation of resolutions passed at the general meetings by the Board

The Board has strictly implemented various resolutions passed at the general meetings of the Company.

Implementation of resolutions passed at 2007 annual general meeting on 16 May 2008

Resolutions	Contents	Status
Profit Distribution Plan for 2007	Considered and approved the profit distribution proposal of the Company and authorized the Board to appoint directors to carry out the profit distribution.	The Company's profit distribution plan for 2007 was considered and approved at 2007 annual general meeting held on 16 May 2008. The announcement of China Shenhua on distribution of 2007 final dividend was published on the website of Hong Kong Stock Exchange on 28 May 2008 and Shanghai Stock Exchange, China Securities Journal and Shanghai Securities News on 29 May 2008.

(III) Operation of Board Committees

1. Summary work report of the Audit Committee

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

During the reporting period, the Audit Committee, in strict compliance with the "Rules and Procedures of Meetings of the Audit Committee of the Board of China Shenhua Energy Company Limited", amended the "Rules on Work of the Audit Committee of the Board of Directors", formulated the "Rules on Annual Reporting Work of the Audit Committee of the Board of Directors", and standardized the monitoring procedures for the Audit Committee on the preparation of annual financial statements and annual auditing".

During the reporting period, the Audit Committee carried out its duties strictly in accordance with the "Rules and Procedures of Meetings of the Audit Committee of the Board of Directors".

(1) The Audit Committee held six meetings in 2008. Details of the meetings are as follows:

Name	Date	Venue	Attendee	Resolutions passed
The 13th meeting	4 March 2008	Beijing	Chen Xiaoyue, Huang Yicheng, Neoh Anthony Francis	"Audited Financial Report for 2007 of China Shenhua Energy Company Limited" "Proposal on Explanatory Notes to Appropriation of Fund by Related Parties " "Proposal on Explanatory Notes to Adjustments Made in Accordance with New Accounting Standards " "Proposal on Explanatory Notes to Uses of Funds Raised by A Shares" "Proposal on Profit Distribution Plan for 2007 of the Company" "Proposal on Special Explanatory Notes to Security Given by the Company to External Parties in 2007" "Proposal on Adjustment to Annual Caps of Agency Fee for Coal Export between 2008 and 2010 " "Proposal on Reappointment of External Auditor for 2008" "Proposal on 2007 Self-assessment Report on Internal Control of the Company" "Proposal on the Internal Control Work Plan of China Shenhua Energy Company Limited for 2008"
The 14th meeting	14 March 2008	Beijing	Chen Xiaoyue, Huang Yicheng, Neoh Anthony Francis	Listening to the report from KPMG on 2007 annual auditing "Audited Financial Report for 2007 of China Shenhua Energy Company Limited" "Proposal on Explanatory Notes to Adjustments Made in Accordance with New Accounting Standards" "Proposal on Profit Distribution Plan for 2007 of China Shenhua Energy Company Limited" "Proposal on Adjustment to Annual Caps of Agency Fee for Coal Export between 2008 and 2010 " "Proposal on 2007 Self-assessment Report on Internal Control of China Shenhua Energy Company Limited" "Proposal on Reappointment of External Auditor for 2008" "2007 Summary Work Report of the Audit Committee of the Board" "Proposal on Audit Fee for the Audit on China Shenhua Energy Company Limited for 2007"
The 15th meeting	23 April 2008	Beijing	Chen Xiaoyue, Huang Yicheng, Neoh Anthony Francis	"Financial Report of China Shenhua Energy Company Limited for the First Quarter of 2008" "China Shenhua Energy Company Limited Administrative System on the Uses of Funds Raised"
The 16th meeting	27 August 2008	Beijing	Chen Xiaoyue, Huang Yicheng, Neoh Anthony Francis	"Report on Interim Review Conducted by KPMG" "Interim financial Report for the Six Months Ended 30 June 2008 of China Shenhua Energy Company Limited Prepared in Accordance with International GAAP" and "Interim Financial Report for the Six Months Ended 30 June 2008 of China Shenhua Energy Company Limited Prepared in Accordance with PRC GAAP" Reviewing "Proposal on the purchase of commercial coal from Shaanxi Coal Chemical Industry Limited which constitutes a connected transaction" "Proposed Adjustments to the Caps of Some Connected Transactions between the Company and Shenhua Group" "Proposed Adjustments to the Caps of Connected Transactions between the Company and Datang Corporation" "Proposal on Capital Increase in, and Providing Entrusted Loan to, Inner Mongolia Yili Chemicals Co., Ltd."
The 17th meeting	28 October 2008	Beijing	Chen Xiaoyue, Huang Yicheng, Neoh Anthony Francis	"Financial Statement of China Shenhua Energy Company Limited for the Third Quarter of 2008 (unaudited)"
The 18th meeting	14 November 2008	Beijing	Chen Xiaoyue, Huang Yicheng, Neoh Anthony Francis	"Proposal on the connected transaction involving increase in Registered Capital of Zhejiang Jiahua Power Generation Limited Company" "Proposal on the connected transaction involving entering into 2008 Power "Generation Rights Trading Agreement with Tianjin Guohua Panshan Power Generation Company"

(2) The Audit Committee has performed the following procedures during the 2008 annual reporting work:

On 22 December 2008, the Audit Committee discussed with KPMG and KPMG Huazhen, the auditors of the Company, on the audit arrangement of the financial statements for the year;

On 31 December 2008, the Audit Committee, through the internal control and audit department, discussed the progress of hard close audit with the Company's auditors.

On 20 January 2009, the Audit Committee considered the report from, and discussed independently with, the auditors of the Company on the audit progress, there is no inconsistency with the reporting from the management.

On 15 February 2009, the Audit Committee considered the report from Zhang Kehui, the chief financial officer, on the accounting policies, the preparation of the financial statements and the audit progress;

On 20 February 2009, the Audit Committee considered the report from Ling Wen, the president, on the operating results for 2008 and the operating plans for 2009 and reviewed the unaudited financial statements prepared by the Company, and Ling Wen and Hua Zeqiao, a vice-president, accompanied independent directors in an on-site visit to the sales centre;

On 24 February 2009, the Audit Committee, through the internal control and audit department, further discussed with the auditors of the Company on the annual audit progress;

On 5 March 2009, the Audit Committee further reviewed the revised draft of the unaudited financial statements, the self-assessment report on internal control and the first draft of the social responsibilities report, and reviewed the reporting materials by the financial controller on the operating results for 2008; and

On 26 March 2009, the Audit Committee approved the annual financial statements for 2008, the self-assessment report on internal control for 2008 and the social responsibilities report for 2008, and agreed to submit them to the Board for approval.

2. Summary work report of the Strategy Committee

The Strategy Committee consists of Dr. Zhang Xiwu and Dr. Ling Wen. Dr. Zhang Xiwu is the chairman of the committee.

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

In 2008, the Strategy Committee held one meeting. Details of the meeting are as follows:

Name	Date	Venue	Attendees	Resolutions passed
The 9th meeting	28 October 2008	Beijing	Chen Biting Zhang Xiwu Ling Wen	"Proposal on investment in expansion project of phase III of the power plant in Jiaxing, Zhejiang Province"

3. Performance of duties by of the Remuneration Committee

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

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

The Remuneration Committee held one meeting in 2008. Details of the meeting are as follows:

Name	Date	Venue	Attendee	Resolutions passed
The 10th meeting	14 March 2008	Beijing	Neoh Anthony Francis Ling Wen Chen Xiaoyue	"Proposal on the remuneration of the directors and supervisors for the year 2007" "Proposal on the remuneration of members of senior management for the year 2007" "Proposal on the 2007 summary work report of the Remuneration Committee of the Board"

During the reporting period, the Remuneration Committee reviewed our remuneration management system and the remuneration level for the directors, supervisors, the president and other senior management in the year 2008.

The Remuneration Committee is of the view that the Company has a well-established remuneration management system which reflects the economic-centralized philosophy of a listed company and political, social and economical responsibility of a state-owned enterprise. The Remuneration Committee agrees on the remuneration management system of the Company.

4. Performance of duties by the Nomination Committee

The Nomination Committee under the Board consists of Dr. Zhang Xiwu, Mr. Huang Yicheng, Mr. Neoh Anthony Francis and Dr. Chen Xiaoyue. Dr. Zhang Xiwu is the chairman of the committee.

The main duties of the Nomination Committee are to regularly review the structure, size and composition (including skills, knowledge and experience) of the Board and to make recommendations to the Board with regard to any proposed changes; assess the independence of independent non-executive directors; draft procedures and criteria for election and appointment of directors, the president and other senior management and make recommendations to the Board; extensively search for qualified candidates of directors, president and other senior management; conduct examination on candidates of directors, president and other senior management and make recommendations; nominate candidates for members of the Board Committees (other than members of the Nomination Committee and chairman of any Board Committee); draft development plans for the president, other senior management and key personnel; and carry out any other matter as authorized by the Board.

In 2008, the Nomination Committee did not hold any meeting.

5. Performance of duties by the Safety, Health and Environment Committee

The Safety, Health and Environment Committee consists of Mr. Huang Yicheng, Dr. Zhang Yuzhuo, Dr. Ling Wen and Mr. Han Jianguo. Mr. Huang Yicheng is the chairman of this committee.

The principal duties of the Safety, Health and Environment Committee are to supervise the implementation of health, safety and environmental protection plans of the Company; provide advice to the Board or the president on material issues of the Company in respect of the health, safety and environmental protection, inquire into material incidents and liabilities regarding the Company's production, operations, properties, assets, staff or other facilities, as well as review and supervise the resolution of incidents and deal with any other issues authorised by the Board.

In 2008, the Safety, Health and Environment Committee held two meetings in total. The details of the meetings are as follows:

Name	Date	Venue	Attendee	Resolutions passed
The 7th meeting	14 March 2008	Beijing	Huang Yicheng Zhang Yuzhuo Ling Wen	"Proposal on the report of corporate social responsibility in 2007" "Proposal on the report of safety, health and environmental protection"
The 8th meeting	18 December 2008	Beijing	Huang Yicheng Zhang Yuzhuo Ling Wen Han Jianguo	"Report of safety, health and environmental protection work in 2009"

(IV) Performance of duties by independent directors

During the reporting period, the independent directors of the Company strictly complied with the requirements of relevant laws and regulations, the Articles of Association, relevant rules and procedures and the "Systems of Independent Directors". They maintained their independence required for independent directors, performed their functions of supervision, participated in the making of important decisions of the Company and reviewed regular reports and financial statements of the Company. Therefore the independent directors of the Company played a key role in monitoring the operation of the Company and protected the lawful interests of minority shareholders. The Company has facilitated and ensured that proper conditions are in place for independent directors to perform their duties.

The Board has been in compliance with Rule 3.10(1) of the Hong Kong Listing Rules, which requires a company to maintain at least three independent non-executive directors, and with Rule 3.10(2) of the Hong Kong Listing Rules, which requires one of those independent non-executive directors to possess appropriate professional qualifications or to be specialized in accounting or relevant financial management.

Attendance of independent directors at Board meetings

Name of independent director	Number of Board meetings held in 2008	Attendance in person	Attendance by proxy	Absent	Remarks
Huang Yicheng	10	9	1	0	Huang Yicheng appointed Chen Xiaoyue as his proxy to attend and vote at the 20th Board meeting
Neoh Anthony Francis	10	10	0	0	
Chen Xiaoyue	10	10	0	0	

Dissenting views of independent directors on matters of the Company

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

F General Meetings

(I) Shareholders' rights

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

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

The controlling shareholder of the Company exercises its rights as a shareholder in a normal way and participates in operation and decision-making of the Company by way of shareholders' general meeting and the Board. The Company convenes the general meeting in Beijing or Hong Kong , and actively invites minority shareholders of A shares and H shares to attend the shareholder's general meeting. The Board of the Company considers with due care and makes arrangement for the matters to be considered at shareholders' general meetings at least 45 days prior to such meetings, and sufficient time for discussion will be given to each matter proposed. Minority shareholders actively attend shareholders' general meeting and fully enjoy various rights such as right of information, to speak, to address questions and to vote.

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

(II) General Meetings

During the reporting period, the Company held one general meeting in strict compliance with the notification, convening and holding procedures of general meetings stipulated by relevant laws and regulations, listing rules in PRC and Hong Kong and the Articles of Association. The details of the meeting are as follows.

The Company held the 2007 annual general meeting on 16 May 2008 in Beijing. Announcement of the resolutions passed at the meeting was published on the website of Hong Kong Stock Exchange (www.hkex.com.hk) on 16 May 2008 and China Securities Journal, Shanghai Securities News and the website of Shanghai Stock Exchange (www.sse.com.cn) on 17 May 2008.

The notice of such general meeting was given 45 days prior to the convening of the meeting with particulars of the meeting being published at the websites of the stock exchanges both in the PRC and Hong Kong in accordance with requirements of the Articles of Association. Apart from accepting pre-registration of shareholders' attendance by way of facsimile, the Company also actively invited the attendance of holders of A shares and H shares and fund analysts. The total number of shareholders attending in person and by proxy was 89, and the number of shares represented by them was 16.34 billion shares, representing 82.18% of the total share capital of the Company, which fully reflected the shareholders in both listing venues of the Company.

The scrutineers of the meeting consisted of minority shareholders' representative, supervisors' representative and lawyers from both the PRC and Hong Kong. The procedures of the meeting were conducted in strict compliance with the listing rules of the PRC and Hong Kong, the Articles of Association and the Rules and Procedures of Shareholders' General Meetings of the Company. Sufficient time was given to shareholders for consideration of resolutions proposed and for question and answer, leading to satisfactory communication between the management and shareholders. We also engaged professional vote counting firm to assist in counting the votes casted by shareholders at the general meeting, leading to synchronous announcement of vote results between A shares and H shares. The whole process of the meeting was witnessed by the PRC and overseas legal advisers and auditors of the Company, and the "Legal Opinion Regarding the 2007 Annual General Meeting" was issued by King & Wood.

Announcement of the resolutions passed at the meeting was published on the website of Hong Kong Stock Exchange (www.hkex.com.hk) on 16 May 2008, and China Securities Journal, Shanghai Securities News and the website of Shanghai Stock Exchange (www.sse.com.cn) on 17 May 2008.

Supervisory Committee's Report

In accordance with the requirements of the Articles of Assocaition, the Supervisory Committee of the Company consists of three members, namely Mr. Xu Zufa (chairman of the committee), Mr. Wu Gaoqian and Mr. Li Jianshe (staff representative).

During the reporting period, all members of the Supervisory Committee had, with integrity and the attitude of being responsible to all shareholders, honestly carried out their supervisory duties, protected the interests of shareholders and duly overseen the operations and the financial position of the Company in 2008 as well as the performance by the directors and senior management of the Company of their duties, in accordance with the Company Law of the PRC (the "Company Law") and the Articles of Association.

A Operation of the Supervisory Committee

In the reporting period, in compliance with the requirements of the Articles of Association and the Rules and Procedures of Meetings of the Supervisory Committee and in light of the actual conditions, the Supervisory Committee conducted one on-site examination on the operations and the financial position of the Company and reviewed the interim and annual financial statements of the Company. In 2008, the Supervisory Committee held four meetings, details of the matters discussed/resolved in such meetings are summarised as follows:

Meeting	Date	Venue	Method of meeting	Attendance by Supervisors	Subject matters	Voting results
11th meeting of the First Session of Supervisory Committee	14 March 2008	Beijing	On-site	All	The Resolution on the Annual Report for the Year 2007	Approved in unanimous votes
					The Resolution on the Corporate Social Responsibility Report for the Year 2007	Approved in unanimous votes
					The Resolution on the Audited Financial Statements for the Year 2007	Approved in unanimous votes
					The Resolution on the Profit Distribution Plan for the Year 2007	Approved in unanimous votes
					To hear the Report on Use of Proceeds for the Year 2007	Not for voting
					The Resolution on the Work Report of the Supervisory Committee for the Year 2007	Not for voting
					To discuss the Notification Letter to Initial Public Offering Companies issued by Beijing Securities Regulatory Commission	Not for voting
					The Resolution on the Work Summary of the Supervisory Committee for the Year 2007	Approved in unanimous votes
					The Resolution on the Key Points of the Work of the Supervisory Committee for the Year 2008	Approved in unanimous votes
12th meeting of the First Session of Supervisory Committee	23 April 2008	Beijing	By written documents	All	The Resolution on the First Quarterly Report for the Year 2008	Approved in unanimous votes
13th meeting of the First Session of Supervisory Committee	29 August 2008	Beijing	On-site	All	The Resolution on the Interim Report for the Year 2008	Approved in unanimous votes
					The Resolution on the Interim Financial Statements for the Year 2008	Approved in unanimous votes
					To hear the report on the investment proceeds and proceeds collection of controlling or participating enterprises from 2005 to 2007	Not for voting
14th meeting of the First Session of Supervisory Committee	28 October 2008	Beijing	By written documents	All	The Resolution on the Third Quarterly Report for the Year 2008	Approved in unanimous votes

The four meetings were convened and held in compliance with the relevant provisions of the Company Law and the Articles of Association. During the reporting period, the supervisors attended the annual general meeting of the Company, ten Board meetings of the Company and twelve regular meetings convened by the President. The supervisors duly supervise the lawful operation of the Company at such meetings.

B Independent opinion of the Supervisory Committee on the lawful operation of the Company

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

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

C Independent opinion of the Supervisory Committee on the financial position of the Company

In the reporting period, the Supervisory Committee effected one examination on the financial position of the Company and duly reviewed the Company's annual financial statements for the year 2007, the Company's profit distribution plan for the year 2007 and the Company's first quarterly, interim and third quarterly financial statements for the year 2008.

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

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

In September 2007, the Company raised net proceeds of RMB65.988 billion by issue of A shares. RMB7.168 billion was used in 2008, of which RMB5.646 billion was used for investing in and upgrading the coal, power and transportation system of the Company, and RMB1.522 billion was used as strategic assets acquisitions. The actual use of such proceeds was in line with that set out in the prospectus issued by the Company.

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

The Company did not enter into any significant transactions for acquisition or disposal of assets in the reporting period and is not aware of any insider dealing or any act prejudicial to the interests of shareholders or resulting in loss of assets of the Company.

F Independent opinion of the Supervisory Committee on connected transactions of the Company

The Supervisory Committee is of the opinion that the connected transactions of the Company in 2008 were carried out under the principles of fairness and equality and have been constantly monitored and regulated, the consideration of such transactions are reasonable and the amounts of such transactions are within the caps as approved by competent regulatory authorities. The Supervisory Committee is not aware of any act prejudicial to the interests of the shareholders.

In 2009, the Supervisory Committee will continue to perform its duties with diligence to protect the interests of the Company and its shareholders in accordance with the Company Law and the Articles of Association.

Investor Relations

In 2008, the financial crisis had a negative impact on the global capital market and there were both challenges and opportunities. China Shenhua made persistent efforts in its investor relations tasks to overcome difficulties, meet challenges and capture opportunities and continued to enhance its efforts on all aspects of its investor relations.

A Adherence to the established investor relations philosophy

Since listing, China Shenhua has adhered to the philosophy of "active and interactive communication and sharing success with investors" in respect of its investor relations efforts with a view to driving and implementing its work on investor relations.

China Shenhua believes investor relations does not represent one-way communication and can only be realized when interactive communication is established between investors and the Company. Communication between both parties requires not only "speaking" but also "listening". Therefore, China Shenhua has placed much emphasis on listening to and accepting rational comments and suggestions from shareholders and investors, and has endeavored to continually improve the operating results of the Company and truthfully report the financial and business development status of the Company to shareholders and investors. It hopes to bring reasonable returns to shareholders and investors, who have always supported the Company, through continued optimization and improvement of its operations, thereby achieving win-win result for both China Shenhua and investors.

B To face challenges brought about by the financial crisis in joint hands with investors

2008 was a year full of challenges. The once-in-a-century global financial crisis resulted in a slump in the economy and huge pressure facing the capital market. China Shenhua has met unprecedented challenges in its investor relations efforts.

China Shenhua firmly believes the core of investor relations lies in comprehensive, timely, transparent and profound information disclosure, especially when the Company is faced with various uncertainties in its operating environment under the current turbulent global financial situation. China Shenhua believes through continued and active communication with investors and informing investors the latest development of the Company amidst rapid market changes, investors will maintain and enhance their confidence in investing in shares of the Company and face challenges brought about by the financial storm together with the Company.

China Shenhua believes the financial crisis presents both risks and opportunities. The financial crisis offers an opportunity for China Shenhua to enhance corporate communications with investors and allow investors to better identify the value of investing in China Shenhua. In 2008, China Shenhua communicated with investors and analysts in a positive and frank manner through various channels such as results announcement conference, worldwide roadshow, A share roadshow, reverse roadshow, 2007 annual general meeting, investment forums, company visits and teleconference, meeting in aggregate around 2,730 analysts and fund managers. Of which, China Shenhua met around 1,310 analysts and fund managers through roadshow; met around 800 analysts and fund managers through participation in investment forums; met around 620 analysts and fund managers through company visits and teleconference.

In addition, to ensure the information of China Shenhua can be accurately communicated to all existing and potential investors, the Company has made special use of some more popular channels such as mail box to the secretary of the Board and secretary of the Board online for easier communication with investors of different levels, and to ensure they can access information of the Company in a timely and comprehensive manner.

C Continuous improvement on investor relations

Under the pressure of the financial crisis, China Shenhua moved forward with its work on investor relations despite difficulties and continued to enhance the recognition of the Company in both domestic and overseas capital markets:

(I) Continuous improvement of the Company's image

Through various forms of investor relations activities, the Company has improved investors' understanding of the Company and has enhanced its communication with investors. Continuous and active communication with investors has allowed the Company to grasp a first hand perspective of investors' views and at the same time giving investors an understanding of the Company's business development, thereby creating a highly transparent corporate image of emphasizing investor relations and addressing investors' needs on basis of mutual benefits.

(II) Improving coverage in respect of analysts and fund houses

Since listing, the number of analysts of investment banks tracking performance of the Company has continued to increase. This is attributed to the attractiveness of the industry where the Company is operating to investors and the fact that the Company has made continuous efforts in enhancing investor and media relationship since its listing, leading to an increase of analysts and institutional investors interested in tracking performance of Company or investing in the Company's shares.

(III) Highly recognized investment value of the Company

After implementing a series of investor relations initiatives, investors gained a deeper understanding of the core investment value of the Company. Since the listing of the Company, its share price has continued to increase. The share price of the Company once declined with the market under the impact of the financial crisis but rebounded gradually and became steady afterwards. Meanwhile, the investment rating given by relevant institutions in respect of the Company remained at "buy" or "outperform the market".

(IV) Awards obtained

Year	Awards	Issuing authority
2005	Best IPO	"Asiamoney"
2006	Best Corporate Governance	"Finance Asia"
	Most Influential Overseas Listed Company	"Shanghai Securities Journal"
	Best Coal Enterprise	"Platts"
	Best Corporate Governance Disclosure Award – Gold Award	HKICPA
2007	Forbes Best Long-term Value Company in Asia	"Forbes"
	Listed Company with Most Investment Value	China Social Sciences Institute
	Best Shareholder Appraised Company in Asia	"Institutional Investor"
	China Best Mining Industry Company	"Global Finance"
	China Top Ten Best Investor Relation Company	hexun.com
	Listed Company with Best Return Value	"Huaxia Daily"
	Top 100 Listed Companies – Gold Ox Award	"China Securities Journal"
	Best Metal and Mining Company in China	"Euromoney"
2008	Best Metal and Mining Company in Asia – 2nd Place	"Euromoney"
	Outstanding Board	"Directors & Boards"
	China Blue Chip Companies Rankings for 2008	CFOTIME Net
	Top 100 Listed Companies with the Highest Value	Securities Times
	Top 500 Companies in the World with the Highest Market Capitalization – 52th Place	"Financial Times"
	Top 100 Listed Companies Rankings – 8th Place	"Washington Institute of Economy" (「華盛頓經濟研究院」)
	China United Top 100 Listed Companies – 7th Place	China United Holdings
	Top 100 Listed Companies in China Rankings	"Fortune"
	Contribution to China in terms of Corporate Governance Rankings – 2nd Place	"Talents"
	Top 100 Listed Companies in Market Value Management – 9th Place	Listed Company Market Value Management Centre
	The 2007 Annual Report was awarded the honorary award at the ARC Annual Report Competition	Mercomm
	The 2007 Corporate Social Responsibility Report was awarded the Bronze Award at the ARC Annual Report Competition	Mercomm
	Platts Top 250 Global Energy Enterprises – 58th Place	"Platts"
	Top 50 China Companies with the Strongest Global Competitiveness	"RolandBerger"
	Top 50 Best Listed Companies in Asia Pacific	"Forbes"
	Gold Ding Award for Listed Companies in the China Securities Market	證券日報社
	Outstanding Corporate Governance Award	Chamber of Hong Kong Listed Companies
	Forbes "Best 50" Large Companies in Asia	"Forbes"
	Being included in the "Piaoliang 50" List	"New Finance Economics"
	China Corporate Social Responsibility Outstanding Enterprise Award	"First Financial Daily"
	China Investor Relations Management Top 100 List - 6th Place	Jointly guided by Shanghai Stock Exchange and Shenzhen Stock Exchange
	China Investor Relations Innovation Award	Jointly guided by Shanghai Stock Exchange and Shenzhen Stock Exchange
	Best Shareholder Appraised Company in Asia	"Institutional Investor"
	China State-owned Listed Enterprise Social Responsibility Rankings – 7th Place	"Southern Weekly"
2009	Best large-scale Company Management Award in 2008	"Asiamoney"

(V) Indices in which the Company is included

Index Institutions	Indices in which the Company is included	Effective date
MSCI Barra	MSCI Index	31 May 2007
DOW JONES 道琼斯	Dow Jones China 88 Index	11 October 2007
新华富时指数 Xinhua FTSE Index	FTSE Xinhua A Share Index	22 October 2007
中证指数有限公司	SSE Index	23 October 2007
巨潮指数	Cninfo Indices	29 October 2007
HANG SENG INDEXES	Hang Seng China AH Indices	5 November 2007
HANG SENG INDEXES	Hang Seng Index	10 December 2007
中证指数有限公司	SSE Corporate Governance Index	2 January 2008
asia money	Asia Finance 100 Blue Chip Index	2 January 2008
中证指数有限公司	CSI Hong Kong 100 Index	7 May 2008
MSCI Barra	MSCI China A Share Growth Index	30 May 2008
HANG SENG INDEXES	Hang Seng China 50 Index	30 March 2008
中证指数有限公司	SSE 180 Corporate Governance Index	10 September 2008
中证指数有限公司	CSI Great China Index	10 November 2008
中证指数有限公司	SSE 180 Natural Resource Index	15 December 2008
中证指数有限公司	CSI RAFI 50 Index	26 February 2009

Significant Events

A Material litigation and arbitration

As at the end of the reporting period, the Group was not involved in any material litigation or arbitration. As far as the Group was aware, the Group had no material litigation or claim which was pending or threatened against the Group. As at 31 December 2008, the Group was the defendant of certain non-material litigations, and also a party to certain litigations arising from the ordinary course of business. The likely outcome of these contingent liabilities, litigations or other legal proceedings cannot be ascertained at present, but the management of the Group believes that, any possible legal liability which may be incurred from the aforesaid cases will not have material adverse effect on the financial position of the Group.

B Insolvency or restructuring related matters

During the reporting period, the Group did not have any insolvency or restructuring related matters.

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

Name of the company held	Amount of Initial investment RMB million	Number of shares held	Percentage of the direct and indirect shareholding %	Book value at the end of the period RMB million
Shenhua Finance	161	—	40	531

D Transactions in assets

During the reporting period, the Company did not enter into any significant transactions involving the acquisition and disposal of assets, takeovers and mergers.

E Details of the implementation of the stock options incentive plan and the impact thereof

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

F Material related party transactions of the Company during the reporting period

The Company has a related party transaction team under the direct leadership of the Chief Financial Officer, which is responsible for the management of related party transactions (including connected transactions); and has established a business process which properly delineates the responsibilities of the Company, its branches and subsidiaries in the management of related party transactions. The team has also established routine examinations, reporting systems and responsibility ascertaining system in the branches and subsidiaries of the Company. During the reporting period, the Company further amended the "Related Party Transactions Decision Making System" to regulate and strengthen the management of related party transactions of the Company.

(I) Connected transactions and continuing connected transactions

The following are the major connected transactions and continuing connected transactions of the Group in 2008 according to the requirements of the Hong Kong Listing Rules.

1. Exempted connected transactions

(1) Non-competition agreement

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

During the year ended 31 December 2008, the directors (including independent non-executive directors) of the Company have not made any decision to exercise the options.

2. Non-exempted connected transactions and continuing connected transactions

(1) Non-exempted connected transactions

a Entrustment Loan Agreements and Assets Pledge Agreement entered into with Inner-Mongolia Yili Chemical Industrial Co., Ltd. ("Yili Chemical")

On 29 August 2008, Shendong Power, a wholly-owned subsidiary of the Company, entered into two Entrustment Loan Agreements with the Bank of China Limited Shenmu County Branch ("Bank of China") and Yili Chemical, pursuant to which Shendong Power provided entrusted loans in the aggregate amount of RMB729.054 million to Yili Chemical through the Bank of China. To secure the entrustment loans and interests accrued thereon, Yili Chemical has entered into an Assets Pledge Agreement on 29 August 2008 with Shendong Power pursuant to which Yili Chemical agreed to pledge the relevant assets to Shendong Power. For more details, please refer to the Company's announcement dated 29 August 2008.

Yili Resources Group Co., Ltd. ("Yili Group") is a substantial shareholder (as defined in the Hong Kong Listing Rules) of Shenhua Yili Energy Co., Ltd. ("Shenhua Yili Energy"), a subsidiary of the Company. Yili Group holds 41% shareholdings of Yili Chemical. Yili Group and Yili Chemical are therefore connected persons of the Company under the Hong Kong Listing Rules. Therefore, the Entrustment Loan Agreements, Assets Pledge Agreement and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. As the relevant percentage ratios (as defined under Rule 14A.10 of the Hong Kong Listing Rules) for the Entrustment Loan Agreements and the Assets Pledge Agreement are more than 0.1% but less than 2.5%, the transaction is only subject to the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, but is exempted from the independent shareholders' approval requirement under Rule 14A.66 (2) of the Hong Kong Listing Rules.

b Increase in registered capital of Zhejiang Jiahua Power Generation Company Limited ("Jiahua")

On 28 November 2008, the Company entered into an agreement with Zhejiang Province Electric Power Development Company ("Electric Power Development"), Zhejiang Southeast Power Generation Stock Company Limited ("Southeast Power Generation"), and Zhejiang Province Electric Power Construction Company Limited ("Electric Power Construction"). The parties thereof have agreed to invest in the expansion project of Jiaqing Power Plant Phase Three by way of increasing the registered capital of Jiahua, in proportion to their respective equity interests in Jiahua. Pursuant to the agreement, the Company shall contribute RMB317.60 million to the additional registered capital of Jiahua, in proportion to its equity interest in Jiahua. For more details, please refer to the Company's announcement dated 28 November 2008.

Electric Power Development is a substantial shareholder of one of the Company's subsidiaries and Jiahua is a subsidiary of Electric Power Development. Jiahua is therefore a connected person of the Company under the Hong Kong Listing Rules. Accordingly, the increase in the registered capital to be made by the Company to Jiahua constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the relevant percentage ratios (as defined under Rule 14A.10 of the Hong Kong Listing Rules) in respect of the increase in the registered capital to be made by the Company to Jiahua is more than 0.1% but less than 2.5%, the transaction is subject to the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules, but is exempted from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

(2) Non-exempted continuing connected transactions

The following non-exempted continuing connected transactions are new transactions of the Group in 2008 or transactions of which the annual caps have been revised in 2008:

a The Group entered into the following new continuing connected transactions in 2008:

(i) The Framework Agreement on Supply of Coal entered into between the Group and China Datang Corporation. Since China Datang Corporation and its subsidiaries became connected persons of the Company since 29 December 2007, the Framework Agreement on Supply of Coal constitutes a continuing connected transaction under the Hong Kong Listing Rules since 2008.

(ii) Panshan Power, a subsidiary of the Company, entered into the First Power Generation Trading Agreement with Tianjin City Fu Yuan Electricity Company Limited ("Fu Yuan Electricity"), Tianjin City Electricity Company Limited ("Tianjin City Electricity") and Huabei Electricity Network Trading Center, and entered into the Second Power Generation Trading Agreement with Tianjin Chen Tang Heat Electricity Company Limited ("Chen Tang Heat Electricity"), Tianjin City Electricity, and Huabei Electricity Network Trading Center. Pursuant to these two power generation trading agreements, Panshan Power has agreed to substitute Fu Yuan Electricity and Chen Tang Heat Electricity in supplying electricity services to Tianjin City Electricity and receive substitution revenues.

b The Group expects the original annual caps of certain continuing connected transactions cannot satisfy the demands of the Group in 2008, therefore, the Group revised the annual caps for 2008 of the following continuing connected transactions:

(i) The Coal Export Agency Agreement entered into with Shenhua Group: as the coal prices rose significantly in 2008, the Company increased the total amount of agency fees to be paid for the provision of export services by Shenhua Group to the Group in 2008 from RMB86.07 million to RMB124.85 million.

(ii) The Framework Agreement on Supply of Coal entered into with China Datang Corporation: in view of the continuous development of the Group, and the estimation of the demands and the operational status under the Framework Agreement on Supply of Coal, the Company increased the total transaction amount for the sales of coal from the Group to China Datang Corporation in 2008 from RMB3,438.30 million to RMB4,300 million.

(iii) The Agreement on Mutual Supply of Coal entered into with Shenhua Group: in view of the continuous development of the Group and based on the estimation of the demand and operational status under the Agreement on Mutual Supply of Coal, the Company increased the total amount of coal supply from the Group to Shenhua Group in 2008 from RMB1,931.89 million to RMB2,049.89 million.

(iv) The Agreement on Mutual Supply of Products and Services entered into with Shenhua Group: in view of the continuous development of the Group and based on the estimation of the demand and operational status under the Agreement on Mutual Supply of Products and Services, the Company increased the total amount of products and services provided by the Group to Shenhua Group in 2008 from RMB436.16 million to RMB1,317.26 million.

c. The material continuing connected transactions of the Company during the reporting period are as follows:

(i) Power Generation Trading Agreement

On 28 May 2008, Panshan Power, a subsidiary of the Company, entered into the First Power Generation Trading Agreement with Fu Yuan Electricity, Tianjin City Electricity and Huabei Electricity Network Trading Center, pursuant to which Guohua Panshan has agreed to substitute Fu Yuan Electricity in supplying electricity services to Tianjin City Electricity and Fu Yuan Electricity has agreed to pay substitution fees to Guohua Panshan subject to the terms and conditions therein. On 28 November 2008, Guohua Panshan, a subsidiary of the Company, entered into the Second Power Generation Trading Agreement with Chen Tang Heat Electricity, Tianjin City Electricity, and Huabei Electricity Network Trading Center, pursuant to which Guohua Panshan has agreed to substitute Chen Tang Heat Electricity in supplying electricity services to Tianjin City Electricity and Chen Tang Heat Electricity has agreed to pay substitution fees to Guohua Panshan subject to the terms and conditions therein. Both power generation trading agreements were terminated on 31 December 2008. For more details of the transactions, please refer to the Company's announcement dated 28 November 2008.

Tianjin City Jin Neng Investment Company Limited ("Jin Neng Investment") is a substantial shareholder of Tianjin Guohua Jin Neng Fadian Limited Company ("Tianjin Guohua Jin Neng"), a subsidiary of the Company, and Fu Yuan Electricity and Chen Tang Heat Electricity are subsidiaries of Jin Neng Investment. Therefore, Jin Neng Investment, Fu Yuan Electricity and Chen Tang Heat Electricity are connected persons of the Company under the Hong Kong Listing Rules.

The cap on substitution fees to be received by the Company under the First Power Generation Trading Agreement for the year ended 31 December 2008 was RMB27.00 million while the actual amount was RMB22.27 million. The cap on substitution fees to be received by the Company under the Second Power Generation Trading Agreement for the year ended 31 December 2008 was RMB63.00 million, while the actual amount was RMB53.35 million. The settlement was made by cash.

(ii) *Coal Export Agency Agreement with Shenhua Group*

According to the PRC laws, exporters of coal must obtain export operation right by holding valid export licenses or engage other companies with valid export licenses as coal exporting agents. Shenhua Trading, a subsidiary of Shenhua Group, is one of the few companies in PRC which holds valid coal export licenses. Under the current domestic supervision system, coal export licenses are not allowed to be transferred, therefore, the coal export operation right of Shenhua Group cannot be transferred to the Company. Besides, the Company will continue to sell coal and related products to foreign customers, the Company (on behalf of itself and its subsidiary, Shenhua Trading) entered into the Coal Export Agency Agreement with Shenhua Group on 24 May 2005. The principal terms of the Coal Export Agency Agreement are as follows:

- The agreement took effect from 1 January 2005 and the term is 3 years, which may be extended as required by the Company. Shenhua Group renewed the agreement with the Company in 2007 and extended the term to the end of 2010. The agreement has been approved by the Board, and this matter has been published on the website of Hong Kong Stock Exchange on 27 March 2007 and on the South China Morning Post and Hong Kong Economic Times on 28 March 2007;

- The parties agreed that Shenhua Group will provide non-exclusive agency service for the export of coal products to the Company. The Company may engage other enterprises with coal export operation right to export coal products as its agent, however, if the conditions of export agency obtained from any third parties are equal or less favorable than those provided by Shenhua Group, priority will be given to Shenhua Group to be selected as the Company's agent for the export of coal products;

- The parties agreed that the commission charged by Shenhua Group from the Company shall be determined based on the market price or price lower than the market price. At present, Shenhua Group charges commission for export agency at 0.7% on the exporting FOB price per tonne;

- The customers of exported coal will be selected by the Company and the export price of coal shall be confirmed by the Company and determined on the basis of the annual contract price or bid price of spot purchase.

For the year ended 31 December 2008, the annual cap of the expenses paid to Shenhua Group by the Company was RMB124.85 million. The actual amount of agency fee was RMB96.42 million. The settlement was made by cash.

(iii) Agreement on Mutual Supply of Products and Services entered into with Shenhua Group

After the restructuring of Shenhua Group, the establishment of the Company and the offering and listing of H shares of the Company on the Hong Kong Stock Exchange, Shenhua Group retains part of its assets and businesses to provide several products and ancillary services for the core business of the Company. Furthermore, the Company also provides certain products and services to Shenhua Group to support the development of the business retained by Shenhua Group. The Company entered into the Agreement on Mutual Supply of Products and Services with Shenhua Group on 24 May 2005.The principal terms of the Agreement on Mutual Supply of Products and Services are as follows:

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

- Shenhua Group and the Company will provide free services to each other regarding the use of hardware facilities of information system;

- Products and services provided by Shenhua Group to the Company include the ancillary services for business operations such as refined oil, civil blasting supply, security service and logistics and some administrative services; the products and services provided by the Company to Shenhua Group include water supply, management of vehicles, railway transportation and other related or similar products and services;

- The pricing policy for the provision of products and services: price prescribed by the state if applicable; when there is no state-prescribed price but 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 (including bidding price); where none of the above is applicable or where it is not practical to apply the above pricing policies in reality, the price shall be the contractual price (i.e. the reasonable costs incurred + a profit margin of 5% of such costs);

For the year ended 31 December 2008, (1) the annual cap of the expenses to be paid to Shenhua Group for the provision of products and ancillary services was RMB2,735.91 million, while the actual amount of expenses was RMB1,221.38 million. The settlement was made by cash; (2) the annual cap of the income arising from the provision of products and ancillary services to Shenhua Group for 2008 was RMB1,317.26 million. The actual amount of income was RMB507.85 million. The settlement was made by cash.

(iv) *Agreement on Mutual Supply of Coal entered into with Shenhua Group*

The Company purchases some coal from the subsidiaries of Shenhua Group such as the Xisanju Company, to satisfy the need for coal blending and other requirements. The Company also sells small quantity of coal to certain subsidiaries of Shenhua Group that engage in the coal trading. The Company and Shenhua Group entered into the Agreement on Mutual Supply of Coal on 24 May 2005.The principal terms of the Agreement on Mutual Supply of Coal were as follows:

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

- Market price will be adopted for the mutual supply of coal;

- Priority will be given to each other when one party purchases coal products from the other party unless the terms of sale provided by a third party are more favorable.

For the year ended 31 December 2008, (1) the annual cap of expenditures arising from the provision of coal by Shenhua Group to the Company was RMB7,860.45 million. The actual amount of expenditure was RMB4,729.65 million. The settlement was made by cash; (2) the annual cap of income arising from the purchase of coal by Shenhua Group from the Group was 2,049.89 million. The actual amount of income was RMB1,642.25 million. The settlement was made by cash.

(v) *Agreement on Financial Services entered into with Shenhua Finance*

On 21 July 2006, the Company entered into the Agreement on Financial Services with Shenhua Finance, a subsidiary of Shenhua Group, pursuant to which Shenhua Finance shall provide financial services to the Company.The principal terms of the Agreement on Financial Services are as follows:

- The agreement was effective from 21 July 2006 to 31 December 2007. Shenhua Finance renewed the agreement with the Company in 2007 and extended the term to the end of 2010. The agreement has been approved by the Board and this matter has been published on the website of the Hong Kong Stock Exchange on 27 March 2007 and on the South China Morning Post and Hong Kong Economic Times on 28 March 2007;

- Shenhua Finance provides various financial services to the Company including accepting money deposit, handling bill acceptance and discount services, providing security, providing entrusted loan and entrusted investment, etc;

- Shenhua Finance undertakes to provide financial services of the same kind under conditions no less favorable than those provided by Shenhua Finance to other members of Shenhua Group and those provided by other financial institutions to the Company at that time;

- The interest rate for the Company's deposits with Shenhua Finance shall not be lower than the lowest interest rate specified by the People's Bank of China for deposit of the same type. In addition to the above, the interest rate for the Company's deposits with Shenhua Finance shall be equal to or above the interest rate determined for the same type of deposit placed by other members of Shenhua Group with Shenhua Finance, and shall be equal to or above the interest rate of the same type of deposit services provided by commercial banks to the Company generally, whichever is higher; The interest rate for loans granted to the Company by Shenhua Finance shall not be higher than the highest interest rate specified by the People's Bank of China for loans of the same type. In addition to the above, the interest rate for loans granted to the Company by Shenhua Finance shall be equal to or below the interest rate determined for the same type of loans granted by Shenhua Finance to other members of Shenhua Group, and shall be equal to or below the interest rate of the same type of loans granted by commercial banks to the Company generally, whichever is the lower; the fees charged by Shenhua Finance for other financial services provided shall be determined based on the rate of fees specified by the People's Bank of China or the China Banking Regulatory Commission.

Shenhua Finance is a subsidiary of the Company's controlling shareholder and thus a connected person of the Company under the Hong Kong Listing Rules.

For the year ended 31 December 2008, the cap for the average maximum daily balance of deposit with Shenhua Finance was RMB3,400.00 million and the actual average maximum daily balance of deposit with Shenhua Finance was RMB1,035.60 million.

(vi) *Framework Agreement on Supply of Coal entered into with Jiangsu Guoxin Asset Management Group Company Limited ("Jiangsu Guoxin")*

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

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

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

For the year ended 31 December 2008, the maximum amount receivable for the sales of coal by the Company to Jiangsu Guoxin, its subsidiary and associates under the Framework Agreement on Supply of Coal was RMB3,111.83 million. The actual amount was RMB1,168.09 million. The settlement was made by cash.

(vii) *Framework Agreement on Supply of Coal entered into with Jin Neng Investment*

In order to standardize and enhance central monitoring of its contractual relationships, the Company has sought to enter into framework agreements with customers which are part of a single corporate group. The Company entered into the Framework Agreement on Supply of Coal with Jin Neng Investment (on behalf of itself, its subsidiaries and associates) on 20 September 2007. the Company established Tianjin Guohua Jin Neng with Jin Neng Investment on 21 December 2007. The Company holds 65% equity interest in Tianjin Guohua Jin Neng while Jin Neng Investment holds the remaining 35% equity thereof. Jin Neng Investment is a substantial shareholder of the Company's subsidiaries and therefore Jin Neng Investment and its subsidiaries are connected persons of the Company under the Hong Kong Listing Rules. Since then, transactions between the Company and Jin Neng Investment and its subsidiaries and associates constitute connected transactions of the Company. This matter has been published on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange on 23 December 2007, and has also been published on the China Securities Journal and Shanghai Securities News on 24 December 2007.

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

- The term of the agreement commences from the date of execution and expires on 31 December 2010;

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

For the year ended 31 December 2008, the maximum amount receivable for the sales of coal by the Company to Jin Neng Investment, its subsidiary and associates under the Framework Agreement on Supply of Coal was RMB1,380.00 million. The actual amount was RMB802.14 million. The settlement was made by cash.

(viii) Framework Agreement on Supply of Coal entered into with China Datang Corporation

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

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

- The term of the agreement commences from the date of execution and expires on 31 December 2010;

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

Hebei Datang is a substantial shareholder of a subsidiary of the Company, therefore China Datang Corporation, the controlling shareholder of Hebei Datang, and its subsidiaries are connected persons of the Company under the Hong Kong Listing Rules.

For the year ended 31 December 2008, the maximum amount receivable for the sales of coal by the Company to China Datang Corporation, its subsidiary and associates under the Framework Agreement on Supply of Coal was RMB4,300.00 million. The actual amount was RMB3,328.22 million. The settlement was made by cash.

The Independent Non-executive Directors of the Company have confirmed to the Board that they have reviewed the non-exempted continuing connected transactions and are of the view that: (1) those transactions were in the ordinary course of business of the Group; (2) those transactions were on ordinary commercial terms, or if comparable transactions were not sufficient to judge whether the terms of those transactions were ordinary commercial terms, then in relation to the Group, those transactions were on terms no less favorable than the terms obtained from or provided (as the case may be) by independent third party; and (3) those transactions were conducted on the terms of the relevant transactions and the terms of the transactions were fair and reasonable and in compliance with the benefits of the shareholders of the Company as a whole.

The auditors of the Company have reviewed the continuing connected transactions A to H above (hereinafter referred to as "transactions") and issued letters to the Board, indicating that:

- those transactions have been approved by the Board;
- they were not aware of any indications which would make them believe that those connected transactions were not conducted in line with the terms of the agreements of the relevant transactions or their prices were not made in line with the Group's pricing policy; and
- they were not aware of any matters which would make them believe that the annual aggregate amount of each class of connected transactions exceed the annual cap as disclosed in the announcements made by the Company.

Certain related party transactions as disclosed in note 36 of the Financial Statements prepared under IFRSs also constituted connected transactions under the Hong Kong Listing Rules required to be disclosed in accordance with chapter 14A of the Hong Kong Listing Rule. The Company has complied with the disclosure requirements of Chapter 14A of Hong Kong Listing Rules in respect of the above connected transactions or continuing connected transactions.

(II) Related party transactions

In accordance with the requirements of relevant securities regulatory authorities of the PRC, major related party transactions of the Group in 2008 are set out below. Details of such transactions are set out in the Company's prospectus for A shares, section 11.6.1 of this report and Note56 to the 2008 Financial Statements of the Company prepared in accordance with China Accounting Standards for Busines Enterprises.

1. Normal related party transactions

	Related Party Transactions	Provision of products and services by the Group to related parties and other inflows		Purchase of products and services from related parties by the Group and other outflows	
		Amount of transactions RMB million	Percentage of amount to similar transactions %	Amount of transactions RMB million	Percentage of amount to similar transactions %
1	Agreement on Mutual Coal Supply	1,642.25	2.2	4,729.65	29.6
2	Agreement on the Mutual Supply of Products and Services	507.85	—	1,221.38	—
	Including: (1)Products	29.18	6.4	1,053.63	7.0
	(2)Services	478.67	20.0	167.75	0.5
3	Coal Agency Sales Agreement with the Xisanju Company	21.48	66.9	—	—
4	Agreement on Coal Agency Export	—	—	96.42	100.0
5	Agreement on Lease of Land Use Right	—	—	—	—
6	Agreement on Property Leasing	—	—	49.81	18.9
7	Agreement on Financial Service Note	—	—	(115.45)	(1.9)

Note: The transaction amount for the agreement is calculated based on the net changes in deposits as at the end of the reporting period and the end of the previous year; the percentage of net changes in deposits of Shenhua Finance in the transaction amount for similar transactions = net changes in deposits/net changes in bank deposits of the Group during the reporting period.

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

During the reporting period, the Company did not enter into any material related party transaction regarding transfer of assets and equity interests.

3. Material related party transactions regarding joint external investment

During the reporting period, the Company did not enter into any material transaction regarding joint external investment.

4. Debts and liabilities due from/owed to related parties

Unit: RMB million

Related parties	Related Relationship	Funds provided to related parties		Funds provided by related parties to the Company	
		Amount	Balance	Amount	Balance
Shenhua Group and its subsidiaries	Holding company and its subsidiaries	—	—	(482)	2,174
Other related parties Note	—	(433)	816	—	—
Total		(433)	816	(482)	2,174

Note: Changes in the balance of related debts and liabilities for the period include the change of RMB524 million as a result of the changes in the scope of consolidation of the Group.

Pursuant to China Enterprise Accounting Standards, the amount and balance of the above debt and liabilities only include other receivables, other payables, short-term loans, long-term loans due within one year, long-term loans, other current assets and other non-current assets of a non-operational nature between the Group and related parties.

The above debt and liabilities mainly represent entrusted loans provided by the Group to associated companies of subsidiaries of the Company, together with long term and short term loans borrowed by the Group from Shenhua Group and its subsidiaries. Currently the above-mentioned entrusted loans and loans are under normal repayment plan with repayment on both principal and interests as scheduled.

5. Appropriation of funds

As at the end of the reporting period, there was no appropriation of any of the Company's funds by its controlling shareholders or the controlling shareholder's affiliated enterprises.

6. Accounting of special transactions between related parties

Up to the end of the reporting period, the Company has not entered into any special transaction with related parties, such as direct donation of cash or assets in kind, direct waiver or repayment on each other's behalf.

G Material contracts and performance thereof

(I) Trust, contract and lease

During the reporting period, the Company has not established any trust arrangement on, acted as contractor for or leased assets of other companies and no other company has established any trust arrangement on, acted as contractor for or leased any of the Company's assets. Further, none of such arrangement subsisted in the reporting period.

(II) Material guarantees

Unit: RMB million

Name of the party whose debt is secured by the Company's guarantee	Date of provision of guarantee (date of guarantee)	Guaranteed amount	Type of guarantee	Period	Whether performance has been completed	Whether the guarantee is for the benefit of related parties (Yes or No)
Guarantee provided by the Company to external parties (excluding guarantee given by the Company for the benefit of its subsidiaries)						
–	–	–	–	–	–	–
Total guaranteed amount provided during the reporting period						–
Total guaranteed balance at the end of the reporting period						–
Guarantee given by the Company for the benefit of its subsidiaries						
Total amount provided to the Company's subsidiaries during the reporting period						–
Total guaranteed balance given to the Company's subsidiaries at the end of the reporting period						1,256
Aggregated guaranteed amount given by the Company (including guarantee given by the Company for the benefit of its subsidiaries)						
Total guaranteed amount						1,256
Percentage of total guaranteed amount to net assets of the Company						0.84%
Among which:						
Amount of guarantees provided for the benefit of shareholders, de facto controller or their related parties						–
Amount of guarantees directly or indirectly provided for the benefit of parties with over 70% in asset-liability ratio						–
Portion of the total guaranteed amount in excess of 50% of net assets						–
Aggregated amount of the above three guaranteed amount						–

As at the end of the reporting period, the Company has provided guarantee for and has accepted joint and several liability on six bank loans of Huanghua Port, a subsidiary of the Company. The subsisting guaranteed amount is RMB1,256 million. Agreements for the above six loans were entered into prior to the establishment of the Company and the original guarantor was Shenhua Group. When the Company was established as part of the restructuring in November 2004, the guarantor was changed to the Company pursuant to relevant reorganization arrangement and at the requests of the relevant banks. Huanghua Port is an important member of the Company responsible for seaborne coal transportation, with satisfactory financial status and profitability. There was no indication that the Company might be required to perform its joint and several liabilities under the above-mentioned guarantee.

Apart from the above guarantee provided for the benefit of the Company's subsidiaries, the Company has not provided any other guarantee during the reporting period, and there is no other guarantee of which performance is pending.

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

- The external guarantee balance of China Shenhua as at 31 December 2008 was an extension of and resulted from events prior to the establishment of the Company. There were no external guarantee events after the establishment of the Company;

- The information of China Shenhua disclosed in relation to the above external guarantee events were true and complete;

- With regard to future external guarantee, the Company shall continue to comply strictly with approval and disclosure procedures in the laws, regulations and the relevant regulations of the Article of Associations of the Company.

(III) Finance by Mandate

During the reporting period, there is no occurrence of any finance by mandate of the Company that requires disclosure.

(IV) Material Investments

During the reporting period, Watermark, a wholly-owned subsidiary of the Company in Australia, had entered into a mining license with the government of New South Wales, Australia, pursuant to which the government of New South Wales, Australia agreed to transfer a mining license in Watermark Mining Area to Watermark. For further details, please refer to the announcements published in the China Securities Journal, Shanghai Securities News and Securities Times on 21 November 2008 and on the websites of Shanghai Stock Exchange and Hong Kong Stock Exchange on 20 November 2008 respectively.

Save for disclosed above, there were no other new material investments of the Group.

H Commitments by the Company or shareholders with more than 5% shareholdings

The commitments made by Shenhua Group, the controlling shareholder of the Company, during or subsisting in the reporting period and the performance of such commitments are as follows:

(I) Commitment: As part of the reorganization and in the course of establishing the Company, the Company and Shenhua Group have entered into a Non-competition Agreement. Pursuant to such agreement, Shenhua Group has committed not to compete with the Company in respect of the Company's principal businesses whether in or outside of the PRC, and granted the Company an option and pre-emptive right to acquire from Shenhua Group any potential business in competition.

Performance: From the date of entering into of the Non-competition undertaking, Shenhua Group has strictly complied with its commitments, and there has not been any violation of such commitments.

(II) Commitments: Among the properties used by the Company, land use right certificates of two pieces of land leased by Shenhua Group to Shenshuo Railway of the Company under the Agreement on Lease of Land Use Right had not been obtained when the H shares were issued. The total area of the two pieces of land is approximately 3.20 million square meters. Furthermore, the Company had not obtained the building ownership certificates of 175 properties, of which the total area is about 101,043.87 square meters. When the Company's H shares were issued, Shenhua Group undertook to the Company that it will obtain land use right certificates for the two pieces of land in the name of Shenhua Group, to lease the same to the Company and to assist and procure that building ownership certificates of the 175 properties be granted to the Company or its subsidiaries.

Performance: Up to the end of the reporting period, with the exception that the building ownership certificates of three properties for which the land use right certificates had been obtained (with an area of 1,294.39 square meters) are still being processed, the other commitments have been fully handled and completed.

(III) Commitment: At the time when the Company's A shares were issued, Shenhua Group has agreed not to transfer or entrust others to manage, within 36 months from the date when the Company's shares were listed on the Shanghai Stock Exchange, the shares in the Company it holds directly and indirectly, nor to allow the Company to repurchase such shares.

Performance: Up to the end of the reporting period, Shenhua Group has strictly complied with its commitments, and there has not been any violation of such commitments.

I Appointment and removal of accounting firms

KPMG Huazhen and KPMG were re-appointed as the domestic and international auditors of the Company, respectively, at the Company's 2007 annual general meeting held on 16 May 2008. As at 2008, these two auditors had been providing audit services to the Company consecutively for 5 complete years.

The auditors' remuneration for the year 2008 amounted to RMB39.785 million. The items of audit fees include: audit fees of the Company of RMB37.80 million and audit fees of subsidiaries of RMB1.985 million.

J Sanctions and rectifications imposed on the listed company, its directors, supervisors, senior management, controlling shareholders and de facto controllers

During the reporting period, none of the Company, its directors, supervisors, senior management, controlling shareholders and de facto controllers has been subjected to any investigations conducted by any competent authorities, mandatory measures imposed by any judicial or discipline inspection departments, judicial authority proceedings, or charged for any criminal liabilities, examination conducted by the CSRC, administrative sanctions imposed by CSRC, denial of admission to any stock market, sanctions imposed by other administrative authorities, or public criticism by any stock exchange for ineligibility.

K Other material matters

During the reporting period, save for disclosed above, there was no other material matter of the Company that requires disclosure.

L Index to information disclosure

No.	Event	Name of newspaper and column	Date of publication	Website and search directory of publication
1	Continuing Connected Transaction Sale of Coal to China Datang Group	—	2008-1-2	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
2	Announcement of China Shenhua	China Securities Journal, Shanghai Securities News	2008-1-3	Website of Shanghai Stock Exchange (www.sse.com.cn)
3	Overseas Regulatory Announcement—Indicative Announcement on the Listing and Trading of A Shares (Subject to a Three-Month Lock-Up Period) Placed Off-Line	—	2008-1-3	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
4	Indicative Announcement on the Listing and Trading of A Shares of China Shenhua (Subject to a Three-Month Lock-Up Period) Placed Off-Line	China Securities Journal, Shanghai Securities News	2008-1-4	Website of Shanghai Stock Exchange (www.sse.com.cn)
5	Overseas Regulatory Announcement—Announcement on the Major Operational Data of December and the whole year of 2007	—	2008-1-16	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
6	Announcement on China Shenhua's Major Operational Data of December and the whole year of 2007	China Securities Journal, Shanghai Securities News	2008-1-17	Website of Shanghai Stock Exchange (www.sse.com.cn)
7	China Shenhua Independent Directors Rules	—	2008-1-31	Website of Shanghai Stock Exchange (www.sse.com.cn)
8	Working Procedures for Audit Committee of the Board of Directors of China Shenhua	—	2008-1-31	Website of Shanghai Stock Exchange (www.sse.com.cn)
9	Overseas Regulatory Announcement—Announcement on the Major Operational Data of January 2008	—	2008-2-20	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
10	Announcement on China Shenhua's Major Operational Data of January 2008	China Securities Journal, Shanghai Securities News	2008-2-21	Website of Shanghai Stock Exchange (www.sse.com.cn)
11	Overseas Regulatory Announcement—Announcement on Preliminary Financial Data of 2007	—	2008-2-25	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
12	Announcement on China Shenhua's Preliminary Financial Data of 2007	China Securities Journal, Shanghai Securities News	2008-2-26	Website of Shanghai Stock Exchange (www.sse.com.cn)
13	Notice of Board Meeting	—	2008-3-4	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
14	Announcement of H Shares of China Shenhua	—	2008-3-5	Website of Shanghai Stock Exchange (www.sse.com.cn)
15	Overseas Regulatory Announcement—Announcement on the Major Operational Data of February 2008	—	2008-3-11	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
16	Announcement on China Shenhua's Major Operational Data of February 2008	China Securities Journal, Shanghai Securities News	2008-3-12	Website of Shanghai Stock Exchange (www.sse.com.cn)

No.	Event	Name of newspaper and column	Date of publication	Website and search directory of publication
17	Announcement of Annual Result for the Year ended 31 December 2007	—	2008-3-16	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
18	Notice of Annual General Meeting	—	2008-3-16	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
19	Form of Proxy for the 2007 Annual General Meeting	—	2008-3-16	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
20	Reply Slip	—	2008-3-16	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
21	Revised Caps of Continuing Connected Transactions in respect of 2008-2010	—	2008-3-16	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
22	Overseas Regulatory Announcement— Announcement on Resolutions for the 19th Meeting of the 1st Session of Board of Directors	—	2008-3-16	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
23	Overseas Regulatory Announcement— Announcement on Resolutions for the 11th Meeting of the 1st Session of Supervisory Committee	—	2008-3-16	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
24	Overseas Regulatory Announcement— Announcement on Appointment of Securities Representative	—	2008-3-16	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
25	Overseas Regulatory Announcement	—	2008-3-16	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
26	Overseas Regulatory Announcement— Corporate Social Responsibility Report of 2007	—	2008-3-16	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
27	Annual Report of China Shenhua	—	2008-3-17	Website of Shanghai Stock Exchange (www.sse.com.cn)
28	Summary of Annual Report of China Shenhua	China Securities Journal, Shanghai Securities News	2008-3-17	Website of Shanghai Stock Exchange (www.sse.com.cn)
29	Announcement of China Shenhua on Resolutions approved at the Board Meeting	China Securities Journal, Shanghai Securities News	2008-3-17	Website of Shanghai Stock Exchange (www.sse.com.cn)
30	Announcement of China Shenhua on Resolutions approved at the Meeting of Supervisory Committee	China Securities Journal, Shanghai Securities News	2008-3-17	Website of Shanghai Stock Exchange (www.sse.com.cn)
31	China Shenhua 2007 explanatory notes on the application of non-recurrent funds and inflows and outflows of other related funds	—	2008-3-17	Website of Shanghai Stock Exchange (www.sse.com.cn)
32	China Shenhua Information Disclosure Rules	—	2008-3-17	Website of Shanghai Stock Exchange (www.sse.com.cn)
33	Announcement of China Shenhua on convening 2007 Annual General Meeting	China Securities Journal, Shanghai Securities News	2008-3-17	Website of Shanghai Stock Exchange (www.sse.com.cn)
34	Announcement of China Shenhua on Appointment of Securities Representative	China Securities Journal, Shanghai Securities News	2008-3-17	Website of Shanghai Stock Exchange (www.sse.com.cn)
35	Announcement of China Shenhua on H Shares Connected Transaction	—	2008-3-17	Website of Shanghai Stock Exchange (www.sse.com.cn)

No.	Event	Name of newspaper and column	Date of publication	Website and search directory of publication
36	Unusual Price and Trading Volume Movements	—	2008-3-18	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
37	Clarification Announcement (cancelled)	—	2008-3-18	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
38	Clarification Announcement	—	2008-3-19	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
39	Announcement on Unusual Price and Trading Volume Movements of H Shares of China Shenhua	—	2008-3-19	Website of Shanghai Stock Exchange (www.sse.com.cn)
40	Annual Report of 2007	—	2008-3-26	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
41	Notice of Board Meeting	—	2008-4-14	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
42	Announcement of H Shares of China Shenhua	—	2008-4-15	Website of Shanghai Stock Exchange (www.sse.com.cn)
43	Overseas Regulatory Announcement— Announcement on the Major Operational Data of the First Quarter of 2008	—	2008-4-15	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
44	Announcement on China Shenhua's Major Operational Data of the First Quarter of 2008	China Securities Journal, Shanghai Securities News	2008-4-16	Website of Shanghai Stock Exchange (www.sse.com.cn)
45	Overseas Regulatory Announcement	—	2008-4-24	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
46	Overseas Regulatory Announcement Announcement on Resolutions for 20th Meeting of 1st session of Board of Directors	—	2008-4-24	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
47	2008 First Quarterly Report	—	2008-4-24	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
48	Announcement of China Shenhua on Resolutions for the 20th Meeting of the 1st Session of Board of Directors	China Securities Journal, Shanghai Securities News	2008-4-25	Website of Shanghai Stock Exchange (www.sse.com.cn)
49	Full text of 2008 First Quarterly Report	China Securities Journal, Shanghai Securities News	2008-4-25	—
50	2008 First Quarterly Report	—	2008-4-25	Website of Shanghai Stock Exchange (www.sse.com.cn)
51	China Shenhua Utilization and Management Rules for Proceeds raised	—	2008-4-25	Website of Shanghai Stock Exchange (www.sse.com.cn)
52	Unusual Price and Trading Volume Movements	—	2008-4-29	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
53	Overseas Regulatory Announcement	—	2008-4-30	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
54	Announcement on Unusual Price and Trading Volume Movements of H Shares of China Shenhua	—	2008-4-30	Website of Shanghai Stock Exchange (www.sse.com.cn)
55	Amendment to the Decision-making Rules for Related Party Transactions of China Shenhua	—	2008-5-5	Website of Shanghai Stock Exchange (www.sse.com.cn)

No.	Event	Name of newspaper and column	Date of publication	Website and search directory of publication
56	Overseas Regulatory Announcement— Announcement on the Major Operational Data of April 2008	—	2008-5-13	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
57	Announcement on China Shenhua's Major Operational Data of April 2008	China Securities Journal, Shanghai Securities News	2008-5-14	Website of Shanghai Stock Exchange (www.sse.com.cn)
58	Announcement—Resolutions Approved at the 2007 Annual General Meeting	—	2008-5-16	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
59	Announcement of China Shenhua on Resolutions approved at the 2007 Annual General Meeting	China Securities Journal, Shanghai Securities News	2008-5-17	Website of Shanghai Stock Exchange (www.sse.com.cn)
60	Legal Opinion for China Shenhua 2007 Annual General Meeting	—	2008-5-17	Website of Shanghai Stock Exchange (www.sse.com.cn)
61	Decision-making Rules for Related Party Transactions of China Shenhua	—	2008-5-17	Website of Shanghai Stock Exchange (www.sse.com.cn)
62	Overseas Regulatory Announcement Announcement on Distribution of 2007 Final Dividend	—	2008-5-28	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
63	Announcement of China Shenhua on Distribution of 2007 Final Dividend	China Securities Journal, Shanghai Securities News	2008-5-29	Website of Shanghai Stock Exchange (www.sse.com.cn)
64	Overseas Regulatory Announcement— Announcement on the Major Operational Data of May 2008	—	2008-6-16	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
65	Announcement on China Shenhua's Major Operational Data of May 2008	China Securities Journal, Shanghai Securities News	2008-6-17	Website of Shanghai Stock Exchange (www.sse.com.cn)
66	Overseas Regulatory Announcement— Announcement regarding Adjustment of Power Tariffs	—	2008-7-9	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
67	Announcement of China Shenhua regarding Adjustment of Power Tariffs	China Securities Journal, Shanghai Securities News Securities Times	2008-7-10	Website of Shanghai Stock Exchange (www.sse.com.cn)
68	Overseas Regulatory Announcement— Announcement on the Major Operational Data of the First Half of 2008	—	2008-7-15	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
69	Announcement on China Shenhua's Major Operational Data of the First Half of 2008	China Securities Journal, Shanghai Securities News Securities Times	2008-7-16	Website of Shanghai Stock Exchange (www.sse.com.cn)
70	Overseas Regulatory Announcement	—	2008-7-30	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
71	Announcement of China Shenhua on Resolutions for the 22nd Meeting of the 1st Session of Board of Directors	China Securities Journal, Shanghai Securities News Securities Times	2008-7-31	Website of Shanghai Stock Exchange (www.sse.com.cn)
72	Self-examination of Administration Report and Rectification Plan of China Shenhua	—	2008-7-31	Website of Shanghai Stock Exchange (www.sse.com.cn)
73	Overseas Regulatory Announcement— Announcement on Preliminary Financial Data for the Six Months Ended 30 June 2008	—	2008-8-7	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
74	Announcement of China Shenhua on Preliminary Financial Data for the Six Months Ended 30 June 2008	China Securities Journal, Shanghai Securities News Securities Times	2008-8-8	Website of Shanghai Stock Exchange (www.sse.com.cn)
75	Overseas Regulatory Announcement— Announcement on the Major Operational Data of July 2008	—	2008-8-14	Website of Hong Kong Stock Exchange (www.hkex.com.hk)

No.	Event	Name of newspaper and column	Date of publication	Website and search directory of publication
76	Clarification Announcement	—	2008-8-14	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
77	Announcement on China Shenhua's Major Operational Data of July 2008	China Securities Journal, Shanghai Securities News, Securities Times	2008-8-15	Website of Shanghai Stock Exchange (www.sse.com.cn)
78	Notice of Board Meeting	—	2008-8-19	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
79	Overseas Regulatory Announcement—Announcement regarding Adjustment of Power Tariffs	—	2008-8-25	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
80	Announcement of China Shenhua regarding Adjustment of Power Tariffs	China Securities Journal, Shanghai Securities News, Securities Times	2008-8-26	Website of Shanghai Stock Exchange (www.sse.com.cn)
81	2008 Interim Results Announcement	—	2008-8-29	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
82	Resignation of Directors	—	2008-8-29	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
83	Revised Caps for Continuing Connected Transactions—Sale of Coal to Datang Group	—	2008-8-29	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
84	Revised Caps for Continuing Connected Transactions under the Mutual Supplies and Services Agreement and the Mutual Coal Supply Agreement	—	2008-8-29	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
85	Connected Transaction – Entering into Entrustment Loan Agreements and Assets Pledge Agreement	—	2008-8-29	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
86	Overseas Regulatory Announcement	—	2008-8-29	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
87	Summary of Interim Report of China Shenhua	China Securities Journal, Shanghai Securities News, Securities Times	2008-8-30	Website of Shanghai Stock Exchange (www.sse.com.cn)
88	Interim Report of China Shenhua	—	2008-8-30	Website of Shanghai Stock Exchange (www.sse.com.cn)
89	Announcement of China Shenhua on Resolutions for the 23rd Meeting of the 1st Session of Board of Directors	China Securities Journal, Shanghai Securities News, Securities Times	2008-8-30	Website of Shanghai Stock Exchange (www.sse.com.cn)
90	Announcement of China Shenhua on Resignation of Mr. Yun Gongmin as Non-executive Director	China Securities Journal, Shanghai Securities News, Securities Times	2008-8-30	Website of Shanghai Stock Exchange (www.sse.com.cn)
91	Announcement of China Shenhua on Revised Caps of Connected Transactions	China Securities Journal, Shanghai Securities News, Securities Times	2008-8-30	Website of Shanghai Stock Exchange (www.sse.com.cn)
92	Announcement of H Shares of China Shenhua	—	2008-8-30	Website of Shanghai Stock Exchange (www.sse.com.cn)
93	Announcement of H Shares of China Shenhua	—	2008-8-30	Website of Shanghai Stock Exchange (www.sse.com.cn)
94	Interim Report 2008	—	2008-8-31	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
95	Overseas Regulatory Announcement—Announcement on the Major Operational Data of August 2008	—	2008-9-12	Website of Hong Kong Stock Exchange (www.hkex.com.hk)

No.	Event	Name of newspaper and column	Date of publication	Website and search directory of publication
96	Announcement on China Shenhua's Major Operational Data of August 2008	China Securities Journal, Shanghai Securities News, Securities Times	2008-9-13	Website of Shanghai Stock Exchange (www.sse.com.cn)
97	Unusual Price and Trading Volume Movements	—	2008-9-19	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
98	Announcement of H Shares of China Shenhua	—	2008-9-20	Website of Shanghai Stock Exchange (www.sse.com.cn)
99	Notice of Board Meeting	—	2008-10-16	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
100	Clarification Announcement	—	2008-10-20	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
101	Overseas Regulatory Announcement—Announcement on the Major Operational Data of September and the First Three Quarters of 2008	—	2008-10-20	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
102	Announcement on China Shenhua's Major Operational Data of September 2008 and the First Three Quarters of 2008	China Securities Journal, Shanghai Securities News, Securities Times	2008-10-21	Website of Shanghai Stock Exchange (www.sse.com.cn)
103	Unusual Price and Trading Volume Movements	—	2008-10-27	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
104	Announcement on Unusual Price and Trading Volume Movements of H Shares of China Shenhua	—	2008-10-28	Website of Shanghai Stock Exchange (www.sse.com.cn)
105	Third Quarterly Report for the Year 2008	—	2008-10-28	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
106	Overseas Regulatory Announcement	—	2008-10-28	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
107	Third Quarterly Report of China Shenhua	—	2008-10-29	Website of Shanghai Stock Exchange (www.sse.com.cn)
108	Full text of Third Quarterly Report of China Shenhua	China Securities Journal, Shanghai Securities News, Securities Times	2008-10-29	—
109	Overseas Regulatory Announcement—Announcement in relation to the Export Quota for Coal of China Shenhua	—	2008-11-14	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
110	Overseas Regulatory Announcement—Announcement on the Major Operational Data of October 2008	—	2008-11-14	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
111	Announcement of China Shenhua on the Export Quota for Coal	China Securities Journal, Shanghai Securities News, Securities Times	2008-11-15	Website of Shanghai Stock Exchange (www.sse.com.cn)
112	Announcement on China Shenhua's Major Operational Data of October 2008	China Securities Journal, Shanghai Securities News, Securities Times	2008-11-15	Website of Shanghai Stock Exchange (www.sse.com.cn)
113	Overseas Regulatory Announcement	—	2008-11-20	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
114	Announcement of China Shenhua on the Exploration License in Watermark Exploration Area of Australia	China Securities Journal, Shanghai Securities News, Securities Times	2008-11-21	Website of Shanghai Stock Exchange (www.sse.com.cn)

No.	Event	Name of newspaper and column	Date of publication	Website and search directory of publication
115	Unusual Price and Trading Volume Movements	—	2008-11-28	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
116	Continuing Connected Transaction – Entering into Power Generation Trading Agreements	—	2008-11-28	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
117	Connected Transaction – Increase in Registered Capital of Jiahua	—	2008-11-28	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
118	Announcement of Unusual Price and Trading Volume Movements of H Shares of China Shenhua	—	2008-11-29	Website of Shanghai Stock Exchange (www.sse.com.cn)
119	H Shares Continuing Connected Transaction of China Shenhua	—	2008-11-29	Website of Shanghai Stock Exchange (www.sse.com.cn)
120	H Shares Connected Transaction of China Shenhua	—	2008-11-29	Website of Shanghai Stock Exchange (www.sse.com.cn)
121	Overseas Regulatory Announcement—Announcement on the Major Operational Data of November 2008	—	2008-12-15	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
122	Announcement on China Shenhua's Major Operational Data of November 2008	China Securities Journal, Shanghai Securities News, Securities Times	2008-12-16	Website of Shanghai Stock Exchange (www.sse.com.cn)
123	Announcement of China Shenhua on Resolutions for the 26th Meeting of the 1st Session of Board of Directors	China Securities Journal, Shanghai Securities News, Securities Times	2008-12-27	Website of Shanghai Stock Exchange (www.sse.com.cn)
124	Rectification Report of China Shenhua on Corporate Governance	—	2008-12-27	Website of Shanghai Stock Exchange (www.sse.com.cn)
125	Overseas Regulatory Announcement	—	2008-12-28	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
126	Overseas Regulatory Announcement	—	2008-12-30	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
127	Resignation of Executive Director and Chairman of the Board, Appointment of New Chairman of the Board and Re-Designation of Executive Director	—	2008-12-30	Website of Hong Kong Stock Exchange (www.hkex.com.hk)
128	Announcement of China Shenhua on Resolutions for the 27th Meeting of the 1st Session of Board of Directors	China Securities Journal, Shanghai Securities News, Securities Times	2008-12-31	Website of Shanghai Stock Exchange (www.sse.com.cn)

Note: 1 "—"refers to disclosure on the specified website only without publication of the full text in the newspapers. The Hong Kong Stock Exchange has implemented the "Electronic Disclosure Scheme" since 25 June 2007. According to this scheme, the full text of any H share announcement of the Company is not required to be published in the newspapers from 25 June 2007. According to the Shanghai Listing Rules, certain A share announcements can be disclosed on the websites only and are not required to be published in the newspapers.

2. The listing of the Company's A shares on Shanghai Stock Exchange commenced on 9 October 2007. In compliance with the disclosure requirements in the listing rules of the place of listing, the Company shall disclose, simultaneously in both places of listing, the contents of the announcements issued, both of which are hereby listed.

Independent Auditor's Report

KPMG

To the shareholders of

China Shenhua Energy Company Limited

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

We have audited the consolidated financial statements of China Shenhua Energy Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 133 to 202, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

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

27 March 2009

Financial Statements

Consolidated income statement

for the year ended 31 December 2008

(Expressed in Renminbi)

	Note	**2008 RMB million**	2007 RMB million
Revenues			
Coal revenue		**74,572**	55,741
Power revenue		**29,393**	23,922
Other revenues	5	**3,168**	2,444
Total operating revenues	4	**107,133**	82,107
Cost of revenues			
Coal purchased from third parties		**(15,585)**	(10,719)
Materials, fuel and power		**(8,433)**	(6,276)
Personnel expenses		**(5,343)**	(3,960)
Depreciation and amortisation		**(9,396)**	(7,785)
Repairs and maintenance		**(4,717)**	(3,612)
Transportation charges		**(7,227)**	(6,845)
Others	6	**(8,677)**	(4,576)
Total cost of revenues		**(59,378)**	(43,773)
Selling, general and administrative expenses		**(6,961)**	(5,144)
Other operating expense, net		**(1,119)**	(693)
Total operating expenses	7	**(67,458)**	(49,610)
Profit from operations		**39,675**	32,497
Finance income	8	**1,288**	1,034
Finance expenses	8	**(4,681)**	(3,417)
Net finance costs		**(3,393)**	(2,383)
Investment income		**39**	38
Share of profits less losses of associates		**654**	627
Profit before income tax		**36,975**	30,779
Income tax	9	**(7,076)**	(6,742)
Profit for the year		**29,899**	24,037
Attributable to:			
Equity shareholders of the Company		**26,641**	20,581
Minority interests		**3,258**	3,456
Profit for the year		**29,899**	24,037
Dividends to equity shareholders of the Company			
Dividends approved during the year	13(a)	**9,325**	22,949
Dividends proposed after the balance sheet date	13(b)	**9,149**	9,325
Earnings per share (RMB)	14		
– Basic		**1.339**	1.110
– Diluted		**1.339**	1.110

The notes on pages 142 to 202 form part of these financial statements.

Consolidated balance sheet

at 31 December 2008
(Expressed in Renminbi)

	Note	**2008 RMB million**	*2007 RMB million*
Non-current assets			
Property, plant and equipment, net	15	**145,253**	131,059
Construction in progress	16	**33,017**	22,358
Intangible assets	17	**2,435**	1,162
Interest in associates	19	**3,045**	2,754
Other investments	20	**831**	1,031
Other non-current assets	21	**6,373**	2,878
Lease prepayments	22	**6,011**	5,931
Deferred tax assets	27(b)	**669**	1,168
Total non-current assets		**197,634**	168,341
Current assets			
Inventories	23	**7,842**	6,337
Accounts and bills receivable, net	24	**8,236**	6,642
Prepaid expenses and other current assets	25	**2,337**	3,771
Restricted bank deposits		**241**	–
Time deposits with original maturity over three months	26	**196**	32
Cash and cash equivalents	26	**59,054**	53,404
Total current assets		**77,906**	70,186
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	28	**18,213**	10,196
Short-term bonds	29	**–**	1,453
Accounts and bills payable	30	**9,642**	9,074
Accrued expenses and other payables	31	**12,410**	9,577
Current portion of long-term payables	32	**264**	873
Income tax payable	27(a)	**2,127**	2,198
Total current liabilities		**42,656**	33,371
Net current assets		**35,250**	36,815
Total assets less current liabilities		**232,884**	205,156
Non-current liabilities			
Long-term borrowings, less current portion	28	**56,045**	49,718
Long-term payables, less current portion	32	**2,765**	3,962
Accrued reclamation obligations	33	**1,869**	1,018
Deferred tax liabilities	27(b)	**462**	654
Total non-current liabilities		**61,141**	55,352
Net assets		**171,743**	149,804
Equity			
Share capital	34	**19,890**	19,890
Reserves		**127,542**	109,898
Equity attributable to equity shareholders of the Company		**147,432**	129,788
Minority interests		**24,311**	20,016
Total equity		**171,743**	149,804

Approved and authorised for issue by the Board of Directors on 27 March 2009.

Zhang Xiwu
Chairman

Ling Wen
Director and President

The notes on pages 142 to 202 form part of these financial statements.

Balance sheet

at 31 December 2008

(Expressed in Renminbi)

	Note	**2008 RMB million**	2007 RMB million
Non-current assets			
Property, plant and equipment, net	15	**49,216**	38,247
Construction in progress	16	**7,478**	9,134
Intangible assets	17	**302**	322
Investments in subsidiaries	18	**30,541**	24,747
Investments in associates	19	**1,456**	1,373
Other investments	20	**812**	1,001
Other non-current assets	21	**5,714**	1,637
Lease prepayments	22	**786**	1,135
Deferred tax assets	27(b)	**–**	538
Total non-current assets		**96,305**	78,134
Current assets			
Inventories	23	**4,531**	4,453
Accounts and bills receivable, net	24	**4,145**	2,569
Prepaid expenses and other current assets	25	**19,229**	20,816
Restricted bank deposits		**241**	–
Time deposits with original maturity over three months	26	**78**	10
Cash and cash equivalents	26	**56,232**	51,904
Total current assets		**84,456**	79,752
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	28	**5,041**	3,322
Accounts and bills payable	30	**5,797**	5,085
Accrued expenses and other payables	31	**13,477**	5,846
Current portion of long-term payables	32	**264**	873
Income tax payable	27(a)	**1,623**	1,030
Total current liabilities		**26,202**	16,156
Net current assets		**58,254**	63,596
Total assets less current liabilities		**154,559**	141,730
Non-current liabilities			
Long-term borrowings, less current portion	28	**12,828**	12,897
Long-term payables, less current portion	32	**2,561**	3,732
Accrued reclamation obligations	33	**1,406**	624
Deferred tax liabilities	27(b)	**147**	340
Total non-current liabilities		**16,942**	17,593
Net assets		**137,617**	124,137
Equity			
Share capital	34	**19,890**	19,890
Reserves		**117,727**	104,247
Total equity		**137,617**	124,137

Approved and authorised for issue by the Board of Directors on 27 March 2009.

Zhang Xiwu
Chairman

Ling Wen
Director and President

The notes on pages 142 to 202 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2008
(Expressed in Renminbi)

	Equity attributable to equity shareholders of the Company											
	Share capital RMB million (Note 34)	*Share premium* RMB million (Note i)	*Capital reserve* RMB million (Note ii)	*Revaluation reserve* RMB million (Note iii)	*Future development fund* RMB million (Note iv)	*Exchange reserve* RMB million	*Statutory reserves* RMB million (Note v)	*Other reserves* RMB million	*Retained earnings* RMB million (Note v)	*Total* RMB million	*Minority interests* RMB million	*Total equity* RMB million
At 1 January 2007	18,090	20,813	(6,591)	7,180	1,578	-	4,742	3,395	20,577	69,784	19,447	89,231
Issuance of A shares (Note 1)	1,800	64,782	-	-	-	-	-	-	-	66,582	-	66,582
A shares issue expenses	-	(594)	-	-	-	-	-	-	-	(594)	-	(594)
Profit for the year	-	-	-	-	-	-	-	-	20,581	20,581	3,456	24,037
Dividend declared (Note 13(a))	-	-	-	-	-	-	-	-	(22,949)	(22,949)	-	(22,949)
Adjustment of profit appropriations for prior years	-	-	-	-	-	-	(498)	-	498	-	-	-
Appropriation of profits	-	-	-	-	-	-	2,019	-	(2,019)	-	-	-
Capital contributions from minority shareholders	-	-	-	-	-	-	-	-	-	-	654	654
Distributions to minority shareholders	-	-	-	-	-	-	-	-	-	-	(3,437)	(3,437)
Consideration for the acquisitions of Shendong Coal and Shendong Power (Note 39(a))	-	-	-	-	-	-	-	(3,587)	-	(3,587)	-	(3,587)
Through addition of a subsidiary (Note 18(ii))	-	-	-	-	-	-	-	-	-	-	808	808
Write back of future development fund	-	-	-	-	(1,578)	-	-	-	1,578	-	-	-
Contributions from shareholders of Shendong Power	-	-	-	-	-	-	-	199	-	199	-	199
Acquisition of minority interests	-	-	-	-	-	-	-	(117)	-	(117)	(845)	(962)
Realisation/ reassessment of deferred tax (Note 27(b))	-	-	-	-	-	-	-	(120)	9	(111)	(67)	(178)
At 31 December 2007	19,890	85,001	(6,591)	7,180	-	-	6,263	(230)	18,275	129,788	20,016	149,804
At 1 January 2008	**19,890**	**85,001**	**(6,591)**	**7,180**	**-**	**-**	**6,263**	**(230)**	**18,275**	**129,788**	**20,016**	**149,804**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**26,641**	**26,641**	**3,258**	**29,899**
Dividend declared (Note 13(a))	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(9,325)**	**(9,325)**	**-**	**(9,325)**
Adjustment of profit appropriations for prior years (Note v)	**-**	**-**	**-**	**-**	**-**	**-**	**278**	**-**	**(278)**	**-**	**-**	**-**
Appropriation of profits	**-**	**-**	**-**	**-**	**-**	**-**	**2,274**	**-**	**(2,274)**	**-**	**-**	**-**
Appropriation of maintenance and production funds (Note v)	**-**	**-**	**-**	**-**	**-**	**-**	**3,368**	**-**	**(3,368)**	**-**	**-**	**-**
Utilisation of maintenance and production funds (Note v)	**-**	**-**	**-**	**-**	**-**	**-**	**(2,119)**	**-**	**2,119**	**-**	**-**	**-**
Capital contributions from minority shareholders	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,169**	**2,169**
Distributions to minority shareholders	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(953)**	**(953)**
Acquisition of minority interests (Note 18(i))	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**271**	**-**	**271**	**(271)**	**-**
Acquisition of a subsidiary (Note vi)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**63**	**-**	**63**	**46**	**109**
Realisation of deferred tax	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(12)**	**12**	**-**	**-**	**-**
Realisation of revaluation reserve	**-**	**-**	**-**	**(20)**	**-**	**-**	**-**	**-**	**20**	**-**	**-**	**-**
Exchange difference on translation of financial statements of overseas subsidiaries	**-**	**-**	**-**	**-**	**-**	**(115)**	**-**	**-**	**-**	**(115)**	**-**	**(115)**
Others	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**109**	**-**	**109**	**46**	**155**
At 31 December 2008	**19,890**	**85,001**	**(6,591)**	**7,160**	**-**	**(115)**	**10,064**	**201**	**31,822**	**147,432**	**24,311**	**171,743**

The notes on pages 142 to 202 form part of these financial statements.

Consolidated statement of changes in equity (continued)

for the year ended 31 December 2008
(Expressed in Renminbi)

Notes:

(i) The share premium represents the difference between the total amount of the par value of shares issued and the amount of the net proceeds received upon the global initial public offering in 2005 and the issue of A shares in 2007.

(ii) The capital reserve represents the difference between the total amount of the par value of shares issued and the amount of the net assets, net of revaluation and other reserves, transferred from Shenhua Group Corporation Limited ("Shenhua Group") 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 was 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.

(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 China Accounting Standards for Business Enterprises (2006) ("China Accounting Standards") to its statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

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

For the year ended 31 December 2008, the Company transferred RMB2,274 million (2007: RMB2,019 million), being 10% of the current year's net profit as determined in accordance with the China Accounting Standards, to this reserve.

The Group adopted the China Accounting Standards and other regulations promulgated by the Ministry of Finance on 15 February 2006 with effect from 1 January 2007. Appropriations to statutory surplus reserve for prior years were adjusted in 2007 due to the change in net profits arising from the prior year adjustments made under the China Accounting Standards.

The notes on pages 142 to 202 form part of these financial statements.

Consolidated statement of changes in equity (continued)

for the year ended 31 December 2008

(Expressed in Renminbi)

(v) Statutory reserves (continued)

Specific reserve – maintenance and production funds

Pursuant to the relevant PRC regulations for coal mining companies, provision for production maintenance, production safety and other related expenditures are accrued by the Group at fixed rates based on coal production volume (the "maintenance and production funds").

According to China Accounting Standards Explanatory Notice No. 2 and other relevant accounting regulations issued in December 2008, effective for the year ended 31 December 2008, the Group is required to make a transfer of the maintenance and production funds from retained earnings to a specific reserve under the statutory surplus reserve. The maintenance and production funds could be utilised when expenses or capital expenditures on production maintenance and safety measures are incurred. The amount of maintenance and production funds utilised will be transferred from the specific reserve to retained earnings. For the year ended 31 December 2008, the Company transferred RMB3,368 million, including an amount of RMB1,024 million relating to prior year, from retained earnings to the specific reserve for appropriation of maintenance and production funds, in which RMB2,119 million (2007: Nil) were utilised.

Before 1 January 2008, provision for maintenance and production funds was recognised as expense in the income statement according to the China Accounting Standards and other relevant regulations in the PRC. As a result of the change in net profits arising from the prior year adjustments made, due to the change in the regulations of maintenance and production funds in accordance with the China Accounting Standards, appropriations to statutory surplus reserve for prior years were adjusted by the Company in 2008.

Discretionary surplus reserve

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

The directors have not proposed any appropriation to the discretionary surplus reserve in 2008 and 2007.

(vi) On 29 February 2008, the Group acquired an additional 60% equity interest in Inner Mongolia Zhunge'er Coal Gangue Power Company Limited ("Zhunge'er Coal Gangue Power") from a third party. Prior to the acquisition, Zhunge'er Coal Gangue Power was an associate of the Group in which the Group held 40% equity interest. The Group's previously owned 40% equity interest in Zhunge'er Coal Gangue Power was revalued at the date of acquisition and the change in fair value of the previously owned interest was recognised in equity.

The notes on pages 142 to 202 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2008
(Expressed in Renminbi)

	Note	**2008 RMB million**	2007 RMB million
Net cash generated from operating activities	(a)	**40,618**	25,626
Investing activities			
Capital expenditure		**(35,980)**	(27,134)
Lease prepayments		**(566)**	(939)
Acquisition of subsidiaries	(b)	**(367)**	(3,328)
Purchase of associates		**(84)**	(285)
Purchase of other investments		**(12)**	(878)
Proceeds from disposal of associates		**–**	18
Proceeds from disposal of other investments		**9**	2,036
Proceeds from disposal of property, plant and equipment		**90**	136
Dividend received from associates		**343**	430
Dividend received from other investments		**39**	35
Increase in restricted bank deposits		**(241)**	–
Increase in time deposits with original maturity over three months		**(201)**	(541)
Maturity of time deposits with original maturity over three months		**37**	517
Net cash used in investing activities		**(36,933)**	(29,933)
Financing activities			
Proceeds from bank and other borrowings		**41,004**	48,140
Repayments of bank and other borrowings		**(27,652)**	(49,603)
Proceeds from bonds issued		**–**	1,453
Repayments of bonds		**(1,453)**	–
Contributions from minority shareholders	(c)	**1,739**	654
Distributions to minority shareholders		**(2,348)**	(1,929)
Contributions from shareholders of Shendong Power		**–**	199
Dividend paid to equity shareholders of the Company		**(9,325)**	(22,949)
Net proceeds from issuance of A shares		**–**	65,988
Net cash from financing activities		**1,965**	41,953
Net increase in cash and cash equivalents		**5,650**	37,646
Cash and cash equivalents, at the beginning of the year		**53,404**	15,758
Cash and cash equivalents, at the end of the year		**59,054**	53,404

The notes on pages 142 to 202 form part of these financial statements.

Consolidated cash flow statement (continued)

for the year ended 31 December 2008

(Expressed in Renminbi)

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

	2008 **RMB million**	*2007* *RMB million*
Profit before income tax	**36,975**	30,779
Adjustments for:		
Depreciation and amortisation	**9,893**	8,140
Impairment losses on property, plant and equipment	**447**	380
Impairment losses on other investments	**204**	–
Net loss on disposal of property, plant and equipment	**434**	299
Investment income	**(39)**	(38)
Interest income	**(816)**	(622)
Share of profits less losses of associates	**(654)**	(627)
Net interest expense	**3,786**	3,417
Gain on remeasurement of derivative financial instruments to fair value	**(472)**	(283)
Unrealised foreign exchange loss/(gain)	**843**	(155)
	50,601	41,290
Increase in accounts and bills receivable	**(1,561)**	(1,130)
Increase in inventories	**(871)**	(1,387)
Decrease/(increase) in prepaid expenses and other assets	**730**	(2,555)
Increase/(decrease) in accounts and bills payable	**304**	(934)
Increase in accrued expenses and other payables, long-term payables and accrued reclamation obligations	**1,960**	2
	51,163	35,286
Interest received	**816**	622
Interest paid	**(4,521)**	(3,500)
Income tax paid	**(6,840)**	(6,782)
Net cash generated from operating activities	**40,618**	25,626

The notes on pages 142 to 202 form part of these financial statements.

Consolidated cash flow statement (continued)

for the year ended 31 December 2008
(Expressed in Renminbi)

(b) Acquisition of subsidiaries

(i) On 29 February 2008, the Group acquired an additional 60% equity interest in Zhunge'er Coal Gangue Power at a cash consideration of RMB400 million. Prior to the acquisition, Zhunge'er Coal Gangue Power was an associate of the Group in which the Group held 40% equity interest.

Details of fair values of identifiable assets and liabilities of Zhunge'er Coal Gangue Power as at 29 February 2008 are as follows:

	RMB million
Other non-current assets	**1,525**
Cash and cash equivalents	**33**
Other current assets	**84**
Current liabilities	**(441)**
Non-current liabilities	**(534)**
Net assets	**667**

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary:

	RMB million
Cash consideration	**400**
Cash and cash equivalents acquired	**(33)**
Net outflow of cash and cash equivalents	**367**

(ii) In August 2007, the Company acquired the entire equity interests in Shenhua Shenfu Dongsheng Coal Company Limited ("Shendong Coal") and Shenhua Shendong Power Company Limited ("Shendong Power") from Shenhua Group. RMB3,328 million was paid by the Company during the year ended 31 December 2007.

(c) Major non-cash transaction

During the year ended 31 December 2008, a payable to minority shareholder of RMB430 million was capitalised as a subsidiary's paid-in capital and, accordingly, the Group's minority interests were increased by the same amount.

The notes on pages 142 to 202 form part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2008
(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, 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 Group.

In connection with the Restructuring (as defined below), Shenhua Group'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 Group 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 Group. The shares issued to Shenhua Group represented the entire registered and paid-up share capital of the Company at that date.

In June 2005, the Company issued 2,785,000,000 H shares with a par value of RMB1.00 each, at a price of HKD7.50 per H share by way of a global initial public offering to Hong Kong and overseas investors. As part of the global initial public offering, 278,500,000 domestic state-owned ordinary shares of RMB1.00 each owned by Shenhua Group were converted into H shares and sold to Hong Kong and overseas investors. The Company was listed on the Stock Exchange of Hong Kong Limited ("the Stock Exchange") on 15 June 2005. In July 2005, the Company issued 304,620,455 H shares with a par value of RMB1.00 each, at a price of HKD7.50 per H share upon the exercise of the over-allotment option in connection with the global initial public offering. As part of the exercise of the over-allotment option, 30,462,045 domestic state-owned ordinary shares of RMB1.00 each owned by Shenhua Group were converted into H shares and sold to Hong Kong and overseas investors. A total of 3,398,582,500 H shares were listed on the Stock Exchange.

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

Notes to the financial statements (continued)

for the year ended 31 December 2008

(Expressed in Renminbi)

2 Significant accounting policies

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries and the Group's interest in associates.

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

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

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are disclosed in Note 41.

(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.

Notes to the financial statements (continued)

for the year ended 31 December 2008
(Expressed in Renminbi)

2 Significant accounting policies (continued)

(c) Subsidiaries and minority interests (continued)

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

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

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

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

(d) Associates

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

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

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

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

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

Notes to the financial statements (continued)

for the year ended 31 December 2008
(Expressed in Renminbi)

2 Significant accounting policies (continued)

(e) Goodwill

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

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

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

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

(f) Other investments in debt and equity securities

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

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

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in Notes 2(s)(iv) and 2(s)(v).

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

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

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

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

Notes to the financial statements (continued)

for the year ended 31 December 2008
(Expressed in Renminbi)

2 Significant accounting policies (continued)

(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.

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)).

Notes to the financial statements (continued)

for the year ended 31 December 2008

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(i) Property, plant and equipment (continued)

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 the 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 item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from revaluation reserve to retained earnings.

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

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

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

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

(j) Lease prepayments

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

Notes to the financial statements (continued)

for the year ended 31 December 2008

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(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)

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 and borrowing costs, where applicable (see Note 2(t)). 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.

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

(m) Impairment losses

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

Investments in debt and equity securities (other than investments in subsidiaries and associates: see Note 2(m)(ii)) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Notes to the financial statements (continued)

for the year ended 31 December 2008

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(m) Impairment losses (continued)

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

If any such evidence exists, any impairment loss is determined and recognised as follows:

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

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

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

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

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable, whose recovery is considered doubtful but not remote. In this case, the allowance for doubtful debts is recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Notes to the financial statements (continued)

for the year ended 31 December 2008
(Expressed in Renminbi)

2 Significant accounting policies (continued)

(m) Impairment losses (continued)

(ii) Impairment of other assets

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

— property, plant and equipment;

— construction in progress;

— intangible assets;

— investments in subsidiaries and associates;

— other investments;

— other non-current assets; and

— lease prepayments.

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.

Notes to the financial statements (continued)

for the year ended 31 December 2008

(Expressed in Renminbi)

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 year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 2(m)(i) and 2(m)(ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sales equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(n) Inventories

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

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

Properties under development are carried at the lower of cost and net realisable value. The cost of properties under development comprises specifically identified cost, including cost of development, materials and supplies, wages and other direct expenses. Net realisable value represents the estimated selling price less estimated cost of completion and costs to be incurred in selling the property.

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

Notes to the financial statements (continued)

for the year ended 31 December 2008
(Expressed in Renminbi)

2 Significant accounting policies (continued)

(o) Trade and other receivables

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

(p) 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.

(q) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with Note 2(r)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

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

Notes to the financial statements (continued)

for the year ended 31 December 2008
(Expressed in Renminbi)

2 Significant accounting policies (continued)

(r) Financial guarantees issued, provisions and contingent liabilities (continued)

(ii) Provisions and contingent liabilities

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

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

(s) Revenue recognition

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

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

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

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

(iv) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(v) Interest income is recognised as it accrues using the effective interest method.

(t) Borrowing costs

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

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

Notes to the financial statements (continued)

for the year ended 31 December 2008

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(u) Translation of foreign currencies

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

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(v) Obligations for land reclamation

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

(w) Operating leases

Operating lease payments are charged to the income statement on a straight-line basis over the period of the respective leases, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

Notes to the financial statements (continued)

for the year ended 31 December 2008
(Expressed in Renminbi)

2 Significant accounting policies (continued)

(x) Employee benefits

(i) Short-term employee benefits

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

(ii) Defined contribution retirement plans

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

(iii) Share appreciation rights

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

(iv) Termination benefits

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

(y) Income tax

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

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

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

Notes to the financial statements (continued)

for the year ended 31 December 2008
(Expressed in Renminbi)

2 Significant accounting policies (continued)

(y) Income tax (continued)

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries 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, unless 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 Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

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

Notes to the financial statements (continued)

for the year ended 31 December 2008
(Expressed in Renminbi)

2 Significant accounting policies (continued)

(z) 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.

(aa) Segment reporting

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

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

Notes to the financial statements (continued)

for the year ended 31 December 2008

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(aa) Segment reporting (continued)

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

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

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

3 New and revised IFRSs

The IASB has issued a number of new interpretations and amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. These new developments do not have material implications to the Group's or the Company's operations.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see Note 44).

4 Revenues

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

5 Other revenues

	2008 ***RMB million***	*2007* *RMB million*
Rendering of transportation and other services	**2,389**	1,833
Sale of ancillary materials and other goods	**453**	485
Others	**326**	126
	3,168	2,444

Notes to the financial statements (continued)

for the year ended 31 December 2008

(Expressed in Renminbi)

6 Cost of revenues – others

	2008 RMB million	*2007 RMB million*
Coal selection and minery fees	**2,930**	1,051
Coal extraction service costs	**332**	242
Taxes and surcharges	**874**	638
Dredging expenses	**208**	301
Relocation compensation expenses	**468**	415
Operating lease charges	**167**	144
Resources compensation fees	**551**	160
Pollutants discharge expenses	**298**	219
Cost of sale of ancillary materials and other goods, and provision of other services	**1,211**	651
Public utilities expenses	**307**	277
Others	**1,331**	478
	8,677	4,576

7 Total operating expenses

	2008 RMB million	*2007 RMB million*
Personnel expenses, including	**7,185**	5,544
- contributions to retirement plans	**871**	621
- fair value (gain)/loss on revaluation of share appreciation rights	**(52)**	112
Depreciation and amortisation	**9,893**	8,140
Net loss on disposal of property, plant and equipment	**434**	299
Cost of inventories (Note)	**50,662**	36,475
Research and development costs	**94**	23
Auditors' remuneration, including		
- audit services	**42**	38
- tax services	**1**	1
Operating lease charges on properties	**264**	205
Allowance for accounts receivable and other receivables and write down of inventories	**638**	326
Impairment losses on property, plant and equipment	**447**	380
Impairment losses on other investments	**204**	3

Note:

Cost of inventories includes RMB10,301 million (2007: RMB7,982 million) for the year ended 31 December 2008, 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.

Notes to the financial statements (continued)

for the year ended 31 December 2008

(Expressed in Renminbi)

8 Finance income/(expenses)

	2008 RMB million	2007 RMB million
Interest income	**816**	622
Foreign exchange gain, net	**–**	129
Gain on remeasurement of derivative financial instruments to fair value	**472**	283
Finance income	**1,288**	1,034
Interest on loans from banks and other financial institutions, and other borrowings wholly repayable within five years	**(4,830)**	(3,816)
Less: Interest expense capitalised*	**1,044**	399
Net interest expense	**(3,786)**	(3,417)
Foreign exchange loss, net	**(895)**	–
Finance expenses	**(4,681)**	(3,417)
Net finance costs	**(3,393)**	(2,383)
* Interest expense was capitalised in construction in progress at the following rates per annum	**3.69%-7.83%**	3.60%-7.29%

9 Income tax

Income tax in the consolidated income statement represents:

	2008 RMB million	2007 RMB million
Provision for PRC income tax (Note 27(a))	**6,769**	6,737
Deferred taxation (Note 27(b))	**307**	5
	7,076	6,742

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

	2008 RMB million	2007 RMB million
Profit before income tax	**36,975**	30,779
Expected PRC income tax expense at a statutory tax rate of 25% (2007: 33%) (Note i)	**9,244**	10,157
Tax effect of differential tax rate on branches and subsidiaries' income (Note i)	**(2,586)**	(3,467)
Effect of change in tax rate (Note ii)	**–**	(140)
Tax effect of non-deductible expenses (Note iii)	**512**	232
Tax effect of non-taxable income	**–**	(2)
Tax effect in respect of share of profits less losses of associates	**(166)**	(207)
Tax effect of tax losses not recognised	**32**	162
Others	**40**	7
Actual tax expense	**7,076**	6,742

Notes to the financial statements (continued)

for the year ended 31 December 2008
(Expressed in Renminbi)

9 Income tax (continued)

Notes:

(i) The provision for PRC current income tax is based on a statutory rate of 25% (2007: 33%) of the assessable profit of the entities comprising the Group as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain branches and subsidiaries of the Company, which are exempted or taxed at preferential rates.

(ii) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which has taken effect from 1 January 2008. As a result of the new tax law, the statutory income tax rate adopted by the Company and its subsidiaries has changed from 33% to 25% with effect from 1 January 2008.

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

The deferred tax assets and liabilities were remeasured for the change in applicable tax rates as a result of the new tax law during the year ended 31 December 2007.

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

Notes to the financial statements (continued)

for the year ended 31 December 2008

(Expressed in Renminbi)

10 Directors' and supervisors' emoluments

Details of directors' and supervisors' emoluments are set out below:

	2008					
	Fees RMB million	**Basic salaries, housing and other allowances and benefits in kind RMB million**	**Discretionary bonuses RMB million**	**Retirement scheme contributions RMB million**	**Total RMB million**	**Share appreciation rights (Note) RMB million**
Executive directors						
Chen Biting (resigned on 30 December 2008)	–	–	–	–	–	(7.23)
Zhang Xiwu	–	–	–	–	–	(3.22)
Ling Wen	–	0.39	0.35	0.10	0.84	(2.11)
Non-executive directors						
Zhang Yuzhuo	–	–	–	–	–	(4.03)
Han Jianguo	–	–	–	–	–	(2.13)
Yun Gongmin (resigned on 29 August 2008)	–	–	–	–	–	0.11
Independent non-executive directors						
Huang Yicheng	0.45	–	–	–	0.45	–
Anthony Francis Neoh	0.45	–	–	–	0.45	–
Chen Xiaoyue	0.45	–	–	–	0.45	–
Supervisors						
Xu Zufa	–	–	–	–	–	(2.61)
Wu Gaoqian	–	0.26	0.29	0.07	0.62	–
Li Jianshe	–	0.26	0.14	0.05	0.45	–
	1.35	0.91	0.78	0.22	3.26	(21.22)

	2007					
	Fees RMB million	*Basic salaries, housing and other allowances and benefits in kind RMB million*	*Discretionary bonuses RMB million*	*Retirement scheme contributions RMB million*	*Total RMB million*	*Share appreciation rights (Note) RMB million*
Executive directors						
Chen Biting	–	–	–	–	–	7.77
Ling Wen	–	0.29	0.52	0.19	1.00	6.10
Non-executive directors						
Zhang Xiwu	–	–	–	–	–	7.00
Zhang Yuzhuo	–	–	–	–	–	6.49
Han Jianguo	–	–	–	–	–	5.48
Yun Gongmin (appointed on 15 May 2007)	–	–	–	–	–	0.17
Independent non-executive directors						
Huang Yicheng	0.45	–	–	–	0.45	–
Anthony Francis Neoh	0.45	–	–	–	0.45	–
Chen Xiaoyue	0.45	–	–	–	0.45	–
Supervisors						
Xu Zufa	–	–	–	–	–	4.71
Wu Gaoqian	–	0.24	0.22	0.11	0.57	0.06
Li Jianshe	–	0.20	0.21	0.05	0.46	–
	1.35	0.73	0.95	0.35	3.38	37.78

Notes to the financial statements (continued)

for the year ended 31 December 2008

(Expressed in Renminbi)

10 Directors' and supervisors' emoluments (continued)

Note: These represent the change in the fair value of the share appreciation rights granted to the directors and supervisors under the Company's share appreciation rights scheme. The value of these share appreciation rights is measured according to the Company's accounting policy for share appreciation rights as set out in Note 2(x)(iii).

The details of these benefits, including the principal terms and number of share appreciation rights granted, are disclosed in Note 37.

11 Individuals with highest emoluments

Of the five highest paid individuals of the Group, none (2007: four) are directors of the Company for the year ended 31 December 2008 whose emoluments are included in Note 10 above.

The following table sets out the emoluments of the Group's five (2007: remaining one) highest paid individuals for the year ended 31 December 2008 who are not director nor supervisor of the Company:

	2008 ***RMB million***	*2007* *RMB million*
Basic salaries, housing and other allowances and benefits in kind	**1.80**	0.27
Discretionary bonuses	**2.25**	0.42
Retirement scheme contributions	**0.44**	0.14
	4.49	0.83
Share appreciation rights	**(10.30)**	5.33

The emoluments of these individuals are within the following band:

	Number of individual ***2008***	*2007*
HKD500,001 to HKD1,000,000	**5**	–
HKD6,500,001 to HKD7,000,000	**–**	1
	5	1

12 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB20,331 million (2007: RMB14,075 million) which has been dealt with in the financial statements of the Company.

Notes to the financial statements (continued)

for the year ended 31 December 2008

(Expressed in Renminbi)

13 Dividends

(a) Dividends approved during the year

	2008 **RMB million**	*2007* *RMB million*
Special dividend to the Company's domestic state-owned share and H share shareholders, resolved and paid during the year	**5,745**	16,799
Final dividend in respect of the previous financial year, declared and paid during the year	**3,580**	6,150
	9,325	22,949

(i) Special dividends

Pursuant to the approval by the shareholders at the extraordinary general meeting of the Company held on 24 August 2007, as part of the arrangement of the issue of A shares, it was resolved that the Company's domestic state-owned share and H share shareholders would be entitled to receive a distribution from the entire distributable reserves of the Group as at 30 June 2007 amounting to RMB22,544 million. The amount of such distributable reserves is the lower of the amount determined in accordance with the China Accounting Standards and the amount determined in accordance with IFRSs after the appropriation of reserves. The directors duly authorised by the shareholders declared special dividends of RMB16,799 million and RMB5,745 million to the Company's domestic state-owned share and H share shareholders on 25 October 2007 and 15 March 2008, respectively.

(ii) Final dividend

A final dividend of RMB0.18 per share totalling RMB3,580 million in respect of the year ended 31 December 2007 was approved at the annual general meeting held on 16 May 2008 and was subsequently paid on 10 June 2008.

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

Notes to the financial statements (continued)

for the year ended 31 December 2008

(Expressed in Renminbi)

13 Dividends (continued)

(b) Dividends proposed after the balance sheet date

	2008 **RMB million**	*2007* *RMB million*
Special dividend to the Company's domestic state-owned share and H share shareholders (Note 13(a)(i))	**–**	5,745
Final dividend proposed of RMB0.46 (2007: RMB0.18) per ordinary share to all equity shareholders of the Company	**9,149**	3,580
	9,149	9,325

On 27 March 2009, the directors proposed a final dividend of RMB0.46 per share totalling RMB9,149 million to all equity shareholders of the Company for the shareholders' approval at the forthcoming annual general meeting.

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

14 Earnings per share

The calculation of basic earnings per share for the year ended 31 December 2008 was based on the profit attributable to equity shareholders of the Company for the year of RMB26,641 million (2007: RMB20,581 million) and the weighted average number of shares in issue during the year ended 31 December 2008 of 19,890 million shares (2007: 18,540 million shares), calculated as follows:

Weighted average number of ordinary shares

	2008 **million shares**	*2007* *million shares*
Issued ordinary shares at 1 January	**19,890**	18,090
Effect of A shares issued (Note 34)	**–**	450
Weighted average number of ordinary shares at 31 December	**19,890**	18,540

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

Notes to the financial statements (continued)

for the year ended 31 December 2008

(Expressed in Renminbi)

15 Property, plant and equipment, net

The Group

	Buildings RMB million	*Mining structures and mining rights* RMB million	*Mining related machinery and equipment* RMB million	*Generators and related machinery and equipment* RMB million	*Railway and port structures* RMB million	*Furniture, fixtures, motor vehicles and other equipment* RMB million	*Total* RMB million
Cost/valuation:							
At 1 January 2007	15,571	13,407	19,348	44,312	45,834	4,010	142,482
Additions	136	3,708	151	50	1,326	557	5,928
Through addition of a subsidiary	516	–	–	3,138	–	79	3,733
Transferred from construction in progress	621	687	5,161	9,186	1,617	224	17,496
Disposals	(107)	(118)	(735)	(85)	(140)	(170)	(1,355)
At 31 December 2007	16,737	17,684	23,925	56,601	48,637	4,700	168,284
Representing:							
Cost	8,828	11,069	16,449	34,553	18,140	2,749	91,788
Valuation – 2003 (Note ii)	7,909	6,615	7,476	22,048	30,497	1,951	76,496
	16,737	17,684	23,925	56,601	48,637	4,700	168,284
Accumulated depreciation and impairment losses:							
At 1 January 2007	3,203	1,250	5,870	8,366	8,562	1,860	29,111
Charge for the year	696	591	1,637	2,412	2,105	523	7,964
Through addition of a subsidiary	82	–	–	549	–	43	674
Impairment losses (Note vi)	26	–	–	340	13	1	380
Written back on disposals	(41)	(62)	(554)	(39)	(75)	(133)	(904)
At 31 December 2007	3,966	1,779	6,953	11,628	10,605	2,294	37,225
Net book value:							
At 31 December 2007	12,771	15,905	16,972	44,973	38,032	2,406	131,059
Cost/valuation:							
At 1 January 2008	**16,737**	**17,684**	**23,925**	**56,601**	**48,637**	**4,700**	**168,284**
Additions	**692**	**2,387**	**737**	**42**	**721**	**466**	**5,045**
Acquisition of a subsidiary	**29**	**–**	**–**	**1,071**	**–**	**55**	**1,155**
Transferred from construction in progress	**2,313**	**992**	**8,441**	**3,604**	**2,084**	**1,286**	**18,720**
Disposals	**(151)**	**(33)**	**(644)**	**(104)**	**(407)**	**(142)**	**(1,481)**
At 31 December 2008	**19,620**	**21,030**	**32,459**	**61,214**	**51,035**	**6,365**	**191,723**
Representing:							
Cost	**11,862**	**14,448**	**25,627**	**39,270**	**20,945**	**4,556**	**116,708**
Valuation – 2003 (Note ii)	**7,758**	**6,582**	**6,832**	**21,944**	**30,090**	**1,809**	**75,015**
	19,620	**21,030**	**32,459**	**61,214**	**51,035**	**6,365**	**191,723**
Accumulated depreciation and impairment losses:							
At 1 January 2008	**3,966**	**1,779**	**6,953**	**11,628**	**10,605**	**2,294**	**37,225**
Charge for the year	**838**	**555**	**2,498**	**2,923**	**2,289**	**652**	**9,755**
Impairment losses (Note vi)	**1**	**–**	**113**	**331**	**–**	**2**	**447**
Written back on disposals	**(69)**	**(11)**	**(465)**	**(59)**	**(245)**	**(108)**	**(957)**
At 31 December 2008	**4,736**	**2,323**	**9,099**	**14,823**	**12,649**	**2,840**	**46,470**
Net book value:							
At 31 December 2008	**14,884**	**18,707**	**23,360**	**46,391**	**38,386**	**3,525**	**145,253**

Notes to the financial statements (continued)

for the year ended 31 December 2008

(Expressed in Renminbi)

15 Property, plant and equipment, net (continued)

The Company

	Buildings RMB million	Mining structures and mining rights RMB million	Mining related machinery and equipment RMB million	Generators and related machinery and equipment RMB million	Railway and port structures RMB million	Furniture, fixtures, motor vehicles and other equipment RMB million	Total RMB million
Cost/valuation:							
At 1 January 2007	2,466	9,726	14,712	5	11,888	1,021	39,818
Additions	120	3,694	138	–	950	205	5,107
Transferred from construction in progress	411	485	4,112	–	267	68	5,343
Disposals	(33)	(118)	(657)	–	(8)	(62)	(878)
At 31 December 2007	2,964	13,787	18,305	5	13,097	1,232	49,390
Representing:							
Cost	1,278	8,248	14,059	1	4,160	871	28,617
Valuation – 2003 (Note ii)	1,686	5,539	4,246	4	8,937	361	20,773
	2,964	13,787	18,305	5	13,097	1,232	49,390
Accumulated depreciation and impairment losses:							
At 1 January 2007	511	1,126	3,638	5	3,195	444	8,919
Charge for the year	82	548	1,403	–	694	153	2,880
Written back on disposals	(14)	(62)	(527)	–	(2)	(51)	(656)
At 31 December 2007	579	1,612	4,514	5	3,887	546	11,143
Net book value:							
At 31 December 2007	2,385	12,175	13,791	–	9,210	686	38,247
Cost/valuation:							
At 1 January 2008	**2,964**	**13,787**	**18,305**	**5**	**13,097**	**1,232**	**49,390**
Additions	**648**	**2,344**	**598**	**–**	**337**	**417**	**4,344**
Transferred from construction in progress	**1,142**	**621**	**7,941**	**–**	**485**	**744**	**10,933**
Disposals	**(70)**	**(33)**	**(542)**	**–**	**(208)**	**(52)**	**(905)**
At 31 December 2008	**4,684**	**16,719**	**26,302**	**5**	**13,711**	**2,341**	**63,762**
Representing:							
Cost	**3,068**	**11,213**	**22,598**	**1**	**4,982**	**2,032**	**43,894**
Valuation – 2003 (Note ii)	**1,616**	**5,506**	**3,704**	**4**	**8,729**	**309**	**19,868**
	4,684	**16,719**	**26,302**	**5**	**13,711**	**2,341**	**63,762**
Accumulated depreciation and impairment losses:							
At 1 January 2008	**579**	**1,612**	**4,514**	**5**	**3,887**	**546**	**11,143**
Charge for the year	**151**	**504**	**2,208**	**–**	**764**	**266**	**3,893**
Impairment losses (Note vi)	**–**	**–**	**113**	**–**	**–**	**–**	**113**
Written back on disposals	**(12)**	**(11)**	**(416)**	**–**	**(125)**	**(39)**	**(603)**
At 31 December 2008	**718**	**2,105**	**6,419**	**5**	**4,526**	**773**	**14,546**
Net book value:							
At 31 December 2008	**3,966**	**14,614**	**19,883**	**–**	**9,185**	**1,568**	**49,216**

Notes to the financial statements (continued)

for the year ended 31 December 2008
(Expressed in Renminbi)

15 Property, plant and equipment, net (continued)

Notes:

(i) The Group's property, plant and equipment are mainly located in the PRC.

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

(iii) Had all the property, plant and equipment been carried at cost less accumulated depreciation under the cost model, the carrying amounts of each class of total property, plant and equipment as at 31 December 2008 would have been as follows:

	2008	*2007*
	RMB million	*RMB million*
Buildings	**14,602**	12,470
Mining structures and mining rights	**14,463**	11,524
Mining related machinery and equipment	**22,988**	16,566
Generators and related machinery and equipment	**46,346**	44,920
Railway and port structures	**36,587**	36,157
Furniture, fixtures, motor vehicles and other equipment	**3,644**	2,541
	138,630	124,178

(iv) Up to the date of this report, the Group was in the process of applying for the title certificates of certain of its properties with an aggregate carrying value of RMB1,080 million as at 31 December 2008 (2007: RMB3,368 million), of which RMB148 million relating to newly acquired properties in 2008. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

(v) Certain power plants and mines of the Group are in the process of obtaining requisite permits from the relevant government authorities at 31 December 2008. The directors of the Company are of the opinion that the Group will be able to obtain the requisite permits in due course.

(vi) Certain property, plant and equipment which were obsolete, damaged or that could not generate future economic benefits were provided against for impairment for the years ended 31 December 2008 and 2007 respectively.

Notes to the financial statements (continued)

for the year ended 31 December 2008
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16 Construction in progress

	The Group		The Company	
	2008	*2007*	**2008**	*2007*
	RMB million	*RMB million*	**RMB million**	*RMB million*
At the beginning of the year	**22,358**	15,185	**9,134**	3,664
Additions	**29,328**	23,933	**9,277**	10,813
Acquisition/through addition of subsidiary	**51**	736	**–**	–
Transferred to property, plant and equipment	**(18,720)**	(17,496)	**(10,933)**	(5,343)
At the end of the year	**33,017**	22,358	**7,478**	9,134

The construction in progress as at 31 December 2008 is mainly related to mining, generators and related machinery and equipment.

17 Intangible assets

	The Group		The Company	
	2008	*2007*	**2008**	*2007*
	RMB million	*RMB million*	**RMB million**	*RMB million*
Exploration right	**1,304**	–	**–**	–
Railway route access	**584**	601	**205**	210
Others	**547**	561	**97**	112
	2,435	1,162	**302**	322

The exploration right represented the exploration licence in the Watermark exploration area acquired on 20 November 2008 from the state government of New South Wales, Australia, at a consideration of AUD299.9 million (equivalent to approximately RMB1,304 million).

The movement of intangible assets is as follows:

	The Group		The Company	
	2008	*2007*	**2008**	*2007*
	RMB million	*RMB million*	**RMB million**	*RMB million*
At the beginning of the year	**1,162**	1,172	**322**	324
Additions	**1,411**	190	**–**	36
Through addition of a subsidiary	**–**	27	**–**	–
Amortisation	**(138)**	(176)	**(20)**	(22)
Disposals	**–**	(51)	**–**	(16)
At the end of the year	**2,435**	1,162	**302**	322

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

Notes to the financial statements (continued)

for the year ended 31 December 2008

(Expressed in Renminbi)

18 Investments in subsidiaries

	The Company	
	2008	2007
	RMB million	RMB million
Unlisted shares, at cost	**30,541**	24,747

The Company's subsidiaries are unlisted. The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group:

Name of the Company	Place of incorporation and operation	Type of legal entity	Particulars of registered capital	% held by the Company	Principal activities
Shenhua Baoshen Railway Co., Ltd.	PRC	Limited company	RMB1,004 million	88%	Provision of transportation services
Shuohuang Railway Development Co., Ltd.	PRC	Limited company	RMB5,880 million	53%	Provision of transportation services
Shenhua Huanghua Harbour Administration Co., Ltd.	PRC	Limited company	RMB3,253 million	70%	Provision of harbour and port services
Shenhua Zhunge'er Energy Co., Ltd.	PRC	Limited company	RMB7,102 million	58%	Coal mining and development; generation and sale of electricity
Shenhua Shenfu Dongsheng Coal Co., Ltd.	PRC	Limited company	RMB215 million	100%	Provision of integrated services
Shenhua Guohua International Power Co., Ltd. (formerly known as CLP Guohua Power Co., Ltd.) (Note i)	PRC	Limited company	RMB4,010 million	70%	Generation and sale of electricity
Suizhong Power Co., Ltd.	PRC	Limited company	RMB2,625 million	65%	Generation and sale of electricity
Hebei Guohua Cangdong Power Co., Ltd.	PRC	Limited company	RMB1,660 million	51%	Generation and sale of electricity
Zhejiang Guohua Zheneng Power Generation Co., Ltd.	PRC	Limited company	RMB2,348 million	60%	Generation and sale of electricity
Guangdong Guohua Yuedian Taishan Power Co., Ltd.	PRC	Limited company	RMB2,700 million	80%	Generation and sale of electricity
Shaanxi Guohua Jinjie Energy Corporation	PRC	Limited company	RMB1,063 million	70%	Generation and sale of electricity; coal mining and development
Hebei Guohua Dingzhou Power Generation Co., Ltd. (Note ii)	PRC	Limited company	RMB931 million	41%	Generation and sale of electricity
Shenhua Shendong Power Co., Ltd.	PRC	Limited company	RMB2,000 million	100%	Generation and sale of electricity
Shenhua Australia Holding Pty Ltd.	Australia	Limited company	AUD400 million	100%	Coal mining and development; generation and sale of electricity

Notes to the financial statements (continued)

for the year ended 31 December 2008

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18 Investments in subsidiaries (continued)

Notes:

(i) During the year ended 31 December 2008, The Company injected its 65% equity interest in Inner Mongolia Guohua Zhunge'er Power Generation Co., Ltd., 50% equity interest in Suizhong Power Co., Ltd. and cash of RMB565 million as capital contributions to Shenhua Guohua International, Power Co., Ltd. ("Guohua International"). After the completion of capital injections from the Company and the minority shareholder of Guohua International, the Company's shareholding in Guohua International would be increased from 51% to 70%. As the capital injection from the minority shareholder of Guohua International was not yet completed, the Company's shareholding in Guohua International was 73% as at 31 December 2008.

(ii) Pursuant to a resolution passed in the shareholders' meeting of Hebei Guohua Dingzhou Power Generation Co., Ltd. ("Dingzhou") on 15 November 2007, the Articles of Association of Dingzhou have been amended on 29 December 2007 such that the Company has obtained control over the majority of the board of directors of Dingzhou.

As a result, Dingzhou has been accounted for as a subsidiary and consolidated in the Group's consolidated financial statements with effect from 29 December 2007. The financial position of Dingzhou as at 29 December 2007 is set out as follows:

	RMB million
Current assets	374
Total assets	4,393
Current liabilities	1,507
Total liabilities	3,036
Total equity	1,357

Notes to the financial statements (continued)

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19 Interest in associates

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB million	RMB million	**RMB million**	RMB million
Unlisted shares, at cost	**–**	–	**1,456**	1,373
Share of net assets	**3,045**	2,754	**–**	–
	3,045	2,754	**1,456**	1,373

The Group's interests in associates are individually and in aggregate not material to the Group's financial condition or results of operations for the year. The Group's associates are unlisted and established in the PRC. The following list contains only the particulars of associates, which principally affected the results or assets of the Group:

			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
Shendong Tianlong Group Co., Ltd.	Limited company	RMB272 million	21%	21%	–	Coal production
Shenhua Finance Co., Ltd. ("Shenhua Finance")	Limited company	RMB700 million	33%	21%	19%	Provision of financial services
Zhuhai New Century Shipping Ltd.	Limited company	RMB682 million	50%	50%	–	Provision of transportation services
Zhejiang Jiahua Power Co., Ltd.	Limited company	RMB2,055 million	20%	20%	–	Generation and sale of electricity
Inner Mongolia Yili Chemical Industry Co., Ltd.	Limited company	RMB1,074 million	25%	25%	–	Production and sale of chemicals
Tianjin Yuanhua Shipping Co., Ltd.	Limited company	RMB360 million	44%	44%	–	Provision of transportation services
Inner Mongolia Menghua Haibowan Power Co., Ltd.	Limited company	RMB280 million	40%	40%	–	Generation and sale of electricity
Inner Mongolia Jingda Power Co., Ltd.	Limited company	RMB472 million	30%	30%	–	Generation and sale of electricity

20 Other investments

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

Notes to the financial statements (continued)

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21 Other non-current assets

	The Group		The Company	
	2008	*2007*	**2008**	*2007*
	RMB million	*RMB million*	**RMB million**	*RMB million*
Prepayments in connection with construction work and equipment purchases	**3,143**	1,941	**1,957**	1,260
Prepayment for mining project	**2,500**	–	**2,500**	–
Long-term entrusted loans	**730**	937	**1,257**	377
	6,373	2,878	**5,714**	1,637

At 31 December 2008, the Group had prepayments to an affiliate of Shenhua Group and an associate of the Group amounting to RMB11 million and RMB2 million respectively (2007: Nil). At 31 December 2008, the Company had prepayments to an associate amounting to RMB2 million (2007: Nil).

The Group had long-term entrusted loans to an associate through a PRC state-owned bank. The loans bear interest at rates ranging from 7.74% to 8.32% per annum (2007: 5.30% to 7.74% per annum) and are receivable within four years.

The Company had long-term entrusted loans to subsidiaries through PRC state-owned banks. The loans bear interest at rates ranging from 5.10% to 6.43% per annum (2007: 5.20% to 5.43% per annum) and are receivable within four to six years.

22 Lease prepayments

Lease prepayments represent land use rights paid to the PRC's governmental authorities. Up to the date of this report, the Group was in the process of applying for the title certificates of certain land use rights with a carrying amount of RMB1,091 million as at 31 December 2008 (2007: RMB1,057 million), of which RMB655 million were newly acquired in 2008. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned lands.

23 Inventories

	The Group		The Company	
	2008	*2007*	**2008**	*2007*
	RMB million	*RMB million*	**RMB million**	*RMB million*
Coal	**1,621**	1,416	**1,344**	1,677
Materials and supplies	**5,220**	4,921	**3,187**	2,776
Others (Note)	**1,001**	–	**–**	–
	7,842	6,337	**4,531**	4,453

Note: Others mainly represent properties under development.

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

	The Group	
	2008	*2007*
	RMB million	*RMB million*
Carrying amount of inventories sold	**50,157**	36,218
Write down of inventories	**505**	257
	50,662	36,475

Notes to the financial statements (continued)

for the year ended 31 December 2008

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24 Accounts and bills receivable, net

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB million	RMB million	**RMB million**	RMB million
Accounts receivable				
Shenhua Group and its affiliates	**200**	35	**148**	19
Subsidiaries	**–**	–	**535**	224
Associates	**2**	45	**–**	–
Third parties	**7,380**	5,910	**2,977**	1,786
	7,582	5,990	**3,660**	2,029
Allowance for doubtful debts	**(57)**	(104)	**(3)**	(3)
	7,525	5,886	**3,657**	2,026
Bills receivable	**711**	756	**488**	543
	8,236	6,642	**4,145**	2,569

Accounts and bills receivable are expected to be recovered within one year.

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

The following is the ageing analysis of accounts and bills receivable, net of allowance for doubtful debts:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB million	RMB million	**RMB million**	RMB million
Current	**8,131**	6,516	**4,046**	2,568
Less than one year past due	**105**	125	**99**	1
More than one year but less than two years past due	**–**	1	**–**	–
	8,236	6,642	**4,145**	2,569

The movement of allowance for doubtful debts was as follows:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB million	RMB million	**RMB million**	RMB million
At the beginning of the year	**104**	44	**3**	11
Impairment loss recognised	**38**	75	**1**	4
Impairment loss written back	**(2)**	(6)	**(1)**	(4)
Uncollectible amounts written off	**(83)**	(9)	**–**	(8)
At the end of the year	**57**	104	**3**	3

Notes to the financial statements (continued)

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24 Accounts and bills receivable, net (continued)

The ageing analysis of accounts and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	The Group		***The Company***	
	2008	*2007*	***2008***	*2007*
	RMB million	*RMB million*	***RMB million***	*RMB million*
Neither past due nor impaired	**8,131**	6,516	**4,046**	2,568
Less than one year past due	**105**	124	**99**	1
	8,236	6,640	**4,145**	2,569

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

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

	The Group		***The Company***	
	2008	*2007*	***2008***	*2007*
	million	*million*	***million***	*million*
United States Dollars	**USD 317**	USD179	**USD 317**	USD179

25 Prepaid expenses and other current assets

	The Group		***The Company***	
	2008	*2007*	***2008***	*2007*
	RMB million	*RMB million*	***RMB million***	*RMB million*
Fair value of derivative financial instruments	**509**	37	**509**	37
Prepaid expenses and deposits	**1,338**	2,002	**589**	1,130
Amounts due from Shenhua Group and its affiliates	**70**	153	**30**	140
Amounts due from subsidiaries	**–**	–	**17,895**	18,380
Amounts due from associates	**49**	228	**13**	4
Other receivables	**285**	1,091	**161**	898
Entrusted loan to a third party	**–**	200	**–**	200
Advances to staff	**86**	60	**32**	27
	2,337	3,771	**19,229**	20,816

In the Company's balance sheet, the balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment. As for the entrusted loan to a third party as at 31 December 2007, it was interest bearing at 6.57% per annum and was settled in July 2008.

Notes to the financial statements (continued)

for the year ended 31 December 2008

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

At 31 December 2008, the Group and the Company had placed deposits with an associate amounting to RMB385 million and RMB216 million respectively (2007: RMB500 million and RMB288 million respectively).

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

	The Group		The Company	
	2008 million	*2007 million*	**2008 million**	*2007 million*
United States Dollars	**USD 69**	USD12	**–**	–
Hong Kong Dollars	**HKD 73**	HKD84	**HKD 69**	HKD79
Australian Dollars	**AUD 25**	–	**–**	–
Indonesian Rupiah	**IDR 25,850**	–	**–**	–

27 Income tax in the balance sheet

(a) Current taxation in the balance sheet

	The Group		The Company	
	2008 RMB million	*2007 RMB million*	**2008 RMB million**	*2007 RMB million*
Provision for PRC income tax for the year (Note 9)	**6,769**	6,737	**4,209**	2,821
Through addition of a subsidiary	**–**	47	**–**	–
Income tax paid	**(4,642)**	(4,586)	**(2,586)**	(1,791)
	2,127	2,198	**1,623**	1,030

(b) Deferred tax assets and liabilities

Movements in temporary differences are as follows:

The Group

	At 1 January 2008 RMB million	Recognised in consolidated income statement RMB million	At 31 December 2008 RMB million
Allowances, primarily for receivables and inventories	**69**	**29**	**98**
Property, plant and equipment	**(163)**	**(2)**	**(165)**
Lease prepayments	**655**	**(11)**	**644**
Tax losses carried forward, net of valuation allowances	**29**	**37**	**66**
Tax allowable expenses not yet incurred	**(508)**	**(240)**	**(748)**
Unrealised profits from sales within the Group	**113**	**(39)**	**74**
Accrued salaries and other expenses not yet paid	**194**	**24**	**218**
Pre-operating expenses written off	**47**	**11**	**58**
Others	**78**	**(116)**	**(38)**
Net deferred tax assets	**514**	**(307)**	**207**

Notes to the financial statements (continued)

for the year ended 31 December 2008

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27 Income tax in the balance sheet (continued)

(b) Deferred tax assets and liabilities (continued)

	At 1 January 2007 RMB million	*Recognised in consolidated income statement RMB million*	*Recognised in equity RMB million*	*Through addition of a subsidiary RMB million*	*At 31 December 2007 RMB million*
Allowances, primarily for receivables and inventories	69	–	–	–	69
Property, plant and equipment	(481)	196	–	122	(163)
Lease prepayments	857	(24)	(178)	–	655
Tax losses carried forward, net of valuation allowances	11	18	–	–	29
Tax allowable expenses not yet incurred	(272)	(236)	–	–	(508)
Unrealised profits from sales within the Group	90	23	–	–	113
Accrued salaries and other expenses not yet paid	90	103	–	1	194
Pre-operating expenses written off	58	(22)	–	11	47
Others	141	(63)	–	–	78
Net deferred tax assets	563	(5)	(178)	134	514

The Company

	At 1 January 2008 RMB million	***Recognised in income statement RMB million***	***At 31 December 2008 RMB million***
Allowances, primarily for receivables and inventories	**44**	**11**	**55**
Property, plant and equipment	**(22)**	**(14)**	**(36)**
Lease prepayments	**441**	**(18)**	**423**
Tax allowable expenses not yet incurred	**(426)**	**(197)**	**(623)**
Unrealised profits from sales within the Company	**46**	**(46)**	**–**
Accrued salaries and other expenses not yet paid	**115**	**31**	**146**
Others	**–**	**(112)**	**(112)**
Net deferred tax assets/(liabilities)	**198**	**(345)**	**(147)**

Notes to the financial statements (continued)

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27 Income tax in the balance sheet (continued)

(b) Deferred tax assets and liabilities (continued)

	At 1 January 2007 RMB million	*Recognised in income statement RMB million*	*Recognised in shareholder's equity RMB million*	*At 31 December 2007 RMB million*
Allowances, primarily for receivables and inventories	40	4	–	44
Property, plant and equipment	(126)	104	–	(22)
Lease prepayments	533	(10)	(82)	441
Tax allowable expenses not yet incurred	(259)	(167)	–	(426)
Unrealised profits from sales within the Company	90	(44)	–	46
Accrued salaries and other expenses not yet paid	35	80	–	115
Others	82	(82)	–	–
Net deferred tax assets	395	(115)	(82)	198

	The Group		***The Company***	
	2008 RMB million	*2007 RMB million*	***2008 RMB million***	*2007 RMB million*
Net deferred tax assets recognised on the balance sheet	**669**	1,168	**–**	538
Net deferred tax liabilities recognised on the balance sheet	**(462)**	(654)	**(147)**	(340)
	207	514	**(147)**	198

Notes to the financial statements (continued)

for the year ended 31 December 2008

(Expressed in Renminbi)

28 Borrowings

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

	The Group		The Company	
	2008	*2007*	**2008**	*2007*
	RMB million	*RMB million*	**RMB million**	*RMB million*
Borrowings from banks and other financial institutions	**13,119**	4,903	**4,100**	–
Loans from subsidiaries	**–**	–	**–**	1,500
Current portion of long-term borrowings	**5,094**	5,293	**941**	1,822
	18,213	10,196	**5,041**	3,322

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

	The Group		The Company	
	2008	*2007*	**2008**	*2007*
Borrowings from banks and other financial institutions	**4.37%-7.47%**	4.70%-6.16%	**6.72%-6.87%**	–
Loans from subsidiaries	**–**	–	**–**	4.10%

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

		The Group		The Company	
		2008	*2007*	**2008**	*2007*
		RMB million	*RMB million*	**RMB million**	*RMB million*
Loans from banks and other financial institutions *					
Renminbi denominated	Interest rates ranging from 3.60% to 7.83% per annum with maturities through 31 December 2027	**55,156**	49,562	**8,080**	9,655
United States Dollars denominated	Interest rate at L+1.00% per annum with maturities through 20 June 2020	**294**	305	**–**	–
Japanese Yen denominated	Interest rates ranging from 1.80% to 4.45% per annum with maturities through 20 March 2031	**5,689**	5,144	**5,689**	5,064
		61,139	55,011	**13,769**	14,719
Less: current portion of long-term borrowings		**(5,094)**	(5,293)	**(941)**	(1,822)
		56,045	49,718	**12,828**	12,897

Notes to the financial statements (continued)

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28 Borrowings (continued)

* At 31 December 2008, both the Group and the Company had an entrusted loan from Shenhua Group amounting to RMB1,000 million (2007: RMB1,000 million).

At 31 December 2008, the Group had an entrusted loan from Shenhua Finance amounting to RMB1,147 million (2007: RMB1,447 million).

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

The above borrowings are unsecured.

The long-term borrowings were repayable as follows:

	The Group		The Company	
	2008	*2007*	**2008**	*2007*
	RMB million	*RMB million*	**RMB million**	*RMB million*
Within one year	**5,094**	5,293	**941**	1,822
After one year but within two years	**9,379**	5,114	**2,211**	796
After two years but within five years	**21,047**	22,518	**4,396**	4,245
After five years	**25,619**	22,086	**6,221**	7,856
	61,139	55,011	**13,769**	14,719

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

	The Group		The Company	
	2008	*2007*	**2008**	*2007*
	million	*million*	**million**	*million*
United States Dollars	**USD 43**	USD43	**–**	–
Japanese Yen	**JPY 75,200**	JPY80,296	**JPY 75,200**	JPY79,048

The Group had unsecured banking facilities amounting to RMB56,340 million as at 31 December 2008 (2007: RMB48,708 million). As at 31 December 2008, the unutilised banking facilities amounted to RMB26,834 million (2007: RMB23,072 million). Such banking facilities would be drawn down in accordance with the level of working capital and planned capital expenditure of the Company and its subsidiaries.

29 Short-term bonds

The bonds bore interest at rates ranging from 3.95% to 4.40% per annum as at 31 December 2007 and were settled in 2008.

Notes to the financial statements (continued)

for the year ended 31 December 2008

(Expressed in Renminbi)

30 Accounts and bills payable

	The Group		The Company	
	2008	*2007*	**2008**	*2007*
	RMB million	*RMB million*	**RMB million**	*RMB million*
Accounts payable				
Shenhua Group and its affiliates	**208**	326	**67**	117
Subsidiaries	**–**	–	**1,106**	1,252
Associates	**336**	203	**278**	203
Third parties	**9,097**	8,376	**4,346**	3,513
	9,641	8,905	**5,797**	5,085
Bills payable	**1**	169	**–**	–
	9,642	9,074	**5,797**	5,085

The accounts and bills payable amounting to RMB90 million (2007: Nil) are expected to be settled after one year.

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

	The Group		The Company	
	2008	*2007*	**2008**	*2007*
	million	*million*	**million**	*million*
United States Dollars	**USD 53**	USD56	**USD 51**	USD56
Euros	**EUR 17**	EUR17	**EUR 17**	EUR17

31 Accrued expenses and other payables

	The Group		The Company	
	2008	*2007*	**2008**	*2007*
	RMB million	*RMB million*	**RMB million**	*RMB million*
Accrued staff wages and welfare benefits	**2,539**	1,537	**1,770**	953
Accrued interest payable	**179**	151	**83**	54
Accrued taxes other than income tax	**3,626**	2,046	**3,013**	1,349
Amounts due to subsidiaries	**–**	–	**4,169**	679
Other accrued expenses and payables	**3,340**	3,984	**2,572**	1,744
Receipts in advances	**2,033**	1,228	**1,730**	1,047
Customer deposits	**693**	631	**140**	20
	12,410	9,577	**13,477**	5,846

At 31 December 2008, the Group and the Company had amounts payable to Shenhua Group and its affiliates amounting to RMB92 million and RMB78 million respectively (2007: RMB565 million and RMB452 million respectively) and amounts payable to associates amounting to RMB29 million and RMB27 million respectively (2007: RMB18 million and RMB18 million respectively).

32 Long-term payables

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

Notes to the financial statements (continued)

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33 Accrued reclamation obligations

The accrual for reclamation costs has been determined based on management's best estimates. However, so far as the effect on the land from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to change in the near term. The Group believes that the accrued reclamation obligations at 31 December 2008 are adequate. The accrual is necessarily based on estimates and therefore, the ultimate liability may exceed or be less than such estimates.

	The Group		**The Company**	
	2008	*2007*	**2008**	*2007*
	RMB million	*RMB million*	**RMB million**	*RMB million*
At the beginning of the year	**1,018**	942	**624**	568
Addition	**810**	76	**751**	59
Accretion expense	**55**	40	**40**	32
Decreases	**(14)**	(40)	**(9)**	(35)
At the end of the year	**1,869**	1,018	**1,406**	624

34 Share capital

	2008	*2007*
	RMB million	*RMB million*
Registered, issued and fully paid:		
16,491,037,955 domestic listed A shares of RMB1.00 each	**16,491**	16,491
3,398,582,500 H shares of RMB1.00 each	**3,399**	3,399
	19,890	19,890

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 Group in consideration for the assets and liabilities transferred from Shenhua Group.

In 2005, the Company issued 3,089,620,455 H shares with a par value of RMB1.00 each, at a price of HKD7.50 per H share by way of a global initial public offering to Hong Kong and overseas investors. In addition, 308,962,045 domestic state-owned ordinary shares of RMB1.00 each owned by Shenhua Group were converted into H shares and sold to Hong Kong and overseas investors.

In September 2007, the Company issued 1,800,000,000 A shares with a par value of RMB1.00 each at a price of RMB36.99 per A share to natural persons and institutional investors in the PRC ("A Shares Issue").

Following the A Shares Issue and pursuant to the requirements of the relevant authorities, all the 14,691,037,955 domestic state-owned ordinary shares existing before the A Shares Issue (i.e. ordinary shares of the Company held by Shenhua Group) have become circulative. Shenhua Group has undertaken that for a period of 36 months commencing on the date on which the A shares are listed on the Shanghai Stock Exchange, it will not transfer, put on trust or allow any A shares to be repurchased by the Company.

All A shares and H shares rank pari passu in all material aspects.

Notes to the financial statements (continued)

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35 Commitments and contingent liabilities

(a) Capital commitments

As at 31 December 2008, the Group had capital commitments for land and buildings, equipment and investments as follows:

	The Group		The Company	
	2008 RMB million	*2007 RMB million*	**2008 RMB million**	*2007 RMB million*
Authorised and contracted for				
- Land and buildings	**13,252**	5,228	**7,218**	1,747
- Machinery and other equipment	**18,708**	18,139	**6,106**	4,260
- Investment in an associate	**318**	84	**318**	84
	32,278	23,451	**13,642**	6,091
Authorised but not contracted for				
- Land and buildings	**23,472**	19,099	**8,218**	7,568
- Machinery and other equipment	**18,497**	23,512	**3,873**	7,078
	41,969	42,611	**12,091**	14,646

(b) Operating lease commitments

Operating lease commitments mainly represent business premises leased through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. As at 31 December 2008, future minimum lease payments under non-cancellable operating leases on business premises having initial or remaining lease terms of more than one year are payable as follows:

	The Group		The Company	
	2008 RMB million	*2007 RMB million*	**2008 RMB million**	*2007 RMB million*
Within one year	**77**	71	**54**	51
After one year but within five years	**131**	161	**81**	92
After five years	**44**	86	**33**	53
	252	318	**168**	196

(c) Financial guarantees issued

The Group had not issued guarantee to any third party as at 31 December 2008.

At 31 December 2008, the maximum liability of the Company under guarantees issued in respect of bank loans drawn by certain subsidiaries of the Company was RMB1,256 million (2007: RMB1,576 million).

(d) Legal contingencies

The Group is a defendant in certain lawsuits as well as the plaintiff in other proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

Notes to the financial statements (continued)

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35 Commitments and contingent liabilities (continued)

(e) Environmental contingencies

To date, the Group has not incurred any significant expenditures for environmental remediation, is currently not involved in any environmental remediation, and apart from the provision for land reclamation costs, has not accrued any further amounts for environmental remediation relating to its operations. Under the existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved, and may move further towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include (i) the exact nature and extent of the contamination at various sites including, but not limited to coal mines and land development areas, whether operating, closed or sold; (ii) the extent of required cleanup efforts; (iii) varying costs of alternative remediation strategies; (iv) changes in environmental remediation requirements; and (v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under future environmental legislation cannot reasonably be estimated at present, and could be material.

36 Related party transactions

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

The Group is controlled by Shenhua Group and has significant transactions and relationships with Shenhua Group and its affiliates. Related parties refer to enterprises over which Shenhua Group 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 its affiliates, and the associates of the Group that were carried out in the normal course of business:

		2008 **RMB million**	*2007* *RMB million*
Interest income	(i)	**5**	21
Income from entrusted loans	(ii)	**32**	19
Interest expense	(iii)	**(131)**	(184)
Purchases of ancillary materials and spare parts	(iv)	**(1,334)**	(913)
Ancillary and social services	(v)	**(517)**	(262)
Transportation service income	(vi)	**412**	49
Transportation service expense	(vii)	**(682)**	(358)
Sale of coal	(viii)	**1,642**	1,832
Purchase of coal	(ix)	**(5,326)**	(2,201)
Property leasing	(x)	**(51)**	(37)
Repairs and maintenance services expense	(xi)	**(19)**	(8)
Coal export agency expense	(xii)	**(96)**	(74)
Income from equipment installation and construction work	(xiii)	**68**	17
Purchase of equipment and construction work	(xiv)	**(384)**	(843)
Other income	(xv)	**255**	121

Notes to the financial statements (continued)

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36 Related party transactions (continued)

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

(i) Interest income represents interest earned from deposits placed with an associate. The applicable interest rate is determined in accordance with the prevailing bank interest rates published by PBOC.

(ii) Income from entrusted loans represents interest earned from entrusted loans to associates. The applicable interest rate is determined in accordance with the prevailing bank interest rates published by PBOC.

(iii) Interest expense represents interest incurred in respect of borrowings from Shenhua Group and its affiliate. The applicable interest rate is determined in accordance with the prevailing borrowing rates published by PBOC.

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

(v) Ancillary and social services represent expenditures for social welfare and support services such as property management, water and electricity supply, and canteen expense paid to the affiliates of Shenhua Group and certain associates.

(vi) Transportation service income represents income earned from the Group's associate and the affiliates of Shenhua Group in respect of coal transportation services.

(vii) Transportation service expense represents expense related to coal transportation service provided by an affiliate of Shenhua Group and certain associates.

(viii) Sale of coal represents income from sale of coal to the affiliates of Shenhua Group and certain associates.

(ix) Purchase of coal represents coal purchased from the affiliates of Shenhua Group and certain associates.

(x) Property leasing represents rental paid or payable in respect of properties leased from the affiliates of Shenhua Group.

(xi) Repairs and maintenance services expense represents expense related to machinery repairs and maintenance services provided by an affiliate of Shenhua Group and certain associates.

(xii) Coal export agency expense represents expense related to coal export agency services provided by an affiliate of Shenhua Group.

(xiii) Income from equipment installation and construction work represents equipment installation and construction service provided to an affiliate of Shenhua Group and certain associates.

(xiv) Purchase of equipment and construction work represents expenditure related to equipment and construction service provided by the affiliates of Shenhua Group and certain associates.

(xv) Other income includes agency income, repairs and maintenance service income, sales of ancillary materials and spare parts, management fee income, sales of water and electricity, etc.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

Notes to the financial statements (continued)

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36 Related party transactions (continued)

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

The Group entered into a number of agreements with Shenhua Group and its affiliates, and associates of the Group. The terms of the principal agreements are summarised as follows:

(a) The Group has entered into a mutual supply agreement for the mutual provision of production supplies and ancillary services with the affiliates of Shenhua Group. Pursuant to the agreement, the affiliates of Shenhua Group provides the Company with the production supplies and services, ancillary production services including the use of the information network system and ancillary administrative services. On the other hand, the Company provides the affiliates of Shenhua Group with water supplies, rolling stock management, railway management, railway transportation and other related or similar production supplies or services and use of the information network system.

The products and services provided under the agreement, other than the sharing of use of the information network system which is free of charge, are provided in accordance with the following pricing policy:

- price prescribed by the state (including any price prescribed by any relevant local government), if applicable;
- where there is no state-prescribed price but where there is a state-guidance price, then the state-guidance price;
- where there is neither a state-prescribed price nor a state-guidance price, the market price; or
- where none of the above is applicable or where it is not practical to apply the above pricing policies in reality, the price to be agreed between the relevant parties shall be based on reasonable costs incurred in providing the goods or services plus a profit margin of 5% of such costs.

(b) The Group has entered into coal supply agreements with certain affiliates of Shenhua Group, certain associates and Dingzhou, an associate of the Group before 29 December 2007 (Note 18). The coal supplied is charged at the prevailing market price.

(c) The Group has entered into a financial services agreement with Shenhua Finance. Pursuant to the agreement, Shenhua Finance provides financial services to the Group. The interest rate for the Group's deposits with Shenhua Finance should not be lower than the lowest limit published 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 published by PBOC for the same type of loan. The fees charged by Shenhua Finance for the provision of other financial services shall be determined according to the rates chargeable by the PBOC or the China Banking Regulatory Commission.

(d) The Group has entered into a property leasing agreement with the affiliates of Shenhua Group for leasing of certain properties to each other. No rent is payable by the Company before the affiliates of Shenhua Group obtains the relevant property ownership certificate. The rental charges are based on comparable market rates. If the affiliates of Shenhua Group negotiate to sell a leased property to a third party, the Company has a pre-emptive right to purchase such property under terms no less favourable than other third party.

Notes to the financial statements (continued)

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36 Related party transactions (continued)

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

(e) The Group has entered into a land leasing agreement with the affiliates of Shenhua Group. The annual rent is determined based on the local market rate. The Group is not allowed to sub-let the leased land.

(f) The Group has entered into an agency agreement for the export of coal with an affiliate of Shenhua Group. An affiliate of Shenhua Group is appointed as a non-exclusive export agent of the Company and is entitled to receive an agency fee based on the relevant market rates or lower rates. Currently, the rate is 0.7% of the free on board sales price of price of coal exported.

(g) The Group entered into an agency agreement for the sale of coal with the affiliates of Shenhua Group. The Group is appointed as the exclusive sales agent of the affiliates of Shenhua Group for thermal coal and non-exclusive sales agent for coking coal. The unit selling price is determined based on the spot market price, subject to confirmation by the affiliates of Shenhua Group and the Group is entitled to receive an agency fee, which is based on its related costs incurred plus a profit margin of 5% for sales of coal outside the Inner Mongolia Autonomous Region. No agency fee is charged for sales of coal within the Inner Mongolia Autonomous Region.

(h) The Group has entered into agreements with the affiliates of Shenhua Group under which the Group has been granted the right to use certain trademarks. The affiliates of Shenhua Group bear its own cost for the registration of such trademarks during the term of the trademarks license agreement and expenses for enforcement against any infringement of the licensed trademarks by third parties.

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

	Note	***2008*** ***RMB million***	*2007* *RMB million*
Cash and cash equivalents	26	**385**	500
Accounts receivable	24	**202**	80
Prepaid expenses and other current assets	25	**119**	381
Other non-current assets	21	**743**	937
Total amounts due from Shenhua Group and its affiliates, and the associates of the Group		**1,449**	1,898
Borrowings	28	**2,147**	2,447
Accounts payable	30	**544**	529
Accrued expenses and other payables	31	**121**	583
Total amounts due to Shenhua Group and its affiliates, and the associates of the Group		**2,812**	3,559

Other than the interest rates disclosed in Notes (i), (ii) and (iii) above, amounts due from/to Shenhua Group and its affiliates, and the associates of the Group bear no interest, are unsecured and are repayable in accordance with normal commercial terms.

Notes to the financial statements (continued)

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36 Related party transactions (continued)

(b) Key management personnel emoluments

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

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

	2008 **RMB million**	*2007* RMB million
Short-term employee benefits	**5**	5
Post-employment benefits	**1**	1
	6	6
Fair value (gain)/loss on revaluation of share appreciation rights	**(32)**	69

Total remuneration is included in "personnel expenses" as disclosed in Note 7.

(c) Contributions to post-employment benefit plans

The Group participates in various defined contribution post-employment benefit plans organised by municipal and provincial governments for its employees. Further details of the Group's post-employment benefit plans are disclosed in Note 37.

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

The Company is a state-controlled entity and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government ("state-controlled entities") through its government authorities, agencies, affiliations and other organisations.

Other than those transactions with Shenhua Group and its affiliates, 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 service;
— Construction work;
— 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.

Notes to the financial statements (continued)

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36 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

	2008 RMB million	*2007 RMB million*
Coal revenue	**39,918**	30,430
Power revenue	**29,141**	23,692
Transportation costs	**4,828**	3,932
Interest income	**811**	601
Interest expenses	**4,426**	3,407

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

	2008 RMB million	*2007 RMB million*
Accounts receivable	**4,660**	4,167
Cash and time deposits at banks	**58,667**	52,931
Borrowings	**72,111**	57,467
Accrued expenses and other payables	**542**	212

37 Employee benefits plan

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at 20% of the salaries, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group's contributions for the year ended 31 December 2008 were RMB871 million (2007: RMB621 million).

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 were 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.

Notes to the financial statements (continued)

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37 Employee benefits plan (continued)

Upon exercise of the said rights, the exercising participant will, subject to the restrictions under the scheme, receive a payment in RMB, after deducting any applicable withholding tax, equal to the product of the number of rights exercised and the difference between the exercise price and market price of the H shares of the Company at the time of exercise. For the year ended 31 December 2008, 1.1 million (2007: 0.6 million) share appreciation rights were exercised. The weighted average difference between the exercise price for share appreciation rights exercised during the year and the share price at the date of exercise was RMB20 (2007: RMB39).

No share appreciation rights were granted during the year ended 31 December 2008 (2007: 2.4 million). As at 31 December 2008, 6.7 million (2007: 7.8 million) share appreciation rights were outstanding. The fair value of the compensation payable was remeasured as at 31 December 2008 of RMB47 million (2007: RMB116 million) and an income of RMB52 million was recognised for the year ended 31 December 2008 (2007: an expense of RMB112 million). The exercise price of granted share appreciation rights as approved by the Board of Directors is HKD7.90, HKD11.80 or HKD33.80 depending on the grant date.

38 Segment information

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

Business segments:

The Group has four reportable segments as follows:

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

(2) Railway operations – which provides railway transportation services to the coal mining segment and external customers. The rates of freight charges billed to the coal mining segment and external customers are consistent and do not exceed the maximum amounts approved by the relevant government authorities.

(3) Port operations – which provides loading, transportation and storage services to the coal mining segment and external customers. The Group charges service fees and other expenses, which are reviewed and approved by the relevant government authorities.

(4) Power operations – which uses coal, sourced from the coal mining segment and purchased from external suppliers, to generate electric power for sale to external power grid companies and to the coal segment. The sales of power are not subject to long-term minimum power supply obligations. Electric power is sold to the power grid companies in accordance with planned power output at the tariff rates as approved by the relevant government authorities. Electric power produced in excess of the planned power output is sold at the tariff rate as agreed upon with the respective power grid companies which are generally lower than the tariff rates for planned power output.

The segments were determined primarily because the Group manages its coal, railway, port and power generation businesses separately. The reportable segments are each managed separately due to differences in their operating, distribution and production processes and gross margin characteristics.

Notes to the financial statements (continued)

for the year ended 31 December 2008
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38 Segment information (continued)

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 (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.

(a) Income statement

The following table presents segmental information:

	Coal		Railway		Port		Power		Corporate and others (Note)		Eliminations		Total	
	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million	2008 RMB Million	2007 RMB million	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million	2008 RMB million	2007 RMB million
Revenues														
External sales	75,215	56,246	1,950	1,455	82	103	29,886	24,303	-	-	-	-	107,133	82,107
Inter-segment sales	13,619	9,703	15,576	14,755	1,856	1,878	108	84	-	-	(31,159)	(26,420)	-	-
Total operating revenues	88,834	65,949	17,526	16,210	1,938	1,981	29,994	24,387	-	-	(31,159)	(26,420)	107,133	82,107
Cost of revenues														
Coal purchased from third parties	(15,585)	(10,719)	-	-	-	-	-	-	-	-	-	-	(15,585)	(10,719)
Cost of coal production	(17,702)	(11,842)	-	-	-	-	-	-	-	-	5,534	3,275	(12,168)	(8,567)
Cost of coal transportation	(23,253)	(22,152)	(7,804)	(5,956)	(1,259)	(1,309)	-	-	-	-	19,328	18,681	(12,988)	(10,736)
Power cost	-	-	-	-	-	-	(22,310)	(16,528)	-	-	6,126	4,352	(16,184)	(12,176)
Others	(600)	(304)	(1,271)	(977)	(64)	(69)	(518)	(225)	-	-	-	-	(2,453)	(1,575)
Total cost of revenues	(57,140)	(45,017)	(9,075)	(6,933)	(1,323)	(1,378)	(22,828)	(16,753)	-	-	30,988	26,308	(59,378)	(43,773)
Selling, general and administrative expenses	(4,210)	(2,517)	(650)	(643)	(228)	(211)	(1,630)	(1,459)	(259)	(314)	16	-	(6,961)	(5,144)
Other operating (expenses) / income, net	(666)	(319)	(43)	(53)	(39)	(16)	(448)	(300)	77	(5)	-	-	(1,119)	(693)
Profit/(loss) from operations	26,818	18,096	7,758	8,581	348	376	5,088	5,875	(182)	(319)	(155)	(112)	39,675	32,497
Reconciliation of profit from operations to profit for the year:														
Profit from operations													39,675	32,497
Net financing costs													(3,393)	(2,383)
Investment income													39	38
Share of profits less losses of associates													654	627
Income tax													(7,076)	(6,742)
Profit for the year													29,899	24,037

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

Notes to the financial statements (continued)

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38 Segment information (continued)

(b) Balance sheet

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

Interests in and earnings from associates are included in the segments in which the associates operate. Information on interest in associates is included in Note 19.

	2008 ***RMB million***	*2007* *RMB million*
Assets		
Segment assets		
Coal	**68,763**	57,528
Railway	**36,978**	35,888
Port	**10,072**	10,275
Power	**91,704**	74,063
Combined segment asset	**207,517**	177,754
Interest in associates		
Coal	**1,635**	1,195
Railway	**146**	117
Port	**6**	6
Power	**1,258**	1,436
Total interest in associates	**3,045**	2,754
Unallocated assets	**64,978**	58,019
Total assets	**275,540**	238,527
Liabilities		
Segment liabilities		
Coal	**(16,292)**	(12,944)
Railway	**(2,724)**	(3,242)
Port	**(227)**	(759)
Power	**(6,111)**	(5,512)
Combined segment liabilities	**(25,354)**	(22,457)
Unallocated liabilities	**(78,443)**	(66,266)
Total liabilities	**(103,797)**	(88,723)

Notes to the financial statements (continued)

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38 Segment information (continued)

(c) Other segment information

	Coal		Railway		Port		Power		Corporate and others (Note)		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	RMB million	RMB million	**RMB million**	RMB million	**RMB million**	RMB million	**RMB million**	RMB million	**RMB million**	RMB million	**RMB million**	RMB million
Capital expenditure	**14,521**	15,823	**2,501**	2,960	**388**	504	**17,813**	10,703	**561**	61	**35,784**	30,051
Depreciation and amortisation	**3,597**	2,754	**1,775**	1,618	**636**	620	**3,876**	3,145	**9**	3	**9,893**	8,140
Share of profits less losses of associates	**597**	251	**30**	28	**3**	4	**24**	344	**-**	-	**654**	627
Impairment losses on property, plant and equipment	**113**	114	**-**	-	**-**	-	**334**	266	**-**	-	**447**	380
Allowance for accounts receivable and other receivables and write down of inventories	**591**	259	**2**	-	**-**	-	**45**	67	**-**	-	**638**	326
Impairment losses on other investments	**3**	3	**-**	-	**-**	-	**201**	-	**-**	-	**204**	3

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

Note: "Corporate and others" represents administrative and 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

	2008 **RMB million**	*2007* *RMB million*
Domestic markets	**94,924**	72,541
Export sales – Asia Pacific markets	**11,987**	9,222
Export sales – other markets	**222**	344
Total operating revenues	**107,133**	82,107

(ii) Segment assets

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

Notes to the financial statements (continued)

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39 Capital and reserves

(a) Distributable reserves

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

	Share capital RMB million (Note 34)	***Share premium*** RMB million	***Statutory reserves*** RMB million	***Capital and other reserves*** RMB million	***Retained earnings*** RMB million	***Total*** RMB million
At 1 January 2007	18,090	20,813	4,742	2,116	14,975	60,736
Issuance of A shares	1,800	64,782	–	–	–	66,582
A shares issue expenses	–	(594)	–	–	–	(594)
Profit for the year	–	–	–	–	20,759	20,759
Appropriation of profits	–	–	2,019	–	(2,019)	–
Realisation/reassessment of deferred tax (Note 27(b))	–	–	–	(91)	9	(82)
Dividend declared (Note 13(a))	–	–	–	–	(22,949)	(22,949)
Adjustment of profit appropriations for prior years	–	–	(498)	–	498	–
Write back of future development fund	–	–	–	(1,358)	1,358	–
Aquisitions of Shendong Coal and Shendong Power (Note i)	–	–	–	3,272	–	3,272
Consideration for the acquisitions of Shendong Coal and Shendong Power (Note i)	–	–	–	(3,587)	–	(3,587)
At 31 December 2007	19,890	85,001	6,263	352	12,631	124,137
At 1 January 2008	**19,890**	**85,001**	**6,263**	**352**	**12,631**	**124,137**
Profit for the year	**–**	**–**	**–**	**–**	**22,805**	**22,805**
Adjustment of profit appropriations for prior years (Note ii)	**–**	**–**	**278**	**–**	**(278)**	**–**
Appropriation of profits	**–**	**–**	**2,274**	**–**	**(2,274)**	**–**
Realisation of deferred tax	**–**	**–**	**–**	**(18)**	**18**	**–**
Dividend declared (Note 13(a))	**–**	**–**	**–**	**–**	**(9,325)**	**(9,325)**
Appropriation of maintenance and production funds (Note ii)	**–**	**–**	**3,368**	**–**	**(3,368)**	**–**
Utilisation of maintenance and production funds (Note ii)	**–**	**–**	**(2,119)**	**–**	**2,119**	**–**
Realisation of revaluation reserve	**–**	**–**	**–**	**(20)**	**20**	**–**
At 31 December 2008	**19,890**	**85,001**	**10,064**	**314**	**22,348**	**137,617**

Notes to the financial statements (continued)

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39 Capital and reserves (continued)

(a) Distributable reserves (continued)

Notes:

(i) Pursuant to a resolution passed at the extraordinary general meeting on 24 August 2007, the Company acquired 100% equity interests in Shendong Coal and Shendong Power from Shenhua Group, at a cash consideration of RMB3,587 million. The acquisition was completed on 31 August 2007.

(ii) Please refer to Note (v) to consolidated statement of changes in equity for details.

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 China Accounting Standards and the amount determined in accordance with IFRSs after the appropriation to reserves as detailed in Note (v) to the consolidated statement of changes in equity.

At 31 December 2008, the aggregate amount of retained profits determined in accordance with the China Accounting Standards available for distribution to equity shareholders of the Company was RMB22,261 million (2007: RMB11,348 million). After the balance sheet date the directors proposed a final dividend of RMB0.46 per share, amounting to RMB9,149 million (Note 42). This dividend has not been recognised as a liability at the balance sheet date.

(b) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares to reduce debts.

The Group monitors capital using a gearing ratio which is total liabilities divided by total assets. The Group aims to maintain the gearing ratio at a reasonable level. The Group's gearing ratio as at 31 December 2008 was 38% (2007: 37%).

There were no changes in the Group's approach to capital management compared with previous years. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Notes to the financial statements (continued)

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40 Financial risk management

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group and the Company are also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

These risks are limited by the Group's and the Company's financial management policies and practices described below.

(a) Credit risk

The carrying amounts of cash and cash equivalents, time deposits, accounts and bills receivable, other receivables, derivative financial instruments and other non-current assets represent the Group's and the Company's maximum exposure to credit risk in relation to these financial assets. Substantially all of the Group's and the Company's cash and cash equivalents are held in major financial institutions located in the PRC, which management believes are of high credit quality. The Group's and the Company's major customers are power plants, metallurgical companies and power grid companies, which accounted for significant amounts of the Group's and the Company's total operating revenues during the year. The Group and the Company have no significant credit risk with any of these customers since the Group and the Company maintain long-term and stable business relationships with these large customers in the coal and power industries. The Group and the Company perform ongoing individual credit evaluations of its customers' financial condition and generally does not require collateral on accounts receivable. The allowance for doubtful debts has been within management's expectations.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet after deducting any impairment allowance. Except for the financial guarantees given by the Company as set out in Note 35(c), the Group and the Company do not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the balance sheet date is disclosed in Note 35(c).

(b) Currency risk

(i) Exposure

The Group and the Company incur foreign currency risk on borrowings that are denominated in a currency other than RMB. The currency giving rise to this risk is primarily Japanese Yen. The Group's and the Company's Japanese Yen borrowings are disclosed in Note 28.

(ii) Sensitivity analysis

At 31 December 2008, it is estimated that a general increase/decrease in Japanese Yen foreign exchange rate by 2%, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB85 million (2007: RMB69 million).

Notes to the financial statements (continued)

for the year ended 31 December 2008

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40 Financial risk management (continued)

(b) Currency risk (continued)

(ii) Sensitivity analysis (continued)

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax and retained profits that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2007.

(c) Interest rate risk

(i) Exposure

The interest rates and terms of repayment of the Group's and the Company's loan receivables and borrowings are disclosed in Notes 21, 25, 28 and 29. Most of the borrowings are variable rate borrowings.

(ii) Sensitivity analysis

Financial assets

At 31 December 2008, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits by approximately RMB448 million (2007: RMB361 million).

Financial liabilities

At 31 December 2008, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB502 million (2007: RMB397 million).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax and retained profits that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to remeasure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's profit after tax and retained profits is estimated as an annualised impact on interest income or expense of such a change in the interest rates. The analysis is performed on the same basis for 2007.

Notes to the financial statements (continued)

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40 Financial risk management (continued)

(d) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2008 and 2007 except as follows:

	The Group				The Company			
	2008		2007		2008		2007	
	Carrying amount RMB million	Fair value RMB million	Carrying amount RMB million	Fair value RMB million	Carrying amount RMB million	Fair value RMB million	Carrying amount RMB million	Fair value RMB million
Fixed rate long-term borrowings (including current portion)	**6,089**	**6,591**	5,614	5,832	**5,789**	**6,308**	5,164	5,419

The following summarises the major methods and assumptions used in estimating the fair values of the Group's and the Company's financial instruments. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgement is required to interpret market data to develop the estimates of fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group and the Company could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The fair values of long-term borrowings and long-term payables are estimated by discounting future cash flows using current market interest rates offered to the Group and the Company for borrowings with substantially the same characteristics and maturities.

Derivatives mainly represent interest rate swaps. The fair value of the interest rate swaps are based on discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument having a similar maturity at the balance sheet date.

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

(e) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligation as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Group's reputation.

The Group closely monitors cash flow requirements and optimising its cash return. The Group prepares cash flow forecasts and ensures it has sufficient cash for the servicing of operation, financial, and capital obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Notes to the financial statements (continued)

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40 Financial risk management (continued)

(e) Liquidity risk (continued)

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

	2008					
	Carrying amount RMB million	**Total contractual undiscounted cash flow RMB million**	**Within 1 year or on demand RMB million**	**More than 1 year but less than 2 years RMB million**	**More than 2 years but less than 5 years RMB million**	**More than 5 years RMB million**
Borrowings	**74,258**	**90,916**	**22,368**	**12,932**	**28,416**	**27,200**
Accounts and bills payable, accrued expenses and other payables	**16,393**	**16,393**	**16,303**	**90**	**–**	**–**
	90,651	**107,309**	**38,671**	**13,022**	**28,416**	**27,200**

	2007					
	Carrying amount RMB million	*Total contractual undiscounted cash flow RMB million*	*Within 1 year or on demand RMB million*	*More than 1 year but less than 2 years RMB million*	*More than 2 years but less than 5 years RMB million*	*More than 5 years RMB million*
Borrowings	59,914	73,783	13,562	8,075	28,835	23,311
Short-term bonds	1,453	1,504	1,504	–	–	–
Accounts and bills payable, accrued expenses and other payables	15,377	15,377	15,377	–	–	–
	76,744	90,664	30,443	8,075	28,835	23,311

(f) Equity price risk

All of the Group's and the Company's unquoted investment are held for long-term strategic purposes. Their performance is assessed at least annually based on the information available to the Group and the Company, together with an assessment of their relevance to the Group's long-term strategic plans.

Notes to the financial statements (continued)

for the year ended 31 December 2008
(Expressed in Renminbi)

41 Accounting estimates and judgements

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in Note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

Coal reserves

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

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expenses and impairment loss. Depreciation rates are determined based on estimated proved and probable coal reserve quantity (the denominator) and capitalised costs of mining structures and mining rights (the numerator). The capitalised cost of mining structures and mining rights are amortised based on the units of coal produced.

Impairments

In considering the impairment losses that may be required for certain of the Group's assets which include property, plant and equipment, construction in progress, intangible assets, investments in subsidiaries and associates, lease prepayments and other investments (Note 2(m)(ii)), the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sale volume, selling price and amount of operating costs.

In considering the impairment losses that may be required for current receivables and other financial assets, future cashflows need to be determined. One of the key assumptions that has to be applied is about the ability of the debtors to settle the receivables. Notwithstanding that the Group has used all available information to make this estimation, inherent uncertainty exists and actual write-offs may be higher than the amount estimated.

Notes to the financial statements (continued)

for the year ended 31 December 2008

(Expressed in Renminbi)

41 Accounting estimates and judgements (continued)

Depreciation

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

Obligations for land reclamation

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

Derivative financial instruments and share appreciation rights

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

42 Subsequent events

The following significant transactions took place subsequent to 31 December 2008:

On 27 March 2009, the Board of Directors proposed a final dividend of RMB0.46 per share totalling RMB9,149 million to all equity shareholders of the Company. Further details are disclosed in Note 13(b).

43 Immediate and ultimate controlling party

At 31 December 2008, 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.

Notes to the financial statements (continued)

for the year ended 31 December 2008

(Expressed in Renminbi)

44 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2008

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting year ended 31 December 2008 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to result in a restatement of the Group's or the Company's results of operations and financial position.

In addition, the following developments are expected to result in amended disclosures in the financial statements, including restatement of comparative amounts in the first period of adoption:

	Effective for accounting periods beginning or after
IFRS 8, *Operating segments*	1 January 2009
IAS 1 (revised 2007), *Presentation of financial statements*	1 January 2009

Five Years Summary

The following financial information is extracted from the consolidated financial statements of the Group prepared in accordance with International Financial Reporting Standards:

Consolidated Income Statement

	Years ended 31 December				
	2004 *RMB million*	*2005* *RMB million*	*2006* *RMB million*	*2007* *RMB million*	***2008*** ***RMB million***
Revenues					
Coal revenue	28,079	39,926	45,948	55,741	**74,572**
Power revenue	9,963	11,086	17,056	23,922	**29,393**
Other revenues	1,778	1,976	2,182	2,444	**3,168**
Total operating revenues	39,820	52,988	65,186	82,107	**107,133**
Cost of revenues					
Coal purchased from third parties	(3,326)	(4,339)	(6,935)	(10,719)	**(15,585)**
Materials, fuel and power	(2,861)	(3,050)	(3,764)	(6,276)	**(8,433)**
Personnel expenses	(1,627)	(2,180)	(2,677)	(3,960)	**(5,343)**
Depreciation and amortisation	(4,856)	(5,283)	(6,456)	(7,785)	**(9,396)**
Repairs and maintenance	(2,183)	(2,701)	(3,187)	(3,612)	**(4,717)**
Transportation charges	(4,110)	(5,152)	(6,259)	(6,845)	**(7,227)**
Others	(2,688)	(2,865)	(3,777)	(4,576)	**(8,677)**
Total cost of revenues	(21,651)	(25,570)	(33,055)	(43,773)	**(59,378)**
Selling, general and administrative expenses	(2,582)	(3,540)	(4,359)	(5,144)	**(6,961)**
Other operating expense, net	(166)	(335)	(281)	(693)	**(1,119)**
Total operating expenses	(24,399)	(29,445)	(37,695)	(49,610)	**(67,458)**
Profit from operations	15,421	23,543	27,491	32,497	**39,675**
Finance income	217	895	521	1,034	**1,288**
Finance expenses	(2,577)	(2,955)	(2,658)	(3,417)	**(4,681)**
Net finance costs	(2,360)	(2,060)	(2,137)	(2,383)	**(3,393)**
Investment income/(loss)	9	23	(1)	38	**39**
Share of profits less losses of associates	198	461	564	627	**654**
Profit before income tax	13,268	21,967	25,917	30,779	**36,975**
Income tax	(2,781)	(4,082)	(5,394)	(6,742)	**(7,076)**
Profit for the year	10,487	17,885	20,523	24,037	**29,899**
Attributable to:					
Equity shareholders of the Company	8,850	15,489	17,644	20,581	**26,641**
Minority interests	1,637	2,396	2,879	3,456	**3,258**
Profit for the year	10,487	17,885	20,523	24,037	**29,899**
Basic earnings per share (RMB)	0.590	0.929	0.975	1.110	**1.339**
Diluted earnings per share (RMB)	0.590	0.929	0.975	1.110	**1.339**

Five Years Summary (continued)

Condensed Consolidated Balance Sheet

	As at 31 December				
	2004 *RMB million*	*2005* *RMB million*	*2006* *RMB million*	*2007* *RMB million*	***2008*** ***RMB million***
Property, plant and equipment, net	73,970	85,802	113,371	131,059	**145,253**
Total non-current assets	98,751	120,729	142,005	168,341	**197,634**
Total current assets	15,328	28,495	29,994	70,186	**77,906**
Total current liabilities	(26,230)	(25,988)	(36,124)	(33,371)	**(42,656)**
Total non-current liabilities	(48,296)	(46,894)	(46,644)	(55,352)	**(61,141)**
Net assets	39,553	76,342	89,231	149,804	**171,743**
Equity attributable to equity shareholders of the Company	26,353	60,042	69,784	129,788	**147,432**
Minority interests	13,200	16,300	19,447	20,016	**24,311**
Total equity	39,553	76,342	89,231	149,804	**171,743**

Documents Available for Inspection

1. The annual report for the year 2008 signed by the legal representative;

2. The financial statements signed and sealed by the legal representative, the person in charge of accounting affairs and the person in charge of the accounting department;

3. The original document of the auditors' report sealed by the accounting firm and signed and sealed by the certified public accountants;

4. The original copies of all documents and announcements of the Company publicly disclosed in the newspapers designated by the China Securities Regulatory Commission during the reporting period; and

5. The annual report for the year 2008 published on the website of the Hong Kong Stock Exchange.

China Shenhua Energy Company Limited
Zhang Xiwu
Chairman

27 March 2009

Signing Page for Directors, Suprevisors and Senior Management

Written Confirmation to the 2008 Annual Report

Article 68 of the Securities Law of the People's Republic of China requires that directors of a listed company shall sign a written confirmation to its regular report, and guarantee the truthfulness, accuracy and completeness of the information disclosed by the listed company.

Article 15 of the Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No.2 – The Contents and Formats of Annual Report (Revised edition 2007) requires that the board of directors of a listed company and its directors shall guarantee the truthfulness, accuracy and completeness of the information disclosed in its annual report and warrant that the report does not contain any false representation, misleading statement or material omission, and shall jointly and severally accept full responsibility for this warrant. If there is any director who is unable to guarantee the truthfulness, accuracy and completeness of the annual report or disagrees with the content of the annual report, his reasons and opinion shall be stated separately. The name of any absent director shall be listed separately.

Having fully understood and reviewed the 2008 Annual Report of the Company, the Board and all Directors are of the opinion that information disclosed in the 2008 Annual Report is true, accurate and complete. We hereby guarantee that the information stated in this report does not contain any false representation, misleading statement or material omission, and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information disclosed in the report.

Signature of all Directors of the Company:

Zhang Xiwu

Zhang Yuzhuo

Ling Wen

Han Jianguo

Huang Yicheng

Neoh Anthony Francis

Chen Xiaoyue

China Shenhua Energy Company Limited

27 March 2009

Written Review Opinion on the 2008 Annual Report

Article 68 of the Securities Law of the People's Republic of China requires that the supervisory committee of a listed company shall review the regular report prepared by the board of directors and provide a written review opinion.

Article 15 of the Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No.2 – The Contents and Formats of Annual Report (Revised edition 2007) requires that the supervisory committee of a listed company and its supervisors shall guarantee the truthfulness, accuracy and completeness of the information disclosed in its annual report and warrant that the report does not contain any false representation, misleading statement or material omission, and shall jointly and severally accept full responsibility for this warrant. If there is any supervisor who is unable to confirm the truthfulness, accuracy and completeness of the annual report or disagrees with the content of the annual report, his reasons and opinion shall be stated separately.

Having fully understood and reviewed the 2008 Annual Report of the Company, the supervisory committee and all supervisors are of the opinion that information disclosed in the 2008 Annual Report is true, accurate and complete, and hereby warrant that the information stated in this report does not contain any false representation, misleading statement or material omission, and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information disclosed in the report.

Signature of all supervisors of the Company:

Xu Zufa

Wu Gaoqian

Li Jianshe

China Shenhua Energy Company Limited

27 March 2009

Written Confirmation to 2008 Annual Report

Article 68 of the Securities Law of the People's Republic of China requires that senior management of a listed company shall sign a written confirmation to its regular report, and guarantee the truthfulness, accuracy and completeness of the information disclosed by the listed company.

Article 15 of the Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No.2 – The Contents and Formats of Annual Report (Revised edition 2007) requires that senior management of a listed company shall guarantee the truthfulness, accuracy and completeness of the information disclosed in its annual report and warrant that the report does not contain any false representation, misleading statement or material omission, and shall jointly and severally accept full responsibility for this warrant. If there is any senior management member who is unable to confirm the truthfulness, accuracy and completeness of the annual report or disagrees with the content of the annual report, his reasons and opinion shall be stated separately.

Having fully understood and reviewed the 2008 Annual Report of the Company, all senior management members of the Company are of the opinion that information disclosed in the 2008 Annual Report is true, accurate and complete. We hereby guarantee that the information stated in this report does not contain any false representation, misleading statement or material omission, and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information disclosed in the report.

Signature of all senior management members of the Company:

Ling Wen

Hao Gui

Wang Jinli

Xue Jilian

Hua Zeqiao

Wang Pingang

Huang Qing

Zhang Kehui

China Shenhua Energy Company Limited

27 March 2009

Definitions

Abbreviation	Full name
Shenhua Group	Shenhua Group Corporation Limited
China Shenhua	China Shenhua Energy Company Limited
Shendong Coal Branch	China Shenhua Shendong Coal Branch
Wanli Coal Branch	China Shenhua Wanli Coal Branch
Jinfeng Coal Branch	China Shenhua Jinfeng Coal Branch
Ha'erwusu Coal Branch	China Shenhua Ha'erwusu Coal Branch
Zhunge'er Energy	Shenhua Zhunge'er Energy Company Limited
Beidian Shengli Energy	Shenhua Beidian Shengli Energy Co., Ltd.
Shendong Coal	Shenhua Group Shenfu Dongsheng Coal Company Limited
Shendong Power	Shenhua Shendong Power Company Limited
Shenshuo Railway Branch	China Shenhua Shenshuo Railway Branch
Rolling Stock Branch	China Shenhua Rolling Stock Branch
Shuohuang Railway	Shuohuang Railway Development Co., Ltd.
Baoshen Railway	Shenhua Baoshen Railway Co., Ltd.
Huanghua Port	Shenhua Huanghua Harbor Administration Co., Ltd.
Shenhua Tianjin Coal Dock	Shenhua Tianjin Coal Dock Co., Ltd
Guohua Power Branch	China Shenhua Guohua Power Branch
Beijing Thermal	CLP Guohua Power Co., Ltd. Beijing Thermal Power Branch
Panshan Power	Tianjin Guohua Panshan Power Generation Co. Ltd
Sanhe Power	Sanhe Power Generation Co., Ltd
Guohua Zhunge'er	Inner Mongolia Guohua Zhunge'er Power Generation Company
Ninghai Power	Zhejiang Guohua Zheneng Power Generation Co., Ltd
Shenmu Power	CLP Guohua Shenmu Power Co., Ltd
Taishan Power	Guangdong Guohua Yuedian Taishan Electric Power Co., Ltd.
Huanghua Power	Hebei Guohua Candong Power Company
Suizhong Power	Suizhong Power Co., Ltd
Jinjie Energy	Shaanxi Guohua Jinjie Energy Co., Ltd
Dingzhou Power	Hebei Guohua Dingzhou Power Co., Ltd
Yuyao Power	Zhejiang Guohua Yuyao Gas-fired Power Co.,Ltd
Zhunge'er Power	Power-generating arm controlled and operated by Shenhua Zhunge'er Energy Company Limited
Zhunge'er Energy and Gangue Power	Inner Mongolia Zhunge'er Energy and Gangue Power Co., Ltd
Australia Holdings	Shenhua Australia Holdings Pty Limited
Watermark	Shenhua Watermark Coal Pty Limited
Xisanju	collectively, Shenhua Wuda Mining Company Limited,Shenhua Haibowan Mining Company Limited and Shenhua Baotou Mining Company Limited, all of which are subsidiaries of Shenhua Group, and their respective subsidiaries
Wuhai Energy	Shenhua Wuhai Energy Company Limited
Shenhua Finance	Shenhua Finance Company
Shenhua Trading	Shenhua Coal Trading Company Limited
Jiahua Power	Zhejiang Jiahua Power Generation Limited Company
Branches and Subsidiaries	branches and subsidiaries of the Company, unless otherwise specifies

Abbreviation	Full name
Accounting Standards for Business Enterprises	Accounting Standards for Business Enterprises (2006) and related rules and interpretations issued by the Ministry of Finance of the People's Republic of China
Shanghai Listing Rules	Rules Governing the Listing of Shares on the Shanghai Stock Exchange
Hong Kong Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited

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