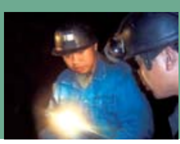
Solutions for a

Clean Energy Future

Interim Report 2006



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

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Performance Highlights

		For the six months ended 30 June 2006	2005	Percentage change %
Commercial coal production	(million tonnes)	**66.9**	60.3	10.9
Coal sales	(million tonnes)	**80.8**	68.2	18.5
Of which: Export	(million tonnes)	**12.4**	12.0	3.3
Seaborne coal	(million tonnes)	**57.1**	46.9	21.7
Of which: Huanghua Port	(million tonnes)	**39.6**	33.1	19.6
Gross power generation	(billion kwh)	**23.1**	18.2	26.9
Total power output dispatch	(billion kwh)	**21.6**	16.9	27.8

	For the six months ended 30 June 2006 RMB million	2005 RMB million	Percentage change %
Revenues	**29,533**	24,514	20.5
Coal revenue	**22,303**	18,705	19.2
Power revenue	**6,479**	5,008	29.4
Other revenues	**751**	801	(6.2)
Profit for the period	**9,785**	8,949	9.3
Profit attributable to equity shareholders of the Company	**8,614**	7,800	10.4
Total debt capitalisation ratio*	**41.7%**	51.7%	

* As at 30 June

In this report,

- The "Company", "China Shenhua", "we", "us" and "our"means China Shenhua Energy Company Limited, a joint stock limited company established in the PRC on 8 November 2004, and, unless otherwise specified in the context, includes all of its subsidiaries;
- The "Group" means the Company and its subsidiaries;
- Coal production figures are quoted in tonnes of commercial coal, unless otherwise specified; and
- All prices are quoted exclusive of value-added tax, unless otherwise specified.

Chen Biting
Chairman

Dear Shareholders,

During the first half of 2006, the Company has achieved significant growth and development in its business operations. The Company's solid financial performance and operating performance is a testament to the Company's movement to the first rank of major energy companies worldwide. I am pleased to present our interim report for the six months ended 30 June 2006 and to report on the performance of the Company over this period.

MAINTAINING OUR LEADING POSITION IN THE INDUSTRY

Coal is China's most important energy source, and coal's dominant position as a primary form of energy has never changed. This year, both the PRC government and the community at large have grown more concerned about the issue of sustainable development in the coal industry. The PRC government has established the energy development policy of "Making energy conservation our top priority; laying the domestic groundwork; making coal the basis of development; and achieving a diversified development". The PRC coal industry is undergoing a period of transformation as it increases in size, comprising changes including a more streamlined industry structure, improving administration and control of production safety, enhancing the rate of consolidated resource utilisation, reducing environmental pollution and improving our cost-efficiency. As the largest coal producer in the PRC as well as the fourth largest listed coal producer in the world, we are pioneers of every aspect of the industry's development.

OUTSTANDING FINANCIAL AND BUSINESS PERFORMANCE

Thanks to the ceaseless dedicated efforts of all of our staff, 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 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 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 Shuohuang 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.

A FAVOURABLE BUSINESS ENVIRONMENT

Our growth is closely related to the economic development of the PRC and the Asia Pacific region. This year, the economy of the PRC continued steady and rapid growth. According to statistics released from the Bureau of State Statistics, the GDP for the first half of the year increased by 10.9%. CPI recorded an increase of 1.3% over the first half of 2005, and the growth in value of industries at national scale increased by 17.7% compared to the same period in 2005. Domestic demand and consumption capacity continued to rise, the level of industrial investment increased, and the volume of trading rose rapidly. All these have contributed to a favourable business environment for our further growth within China.

This year, the world economy has continued to grow at an encouraging rate, with the Euro economies forging ahead and the Japanese economy climbing steadily upwards. The major emerging markets and developing countries have continued to maintain their rapid growth. These factors also contribute to a favourable international business environment for our growth.

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 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.

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 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.

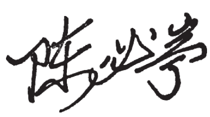
In the long term, due to the rapid development of the PRC economy and against the background of continued industrialisation, modernization and internationalisation within the PRC, the ratio of heavy industries to all industries in the national economy, in particular, industries which are the key coal 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.

We will keep a close watch on changes in the economy and the policies of the State and continue to strengthen our core competitiveness. We will take proactive steps to further develop the business of the Company to ensure that the Company has a solid basis for sustainable development.

Both the Board and I, working closely with our staff and fully committed to success, will try our best to fulfill the expectations of our shareholders. It is our firm intention to maintain our leading position in both the PRC and the world and to create shareholder value.



Chen Biting
Chairman

Beijing, China
25 August 2006

(I) CONSOLIDATED INCOME STATEMENT

	For the six months ended 30 June 2006 RMB million	2005 RMB million	Percentage change %
Revenues			
Coal revenue	**22,303**	18,705	19.2
Power revenue	**6,479**	5,008	29.4
Other revenues	**751**	801	(6.2)
Total operating revenues	**29,533**	24,514	20.5
Cost of revenues			
Materials, fuel and power	**(3,610)**	(2,228)	62.0
Personnel expenses	**(1,284)**	(991)	29.6
Depreciation and amortisation	**(2,978)**	(2,505)	18.9
Repairs and maintenance	**(1,287)**	(1,199)	7.3
Transportation charges	**(3,727)**	(2,857)	30.5
Others	**(1,594)**	(1,477)	7.9
Total cost of revenues	**(14,480)**	(11,257)	28.6
Selling, general and administrative expenses	**(1,826)**	(1,431)	27.6
Other operating expense, net	**(56)**	(91)	(38.5)
Total operating expenses	**(16,362)**	(12,779)	28.0

(I) CONSOLIDATED INCOME STATEMENT (CONTINUED)

	For the six months ended 30 June 2006 RMB million	2005 RMB million	Percentage change %
Profit from operations	**13,171**	11,735	12.2
Finance income	**104**	511	(79.6)
Finance expenses	**(1,326)**	(1,437)	(7.7)
Net finance costs	**(1,222)**	(926)	32.0
Investment income	**7**	3	133.3
Share of profits of associates	**142**	211	(32.7)
Profit before income tax	**12,098**	11,023	9.8
Income tax	**(2,313)**	(2,074)	11.5
Profit for the period	**9,785**	8,949	9.3
Attributable to:			
Equity shareholders of the Company	**8,614**	7,800	10.4
Minority interests	**1,171**	1,149	1.9
Profit for the period	**9,785**	8,949	9.3
Earnings per share (RMB)*			
– basic	**0.476**	0.512	
– diluted	**0.476**	0.512	

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

(2) CONDENSED CONSOLIDATED BALANCE SHEET

	As at 30 June 2006 RMB million	As at 31 December 2005 RMB million	Percentage change %
Non-current assets	**115,308**	111,841	3.1
Current assets	**30,365**	27,419	10.7
Total assets	**145,673**	139,260	4.6
Current liabilities	**27,092**	22,837	18.6
Non-current liabilities	**44,114**	43,934	0.4
Total liabilities	**71,206**	66,771	6.6
Equity attributable to equity shareholders of the Company	**58,592**	57,382	2.1
Minority interests	**15,875**	15,107	5.1
Total equity	**74,467**	72,489	2.7

(3) CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June 2006 RMB million	2005 RMB million	Percentage change %
Net cash from operating activities	**11,692**	15,391	(24.0)
Net cash used in investing activities	**(6,657)**	(8,088)	(17.7)
Net cash (used in)/from financing activities	**(5,162)**	18,103	(128.5)
Net (decrease)/increase in cash and cash equivalents	**(127)**	25,406	(100.5)

(4) EXTRACTS FROM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to equity shareholders of the Company		
	Total RMB million	Of which: Share capital RMB million	Total equity RMB million
At 1 January 2005	25,396	15,000	38,481
Issuance of shares upon public offering	22,226	2,785	22,226
Share issue expenses	(743)	–	(743)
Profit for the period	7,800	–	8,949
Dividend approved during the period	(7,549)	–	(7,549)
Capital contributions from minority interests	–	–	517
Distributions to minority interests	–	–	(1,014)
At 30 June 2005	47,130	17,785	60,867
At 1 January 2006	57,382	18,090	72,489
Profit for the period	8,614	–	9,785
Dividend approved during the period	(7,404)	–	(7,404)
Capital contributions from minority interests	–	–	286
Distributions to minority interests	–	–	(689)
At 30 June 2006	58,592	18,090	74,467

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 this interim report.

(I) 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.

Coal storage site at Shendong Mines

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. Costs 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 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 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**

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 last year.

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.

9. Net finance costs

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.

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.

11. Income tax

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 related business through two main business segments, namely the coal segment and power segment.

	For the six months ended 30 June									
	Coal		Power		Corporate and others		Eliminations		Total	
	2006 RMB million	2005 RMB million	**2006 RMB million**	2005 RMB million	**2006 RMB million**	2005 RMB million	**2006 RMB million**	2005 RMB million	**2006 RMB million**	2005 RMB 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**	47.9

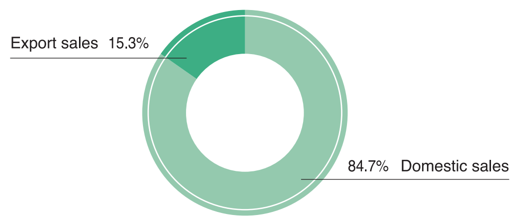
(3) COAL SEGMENT

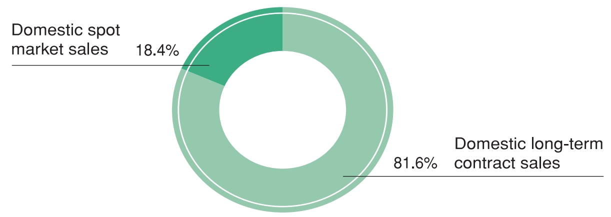
1. Operating revenues

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.

Revenues 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 follows:

	For the six months ended 30 June 2006		
Coal sales (by market division)	Sales volume Million tonnes	Percentage of sales volume %	Sales price RMB/tonne
Total domestic sales/weighted average price	**68.4**	**84.7**	**297.5**
Long-term contract sales/weighted average price	**55.8**	**69.1**	**295.0**
Mine mouth	**1.0**	**1.2**	**129.6**
Direct arrival (along rail lines)	**17.3**	**21.5**	**226.9**
Seaborne (FOB)	**37.5**	**46.4**	**331.0**
Spot market sales/weighted average price	**12.6**	**15.6**	**308.5**
Mine mouth	**1.7**	**2.1**	**89.4**
Direct arrival (along rail lines)	**3.6**	**4.5**	**277.9**
Seaborne (FOB)	**7.3**	**9.0**	**376.0**
Export sales/price	**12.4**	**15.3**	**386.1**
Total coal sales/weighted average price	**80.8**	**100.0**	**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 follows:

Coal sales (by customer division)	For the six months ended 30 June 2006 Sales volume Million tonnes	2006 Percentage of sales volume %	2006 Sales price RMB/ tonne	2005 Sales volume Million tonnes	2005 Percentage of sales volume %	2005 Sales price RMB/ tonne
Sales to external customers	**71.0**	**87.9**	**314.0**	60.4	88.6	309.5
Domestic sales to 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

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:

Unit cost of coal sales	For the six months ended 30 June 2006 Including coal purchased from third parties RMB/tonne	Excluding coal purchased from third parties 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**

Unit cost of coal sales	For the year ended 31 December 2005 Including coal purchased from third parties RMB/tonne	 Excluding coal purchased from third parties RMB/tonne
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			
Operating power plants	**Power tariff RMB/MWh**	**Cost of power sales RMB/MWh**	**Fuel cost RMB/MWh**	**Standard coal price RMB/tonne**
Beijing Thermal	373	194	89	338
Panshan Power	333	215	123	367
Sanhe 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
Shenmu 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:

1. Bank guarantees

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

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

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

2. Environmental protection responsibility

The Group has been operating in China for many years. China has implemented comprehensive environmental protection regulations which affect our coal and power generation business. It is not clear what future environmental protection legislation will be enacted but legislation in future may have a material impact on us. However, the management of the Group believes that, other than as accounted for in the financial statements, no environmental protection liability that may adversely affect the Group's financial condition currently exists.

The Shendong Mines reclamation area

3. Contingent legal liabilities

As at 30 June 2006, the Group was not involved in any material litigation or arbitration. To the best knowledge of the Company, the Group had no material litigation or claim which was pending, or threatened against the Company. As at 30 June 2006, the Group was the defendant of certain non-material litigation as well as the plaintiff of some other litigation arising from the ordinary course of its business. The likely outcome of these contingent liabilities, litigation and other legal proceedings is not certain. However, the management of the Group believes any possible legal liability which may be incurred will not have a material adverse effect on the Group's financial condition.

4. Group's insurance

Consistent with what we believe is the customary practice for PRC coal mining entities, for the six months ended 30 June 2006, the Group did not maintain fire, liability or other property insurance covering our property, equipment or inventory in our coal operations. We maintain business interruption insurance or third-party liability insurance for personal injuries or environmental damages arising from accidents on our property or relating to our operations for certain of our power plants and for our vehicles. In relation to our transportation operations, we carry property insurance for our freight rail cars, and we carry vehicle insurance at our Huanghua Port. Additionally, in accordance with the requirements of relevant regulations, the Group maintained insurance for its employees against occupational injury, medical treatment, third-party liability and unemployment.

The Group insured all of its operating power plants against property losses, lost profits, damages in plant and equipment, employee injuries and third party liability. Consistent with our understanding of China's industry practices, the Group did not carry insurance against risks relating to our power plants that are under construction.

The Group will continue to review and assess its risk portfolio and make necessary and appropriate adjustments to our insurance cover based on its needs and industry practices with respect to insurance in China.

Commercial coal production	For the six months ended 30 June **2006** **Million tonnes**	 2005 Million tonnes	Percentage change %
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
Zhungge'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

Coal sales	For the six months ended 30 June **2006** **Million tonnes**	 2005 Million tonnes	Percentage change %
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

Marketable coal reserves*	As at 30 June 2006 Million tonnes	As at 31 December 2005 Million tonnes	Percentage change %
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
	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 months 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

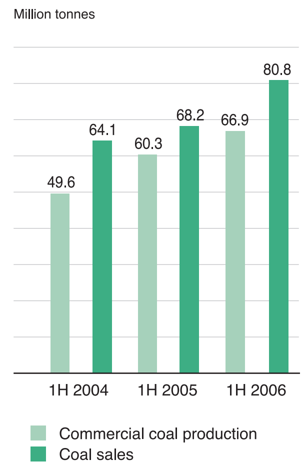
* *Others: Sales of seaborne coal purchased from third parties at Shanghai Port*

(I) 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.

Marketable coal reserves*	**As at 30 June 2006 Million tonnes**	As at 31 December 2005 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

* *JORC code*

Long-wall mining operation at the Bulianta underground mine in Shendong Mines

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.

Coal transportation turnover of self-owned railways	For the six months ended 30 June 2006 Billion tonne km	2005 Billion tonne km	Percentage change %
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.

A train loaded with coal enters Huanghua Port

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

(1) 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			
Domestic sales of coal (by form of sales)	**Long-term contract sales Million tonnes**	**Spot market sales Million tonnes**	**Total Million tonnes**	**Percentage in total domestic 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.

(2) 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.

(3) External customers and internal sales of the Company

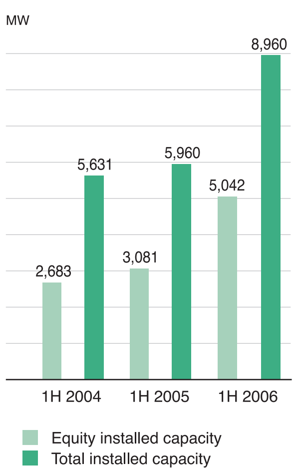
During the first half of 2006, by customer type, the majority of the Company's coal was sold to external customers and accounted for 71.0 million tonnes, representing a period-on-period increase of 17.5%. Coal sales volume to external customers accounted for 87.9% of the Company's total coal sales volume.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

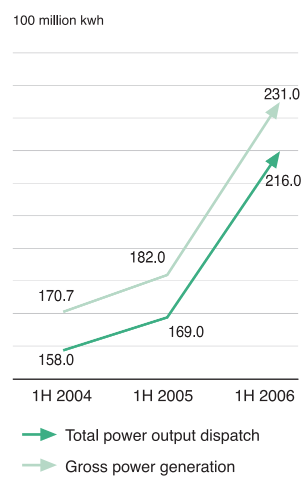
	For the six months ended 30 June			
	2006		2005	
Coal sales (by customer type)	**Sales volume Million tonnes**	**Percentage in total sales volume %**	Sales volume Million tonnes	Percentage in total sales volume %
Sales to external customers	**71.0**	**87.9**	60.4	88.6
Sales to the power segment of the Company	**9.8**	**12.1**	7.8	11.4
Total	**80.8**	**100.0**	68.2	100.0

(II) 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 Installed capacity MW	Gross power generation 100 million kwh	Total power output dispatch 100 million kwh	Average utilisation hours hour	Standard coal consumption rate g/kwh
Beijing Thermal	Beijing	North China Power Grid	400	11.6	10.3	2,903	231
Panshan Power	Tianjin	North China Power Grid	1,000	28.7	27.0	2,873	313
Sanhe Power	Hebei	North China Power Grid	700	19.8	18.8	2,830	308
Taishan Power*	Guangdong	Southern Power Grid	2,400	67.7	63.4	3,070	300
Suizhong Power	Liaoning	Northeast Power Grid	1,600	52.7	50.0	3,292	313
Guohua Zhunge'er	Inner Mongolia	North China Power Grid	660	21.7	20.0	3,280	305
Ninghai Power*	Zhejiang	East China Power Grid	1,200	14.1	13.0	2,006	312
Zhunge'er Power	Inner Mongolia	North China Power Grid	200	8.0	7.3	4,003	367
Shenmu Power	Shaanxi	Northwest Power Grid	200	6.6	5.9	3,274	361
Huanghua Power*	Hebei	North China Power Grid	600	0.2	0.3	2,647	316
Total/weighted average			**8,960**	**231.0**	**216.0**	**3,059**	**307**



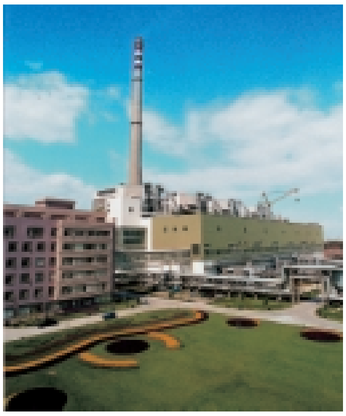


* The Company has four generation units which have successfully completed a 168-hour full-loading test and commenced their commercial operation during the first half of 2006. They are the 1# 600MW coal-fired generation unit of Huanghua Power Plant, the 3# 600MW coal-fired generation unit of Ninghai Power 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 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 dispatch 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-period decrease of 40 hours.

For the six months ended 30 June 2006, coal consumption by the Company's power segment amounted to 9.75 million tonnes, of which, 9.206 million tonnes of Shenhua Coal were consumed, accounting for 94.4% of the total coal consumption. The standard coal consumption rate was 307.0 g/kwh, indicating that the efficiency of coal-fired consumption remained basically unchanged.



Beijing thermal power plant

Capital Expenditure

The table below sets out the status of capital expenditure of the Company for the six months ended 30 June 2006:

	Planned 2006 RMB million	Actual for the six months ended 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 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

Installation of power generation at Huanghua Power Plant 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.

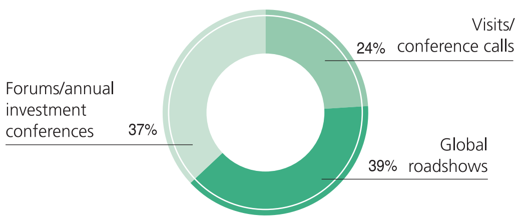
The current plan of the Company for future capital expenditure is subject to the development of the Company's business plans (including potential acquisitions), progress of the Company's capital projects, market conditions, the Company's view of the future business conditions and the obtaining of necessary 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.

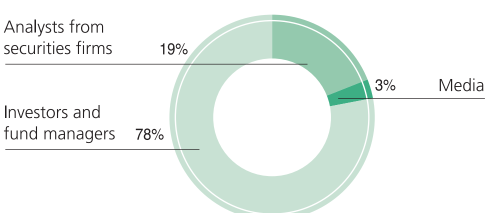
The Company plans to provide funds for capital expenditure through cash generated from operating activities, short-term and long-term borrowings and part of the proceeds from the IPO.

Investor Relations

(1) MEETINGS WITH ANALYSTS AND INVESTORS

During the first half of 2006, the Company maintained its good relationship with the international capital markets through the announcement of annual results, global non-deal roadshows, international investors' forums and company visits. 639 investors and analysts visited the Company.





(2) ANNUAL GENERAL MEETING CONVENED IN HONG KONG

On 12 May 2006, China Shenhua convened its first post-listing annual general meeting in Hong Kong. Mr Chen Biting, Chairman of the Board, led the directors, supervisors and senior management of the Company in participating in the meeting. All resolutions were passed with a large majority of votes and there was comprehensive and detailed communication between the management and shareholders.

(3) ANNUAL REVERSE ROADSHOW HELD

China Shenhua successfully organized an annual reverse roadshow to visit coal mines and facilities on 19 May 2006. A total of 30 people including the fund managers of international top funds and analysts of domestic and overseas investment banks participated in this reverse roadshow.

(4) THE BEST CORPORATE GOVERNANCE AWARD 2006 AWARDED BY *FINANCE ASIA*

In June 2006, *Finance Asia* announced the result of the best company selection in which China Shenhua won the award for Best Corporate Governance in China.

(5) THE MAJOR INVESTOR RELATIONS EVENTS TOOK PLACE IN THE FIRST HALF OF 2006

Date	**Events**
January 2006	Participated in the Investment Forum 2006 held by CICC Participated in the Greater China Investment Conference 2006 held by UBS
February 2006	Participated in the China corporate activities held by HSBC Participated in the Global Economic Conference held by Lehman Brothers Participated in the "China Concept" Conference held by Deutsche Bank
March 2006	Announcement of 2005 annual results Panel discussion with analysts and press conference Global roadshow by the management Participated in the Asia Investment Conference 2006 held by Credit Suisse
April 2006	Participated in the China Investment Conference 2006 held by JP Morgan
May 2006	Participated in the Investment Conference held by Macquarie Participated in the China Investment Forum 2006 held by CLSA Participated in the Global Investment Forum held by Deutsche Bank Participated in the Investment Forum held by UBS Annual general meeting Annual reverse roadshow Participated in the Investment Forum held by Morgan Stanley
June 2006	Participated in China Access Day - Natural Resources held by CLSA "Best Corporate Governance 2006" awarded by *Finance Asia*

(1) IMPROVING OUR INTERNAL CONTROL SYSTEM

Since its listing, the Company has established and improved an internal control system which is sound, effective and reasonable. In 2006, we have analysed and reviewed our internal control system pursuant to the requirement of section C.2.1 of Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") with the assistance of an internationally renowned professional consulting firm and with reference to the internationally recognised COSO internal control framework. We shall further improve our internal control system in accordance with the best practice provision recommended and by reference to the experience of other successful energy companies worldwide.

We have analysed and evaluated the current position of our internal control and proposed continued improvement pursuant to relevant requirements set out in the Code and Internal Control and Risk Management – A Basic Framework. This year, our efforts regarding our internal controls have principally been in the areas of: (1) concentrating on the major potential risks that the Company will be exposed to (including in respect of the management of the Company and its operations) and reviewing, and improving its internal control systems; and (2) establishing an inital system of self-evaluation which combines operations with management and focus on control of key activities, and preparing an internal control manual and self-evaluation manual.

(2) 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.

(3) COMPLIANCE WITH THE MODEL CODE FOR THE SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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.

(4) 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 six months ended 30 June 2006.

(5) NOMINATION COMMITTEE

In order to improve the structure of the Company's corporate governance, standardising the nomination procedures of the directors and senior management personnel and selecting well-qualified directors and senior management personnel of the Company, a resolution on the establishment of a Nomination Committee was passed by the Board of the Company on 21 July 2006.

The duties of the Nomination Committee are set out below:

1. To review regularly the structure, number and composition of the Board of Directors (including skills, knowledge and experience) and to offer recommendations to the Board for any proposed changes;
2. To assess the independence of independent non-executive directors;
3. To formulate the selection procedures and standard of directors and senior management personnel and to offer recommendations to the Board;
4. To conduct an extensive search for eligible nominees for directorships and candidates for senior management personnel and to examine and offer recommendations in respect of the nominees and candidates aforementioned;
5. To nominate candidates for each specialized committee (except the Nomination Committee members and the Chairman of each Professional Committee) formed under the Board;
6. To formulate mentorship schemes for grooming senior management staff and key back-up staff; and
7. To undertake any other matters authorized by the Board.

The Nomination Committee of this term consists of Mr Chen Biting, Mr Huang Yicheng, Mr Anthony Francis Neoh and Mr Chen Xiaoyue, with Mr Chen Biting taking up the position of Chairman of the Nomination Committee.

(6) MANAGEMENT OF CONNECTED TRANSACTIONS

On 7 July 2006, pursuant to the mandate granted by the shareholders' general meeting of 2005, the 9th meeting of the First Board of Directors approved the amendment to the "Rules Governing Decisions on Connected Transactions of

China Shenhua Energy Company Limited". The purpose of the amendment is to review and amend item by item the basic principles and procedures for decision-making pursuant to the Listing Rules regarding connected transactions, in particular, definitions for connected persons and connected transactions, so as to provide a systematic basis on which to deal with connected transactions.

On 11 July 2006, at the Company's 6th regular President's meeting during 2006, the Company passed the "Measures Regarding Management of Connected Transactions for China Shenhua Energy Company Limited" (the "Measures"). The Measures, together with the experience gained from dealing with connected transactions under the previous "Provisional Measures Regarding Management of Connected Transactions", cover a range of issues such as the connected transaction subcommittee, systems for regular meetings and communications with The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Measures delineate the responsibilities of the Company and its branches/subsidiaries for handling connected transactions and the procedures of the operation to ensure compliance with the relevant provisions of the Listing Rules by the Company.

The Company has established a connected transactions subcommittee led directly by the Chief Financial Officer to handle connected transactions. This subcommittee will propose requirements in respect of the establishment of internal systems and training, the improvement of the implementation of regulations and provisions relating to connected transactions, and the statistics, forecasts, identification, reporting and cap control for connected transactions. It will, in addition, organise training in connected transactions to study the relevant provisions on connected transactions setting out in the Listing Rules.

The Company has split its approved cap for exempted connected transactions such that all subsidiaries and branches are able to apply the caps toward their own connected transactions. This will ensure that the aggregate of the Company's connected transactions will not exceed the annual cap disclosed.

(1) SHARE CAPITAL STRUCTURE

Set out below is the share capital structure of the Company as at 30 June 2006:

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.

(3) MATERIAL LITIGATION AND ARBITRATION

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 Company.

(4) 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.

(5) EMPLOYEES

As at 30 June 2006, the Company had 42,147 employees, an increase of 360 employees (0.9%) over 31 December 2005.

(6) SHARE APPRECIATION RIGHTS SCHEME

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 the 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 shares, and therefore the shareholdings of the shareholders of the Company will not be diluted by the Scheme. 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 billion shares issued overseas as foreign-invested shares (H shares).

(7) DISCLOSURE OF INTERESTS

As at 30 June 2006, to the knowledge of directors, supervisors and the president of the Company, each of the following persons (other than directors, supervisors and the president of the Company) had an interest and/or short positions in the Company's shares which falls to be recorded in the specified register pursuant to section 336 of Part XV of the Securities and Futures Ordinance (the "SFO"):

Name of shareholder	Capacity	H/domestic shares	Nature of interest	No. of H/domestic shares held	Percentage of H/domestic shares over all issued H/domestic shares respectively (%)	Percentage of total share capital of the Company (%)
Shenhua Group Corporation Limited	Beneficial owner	Domestic	Long Position	14,691,037,955	100.00	81.21
Merrill Lynch Europe Intermediate Holdings	Interest of controlled corporation	H	Long Position	518,705,000	16.93	2.87
		H	Short Position	518,705,000	16.93	2.87
Merrill Lynch Europe PLC	Interest of controlled corporation	H	Long Position	518,705,000	16.93	2.87
		H	Short Position	518,705,000	16.93	2.87
Merrill Lynch Holdings Limited	Interest of controlled corporation	H	Long Position	518,705,000	16.93	2.87
		H	Short Position	518,705,000	16.93	2.87
ML UK Capital Holdings	Interest of controlled corporation	H	Long Position	518,705,000	16.93	2.87
		H	Short Position	518,705,000	16.93	2.87
Merrill Lynch (Asia Pacific) Limited	Interest of controlled corporation	H	Long Position	459,525,000	15.00	2.54
Merrill Lynch International Holdings Inc.	Interest of controlled corporation	H	Long Position	459,525,000	15.00	2.54
Merrill Lynch International Incorporated	Interest of controlled corporation	H	Long Position	459,525,000	15.00	2.54
AllianceBernstein L.P. (Formerly known as Alliance Capital Management L.P.)	Interest of controlled corporation	H	Long Position	306,457,930	9.02	1.69
JPMorgan Chase & Co.	Interest of controlled corporation	H	Long Position	280,063,710	8.24	1.55
		H	Lending Pool	110,209,292	3.24	0.61
Merrill Lynch & Co., Inc.	Interest of controlled corporation	H	Long Position	218,980,866	6.44	1.21
Kerry Holdings Limited	Interest of controlled corporation	H	Long Position	207,582,000	6.11	1.15
Genesis Asset Managers, LLP	Investment manager	H	Long Position	204,000,500	6.00	1.13
Genesis Fund Managers, LLP	Investment manager	H	Long Position	204,000,500	6.00	1.13
Taurus Investments SA	Beneficial owner	H	Long Position	155,612,000	5.08	0.86

Save as disclosed above, as far as the directors, supervisors and the president of the Company are aware, as at 30 June 2006, no interest or short position was held by any person in the shares or underlying shares of the Company (as the case may be) which is required to be recorded in the register and kept by the Company under section 336 of Part XV of the SFO, or was otherwise a substantial shareholder (as defined in the Listing Rules) of the Company.

As at 30 June 2006, none of the directors, supervisors or the president of the Company had any interests or short positions in the shares or underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (as defined by Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions deemed to be owned by any directors, supervisors, or the president under the SFO), or which were required to be recorded in the register required to be kept by the Company under section 352 of the SFO, or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(8) 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.

Yuyao 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 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.

Independent Review Report

To the Board of Directors of

China Shenhua Energy Company Limited

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

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 47 to 69.

Respective responsibilities of directors and auditors

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

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

Review work performed

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

Review conclusion

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

KPMG

Certified Public Accountants

Hong Kong, China

25 August 2006

Interim Financial Report

The unaudited interim financial report 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

The notes on pages 53 to 69 form part of this interim financial report.

Consolidated balance sheet

at 30 June 2006 – unaudited
(Expressed in Renminbi)

	Note	At 30 June 2006 RMB million	At 31 December 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
		74,467	72,489
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

Approved and authorised for issue by the board of directors on 25 August 2006.

Chen Biting
Chairman

Ling Wen
Director

The notes on pages 53 to 69 form part of this interim financial report.

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										
	Share capital	Share premium	Capital reserve	Revaluation reserve	Future development fund	Statutory reserves	Other reserves	Retained earnings	Total	Minority interests	Total equity
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
	(Note i)	*(Note ii)*			*(Note iii)*	*(Note iv)*					
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

The notes on pages 53 to 69 form part of this interim financial report.

Consolidated statement of changes in equity (continued)

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

Notes:

(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 over-allotment 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 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.

(iv) 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 June 2006 (2005: Nil).

The notes on pages 53 to 69 form part of this interim financial report.

Consolidated cash flow statement

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

		Six months ended 30 June	
		2006	2005
	Note	***RMB million***	*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

The notes on pages 53 to 69 form part of these financial statements.

Consolidated cash flow statement (continued)

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

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

	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

The notes on pages 53 to 69 form part of these financial statements.

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.

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

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 ("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 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 IFRSs. 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 of Directors is included on page 46.

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.

Notes to the interim financial report (continued)

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

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**	2005 RMB million	**2006 RMB million**	2005 RMB million	**2006 RMB million**	2005 RMB million	**2006 RMB million**	2005 RMB 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 reportable business segments as follows:

(1) Coal operations – which produces coal from surface and underground mines, and the sale and transportation of coal to external customers and the power segment.

(2) Power operations – which uses coal, sourced from coal mining segment of the Group and purchased from external suppliers, to generate the electric power for sale to external power grid companies and to the coal segment.

The following table presents segmental information by geographical segments:

	Six months ended 30 June	
	2006	2005
	RMB million	*RMB million*
Domestic markets	**24,734**	19,610
Export sales – Asia Pacific markets	**4,727**	4,817
Export sales – other markets	**72**	87
Total operating revenues	**29,533**	24,514

4 Revenues

The Group is principally engaged in the production and sale of coal, generation and sale of power and the provision of transportation services in the PRC. Revenues represent the aggregate of the invoiced value of goods sold and services provided, net of sales taxes.

5 Other revenues

	Six months ended 30 June	
	2006	2005
	RMB million	*RMB million*
Rendering of transportation and other services	**653**	753
Sale of ancillary materials and other goods	**89**	37
Others	**9**	11
	751	801

6 Cost of revenues – others

	Six months ended 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
	1,594	1,477

7 Total operating expenses

	Six months ended 30 June	
	2006	2005
	RMB million	*RMB million*
Personnel expenses	**1,945**	1,408
– contribution to retirement plans	**259**	147
– share appreciation rights expense	**6**	–
Depreciation and amortisation	**3,081**	2,590
Loss on disposal of property, plant and equipment	**27**	66
Operating lease charges on properties	**103**	179

Notes to the interim financial report (continued)

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

8 Finance income/(expenses)

	Six months ended 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

Income tax in the consolidated income statement represents:

	Six months ended 30 June	
	2006	2005
	RMB million	*RMB million*
Provision for PRC income tax	**2,376**	1,928
Deferred taxation	**(63)**	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%).

10 Dividends

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 Shenhua. Pursuant to a resolution passed at the directors' meeting on 10 March 2006, the directors resolved to pay a special dividend to Shenhua amounting to RMB5,143 million (being the distributable profit of the Group for the period from 1 January 2005 to 14 June 2005) 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).

11 Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2006 was based on the profit attributable to equity shareholders of the Company for the period of RMB8,614 million (2005: RMB7,800 million) and the weighted average 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.

Notes to the interim financial report (continued)

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

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, net

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

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

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

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

Notes to the interim financial report (continued)

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

14 Cash and cash equivalents

	At 30 June 2006 *RMB million*	At 31 December 2005 *RMB million*
Deposits with banks with original maturity within three months	**4,471**	5,672
Cash at bank and in hand	**15,227**	14,153
	19,698	19,825

15 Borrowings

Short-term borrowings and long-term borrowings are analysed as follows:

	At 30 June 2006 *RMB million*	At 31 December 2005 *RMB million*
Short-term borrowings		
Borrowings from banks and other financial institutions	**9,142**	5,751
Current portion of long-term borrowings	**2,955**	3,692
	12,097	9,443
Long-term borrowings, less current portion	**39,981**	39,933
	52,078	49,376

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

Notes to the interim financial report (continued)

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

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

Notes to the interim financial report (continued)

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

18 Commitments and contingent liabilities (continued)

(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	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**	–

(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.

19 Related party transactions (continued)

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

(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.

Notes to the interim financial report (continued)

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

19 Related party transactions (continued)

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

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 anmum, 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.

19 Related party transactions (continued)

(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, affiliations 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.

Notes to the interim financial report (continued)

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

19 Related party transactions (continued)

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

Having considered the potential for transactions to be impacted by related party relationships, the Group's 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	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 banks in the PRC

	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

20 Comparative figures

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

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(5) Authorised Representatives
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(11) Listing Information
H Share
The Stock Exchange of Hong Kong Limited
Stock Code: 1088
Listing Date: 15 June 2005

Map of China Shenhua's Assets

N
浙江
ZHE JIANG
宁海电力
Ninghai Power
广东
GUANG DONG
台山电力
Taishan Power
胜利矿区
Shengli Mines
内蒙古
INNER MONGOLIA
辽宁
LIAO NING
北京
BEI JING
绥中电力
Suizhong Power
大准铁路
Dazhun Rail
大同东
Datong East
包头
Baotou
准格尔矿区
Zhunge'er Mines
大同
Datong
大秦铁路
Daqin Rail
北京热电
Beijing Thermal
三河电力
Sanhe Power
盘山电力
Panshan Power
秦皇岛
Qinhuangdao
秦皇岛港
Qinhuangdao Port
天津
TIAN JIN
国华准格尔
GuohuaZhunge'er
万利矿区
Wanli Mines
东胜
Dongsheng
准能电力
Zhunge'er Power
河北
HEBEI
万家码头
Wanjia Berth
天津港
Tianjin Port
神东矿区
Shendong Mines
神东站
Shendong
朔州西
Shuozhou West
黄万铁路
Huangwan Rail
肃宁北
Suning North
黄骅港
Huanghua Port
神木北
Shenmu North
神池南
Shenchi South
黄骅
Huanghua
黄骅电力
Huanghua Power
神木电力
Shenmu Power
神朔——朔黄铁路
Shenshuo——Shuohuang Rail
陕西
SHAAN XI
山西
SHAN XI
此地图仅为示意
The map is for illustrative purposes only
图例
Legend
国有铁路
State Owned Rail
神华铁路
Shenhua Rail
地名
Place
港口
Port
电力
Power
矿区
Mines