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)**

# 2007 INTERIM RESULTS ANNOUNCEMENT

**FINANCIAL HIGHLIGHTS**

Revenues of the Group in the first half of 2007 were RMB38.331 billion, representing an increase of RMB8.798 billion or 29.8% over the same period of 2006.

Profit attributable to equity shareholders of the Company for the period was RMB10.315 billion, representing an increase of RMB1.708 billion or 19.8% over the same period of 2006.

Earnings per share for the period was RMB0.570.

EBITDA in the first half of 2007 was RMB20.541 billion, representing an increase of RMB4.157 billion or 25.4% over the same period of 2006.

On behalf of the board of directors (the "Board") of China Shenhua Energy Company Limited (the "Company" or "China Shenhua"), I am pleased to present the interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2007 and to report on our performance over this period.

## I. Interim Financial Information

The following interim financial information of the Group for the six months ended 30 June 2007 is extracted from the audited financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs"):

## Consolidated income statement

for the six months ended 30 June 2007

*(Expressed in Renminbi)*

| | Note | Six months ended 30 June 2007 RMB million | 2006 RMB million (unaudited) (restated – Note 1) |
|---|---|---|---|
| **Revenues** | | | |
| Coal revenue | | **26,328** | 22,303 |
| Power revenue | | **11,079** | 6,479 |
| Other revenues | | **924** | 751 |
| Total operating revenues | 3 | **38,331** | 29,533 |
| Cost of revenues | | | |
| Coal purchased from third parties | | **(4,723)** | (3,001) |
| Materials, fuel and power | | **(2,323)** | (1,371) |
| Personnel expenses | | **(1,743)** | (1,284) |
| Depreciation and amortisation | | **(3,747)** | (2,978) |
| Repairs and maintenance | | **(1,309)** | (1,287) |
| Transportation charges | | **(3,359)** | (2,965) |
| Others | | **(2,086)** | (1,594) |
| Total cost of revenues | | **(19,290)** | (14,480) |
| Selling, general and administrative expenses | | **(2,370)** | (1,839) |
| Other operating expense, net | | **(219)** | (56) |
| **Total operating expenses** | | **(21,879)** | (16,375) |
| **Profit from operations** | | **16,452** | 13,158 |
| Finance income | | **475** | 104 |
| Finance expenses | | **(1,754)** | (1,326) |
| Net finance costs | | **(1,279)** | (1,222) |
| Investment income | | **31** | 7 |
| Share of profits less losses of associates | | **190** | 142 |
| **Profit before income tax** | | **15,394** | 12,085 |
| Income tax | 4 | **(3,110)** | (2,311) |
| **Profit for the period** | | **12,284** | 9,774 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **10,315** | 8,607 |
| Minority interests | | **1,969** | 1,167 |
| **Profit for the period** | | **12,284** | 9,774 |
| **Dividends payable to equity shareholders of the Company attributable to the period** | | | |
| Dividends resolved and proposed after the balance sheet date | 5 | **–** | – |
| **Earnings per share (RMB)** | 6 | | |
| – Basic | | **0.570** | 0.476 |
| – Diluted | | **0.570** | 0.476 |

## Consolidated balance sheet

at 30 June 2007

*(Expressed in Renminbi)*

| | ***At 30 June 2007 RMB million*** | *At 31 December 2006 RMB million* |
|---|---|---|
| **Non-current assets** | | |
| Property, plant and equipment, net | **110,746** | 107,859 |
| Construction in progress | **18,851** | 14,115 |
| Intangible assets | **1,130** | 1,133 |
| Interest in associates | **2,262** | 2,369 |
| Other investments | **1,071** | 1,066 |
| Other non-current financial assets | **310** | – |
| Lease prepayments | **5,624** | 4,848 |
| Deferred tax assets | **1,437** | 1,569 |
| **Total non-current assets** | **141,431** | 132,959 |
| **Current assets** | | |
| Inventories | **5,989** | 4,761 |
| Available-for-sale investments | **-** | 2,000 |
| Accounts and bills receivable, net | **6,012** | 4,860 |
| Prepaid expenses and other current assets | **3,162** | 3,059 |
| Time deposits with original maturity over three months | **98** | 8 |
| Cash and cash equivalents | **15,283** | 15,501 |
| **Total current assets** | **30,544** | 30,189 |
| **Total assets** | **171,975** | 163,148 |
| **Current liabilities** | | |
| Short-term borrowings and current portion of long-term borrowings | **14,928** | 14,842 |
| Short-term bonds | **445** | – |
| Current portion of long-term payable | **249** | 88 |
| Accounts and bills payable | **8,619** | 9,133 |
| Income tax payable | **1,465** | 2,193 |
| Accrued expenses and other payables | **8,461** | 6,977 |
| **Total current liabilities** | **34,167** | 33,233 |
| **Net current liabilities** | **(3,623)** | (3,044) |
| **Total assets less current liabilities** | **137,808** | 129,915 |
| **Non-current liabilities** | | |
| Long-term borrowings, less current portion | **44,115** | 40,840 |
| Long-term payable, less current portion | **3,295** | 2,426 |
| Accrued reclamation obligations | **1,002** | 942 |
| Deferred tax liabilities | **999** | 1,006 |
| **Total non-current liabilities** | **49,411** | 45,214 |
| | **88,397** | 84,701 |
| **Equity** | | |
| Share capital | **18,090** | 18,090 |
| Reserves | **52,618** | 48,681 |
| Equity attributable to equity shareholders of the Company | **70,708** | 66,771 |
| Minority interests | **17,689** | 17,930 |
| **Total equity** | **88,397** | 84,701 |

# Consolidated statement of changes in equity

for the six months ended 30 June 2007

*(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* |
| At 1 January 2006 (as previously reported) | 18,090 | 20,813 | (6,591) | 7,184 | 881 | 3,128 | 839 | 13,038 | 57,382 | 15,107 | 72,489 |
| Adjustment for the acquisition of Jinjie Energy (Note 1) | - | - | - | - | - | - | 509 | (14) | 495 | 3 | 498 |
| At 1 January 2006 (as restated) | 18,090 | 20,813 | (6,591) | 7,184 | 881 | 3,128 | 1,348 | 13,024 | 57,877 | 15,110 | 72,987 |
| Profit for the period | - | - | - | - | - | - | - | 8,607 | 8,607 | 1,167 | 9,774 |
| Appropriations | - | - | - | - | 295 | - | - | (295) | - | - | – |
| Dividend approved during the period (Note 5) | - | - | - | - | - | - | - | (7,404) | (7,404) | - | (7,404) |
| Capital contributions from minority interests | - | - | - | - | - | - | - | - | - | 286 | 286 |
| Distributions to minority interests | - | - | - | - | - | - | - | - | - | (689) | (689) |
| At 30 June 2006 (unaudited) | 18,090 | 20,813 | (6,591) | 7,184 | 1,176 | 3,128 | 1,348 | 13,932 | 59,080 | 15,874 | 74,954 |
| At 1 January 2007 | **18,090** | **20,813** | **(6,591)** | **7,180** | **1,578** | **4,742** | **169** | **20,790** | **66,771** | **17,930** | **84,701** |
| Profit for the period | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **10,315** | **10,315** | **1,969** | **12,284** |
| Appropriations | **-** | **-** | **-** | **-** | **-** | **910** | **-** | **(910)** | **-** | **-** | **–** |
| Realisation/reassessment of deferred tax | **-** | **-** | **-** | **-** | **-** | **-** | **(117)** | **6** | **(111)** | **(67)** | **(178)** |
| Dividend approved during the period (Note 5) | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(6,150)** | **(6,150)** | **-** | **(6,150)** |
| Restatement of profit appropriations for prior years | **-** | **-** | **-** | **-** | **-** | **(485)** | **-** | **485** | **-** | **-** | **–** |
| Write back of future development fund | **-** | **-** | **-** | **-** | **(1,578)** | **-** | **-** | **1,578** | **-** | **-** | **–** |
| Capital contributions from minority interests | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **337** | **337** |
| Acquisition of minority interests | **-** | **-** | **-** | **-** | **-** | **-** | **(117)** | **-** | **(117)** | **(845)** | **(962)** |
| Distributions to minority interests | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(1,635)** | **(1,635)** |
| At 30 June 2007 | **18,090** | **20,813** | **(6,591)** | **7,180** | **-** | **5,167** | **(65)** | **26,114** | **70,708** | **17,689** | **88,397** |

Note:

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 domestic state-owned ordinary shares of RMB1.00 each owned by Shenhua Group Corporation Limited ("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 domestic state-owned ordinary shares of RMB1.00 each owned by Shenhua were converted into H shares and sold to Hong Kong and overseas investors. A total of 3,398,582,500 H shares were listed on the Stock Exchange.

## Consolidated cash flow statement

for the six months ended 30 June 2007

*(Expressed in Renminbi)*

| | Note | Six months ended 30 June **2007** **RMB million** | *2006* *RMB million* *(unaudited)* (restated – Note 1) |
|---|---|---|---|
| **Net cash from operating activities** | (a) | **12,075** | 10,404 |
| **Investing activities** | | | |
| Capital expenditure | | **(10,150)** | (7,904) |
| Lease prepayments | | **(839)** | (380) |
| Purchase of investments | | **(883)** | (74) |
| Proceeds from disposal of investments | | **2,036** | 620 |
| Proceeds from disposal of property, plant and equipment | | **37** | 30 |
| Increase in time deposits with original maturity over three months | | **(90)** | – |
| Maturity of time deposits with original maturity over three months | | **–** | 58 |
| **Net cash used in investing activities** | | **(9,889)** | (7,650) |
| **Financing activities** | | | |
| Proceeds from bank and other borrowings | | **20,654** | 16,552 |
| Repayments of bank and other borrowings | | **(16,966)** | (11,669) |
| Proceeds from bonds issued | | **445** | – |
| Dividend paid to minority interests | | **(724)** | (682) |
| Contributions from minority interests | | **337** | 286 |
| Dividend paid to equity shareholders of the Company | | **(6,150)** | (7,404) |
| **Net cash used in financing activities** | | **(2,404)** | (2,917) |
| **Net decrease in cash and cash equivalents** | | **(218)** | (163) |
| Cash and cash equivalents, at the beginning of the period | | **15,501** | 19,863 |
| **Cash and cash equivalents, at the end of the period** | | **15,283** | 19,700 |

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

| | *Six months ended 30 June* | |
|---|---|---|
| | ***2007*** | *2006* |
| | ***RMB million*** | *RMB million* |
| | | *(unaudited)* |
| | | (restated – Note 1) |
| **Profit before income tax** | **15,394** | 12,085 |
| Adjustments for: | | |
| Depreciation and amortisation | **3,899** | 3,084 |
| Impairment losses on property, plant and equipment | **113** | – |
| Investment income | **(31)** | (7) |
| Gain on acquisition of minority interests in a subsidiary | **(79)** | – |
| Interest income | **(134)** | (104) |
| Share of profits less losses of associates | **(190)** | (142) |
| Net interest expense | **1,596** | 1,233 |
| Loss on remeasurement of derivative financial instruments to fair value | **109** | 25 |
| Unrealised foreign exchange (gain)/loss | **(327)** | 64 |
| Net loss on disposal of property, plant and equipment | **94** | 27 |
| | **20,444** | 16,265 |
| Increase in accounts and bills receivable | **(1,152)** | (847) |
| Increase in inventories | **(1,231)** | (563) |
| Increase in prepaid expenses and other current assets | **(807)** | (964) |
| Decrease in accounts and bills payable | **(406)** | (216) |
| Increase in accrued expenses and other payables | **331** | 364 |
| **Cash generated from operations** | **17,179** | 14,039 |
| Interest received | **134** | 104 |
| Interest paid | **(1,656)** | (1,424) |
| Dividend received from investments | **309** | 134 |
| Income tax paid | **(3,891)** | (2,449) |
| **Net cash from operating activities** | **12,075** | 10,404 |

## Notes:

### 1 Restatement

Pursuant to a resolution passed at the Directors' meeting on 10 March 2006, the Company acquired a 70% stake in Shaanxi Guohua Jinjie Energy Corporation ("Jinjie Energy") (the "Acquisition") from Beijing Guohua Power Company Limited, a subsidiary of Shenhua, at a consideration of RMB1,162 million. The Acquisition was completed in August 2006.

As the Company and Jinjie Energy were under common control of Shenhua, the Acquisition has been reflected as a combination of entities under common control and accounted for in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities of Jinjie Energy have been accounted for at historical costs and the financial statements of the Company prior to the Acquisition have been restated to include the results of operations of Jinjie Energy on a combined basis. The consideration paid by the Company for the Acquisition of Jinjie Energy has been accounted for as an equity transaction in the consolidated statement of changes in equity.

### 2 Adoption of new/revised IFRSs

The Group has adopted the amendments to IAS 1, *Presentations of Financial Statements,* and IFRS 7, *Financial Instruments: Disclosure,* with effective from 1 January 2007.

As a result of the adoption of the new/revised policies, information regarding the Group's objectives, policies and process of managing capital and additional disclosures on the Group's financial risk management are included in the interim financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### 3 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.

### 4 Income tax

Income tax in the consolidated income statement represents:

| | ***Six months ended 30 June*** | |
|---|---|---|
| | ***2007*** | *2006* |
| | ***RMB million*** | *RMB million* |
| | | *(unaudited)* |
| | | (restated – Note 1) |
| Provision for PRC income tax | **3,163** | 2,376 |
| Deferred taxation | **(53)** | (65) |
| | **3,110** | 2,311 |

Notes:

(i) 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 and subsidiaries of the Company, which are exempted or taxed at preferential rates of 7.5% or 15%.

(ii) On 1 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which will take effect on 1 January 2008. As a result of the new tax law, the statutory income tax rate currently adopted by the Company and its subsidiaries will change from 33% to 25% with effective from 1 January 2008. The existing preferential tax rate currently enjoyed by the Company will also be gradually transited to the new standard rate of 25% over a five-year transitional period. As the detailed instruction for the transition to the new tax rate is yet to be issued, the Group estimated that the applicable income tax rate under the preferential tax policy will be expired at the shorter of the existing preferential tax period and the five-year transitional period. The change in the carrying amount of the deferred tax assets and liabilities, as a result of the change in tax rate, is reflected in the financial statements of the Group for the six months ended 30 June 2007.

## 5 Dividends

(a) The directors do not propose the payment of an interim dividend for the six months ended 30 June 2007 (30 June 2006 : Nil (unaudited)).

On 30 June 2007, the board of directors resolved that, subject to the shareholders' approval, the Company will apply (i) to the relevant regulatory authorities for the allotment and issue of not more than 1.8 billion ordinary shares ("A Shares"); and (ii) to the Shanghai Stock Exchange for the listing of A Shares ("A Share Issue"). The A Share Issue is subject to (i) approval from the shareholders at the extraordinary general meeting of the Company to be held on 24 August 2007; and (ii) approvals from the relevant regulatory authorities.

As part of the structure of the A Share Issue, the Company's domestic state-owned shares and H share shareholders will be entitled to the distributable reserves of the Group as at 30 June 2007. The amount of such distributable reserves shall be the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with IFRSs after the appropriation to reserves. Subject to the approval of A Share Issue, the distribution of the distributable reserves will be implemented by the board of directors in accordance with the authorisation given by the shareholders in respect thereof. If the Company does not issue A Shares, the Company will not make any special dividend distribution in respect of the distributable reserves as at 30 June 2007.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the period

| | ***Six months ended 30 June*** | |
|---|---|---|
| | ***2007*** | *2006* |
| | ***RMB million*** | *RMB million (unaudited)* |
| Special dividend to Shenhua in respect of previous financial year, resolved and paid during the period | **–** | 5,143 |
| Final dividend in respect of the previous financial year, approved and paid during the period | **6,150** | 2,261 |
| | **6,150** | 7,404 |

## 6 Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2007 was based on the profit attributable to equity shareholders of the Company for the period of RMB10,315 million (30 June 2006: RMB8,607 million as restated and unaudited) and the weighted average number of shares in issue during the six months ended 30 June 2007 of 18,090 million (30 June 2006: 18,090 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.

## 7 Subsequent events

The following significant transaction took place subsequent to 30 June 2007:

On 10 July 2007, the Company issued a circular to the shareholders for a proposed acquisition of the entire equity interests in Shenhua Shenfu Dongsheng Coal Company Limited ("Shendong Coal") and Shenhua Shendong Power Company Limited ("Shendong Power") from Shenhua, at a consideration of RMB1,170 million and RMB2,158 million respectively. The principal activities of Shendong Coal and Shendong Power are the provision of ancillary services and generation and sale of electricity respectively. The acquisition is subject to the approval from the shareholders at the extraordinary general meeting to be held on 24 August 2007.

## 8 Comparative figures

Certain comparative figures have been adjusted or re-classified as a result of the application of pooling-of-interests method on the acquisition of Jinjie Energy or to conform with the current period's presentation.

## 9 Review of interim financial results

The interim financial results for the six months ended 30 June 2007 have been reviewed with no disagreement by the Audit Committee of the Company.

## II. Business Performance

## Coal segment

### *Coal production*

| Commercial coal production | For the six months ended 30 June **2007** Million tonnes | 2006 Million tonnes | Percentage change % |
|---|---|---|---|
| **Shendong Mines** | **55.2** | 52.1 | 6.0 |
| Bulianta | **8.2** | 9.9 | (17.2) |
| Daliuta-Huojitu | **9.1** | 9.5 | (4.2) |
| Yujialiang | **8.9** | 8.0 | 11.3 |
| Shangwan | **6.0** | 6.2 | (3.2) |
| Halagou | **6.0** | 6.0 | – |
| Kangjiatan | **6.1** | 4.8 | 27.1 |
| Shigetai | **4.4** | 2.5 | 76.0 |
| Wulanmulun | **3.3** | 2.3 | 43.5 |
| Jinjie | **1.3** | – | – |
| Others | **1.9** | 2.9 | (34.5) |
| **Wanli Mines** | **5.9** | 1.9 | 210.5 |
| **Zhunge'er Mines** | **13.2** | 12.1 | 9.1 |
| Heidaigou | **13.2** | 12.1 | 9.1 |
| **Shengli Mines** | **2.3** | 0.8 | 187.5 |
| **Total** | **76.6** | 66.9 | 14.5 |

In the first half of 2007, the Company achieved excellent operating results in its coal segment with the increase in coal production having been maintained steadily. Commercial coal production amounted to 76.6 million tonnes, representing an increase of 9.7 million tonnes or 14.5% over the first half of 2006; coal sales volume amounted to 97.8 million tonnes, representing an increase of 17.0 million tonnes or 21.0% as compared with the same period in 2006. During the first half of 2007, our raw coal production of 81.0 million tonnes accounted for 7.5% of the national raw coal production of 1,081.9 million tonnes; our export sales volume of 12.2 million tonnes accounted for 52.8% of the national coal export volume of 23.1 million tonnes. Our domestic seaborne coal sales amounted to 51.9 million tonnes, which accounted for 25.9% of the national port transshipment volume of domestic coal of 200.6 million tonnes.

Our Shendong Mines continued to maintain our leading position among the underground mines around the world both in terms of production volume and production efficiency of underground workers. Shendong Mines include six mines each with annual production capacity of 10 million tonnes, which are Bulianta mine, Daliuta mine, Yujialiang mine, Halagou mine, Shangwan mine and Kangjiatan mine. In the first half of 2007, the commercial coal production of Shendong Mines amounted to 55.2 million tonnes, representing 72.1% of the total commercial coal production of our Company for the same period. In the first half of 2007, the production volume of Shendong Mines increased 3.1 million tonnes as compared with the same period in 2006, representing 32.0% of our total increase in commercial coal production volume of 9.7 million tonnes. Based on the annualised production volume for the first half of 2007, the production efficiency of commercial coal of underground workers in Shendong Mines was 28,358 tonnes per capita per annum. Breakthroughs in technological upgrading and revamp have been made consistently at Shendong Mines. In January 2007, the first 400 metre super long combined mining face in China was put into operation in the Yujialiang mine; in May, the world's largest 6.3 meter supports were put into operation in the mining face at the Shangwan mine; and in June, the first underground water purification system for coal mines in China was put into operation in the Yujialiang mine.

In Wanli Mines, following technological revamp, mechanical mining has been substantially enhanced and both the integrated mining technology and production capacity of the mines have been increased. The production volume of Wanli Mines in the first half of the year amounted to 5.9 million tonnes, representing an increase of 210.5% over the same period in 2006. The increase in production volume of Wanli Mines in the first half of the year as compared to the same period in 2006, was 4.0 million tonnes, representing 41.2% of our total increase in commercial coal production volume of 9.7 million tonnes.

The production volume of Heidaigou mine of the Zhunge'er Mines in the first half of 2007 amounted to 13.2 million tonnes, representing an increase of 9.1% as compared with the same period in 2006. The increase of Zhunge'er Mines in the first half of the year as compared with the same period in 2006 was 1.1 million tonnes, representing 11.3% of our total increase in commercial coal production volume of 9.7 million tonnes. Advanced technology and equipment such as bucket wheel excavators, single-bucket scrapes with trucks and casting mining and electric wheel with cars for individual loads over 300 tonnes have been progressively applied in the Heidaigou mine and the Ha'erwusu mine which is being constructed. In March 2007, the first throw blasting was successfully implemented in the Heidaigou open-cut mine, thereby reducing the transport distance of strippings between the stripped area and mined out areas, which in turn helps to reduce the mining cost.

While proceeding with the construction of the Shengli No. 1 open-cut mine of Shengli Mines, the production volume of Shengli Mines amounted to 2.3 million tonnes in the first half of 2007, representing an increase of 187.5% as compared with the same period in 2006. The production volume of Shengli Mines in the first half of 2007 increased 1.5 million tonnes as compared with the same period in 2006, which accounted for 15.5% of our total increase in commercial coal production volume of 9.7 million tonnes.

### *Coal sales*

| | **For the six months ended 30 June** | | Percentage |
|---|---|---|---|
| | **2007** | 2006 | change |
| | **Million tonnes** | Million tonnes | % |
| **Domestic sales** | **85.6** | 68.4 | 25.1 |
| Northern China | **32.5** | 24.0 | 35.4 |
| Eastern China | **31.8** | 28.2 | 12.8 |
| Southern China | **13.1** | 10.6 | 23.6 |
| Northeast China | **2.4** | 3.6 | (33.3) |
| Others | **5.8** | 2.0 | 190.0 |
| **Export sales** | **12.2** | 12.4 | (1.6) |
| South Korea | **5.5** | 4.0 | 37.5 |
| China Taiwan | **3.3** | 3.3 | – |
| Japan | **2.4** | 2.3 | 4.3 |
| Others | **1.0** | 2.8 | (64.3) |
| **Total** | **97.8** | 80.8 | 21.0 |

Since the beginning of 2007, we have been taking the initiative to communicate in a timely manner with key customers both in China and overseas so as to gain an advantage in price discussions. We shall communicate with our major customers in the approaching summer to solicit their views and recommendations for the supply of Shenhua coal so that the supply to important customers can be maintained. We strongly believe the good marketing strategies can both capture market share and maintain healthy and long-term relationships with our customers.

| | For the six months ended 30 June | | | |
|---|---|---|---|---|
| | **2007** | | 2006 | |
| | **Sales volume Million tonnes** | **Percentage %** | Sales volume Million tonnes | Percentage % |
| **Total domestic sales** | **85.6** | **87.5** | 68.4 | 84.7 |
| Long-term contract sales | **70.1** | **71.7** | 55.8 | 69.1 |
| Mine mouth | **–** | **–** | 1.0 | 1.3 |
| Direct arrival (along rail lines) | **24.7** | **25.3** | 17.3 | 21.4 |
| Seaborne (FOB) | **45.4** | **46.4** | 37.5 | 46.4 |
| Spot market sales | **15.5** | **15.8** | 12.6 | 15.6 |
| Mine mouth | **4.5** | **4.6** | 1.7 | 2.1 |
| Direct arrival (along rail lines) | **4.5** | **4.6** | 3.6 | 4.5 |
| Seaborne (FOB) | **6.5** | **6.6** | 7.3 | 9.0 |
| **Export sales** | **12.2** | **12.5** | 12.4 | 15.3 |
| **Total** | **97.8** | **100.0** | 80.8 | 100.0 |

**(1) Domestic sales**

During the first half of 2007, the Company sold 85.6 million tonnes of coal in the domestic market, accounting for 87.5% of the commercial coal sales of the Company. Domestic long-term contract sales was 70.1 million tonnes, accounting for 71.7% of our total sales of commercial coal. Domestic long-term contract seaborne coal sales amounted to 45.4 million tonnes, which accounted for 46.4% of our total sales of commercial coal. Domestic spot market sales was 15.5 million tonnes, which accounted for 15.8% of our total sales of commercial coal.

Domestic coal sales to the five largest external customers was 9.1 million tonnes, accounting for 10.6% of the Company's total domestic sales. Sales to the largest external customer was 2.2 million tonnes, which accounted for 2.6% of the Company's total domestic sales. Our five largest domestic external customers are either power generation companies or fuel companies.

**(2) Export sales**

During the first half of 2007, the Company exported 12.2 million tonnes of coal, which accounted for 12.5% of the Company's commercial coal sales. 97.0% of export sales was conducted under long-term contracts.

The Company's sales to the five largest export customers was 8.8 million tonnes, which accounted for 72.1% of the Company's total export sales. Sales to the largest export customer was 3.6 million tonnes, which accounted for 29.5% of our total export sales. Our five largest customers of export sales are either power generation companies or fuel companies.

**(3) Sales to external customers and our power segment**

In the first half of 2007, sales to external customers further increased to 83.6 million tonnes, representing an increase of 17.7% over the same period in 2006 and accounting for 85.5% of our total sales of commercial coal.

With a larger number of generation units having been commissioned in 2006, the Company's sales to our power segment in the first half of 2007 increased substantially to 14.2 million tonnes, representing an increase of 44.9% over the same period in 2006 and accounting for 14.5% of our total sales volume of commercial coal.

**(4) Operations of coal purchased from third parties for resales and blending ("Operations of coal purchased from third parties")**

In the first half of 2007, coal purchased from third parties by the Company amounted to 22.7 million tonnes, accounting for 23.2% of the Company's commercial coal sales and representing an increase of 7.5 million tonnes or 49.3% as compared to the same period in 2006.

### *Coal transportation*

| Turnover of coal transportation | For the six months ended 30 June<br>**2007**<br>**Billion tonne km** | <br>2006<br>Billion tonne km | Percentage<br>change<br>% |
|---|---|---|---|
| Self-owned railways | **56.6** | 47.8 | 18.4 |
| State-owned railways | **12.2** | 12.1 | 0.8 |
| **Total** | **68.8** | 59.9 | 14.9 |

| Seaborne coal | Million tonnes | Million tonnes | % |
|---|---|---|---|
| Self-owned ports | **49.0** | 39.6 | 23.7 |
| Huanghua Port | **39.8** | 39.6 | 0.5 |
| Shenhua Tianjin Coal Dock | **9.2** | – | – |
| Third-party ports | **15.1** | 17.5 | (13.7) |
| Qinhuangdao Port | **9.5** | 9.3 | 2.2 |
| Tianjin Port | **5.0** | 7.9 | (36.7) |
| Others | **0.6** | 0.3 | 100.0 |
| **Total** | **64.1** | 57.1 | 12.3 |

In the first half of 2007, the turnover of coal transportation of the Company was 68.8 billion tonne km, representing an increase of 8.9 billion tonne km, or 14.9%, as compared with the same period in 2006. In the first half of 2007, the turnover of coal transportation by the Company's self-owned railways amounted to 56.6 billion tonne km, representing an increase of 8.8 billion tonne km or 18.4% over the same period in 2006. The turnover of coal transportation by self-owned railways accounted for 82.3% of total turnover of coal transportation.

Railway transportation is an important link to connect the production and sale of coal and our self-owned railways represent the competitive strength of China Shenhua over other domestic coal enterprises. In the first half of 2007, through technological revamp of stations, the replacement with seamless heavy rails and the gradual increase of C70A high loading rail vehicles, and improvements in dispatch coordination, we have increased the turnover rate of trucks, and continued to increase our railway transportation capacity.

In the first half of 2007, Huanghua Port and Shenhua Tianjin Coal Dock, our self-owned ports, achieved a total seaborne coal sales of 49.0 million tonnes, representing an increase of 9.4 million tonnes or 23.7% over the same period in 2006. In the first half of 2007, we achieved a total seaborne coal sales of 64.1 million tonnes, which accounted for 65.5% of the Company's commercial coal sales in the first half of 2007.

In June 2007, the widening and dredging works for water routes of Huanghua Port commenced. Upon completion, this will allow fully loaded 50,000-tonne class vessels to sail through the port all year round, thus raising navigation capacity. Feasibility studies of Phase II of Shenhua Tianjin Coal Dock have also commenced.

### *Coal reserves**

| | Method of mining | As at 30 June 2007<br>Marketable reserve<br>Million tonnes | Percentage<br>% | Resources<br>Million tonnes | Percentage<br>% |
|---|---|---|---|---|---|
| Shendong Mines | Underground | 3,858 | 64.4 | 10,387 | 69.9 |
| Wanli Mines | Underground | 348 | 5.8 | 1,043 | 7.0 |
| Zhunge'er Mines | Open-cut | 916 | 15.3 | 1,302 | 8.8 |
| Shengli Mines | Open-cut | 867 | 14.5 | 2,131 | 14.3 |
| **Total** | | **5,989** | **100.0** | **14,863** | **100.0** |

* Under the Australian Code of Reporting of Mineral Resources and Ore Reserves, effective since December 2004 ("JORC Code")

As at 30 June 2007, the Company's marketable coal reserves reached 5.989 billion tonnes according to the JORC Code. Based on commercial coal production in 2006, the Company has coal resources which may be exploited for approximately a further 43 years. In the first half of 2007, the Company obtained coal mining permits for the Qianshipan mine, the Ciyaowan mine and the Tanggonggou mine, which increased the Company's marketable coal reserves.

## Power segment

| Operating power plants | Regional grid | As at 30 June 2007<br>Installed capacity<br>MW | For the six months ended 30 June 2007<br>Gross power generation<br>100 million kwh | Total power output dispatch<br>100 million kwh | Average utilisation hours<br>Hour | Standard coal consumption rate of power dispatch<br>g/kwh |
|---|---|---|---|---|---|---|
| Huanghua Power | North China Power Grid | 1,200 | 33.2 | 31.6 | 2,770 | 327 |
| Panshan Power | North China Power Grid | 1,000 | 26.2 | 24.7 | 2,625 | 329 |
| Sanhe Power | North China Power Grid | 700 | 22.6 | 21.4 | 3,228 | 324 |
| Guohua Zhunge'er | North China Power Grid | 660 | 21.1 | 19.4 | 3,192 | 330 |
| Beijing Thermal | North China Power Grid | 400 | 12.1 | 10.7 | 3,014 | 261 |
| Zhunge'er Power | North China Power Grid | 200 | 7.3 | 6.4 | 3,628 | 410 |
| Suizhong Power | Northeast Power Grid | 1,600 | 52.0 | 49.3 | 3,249 | 331 |
| Ninghai Power | East China Power Grid | 2,400 | 61.0 | 57.3 | 2,543 | 327 |
| Jinjie Energy | Northwest Power Grid | 1,200 | 23.3 | 21.2 | 2,915 | 346 |
| Shenmu Power | Northwest Power Grid | 200 | 6.9 | 6.3 | 3,456 | 396 |
| Taishan Power | Southern Power Grid | 3,000 | 94.5 | 88.7 | 3,151 | 318 |
| **Total / weighted average** | | **12,560** | **360.2** | **337.0** | **2,963** | **328** |

| Distribution of power plants | As at 30 June 2007<br>Installed capacity<br>MW | Percentage<br>% | For the six months ended 30 June 2007<br>Power output dispatch<br>100 million kwh | Percentage<br>% |
|---|---|---|---|---|
| North China Power Grid | 4,160 | 33.1 | 114.2 | 33.9 |
| Northeast Power Grid | 1,600 | 12.8 | 49.3 | 14.6 |
| East China Power Grid | 2,400 | 19.1 | 57.3 | 17.0 |
| Northwest Power Grid | 1,400 | 11.1 | 27.5 | 8.2 |
| Southern Power Grid | 3,000 | 23.9 | 88.7 | 26.3 |
| **Total** | **12,560** | **100.0** | **337.0** | **100.0** |

As at 30 June 2007, we controlled and operated 11 coal-fired power plants with the total installed capacity and equity installed capacity of 12,560 MW and 7,730 MW respectively, representing an increase of 40.2% and 53.3% over the same period in 2006. Our equity installed capacity accounted for 61.5% of our total installed capacity. On 1 May 2007, No. 2 generation unit of Jinjie Energy (600MW) passed the 168-hour test and was put into operation. As at 30 June 2007, the Company's average unit capacity reached 465 MW.

In the first half of 2007, our gross power generation was 36.02 billion kwh, representing an increase of 12.92 billion kwh, or 55.9%, as compared to the same period in 2006; total power output dispatch was 33.70 billion kwh, representing an increase of 12.10 billion kwh or 56.0% as compared to the same period in 2006; the average utilisation hours of power generation units reached 2,963 hours, representing a decrease of 96 hours, as compared with the same period in 2006. Despite this, we still maintained our leading position in the industry in China, 325 hours higher than the average utilisation hours of 2,638 hours by national generation facilities for coal-fired generation during the same period.

In the first half of 2007, coal consumption by the Company's power generation business amounted to 14.7 million tonnes; of which 14.2 million tonnes of Shenhua coal were consumed, accounting for 96.6% of the total coal consumption. The standard coal consumption rate of power dispatch was 328 g/kwh which was in line with the same period in 2006.

## III. Management Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read together with the audited financial statements and related notes of the Group.

## Overview

For the six months ended 30 June 2007, the profit before income tax of the Group amounted to RMB15,394 million, representing an increase of 27.4% over the first half of 2006. The profit attributable to equity shareholders of the Company amounted to RMB10,315 million in the first half of 2007, representing an increase of 19.8% over the first half of 2006. Earnings per share of the Company was RMB0.570 in the first half of 2007.

For the six months ended 30 June 2007, the revenues from operations in our coal and power segments reached record highs. Coal revenue grew from RMB22,303 million for the six months ended 30 June 2006 to RMB26,328 million for the same period in 2007, representing an increase of 18.0%. The growth in coal revenue was attributable to increases in the volume of coal production and sales and the raised coal prices. Due to the significant increases in the installed capacity of our power segment in the second half of 2006, power output dispatch significantly increased and on-grid tariff also increased for the six months ended 30 June 2007. Power revenue increased from RMB6,479 million for the six months ended 30 June 2006 to RMB11,079 million for the six months ended 30 June 2007, representing an increase of 71.0%.

For the six months ended 30 June 2007, our return on total assets was 6.0% and our return on net assets was 14.6%. EBITDA[1] increased from RMB16,384 million for the six months ended 30 June 2006 to RMB20,541 million for the same period in 2007, representing an increase of 25.4%. Our total debt capitalisation ratio[2] was 40.1% as at 30 June 2007.

Notes:

1 EBITDA, a measure used by the management to measure our operating performance, is defined as profit for the period plus net financing costs, investment income, income tax, depreciation and amortisation and minority interests. We hereby present our EBITDA to provide additional information regarding our operating performance and because our management believes EBITDA is useful to investors as it is a measure commonly used by securities analysts, investors and other interested parties in the evaluation of companies in the mining industry on the basis of operating performance. EBITDA is not a recognised term under International Financial Reporting Standards ("IFRS"). You should not consider our EBITDA as a substitute for profit for the period as a measure of operating performance or as a substitute for cash flows from operating activities as a measure of liquidity. Our EBITDA calculation method may differ from the calculation method used by other companies and therefore comparability may be limited. In addition, EBITDA is not intended to be a measure of free cash flow for management's discretionary use, as EBITDA does not reflect certain cash requirements such as interest payments, tax payments and debt service requirements.

2 The total debt capitalisation ratio = [long-term interest bearing debt + short-term interest bearing debt (including bills payable)] / (total debt + total equity).

The following is a comparison of the financial results for the six months ended 30 June 2006 and 30 June 2007 respectively:

## Consolidated results of operations

### *Revenues*

For the six months ended 30 June 2007, revenues were RMB38,331 million, representing an increase of RMB8,798 million or 29.8% for the same period in 2006. The increase was mainly attributable to increased coal production and sales, with the prices of certain types of coal rising; the new power plants which commenced operation in 2006 started to fully operate in 2007, thereby resulting in increased power output dispatch; and the policy of linking the coal prices and power tariff implemented on 30 June 2006, resulted in increased average on-grid tariff.

The proportion of coal revenue to total operating revenues decreased from 75.5% for the six months ended 30 June 2006 to 68.7% for the same period in 2007, while the proportion of power revenue to total operating revenues increased from 21.9% for the six months ended 30 June 2006 to 28.9% for the same period in 2007.

### *Cost of revenues*

For the six months ended 30 June 2007, cost of revenues amounted to RMB19,290 million, representing an increase of RMB4,810 million or 33.2% as compared to the same period in 2006.

The main reasons for the increase are as follows:

- Coal purchased from third parties increased significantly to RMB4,723 million for the six months ended 30 June 2007, representing an increase of RMB1,722 million or 57.4% over the same period in 2006. The increase was mainly attributable to the increase in the volume and prices of coal purchased from third parties in 2007.

- Materials, fuel and power substantially increased to RMB2,323 million for the six months ended 30 June 2007, representing an increase of RMB952 million or 69.4% as compared to the same period in 2006. The increase was mainly attributable to the substantial increase in power generation in the power segment, together with the corresponding substantial increase in coal consumption by power generation units and in the prices of coal. As the production volume of our coal segment increased, the consumption and price of raw materials and spare parts also increased.

- Personnel expenses amounted to RMB1,743 million for the six months ended 30 June 2007, representing an increase of RMB459 million or 35.7% as compared to the same period in 2006. The increase was mainly attributable to wage adjustments as a result of improved operational results and the increased number of employees in our coal mines and newly operated power plants.

- Depreciation and amortisation amounted to RMB3,747 million for the six months ended 30 June 2007, representing an increase of RMB769 million or 25.8% as compared to the same period in 2006. The increase was mainly attributable to our business development and the increase in property, plant and equipment in power plants, coal mines, ports and railways.

- Repairs and maintenance remained relatively constant for the six months ended 30 June 2007, amounting to RMB1,309 million and representing an increase of RMB22 million or 1.7% as compared to the same period in 2006.

- Transportation charges amounted to RMB3,359 million for the six months ended 30 June 2007, representing an increase of RMB394 million or 13.3% as compared to the same period in 2006. The increase was mainly attributable to the increase in sales volume of our coal segment, resulting in increased transportation charges.

- Other expenses amounted to RMB2,086 million for the six months ended 30 June 2007, representing an increase of RMB492 million or 30.9% as compared to the same period in 2006. The increase was mainly attributable to the increase in coal selection and mining fees, sales taxes and surcharges which rose with the increase in coal production and sales and the increase in environmental protection costs and resources compensation fees.

### *Selling, general and administrative expenses*

Selling, general and administrative expenses amounted to RMB2,370 million for the six months ended 30 June 2007, representing an increase of RMB531 million or 28.9% over the same period in 2006. The increase was mainly attributable to the expansion of the Company's production scale, the increase in personnel expenses and taxes.

### *Profit from operations*

For the six months ended 30 June 2007, profit from operations amounted to RMB16,452 million, representing an increase of RMB3,294 million or 25.0% as compared to the same period in 2006.

### *Net finance costs*

For the six months ended 30 June 2007, net finance costs amounted to RMB1,279 million, representing an increase of RMB57 million or 4.7% as compared to the same period in 2006.

### *Income tax*

For the six months ended 30 June 2007, income tax amounted to RMB3,110 million, representing an increase of RMB799 million or 34.6% as compared to the same period in 2006. The effective tax rate increased from 19.1% for the six months ended 30 June 2006 to 20.2% for the same period in 2007, representing an increase of 1.1 percentage points. The increase was mainly attributable to the increase in taxable profits in our power segment and Shuohuang Railway which are subject to the applicable tax rate of 33%.

### *Profit attributable to equity shareholders of the Company*

For the six months ended 30 June 2007, profit attributable to equity shareholders of the Company was RMB10,315 million, representing an increase of RMB1,708 million or 19.8% as compared to the same period in 2006.

## Operating results by segment

The Group conducts production, sales and transportation of coal, power generation and related business through two main business segments: the coal segment and the power segment.

### *Segment information*

| | For the six months ended 30 June | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Coal | | Power | | Corporate and others | | Eliminations | | Total | |
| | **2007 RMB million** | 2006 RMB million | **2007 RMB million** | 2006 RMB million | **2007 RMB million** | 2006 RMB million | **2007 RMB million** | 2006 RMB million | **2007 RMB million** | 2006 RMB million |
| Revenue | | | | | | | | | | |
| External sales | **27,176** | 23,044 | **11,155** | 6,489 | **–** | – | **–** | – | **38,331** | 29,533 |
| Inter-segment sales | **4,549** | 2,844 | **40** | 37 | **–** | – | **(4,589)** | (2,881) | **–** | – |
| Total operating revenues | **31,725** | 25,888 | **11,195** | 6,526 | **–** | – | **(4,589)** | (2,881) | **38,331** | 29,533 |
| Cost of revenues | | | | | | | | | | |
| Cost of coal purchased from third parties | **(4,723)** | (3,001) | **–** | – | **–** | – | **–** | – | **(4,723)** | (3,001) |
| Cost of coal production | **(5,240)** | (3,894) | **–** | – | **–** | – | **1,478** | 772 | **(3,762)** | (3,122) |
| Cost of coal transportation | **(6,042)** | (5,236) | **–** | – | **–** | – | **975** | 588 | **(5,067)** | (4,648) |
| Power cost | **–** | – | **(7,280)** | (4,616) | **–** | – | **2,113** | 1,453 | **(5,167)** | (3,163) |
| Others | **(553)** | (544) | **(18)** | (2) | **–** | – | **–** | – | **(571)** | (546) |
| Total cost of revenues | **(16,558)** | (12,675) | **(7,298)** | (4,618) | **–** | – | **4,566** | 2,813 | **(19,290)** | (14,480) |
| Selling, general and administrative expenses | **(1,586)** | (1,203) | **(556)** | (456) | **(228)** | (180) | **–** | – | **(2,370)** | (1,839) |
| Other operating expenses, net | **(177)** | (50) | **(37)** | (6) | **(5)** | – | **–** | – | **(219)** | (56) |
| Profit / (loss) from operations | **13,404** | 11,960 | **3,304** | 1,446 | **(233)** | (180) | **(23)** | (68) | **16,452** | 13,158 |
| Operating margin (%) | **42.3** | 46.2 | **29.5** | 22.2 | | | | | | |

## Coal segment

### *Overall analysis*

**(1) Revenues**

For the six months ended 30 June 2007, coal segment revenues amounted to RMB31,725 million, representing an increase of RMB5,837 million or 22.5% as compared to the same period in 2006. The increase was mainly attributable to the sales volume increasing from 80.8 million tonnes for the six months ended 30 June 2006 to 97.8 million tonnes for the same period in 2007, representing an increase of 21.0%. During the same period, the weighted average sales price of coal increased from RMB311.1/tonne to RMB315.6/tonne, representing an increase of 1.4%.

The following is a breakdown of the Group's coal sales volume and price by market for the six months ended 30 June 2006 compared with that for the six months ended 30 June 2007:

***Coal sales***

| | **For the six months ended 30 June** | | | |
|---|---|---|---|---|
| | **2007** | | 2006 | |
| **(By market)** | **Sales volume Million tonnes** | **Sales price RMB/tonne** | Sales volume Million tonnes | Sales price RMB/tonne |
| Total domestic sales volume / weighted average price | **85.6** | **307.3** | 68.4 | 297.5 |
| Long-term contract sales volume / weighted average price | **70.1** | **314.5** | 55.8 | 295.0 |
| Mine mouth | **–** | **–** | 1.0 | 129.6 |
| Direct arrival (along rail lines) | **24.7** | **237.2** | 17.3 | 226.9 |
| Seaborne (FOB) | **45.4** | **356.6** | 37.5 | 331.0 |
| Spot market sales volume / weighted average price | **15.5** | **274.6** | 12.6 | 308.5 |
| Mine mouth | **4.5** | **95.8** | 1.7 | 89.4 |
| Direct arrival (along rail lines) | **4.5** | **284.5** | 3.6 | 277.9 |
| Seaborne (FOB) | **6.5** | **392.1** | 7.3 | 376.0 |
| Export sales volume / price | **12.2** | **374.6** | 12.4 | 386.1 |
| **Total sales volume / weighted average price** | **97.8** | **315.6** | 80.8 | 311.1 |

Sales of our coal segment were mainly targeted at the domestic market. For the six months ended 30 June 2007, the Group's revenues from domestic sales amounted to RMB26,317 million, representing an increase of RMB5,969 million or 29.3% as compared to the same period in 2006. The increase was mainly attributable to the increased coal prices and sales volume. The Group's domestic sales volume increased from 68.4 million tonnes for the six months ended 30 June 2006 to 85.6 million tonnes for the same period in 2007, representing an increase of 25.1%. During the same period, the proportion of domestic sales volume to total sales volume increased from 84.7% for the six months ended 30 June 2006 to 87.5% for the same period in 2007. The weighted average price for domestic sales increased from RMB297.5/tonne for the six months ended 30 June 2006 to RMB307.3/tonne for the same period in 2007, representing an increase of 3.3%.

Domestic sales of the coal segment mainly comprised of sales from long-term contracts. For the six months ended 30 June 2007, the revenues from domestic sales from long-term contracts amounted to RMB22,036 million, representing an increase of RMB5,616 million or 34.2% as compared to the same period in 2006. The increase was mainly attributable to the increase in sales volume and the rise in coal prices. The Group's domestic coal sales under long-term contracts increased from 55.8 million tonnes for the six months ended 30 June 2006 to 70.1 million tonnes for the same period in 2007, representing an increase of 25.6%. During the same period, the proportion of domestic sales volume under long-term contracts to domestic sales increased from 81.6% to 81.9%. The weighted average price for domestic sales under long-term contracts increased from RMB295.0/tonne for the six months ended 30 June 2006 to RMB314.5/tonne for the same period in 2007, representing an increase of 6.6%. The buoyant domestic coal market and the Group's continuous enhancement of the quality of market sales have contributed to increased sales volume and prices of domestic sales.

Domestic seaborne coal sales consisted of sales under long-term contracts and spot sales. For the six months ended 30 June 2007, revenues from our domestic seaborne coal sales amounted to RMB18,741 million, representing an increase of RMB3,651 million or 24.2% as compared to the same period in 2006. Domestic seaborne coal sales increased from 44.8 million tonnes for the six months ended 30 June 2006 to 51.9 million tonnes for the same period in 2007, representing an increase of 15.8%. During the same period, the proportion of domestic seaborne coal sales to total domestic sales decreased from 65.5% to 60.6%. The price for domestic seaborne coal sales increased from RMB336.8/ tonne to RMB361.1/ tonne, representing an increase of 7.2%.

For the six months ended 30 June 2007, revenues from export sales of the coal segment amounted to RMB4,560 million, representing a decrease of RMB239 million or 5.0% as compared to the same period in 2006. The Group's export sales volume decreased from 12.4 million tonnes for the six months ended 30 June 2006 to 12.2 million tonnes for the same period in 2007, representing a decrease of 1.6%. During the same period, the proportion of export sales volumes to total sales volume decreased from 15.3% to 12.5%, and the price for export sales decreased from RMB386.1/tonne to RMB374.6/ tonne, representing a decrease of 3.0%. The main factors contributing to such changes include: (a) the appreciation of Renminbi: With the appreciation of Renminbi, the applicable average exchange rate of US Dollars to Renminbi fell from 8.0329 for the six months ended 30 June 2006 to 7.7121 for the same period in 2007. Renminbi appreciation of 4.0% led to the decrease in export sales prices when translated into Renminbi; and (b) the cancellation of the export tax rebate: The applicable rate of export tax rebate in the first half of 2007 was nil, as compared to the applicable rate of tax rebate of 8% in the first half of 2006. This led to lower settlement prices in export contracts in the first half of 2007 when compared to the first half of 2006.

The following is a breakdown of coal sales volume and price by customer segment for the six months ended 30 June 2006 compared with those for the six months ended 30 June 2007:

| | **For the six months ended 30 June** | | | | | |
|---|---|---|---|---|---|---|
| | | **2007** | | | 2006 | |
| **(By customer segment)** | **Sales volume Million tonnes** | **Percentage %** | **Sales price RMB/tonne** | Sales volume Million tonnes | Percentage % | Sales price RMB/tonne |
| Sales to external customers | **83.6** | **85.5** | **314.7** | 71.0 | 87.9 | 314.0 |
| Long-term contract sales | **69.2** | **70.8** | **319.4** | 58.0 | 71.8 | 312.7 |
| Spot market sales | **14.4** | **14.7** | **292.4** | 13.0 | 16.1 | 318.2 |
| Sales to the Group's power segment | **14.2** | **14.5** | **321.1** | 9.8 | 12.1 | 290.2 |
| **Total coal sales volume / weighted average price** | **97.8** | **100.0** | **315.6** | 80.8 | 100.0 | 311.1 |

For the six months ended 30 June 2007, revenues from sales to external customers amounted to RMB26,328 million, representing an increase of RMB4,025 million or 18.0% as compared to the same period in 2006. During the same period, the Group's sales to external customers increased from 71.0 million tonnes to 83.6 million tonnes, representing an increase of 17.7%. The proportion of sales volume to external customers to the total sales volume decreased from 87.9% to 85.5%. The price of sales to external customers increased from RMB314.0/tonne to RMB314.7/tonne, representing an increase of 0.2%.

Coal sales by our coal segment to our power segment is part of the Group's unique integrated operating model. For the six months ended 30 June 2007, revenues from sales to the Group's power segment amounted to RMB4,549 million, representing an increase of RMB1,705 million or 60.0% as compared to the same period in 2006. The increase was mainly attributable to the increase in coal consumption resulting from the increase in power generation by the power plants, which were put into operation in 2006 and started to fully operate in the first half of 2007, and the rise in coal prices. Sales to the Group's power segment increased from 9.8 million tonnes for the six months ended 30 June 2006 to 14.2 million tonnes for the same period in 2007, representing an increase of 44.9%. During the same period, the proportion of the sales volume of the Group's power segment to total sales volume increased from 12.1% to 14.5%. The price of sales to our power segment increased from RMB290.2/tonne to RMB321.1/tonne, representing an increase of 10.6%.

**(2) Cost of revenues**

For the six months ended 30 June 2007, cost of revenues of our coal segment amounted to RMB16,558 million, representing an increase of RMB3,883 million or 30.6% as compared to the same period in 2006. The increase was mainly attributable to the increase in the cost of coal purchased from third parties, the increase in coal production costs, as well as the increase in coal transportation costs.

The following is a comparison of the unit cost for our coal segment for the six months ended 30 June 2006 and 30 June 2007 respectively:

| | **For the six months ended 30 June 2007** | | | For the six months ended 30 June 2006 |
|---|---|---|---|---|
| | **Self-produced coal operations** RMB/tonne | **Operations of coal purchase from third parties** RMB/tonne | **Coal segment** RMB/tonne | Coal segment RMB/tonne |
| Cost of production / cost of purchase | **69.8** | **207.8** | **101.8** | 71.5 |
| Cost of transportation | **63.6** | **55.8** | **61.8** | 78.3 |
| **Total of unit cost** | **133.4** | **263.6** | **163.6** | 149.8 |

For the six months ended 30 June 2007, the coal segment unit cost was RMB163.6/tonne, representing an increase of RMB13.8/tonne or 9.2% as compared to the same period in 2006. The unit cost for self-produced coal was RMB133.4/tonne and the unit cost for operations of coal purchase from third parties was RMB263.6/tonne.

**(3) Selling, general and administrative expenses**

For the six months ended 30 June 2007, selling, general and administrative expenses of the coal segment amounted to RMB1,586 million, representing an increase of RMB383 million or an increase of 31.8% over the same period in 2006. The increase was mainly attributable to an increase in personnel expenses as a result of improved operational results, increase in head count and the increase in sales taxes and surcharges.

**(4) Profit from operations**

For the six months ended 30 June 2007, profit from operations of the coal segment amounted to RMB13,404 million, representing an increase of RMB1,444 million or 12.1% as compared to the same period in 2006. During the same period, the operating margin of the coal segment decreased from 46.2% for the six months ended 30 June 2006 to 42.3% for the same period in 2007. In the first half of 2007, the increase in the volume of coal purchased from third parties, for which the gross profit margin was less than that for self-produced coal operations, resulted in the decrease in the operating margin for the coal segment.

## *Analysis of self-produced coal operations*

**(1) Revenues**

For the six months ended 30 June 2007, the revenues from self-produced coal operations in the coal segment amounted to RMB23,044 million.

**(2) Cost of revenues**

The following is a breakdown of the cost of production for self-produced coal operations for the six months ended 30 June 2007:

| | For the six months ended 30 June 2007 | |
|---|---|---|
| | **Cost RMB million** | **Unit cost RMB/tonne** |
| Cash cost | 4,027 | 53.6 |
| Materials, fuel and power | 1,081 | 14.4 |
| Personnel expenses | 764 | 10.2 |
| Repairs and maintenance | 544 | 7.3 |
| Others | 1,638 | 21.7 |
| Depreciation and amortisation | 1,213 | 16.2 |
| **Total cost of production for self-produced coal operations** | **5,240** | **69.8** |

The following is a breakdown of the cost of transportation for self-produced coal operations for the six months ended 30 June 2007:

| | For the six months ended 30 June 2007 | |
|---|---|---|
| | **Cost RMB million** | **Unit cost RMB/tonne** |
| Cash cost | 4,048 | 53.9 |
| Materials, fuel and power | 532 | 7.1 |
| Personnel expenses | 448 | 6.0 |
| Repairs and maintenance | 258 | 3.4 |
| Third party transportation cost | 2,709 | 36.1 |
| Others | 101 | 1.3 |
| Depreciation and amortisation | 725 | 9.7 |
| **Total cost of transportation for self-produced coal operations** | **4,773** | **63.6** |

**(3) Profit from operations**

Profit from self-produced coal operations of the Group's coal segment for the six months ended 30 June 2007 amounted to RMB11,474 million. The operating margin of the self-produced coal operations amounted to 49.8%.

### *Analysis of operations of coal purchase from third parties*

**(1) Revenues**

The coal purchased from third party by the Group was partly re-sold upon delivery through our transportation system, thereby contributing to revenues and profit, and partly blended with the self-produced coal in order to satisfy the quality requirements of our customers. For the six months ended 30 June 2007, the revenues from the operations of coal purchase from third parties amounted to RMB7,833 million.

**(2) Cost of revenues**

The cost of revenues of the Group in respect of the operations of coal purchase from third parties for the six months ended 30 June 2007 was as follows:

| | For the six months ended 30 June 2007 | |
|---|---|---|
| | **Cost RMB million** | **Unit cost RMB/tonne** |
| Cost of purchase | 4,723 | 207.8 |
| Cost of transportation | 1,269 | 55.8 |
| **Total** | **5,992** | **263.6** |

**(3) Profit from operations**

Profit from operations for the operations of coal purchase from third parties amounted to RMB1,686 million for the six months ended 30 June 2007, which accounted for 12.6% of the profit from operations of the coal segment. The operating margin was 21.5%. The operations of coal purchase from third parties contribute to revenues and profit of the Group, better utilise our transportation system and increase our coal transportation and sales volume, thereby enabling us to increase our coal market share.

## Power segment

In the first half of 2007, the power generation of the Group's power segment increased rapidly. The installed capacity of power generation units increased by 600 MW in the first half of the year from the end of 2006. As at 30 June 2007, the Group controlled and operated 11 coal-fired power plants with total installed capacity of 12,560 MW. In the first half of 2007, there was a significant increase in the profitability of the power segment, which became a key component of the Group's integrated operations.

### *(1) Revenues*

Revenues of the power segment increased from RMB6,526 million for the six months ended 30 June 2006 to RMB11,195 million for the same period in 2007, representing an increase of 71.5%. The increase was mainly attributable to the increase in the power output dispatch from 21.60 billion kwh in the first half of 2006 to 33.70 billion kwh in the same period of 2007, representing an increase of 56.0%. The weighted average power tariff increased from RMB295/MWh in the first half of 2006 to RMB326/MWh for the same period in 2007, representing an increase of 10.5%.

The power tariffs of our power segment for the six months ended 30 June 2006 compared to those for the same period in 2007 were as follows:

| | | **For the six months ended 30 June** | | | |
|---|---|---|---|---|---|
| | | **2007** | | 2006 | |
| **Operating power plants** | **Regional grid** | **Power output dispatch 100 million kwh** | **Average power tariff RMB/MWh** | Power output dispatch 100 million kwh | Average power tariff RMB/MWh |
| Huanghua Power | North China Power Grid | **31.6** | **298** | 0.3 | 214 |
| Panshan Power | North China Power Grid | **24.7** | **341** | 27.0 | 333 |
| Sanhe Power | North China Power Grid | **21.4** | **307** | 18.8 | 306 |
| Guohua Zhunge'er | North China Power Grid | **19.4** | **207** | 20.0 | 201 |
| Beijing Thermal | North China Power Grid | **10.7** | **382** | 10.3 | 373 |
| Zhunge'er Power | North China Power Grid | **6.4** | **174** | 7.3 | 169 |
| Suizhong Power | Northeast Power Grid | **49.3** | **303** | 50.0 | 221 |
| Ninghai Power | East China Power Grid | **57.3** | **369** | 13.0 | 344 |
| Jinjie Energy | Northwest Power Grid | **21.2** | **222** | – | – |
| Shenmu Power | Northwest Power Grid | **6.3** | **246** | 5.9 | 232 |
| Taishan Power | Southern Power Grid | **88.7** | **381** | 63.4 | 362 |
| **Total power output dispatch / weighted average power tariff** | | **337.0** | **326** | 216.0 | 295 |

## *(2) Cost of revenues*

The cost of revenues in the power segment mainly included fuel cost, personnel expenses, repairs and maintenance, depreciation and amortisation. The cost of revenues in our power segment increased from RMB4,618 million for the six months ended 30 June 2006 to RMB7,298 million for the same period in 2007, representing an increase of 58.0%. The increase was mainly attributable to increased fuel consumption as a result of the increase in installed capacity and power generation and raised fuel prices and a corresponding increase in personnel expenses with the increase in the number of employees employed by power plants newly put into operation.

| | | | **For the six months ended 30 June 2007** | |
|---|---|---|---|---|
| **Operating power plants** | **Location** | **Regional grid** | **Fuel cost RMB/MWh** | **Standard coal price RMB/tonne** |
| Huanghua Power | Hebei | North China Power Grid | 136 | 418 |
| Panshan Power | Tianjin | North China Power Grid | 132 | 399 |
| Sanhe Power | Hebei | North China Power Grid | 130 | 401 |
| Guohua Zhunge'er | Inner Mongolia | North China Power Grid | 77 | 232 |
| Beijing Thermal | Beijing | North China Power Grid | 100 | 385 |
| Zhunge'er Power | Inner Mongolia | North China Power Grid | 95 | 228 |
| Suizhong Power | Liaoning | Northeast Power Grid | 153 | 461 |
| Ninghai Power | Zhejiang | East China Power Grid | 174 | 530 |
| Jinjie Energy | Shaanxi | Northwest Power Grid | 82 | 236 |
| Shenmu Power | Shaanxi | Northwest Power Grid | 65 | 164 |
| Taishan Power | Guangdong | Southern Power Grid | 172 | 540 |
| **Weighted average** | | | **143** | **438** |

The fuel cost for the Group's power segment increased from RMB127/MWh for the six months ended 30 June 2006 to RMB143/MWh for the same period in 2007, representing an increase of 12.6%. The standard coal price increased from RMB391/tonne for the six months ended 30 June 2006 to RMB438/tonne for the same period in 2007, representing an increase of 12.0%.

### *(3) Selling, general and administrative expenses*

Selling, general and administrative expenses of the Group's power segment increased from RMB456 million for the six months ended 30 June 2006 to RMB556 million for the same period in 2007, representing an increase of 21.9%. The increase was mainly attributable to the expansion of the production scale, increase wages as a result of increase in the number of employees and the increase in depreciation.

### *(4) Profit from operations*

Profit from operations in our power segment increased from RMB1,446 million for the six months ended 30 June 2006 to RMB3,304 million for the same period in 2007, representing an increase of 128.5%. During the same period, the operating margin of the power segment increased from 22.2% to 29.5%. The increase was mainly attributable to the higher investment by the Group in higher margin power plants located in the coastal regions as compared to power plants in other regions, the significant increase in power generation and the increase in power tariff exceeding the increase in cost of power generation.

## Cash flow

As at 30 June 2007, the Group's cash and cash equivalents amounted to RMB15,283 million, representing a decrease of RMB218 million or 1.4%, as compared with the cash and cash equivalents of RMB15,501 million as at 1 January 2007. Of this, net cash from operating activities increased from RMB10,404 million for the six months ended 30 June 2006 to RMB12,075 million for the same period in 2007, representing an increase of 16.1%. The increase was mainly attributable to the increase in revenues.

Net cash used in investing activities increased from RMB7,650 million for the six months ended 30 June 2006 to RMB9,889 million for the same period in 2007, representing an increase of 29.3%. Net cash used in financing activities decreased from RMB2,917 million for the six months ended 30 June 2006 to RMB2,404 million for the same period in 2007.

## Assets and liabilities

### *Property, plant and equipment*

The book value of the Group's property, plant and equipment increased from RMB136,432 million as at 1 January 2007 to RMB142,810 million as at 30 June 2007, representing an increase of RMB6,378 million or 4.7%. The increase was mainly attributable to the amount of RMB4,057 million transferred from construction in progress for the six months ended 30 June 2007, which mainly comprised coal mines of RMB1,791 million, railways of RMB429 million, ports of RMB65 million and power plants of RMB1,772 million.

The net book value of the Group's property, plant and equipment increased from RMB107,859 million as at 1 January 2007 to RMB110,746 million as at 30 June 2007, representing an increase of RMB2,887 million or 2.7%.

As at 30 June 2007, the net book value of buildings, mining structures and mining rights, mining related machinery and equipment, generators and related machinery and equipment, railway and port transportation structures, and furniture, fixtures, motor vehicles and other equipment accounted for 10.1%, 10.4%, 12.9%, 31.0%, 33.8% and 1.8% of the net book value of property, plant and equipment respectively.

### *Construction in progress*

As at 30 June 2007, the Group's construction in progress amounted to RMB18,851 million, representing an increase of RMB4,736 million or 33.6% over the construction in progress of RMB14,115 million as at 31 December 2006. The increase was mainly attributable to the net effect of the amount of RMB4,057 million transferred to property, plant and equipment and an increase in construction in progress of RMB8,793 million for the six months ended 30 June 2007. As at 30 June 2007, our construction in progress mainly comprised coal mines of RMB7,826 million, railways of RMB1,815 million, ports of RMB433 million, power plants of RMB8,653 million and others of RMB124 million.

### *Accounts receivable and bills receivable*

As at 30 June 2007, our net accounts receivable and bills receivable, net amounted to RMB6,012 million, representing an increase of RMB1,152 million or 23.7% over the RMB4,860 million as at 31 December 2006. The turnover days of accounts receivable and bills receivable increased from 19.2 days for the six months ended 30 June 2006 to 25.8 days for the same period in 2007. The increase in turnover days was mainly attributable to the substantial increase in revenues of the power segment, where the credit period for such receivables is normally longer than that of the coal segment, thereby increasing the turnover days.

### *Borrowings*

As at 30 June 2007 and 31 December 2006, details of our borrowings were as set out below:

| | **As at 30 June 2007 RMB million** | As at 31 December 2006 RMB million |
|---|---|---|
| Short-term borrowings and current portion of long-term borrowings | **14,928** | 14,842 |
| Long-term borrowings, less current portion | **44,115** | 40,840 |
| Total borrowings | **59,043** | 55,682 |
| Less: | | |
| Cash and cash equivalents | **15,283** | 15,501 |
| Time deposits with original maturity over three months | **98** | 8 |
| **Net borrowings** | **43,662** | 40,173 |

As at 30 June 2007, the Group had RMB53,498 million of borrowings denominated in Renminbi, RMB5,122 million denominated in Japanese Yen and RMB423 million denominated in US Dollars.

## IV. Corporate Governance

## Compliance with Code on Corporate Governance Practices

The Company is committed to high standards of corporate governance and has taken measures to comply with the provisions in the Code. The Board of the Company believes that the Company has complied with the provisions set out in the Code and there has been no material deviations from the Code during the six months ended 30 June 2007.

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

The Company has adopted a code of conduct which is largely based on the Model Code for 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 the directors of the Company, all the directors have confirmed that they have strictly complied with the required standards set out in the Model Code for the six months ended 30 June 2007.

## Audit Committee

The Company has appointed independent non-executive directors and established the Audit Committee in accordance with the requirements of the Listing Rules to appoint independent auditors and oversee their work. All members of the Audit Committee of the Board are appointed from the independent non-executive directors of the Company. The current members are Dr. Chen Xiaoyue (who is Chairman of the Audit Committee and has 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 2007.

## Change of director

Mr. Yun Gongmin was appointed as a non-executive director of the Company at the 2006 annual general meeting on 15 May 2007.

# V. Disclosure of Significant Matters

## Dividends

Following shareholders' approval at the annual general meeting for 2006 held on 15 May 2007, the Company paid the dividends for 2006 to shareholders on 20 June 2007.

The directors do not propose the payment of an interim dividend for the six months ended 30 June 2007.

According to the Company's articles of association, the amount of retained profits available for distribution to equity shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with IFRSs after the appropriation to reserves.

Based on the Company's audited financial statements for the six months ended 30 June 2007, the consolidated distributable reserves under the PRC Accounting Rules and Regulations amounted to RMB22,544 million was lower than the consolidated distributable reserves under IFRSs amounted to RMB26,114 million. Following the lower one among the two, the Company's maximum amount to be distributable to shareholders was RMB22,544 million.

Subject to approvals of A share issue from the shareholders at the extraordinary general meeting of the Company to be held on 24 August 2007 and from the relevant regulatory authorities, the directors authorised by the Board resolved to make special dividends of RMB22,544 million distributable to the Company's shareholders (excluding A share shareholders). Upon satisfaction of the above conditions, the directors intend to arrange for the distribution of RMB16,799 million. Regarding the remaining RMB5,745 million, the directors will only distribute it after the audit of 2007 annual financial statements is completed and the Company's distributable reserves are higher than the planned distribution amount. The detailed distribution plan of special dividends is yet to be finalised and announced. If the Company does not issue A shares, the Company will not make any special dividend distribution in respect of the distributable reserves as at 30 June 2007.

## Purchase, sale or redemption of securities of the Company

For the six months ended 30 June 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities.

## Other significant matters

As it is estimated that the supply of natural gas from the East Sea may not fully satisfy the demand of normal operation of Zhejiang Guohua Yuyao Gas-fired Power Company Limited ("Yuyao Power") in the short term, the management of the Company considered such impact on the fixed assets of Yuyao Power and recognised an impairment loss of RMB100 million in the profit and loss during the period.

## VI. Outlook

In order to promote positive and rapid development of the macroeconomy, the State will further strengthen and improve macroeconomic control with a view to managing investment growth, enhancing energy conservation and reducing emissions. It is anticipated that China's economy will continue to register steady and rapid growth and the demand for energy will remain strong for the remaining half of the year.

It is expected that the State will continue to persist with the consolidation and closure of small coal mines. The State continued to implement a pilot project for the sustainable development of the coal industry and a policy of limiting coal exports while encouraging coal imports. It is anticipated that the demand for coal will continue to experience comparatively strong and steady growth so that coal supply and demand will generally be balanced in the remaining part of the year. It is expected that the spot price for coal sales will generally remain high despite certain fluctuations.

It is expected that the power industry will continue to implement policies of encouraging industry consolidation, energy conservation, pollutant emissions reduction and phasing out of small coal-fired power generation units. It is expected that in the latter part of 2007, the supply-demand balance for power will be generally achieved. There may be a decline in the average utilisation hours of the power generation units nationwide and power shortages or oversupply may occur in certain regions or during certain periods.

China Shenhua will continue to adhere to its operating model by integrating its coal, railways, ports and power segments and coordinating the development of all business segments while expanding its scale of operation and boosting its profitability. The Company will endeavour to develop and acquire new resources in China and overseas in order to realise sustainable development. The Company will continue to study the advanced enterprise management experience of domestic and overseas corporations so as to enhance our corporate governance practices and achieve increased transparency. The Company will continue to raise our environmental protection awareness in the areas of energy conservation and reduction of pollutants in order to proactively fulfil our corporate social responsibility obligations and to achieve socially harmonious development.

The efforts to improve the coordinated development of all segments mainly comprise the following:

- With the objectives of production capacity expansion, enhancement of efficiency and recovery rate and cost control, we aim to promote technological innovations at our Shendong Mines and to effect technological upgrading of our existing mines. We hope to accelerate the progress of the localisation of equipment manufacturing. We will continue to carry out technological transformations to certain mines in our Wanli Mines and to construct the Ha'erwusu open-cut mine and its ancillary facilities as scheduled;

- Through the upgrade of engines and vehicles, the replacement of railway tracks, the renovation of loading stations and bridge reinforcement, we primarily aim to improve the transportation capacity of Shenshuo Railway and Dazhun Railway; and

- We will effectively manage the power generation units which have recently commenced operation to ensure stability, safety and long-term running cycles.

On behalf of the Board
**Chen Biting**
*Chairman*

Beijing, China
17 August, 2007

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

*The interim report of the Company for the six-month period ended 30 June 2007 containing financial statements and notes to the accounts will be published on the Company's website www.shenhuachina.com or www.csec.com and the website of The Stock Exchange of Hong Kong Limited. The interim report of the Company will be dispatched to shareholders on 23 August 2006.*