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PERFORMANCE HIGHLIGHTS

	Six months ended 30 June 2005	2004
Business Operation Information		
Commercial coal production (million tonnes)	**60.3**	49.6
Coal sales (million tonnes)	**68.2**	64.1
Gross power generation (billion kwh)	**18.2**	17.1
Total power output dispatch (billion kwh)	**16.9**	15.8

	Six months ended 30 June 2005	2004
	(RMB in million, except per share data)	
Consolidated Income Statement Information		
Revenues		
Coal revenue	**18,705**	12,995
Power revenue	**5,008**	4,432
Other revenues	**801**	570
Total operating revenues	**24,514**	17,997
Profit from operations	**11,735**	7,322
Profit attributable to equity holders of the parent for the period	**7,800**	4,331
Basic earnings per share (RMB)	**0.512**	0.289

	At 30 June 2005	At 31 December 2004
	(RMB in million)	
Consolidated Balance Sheet Information		
Total assets	**143,603**	110,369
Short-term borrowings and current portion of long-term borrowings	**18,073**	13,857
Long-term borrowings, less current portion	**46,004**	46,332
Equity attributable to equity holders of the parent	**47,130**	25,396

	Six months ended 30 June 2005	2004
	(RMB in million)	
Segment Financial Information		
Profit from operations		
Coal	**10,657**	5,889
Power	**1,151**	1,492
Other Financial Information		
Net cash from operating activities	**15,391**	8,195
Net cash used in investing activities	**(8,088)**	(7,613)
Net cash from financing activities	**18,103**	3,537
EBITDA[1]	**14,606**	9,645

Note 1: EBITDA, a measure of the Company's operating performance, is defined as profit attributable to equity holders of the parent for the period plus net financing costs, investment income, income tax, depreciation and amortisation and minority interests.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "**Board**") of China Shenhua Energy Company Limited (the "**Company**"), I am pleased to present our Interim Report for the six months ended 30 June 2005 and to report on our performance over this period.

Financial Results for the First Half of 2005

In the first half of 2005, we made tremendous development in our operations and achieved very encouraging financial performance. Operating revenues of the Company and its subsidiaries (the "**Group**") were RMB24,514 million, representing an increase of RMB6,517 million, or 36.2%, over the same period in 2004. Profit attributable to equity holders of the parent for the period was RMB7,800 million, representing an increase of RMB3,469 million, or 80.1%, as compared to the same period in 2004. Basic earnings per share were RMB0.512. EBITDA was RMB14,606 million, representing an increase of RMB4,961 million, or 51.4%, over the same period in 2004.

The growth in the first half of 2005 was primarily the result of our continued expansion in our core coal and power businesses, in accordance with our business strategies. During the first six months of 2005, we have invested about RMB6,719 million in our mining operations. The investments were made primarily for acquiring mining rights of Yujialiang and Kangjiatan mines. In addition, with a view to enhancing the coal transportation capacity of the Group, the construction projects of Shuohuang Railway, Huangwan Railway, Huanghua Port and Tianjin Port are in progress. We also invested an aggregate sum of over RMB3,704 million in our power operations. The investments were mainly made for the construction of new power plants in Huanghua, Ninghai and Yuyao and installation of new power generating units in Taishan power plant.

Listing on the Stock Exchange

On 15 June 2005, the H shares of the Company (stock code "1088") were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The successful listing marked a significant milestone in our development. On behalf of the Company, I would like to take this opportunity to express my deepest appreciation and gratitude for the support of our shareholders.

Occupational Health and Safety and Environmental Matters

We place great emphasis on occupational health and safety and are fully committed to ensure that safety is not sacrificed at any level in our business pursuit. During the first half of 2005, we continued to have a better safety record at our coal mines than most of our market peers in China. The employee fatality rate for our coal mines was zero person per million tonnes of coal produced during the six months ended 30 June 2005. None of the Company or any of its subsidiaries has had any major accident which had a material effect on the financial condition and results of operations. To improve the working environment of our employees, we implemented the NOSA Five-Star Management System at most of our power plants and mines. We are very proud of the high standards of occupational safety displayed at our production facilities during the first half of 2005, which were brought about by the concert efforts of all our employees. We will strive to maintain our highest standards of occupational safety and health care.

We are committed to maintaining high environmental standards at our production facilities. In addition to conducting our operations which was consistent with or, in certain cases, exceeded, the requirements of applicable environmental laws and regulations, we took a number of proactive measures when developing our core businesses, in order to protect the surrounding environments. These measures include (i) implementing the "irrigation system network" project to enhance the reforestation of coal mining areas, for the coal segment; and (ii) maintaining stringent control in the emissions of pollutant, upgrading the desulphurisation facilities and waste water treatment facilities at the power plants, for the power segment.

In order to formulate and monitor appropriate policies and standards in relation to health, safety and environmental related issues in an organised fashion, we have established a Safety, Health and Environmental Committee under the Board. We will continue our efforts in enhancing our existing standards of employees' safety and environmental standards at our production facilities, in order to provide a safe and healthy environment for our employees as well as the communities with whom our business is in contact.

Outlook for the Second Half of 2005

In the first half of 2005, China's economy maintained its momentum of growth, with its GDP growing by 9.5%. The economic growth in China fueled the continuing expansion in coal and power consumption. The statistics compiled by National Development and Reform Commission indicated that during the first half of 2005, the sale of commercial coal amounted to 915 million tonnes, an increase of approximately 95 million tonnes or 11.5% over the same period last year, and the raw coal produced in China reached 940 million tonnes, an increase of approximately 83 million tonnes or 9.7% over the same period last year. Power consumption in China has also been growing rapidly. According to the statistics in the 2005 Power Industry Interim Report, China's total output of power amounted to approximately 1,129 TWh in the first half of 2005, representing an increase of 13.2% over the same period last year. A total output of 941 TWh was generated from thermal power (representing an increase of 11.8% over the same period last year).

In the second half of 2005, the demand for coal used for power generation is expected to increase steadily with the continuing global economic expansion, and it is expected that the growth in demand for electricity in China will continue, which in turn will propel the growth in demand for coal used for power generation. The Chinese government is increasingly concerned with the production safety of coal mines and the protection and proper exploitation of coal resources, resulting in more stringent regulations on coal mine operations and the restructuring or closure of smaller-scale coal mines. These positive factors will provide a favorable environment for us to achieve steady growth in our operating results in the second half of the year. We are well positioned to take advantage of the continuing growth in demand for energy in China, as a result of our continuous effort to expand and upgrade our production in the coal and power operations.

Operating Strategies

We will continue to seek opportunities to realise our vision to become a global leading integrated coal-based energy company by way of the following strategies:

(i) expanding our coal production and sales capacities, with a focus on increasing our market share in coastal China, and improving the production efficiency of our coal operations;

(ii) expanding and upgrading our integrated rail and port transportation network;

(iii) expanding our power business in strategically attractive regions with robust economic growth and attractive power tariffs or in proximity to our coal mines or transportation network;

(iv) enhancing the effectiveness of our sales and marketing efforts and adopting effective financial management and investment practices; and

(v) maintaining environmentally friendly operations and continuing to improve workers' health and safety.

The strong performance of the Group is in no small part attributable to the expertise and dedication of all of our employees, to whom the Board and I would like to express our utmost gratitude. The Board and I remain steadfast in our vision to become a global leading integrated coal-based energy company, and will continue to seek opportunities to realise sustainable growth of the Group's business and to increase shareholder value.

Chen Biting
Chairman

Beijing, 26 August 2005

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section describes the Group's principal operational activities, financial results and other related information during the first six months of 2005.

Business Outline

The Group manages its operations and reports its financial results according to the following two separate business segments:

- coal segment, which develops and operates coal mines, produces and processes coal, transports coal and sells coal products to its power segment as well as external domestic and foreign customers; and

- power segment, which generates power for sale primarily to power grid companies, using coal sourced both from the Group's coal segment as well as external suppliers.

Mines

The Group currently operates four mining groups, Shendong Mines, Wanli Mines, Zhunge'er Mines and Shengli Mines, with a total of 21 operating mines in western and northern China. Among these four mining groups, the Shendong Mines and Wanli Mines are primarily underground mines while the Zhunge'er Mines and Shengli Mines are open-cut mines. The Company owns and operates Shendong Mines and Wanli Mines through branch companies, and operates the Zhunge'er Mines and Shengli Mines through majority-owned subsidiaries in which it holds a 57.8% and 62.5% equity interest, respectively.

Transportation Network

The Group's rail network currently consists of four lines, the Baoshen Rail Line, the Shenshuo Rail Line, the Shuohuang Rail Line and the Dazhun Rail Line. The Shenshuo and Shuohuang Rail Lines together form one of the two primary eastbound coal freight rail lines in China. In addition, the Group also made use of the national rail system. The Group employed its Huanghua Port as well as third-party port facilities to ship its coal. In addition, it is constructing three coal berths at Tianjin Port and the Huangwan Rail Line connecting Shuohuang Rail Line and Tianjin Port.

Power

The Group currently owns or operates power plants with an aggregate installed capacity of 5,960 MW and an equity capacity of 3,081 MW. The planned capacity and equity capacity of the Group's power plants under construction or planned are 6,180 MW and 4,116 MW, respectively.

Review of Operations

Coal Segment: Coal Production, Sales Volume and Price

In the first half of 2005, the Group's commercial coal production was 60.3 million tonnes, representing an increase of 10.7 million tonnes, or 21.6%, as compared to the same period last year. The increase was mainly attributable to the continuous enhancement of the coal production capacity as well as the transportation capacity of the Group's rail network, accompanied by the growing market demand for coal products.

The following table sets out selected operating data with respect to the sales volume and selling prices of the Group's coal for the six months ended 30 June 2005 and 30 June 2004:

	Six months ended 30 June 2005		Six months ended 30 June 2004	
Coal Sales	**Sales volume *(million tonnes)***	**Average sales price *(RMB per tonne)***	Sales volume *(million tonnes)*	Average sales price *(RMB per tonne)*
Domestic sales to external customers	**48.4**	**285**	41.8	219
Domestic sales to our power operations	**7.8**	**252**	7.7	183
Total domestic sales	**56.2**	**280**	49.5	214
Total export sales	**12.0**	**409**	14.6	261
Total coal sales	**68.2**	**303**	64.1	225

Note: Unless otherwise specified, all prices are exclusive of value-added taxes.

In the first half of 2005, the Group's coal sales were 68.2 million tonnes, representing an increase of 4.1 million tonnes, or 6.4%, as compared to the same period last year. Among which,

(i) sales to the domestic market were 56.2 million tonnes, representing an increase of 6.7 million tonnes, or 13.5%, as compared to the same period last year; and

(ii) sales to the export market were 12.0 million tonnes, representing a decrease of 2.6 million tonnes, or 17.8%, as compared to the same period last year.

With the robust demand for power supply and rapid growth in the electricity generating capacity in the PRC, the market demand for coal products was strong and resulted in increase in coal price. Moreover, the Group expanded both its coal production capacity and transportation capacity, leading to an increase in the volume of coal delivered so as to meet the strong market demand. However, as a result of implementation of the coal export quota system in the PRC, the national coal export of the PRC in 2005 was limited to 80 million tonnes, and the rate for value-added tax refund was further reduced, which in turn led to the decrease in the coal export volume of the Group.

The Group's average coal price for the first six months of 2005 was RMB303/tonne, representing an increase of RMB78/tonne or 34.7%, as compared to the same period last year. The average domestic coal price was RMB280/tonne, representing an increase of RMB66/tonne or 30.8%, as compared to the same period last year; while the average export coal price was RMB409/tonne, representing an increase of RMB148/tonne or 56.7%, as compared to the same period last year. The increase in the Group's average coal price was due to the increase in coal prices in the domestic and overseas markets.

The following table sets forth selected price information of our domestic sales to external customers and to our power operations in terms of term contract sales and spot market sales.

Average Price	**Six months ended 30 June 2005** Sales volume *(million tonnes)*	Average sales price *(RMB per tonne)*	Percentage of sales volume (%)	Six months ended 30 June 2004 Sales volume *(million tonnes)*	Average sales price *(RMB per tonne)*	Percentage of sales volume *(%)*
Term contracts	**45.3**	**282**	**80.6**	40.7	207	82.2
Spot market contracts	**10.9**	**272**	**19.4**	8.8	245	17.8
Total domestic sales/weighted average price	**56.2**	**280**	**100.0**	49.5	214	100.0

Coal Segment: Coal Transportation

The Group uses its integrated transportation network as well as the national rail system and third-party port facilities to transport coal to its customers and ports in South-Eastern coastal areas of China. To meet the Group's growing coal transportation needs, the Group has been expanding its capacity of the transportation network. The Group's current integrated transportation network consists of rail lines with a total operating length of approximately 1,300 kilometres, a dedicated port at Huanghua Port, three coal berths currently under construction at Tianjin Port and the Huangwan Rail Line currently under construction that will connect the Shuohuang Rail Line and Tianjin Port. The total turnover of coal freight traffic on the Group's rail lines in the first half of 2005 were 40.6 billion tonnes kilometres, representing an increase of 9.6 billion tonnes kilometres, or 31.0%, as compared to the same period last year. The total throughput of the Group's Huanghua Port for the first half of 2005 was 33.1 million tonnes, an increase of 57.5% as compared to the same period last year.

Power Segment: Power Generation, Sales Volume and On-grid Tariffs

The Group has a sizeable and rapidly growing power generation business. Currently, the Group controls and operates eight coal-fired power plants, with a total installed capacity and an equity capacity of 5,960 MW and 3,081 MW, respectively.

In the first half of 2005, the Group's total gross power generation was 18.2 billion kwh, representing an increase of 1.1 billion kwh, or 6.4 %, as compared to the same period last year. There was an increase in total gross power generation since, prior to April 2004, Taishan power plant operated with only one electricity generation unit and after April 2004, Taishan power plant operated with an additional electricity generation unit with an installed capacity of 600 MW.

The following table sets out selected operating data with respect to the amount of power dispatched to power grid companies and the average on-grid tariffs of the power generated by the Group for the six months ended 30 June 2005 and 30 June 2004:

Types of Power Dispatched	**Six months ended 30 June 2005** Sales volume (billion kwh)	**Six months ended 30 June 2005** Average on-grid tariff (RMB per MWh)	Six months ended 30 June 2004 Sales volume (billion kwh)	Six months ended 30 June 2004 Average on-grid tariff (RMB per MWh)
Planned output dispatch	**14.7**	**300.8**	13.4	286.5
Excess output dispatch	**2.2**	**202.8**	2.2	201.5
Competitive bidding output dispatch	**–**	**–**	0.2	236.1
Total output dispatch	**16.9**	**287.9**	15.8	273.8

The Group's average on-grid tariff for the first six months of 2005 was RMB287.9/MWh, representing an increase of RMB14.1/MWh or 5.1%, as compared to the same period last year. The increase in the Group's average on-grid tariff was primarily due to the upward adjustment of on-grid tariff by the Pricing Bureau of certain provinces in accordance with the new tariff policy which links thermal coal and power prices as set forth by the National Development and Reform Commission of the PRC. The new policy allows the on-grid tariff being adjusted with reference to the changes in sales price of thermal coal, and the on-grid tariff for excess output dispatch is uniformly replaced by on-grid tariff for planned output dispatch.

The amount of coal consumed by the Group's power plants was 7.9 million tonnes, of which 7.3 million tonnes were coal produced by the Group. These amounts represent an increase of 5.3% and 4.3% respectively, compared to the amounts of coal consumed by the Group in the same period last year.

	Six months ended 30 June **2005**	2004
	(million tonnes, except percentage data)	
Total Consumption of Coal	**7.9**	7.5
Consumption of Shenhua Coal	**7.3**	7.0
Percentage of Shenhua Coal Used (%)	**92.4**	93.3

Review of Financial Results

The results of operations of the Group are primarily affected by the sales volume and pricing of its principal products, coal and power. Increasing market demand for its products in recent years has resulted in increased coal and power revenues. Expansion of its integrated transportation network has provided strong support for the growth of the Group's coal operations by affording it access to reliable and stable transportation capacity. The Group has increased its power revenue through increases in its installed capacity and utilisation hours and on-grid tariff for its power plants. The results of operations are also affected by other factors, including the Group's cost of revenues and fluctuations in exchange rates and interest rates.

The following discussion and analysis are based on the Group's unaudited interim financial results for the six months ended 30 June 2005. These financial information have been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

The consolidated income statement of the Group for the six months ended 30 June 2005 is set out below:

	Six months ended 30 June				
	2005		2004		
	Amount	**Percentage of total operating revenues (%)**	Amount	Percentage of total operating revenues (%)	Growth rate (%)
	(RMB in million, except percentage data)				
Revenues					
Coal revenue	**18,705**	**76.3**	12,995	72.2	43.9
Power revenue	**5,008**	**20.4**	4,432	24.6	13.0
Other revenues	**801**	**3.3**	570	3.2	40.5
Total operating revenues	**24,514**	**100.0**	17,997	100.0	36.2
Cost of revenues					
Materials, fuel and power	**(2,228)**	**(9.1)**	(2,038)	(11.3)	9.3
Personnel expenses	**(991)**	**(4.0)**	(710)	(4.0)	39.6
Depreciation and amortisation	**(2,505)**	**(10.2)**	(2,213)	(12.3)	13.2
Repairs and maintenance	**(1,199)**	**(4.9)**	(783)	(4.4)	53.1
Transportation charges	**(2,857)**	**(11.7)**	(2,850)	(15.8)	–
Others	**(1,477)**	**(6.0)**	(1,156)	(6.4)	27.8
Total cost of revenues	**(11,257)**	**(45.9)**	(9,750)	(54.2)	15.5
Selling, general and administrative expenses	**(1,431)**	**(5.8)**	(934)	(5.2)	53.2
Other operating (expense)/ income, net	**(91)**	**–**	9	–	–
Total operating expenses	**(12,779)**	**(52.1)**	(10,675)	(59.3)	19.7
Profit from operations	**11,735**	**47.9**	7,322	40.7	60.3
Net financing costs	**(926)**	**(3.8)**	(925)	(5.1)	–
Investment income	**3**	**–**	10	–	(70.0)
Share of profits of associates	**281**	**1.2**	53	–	430.2
Profit before income tax	**11,093**	**45.3**	6,460	35.9	71.7
Income tax	**(2,144)**	**(8.8)**	(1,194)	(6.6)	79.6
Profit for the period	**8,949**	**36.5**	5,266	29.3	69.9
Attributable to:					
Equity holders of the parent	**7,800**	**31.8**	4,331	24.1	80.1
Minority interests	**1,149**	**4.7**	935	5.2	22.9
	8,949	**36.5**	5,266	29.3	69.9

Total operating revenues of the Group in the first half of 2005 were RMB24,514 million, representing an increase of RMB6,517 million, or 36.2% over the same period last year. The Group expects its total operating revenues to continue to grow in the near future, driven mainly by increases in sales volume of coal and power.

The Group's revenues mainly comprised:

(i) coal revenue of RMB18,705 million, representing an increase of RMB5,710 million, or 43.9%, as compared to RMB12,995 million for the same period last year. The increase in coal revenue was primarily the result of an increase in the average price of coal as well as sales volume;

(ii) power revenue of RMB5,008 million, representing an increase of RMB576 million, or 13.0%, as compared to RMB4,432 million for the same period last year. The increase in power revenue was primarily the result of an increase in power tariffs and sales volume of existing power plants.

In the first half of 2005, cost of revenues of the Group was RMB11,257 million, representing an increase of RMB1,507 million, or 15.5%, as compared to RMB9,750 million for the same period last year. The total cost of revenues comprised the cost of materials, fuel and power consumed, personnel expenses, depreciation and amortisation, repair and maintenance, transportation charges and other expenses. The transportation charges represented charges for coal transported through the use of the national rail system and third-party ports, while the transportation costs incurred on the Group's own rail and port transportation network were allocated among the respective items of the costs of revenues. The main factors affecting the cost of revenues are:

- the cost of materials, fuel and power;
- transportation charges for coal transported on the national rail system and third-party ports; and
- depreciation and amortisation.

Cost for materials, fuel and power are incurred when raw materials, fuel and power from third parties for our coal and power operations are utilised. The trend of the cost of raw materials is in line with the trend of significant increases in the Group's coal and power sales in recent years. The Group expects its total costs of materials, fuel and power to continue to increase as it expands its coal production and transportation and power generation operations.

In order to cope with the expanded capacity of the Group and maintain the safe and stable production process, the Group's expenses in maintenance and repairs increased correspondingly.

Depreciation and amortisation expenses increased by 13.2% to RMB2,505 million in the first half of 2005 from RMB2,213 million in the same period last year. This was primarily due to expenses incurred in purchases of facilities, plants and properties for the expansion of coal and power operations.

The Group's selling, general and administration expenses ("**SG&A**") were RMB1,431 million in the first half of 2005, representing an increase of RMB497 million, or 53.2%, as compared to RMB934 million for the same period last year. The increase in SG&A was primarily due to an increase in sales taxes and surcharges resulting from increase in coal sales volume and the general increase in salary which caused corresponding increase in personnel expenses.

As a result of the aforementioned factors, the Group's profits attributable to equity holders of the parent for the first six months of 2005 was RMB7,800 million, representing an increase of RMB3,469 million, or 80.1%, as compared to RMB4,331 million for the same period last year.

The segmental information based on business segments is set out as follows:

	Coal Six months ended 30 June		Power Six months ended 30 June		Corporate and others Six months ended 30 June		Eliminations Six months ended 30 June		Total Six months ended 30 June	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	(RMB in million, except for operating margins)									
Revenues										
External sales	**19,501**	13,543	**5,013**	4,454	**–**	–	**–**	–	**24,514**	17,997
Inter-segment sales	**1,974**	1,406	**24**	20	**–**	–	**(1,998)**	(1,426)	**–**	–
Total operating revenues	**21,475**	14,949	**5,037**	4,474	**–**	–	**(1,998)**	(1,426)	**24,514**	17,997
Profit/(loss) from operations	**10,657**	5,889	**1,151**	1,492	**(69)**	(39)	**(4)**	(20)	**11,735**	7,322
Operating margins (%)	**49.6**	39.4	**22.9**	33.3					**47.9**	40.7

The Group's profit/(loss) from operations for the first six months of 2005,

(i) in relation to its coal segment was a profit of RMB10,657 million, representing an increase of RMB4,768 million, or 81.0%, as compared to RMB5,889 million for the same period last year;

(ii) in relation to its power segment was a profit of RMB1,151 million, representing a decrease of RMB341 million, or 22.9%, as compared to RMB1,492 million for the same period last year; and

(iii) in relation to its other services was a loss of RMB69 million, representing an increase of RMB30 million, or 76.9%, as compared to RMB39 million for the same period last year.

The operating margin of the coal segment increased from 39.4% to 49.6%, primarily as a result of more rapid growth in revenue from the Group's coal operations which surpassed the growth in the Group's cost of revenue caused by higher coal prices and the improving economies of scale in the coal production and transportation operations.

However, the operating margin of the power segment decreased from 33.3% to 22.9% as the growth in cost outpaced the growth in revenues in our power segment. This was principally due to the increase in coal prices.

Total assets of the Group increased from RMB110,369 million as at 31 December 2004 to RMB143,603 million as at 30 June 2005, representing an increase of RMB33,234 million, principally due to the proceeds received from the global offering in June 2005 as well as capital expenditure in the coal and power operations in the first half of 2005.

Total liabilities of the Group increased from RMB71,888 million as at 31 December 2004 to RMB82,736 million as at 30 June 2005, representing an increase of RMB10,848 million, or 15.1%. The increase was primarily due to the increase in accrued expenses and other payables mainly resulting from payable for the net proceeds from the sale of 278,500,000 H shares (as converted from domestic shares of Shenhua Group Corporation Limited ("**Shenhua Group**")) for remittance to the National Council for Social Security Fund of the PRC in accordance with the relevant PRC regulation by approximately RMB2,100 million. In addition, the increase in short-term borrowings for financing the operating cashflow by RMB5,863 million and the increase in long-term payable in relation to the acquisition of the mining rights of Yujialiang and Kangjiatan mines were also attributable to the increase in total liabilities.

Liquidity, Financing and Capital Resources

The Group finances a significant portion of its business operations and capital projects with short-term and long-term borrowings. As at 30 June 2005, the Group's outstanding short-term and long-term borrowings amounted to RMB14,104 million and RMB49,973 million respectively. The Group's borrowings are primarily in the form of bank loans and the Group has maintained high credit ratings with its principal domestic commercial lenders, which has facilitated its ability to obtain credit on favorable terms. The Group increased its short-term borrowings in the first six months of 2005 to satisfy its requirement of operating cashflow. The Group's interest expenses for the first six months of 2005 was RMB1,511 million, representing an increase of RMB318 million, or 26.7%, as compared to RMB1,193 million for the same period last year.

The Group intends to reduce its level of indebtedness by further improving its cash generating capabilities and implementing a capital expenditure plan consistent with the capital expenditure plan disclosed in the prospectus in relation to the global offering. The Group also plans to rationalise the mix of its short-term indebtedness and long-term borrowings to gradually reduce its exposure to liquidity risk.

Cash flow from operations and short-term borrowings formed the Group's major source of working capital during the first half of 2005. The Group's major cash outflow was principally used for capital expenditures and the payment of dividend to Shenhua Group. The net cash of the Group from its operating and financing activities during the first six months of 2005 amounted to RMB33,494 million and the net cash used in investing activities in the same period was RMB8,088 million.

	Six months ended 30 June	
	2005	2004
	(RMB in million)	
Net cash from operating activities	**15,391**	8,195
Net cash used in investing activities	**(8,088)**	(7,613)
Net cash from financing activities	**18,103**	3,537
Cash and cash equivalents, at end of the period	**32,544**	8,281
Net increase in cash and cash equivalents	**25,406**	4,119

Capital Expenditure

In the first half of 2005, the Company's capital expenditure was RMB10,423 million, which was primarily used for the expansion and construction projects in coal, railway, port and power operations of the Group

Gearing Ratio

As at 30 June 2005, the Company's gearing ratio was 107.1%, which was defined as the total amount of outstanding debt (including borrowings from banks and other financial institutions, loans from Shenhua Group and bills payable) of RMB65,216 million divided by the total equity of RMB60,867 million.

Significant Investments and Asset Acquisition

The Group made an investment of RMB600 million by way of capital contribution to Northern United Power Company Limited in proportion to its equity interest therein in accordance with the agreed investment schedule. The equity interest of the Group in Northern United Power Company Limited remained at 20% after the additional capital contribution.

The Group acquired the mining rights of Yujialiang and Kangjiatan mines in the first half of 2005. The consideration is to be settled over the period of production on an annual basis. The annual payment is determined by fixed rates on a per tonne basis with reference to the annual production volume of the mines.

Impact of the Exchange Rate Fluctuations on the Company

The Group conducts its business primarily in Renminbi. Foreign currency exchange transactions involving Renminbi are subject to foreign exchange controls. Coal exports of the Group are all settled in US dollars. During this reporting period, the government of the People's Republic of China adopted a unified floating exchange rate that is under the State's supervision. Therefore, exchange rate fluctuations basically had no impact on the Group during the first six months of 2005. The Group also hedged a portion of its Japanese yen-denominated borrowings. On 21 July 2005, the People's Bank of China announced that the arrangement by which the RMB is pegged to the US dollars will be replaced with a managed floating exchange rate regime which will be adjusted based on market supply and demand with reference to a basket of currencies. Initially, the exchange rate was set at US$1 to RMB8.11, equivalent to an appreciation of approximately 2 per cent. The revaluation of RMB had a positive impact on the Group's finance as a whole. Nevertheless, the reform may result in adverse effect in exchange difference on translation of bank deposits denominated in Hong Kong dollars obtained from the proceeds of the global offering in subsequent period.

DISCLOSURE OF SIGNIFICANT MATTERS

Share Capital Structure

As at 30 June 2005, the Company issued 17,785,000,000 shares, of which 14,721,500,000 shares were PRC domestic shares, representing 82.77% of the entire issued share capital, and 3,063,500,000 shares were H shares listed on the Stock Exchange on 15 June 2005, representing 17.23% of the entire issued share capital.

Currently, the Company's entire issued share capital structure is as follows:

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

Note: Pursuant to the partial exercise of an over-allotment option granted to the international underwriters in connection with the global offering, an aggregate of a further 335,082,500 H shares (representing 304,620,455 new H shares allotted and issued by the Company and 30,462,045 H shares sold by Shenhua Group which were converted from PRC domestic shares) were listed on the Stock Exchange as H shares on 12 July 2005, resulting in the total share capital of the Company becoming 18,089,620,455 shares.

Dividends

On 27 March, 2005, a final dividend of RMB7.549 billion for the year 2004 was approved for distribution to Shenhua Group and the final dividend was paid in the first half of 2005.

As disclosed in the prospectus of the Company relating to the Listing, the Company resolved to make distributable to Shenhua Group its distributable profits for the period from 1 January 2005 to 14 June 2005 (the "**2005 Special Dividend**"). The 2005 Special Dividend will be determined with reference to the audited financial statements for such period by a separate special audit.

There will be no declaration or payment of interim dividends to the shareholders of the Company for the first half-year of 2005.

Proceeds of the Global Offering

The Company received an aggregate of approximately HK$20 billion as net proceeds of the global offering (before any exercise of the over-allotment option as referred to above). The Company has and intends to continue to use these proceeds for the purposes disclosed in its prospectus relating to the global offering.

Material Litigation and Arbitration

As at 30 June 2005, the Company was not involved in any significant litigation and arbitration and no material litigation or claim was pending or, so far as the Company is aware of, was threatened or made against the Company.

Purchase, Sale or Redemption of Securities of the Company

During the six months ended 30 June 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities.

Audit Committee

The Company has appointed independent non-executive directors and established an audit committee in compliance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") to appoint and oversee the work of our independent auditors. All members of the audit committee of the Board are appointed from the three independent non-executive directors of the Company, namely Dr. Chen Xiaoyue (being the Chairman of the audit committee of the Board having appropriate professional qualifications and experience in financial matters), Mr. Huang Yicheng and Mr. Anthony Francis Neoh.

Compliance with Code on Corporate Governance Practices

The Company is committed to high standards of corporate governance and has taken actions to comply with the provisions set out in the Code on Corporate Governance Practices (the "**Code**") contained in Appendix 14 of the Listing Rules.

Having reviewed the Code, the Company has complied with the requirements as set out in the Code during the reporting period since the Listing and there has been no material deviations from the Code.

The audit committee of the Board has reviewed the Company's interim financial statements for the six months ended 30 June 2005.

Compliance with Model Code

The Company has adopted a code of conduct which is largely based on the Model Code for the Securities Transactions by Directors of Listed Issuers (the "**Model Code**"). The current code adopted by the Company is on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry of all directors of the Company, during the period between the Listing and 30 June 2005, the directors of the Company have strictly complied with the required standard set out in the Model Code.

Employees

As at 30 June 2005, the Group had 39,570 employees. Total remuneration for the six months ended 30 June 2005 was RMB1,408 million, representing an increase of 42.9% from the total remuneration of RMB985 million in the same period last year. The remuneration included retirement and other benefits paid to employees.

Stock Appreciation Rights Plan

In order to provide additional incentive for the senior management of the Company and to enhance the alignment between the performances of the senior management and shareholder value, the Company has adopted a stock appreciation rights ("**SARs**") plan for its senior management personnel. The plan is designed to link the financial interests of the senior management with the future results of the Company's operations and performance of the H shares of the Company. No shares will be issued or transferred under SARs. Therefore, the shareholdings of shareholders will not be diluted. In the first half of 2005, no share appreciation rights were granted under SARs.

Disclosure of Interests

As at 30 June 2005, so far as the directors, chief executive officer and supervisors of the Company are aware, each of the following persons, not being a director, chief executive officer or supervisor of the Company, had an interest and/or short position in the Company's shares as recorded in the register required to be kept under section 336 of Part XV of the Securities and Future Ordinance ("**SFO**"):

Name of shareholder	Nature of Interest	H/Domestic shares	Capacity	Number of H/Domestic shares interested	% of H/ domestic shares over all issued H/Domestic Shares respectively	% of total share capital of the Company
Shenhua Group Corporation Limited	Long Position	Domestic	Beneficial owner	14,721,500,000	100.00	82.77%
	Short Position			41,775,000	0.28	0.23%
Merrill Lynch & Co., Inc.	Long Position	H	Interest of controlled corporation	555,351,000	18.13	3.12%
	Short Position			518,705,000	16.93	2.92%
Deutsche Bank Aktiengesellschaft	Long Position	H	Beneficial owner	39,195,000	1.28	0.22%
	Long Position		Security interest over shares	14,700,000	0.48	0.08%
	Long Position		Interest held jointly with another	459,525,000	15.00	2.58%
Alliance Capital Management L.P.	Long Position	H	Interest of controlled corporation	254, 557,800	8.31	1.43%
Kerry Group Limited[1]	Long Position	H	Interest of controlled corporation	103,741,000	3.39	0.58%
	Long Position			103,741,000	3.39	0.58%
Kerry Holdings Limited[1]	Long Position	H	Interest of controlled corporation	103,741,000	3.39	0.58%
	Long Position			103,741,000	3.39	0.58%
Taurus Investments SA[2]	Long Position	H	Beneficial owner	155,612,000	5.08	0.87%
Merrill Lynch Far East Limited	Long Position	H	other	59,180,000	1.93	0.33%
	Short Position			518,705,000	16.93	2.92%
Merrill Lynch International	Long Position	H	other	59,180,000	1.93	0.33%
	Short Position			518,705,000	16.93	2.92%

Note 1: Kerry Holdings Limited controlled 35% interest in Perfex Overseas Limited and Toprange Investments Limited, respectively. As at 30 June 2005, Kerry Holdings Limited had a long position in an aggregate amount of 207,482,000 H shares of the Company, of which 103,741,000 H shares were held by Perfex Overseas Limited and the remaining 103,741,000 H shares were held by Toprange Investments Limited. Kerry Holdings Limited was a wholly-owned subsidiary of Kerry Group Limited and Kerry Group Limited was deemed to have a long position in respect of the 207,482,000 H shares of the Company through its interest in Kerry Holdings Limited. Of the aggregate amount of 207,482,000 H shares, 103,741,000 H shares was subject of a securities borrowing and lending agreement.

Note 2: Taurus Investments SA was a wholly-owned subsidiary of Anglo American PLC which held an indirect interest in the 155,612,000 H shares through Taurus Investments SA.

Save as disclosed above and so far as the directors, chief executive officer and supervisors of the Company are aware, as at 30 June 2005, no other person had an interest or short position in the Company's shares or underlying shares (as the case may be) which is required to be recorded and kept in the register in accordance with section 336 of the SFO, or was otherwise a substantial shareholder (as such term is defined in the Listing Rules of the Company).

As at 30 June 2005, none of the directors, chief executive officer or supervisors of the Company had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short position which any such directors, chief executive officer or supervisor is taken or deemed to have under such provisions of the SFO) or which has required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERIM FINANCIAL REPORT

The unaudited interim financial report of the Group for the six months ended 30 June 2005 prepared in accordance with the International Financial Reporting Standards ("**IFRS**") is as follows:

Consolidated income statement

for the six months ended 30 June 2005 – unaudited
(Expressed in Renminbi)

	Note	**Six months ended 30 June** **2005** ***RMB million***	2004 *RMB million* *(Notes 1 and 2)*
Revenues			
Coal revenue		**18,705**	12,995
Power revenue		**5,008**	4,432
Other revenues		**801**	570
Total operating revenues	*4*	**24,514**	17,997
Cost of revenues			
Materials, fuel and power		**(2,228)**	(2,038)
Personnel expenses		**(991)**	(710)
Depreciation and amortisation		**(2,505)**	(2,213)
Repairs and maintenance		**(1,199)**	(783)
Transportation charges		**(2,857)**	(2,850)
Others		**(1,477)**	(1,156)
Total cost of revenues		**(11,257)**	(9,750)
Selling, general and administrative expenses		**(1,431)**	(934)
Other operating (expense)/income, net		**(91)**	9
Total operating expenses	*5*	**(12,779)**	(10,675)
Profit from operations		**11,735**	7,322
Net financing costs	*6*	**(926)**	(925)
Investment income		**3**	10
Share of profits of associates		**281**	53
Profit before income tax		**11,093**	6,460
Income tax	*7*	**(2,144)**	(1,194)
Profit for the period		**8,949**	5,266
Attributable to:			
Equity holders of the parent		**7,800**	4,331
Minority interests		**1,149**	935
		8,949	5,266
Earnings per share *(RMB)*			
– basic	*9*	**0.512**	0.289
– diluted	*9*	**Not applicable**	Not applicable

The notes on pages 23 to 35 form part of this interim financial report.

Consolidated balance sheet

at 30 June 2005 – unaudited
(Expressed in Renminbi)

	Note	**At 30 June 2005 RMB million**	At 31 December 2004 RMB million (Note 2)
Non-current assets			
Property, plant and equipment, net	10	**75,742**	72,923
Construction in progress		**17,278**	12,352
Intangible assets		**1,152**	1,210
Interests in associates		**3,437**	2,731
Investments		**108**	109
Lease prepayments		**3,869**	3,766
Deferred tax assets		**1,253**	1,242
Total non-current assets		**102,839**	94,333
Current assets			
Inventories		**3,206**	2,691
Accounts and bills receivable, net	11	**2,905**	2,913
Prepaid expenses and other current assets		**1,963**	3,239
Time deposits with original maturity over three months		**146**	55
Cash and cash equivalents	12	**32,544**	7,138
Total current assets		**40,764**	16,036
Total assets		**143,603**	110,369
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	13	**18,073**	13,857
Current portion of long-term payable	15	**80**	–
Accounts and bills payable	14	**4,107**	4,411
Income tax payable		**1,816**	1,475
Accrued expenses and other payables		**9,035**	4,704
Total current liabilities		**33,111**	24,447
Net current assets/(liabilities)		**7,653**	(8,411)
Total assets less current liabilities		**110,492**	85,922
Non-current liabilities			
Long-term borrowings, less current portion		**46,004**	46,332
Long-term payable, less current portion	15	**2,338**	–
Accrued reclamation obligations		**667**	650
Deferred tax liabilities		**616**	459
Total non-current liabilities		**49,625**	47,441
		60,867	38,481
Equity			
Equity attributable to equity holders of the parent		**47,130**	25,396
Minority interests		**13,737**	13,085
TOTAL EQUITY		**60,867**	38,481

Approved and authorised for issue by the board of directors on 26 August 2005.

Chen Biting
Chairman

Ling Wen
Director

The notes on pages 23 to 35 form part of this interim financial report.

Consolidated statement of changes in equity

for the six months ended 30 June 2005 – unaudited
(Expressed in Renminbi)

	Equity attributable to equity holders of the parent										
	Share capital RMB million (Note 16)	**Share premium** RMB million	**Capital reserve** RMB million	**Revaluation reserve** RMB million	**Future development fund** RMB million (Note iii)	**Statutory reserves** RMB million	**Other reserves** RMB million	**Retained earnings/ shareholder's equity** RMB million (Note i)	**Total** RMB million	**Minority interests** RMB million (Note ii)	**Total equity** RMB million
At 1 January 2004 *(Notes 1 and 2)*	–	–	–	7,203	138	284	849	7,987	16,461	11,628	28,089
Profit for the period	–	–	–	–	–	–	–	4,331	4,331	935	5,266
Appropriation *(Note 17)*	–	–	–	–	302	–	–	(302)	–	–	–
Capital contributions from minority interests	–	–	–	–	–	–	–	–	–	439	439
Distributions to minority interests	–	–	–	–	–	–	–	–	–	(145)	(145)
At 30 June 2004	–	–	–	7,203	440	284	849	12,016	20,792	12,857	33,649
At 1 January 2005 *(Note 2)*	15,000	–	(6,591)	7,186	338	230	849	8,384	25,396	13,085	38,481
Issuance of shares upon public offering	2,785	19,441	–	–	–	–	–	–	22,226	–	22,226
Share issue expenses	–	(743)	–	–	–	–	–	–	(743)	–	(743)
Profit for the period	–	–	–	–	–	–	–	7,800	7,800	1,149	8,949
Appropriation *(Note 17)*	–	–	–	–	319	–	–	(319)	–	–	–
Dividend approved during the period *(Note 8)*	–	–	–	–	–	–	–	(7,549)	(7,549)	–	(7,549)
Capital contributions from minority interests	–	–	–	–	–	–	–	–	–	517	517
Distributions to minority interests	–	–	–	–	–	–	–	–	–	(1,014)	(1,014)
At 30 June 2005	17,785	18,698	(6,591)	7,186	657	230	849	8,316	47,130	13,737	60,867

Notes:

(i) The shareholder's equity prior to the establishment of the Company mainly represents the then capital of the entities now comprising the Group and the equity contributions from or distribution to the Parent Company.

(ii) Minority interests were presented separately from liabilities and equity at 31 December 2003 and 2004. Minority interests are presented within the equity with effect from 1 January 2005 and the presentation of minority interests for the comparative period has been restated accordingly. Details were set out in Note 2.

(iii) Pursuant to regulations in the PRC, the Company and its subsidiaries are required to make a transfer to future development fund based on RMB6.5 to RMB8.0 per tonne of raw coal mined (net of usage).

The notes on pages 23 to 35 form part of this interim financial report.

Condensed consolidated cash flow statement

for the six months ended 30 June 2005 – unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2005	2004
	RMB million	*RMB million*
		(Note 1)
Net cash from operating activities	**15,391**	8,195
Net cash used in investing activities	**(8,088)**	(7,613)
Net cash from financing activities	**18,103**	3,537
Net increase in cash and cash equivalents	**25,406**	4,119
Cash and cash equivalents at 1 January	**7,138**	4,162
Cash and cash equivalents at 30 June	**32,544**	8,281

The notes on pages 23 to 35 form part of this interim financial report.

NOTES TO THE INTERIM FINANCIAL REPORT

for the six months ended 30 June 2005 – unaudited
(Expressed in Renminbi)

1 Principal activities, organisation and basis of preparation

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 21 mines as well as an integrated railway network and a seaport 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 operates 8 power plants in the PRC, which are engaged in the generation and sale of coal-based power to provincial/regional electric grid companies.

Organisation

The Company was established in the PRC on 8 November 2004 as a joint stock limited company as part of the Restructuring (as defined below) of Shenhua Group Corporation Limited ("**Shenhua**" or the "**Parent Company**"), a state-owned enterprise under the direct supervision of the State Council of the PRC. Prior to the establishment of the Company, the coal production and power generation operations were carried on by various mining companies and power plant entities wholly owned or controlled by Shenhua (the "**Predecessor Operations**").

In connection with the Restructuring (as defined below), Shenhua's principal coal production and power generation operations together with the related assets and liabilities that were to be 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 business that were to be transferred to the Company were revalued as at 31 December 2003 as required by PRC rules and regulations.

The specific assets and liabilities Shenhua transferred to the Company include:

- substantially all of the operating assets and liabilities relating to coal production at Shenhua's Shendong mines and Wanli mines, including, among others, mining rights for the operating mines and planned mines as well as Shenhua's equity interests in certain mining companies;
- all operating assets and liabilities relating to coal transportation, including, among others, Shenhua's equity interests in rail line and port related companies;
- assets and liabilities relating to coal sales and marketing operations;
- substantially all of the core operating assets and liabilities relating to power generation, including, among others, Shenhua's equity interests in certain operating power plants and power plants under development; and
- other assets and liabilities (relating to information system and communication and research and development institutions), contractual rights and obligations, employees, licenses and approvals, business and financial records, books and data and technological data and know-how relating to the coal production and power generation operations.

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

1 Principal activities, organisation and basis of preparation *(continued)*

Organisation (continued)

On 15 June 2005, 3,063,500,000 H shares of the Company, comprising 2,785,000,000 shares offered by the Company and 278,500,000 shares offered by Shenhua, were listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

Basis of preparation

The interim financial report of the Company has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with International Accounting Standard ("**IAS**") 34 "Interim Financial Reporting" adopted by the International Accounting Standards Board ("**IASB**").

The interim financial report has been prepared in accordance with the same accounting policies adopted by the Group in the preparation of the financial information for the year ended 31 December 2004, except for the change in presentation of the financial statements arising from the changes of International Financial Reporting Standards ("**IFRSs**") that are expected to be reflected in the 2005 annual financial statements. Details of the changes are set out in Note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim financial report and the reported amounts of revenues and expenses during the period. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since 31 December 2004. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with IFRSs. IFRSs include IAS and related interpretations.

The interim financial report was authorised for issuance on 26 August 2005. The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the Board of Directors is included on page 36.

The financial information relating to the financial year ended 31 December 2004 included in the interim financial report as being previously reported information does not constitute the Group's annual financial statements prepared under IFRSs for that financial year. It is derived from the financial information as set out in the Accountants' Report included in the Company's Prospectus dated 2 June 2005, which is available from the Company's registered office. The Company's reporting accountants have expressed an unqualified opinion on the financial information in their report dated 2 June 2005.

The financial information for the six months ended 30 June 2004 presents the results of operations of the Group as if the Group had been in existence throughout the period from 1 January 2004 to 30 June 2004.

2 New and revised IFRSs

The IASB has issued a number of new and revised IFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Board of Directors has determined the accounting policies expected to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2005, on the basis of IFRSs currently in issue.

The IFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2005 may be affected by the issue of additional interpretation(s) or other changes announced by the IASB subsequent to the date of issuance of this interim financial report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The adoption of revised IAS 1 "Presentation of financial statements" and revised IAS 27 "Consolidated and separate financial statements" has resulted in a change in presentation of minority interests in the financial statements.

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the period were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 January 2005, in order to comply with IAS27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the parent, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the parent.

The presentation of minority interests in the consolidated balance sheet, consolidated income statement and consolidated statement of changes in equity for the comparative period has been restated accordingly.

3 Segment reporting

The following table presents segmental information by business segment:

	Six months ended 30 June									
	Coal		Power		Corporate and others		Eliminations		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	RMB million	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*
Revenues										
External sales	**19,501**	13,543	**5,013**	4,454	**–**	–	**–**	–	**24,514**	17,997
Inter-segment sales	**1,974**	1,406	**24**	20	**–**	–	**(1,998)**	(1,426)	**–**	–
Total operating revenues	**21,475**	14,949	**5,037**	4,474	**–**	–	**(1,998)**	(1,426)	**24,514**	17,997
Profit/(loss) from operations	**10,657**	5,889	**1,151**	1,492	**(69)**	(39)	**(4)**	(20)	**11,735**	7,322

The following table presents segmental information by geographical segment:

	Six months ended 30 June	
	2005	2004
	RMB million	*RMB million*
Domestic markets	**19,610**	14,181
Export sales – Asia Pacific markets	**4,817**	3,657
Export sales – other markets	**87**	159
Total operating revenues	**24,514**	17,997

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 Total operating expenses

	Six months ended 30 June 2005 RMB million	2004 RMB million
Personnel expenses	**1,408**	985
– including contribution to retirement plans	**147**	99
Depreciation and amortisation	**2,590**	2,270
Loss on disposal of property, plant and equipment	**66**	6
Operating lease charges	**179**	165

6 Net financing costs

	Six months ended 30 June 2005 RMB million	2004 RMB million
Interest on loans from banks and other financial institutions, and other borrowings wholly repayable within five years	**1,511**	1,193
Less: interest expense capitalised	**(283)**	(175)
Net interest expense	**1,228**	1,018
Interest income	**(79)**	(23)
Foreign exchange gain	**(432)**	(70)
Loss on remeasurement of derivative financial instruments to fair value	**209**	–
	926	925

7 Income tax

Income tax in the consolidated income statement represents:

	Six months ended 30 June 2005 RMB million	2004 RMB million
Provision for PRC income tax for the period		
– the Group	**1,928**	1,093
– associates	**70**	–
Deferred taxation	**146**	101
	2,144	1,194

The provision for PRC current income tax is based on a statutory rate of 33% of the assessable profit of the entities comprising the Group as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain branches, subsidiaries and associates of the Company, which are exempted or taxed at preferential rate of 7.5% or 15%.

8 Dividend

Dividend attributable to the previous financial year, approved during the period:

	Six months ended 30 June	
	2005	2004
	RMB million	*RMB million*
Final dividend in respect of the previous financial year, approved during the period	**7,549**	–

On 27 March 2005, a final dividend of RMB7,549 million was approved for distribution to the Parent Company.

On 27 March 2005, in addition to the approval of 2004 dividend as mentioned above, the directors proposed and the sole shareholder approved that the distributable profit of the Company for the period from 1 January 2005 to 14 June 2005 (the date immediately preceding the date of its listing on the Stock Exchange) be entirely distributable to the Parent Company.

Other than the above, the directors do not propose the payment of interim dividend for the six months ended 30 June 2005 (six months ended 30 June 2004: Nil).

9 Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2005 was based on the profit attributable to equity holders of the parent for the period of RMB7,800 million (six months ended 30 June 2004: RMB4,331 million) and the weighted average number of shares in issue during the six months ended 30 June 2005 of 15,246 million (six months ended 30 June 2004: 15,000 million). The weighted average number of shares in issue during the six months ended 30 June 2004 represents the number of shares issued and outstanding upon the legal formation of the Company on 8 November 2004 as if such shares have been outstanding for the above entire period.

The Company had no dilutive potential shares outstanding for both periods presented.

10 Property, plant and equipment, net

During the six months ended 30 June 2005, the Group acquired items of property, plant and equipment (except for transfer from construction in progress) with an aggregate cost of RMB3,386 million (six months ended 30 June 2004: RMB863 million). Items of property, plant and equipment with net book value totalling RMB148 million were disposed of during the six months ended 30 June 2005 (six months ended 30 June 2004: RMB40 million).

Up to the date of this report, the Group was in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB132 million as at 30 June 2005 (31 December 2004: RMB271 million). 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.

11 Accounts and bills receivable, net

	At 30 June 2005 RMB million	At 31 December 2004 RMB million
Accounts receivable	**2,882**	2,744
Less: allowance for doubtful accounts	**(25)**	(25)
	2,857	2,719
Bills receivable	**48**	194
	2,905	2,913

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

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

	At 30 June 2005 RMB million	At 31 December 2004 RMB million
Current	**2,796**	2,725
Within one year	**99**	169
Between one and two years	**2**	11
Between two and three years	**5**	2
Over three years	**3**	6
	2,905	2,913

12 Cash and cash equivalents

Cash and cash equivalents represent cash at bank and in hand in which approximately RMB25 billion of cash at bank were denominated in Hong Kong dollars.

13 Borrowings

Short-term borrowings and current portion of long-term borrowings are analysed as follows:

	At 30 June 2005 RMB million	At 31 December 2004 RMB million
Borrowings from banks and other financial institutions	**13,104**	7,100
Loans from an associate	**–**	1,141
Loans from the Parent Company	**1,000**	–
Current portion of long-term borrowings	**3,969**	5,616
	18,073	13,857

The above borrowings are interest-bearing and unsecured.

14 Accounts and bills payable

	At 30 June 2005 RMB million	At 31 December 2004 RMB million
Trade accounts payable	**2,968**	3,670
Bills payable	**1,139**	741
	4,107	4,411

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

	At 30 June 2005 RMB million	At 31 December 2004 RMB million
Due within one year	**3,697**	3,866
Due after one year but within two years	**345**	440
Due after two years but within three years	**28**	93
Due after three years	**37**	12
	4,107	4,411

15 Long-term payable

Long-term payable represents payable for acquisition of mining rights which is to be settled over the period of production on an annual basis. The annual payment is determined by fixed rates on a per tonne basis with reference to the annual production volume of the acquired mines (Note 18(b)).

16 Share capital

	At 30 June 2005 RMB million	At 31 December 2004 RMB million
Issued and fully paid:		
14,721,500,000 (2004: 15,000,000,000) Domestic state-owned ordinary shares of RMB1.00 each	**14,722**	15,000
3,063,500,000 (2004: Nil) H shares of RMB1.00 each	**3,063**	–
	17,785	15,000

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

16 Share capital *(continued)*

In June 2005, the Company issued 2,785,000,000 H shares with a par value of RMB1.00 each, at a price of HK$7.5 per H share by way of a global initial public offering to Hong Kong and overseas investors. As part of the global initial public offering, 278,500,000 domestic state-owned ordinary shares of RMB1.00 each owned by Shenhua were converted into H shares and sold to Hong Kong and overseas investors.

17 Reserves

(a) Transfer to reserves

No transfer to the statutory surplus reserve nor the statutory public welfare fund has been made during the six months ended 30 June 2005 (2004: Nil).

The Company has to make appropriation of 10% and 5% to 10% of its net profit, as determined in accordance with PRC Accounting Rules and Regulations, to the statutory surplus reserve and statutory public welfare fund respectively before profit distribution.

(b) Profit distribution

Please refer to Note 8 for details of profit distribution.

18 Commitments and contingent liabilities

(a) Capital commitments

As at 30 June 2005, the Group had capital commitments for acquisition and construction of land and buildings and equipment, and for the acquisition of investments and associates as follows:

	At 30 June 2005 *RMB million*	At 31 December 2004 *RMB million*
Authorised and contracted for		
– Land and buildings	**5,616**	5,679
– Equipment	**7,339**	9,625
– Investments and associates	**450**	1,050
	13,405	16,354
Authorised but not contracted for		
– Land and buildings	**5,412**	7,831
– Equipment	**6,780**	4,255
	12,192	12,086

18 Commitments and contingent liabilities *(continued)*

(b) *Operating lease commitments*

As at 30 June 2005, future minimum lease payments under non-cancellable operating leases on business premises having initial or remaining lease terms of more than one year are payable as follows:

	At 30 June 2005 *RMB million*	At 31 December 2004 *RMB million*
Within one year	**56**	48
After one year but within five years	**186**	186
After five years	**205**	184
	447	418

At 31 December 2004, the Group operated certain leased mines with expected economic lives of 15-20 years, as contracted for between Shenhua and the owners. Royalties were paid by Shenhua to the owners at fixed rates on a per tonne basis with reference to the annual production volume of such leased mines. Such royalty expenses were re-charged at nil margin by Shenhua to the Group during the respective years. The amounts of operating lease commitments for leased mines are not included in the above figures as the payments are made on a per tonne basis and cannot be quantified for future years.

Pursuant to the purchase agreements signed by the Company and the respective owners in March 2005, the Company acquired the mining rights of such leased mines at a consideration based on the reserves of such mines. The royalty contracts entered by Shenhua and the owners were then terminated (see Note 15).

(c) *Contingent liabilities*

As at 30 June 2005, the undiscounted maximum amount of potential future payments under guarantees given to banks in respect of banking facilities granted to the parties below were as follows:

	At 30 June 2005 *RMB million*	At 31 December 2004 *RMB million*
Associate	**310**	130
Third party	**54**	109
	364	239

The Group monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognises any such losses under guarantees when those losses can be estimated. At 30 June 2005, it was not probable that the Group would be required to make payments under these guarantees. Thus no liability was accrued for losses related to the Group's obligations under these guarantee arrangements.

19 Related party transactions

(a) Related party transactions

The Company had the following transactions with the Parent Company and its affiliates ("**Shenhua Group**") and the associates of the Company that were carried out in the normal course of business:

		Six months ended 30 June	
		2005	2004
		RMB million	*RMB million*
Interest income	*(i)*	**10**	10
Purchases of ancillary materials and spare parts	*(ii)*	**(202)**	(99)
Ancillary and social services	*(iii)*	**(142)**	(55)
Transportation services income	*(iv)*	**53**	36
Interest expense	*(v)*	**(34)**	(77)
Purchase of coal	*(vi)*	**(376)**	(345)
Sale of coal	*(vii)*	**463**	116
Property leasing	*(viii)*	**(25)**	(24)
Transportation services expense	*(ix)*	**(108)**	(81)
Net deposits withdrawn from/(placed with) related party	*(x)*	**3,333**	(2,959)
Net loans (repaid to)/obtained from related party	*(xi)*	**(1,867)**	526
Repair and maintenance service expense	*(xii)*	**(18)**	–
Agency income	*(xiii)*	**7**	–
Repair and maintenance service income	*(xiv)*	**3**	–
Coal export agency expense	*(xv)*	**(35)**	–

(i) Interest income represents interest earned from deposits placed with its associate. The applicable interest rate is determined in accordance with the prevailing saving deposit rate.

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

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

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

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

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

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

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

19 Related party transactions *(continued)*

(a) Related party transactions (continued)

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

(x) Net deposits withdrawn from/placed with related party represent deposits withdrawn from/placed with its associate.

(xi) Net loans repaid to/obtained from related party represent loans repaid to/obtained from Shenhua Group.

(xii) Repair and maintenance service expense represents expense related to machinery repair and maintenance services provided by Shenhua Group.

(xiii) Agency income represents income earned from Shenhua Group in respect of providing agency service.

(xiv) Repair and maintenance service income represents income earned from its associate in respect of machinery repair and maintenance services.

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

(b) Guaranteed loans

As at 31 December 2004, Shenhua Group provided guarantees to the Group on borrowings amounted to RMB4,327 million. The above guarantees were released before 30 June 2005.

(c) Key management personnel compensations

Key management personnel receive compensations in the form of fees, salaries, housing and other allowances, benefits in kind, discretionary bonuses and retirement scheme contribution. Key management personnel received total compensation of RMB5 million for the six months ended 30 June 2005 (six months ended 30 June 2004: RMB4 million). Total remuneration is included in "personnel expenses" as disclosed in Note 5.

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

The Group conducts business with enterprises directly or indirectly owned or controlled by the PRC government ("**state-controlled enterprises**"). Furthermore, the PRC government itself represents a significant customer of the Group both directly through its numerous authorities and indirectly through its numerous affiliates and other organisations. The Group considers that the sales of goods and the provision of services to the PRC government authorities and affiliates and other state-controlled enterprises are activities in the ordinary course of business and has not disclosed such activities as related party transactions.

20 Subsequent events

The following significant transactions took place subsequent to 30 June 2005:

(a) Exercise of over-allotment option

On 12 July 2005, the Company issued 304,620,455 H shares with a par value of RMB1.00 each, at a price of HK$7.5 per H share upon the exercise of the over-allotment option to overseas investors. The Company raised net proceeds of approximately RMB2 billion. As part of the exercise of the over-allotment option, 30,462,045 domestic state-owned ordinary shares of RMB1.00 each owned by Shenhua were converted into H shares and sold to overseas investors. On 12 July 2005, a total of 335,082,500 H shares under the over-allotment option were listed on the Stock Exchange.

(b) Reform of the RMB exchange rate regime

On 21 July 2005, the People's Bank of China announced a reform of the exchange rate mechanism. The new exchange rate mechanism will be a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. At the same time, the exchange rate of Renminbi against US dollars was appreciated by approximately 2%. At 21 July 2005, the Group had approximately RMB17 billion bank deposits denominated in Hong Kong dollars.

INDEPENDENT REVIEW REPORT

To the Board of Directors of
China Shenhua Energy Company Limited
(Established in the People's Republic of China with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 19 to 35.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim financial reporting" adopted by the International Accounting Standards Board. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2005.

KPMG
Certified Public Accountants
Hong Kong, China
26 August 2005

OTHER INFORMATION

Interim Report

This Interim Report is printed in English and Chinese and is published on our website at www.shenhuachina.com or www.csec.com on 29 August 2005 and dispatched to shareholders on the same day. The Interim Report will also be published on the website of The Stock Exchange of Hong Kong Limited.

An announcement of the interim results is published in the South China Morning Post and Hong Kong Economic Times on 29 August 2005.

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Wu Yuan, *Executive Director and President*
Ling Wen, *Executive Director, Executive Vice President and Chief Financial Officer*
Zhang Xiwu, *Non-executive Director*
Zhang Yuzhuo, *Non-executive Director*
Han Jianguo, *Non-executive Director*
Huang Yicheng, *Independnet Non-executive Director*
Anthony Francis Neoh, *Independent Non-executive Director*
Chen Xiaoyue, *Independent Non-executive Director*

Joint Company Secretaries

Huang Qing
Ng Chai Ngee

Strategy Planning Committee

Chen Biting
Zhang Xiwu
Wu Yuan

Audit Committee

Chen Xiaoyue
Huang Yicheng
Anthony Francis Neoh

Remuneration Committee

Anthony Francis Neoh
Chen Xiaoyue
Ling Wen

Safety, Health and Environmental Committee

Huang Yicheng
Wu Yuan
Zhang Yuzhuo
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Company's Registrar

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Our Stock Code

The Stock Exchange of Hong Kong Limited 1088