



中国神华能源股份有限公司
CHINA SHENHUA ENERGY COMPANY LIMITED
(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1088)

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

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.
- 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.

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:

Consolidated income statement

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

	Note	Six months ended 30 June	
		2006 RMB million	2005 RMB million
Revenues			
Coal revenue		22,303	18,705
Power revenue		6,479	5,008
Other revenues	5	751	801
Total operating revenues	4	29,533	24,514
Cost of revenues			
Materials, fuel and power		(3,610)	(2,228)
Personnel expenses		(1,284)	(991)
Depreciation and amortisation		(2,978)	(2,505)
Repairs and maintenance		(1,287)	(1,199)
Transportation charges		(3,727)	(2,857)
Others	6	(1,594)	(1,477)
Total cost of revenues		(14,480)	(11,257)
Selling, general and administrative expenses		(1,826)	(1,431)
Other operating expense, net		(56)	(91)
Total operating expenses	7	(16,362)	(12,779)
Profit from operations		13,171	11,735
Finance income	8	104	511
Finance expenses	8	(1,326)	(1,437)
Net finance costs		(1,222)	(926)
Investment income		7	3
Share of profits of associates		142	211
Profit before income tax		12,098	11,023
Income tax	9	(2,313)	(2,074)
Profit for the period		9,785	8,949
Attributable to:			
Equity shareholders of the Company		8,614	7,800
Minority interests		1,171	1,149
Profit for the period		9,785	8,949
Earnings per share (RMB)	11		
- basic		0.476	0.512
- diluted		0.476	0.512

Consolidated balance sheet

at 30 June 2006 – unaudited
(Expressed in Renminbi)

	Note	At 30 June		At 31 December	
		2006 RMB million	2005 RMB million	2006 RMB million	2005 RMB million
Non-current assets					
Property, plant and equipment, net	12	90,765	82,358		
Construction in progress		14,428	19,160		
Intangible assets		1,137	1,293		
Interest in associates		2,164	3,686		
Other investments		1,065	74		
Lease prepayments		4,151	3,839		
Deferred tax assets		1,598	1,431		
Total non-current assets		115,308	111,841		
Current assets					
Inventories		4,135	3,572		
Accounts and bills receivable, net	13	3,529	2,682		
Prepaid expenses and other current assets		2,995	1,274		
Time deposits with original maturity over three months		8	66		
Cash and cash equivalents	14	19,698	19,825		
Total current assets		30,365	27,419		
Total assets		145,673	139,260		
Current liabilities					
Short-term borrowings and current portion of long-term borrowings	15	12,097	9,443		
Current portion of long-term payable	17	74	72		
Accounts and bills payable	16	6,610	6,601		
Income tax payable		1,051	1,124		
Accrued expenses and other payables		7,260	5,597		
Total current liabilities		27,092	22,837		
Net current assets		3,273	4,582		
Total assets less current liabilities		118,581	116,423		
Non-current liabilities					
Long-term borrowings, less current portion	15	39,981	39,933		
Long-term payable, less current portion	17	2,410	2,405		
Accrued reclamation obligations		875	852		
Deferred tax liabilities		848	744		
Total non-current liabilities		44,114	43,934		
Equity					
Share capital		18,090	18,090		
Reserves		40,502	39,292		
Equity attributable to equity shareholders of the Company		58,592	57,382		
Minority interests		15,875	15,107		
Total equity		74,467	72,489		

Consolidated statement of changes in equity

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

	Equity attributable to equity shareholders of the Company										Minority interests	Total equity
	Share capital	Share premium	Capital reserve	Development reserve	Surplus reserve	Other reserves	Retained earnings	Total				
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million		
At 1 January 2005	15,000	-	(8,591)	7,186	338	230	849	13,894	13,085	38,401		38,401
Issues of shares upon public offering	2,785	18,441	-	-	-	-	-	22,226	-	22,226		22,226
Share issue expenses	-	(243)	-	-	-	-	-	(243)	-	(243)		(243)
Profit for the period	-	-	-	-	-	-	7,800	7,800	1,149	8,949		8,949
Appropriation	-	-	-	319	-	-	(319)	-	-	-		-
Dividend approved during the period (Note 10)	-	-	-	-	-	-	(7,589)	(7,589)	(7,589)	-		(7,589)
Capital contributions from minority interests	-	-	-	-	-	-	-	-	517	517		517
Distributions to minority interests	-	-	-	-	-	-	-	-	(1,884)	(1,884)		(1,884)
At 30 June 2005	17,785	18,498	(8,591)	7,186	657	230	849	33,804	13,717	60,857		60,857
At 1 January 2006	18,090	20,833	(8,591)	7,184	811	312	839	47,859	15,017	62,876		62,876
Profit for the period	-	-	-	-	285	-	1,814	1,814	1,171	2,985		2,985
Appropriation	-	-	-	-	-	-	(285)	(285)	-	(285)		(285)
Dividend approved during the period (Note 10)	-	-	-	-	-	-	(1,844)	(1,844)	(1,844)	-		(1,844)
Capital contributions from minority interests	-	-	-	-	-	-	-	-	236	236		236
Distributions to minority interests	-	-	-	-	-	-	-	-	(89)	(89)		(89)
At 30 June 2006	18,090	20,833	(8,591)	7,184	1,176	312	839	49,957	15,875	65,832		65,832

Notes:

- 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 over-allotment option in connection with the global initial public offering.
- 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.
- 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 tonne 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 to the statutory public welfare fund had been made during the six months ended 30 June 2006 (2005: Nil).

Consolidated cash flow statement

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

	Note	Six months ended 30 June	
		2006 RMB million	2005 RMB million
Net cash from operating activities	(a)	11,692	15,391
Investing activities			
Capital expenditure		(6,911)	(7,345)
Lease prepayments		(380)	(144)
Purchase of investments		(74)	(601)
Proceeds from disposal of investments		620	11
Proceeds from disposal of property, plant and equipment		30	82
Increase in time deposits with maturity over three months		—	(91)
Maturity of time deposits with maturity over three months		58	—
Net cash used in investing activities		(6,657)	(8,088)
Financing activities			
Proceeds from bank and other borrowings		14,257	19,765
Repayments of bank and other borrowings		(11,619)	(15,459)
Dividend paid to minority interests		(682)	(654)
Contributions from minority interests		286	517
Dividends paid to shareholders		(7,404)	(7,549)
Net proceeds from issuance of new shares upon listing		—	21,483
Net cash (used in)/from financing activities		(5,162)	18,103
Net (decrease)/increase in cash and cash equivalents		(127)	25,406
Cash and cash equivalents, at the beginning of the period		19,825	7,138
Cash and cash equivalents, at the end of the period		19,698	32,544

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

	Six months ended 30 June	
	2006 RMB million	2005 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

Principal activities

China Shenhua Energy Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in: (i) the production and sale of coal; and (ii) the generation and sale of power in the People's Republic of China (the "PRC"). The Group operates coal mines as well as an integrated railway network and 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 also operates power plants in the PRC, which are engaged in the generation and sale of coal-based power to provincial/regional electric grid companies.

Organisation

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

In connection with the Restructuring (as defined below), Shenhua's principal coal production and power generation operations together with the related assets and liabilities that were 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 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\$7.50 per H share upon the exercise of the over-allotment option in connection with the global initial public offering. As part of the exercise of the over-allotment option, 30,462,045 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 the 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 ("IFRS") 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 statements for the year ended 31 December 2005.

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 IFRS. 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 Certified 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 1 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 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 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 in these financial statements for the periods presented.

3 Segment reporting

The following table presents segmental information by business segments:

	Six months ended 30 June									
	Coal		Power		Corporate and others		Eliminations		Total	
	2006 RMB million	2005 RMB million	2006 RMB million							

16 Accounts and bills payable

	At 30 June 2006 RMB million	At 31 December 2005 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 2006 RMB million	At 31 December 2005 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.

18 Commitments and contingent liabilities**(a) Capital commitments**

As at 30 June 2006, the Group had capital commitments for acquisition and construction of land and buildings and equipment, and for the acquisition of subsidiary and associates as follows:

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

(c) Contingent liabilities

As at 30 June 2006, the undiscounted maximum amount of potential future payments under guarantees given to banks in respect of banking facilities granted 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.

19 Related party transactions**(a) Transactions with Shenhua and its affiliates ("Shenhua Group") and the associates of the Company**

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 in the normal course of business:

	Six months ended 30 June	
	2006 RMB million	2005 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	—

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

(ii) 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.

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

(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.

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

(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 Group.

(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 Guohua Power at a cash consideration of RMB1.162 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 2006 RMB million	At 31 December 2005 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 commercial terms.

(b) Key management personnel compensation

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

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

	Six months ended 30 June	
	2006 RMB million	2005 RMB million
Short-term employee benefits	4	4
Post-employment benefits	1	1
Share appreciation rights expense	6	—
	11	5

Total remuneration 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 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, affiliates and other organisations.

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;
- Transportation services;
- Construction work of railway;
- 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 pricing strategy, 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 state-controlled entities require disclosure:

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

	Six months ended 30 June	
	2006 RMB million	2005 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 banks in the PRC

	At 30 June 2006 RMB million	At 31 December 2005 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

20 Comparative figures

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

II. CHAIRMAN'S STATEMENT**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 risen 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 model

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 the first half of 2006.

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 end of this year.

Industry-leading safety record

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 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 production costs.

In the first half of 2006, we established China Shenhua Technology Centre, and we are in the process of establishing Shenhua Transport Technology Centre to create better conditions for the Company's long-term technological innovation and development. We have also obtained the approval from the Ministry of Personnel 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 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 Shouhuang Railway Project was awarded the first "State Environmentally Friendly Project" award, and our Shendong Mines were awarded the "China Environment Award".

During the first half of 2006, we have donated a total of RMB13 million to the relief of poverty and the promotion of culture, education and social charities.

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 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 exercised, 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.

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

Power consumption in the PRC continued its rapid increase during the first half of 2006, but the rate of increase has declined. However, power supply capacity has continued to increase, power shortages have been mitigated and the scope and degree of power shortages was dramatically reduced. Nevertheless certain regions remain in short supply.

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 growth in power consumption over the first half of 2006 were industrial power consumption and consumption of urban and rural residents.

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

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 retrofit 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 industrialisation, modernization and internationalisation within the PRC, the ratio of heavy industries to all 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 production and continue to develop the core operations of the coal and power sectors. The targets of the Company include:

- 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
- the commencement of operations of Ninghai #1 power generation unit, and Taishan#5 power generation 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 OPERATIONS

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.

1 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 ended 30 June 2005 is as follows:

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 RMB14,480 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.

(3) Materials, fuel and power

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.

(4) Personnel expenses

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 welfare 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 expenses.

(5) Depreciation and amortisation

Depreciation and amortisation for the six months ended 30 June 2006 reached RMB2,978 million, representing 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 segments, resulting in an increase in provision for depreciation and amortisation.

(6) Repairs and maintenance

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 tracks.

(7) Transportation charges

(2) Cost of revenues

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.

Our unit cost of coal sales is as follows:

	For the six months ended 30 June 2006	
	Including coal purchased from third parties RMB/tonne	Excluding coal purchased from third parties RMB/tonne
Unit cost of coal sales		
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 2005	
	Including coal purchased from third parties RMB/tonne	Excluding coal purchased from third parties RMB/tonne
Unit cost of coal sales		
Average coal production cost per tonne	66.7	57.3
Average coal transportation cost per tonne	78.3	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 higher prices for coal purchased from third parties. For the first half of 2006, the average cost of coal sales per tonne (excluding purchases from third parties) was RMB125.1/tonne, a decrease of RMB6.6/tonne over 2005, which was mainly attributable to the increase in railway transportation capacity 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 attributable 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 2006			
	Power tariff RMB/MWh	Cost of power sales RMB/MWh	Fuel cost RMB/MWh	Standard coal price RMB/tonne
Operating power plants				
Beijing Thermal	373	194	89	338
Panshan Power	333	215	123	367
Sahe Power	306	204	120	368
Taishan Power	362	214	153	478
Suizhong Power	221	212	141	427
Guohua Zhunge'er	201	135	71	216
Ninghai Power	344	310	160	482
Zhunge'er Power	169	166	86	212
Shennu Power	232	146	54	136
Huanghua Power	214	169	126	377
Weighted average	295	205	127	391

(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 distribution.

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.

7 Cash Flow Used in Financing Activities

Our borrowings as at 30 June 2006 were as follows:

	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 Renminbi, approximately 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.

8 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).

9 Significant Investments

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

10 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 resource assessment conducted by John T. Boyd Company, Jinjie Energy had marketable reserves of approximately 525 million tonnes, equivalent to approximately 9.1% of the total marketable reserves of 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 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 follows:

	As at 30 June 2006, the Company had made the following bank guarantees:	
	As at 30 June 2006 RMB million	As at 31 December 2005 RMB million
Bank guarantees		
As at 30 June 2006, the Company had made the following bank guarantees:		
Bank guarantees	310	310
Associates		
As at 30 June 2006, no assets of the Group were encumbered.		

IV. REVIEW OF BUSINESS OPERATIONS

	For the six months ended 30 June		Percentage change %
	2006 Million tonnes	2005 Million tonnes	
Commercial coal production			
Shendong Mines	52.1	46.7	11.6
Daliuta-Huojitu	9.5	10.2	(6.9)
Yujialiang	8.0	7.8	2.6
Shangwan	6.2	6.1	1.6
Bulianta	9.9	6.6	50.0
Halagou	6.0	6.1	(1.6)
Others	12.6	9.9	27.3
Zhunge'er Mines	12.1	10.1	19.8
Wanli Mines	1.9	2.9	(34.5)
Shengli Mines	0.8	0.7	14.3
Total	66.9	60.3	10.9

	For the six months ended 30 June		Percentage change %
	2006 Million tonnes	2005 Million tonnes	
Coal sales			
Domestic sales	68.4	56.2	21.7
Northern China	24.0	21.1	13.7
Eastern China	28.2	22.4	25.9
Southern China	10.6	9.3	14.0
Northeast China	3.6	3.4	5.9
Others	2.0	-	-
Export sales	12.4	12.0	3.3
Korea	4.0	4.8	(16.7)
China Taiwan	3.3	3.4	(2.9)
Japan	2.3	2.1	9.5
Others	2.8	1.7	64.7
Total	80.8	68.2	18.5

	As at		Percentage change %
	30 June 2006	31 December 2005	
Marketable coal reserves*			
Thermal coal	5,677	5,744	(1.2)

* Australian Code of Reporting of Mineral Resources and Ore Reserves, effective from December 2004 ("JORC code")

	For the six months ended 30 June		Percentage change %
	2006 Billion tonne km	2005 Billion tonne km	
Total turnover of coal transportation			
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 months ended 30 June		Percentage change %
	2006 Million tonnes	2005 Million tonnes	
Seaborne coal sales			
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 Port

1 Coal Segment**(1) Overview**

For the six months ended 30 June 2006, the Company achieved excellent operation results in its coal segment. This increase in coal production has been maintained. During the first half of 2006, the Company's commercial coal production amounted to 66.94 million tonnes, representing a period-on-period increase of 6.62 million tonnes, or an increase of 10.9%. Coal sales volume amounted to 80.83 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 another 47 years.

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

* JORC 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 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 tonnes, 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 14.5%. 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.

	For the six months ended 30 June		Percentage change %
	2006 Billion tonne km	2005 Billion tonne km	
Coal transportation turnover of self-owned railways			
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 Dazhun Railway. The transportation volume of Dazhun Railway is expected to reach 35 million tonnes in 2006.

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, accounting for 84.7% of the commercial coal sales volume of the Company. Among them, long-term contract sales accounted for 81.6% of the domestic sales and the spot market accounted for 18.4% of the domestic sales. The details are as follows:

	For the six months ended 30 June 2006			Percentage in total domestic sales %
	Long-term contract sales Million tonnes	Spot market sales Million tonnes	Total domestic sales Million tonnes	
Domestic sales of coal (by form of sales)				
Mine mouth	1.0	1.7	2.7	3.9
Direct arrival	17.3	3.6	20.9	30.6
Seaborne	37.5	7.3	44.8	65.5
Total	55.8	12.6	68.4*	100.0

* Total domestic sales

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 companies.

(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		Percentage in total sales volume %	Percentage in total sales volume %
	2006 Sales volume Million tonnes	2005 Sales volume Million tonnes		
Coal sales (by customer type)				
Sales to external customers	71.0	87.9	60.4	88.6
Sales to the power segment 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:

Operating power plants	Location	Regional grid	For the six months ended 30 June 2006				Standard coal consumption rate g/kwh
			Installed capacity 100 million	Gross power generation 100 million	Total power output 100 million	Average utilization hours	
Beijing Thermal	Beijing	North China Power Grid	400	11.6	10.3	2,905	313
Panshan Power	Tianjin	North China Power Grid	1,000	28.7	27.0	2,873	313
Sahe Power	Hebei	North China Power Grid	700	19.8	18.8	2,830	308
Taishan Power*	Guangdong	Southern Power Grid	2,				