

# 中国神华能源股份有限公司

CHINA SHENHUA ENERGY COMPANY LIMITED

### ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

Profit attributable to equity shareholders of the Company for the period was RMB8,614 million, representing an increase of RMB814 million or 10.4% over the same period of 2005.

### FINANCIAL HIGHLIGHTS

Revenues of the Group in the first half of 2006 were RMB29,533 million, representing an increase of RMB5,019 million or 20.5% over the same period of 2005.

On behalf of the board of directors (the "Board") of China Shenhua Energy Company Limited (the "Company" or "China Shenhua"), I am pleased to present the Interim Report of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2006 and to report on our performance over this period.

### I INTERIM FINANCIAL REPORT

The unaudited interim financial information of the Group for the six months ended 30 June 2006 prepared in accordance with the International Financial Reporting Standards ("IFRS") is as follows:

for the six months ended 30 June 2006 – unaudited (Expressed in Renminbi)			
		Six months of	ended 30 June 2005
	Note	RMB million	RMB million
Revenues  Coal revenue		22,303	18,70
Power revenue		6,479	5,00
Other revenues	5	751	80
Total operating revenues	4	29,533	24,514
Cost of revenues			
Materials, fuel and power		(3,610)	(2,22
Personnel expenses		(1,284)	(99
Depreciation and amortisation		(2,978)	(2,50
Repairs and maintenance		(1,287)	(1,19
Transportation charges		(3,727)	(2,85
Others	6	(1,594)	(1,47
Total cost of revenues		(14,480)	(11,25
Selling, general and administrative expenses		(1,826)	(1,43
Other operating expense, net		(56)	(9
Total operating expenses	7	(16,362)	(12,77
Profit from operations		13,171	11,73
Finance income	8	104	51
Finance expenses	8	(1,326)	(1,43
Net finance costs		(1,222)	(92
Investment income		7	
Share of profits of associates		142	21
Profit before income tax		12,098	11,02
Income tax	9	(2,313)	(2,07
Profit for the period		9,785	8,94
Attributable to:			
Equity shareholders of the Company		8,614	7,80
Minority interests		1,171	1,14
Profit for the period		9,785	8,94
Earnings per share (RMB)	11		
- basic		0.476	0.51
- diluted		0.476	0.51
Consolidated balance sheet			
at 30 June 2006 – unaudited			
(Expressed in Renminbi)			
		At 30 June 2006	At 31 December 200
	Note	RMB million	RMB millio
Non-current assets	*****		
Property, plant and equipment, net	12	90,765	82,35
Construction in progress		14,428	19,16
intangible assets		1,137	1,29
Interest in associates		2,164	3,68
Other investments		1,065	7
Lease prepayments Deferred tax assets		4,151 1,598	3,83 1,43
Total non-current assets		115,308	111,84
Current assets		110,000	
Inventories		4,135	3,57
Accounts and bills receivable, net	13	3,529	2,68
Prepaid expenses and other current assets		2,995	1,27
Time deposits with original			
moturity over three months		· ·	6

Long-term borrowings, less current portion Long-term payable, less current portion

maturity over three months

Current liabilities
Short-term borrowings and current portion
of long-term borrowings
Current portion of long-term payable
Accounts and bills payable
Income tax payable

Income tax payable Accrued expenses and other payables

Total assets less current liabilities

Accrued reclamation obligations

Total non-current liabilitie

Total current liabilities

Non-current liabilities

Deferred tax liabilities

Net current assets

Cash and cash equivalents

Share capital 18,090 40,502 Equity attributable to equity shareholders of the Company Minority interests 58,592 15,875

## Consolidated statement of changes in equity

for the six months ended 30 June 2006 – unaudited (Expressed in Renminbi)

				Equity attributa	able to equity share	ebolders of the Con	npany				
					Future						
	Share capital	Share premium	Capital reserve	Revaluation reserve	development fund	Statutory reserves	Other reserves	Retained earnings	Total	Minority interests	Total equity
	RMB million (Note i)	RMB million (Note ii)	RMB million	RMB million	RMB milion (Note iii)	RMB million (Note iv)	RMB million	RMB million	RMB million	RMB million	RMB million
At 1 January 2005	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	-	-	-	-	319	-	-	(319)	-	-	-
Dividend approved during the period (Note 10	-	-	-	-	-	-	-	(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
At 1 January 2006	18,090	20,813	(6,591)	7,184	881	3,128	839	13,038	57,382	15,107	72,489
Profit for the period	-	-	-	-	-	-	-	8,614	8,614	1,171	9,785
Appropriation	-	-	-	-	295	-	-	(295)	-	-	-
Dividend approved during the period (Note 10)	-	-	-	-	-	-	-	(7,404)	(7,404)	-	(7,404)
Capital contributions from minority interests	-	-	-	-	-	-	-	-	-	286	286
Distributions to minority interests			_					_	_	(689)	(689)
At 30 June 2006	18,090	20,813	(6,591)	7,184	1,176	3,128	839	13,953	58,592	15,875	74,467
	=	=	=	=	=	=	=	=	=	=	=

- (i) In June 2005, the Company issued 2,785,000,000 H shares with a par value of RMB1.00 each, at a price of HK\$7.50 per H share by way of a global initial public offering to Hong Kong and overseas investors. In July 2005, the Company issued 304,620,455 H shares with a par value of RMB1.00 each at a price of HK\$7.50 per H share upon the exercise of the overalloment option in connection with the global initial public offering.
- (ii) 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.
- (iii) Pursuant to regulations in the PRC, the Company and its subsidiaries are required to make a transfer to future development fund based on RMB7.00 to RMB8.00 (2005: RMB6.50 to RMB8.00) per tonue of raw coal mined (net of usage). The fund can only be used for the future development of the coal mining business and is not available for distribution to shareholders.
- Statutory reserves included statutory surplus reserve and statutory public welfare fund. Pursuant to the revised Company Law of the PRC, the Company is not required by law to make appropriations to statutory public welfare fund with effect from 1 April 2006. The balances of the statutory public welfare fund as at 1 January 2006 were transferred to statutory surplus reserve. No other transfer to the statutory surplus reserve nor the statutory public welfare fund had been made during the six months ended 30 lbms 2006 (2005. Nit). 30 June 2006 (2005: Nil).

Consolidated cash flow statement for the six months ended 30 June 2006 – unaudited (Expressed in Renminbi)

Six months ended 30 June
2006 2005
RMB million RMB million Net cash from operating activities 15,391 Investing activities Capital expenditure Lease prepayments Purchase of investments (6,911) (7.345) (74) 620 30 Proceeds from disposal of investments
Proceeds from disposal of property, plant and equipment
Increase in time deposits with maturity over three months (91) \_\_ 58 Maturity of time deposits with maturity over three months Net cash used in investing activities (6,657)(8,088) Financing activities
Proceeds from bank and other borrowings
Repayments of bank and other borrowings
Dividend paid to minority interests
Contributions from minority interests
Dividends paid to shareholders
Net proceeds from issuance of new shares upon listing 14,257 (15,459) (654) 517 (7,549) 21,483 (11,619) (682) 286 (7,404) Net cash (used in)/from financing activities (5,162) 18,103 Net (decrease)/increase in cash and cash equivalents (127) 25,406 19,825 Cash and cash equivalents, at the beginning of the period 7,138

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

Cash and cash equivalents, at the end of the period

recommend of profit before income tax to not cash from operation	_		
	Six months ended 30 June		
	2006	2005	
	RMB million	RMB million	
Profit before income tax	12,098	11,023	
Adjustments for:			
Depreciation and amortisation	3,081	2,590	
Investment income	(7)	(3)	
Interest income	(104)	(79)	
Share of profits of associates	(142)	(211)	
Net interest expense	1,233	1,228	
Loss on remeasurement of derivative financial			
instruments to fair value	25	209	
Unrealised foreign exchange loss/(gain)	64	(418)	
Loss on disposal of property, plant and equipment	27	66	
(Increase)/decrease in accounts and bills receivable	(847)	8	
Increase in inventories	(563)	(515)	
(Increase)/decrease in prepaid expenses and other current assets	(963)	406	
(Decrease)/increase in accounts and bills payable	(216)	83	
Increase in accrued expenses and other payables	1,572	3,907	
Cash generated from operations	15,258	18,294	
Interest received	104	79	
Interest paid	(1,355)	(1,494)	
Dividend received from investments	134	99	
Income tax paid	(2,449)	(1,587)	
Net cash from operating activities	11,692	15,391	

# Notes to the interim financial report for the six months ended 30 June 2006 – unaudited (Expressed in Renminbi)

1 Principal activities, organisation and basis of preparation

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 a scaport 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.

19,825

27,419

139,260

22,837

4,582

2,405

43,934

72,489

39,292

57.382

15,107

852 744

116,423

19,698

30,365

145,673

12,097 74 6,610 1,051 7,260

27,092

3,273

118,581

39,981

2,410

44,114

74,467

74,467

875 848

(as defined below) of Shenhua Group Corporation Limited ("Shenhua" or the "Parent Company"), a state-owned enterprise under the direct supervision of the State Council of the PRC. Prior to the establishment of the Company, the coal production and power generation operations were carried on by various mining companies and power plant entities wholly owned or controlled by Shenhua.

In connection with the Restructuring (as defined below), Shenhua's principal coal production and power generation operations together with the related assets and liabilities that were to be transferred to the Company were segregated and separately managed effective on 31 December 2000 (the "Restructuring"). Pursuant to the Restructuring, property, plant and equipment related to the operations and business that were transferred to the Company were revalued as at 31 December 2003 as required by the PRC rules and regulations.

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

In June 2005, the Company issued 2,785,000,000 H shares with a par value of RMB1.00 each, at a price of HK\$7.50 per H share by way of a global initial public offering to Hong Kong and overseas investors. As part of the global initial public offering, 278,500,000 state-owned ordinary shares of RMB1.00 each owned by Shenhua were converted into H shares and sold to Hong Kong and overseas investors. The Company was listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 June 2005. In July 2005, the Company issued 304,620,455 H shares with a par value of RMB1.00 each, at a price of HK\$73.0 per H share upon the exercise of the over-allottnent option in connection with the global initial public offering. As part of the exercise of the over-allotment option, 30,462,045 state-owned ordinary shares of RMB1.00 each owned by Shenhua were converted into H shares and sold to Hong Kong and overseas investors. A total of 3,398,582,500 H shares were listed on the Stock Exchange.

## 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 of Hong Kong Limited, 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 substantially the same accounting policies adopted by Group in the preparation of the financial statements for the year ended 31 December 2005. Please refer to Note 2 for the discussion of new and revised International Financial Reporting Standards ("IFRSs") adopted by the Group in 2006.

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.

In preparing this interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial

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 2005. 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 include IAS and related interpretations. The financial information relating to the financial year ended 31 December 2005 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 but is derived from those financial statements. Annual financial statements for the year ended 31 December 2005 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 10 March 2006.

The interim financial report was authorised for issuance on 25 August 2006. 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 Certificed Public Accountants. KPMG's independent review report to the Board is included in the interim report to be sent to the equity shareholders of the Company.

## 2 New and revised IFRSs

The IASB has issued a number of new and revised IFRSs that are effective for accounting periods beginning on or after I January 2006. 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 2006, on the basis of IFRSs currently in such

The IFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2006 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 these new and revised IFRSs did not result in significant changes to the Group's accounting policies applied

The following table presents segmental information by business segments:

	Six months ended 30 June Corporate and									
	C	oal	Po	Power others Elimination			nations	ons Total		
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
	million	million	million	million	million	million	million	million	million	million
Revenues										
External sales	23,044	19,501	6,489	5,013	_	_	_	_	29,533	24,514
Inter-segment sales	2,844	1,974	37	24	_	_	(2,881)	(1,998)	· -	_
Total operating revenues	25,888	21,475	6,526	5,037	_	_	(2,881)	(1,998)	29,533	24,514
Profit/(loss) from								_		
operations	11,960	10,657	1,459	1,151	(180)	(69)	(68)	(4)	13,171	11,735
	=	=	=	=	_	=	_	=	=	
The Group has two repor	table busine	ess segme	nts as foll	ows:						
(1) Coal operations - v	which produ	ices coal i	from surfa	ce and un	derground	mines, an	d the sale	and trans	portation	of coal t

	nded 30 June
2006	2005
RMB million	RMB million
24,734	19,610
4,727	4,817
72	87
29,533	24,514
	RMB million 24,734 4,727 72

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.

Six months ended 30 June 2006 RMB million 2005 RMB million Rendering of transportation and other services Sale of ancillary materials and other goods 653 753

801

Cost of revenues – others		
	Six months e	nded 30 June
	2006	2005
	RMB million	RMB million
Operating lease charges	73	145
Dredging expenses	104	178
Sales taxes and surcharges	223	185
Cost of sale of ancillary materials and other goods	36	37
Coal selection and minery fees	357	193
Public utilities expenses	26	23
Others	775	716

### 7 Total operating expenses

Six months e	nded 30 June
2006	
RMB million	RMB million
1,945	1,408
259	147
6	-
3,081	2,590
27	66
103	179
	2006 RMB million 1,945 259 6 3,081 27

### 8 Finance income/(ex

Finance income/(expenses)		
	Six months er	nded 30 June
	2006	2005
	RMB million	RMB million
Interest income	104	79
Foreign exchange gain		432
Finance income	104	511
Interest on loans from banks and other financial institutions, and		
other borrowings wholly repayable within five years	(1,444)	(1,511)
Less: interest expense capitalised	211	283
Net interest expense	(1,233)	(1,228)
Loss on remeasurement of derivative financial instruments to fair value	(25)	(209)
Foreign exchange loss	(68)	
Finance expenses	(1,326)	(1,437)
Net finance costs	(1,222)	(926)

9 Income tax

	Six months en	ded 30 June
	2006 RMB million	2005 RMB million
Provision for PRC income tax Deferred taxation	2,376 (63)	1,928 146
	2,313	2,074

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%.

The Group's consolidated effective tax rate for the six months ended 30 June 2006 was 19% (2005: 19%).

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

	Six months ended 30 June		
	2006	2005	
	RMB million	RMB million	
Special dividend to Shenhua in respect of previous financial year,			
resolved during the period	5,143	_	
Final dividend in respect of the previous financial year,			
approved during the period	2,261	7,549	
	7,404	7,549	

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

Pursuant to the shareholders' approval at the annual general meeting held on 12 May 2006, a final dividend of RMB0.125 per share totalling RMB2,261 million in respect of the year ended 31 December 2005 was declared and was paid on 29 May 2006.

On 27 March 2005, a final dividend of RMB7,549 million in respect of the year ended 31 December 2004 was approved for distribution to Shenhua and was paid on 26 May 2005.

The directors do not propose the payment of an interim dividend for the six months ended 30 June 2006 (2005: Nil). Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2006 was based on the profit attribe equity shareholders of the Company for the period of RMB8.614 million (2005: RMB7.800 million) and the weighted number of shares in issue during the six months ended 30 June 2006 of 18,090 million) (2005: 15,246 million).

The amount of diluted earnings per share is the same as basic earnings per share as there were no dilutive potential ordinary shares in existence during both the current and prior periods. 12 Property, plant and equipment, net

During the six months ended 30 June 2006, the addition of property, plant and equipment (including transfer from construction in progress) of the Group amounted to RMB11,385 million (2005: RMB5,446 million). Items of property, plant and equipment with net book value totalling RMB57 million were disposed of during the six months ended 30 June 2006 (2005: RMB148 million)

## 13 Accounts and bills receivable, ne

	At 30 June	At 31 December
	2006	2005
	RMB million	RMB million
Accounts receivable	3,523	2,531
Impairment losses for bad and doubtful accounts	(23)	(23)
	3,500	2,508
Bills receivable	29	174
	3,529	2,682

Bills receivable	29	174
	3,529	2,682
Credit of up to 60 days is granted to customers with established trading	history, otherwise sales on cas	h terms are required.
The following is the ageing analysis of accounts and bills receivable, net	of impairment losses for bad	and doubtful accounts
	At 30 June 2006	At 31 December 2005
	RMB million	RMB million
Current	3,440	2,639
Within one year	88	39
Between one and two years	1	2
Between two and three years		2
	3,529	2,682
Cash and cash equivalents		
	At 30 June	At 31 December
	2006	2005

RMB million RMB million Deposits with banks with original maturity within three months 19,698 19,825 Short-term borrowings and long-term borrowings are analysed as follows At 31 Decembe

At 30 June 2006 RMB million 2005 RMB million Short-term borrowings

Borrowings from banks and other financial institutions
Current portion of long-term borrowings 12,097 39,981 9,443 39,933 Long-term borrowings, less current portion

52,078

49,376

The short-term and long-term borrowings are interest-bearing and unsecured.

 recounts and only payable		
	At 30 June 2006	At 31 December 2005
	RMB million	RMB million
Accounts payable	5,484	5,225
Bills payable	1,126	1,376
	6,610	6,601
The following is the ageing analysis of accounts and bills payable:		
	At 30 June	At 31 December
	2006	2005
	RMB million	RMB million
Within one year	6,265	6,189
One to two years	168	368
Two to three years	155	24
Over three years	22	20
	6,610	6,601

### 17 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.

### (a) Capital commitments

As at 30 June 2006, the Group had capital commitments for acquisition and construction of land and buildings and

	At 30 June 2006 RMB million	At 31 December 2005 RMB million
	KMB million	KMD million
Authorised and contracted for		
- Land and buildings	4,377	4,302
- Equipment	7,916	4,772
- Investment in subsidiary and associates	1,162	450
	13,455	9,524
Authorised but not contracted for		
- Land and buildings	10,331	10,018
- Equipment	15,562	17,357
	25,893	27,375

### (b) Operating lease commitments

As at 30 June 2006, 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 2006	At 31 December 2005
	RMB million	RMB million
Within one year	83	48
After one year but within five years	188	184
After five years	161	178
	432	410

nted maximum amount of potential future payments under guarantees given to banks in ted to the party below were as follows:

	At 30 June 2006 RMB million	At 31 December 2005 RMB million
Associate	310	310

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 2006, 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.

### Related party transaction

The Group is controlled by the Parent Company, and has significant transactions and relationships with the Parent Company and its affiliates. The Company also has entered into transactions with its associates, over which the Company can exercise significant influence. Because of the above relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

The Group had the following transactions with Shenhua Group and the associates of the Company that were carried out

		Six months er	Six months ended 30 June		
		2006	2005		
		RMB million	RMB million		
Purchases of ancillary materials and spare parts	(i)	(243)	(202)		
Ancillary and social services	(ii)	(176)	(142)		
Transportation services income	(iii)	23	53		
Interest expense	(iv)	(27)	(34)		
Purchase of coal	(v)	(656)	(376)		
Sale of coal	(vi)	780	463		
Property leasing	(vii)	(19)	(25)		
Transportation services expense	(viii)	(68)	(108)		
Net deposits withdrawn from related party	(ix)	_	3,333		
Net loans repaid to related party	(x)	_	(1,867)		
Repairs and maintenance service expense	(xi)	_	(18)		
Agency income	(xii)	10	7		
Coal export agency expense	(xiii)	(35)	(35)		
Repayment of entrusted loan from a related party	(xiv)	100			
Tunnel income	(xv)	36	_		

- Purchases of ancillary materials and spare parts represent purchase of materials and utility supplies from Shenhua Group relating to the Group's operations.
- Ancillary and social services represent expenditures for social welfare and support services such as prop management, water and electricity supply, and canteen paid to Shenhua Group.
- (iii) Transportation services income represents income earned from its associate and Shenhua Group in respect of coal
- (iv) 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.
- (v) Purchase of coal represents coal purchased from Shenhua Group.
- (vi) Sale of coal represents income from sale of coal to its associates and Shenhua Group.
- (vii) Property leasing represents rental charge in respect of properties leased from Shenhua Group.
- services expense represents expenses related to coal transportation services provided by its
- (ix) Net deposits withdrawn from related party represent deposits withdrawn from its associates.
- (x) Net loans repaid to related party represent loans repaid to Shenhua Group.
- (xi) Repairs and maintenance service expense represents expense related to machinery repairs and maintenance services provided by Shenhua Group. (xii) Agency income represents income earned from Shenhua Group in respect of providing agency service.
- (xiii) Coal export agency expense represents expense related to coal export agency services provided by Shenhua
- (xiv) Repayment of entrusted loan repaid from a related party represents repayment of entrusted loan from its associate. (xv) Tunnel income represents income earned from Shenhua Group in respect of tunnel service

Pursuant to a sale and purchase agreement between the Company and Beijing Guohua Power Company Limited ("Beijing Guohua Power", a wholly owned subsidiary of Shenhua) dated 10 March 2006, the Company agreed to acquire a 70% equity interest in Jinjie Power Corporation ("Jinjie") from Beijing Goohua Power at a cash considerion of RMBI,162 million. Jinjie is principally engaged in (i) the generation and sale of power and (ii) the production and sale of coal in the PRC.

## Amounts due from/to Shenhua Group and the associates of the Company

	At 30 June	At 31 December
	2006	2005
	RMB million	RMB million
Trade accounts receivables	77	48
Prepaid expenses and other current assets	37	211
Total amounts due from Shenhua Group and		
the associates of the Company	114	259
Trade accounts payables	111	113
Accrued expenses and other payables	59	83
Long-term borrowings	1,000	1,000
Total amounts due to Shenhua Group and		
the associates of the Company	1,170	1,196

Amounts due from/to Shenhua Group and the associates of the Company, except for long-term borrowings bearing an interest rate of 5.25% per annum, bear no interest, are unsecured and are repayable in accordance with normal

	Six months e	Six months ended 30 June		
	2006	2005		
	RMB million	RMB million		
Short-term employee benefits	4			
Post-employment benefits	1			
Share appreciation rights expense	6	-		
	11			

ration is included in "personnel expenses" as disclosed in Note 7.

## (c) Contributions to post-employment benefit plans

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 17% to 20% of the salaries, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group's contributions for the six months ended 30 June 2006 were RMB259 million (2005: RMB147 million).

## (d) Transaction 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,

Other than those transactions with the Parent Company and its associates 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;

- Purchases of ancillary materials and spare parts;
- Ancillary and social services; and Financial services arrangement.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled. The Group has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether the counterparties are state-controlled entities or not.

Having considered the potential for transactions to be impacted by related party relationships, the Group's pricinstrategy, buying 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 states-controlled entities require disclosure:

(i) Transactions with other state-controlled entities, including state-controlled banks in the PRC

	Six months ended 30 June		
	2006	2005	
	RMB million	RMB million	
Coal revenue	11,017	9,248	
Power revenue	6,351	4,871	
Transportation costs	2,268	2,046	
Interest income	77	58	
Interest expenses	1,136	1,403	
(ii) Balances with other state-controlled entities, including state-controlled	At 30 June	At 31 December	
	2006	2005	
	RMB million	RMB million	
Accounts receivable	2,627	1,618	
Cash and time deposits at banks	14,592	14,466	
Short-term borrowings and current portion of long-term borrowings	8,933	6,383	
Long-term borrowings, less current portion	39,008	38,632	

Certain comparative figures have been reclassified to conform with the current period's presentation

### Outstanding financial and business performance

For the six months ended 30 June 2006, operating revenues of the Company rose by 20.5% to RMB29,533 million over the first half of 2005, and profits from operations rose by 12.2% to RMB13,171 million over the first half of 2005. Profit attributable to equity shareholders of the Company for the period have rise by 10.4% to RMB8,614 million over the first half of 2005. The Company continues its rapid and steady growth.

Also in the first half of 2006, our operations continued to grow. For the six months ended 30 June 2006, the coal sales volume increased by 18.5% to 80.8 million tonnes over the first half of 2005; and commercial coal production increased by 10.9% to 66.9 million tonnes over the first half of 2005. Total turnover of coal transportation increased by 14.5% over the first half of 2005 to 59.9 billion tonnes km. Seaborne coal sales increased by 21.7% over the first half of 2005 to 57.1 million tonnes. As at 30 June 2006, the total installed capacity of our power plants increased by 50.3% over the first half of 2005 to 8,960 MW, and gross power generation increased by 26.9% over the first half of 2005 to 23.10 billion kwh. The total power output dispatch increased by 27.8% over the first half of 2005 to 21.60 billion kwh.

### Accelerating development of our core business, developing an integrated operating i

Our large-scale, streamlined and efficient operations have made us an example to the rest of the coal industry in the PRC. We continually strive to further develop our core business, to which end we have invested a total of RMB6,657 million in coal mining operations, the development of coal resources, coal preparation, the upgrading of our railway and port transport systems and the development of quality power generation assets in

We are the only energy company in China to own a large-scale integrated transportation network, including dedicated railways and ports. During the first half of 2006, the seaborne coal volume of Huanghua Port exceeded for the first time that of Tianjin Port, thus becoming the second largest coal freight port in the PRC, outstripped only by Qinhuangdao Port. Work has already finished on the foundation of our Nanjiang Coal Berth at Tianjin Port together with the paving of rail tracks for Huangwan Railway and they will commence operation by the one of this case. by the end of this year.

We continue to hold the top position for production safety records of all coal producers in the PRC coal industry. For the first half of 2006, the fatality rate for the production of our raw coal was 0.028 per million tonnes, which is much lower than the average fatality rate of the other major state-owned coal mines (approximately 0.6 per million tonnes of raw coal produced) and coal mines in the PRC (approximately 2.2 per million tonnes of raw coal produced) and coal mines in the PRC (approximately 2.2 per million tonnes of raw coal produced), and which is also close to average levels in the USA over the last 5 years.

### Cutting-edge production technology helps us to get the most out of our resources

The most advanced coal mining equipment and longwall and continuous mining methods have been adopted in Shendong Mines, our major coal mining area, which has enabled us to set in place both a large-scale and efficient coal resource recovery and to achieve the high utilisation of residual coal from slopes and inclinations of coal seams. By adopting a scientific approach to the layout of shafts, fields and mining areas, we have been able to carry out large operations with minimal loss of resources. By creating an information technology platform for resource sharing, we have been able to fully monitor our production operations, thereby enhancing our production efficiency. By promoting the use of professional services and outsourcing of each of all of the functions of our production processes, we have been able to streamline our operations and reduce our

In the first half of 2006, we established China Shenhua Technology Centre, and we are in the process establishing Shenhua Transport Technology Centre to create better conditions for the Company's long-te technological innovation and development. We have also obtained the approval from the Ministry of Person of the PRC to commence preparation work for our post-doctoral research and development station.

### Continual focus on environmental protection and on-going contribution to the community

In 2006, we have redoubled our efforts to control pollution, reduce the emission of pollutants and increase the In 2006, we have redoubled our efforts to control pollution, reduce the emission of pollutants and increase the rate of reutilisation of waste water so as to ensure that we can reach our targets for the reduction of waste emissions. We have further emphasised the reclamation of land in mining areas and the protection of the environment and ecology. We intend to commit approximately RMB1,130 million to the installation or refitting of desulphurisation facilities in our power plants and we continually seek to strike a balance between production and the sustainable development of the community at large. In 2006, our Shuohuang Railway Project was awarded the first "State Environmentally Friendly Project" award, and our Shendong Mines were awarded

During the first half of 2006, we have donated a total of RMB13 million to the relief of poverty and the

## A first-class management team

Our rapid development is closely linked to the joint efforts of the tens of thousands of our staff and management. In 2006, we were identified by Finance Asia as one of the companies with the best corporate governance in China, which was a sign that our mature and sound corporate governance has won the recognition of the international capital markets. I would hereby like to express my gratitude and appreciation to our staff for their hard work and excellent performance.

## Stable growth of the PRC coal industry

Demand in the major coal-consuming industries including coal-fired power, steel, oil processing and petrochemical operations continued to grow strongly during the first half of 2006. In particular, the power sector, which is a major consumer of coal, has continued to develop at great speed.

On the supply side, according to statistics from the Dispatch Centre of the State Administration of Coal Mines Safety, the aggregate production volume of PRC raw coal over the first half of 2005 reached 978.2 million tonnes, a period-on-period increase of 4.4%; sales volume of commercial coal reached 970.5 million tonnes, an increase of 4.4% over the first half of 2005; coal export volume reached 31.7 million tonnes, a decrease of 13.0% as against the first half of 2005; 18.3 million tonnes of coal was imported, an increase of 51% over the first half of 2005, indicating that growth in demand for coal is strong in the PRC. The aggregate coal production volume, transportation volume and sales volume have been rising. However, compared with the last two years, the rate of growth in supply and demand has slowed.

The state lifted price controls over thermal coal at the PRC "National Major Coal Production and The state lifted price controls over thermal coal at the PRC "National Major Coal Production and Transportation Demand Coordination Meeting" in 2006, a first for China. On the premise that the price stability of thermal coal could be maintained, temporary intervention measures over the price of thermal coal have been excised, with prices now left to be negotiated between both the coal and the power sectors. This constitutes a significant step towards a fully market-driven coal industry in the PRC. In the first half of 2006, coal prices rose under the influence of the new policy. However, as the production volume of coal in the PRC has increased and the capacity of major coal railway transportation has increased, the supply and demand of power has become more balanced. This has resulted in an increased inventory of coal, and the trading of coal at high prices with small margins of fluctuation. prices with small margins of fluctu

Also, the price of oil in the international market has been high during 2006. Oil and coal both fall within the category of energy commodities, hence the movement of prices of oil and coal are inter-related, and therefore high oil prices in the international market have also contributed to high coal prices in the international market

## Balanced supply and demand in the PRC power industry, certain regions still in short supply

onsumption in the PRC continued its rapid increase during the first half of 2006, but the rate of incre-ined. However, power supply capacity has continued to increase, power shortages have been mitiga scope and degree of power shortages was dramatically reduced. Nevertheless certain regions remain

In the first half of 2006, total power consumption in the PRC was 1,311.12 billion kwh, a period-on-period increase of 12.9%, of which consumption of primary, secondary and tertiary industries and the power consumption of urban and rural residents increased by 9.3%, 13.3%, 10.4% and 13.4% respectively. The main drivers for the rowth in power consumption over the first half of 2006 were in consumption of urban and rural residents.

According to statistical data published by the China Electricity Council, national power generation in the fi half of the year was 1,268.61 billion kwh, which was an increase of 12.0% compared to the same period of layear. The aggregate average utilisation hours of the national power generation facilities were 2,544 hour which was a decrease of 128 hours as against the same period of last year, of which the average utilisation hours of coal-fired power facilities were 2,748 hours, representing a decrease of 178 hours over the same periof last year. This mainly resulted from the increased additional installed capacity of coal-fired power plants some regions over the first half of this year, without a corresponding increase in the demand for power in the regions. Supply of and demand for power has eased somewhat. The water supply in most regions across to country has been satisfactory which has led to sufficient water reserves for increased hydroelectric pow generation. According to statistical data published by the China Electricity Council, national power generation in the first

Furthermore, the National Development and Reform Commission adjusted power tariffs again on 30 June 2006 in accordance with its policy on "Coal Price Pass Through", which alleviated pressure from the coal price increase and the cost of desulphurisation refit works to power plants.

## Outlook

It is estimated that for the second half of the year, the economy of the PRC will continue to move in an upward direction at a high growth rate, and energy demand is expected to be strong. It is expected that the coal industry will continue to maintain a sustainable development, however, the rate of growth will become relatively slow Coal prices will record a slight fluctuation in the near future. It is also expected that supply and demand in the power industry will be increasingly balanced. However, there exists a possibility that some regions may experience seasonal shortages in supply.

In the long term, due to the rapid development of the PRC economy and against the background of continued on and internationalisation within the PRC, the ratio of heavy industries to all industrialisation, modernization and internationalisation within the Free, the ratio of neary industries in the national economy, in particular, industries which are the key coal consumers, will steadily increase. As such, scarcity of coal will become more conspicuous. Hence, there exists a possibility that coal prices may rise further, and coal prices will remain at high levels.

For the second half of 2006, the Company will aim to increase 15 million tonne commercial coal pro-and continue to develop the core operations of the coal and power sectors. The targets of the Company is

- the upgrading of the facilities of the Jinjie Mine and Wanli Mines; replacing hydraulic supports in the Shendong Mines in conjunction with upgrades to the Shendong Mines; and the completion of the construction of key projects such as at Bu'ertai and Ha'erwusu Projects;
- the upgrading of the transportation capability of Shenshuo Railway and Dazhun Railway; and the commencement of operations at Huangwan Railway and Shenhua Tianjin Coal Dock on a trial basis; and
- ncement of operations of Ninghai #1 power generation unit, and Taishan#5 power gener unit; and the continual improvement of management of power plant equipment to achieve a steadier, safer and longer operational lifespan.

## III. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF

The following discussion and analysis should be read together with the reviewed financial statement and its notes of the Group set out in the interim report.

### Overview

For the six months ended 30 June 2006, the profit before income tax of the Group was RMB12,098 million, representing an increase of 9.8% as compared to that of 2005. The profit attributable to equity shareholders of the Company for the period was RMB8,614 million, representing an increase of 10.4% as compared to that of 2005. Basic earnings per share of the Company was RMB0.476.

For the six months ended 30 June 2006, profits of both our coal and power segments achieved a historical high. Profit from operations amounted to RMB11,960 million and RMB1,459 million, respectively, representing an increase of 12.2% and 26.8%, respectively, over the same period of last year. The increase in profit was primarily due to the Group's ability to capitalise in a timely manner on the high demand and prices in the coal market and by expanding our mining activities to raise coal production and the adoption of marketing measures to boost coal sales as well as the increase in power output dispatch due to the commencement of operation of new generation units in the power segment as scheduled.

The comparison between the period of the six months ended 30 June 2006 and the period of the six months

### 2 Combined Results of Operations

### (1) Operating revenues

Operating revenues for the six months ended 30 June 2006 reached RMB29,533 million, representing an increase of RMB5,019 million (or 20.5%) over the same period of last year.

The increase was primarily due to (1) increases in coal sales and average sale price of coal per tonne;

and (2) the increase in on-grid tariff and power output dispatch

### (2) Cost of revenues

Cost of revenues for the six months ended 30 June 2006 reached RMR14 480 million representing an increase of RMB3,223 million (or 28.6%) over the same period of last year

The increase was primarily due to the increase in commercial coal sales and power output dispatch, which resulted in the corresponding increase in materials, fuel and power costs as well as the increases in transportation charges, personnel expenses and depreciation and amortisation.

Materials, fuel and power for the six months ended 30 June 2006 reached RMB3,610 million, representing an increase of RMB1,382 million (or 62.0%) over the same period of last year.

The increase was primarily due to (1) the increase in volume and price of coal purchased from third parties resulting in the increase of expenses in purchasing coal; and (2) enhanced coal production and railway transportation capacity resulting in the increase in fuel and power consumption.

Personnel expenses for the six months ended 30 June 2006 reached RMB1,284 million, representing an increase of RMB293 million (or 29.6%) over the same period of last year.

The main reasons for the increase were (1) the increases in salaries and welfares and the resultant increased contribution to the retirement plans due to the satisfactory operating performance of the Group; and (2) the new generation units commenced operation and Huanghua Port completed the upgraded capacity project which resulting in an increase in the number of staff and personnel

### (5) Depreciation and amortisation

Depreciation and amortisation for the six months ended 30 June 2006 reached RMB2,978 million. resenting an increase of RMB473 million (or 18.9%) over the same period of last year

This increase was primarily due to an increase of investment in fixed assets in the coal and power

For the six months ended 30 June 2006, repairs and maintenance reached RMB1,287 million, representing an increase of RMB88 million (or 7.3%) over the same period of last year.

The increase was primarily due to higher maintenance expenses incurred for the replacement of rail

### (7) Transportation charges

Transportation charges for the six months ended 30 June 2006 reached RMB3,727 million, representing an increase of RMB870 million (or 30.5%) over the same period of last year.

The increase was primarily due to (1) higher transportation volume; (2) higher national rail freight rates; and (3) higher port construction fund

### (8) Selling, general and administrative expenses

Selling, general and administrative expenses for the six months ended 30 June 2006 reached RMB1,826 million, representing an increase of RMB395 million (or 27.6%) over the same period of The increase was primarily due to (1) higher carry-over costs in the first half of 2006 for the personnel expenses of the new power plants which have just commenced operations; and (2) an increase in resource taxes and surcharges.

For the six months ended 30 June 2006, net finance costs reached RMB1.222 million, representing an

### increased of RMB296 million (or 32.0%) over the same period of last year The increase was primarily due to an increase in the exchange rate of Japanese Yen to Renminbi resulting in a foreign exchange loss from Japanese Yen

(11) Income tax

(10) Profit before income tax Profit before income tax for the six months ended 30 June 2006 reached RMB12,098 million, representing an increase of RMB1,075 million (or 9.8%) over the same period of last year.

Income tax for the six months ended 30 June 2006 reached RMB2,313 million, representing an increase of RMB239 million (or 11.5%) over the same period of last year

### The increase was primarily due to an increase in taxable income. (12) Profit attributable to equity shareholders of the Company for the period

As for the six months ended 30 June 2006, profit attributable to equity shareholders of the Company for the period reached RMB8,614 million, representing an increase of RMB814 million (or 10.4%) over the same period of last year.

The Group conducts production, sales and transportation of coal as well as power generation and

				For	the six me Corpe	onths ended orate and	1 30 June			
	C	oal	Po	wer	others		Eliminations		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	200:
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RME
	million	million	million	million	million	million	million	million	million	million
Revenues										
External sales	23,044	19,501	6,489	5,013	_	_	_	_	29,533	24,514
Inter-segment sales	2,844	1,974	37	24			(2,881)	(1,998)		
Total operating										
revenues	25,888	21,475	6,526	5,037			(2,881)	(1,998)	29,533	24,514
Profit/(loss) from										
operations	11,960	10,657	1,459	1,151	(180)	(69)	(68)	(4)	13,171	11,735
Operating margins (%)	46.2	49.6	22.4	22.9					44.6	47.

### Coal segment (1) Operating revenues

For the six months ended 30 June 2006, the operating revenues of the Company's coal segment reached RMB25,888 million, representing an increase of RMB4,413 million (or 20.5%) over the same period of last year. The increase was primarily attributable to (1) the increase in coal sales volume; and (2) a higher average sales price of coal per tonne.

Revenues from sales to external customers reached RMB23,044 million, representing an increase of RMB3,543 million (or 18.2%) over the same period of last year.

Revenue from sales by our coal segment to our power segment reached RMB2,844 million, representing an increase of RMB870 million (or 44.1%) over the same period of last year.

By market division, the major changes of sales volume and prices of coal of the Company are as Percentage of sales volume Coal sales (by market division)

Total domestic sales/weighted average price Long-term contract sales/weighted average price 1.0 17.3 37.5 12.6 Direct arrival (along rail lines) Spot market sales/weighted average price 308.5 89.4 277.9 376.0 386.1 Direct arrival (along rail lines) Export sales/price Total coal sales/weighted average price 311.1

The decline in sales price of export coal was primarily attributable to the postponed negotiation of contracts with customers in Japan and Korea, resulting in some of the export contract prices which have not yet been confirmed and thus the settlement of sales price of export coal in the first half of 2006 was in line with the spot market price. In addition, the spot market sales accounted for approximately 20% of the export sales volume of the Company, the sales price of the coal sold on the spot market decreased when compared to the same period of 2005.

By customer division, the major changes of sales volume and prices of coal of the Company are as

		For th	e six months	ended 30 J	une	
		2006			2005	
	Sales	Percentage	Sales	Sales	Percentage	Sales
	volume	of sales	price	volume	of sales	price
Coal sales	Million	volume	RMB/	Million	volume	RMB/
(by customer division)	tonnes	%	tonne	tonnes	%	tonne
Sales to external customers Domestic sales to	71.0	87.9	314.0	60.4	88.6	309.5
external customers	58.6	72.5	298.5	48.4	71.0	284.8
Export sales	12.4	15.4	386.1	12.0	17.6	409.0
Domestic sales to						
our power segment	9.8	12.1	290.2	7.8	11.4	251.7
Total coal sales/weighted						
average price	80.8	100.0	311.1	68.2	100.0	302.9

### Cost of revenues (2)

Cost of revenues for our coal segment amounted to RMB12,680 million for the six months ended 30 June 2006, representing an increase of RMB2,950 million (or 30.3%) over the same period of last year. The increase was mainly attributable to (1) increases in the volume and price of coal purchased from third parties; and (2) increase in sales volume of coal resulting in corresponding increases in costs of materials, fuel and power, personnel expenses and transportation charges.

	For the six months ended 30 June 2006		
T. S	Including coal purchased from third parties RMB/tonne	Excluding coal purchased from third parties	
Unit cost of coal sales	KMB/tonne	RMB/tonne	
Materials, fuel and power	33.7	10.3	
Personnel expenses	6.3	7.7	
Repairs and maintenance	7.3	8.9	
Others	11.5	14.1	
Cash cost	58.9	41.0	
Depreciation and amortisation	12.6	15.3	
Average coal production cost per tonne	71.5	56.3	
Materials, fuel and power	7.7	7.7	
Personnel expenses	4.8	4.8	
Repairs and maintenance	4.9	4.9	
Third party transportation charges	45.2	35.7	
Others	5.6	5.6	
Cash cost	68.2	58.7	
Depreciation and amortisation	10.1	10.1	
Average coal transportation cost per tonne	78.3	68.8	
Average cost of coal sales per tonne	149.8	125.1	

	For the year ended 31 December 200:		
Unit cost of coal sales	Including coal purchased from third parties RMB/tonne	Excluding coal purchased from third parties RMB/tonne	
Average coal production cost per tonne Average coal transportation cost per tonne	66.7 78.3	57.3 74.4	
Average cost of coal sales per tonne	145.0	131.7	

For the first half of 2006, the average cost of coal sales per tonne (including coal purchased from third parties) was RMB149.8/tonne, an increase of RMB4.8/tonne over 2005, which was mainly attributable to an increase in the volume of coal purchased from third parties for the first half of 2006 and builder prices for coal murchased from third parties. For the first half of 2006, the average cost of coal sales per tone (excluding purchases from third parties) was RMB125.1/tonne, a decrease of Coal sales per tone over 2005, and the coal sales per tone over 2005, and the coal sales per tone over 2005. apacity and the seasonal work schedule during the first half of 2006. Finally, the progress of repairs did not reach one half of the annual plan

### (3) Operating margin

The operating margin for our coal segment amounted to 46.2% for the six months ended 30 June 2006, a decrease of 3.4 percentage points as against the same period of last year, which was mainly attuable to the increase in coal purchased from third parties, and the lower profit margin of such coal as against the coal produced by us. In addition, the decrease in export prices resulted in a decreased profit margin from coal exports.

### 4 Power Segment

### (1) Operating revenues

The operating revenues for our power segment amounted to RMB6,526 million for the six months ended 30 June 2006, an increase of RMB1,489 million (or 29.6%) over the same period of last year. The increase was mainly attributable to the increase of power output dispatch and on-grid tariff.

The status of costs and tariff in our power segment are as follows:

For	the	six	months	ended	30	June	20

For the six months ended 30 June 2006					
Power tariff RMB/MWh	Cost of power sales RMB/MWh	Fuel cost RMB/MWh	Standard coal price RMB/tonne		
373	194	89	338		
333	215	123	367		
306	204	120	368		
362	214	153	478		
221	212	141	427		
201	135	71	216		
344	310	160	482		
169	166	86	212		
232	146	54	136		
214	169	126	377		
295	205	127	391		
	Power tariff RMB/MWh 373 333 306 362 221 201 344 169 232 214	Power tariff   RMB/MWh   373   194   333   215   306   204   221   212   201   135   344   310   169   166   232   146   214   169	Cost of power sales   Fuel cost   RMB/MWh   RMB/MWh   RMB/MWh   RMB/MWh   89   333   215   123   306   204   120   362   214   153   221   212   214   201   135   71   344   310   160   169   166   86   232   146   54   214   169   126		

### (2) Cost of revenues

Cost of revenues of our power segment amounted to RMB4,614 million for the six months ended 30 June 2006, representing an increase of RMB1,093 million (or 31.0%) over the same period of last year. The increase was mainly attributable to the increase in coal prices, which led to an increase in fuel costs.

### (3) Operating margin

The operating margin of our power segment was 22.4% for the six months ended 30 June 2006, which was similar to that of the same period of last year

### 5 Liquidity and Financial Resources

For the six months ended 30 June 2006, the principal financial resources of the Group were cash from operating activities and short-term and long-term borrowings. The funds of the Group was mainly used in operating activities, capital expenditure, repayment of short-term and long-term borrowings and dividend

## 6 Cash Flow From Operating Activities

For the six months ended 30 June 2006, net cash from operating activities of the Group decreased by 24.0% to RMB11,692 million as compared with the same period in 2005. The decrease was mainly attributable to the increase in accounts and bills receivable of the power segment resulting in a decrease in operating cash inflow; and a simultaneous increase in income tax paid.

## Cash Flow Used in Financing Activities

	As at 30 June 2006 RMB million
Short-term borrowings and current portion of long-term borrowings	12,097
Long-term borrowings, less current portion	39,981
Total borrowings	52,078
Less:	
Cash and cash equivalents	19,698
Time deposits with original maturity of over three months	8
Net borrowings	32,372

As at 30 June 2006, approximately 87% of the total amount of outstanding borrowings of the Group was in tely 12% of its borrowings was in Japanese Yen and approximately 1% of its borrowings in US Dollars.

For the six months ended 30 June 2006, the Group's net cash used in financing activities was RMB5,162 million, which was mainly used for the payment of dividends.

As at 30 June 2006, none of the Group's borrowings were secured.

## Total Debt Capitalisation Ratio

As at 30 June 2006, the total debt capitalisation ratio of the Group was 41.7%, which was 10 percentage points lower than that as at 30 June 2005. The total debt capitalisation ratio = [long-term interest-bearing debt + short-term interest-bearing debt (including bills payable)]/(total debt + total equity).

For the six months ended 30 June 2006, the Group had no new significant external investments

## Significant Acquisitions and Disposals

During the six months ended 30 June 2006, the Group made the following significant acquisitions

The Board of the Group announced on 10 March 2006 that it acquired 70% of the equity interest in Jinjie Energy Corporation ("Jinjie Energy") from Shenhua Group, our parent company, at a consideration of RMB1,161.639,200 (equivalent to approximately HK\$1,116,960,769). The remaining 30% equity interest in Jinjie Energy is held by Shandong Luneng Development Group Company Limited. According to the in Jinjie Energy is held by Shandong Luneng Development Group Company Limited. According tresource assessment conducted by John T. Boyd Company, Jinjie Energy had marketable reserv approximately 525 million tonnes, equivalent to approximately 9.1% of the total marketable reserv China Shenhua at the end of 2005.

As at the date of the interim results announced by the Group, the transaction had been approved by the As at the date of the interim results amounted by the cloudy, the transaction had been approved by the Board of the Company, and approval from Shenhua Group regarding the sale of Jinjie Energy, approval by the shareholders' meeting of Jinjie Energy regarding the acquisition and waiver from other shareholders of their right of first refusal as well as approval from the required relevant authorities of the State have been obtained. It is expected that the acquisition will be completed by the end of August 2006.

## 11 Exchange Rate Risk

The Company and most entities whose accounts are consolidated in the financial statements use Renminbi as their reporting currency. The fluctuation of Renminbi has advantages and disadvantages for the Company. The appreciation of the Renminbi against the US Dollar reduced the cost of imported equipment and accessories, and decreased the cost of repayment of debts in foreign currencies. On the other hand, it brought down the turnover of our exported coal. The overall effect was positive.

## 12 Commodity Value Risk

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

## 13 Industry Risk

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

## 14 Contingent Liabilities

As at 30 June 2006, the status of the Group's contingent liabilities was as foll

As at 30 June 2006, the Company had made the following bank guara

	As at	As at
	30 June 2006	31 December 2005
Bank guarantees	RMB million	RMB million
Associates	310	310

As at 30 June 2006, no assets of the Group were encumbered.

### IV. REVIEW OF BUSINESS OPERATIONS

Commercial coal production	For the six month 2006 Million tonnes	as ended 30 June 2005 Million tonnes	Percentage change %
Shendong Mines Daliuta-Huojitu Yujialiang Shangwan	52.1 9.5 8.0 6.2	46.7 10.2 7.8 6.1	11.6 (6.9) 2.6 1.6
Bulianta Halagou Others Zhunge'er Mines Wanli Mines	9.9 6.0 12.6 12.1 1.9	6.6 6.1 9.9 10.1 2.9	50.0 (1.6) 27.3 19.8 (34.5)
Shengli Mines  Total	66.9 For the six month	0.7 60.3 as ended 30 June	14.3 10.9 Percentage
Coal sales	2006 Million tonnes	2005 Million tonnes	change %
Domestic sales Northern China Eastern China Southern China Northeast China Others Export sales Korea China Taiwan	68.4 24.0 28.2 10.6 3.6 2.0 12.4 4.0 3.3 2.3	56.2 21.1 22.4 9.3 3.4 - 12.0 4.8 3.4	21.7 13.7 25.9 14.0 5.9 - 3.3 (16.7) (2.9) 9.5
Japan Others <b>Total</b>	2.8	1.7	64.7
Marketable coal reserves*	As at 30 June 2006 Million tonnes	As at 31 December 2005 Million tonnes	Percentage change %
Thermal coal  * Australian Code of Reporting of Mineral Resources an	5,677	5,744	(1.2)
- Australian Code of Reporting of Mineral Resources an	u Ore Keserves, effective	e from December 2004 ("J)	ORC coue )

* Australian Code of Reporting of Mineral Resou	rces and Ore Reserves, effect	ive from December 2004 (".	IORC code")
	For the six mon	ths ended 30 June	Percentage
	2006	2005	change
Total turnover of coal transportation	Billion tonne km	Billion tonne km	%
Self-owned railways	47.8	40.6	17.7
State-owned railways	12.1	11.7	3.4
Total	59.9	52.3	14.5
	For the six mon	ths ended 30 June	Percentage
	2006	2005	change
Seaborne coal sales	Million tonnes	Million tonnes	%
Huanghua Port	39.6	33.1	19.6
Tianjin Port	7.9	5.3	49.1
Qinhuangdao Port	9.3	8.5	9.4
Others*	0.3		
Total	57.1	46.9	21.7

Others: Sales of seaborne coal purchased from third parties at Shanghai Por

### 1 Coal Segment

### (1) Overview

For the six months ended 30 June 2006, the Company achieved excellent operation results in its co segment. This increase in coal production has been maintained. During the first half of 2006, tl Company's commercial coal production amounted to 66.94 million tonnes, representing a period-orperiod increase of 6.62 million tonnes, or an increase of 10.9%. Coal sales volume amounted to 80.3 million tonnes, representing a period-on-period increase of 12.60 million tonnes, or an increase of 18.5%

For the six months ended 30 June 2006, the Company's raw coal production accounted for 7.3% of national raw coal production and the Company's export sales volume accounted for 39.2% of the national export market share.

### (2) Coal reserves

As at 30 June 2006, the Company's marketable coal reserves reached 5.68 billion tonnes. Based on the commercial coal production in 2005, the Company has resources which may be explored for

	As at	As at
	30 June	31 December
	2006	2005
Marketable coal reserves*	Million tonnes	Million tonnes
Shendong Mines	3,498	3,551
Shengli Mines	871	872
Zhunge'er Mines	941	953
Wanli Mines	367	369
Total	5,677	5,744

### \* IORC code (3) Coal production

Our Shendong Mines continued to maintain the leading position in the global industry in terms of the production volume and efficiency for underground mines. Shendong Mines include five 10-million production volume and efficiency for underground mines. Shendong Mines include tonne mines including the Daliuta, Bulianta, Yujialiang, Halagou and Shangwan mines

For the six months ended 30 June 2006, the commercial coal production at our Shendong Mines accounted for 77.9% of the total commercial coal production of the Company. During the first half of 2006, the coal production per capita in the underground Shendong Mines was 15,751 tor equivalent to 31,502 tonnes per capita annually.

On the morning of 18 May 2006, the construction of Ha'erwusu open-cut coal mine commenced. Ha'erwusu open-cut coal mine project includes an open-cut mine with an annual production of 20 million tonnes, a coal processing plant which is an ancillary plant of the same scale, and a total length of 17.8km dedicated railway.

## (4) Coal transportation

For the six months ended 30 June 2006, the total turnover of the Company's coal transportation was 59.9 billion tonnes km, representing a period-on-period increase of 7.6 billion tonnes km, or an increase of 1.4.5%. For the six months ended 30 June 2006, the turnover of coal transportation of the Company's self-owned railways was 47.8 billion tonnes km, representing a period-on-period increase of 7.2 billion tonnes km, or an increase of 17.7%. The turnover of coal transportation by self-owned railways accounted for 79.8% of the total coal transportation turnover of the Company.

79.8 % of the total coal transportation	turnover of the Company	•	
Coal transportation	For the six mon	ths ended 30 June	Percentage
turnover of	2006	2005	change
self-owned railways	Billion tonne km	Billion tonne km	%
Shenshuo	13.2	11.2	17.9
Shuohuang	28.9	25.0	15.6
Dazhun	3.9	3.0	30.0
Baoshen	1.8	1.4	28.6
Total	47.8	40.6	17.7

On 25 March 2005, the first train with 10-thousand tonne loads commenced operation on Dazhur ortation volume of Dazhun Railway is expected to reach 35 million to

During the first half of 2006, the volume of seaborne coal shipped at Huanghua Port was 39.63 million tonnes, representing a period-on-period increase of 6.52 million tonnes, or an increase of 19.6%, and accounting for 49.0% of the commercial coal sales volume of the Company in the first half of 2006.

### (5) Coal sales (a) Domestic sales

During the first half of 2006, the Company sold 68.40 million tonnes of coal in the domestic market 6 of the commercial coal sales volume of the Company. Among them, long-term ated for 81.6% of the domestic sales and the spot market accounted for 18.4% of ing for 84.7% of the the domestic sales. The details are as follows

For the si	Percentage			
Long-term contract sales Million tonnes	Spot market sales Million tonnes	Total Million tonnes	in total domestic sales %	
1.0	1.7	2.7	3.9	
17.3	3.6	20.9	30.6	
37.5	7.3	44.8	65.5	
55.8	12.6	68.4*	100.0	
	Long-term contract sales Million tonnes 1.0 17.3 37.5	Long-term   Contract sales   Million tonnes   Million tonnes   1.0   1.7   17.3   3.6   37.5   7.3	contract sales         sales         Total           Million tonnes         Million tonnes         Million tonnes           1.0         1.7         2.7           17.3         3.6         20.9           37.5         7.3         44.8	

Coal sales volume to the five largest domestic external customers was 9.86 million tonnes. accounting for 14.4% of the Company's total domestic sales volume. Of this, sales volume to the largest domestic external customer was 2.65 million tonnes, accounting for 3.9% of the Company's total domestic sales volume. The five largest domestic external customers of the Company were either power companies or fuel companie

## (b) Export sales

During the first half of 2006, the Company exported 12.43 million tonnes of coal, accounting for 15.3% of the Company's commercial coal sales volume. About 80.0% of export sales were performed under long-term contracts. Coal sales volume to the five largest export customers was 7.34 million tonnes, accounting for

59.2% of the Company's total export sales volume. Of this, sales volume to the largest customer was 2.53 million tonnes, accounting for 20.4% of the Company's total export sales volume. The five largest export customers of the Company were either power companies or fuel companies.

## (c) External customers and internal sales of the company

During the first half of 2006, by customer type, the majority of the Company's coal was sold to external customers and accounted for 71.0 million tonnes, representing a period-on-period increase of 17.5%. Coal sales volume to external customers accounted for 87.9% of the Company's total coal sales volume. Coal sales to the power segment of the Company accounted for 12.1% of the total coal sales during the first half of 2006.

## For the six months ended 30 June

Coal sales by customer type)	Sales volume Million tonnes	Percentage in total sales volume %	Sales volume Million tonnes	Percentage in total sales volume %
ales to external customers	71.0	87.9	60.4	88.6
of the Company	9.8	12.1	7.8	11.4
Total	80.8	100.0	68.2	100.0

### 2 Power Segment

The table below sets forth operational information for each of our operating power plants:

		For the six months ended 50 June 2000				
		Installed	Gross power	Total power output	Average utilisation	Standard coal
		capacity	generation 100 million	dispatch 100 million	hours	consumption rate
Location	Regional grid	MW	kwh	kwh	hour	g/kwh
Beijing	North China Power Grid	400	11.6	10.3	2,903	231
Tianjin	North China Power Grid	1,000	28.7	27.0	2,873	313
Hebei	North China Power Grid	700	19.8	18.8	2,830	308
Guangdong	Southern Power Grid	2,400	67.7	63.4	3,070	300
Liaoning	Northeast Power Grid	1,600	52.7	50.0	3,292	313
Inner Mongolia	North China Power Grid	660	21.7	20.0	3,280	305
Zhejiang	East China Power Grid	1,200	14.1	13.0	2,006	312
Inner Mongolia	North China Power Grid	200	8.0	7.3	4,003	367
Shaanxi	Northwest Power Grid	200	6.6	5.9	3,274	361
Hebei	North China Power Grid	600	0.2	0.3	2,647	316
		8,960	231.0	216.0	3,059	307
	Tianjin Hebei Guangdong Liaoning Inner Mongolia Zhejiang Inner Mongolia Shaanxi	Beijing North China Power Grid Tianjin North China Power Grid Hebei North China Power Grid Gaungdong Soudhen Power Grid Linoning Northeast Power Grid Inter Mongolia North China Power Grid Zeipiag East China Power Grid Inter Mongolia North China Power Grid North China Power Grid North China Power Grid North China Power Grid Northwest Power Grid	Location   Regional grid   MW	Installed   Cruss   Installed   Inst	Lecation   Regional grid   MW   Evaluation   Lecation   Regional grid   MW   Evaluation   Months   M	Lecation   Regional grid   Mrs   Power Grid   Lioning   North China Power Grid   Lioning   Lioning

The Company has four generation units which have successfully completed a 168-hour full-loading test and commenced their commercial operation during the first half of 2006. They are the 1# 600MW coal-fired generation unit of Hunanghua Power Plant, the 3# 600MW coal-fired generation unit of Ninghai Power Plant, the 3# 600MW and the 4# 600MW coal-fired generation units of Taishan Power Plant.

As at 30 June 2006, the Company controlled and operated 10 coal-fired power plants. The total installed capacity and equity capacity was 8,960 MW and 5,042 MW, respectively, representing a period-on-period capacity and equity capacity was 8,960 M increase of 50.3% and 63.6% respectively.

For the six months ended 30 June 2006, the gross power generation of the Company was 23.10 billion kwh, representing a period-on-period increase of 4.90 billion kwh, or an increase of 26.9%. Total power output disapatch was 21.60 billion kwh, representing a period-on-period increase of 4.70 billion kwh, or an increase of 27.8%. The average utilisation hours of power generation units reached 3,059 hours, representing a period-on-

For the six months ended 30 June 2006, coal consumption by the Company's power segment amounted to 9.75 onnes, of which, 9.206 million tonnes of Shenhua Coal were con total coal consumption. The standard coal consumption rate was 307.0 g/kwh, indicating that the efficiency of coal-fired consumption remained basically unchanged.

### V. CAPITAL EXPENDITURE

The table below sets out the status of capital expenditure of the Company for the six months ended 30 June

	s			
	Planned 2006 RMB million	30 June 2006 RMB million	Completion %	
Coal segment	15,055	3,214	21.3	
Mines	10,462	1,633	15.6	
Railways	3,058	611	20.0	
Ports	1,535	970	63.2	
Power segment	4,921	3,398	69.1	
Corporate and others	-	45	-	
Capital expenditure in total	19,976	6,657	33.3	

The total capital expenditure of the Company for the first half of 2006 was RMB6,657 million. Of the capital expenditure during the first half of 2006, RMB3,214 million was used in the coal business, of which RMB1,633 expenditure during the first half of 2006, RMB3,214 million was used in the coal business, of which RMB1,633 million was used in coal mining and mainly for the purchase of equipment and the expansion and upgrading our production capacity of Shendong Mines, construction of the Bu'ertai mine of Wanli Mines, the purchase of working dragline for Zhunge'er Mines and the construction of Ha'erwusu open-cut mine, amongst others, RMB611 million was used in the railway transportation business, primarily attributable to the construction of rail line from Huanghua Port to Wanjia Dock and of the rail line leading to Tianjin coal dock while the balance of RMB970 million was used for the construction of Shenhua Tianjin coal dock. In addition, an amount of RMB3,398 million was used in the power generation business, mainly for the construction of the following projects: Huanghua Power Plant, Ninghai Power Plant and Taishan Power Plant. Corporate and other expenditure was RMB45 million, mainly for the purchase of property for the Company's office headquarters.

During the first half of 2006, our capital expenditure amounted to less than one half of the annual planned target. This was mainly attributable to the fact that our coal mines were mainly located in the northwest regions of the PRC and the proposed construction commenced in about March or April with the annual plan delivered in April, so that certain projects commenced some way into the first half of 2006. Also, although the Company entered into certain equipment purchasing contracts, the equipment purchased has not yet been delivered. These resulted in capital expenditure falling behind schedule.

As at 30 June 2006, the capital commitment of the Company for acquisition and construction of land, buildings and equipment authorised and contracted for amounted to approximately RMB13,455 million, and the capital commitment of the Company for acquisition and construction of land, buildings and equipment authorised and not yet contracted for amounted to approximately RMB25,893 million. The Company will endeavor to implement its capital expenditure plan for 2006 and continue to develop its core operations.

The current plan of the Company for future capital expenditure is subject to the development of the Company's business plans (including potential acquisitions), progress of the Company's capital projects, market conditions, the Company's view of the future business conditions and the obtaining of necessary certificates and regulatory documents. Except as required by law, the Company does not assume any obligation for updating the information on its capital expenditure plan.

The Company plans to provide funds for capital expenditure through cash generated from operating activities, short-term and long-term borrowings and part of the proceeds from the IPO.

### VI. CORPORATE GOVERNANCE

### Compliance with the 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. The Board of the Company believes that the Company has complied with the requirements as set out in the Code during the six months ended on 30 June 2006 and there has been no material deviations from the Code.

## Compliance with the Model Code for the Securities Transactions by Directors of Listed Issuer

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 standards set out in the Model Code. Having made specific enquiry of all directors of the Company, the directors of the Company have strictly complied with the required standard set out in the Model Code for the six months ended 30 June 2006. Audit Committee

The Company has appointed independent non-executive directors and established an audit committee in compliance with the requirements of 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 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. The audit committee has reviewed the Company's interim financial statements for the ix months ended 30 June 2006.

## VII. DISCLOSURE OF SIGNIFICANT MATTERS

## 1 Share Capital Structure

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

2 Dividends Upon the agreement of shareholders at the annual general meeting convened on 12 May 2006, the Company paid the dividends for 2005 to shareholders on 29 May 2006.

The Company will neither declare nor pay an interim dividend for the first half of 2006 to the shareholders

## Material Litigation and Arbitration

Share Appreciation Rights Scheme

As at 30 June 2006, 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 Compan

Purchase, Sale or Redemption of Securities of the Company During the six months ended 30 June 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities.

### Employees As at 30 June 2006, the Company had 42,147 employees, an increase of 360 employees (0.9%) over 31

In order to provide additional incentives to the senior management and to staff holding key positions, and to strengthen the close link between the performance of the senior management and staff holding key positions and shareholder value, the Company has introduced the Share Appreciation Rights Scheme (the Scheme") for the senior management and staff holding key positions. The Scheme aims at linking th financial interests of senior management and staff holding key positions with the future results of the Company and performance of our H shares. The Scheme will not result in the issue or transfer of share: and therefore the shareholdings of the shareholders of the Company will not be diluted by the Schem Share appreciation rights options for 2.80 million shares were granted to senior management in 2005

### During the first half of 2006, no share appreciation rights options were granted under the Scheme. On 25 August 2006, the Board approved the granting of share appreciation rights options for 3.235 million shares to 50 members of the senior management and staff holding key positions, accounting for 0.1% of the total 3.399 hillion shares issued overseas as foreign-invested shares (H shares).

Other Significant Matters Our Yuyao Power Plant is located in Yuyao of Zhejiang Province, which is approximately 120 km from Hangzhou. There will be a gas-fired generation unit of 780 MW installed at the Yuyao Power Plant. Construction of Yuyao Power Plant commenced in 2004.

ruyao Power Plant which is subject to restrictions on natural gas and construction of its pipeline, was unable to undergo a trial operation to generate power as scheduled. According to the sales department of Donghai Natural Gas, the production volume of Chunxiao gas field Phase I is 600,000 CM/day. In addition to the amount required for civil use, this would be sufficient to meet the needs of Yuyao Power Plant for its trial operation. Zhejiang Natural Gas Company is responsible for the construction of the gas pipeline for Yuyao Power Plant and plans to complete its construction by end of September this year. Therefore, it is expected that Yuyao Power Plant will be able to commence its trial operation at the end of 2006 to pass the 168-hour full-loading test run before beginning commercial production.

As for the natural gas consumption of Yuyao Power Plant during the case.

As for the natural gas consumption of Yuyao Power Plant during the operation, by reference to the annual utilisation hours of 3,500 hours of the gas-fired power plants of Zhejiang, the annual consumption of Yuyao Power Plant would be approximately 530 million CM (150,000 CM of gas consumption per hour). The production capacity of Chunxiao gas field Phase I is estimated to be 1.89 million CM/day by June 2007. Excluding the amount needed for civil use, there will have an excess quantity of 1 million CM/day. Therefore, we estimate that by about 2008 the production volume of natural gas will be able to assure the normal operation of Yuyao Power Plant.

On behalf of the Board Chen Biting

## Beijing, China 25th August, 2006

As at the date of this announcement, the Board comprises Mr. Chen Biting and Dr. Ling Wen as executive directors, Dr. Zhang Xiwu, Dr. Zhang Yuzhuo and Mr. Han Jianguo as non-executive directors, and Mr. Huang Yicheng, Mr. Anthony Francis Neoh and Dr. Chen Xiaoyue as independent non-executive directors of the

The interim results of the Company for the six-month period ended 30 June 2006 containing financial statements and notes to the accounts will be published on the Company's website www.shenhuachina.com or www.csec.com and the website of The Stock Exchange of Hong Kong Limited and dispatched to shareholders on 29 August 2006.