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**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)**

**2008 INTERIM RESULTS ANNOUNCEMENT**

**FINANCIAL HIGHLIGHTS**

- Revenues of the Group in the first half of 2008 were RMB49,282 million, representing an increase of RMB10,425 million or 26.8% over the same period of 2007.
- Profit attributable to equity shareholders of the Company for the period was RMB14,817 million, representing an increase of RMB4,454 million or 43.0% over the same period of 2007.
- Earnings per share for the period was RMB0.745.
- EBITDA<sup>1</sup> in the first half of 2008 was RMB26,307 million, representing an increase of RMB5,785 million or 28.2% over the same period of 2007.

The Board of China Shenhua Energy Company Limited is pleased to present the interim results of the Company and its subsidiaries for the six months ended 30 June 2008 and to report on our performance over this period.

**I. INTERIM FINANCIAL INFORMATION**

Financial information extracted from the unaudited interim financial report for the six months ended 30 June 2008 prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting":

Note 1: EBITDA is defined as profit for the period plus net financing costs, income tax, depreciation and amortisation and excluding investment income and shares of profits less losses of associates.

**Consolidated income statement**

for the six months ended 30 June 2008 – unaudited

*(Expressed in Renminbi)*

	Note	Six months ended 30 June	
		2008 RMB million	2007 RMB million (restated – Note 1)
<b>Revenues</b>			
Coal revenue		34,112	26,328
Power revenue		13,587	11,468
Other revenues		1,583	1,061
Total operating revenues	3	49,282	38,857
<b>Cost of revenues</b>			
Coal purchased from third parties		(6,885)	(4,723)
Materials, fuel and power		(3,257)	(2,426)
Personnel expenses		(2,213)	(1,736)
Depreciation and amortisation		(4,455)	(3,830)
Repairs and maintenance		(1,651)	(1,322)
Transportation charges		(3,203)	(3,359)
Others		(3,178)	(2,145)
Total cost of revenues		(24,842)	(19,541)
Selling, general and administrative expenses		(2,501)	(2,591)
Other operating expenses, net		(331)	(205)
<b>Total operating expenses</b>		<b>(27,674)</b>	<b>(22,337)</b>
<b>Profit from operations</b>		<b>21,608</b>	<b>16,520</b>
Finance income		399	428
Finance expenses		(1,870)	(1,746)
Net finance costs		(1,471)	(1,318)
Investment income		2	36
Share of profits less losses of associates		316	238
<b>Profit before income tax</b>		<b>20,455</b>	<b>15,476</b>
Income tax	4	(3,709)	(3,113)
<b>Profit for the period</b>		<b>16,746</b>	<b>12,363</b>
<b>Attributable to:</b>			
Equity shareholders of the Company		14,817	10,363
Minority interests		1,929	2,000
<b>Profit for the period</b>		<b>16,746</b>	<b>12,363</b>
<b>Earnings per share (RMB)</b>			
- Basic	6	0.745	0.573
- Diluted		0.745	0.573

**Consolidated balance sheet**  
at 30 June 2008 - unaudited  
(Expressed in Renminbi)

	<i>At 30 June 2008 RMB million</i>	<i>At 31 December 2007 RMB million</i>
<b>Non-current assets</b>		
Property, plant and equipment, net	135,427	131,059
Construction in progress	27,561	22,358
Intangible assets	1,168	1,162
Interest in associates	2,844	2,754
Other investments	1,031	1,031
Other non-current financial assets	3,508	2,878
Lease prepayments	6,216	5,931
Deferred tax assets	1,724	1,679
<b>Total non-current assets</b>	<u>179,479</u>	<u>168,852</u>
<b>Current assets</b>		
Inventories	7,408	6,337
Accounts and bills receivable, net	6,959	6,642
Prepaid expenses and other current assets	3,008	3,771
Time deposits with original maturity over three months	131	32
Cash and cash equivalents	57,124	53,404
<b>Total current assets</b>	<u>74,630</u>	<u>70,186</u>
<b>Current liabilities</b>		
Short-term borrowings and current portion of long-term borrowings	15,107	10,196
Short-term bonds	1,000	1,453
Current portion of long-term payables	772	873
Accounts and bills payable	8,933	9,074
Income tax payable	2,460	2,198
Accrued expenses and other payables	8,888	9,577
<b>Total current liabilities</b>	<u>37,160</u>	<u>33,371</u>
<b>Net current assets</b>	<u>37,470</u>	<u>36,815</u>
<b>Total assets less current liabilities</b>	<u>216,949</u>	<u>205,667</u>
<b>Non-current liabilities</b>		
Long-term borrowings, less current portion	52,578	49,718
Long-term payables, less current portion	3,880	3,962
Accrued reclamation obligations	1,040	1,018
Deferred tax liabilities	1,423	1,165
<b>Total non-current liabilities</b>	<u>58,921</u>	<u>55,863</u>
<b>Net assets</b>	<u>158,028</u>	<u>149,804</u>
<b>Equity</b>		
Share capital	19,890	19,890
Reserves	115,462	109,898
<b>Equity attributable to equity shareholders of the Company</b>	<u>135,352</u>	<u>129,788</u>
<b>Minority interests</b>	<u>22,676</u>	<u>20,016</u>
<b>Total equity</b>	<u>158,028</u>	<u>149,804</u>

**Consolidated statement of changes in equity**  
for the six months ended 30 June 2008 - unaudited  
(Expressed in Renminbi)

	Equity attributable to equity shareholders of the Company										
	Share capital	Share premium	Capital reserve	Revaluation reserve	Future			Retained earnings	Total	Minority interests	Total equity
					development	Statutory	Other				
					fund	reserves	reserve				
RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million		
At 1 January 2007	18,090	20,813	(6,591)	7,180	1,578	4,742	3,395	20,577	69,784	19,447	89,231
Profit for the period	-	-	-	-	-	-	-	10,363	10,363	2,000	12,363
Appropriations	-	-	-	-	-	910	-	(910)	-	-	-
Realisation/ reassessment of deferred tax	-	-	-	-	-	-	(117)	6	(111)	(67)	(178)
Dividend declared during the period (Note 5)	-	-	-	-	-	-	-	(6,150)	(6,150)	-	(6,150)
Restatements of profit appropriations for prior years	-	-	-	-	-	(485)	-	485	-	-	-
Write back of future development fund	-	-	-	-	(1,578)	-	-	1,578	-	-	-
Capital contributions from minority shareholders	-	-	-	-	-	-	-	-	-	337	337
Capital contributions from shareholders of Shendong Power	-	-	-	-	-	-	199	-	199	-	199
Acquisition of minority interests	-	-	-	-	-	-	(117)	-	(117)	(845)	(962)
Distributions to minority shareholders	-	-	-	-	-	-	-	-	-	(1,650)	(1,650)
At 30 June 2007 (restated)	18,090	20,813	(6,591)	7,180	-	5,167	3,360	25,949	73,968	19,222	93,190
At 1 January 2008	19,890	85,001	(6,591)	7,180	-	6,263	(230)	18,275	129,788	20,016	149,804
Profit for the period	-	-	-	-	-	-	-	14,817	14,817	1,929	16,746
Realisation of deferred tax	-	-	-	-	-	-	(4)	4	-	-	-
Dividend declared during the period (Note 5)	-	-	-	-	-	-	-	(9,325)	(9,325)	-	(9,325)
Capital contributions from minority shareholders	-	-	-	-	-	-	-	-	-	1,113	1,113
Acquisition of subsidiary	-	-	-	-	-	-	72	-	72	54	126
Distributions to minority shareholders	-	-	-	-	-	-	-	-	-	(436)	(436)
At 30 June 2008	19,890	85,001	(6,591)	7,180	-	6,263	(162)	23,771	135,352	22,676	158,028

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 HKD7.50 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 Group”) 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 HKD7.50 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 Group 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.

In September 2007, 1,800,000,000 A shares of the Company with a par value of RMB1.00 each were issued at a price of RMB36.99 per share and listed on the Shanghai Stock Exchange in October 2007. The net proceeds from the initial public offering of A shares, after deducting shares issue expenses of RMB593,620,000, amounted to RMB65,988 million of which RMB1,800 million and RMB64,188 million were credited to the Company’s paid-up capital and capital reserve, respectively.

**Consolidated cash flow statement**

for the six months ended 30 June 2008 - unaudited

*(Expressed in Renminbi)*

		<i>Six months ended 30 June</i>	
	<i>Note</i>	<i>2008</i>	<i>2007</i>
		<i>RMB million</i>	<i>RMB million</i>
			<i>(restated – Note 1)</i>
<b>Net cash generated from operating activities</b>	(a)	<b>20,563</b>	12,081
<b>Investing activities</b>			
Capital expenditure		(14,174)	(11,132)
Lease prepayments		(68)	(839)
Acquisition of subsidiary	(b)	(367)	–
Purchase of associates		(84)	(33)
Purchase of other investments		–	(878)
Proceeds from disposal of other investments		–	2,036
Proceeds from disposal of property, plant and equipment		36	52
Dividend received from associates		207	308
Dividend received from other investments		2	11
Increase in time deposits with original maturity over three months		(101)	(90)
Maturity of time deposits with original maturity over three months		2	–
<b>Net cash used in investing activities</b>		<b>(14,547)</b>	(10,565)
<b>Financing activities</b>			
Proceeds from bank and other borrowings		19,331	21,510
Repayments of bank and other borrowings		(11,723)	(17,050)
Proceeds from bonds issued		–	445
Repayments of bonds		(453)	–
Contributions from minority shareholders		1,113	337
Distributions to minority shareholders		(1,239)	(728)
Contributions from shareholders of Shandong Power		–	199
Dividend paid to equity shareholders of the Company		(9,325)	(6,150)
<b>Net cash used in financing activities</b>		<b>(2,296)</b>	(1,437)
<b>Net increase in cash and cash equivalents</b>		<b>3,720</b>	79
Cash and cash equivalents, at the beginning of the period		53,404	15,758
<b>Cash and cash equivalents, at the end of the period</b>		<b>57,124</b>	15,837

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

	<i>Six months ended 30 June</i>	
	<i>2008</i>	<i>2007</i>
	<i>RMB million</i>	<i>RMB million</i>
		(restated – Note 1)
<b>Profit before income tax</b>	<b>20,455</b>	15,476
Adjustments for:		
Depreciation and amortisation	<b>4,699</b>	4,002
Impairment losses on property, plant and equipment	<b>150</b>	113
Net loss on disposal of property, plant and equipment	<b>57</b>	94
Investment income	<b>(2)</b>	(36)
Interest income	<b>(349)</b>	(136)
Share of profits less losses of associates	<b>(316)</b>	(238)
Net interest expense	<b>1,802</b>	1,637
(Gain)/loss on remeasurement of derivative financial instruments at fair value	<b>(50)</b>	109
Unrealised foreign exchange loss/(gain)	<b>14</b>	(327)
	<b>26,460</b>	20,694
Increase in accounts and bills receivable	<b>(284)</b>	(923)
Increase in inventories	<b>(1,055)</b>	(1,268)
Decrease/(increase) in prepaid expenses and other assets	<b>528</b>	(602)
Increase/(decrease) in accounts and bills payable	<b>81</b>	(599)
(Decrease)/increase in accrued expenses and other payables, long-term payables and accrued reclamation obligations	<b>(172)</b>	248
	<b>25,558</b>	17,550
Interest received	<b>349</b>	136
Interest paid	<b>(2,110)</b>	(1,713)
Income tax paid	<b>(3,234)</b>	(3,892)
<b>Net cash generated from operating activities</b>	<b>20,563</b>	12,081

(b) Acquisition of subsidiary

On 29 February 2008, the Group acquired an additional 60% equity interest in Inner Mongolia Zhunge'er Coal Gangue Power Plant ("Coal Gangue Power Plant") at a cash consideration of RMB400 million. Prior to the acquisition, Coal Gangue Power Plant was an associate of the Group in which the Group held 40% equity interest.

Details of net assets of Coal Gangue Power Plant as at 29 February 2008 are as follows:

	<i>RMB million</i>
Other non-current assets	1,525
Cash and cash equivalents	33
Other current assets	84
Current liabilities	(441)
Non-current liabilities	(534)
Net assets	<u>667</u>

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiary:

	<i>RMB million</i>
Cash consideration	400
Cash and cash equivalents acquired	(33)
Net outflow of cash and cash equivalents	<u>367</u>

## **Notes to the unaudited interim financial information**

for the six months ended 30 June 2008

*(Expressed in Renminbi)*

### **1 Restatement**

Pursuant to a resolution passed at the extraordinary general meeting on 24 August 2007, the Company acquired 100% equity interests in Shenhua Shenfu Dongsheng Coal Company Limited (“Shendong Coal”) and Shenhua Shendong Power Company Limited (“Shendong Power”) from Shenhua Group, at a cash consideration of RMB3,587 million. The acquisition was completed on 31 August 2007.

As the Company, Shendong Coal and Shendong Power were under common control of Shenhua Group, the above acquisitions have 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 Shendong Coal and Shendong Power have been accounted for at historical cost and the consolidated financial statements of the Company prior to these acquisitions have been restated to include the results of operations of Shendong Coal and Shendong Power on a combined basis. The consideration paid by the Company for the acquisitions of Shendong Coal and Shendong Power has been accounted for as an equity transaction in the consolidated statement of changes in equity.

### **2 New and revised International Financial Reporting Standards (“IFRSs”)**

The International Accounting Standards Board (“IASB”) has issued a number of new and revised IFRSs and interpretations that are first effective or available for early adoption for the current accounting period of the Group. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Group’s annual financial statements prepared under IFRSs for the year ending 31 December 2008, 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 prepared under IFRSs for the year ending 31 December 2008 may be affected by the issue of additional interpretation(s) or other changes announced by the IASB subsequent to the date of issuance of the 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 the 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 the interim financial report for the periods presented.

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:

	<i>Six months ended 30 June</i>	
	<i>2008</i>	<i>2007</i>
	<i>RMB million</i>	<i>RMB million</i> (restated – Note 1)
Provision for PRC income tax	<b>3,496</b>	3,166
Deferred taxation	<b>213</b>	(53)
	<b>3,709</b>	3,113

Notes:

- (i) The provision for PRC current income tax is based on a statutory rate of 25% (30 June 2007: 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.
- (ii) On 16 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 has taken effect from 1 January 2008. As a result of the new tax law, the statutory income tax rate adopted by the Company and its subsidiaries has changed from 33% to 25% with effect from 1 January 2008.

Pursuant to the grandfathering arrangement under the new tax law, the preferential policies enjoyed by the entities with operations in the western developing region of the PRC remain effective after the implementation of the new tax law until the preferential periods are expired. The income tax rates of entities that previously enjoyed a preferential tax rate of 15% have been revised to 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 respectively.

The deferred tax assets and liabilities have been remeasured for the change in applicable tax rates as a result of the new tax law during the six months ended 30 June 2007.

## 5 Dividends

### (a) Dividends payable to equity shareholders of the Company attributable to the period

The directors do not propose the payment of an interim dividend for the six months ended 30 June 2008 (30 June 2007: Nil).

### (b) Dividends declared and paid during the period

	<i>Six months ended 30 June</i>	
	<i>2008</i>	<i>2007</i>
	<i>RMB million</i>	<i>RMB million</i>
Special dividend to the Company's domestic state-owned share and H share shareholders, resolved and paid during the period	<b>5,745</b>	–
Final dividend in respect of the previous financial year, declared and paid during the period	<b>3,580</b>	6,150
	<b>9,325</b>	6,150

#### (i) Special dividend

Pursuant to the approval by the shareholders at the extraordinary general meeting of the Company held on 24 August 2007, as part of the arrangement of the issue of A shares, it was resolved that the Company's domestic state-owned share and H share shareholders would be entitled to receive a distribution from the entire distributable reserves of the Group as at 30 June 2007 amounting to RMB22,544 million. The amount of such distributable reserves 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 of reserves. On 25 October 2007, the directors duly authorised by the shareholders declared a special dividend of RMB16,799 million to the Company's domestic state-owned share and H share shareholders, which was paid on 14 November 2007. On 15 March 2008, the directors duly authorised by the shareholders resolved to declare a special dividend for the remaining balance of RMB5,745 million to the Company's domestic state-owned share and H share shareholders, and which was paid on 10 June 2008.

#### (ii) Final dividend

A final dividend of RMB0.18 per share totalling RMB3,580 million in respect of the year ended 31 December 2007 was approved at the annual general meeting held on 16 May 2008 and was subsequently paid on 10 June 2008.

Pursuant to the shareholders' approval at the annual general meeting held on 15 May 2007, a final dividend of RMB0.34 per share totalling RMB6,150 million in respect of the year ended 31 December 2006 was paid on 15 June 2007.

## **6 Earnings per share**

The calculation of basic earnings per share for the six months ended 30 June 2008 was based on the profit attributable to equity shareholders of the Company for the period of RMB14,817 million (30 June 2007: RMB10,363 million as restated) and the weighted average number of shares in issue during the six months ended 30 June 2008 of 19,890 million (30 June 2007: 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 Comparative figures**

Certain comparative figures have been adjusted or re-classified as a result of the application of pooling-of-interests method on the acquisitions of Shendong Coal and Shendong Power (Note 1) and to conform with the current year's presentation.

## **8 Review of interim financial results**

The interim financial results for the six months ended 30 June 2008 have been reviewed with no disagreement by the Audit Committee of the Company.

## II. MANAGEMENT DISCUSSION AND ANALYSIS

### (I) Review of the overall operating performance of the Company

In the first half year of 2008, through the joint efforts of the Board, senior management and all the staff, the Company has maintained continuous, rapid and healthy development. The major coal mines of the Company have maintained steady and high-yield production; Bu'ertai mine of Wanli Mines has started trial production, and the designed project of mine construction and stripping work in Ha'erwusu open-cut mine of Zhunge'er Mines has been completed over 90%, which expanded the coal production capacity of the Company. The trial operation of the trains with 10,000 tonnage loading capacity for Shenshuo-Shuohuang Railway achieved complete success, laying solid foundation for further transportation capacity expansion of Shenhua railways system. With completion of the capacity expansion project for the inward railway to Huanghua Port and more efforts in the dredging project of sea channel of Huanghua Port, both railway and port transportation capacity were further enhanced. The Company's power business has achieved further expansion. While the company continued its coordinated development of coal, railway, port and power businesses, benefited from scale expansion and rising coal price, the Company has improved its financial performance significantly.

During the first half of 2008, the Company produced 90.0 million tonnes of commercial coal, representing an increase of 17.5% as compared to the same period of last year. Sales volume of commercial coal reached 115.1 million tonnes, representing an increase of 17.7% as compared to the same period of last year. The total turnover of railway transportation was 74.2 billion tonne km, representing an increase of 7.8% as compared to the same period of last year. The seaborne coal sales volume reached 68.4 million tonnes, representing an increase of 6.7% as compared to the same period of last year. The gross power generation and total power output dispatch reached 47.40 billion kwh and 44.16 billion kwh respectively, representing an increase of 24.4% and 24.6% respectively as compared to the same period of last year.

In accordance with IFRSs, the Group's revenues for the six months ended 30 June 2008 were RMB49.282 billion (the first half of 2007: RMB38.857 billion) representing an increase of 26.8% as compared to the same period of last year. Profit from operations was RMB21.608 billion (the first half of 2007: RMB16.520 billion), representing an increase of 30.8% over the same period of last year. Profit for the period was RMB16.746 billion (the first half of 2007: RMB12.363 billion), representing an increase of 35.5% over the

same period of last year. Profit attributable to equity shareholders of the Company for the period amounted to RMB14.817 billion (the first half of 2007: RMB10.363 billion), representing an increase of 43.0% as compared to the same period of last year.

For the six months ended 30 June 2008, the Group's basic earnings per share was RMB0.745 (the first half of 2007: RMB0.573), representing an increase of 30.0% as compared to the same period of last year.

As at 30 June 2008, the equity attributable to equity shareholders of the Company per share was RMB6.81 (31 December 2007: RMB6.53), representing an increase of 4.3% as compared to the end of 2007.

For the six months ended 30 June 2008, the Group's return on total assets<sup>1</sup> was 6.6%. Average rate of return on net assets<sup>2</sup> was 11.2% (the first half of 2007: 14.4%), representing a decrease of 3.2 percentage points as compared to the same period of last year. EBITDA<sup>3</sup> amounted to RMB26.307 billion (the first half of 2007: RMB20.522 billion), representing an increase of 28.2% as compared to the same period of last year. As at 30 June 2008, the Group's total debt capitalisation ratio<sup>4</sup> was 30.0%, representing an increase of 1.4 percentage points as compared to 28.6% as at 31 December 2007.

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1. Return on total assets is based on the profit for the period and total assets at the end of the relevant period.
  2. Average rate of return on net assets is based on the average equity attributable to equity shareholders of the Company and the profit attributable to equity shareholders of the Company for the relevant period.
  3. EBITDA is a method for measuring the Company's operation performance, and is defined as profit for the period plus net finance costs, income tax and depreciation and amortisation and net of investment income and share of profits less losses of associates. The Company's EBITDA presented herein was additional information relating with operation performance provided to the investors and because the Company's management considered that EBITDA was normally regarded as the basis for appraising the operation performances of mining companies by securities analysts, investors and other related parties, and might be helpful to investors. EBITDA is not an item recognised under IFRSs. You should not regard it as an indication to replace the profit for such accounting period to measure the results performance, and should also not regard it as a replacing indication of cash flow from operation activities to measure its liquidity. The Company's calculation method of EBITDA might be different from those adopted by other companies, and therefore might be of limited comparability. In addition, EBITDA is not intended to be the basis of free cash flow which the management may discretionarily use. Its reason being that it does not reflect certain cash demands brought by interest expenses, tax expenses and debt repayment requirements.
  4. Total debt capitalisation ratio = long-term interest bearing debts + short-term interest bearing debts (including bills payable) / (total debts + total equity)



## Operating results by industry for the first half of 2008

Industry	Revenues RMB million	Cost of revenues RMB million	Gross profit margin %	Increase/ decrease in revenues over the same period of last year %	Increase/ decrease in cost of revenues over the same period of last year %	Increase/ decrease in gross profit margin over the same period of last year
Coal segment	41,058	25,123	38.8	32.3	20.9	increased by 5.8 percentage points
Railway segment	8,770	3,630	58.6	10.6	18.6	decreased by 2.8 percentage points
Port segment	993	673	32.2	4.6	(0.6)	increased by 3.5 percentage points
Power segment	13,910	10,650	23.4	19.2	40.1	decreased by 11.5 percentage points

## Operating results by location for the first half of 2008

Region	Revenues RMB million	Increase/ decrease in revenues over the same period of last year %
Domestic markets	44,063	28.5
Asia Pacific markets	5,082	15.6
Other markets	137	(16.5)

# 1 Coal

## (1) Coal resources

### Coal resources and reserves under China National Standard

	Types of mine	As at 30 June 2008		As at 31 December 2007	
		Recoverable	Resource	Recoverable	Resource
		reserve	100 million tonnes	reserve	100 million tonnes
Shandong Mines	Underground	69.82	117.84	70.33	118.66
Wanli Mines <sup>2</sup>	Underground	5.83	10.38	5.97	10.55
Zhunge'er Mines	Open-cut	26.67	29.66	26.77	29.77
Shengli Mines	Open-cut	11.69	21.21	11.75	21.26
Total		114.01	179.09	114.82	180.24

### Coal resources and reserves under JORC Standard<sup>1</sup>

	Types of mine	As at 30 June 2008		As at 31 December 2007	
		Marketable	Resource	Marketable	Resource
		reserve	100 million tonnes	reserve	100 million tonnes
Shandong Mines	Underground	40.81	117.84	41.40	118.66
Wanli Mines <sup>2</sup>	Underground	3.26	10.38	3.38	10.55
Zhunge'er Mines	Open-cut	19.66	29.66	19.79	29.77
Shengli Mines	Open-cut	8.58	21.21	8.63	21.26
Total		72.31	179.09	73.20	180.24

As at 30 June 2008, the Group's recoverable reserve amounted to 11.401 billion tonnes with resource of 17.909 billion tonnes under China National Standard. The Group's marketable reserve amounted to 7.231 billion tonnes, with resource of 17.909 billion tonnes under JORC standard.

1. JORC Standard refers to the AUSTRALASIAN JOINT ORE RESERVES COMMITTEE Standard effective from December 2004.
2. The data of resource and reserve of Bu'ertai coal mine was not included in Wanli Mines. The scope for exploring right of the mine had already been confirmed, while the final approval of the mining right was still under process. Its resource was approximately 3.315 billion tonnes.

## (2) Coal production

### Commercial coal production

	For the six months ended 30 June		Percentage change %
	2008 Million tonnes	2007 Million tonnes	
Shendong Mines	<b>58.1</b>	55.2	5.3
Bulianta	<b>10.4</b>	8.2	26.8
Daliuta-Huojitu	<b>9.2</b>	9.1	1.1
Yujialiang	<b>8.3</b>	8.9	(6.7)
Shangwan	<b>6.4</b>	6.0	6.7
Halagou	<b>5.8</b>	6.0	(3.3)
Baode (Kangjiatan)	<b>6.0</b>	6.1	(1.6)
Shigetai	<b>4.7</b>	4.4	6.8
Wulanmulun	<b>2.5</b>	3.3	(24.2)
Jinjie	<b>3.5</b>	1.3	169.2
Others	<b>1.3</b>	1.9	(31.6)
Zhunge'er Mines	<b>12.4</b>	13.2	(6.1)
Hedaigou	<b>12.2</b>	13.2	(7.6)
Ha'erwusu	<b>0.2</b>	–	N/A
Wanli Minies	<b>14.4</b>	5.9	144.1
Bu'ertai	<b>1.7</b>	–	N/A
Wanli mine No.1	<b>4.5</b>	2.0	125.0
Liuta mine	<b>2.6</b>	2.0	30.0
Cuncaota mine No. 1	<b>1.1</b>	0.6	83.3
Cuncaota mine No. 2	<b>2.2</b>	0.3	633.3
Tanggonggou mine	<b>1.9</b>	0.6	216.7
Others	<b>0.4</b>	0.4	–
Shengli Mines	<b>5.1</b>	2.3	121.7
Total	<b>90.0</b>	76.6	17.5

The coal segment of the Group comprises Shendong Mines, Zhunge'er Mines, Wanli Mines and Shengli Mines. During the first half of 2008, the commercial coal production of the Group achieved 90.0 million tonnes (the first half of 2007: 76.6 million tonnes), representing an increase of 13.4 million tonnes or 17.5% as compared to the same period of last year. 50.8% of the annual plan of 177 million tonnes has been achieved. The coal production in Jinjie mine, Wanli Mines and Shengli Mines has increased significantly.

During the first half of the year, the commercial coal production of Shendong Mines reached 58.1 million tonnes, representing an increase of 5.3% as compared to the same period of last year and accounting for 64.6% of total commercial coal production in the same period. The commercial coal production in Shendong Mines increased by 2.9 million tonnes as compared to the same period of last year, which accounted for 21.6% of the net increase in commercial coal production of 13.4 million tonnes of the Company. By extending the working face and enhancing the reliability of equipment, Shendong Mines maintained its global leading position in the field of underground mine production and productivity of underground mineworkers. During the first half of 2008, Shendong Mines continued its efforts to build Jinjie mine into a coal mine with an annual raw coal production of 10 million tonnes. The two mines, Bulianta mine and Daliuta mine, each with an annual output over 10 million tonnes, increased their production of raw coal and recovery rate through technological upgrade in coal mining techniques.

During the first half of the year, the commercial coal production of Zhunge'er Mines reached 12.4 million tonnes, representing a decrease of 6.1% as compared to the same period of last year. Constructions of Ha'erwusu open-cut mine were progressing smoothly. Up to 30 June 2008, over 90% of the planned project of mining construction and striping work of Ha'erwusu open-cut mine was completed. Construction of the coal preparation plant and dedicated coal railway for external transportation (Diandaigou-Nanping line) were progressing smoothly. Ha'erwusu open-cut mine, mainly producing high quality thermal coal, is adjacent to Heidaigou open-cut mine with planned annual production capacity of 20 million tonnes of raw coal. The coal produced by Ha'erwusu can be transported to the target markets for sales through the newly constructed dedicated railway that connects Dazhuan railway.

During the first half of the year, the commercial coal production of Wanli Mines reached 14.4 million tonnes representing an increase of 144.1% or 8.5 million tonnes as compared to the same period of last year, which accounted for 63.4% of the net increase in commercial coal production of 13.4 million tonnes of the Company. By mines consolidation and technological upgrade and by mining mechanisation, the integrated technological level of each coal mine was further enhanced and production capacity was expanded. Bu'ertai mine of Wanli Mines was the largest underground coal mine with one-off design and one-off construction over the world. The planned annual production capacity of the mine was 20 million tonnes of raw coal and longwall full-mechanised mining technology was adopted in this mine. In the first half of 2008, Bu'ertai mine produced 1.7 million tonnes of commercial coal and was expected to reach designed capacity in the next three years. Wanli mine No.1, the backbone mine of Wanli Mines, produced commercial coal in the first half of 2008 of 4.5 million tonnes, representing an increase of 125.0% as compared to the same period of last year. The production capacity of Wanli mine No.1 increased substantially after technology upgrade, and it was expected that its annual production capacity of raw coal would reach 10 million tonnes by 2010. Meanwhile, Wanli Mines was developing work processes related to the improvement in coal quality through selection and dry techniques.

During the first half of the year, the commercial coal production of Shengli Mines reached 5.1 million tonnes, representing an increase of 121.7% or 2.8 million tonnes as compared to the same period of last year, which accounted for 20.9% of the net increase in commercial coal production of 13.4 million tonnes of the Company. The construction of Shengli West No.1 open-cut mine was the first open-cut mine as planned in this mining area and was located in the mid-west region of Shengli Mines with an annual planned production capacity of 20 million tonnes. Additional capacity for further expansion was left.

While attaining rapid growth in coal production, the Group continued to concentrate on production safety in coal mines and maintained its leading position in production safety domestically and internationally. In the first half of 2008, the fatality rate per million tonne of raw coal production in China Shenhua was nil, while the national level of fatality rate per million tonne of raw coal production was 1.057 during the same period.

### (3) Coal sales

#### Coal sales by region

		For the six months ended 30 June		Percentage
		2008	2007	change
		Million tonnes	Million tonnes	%
Domestic sales		<b>104.5</b>	85.6	22.1
By region	Northern China	<b>43.4</b>	32.5	33.5
	Eastern China	<b>41.7</b>	31.8	31.1
	Southern China	<b>15.5</b>	13.1	18.3
	Northeast China	<b>3.6</b>	2.4	50.0
	Others	<b>0.3</b>	5.8	(94.8)
By usage	Thermal coal	<b>85.7</b>	66.3	29.3
	Metallurgy	<b>2.8</b>	2.1	33.3
	Chemical			
	(Coal-water slurry)	<b>2.4</b>	1.7	41.2
	Others	<b>13.6</b>	15.5	(12.3)
Export sales		<b>10.6</b>	12.2	(13.1)
	South Korea	<b>4.2</b>	5.5	(23.6)
	China Taiwan	<b>2.6</b>	3.3	(21.2)
	Japan	<b>2.7</b>	2.4	12.5
	Others	<b>1.1</b>	1.0	10.0
Total sales volume		<b>115.1</b>	97.8	17.7

For the six months ended 30 June 2008, the coal sales volume of the Group was 115.1 million tonnes (the first half of 2007: 97.8 million tonnes), representing an increase of 17.7% as compared to the same period of last year. Of which, the volume of domestic sales amounted to 104.5 million tonnes, which accounted for 90.8% of the Group's sales volume of coal. The export volume was 10.6 million tonnes, which accounted for 9.2% of the Group's sales volume of coal.

## Sales volume and price of coal by market

	For the six months ended 30 June			
	2008		2007	
	Sales volume Million tonnes	Sales price RMB/tonne	Sales volume Million tonnes	Sales price RMB/tonne
Sub-total of domestic sales volume/ Weighted average price	104.5	339.4	85.6	307.3
Long-term contract sales volume/ Weighted average price	87.8	328.2	70.1	314.5
Mine mouth <sup>1</sup>	8.0	98.2	–	–
Direct arrival (along railway line)	29.5	251.3	24.7	237.2
Seaborne (port FOB)	50.3	410.2	45.4	356.6
Spot market sales volume/ Weighted average price	16.7	398.4	15.5	274.6
Mine mouth <sup>1</sup>	2.5	168.5	4.5	95.8
Direct arrival (along railway line)	6.6	347.3	4.5	284.5
Seaborne (port FOB)	7.6	518.7	6.5	392.1
Export sales volume/price	10.6	492.6	12.2	374.6
Total coal sales volume/ Weighted average price	115.1	353.5	97.8	315.6

In respect of contract sales, the domestic coal sales of the Group can be divided into contract sales and spot sales. In respect of sales type, the domestic coal sales of the Group can be divided into mine mouth, direct arrival and seaborne sales.

In the first half of 2008, the average sales price of the Group was RMB353.5/tonne (the first half of 2007: RMB315.6/tonne), representing an increase of 12.0% over the same period of last year. Major factors affecting the increase of average coal price of the Company were: (1) coal price of the three types of coal sales of mine mouth, direct arrival and seaborne was totally different and the growth is different as well; (2) the change in sales volume among the above-mentioned three types of sales has led to changes in sales mix.

<sup>1</sup> In the past, coal sales of the Company at mine mouth were relatively small and the sales at mine mouth mainly happened in the spot market. From this year onwards, as the increase in sales at mine mouth of Shengli Mines and Jinjie mine of Shendong Mines, certain sales were changed to contract sales. Such change might lead to the incomparability of the price of sales at mine mouth by way of contract or spot sales in the first half of the year with historical prices.

As shown in the above table, in terms of sales type, all different sales types recorded increases in coal price to a certain extent. Of which, the average coal price at mine mouth was RMB114.8/tonne, representing an increase of 19.8% over RMB95.8/tonne for the same period of last year; the average coal price of direct arrival was RMB268.9/tonne, representing an increase of 10.0% over RMB244.5/tonne for the same period of last year; the average seaborne sales price was RMB424.4/tonne, representing an increase of 17.5% over RMB361.1/tonne for the same period of last year. Export coal price was RMB492.6/tonne, representing an increase of 31.5% over RMB374.6/tonne for the same period of last year.

As shown in the above table, in respect of changes in sales mix, the proportion of the Company's coal sales at mine mouth to the total sales increased from 4.6% in the first half of 2007 to 9.1% in the first half of 2008, the proportion of the Company's seaborne coal sales to the total sales decreased from 53.1% in the first half of 2007 to 50.3% in the first half of 2008, the proportion of the Company's export coal sales to the total sales decreased from 12.5% in the first half of 2007 to 9.2% in the first half of 2008. Change in the sales mix is one of the key factors affecting the average sales price of the Company.

In the first half of the year, the reasons behind the increase of sales at mine mouth were: (1) Jinjie Energy was an integrated coal and power project and currently the coal mine was mainly supplying coal to the Jinjie Energy power plant; (2) given Shengli Mines mainly produced brown coal, most of its products were supplied to the power plants around mine mouth; (3) the increase in production of Jinjie Energy and Shengli Mines was relatively higher in the first half of the year as compared to the same period of last year.

In the first half of 2008, export coal sales volume of the Group was 10.6 million tonnes (the first half of 2007: 12.2 million tonnes), representing a decrease of 13.1% over the same period of last year. In the same period, the proportion of export sales volume to total coal sales volume decreased from 12.5% to 9.2%. In 2008, the government reduced the coal export quota. As a result, the coal export volume of the Company dropped in the first half of this year. The export coal sales price in the first half of 2008 was RMB492.6/tonne (the first half of 2007: RMB374.6/tonne), representing an increase of 31.5% over the same period of last year. The major factors affecting export coal prices were: (1) affected by the increase in international coal price, the long-term contract price signed with major customers increased when compared with that in 2007; (2) the appreciation of RMB against USD in 2008, with the weighted average exchange rate from USD to RMB applied to the settlement of export sales was 7.0682 (the first half of 2007: 7.7333), a RMB appreciation of 9.4% reduced the export sales price denominated in USD when quoted in RMB.

In the first half of 2008, the sales volume of the Group to the top five export customers was 6.3 million tonnes, which accounted for 59.4% of the total export sales. Of which, the sales volume to the largest customer was 2.1 million tonnes, which accounted for 19.8% of the total export sales. The top five export customers were either power generation companies or fuel companies.

### Sales volume and price of coal by customer

	For the six months ended 30 June					
	2008			2007		
	As a percentage of total sales volume	As a percentage of total sales volume	Sales price	As a percentage of total sales volume	As a percentage of total sales volume	Sales price
	Million tonnes	%	RMB/tonne	Million tonnes	%	RMB/tonne
Coal sales to external customers	95.4	82.9	357.6	83.6	85.5	314.7
Domestic sales to external customers	84.8	73.7	340.7	71.4	73.0	304.5
Export sales	10.6	9.2	492.6	12.2	12.5	374.6
Coal sales to our power segment	19.7	17.1	338.8	14.2	14.5	321.1
Total coal sales volume/						
Weighted average price	115.1	100.0	353.5	97.8	100.0	315.6

For the six months ended 30 June 2008, the revenues from coal sales to external customers of the Group were RMB34.112 billion (the first half of 2007: RMB26.328 billion), representing an increase of 29.6% as compared to the same period of last year. The main reasons for the increase were attributable to the increase in coal sales volume and coal sales price. During the same period, the coal sales volume of the Group to external customers was 95.4 million tonnes (the first half of 2007: 83.6 million tonnes), representing an increase of 14.1%; of which, the coal sales volume to the domestic external customers was 84.8 million tonnes (the first half of 2007: 71.4 million tonnes), representing an increase of 18.8%. During the same period, the proportion of coal sales volume to the external customers to the total coal sales volume decreased from 85.5% to 82.9%. The price of coal sales to external customers increased from RMB314.7/tonne to RMB357.6/tonne, representing an increase of 13.6%.

In the first half of 2008, the sales volume of the Group to the top five domestic external customers reached 12.2 million tonnes, which accounted for 11.7% of the total domestic sales. Of which, the sales volume to the largest external customer was 4.0 million tonnes, which accounted for 3.8% of the total domestic sales. The top five domestic external customers were either power generation companies or fuel companies.

Coal sales to our power segment is a unique integrated operational model within the Group. In 2008, due to the increasing installed capacity of the Group's power plants, the demand for coal also increased accordingly. The coal sales volume to the Group's power segment was 19.7 million tonnes (the first half of 2007: 14.2 million tonnes), representing an increase of 38.7%. In the same period, the proportion of coal sales volume to the Group's power segment to the total coal sales volume increased from 14.5% to 17.1%. The sales price to the Group's power segment increased from RMB321.1/tonne to RMB333.8/tonne, representing an increase of 4.0%. The reason for the price rise was mainly due to higher coal contract price in 2008 as compared to 2007, however, since the new additional coal demand from the power segment of the Company was mainly from mine mouth regions, etc., where the coal price was relatively lower, therefore, the increase in average coal price was relatively lower.

#### (4) Operating results of coal segment

##### a. Revenues

For the six months ended 30 June 2008, revenues of coal segment of the Group before elimination on consolidation were RMB41.058 billion (the first half of 2007: RMB31.026 billion), representing an increase of 32.3% over the same period of last year. The increase was mainly attributable to 17.7% increase in coal sales and 12.0% increase in the coal sales price during the same period.

##### b. Cost of revenues

#### Production and procurement costs breakdown in coal segment

	For the six months ended 30 June					
	2008			2007		
	Cost	Volume	Unit cost	Cost	Volume	Unit cost
	RMB	Million	RMB/	RMB	Million	RMB/
	million	tonnes	tonne	million	tonnes	tonne
Coal purchased						
from third parties	6,885	26.0	264.8	4,723	22.7	207.8
Cost of coal production	6,612	89.1	74.2	5,124	75.1	68.2
Materials, fuel and power	1,320	89.1	14.8	1,096	75.1	14.6
Personnel expenses	939	89.1	10.5	828	75.1	11.0
Repairs and maintenance	602	89.1	6.8	544	75.1	7.2
Depreciation and amortisation	1,424	89.1	16.0	1,218	75.1	16.2
Others	2,327	89.1	26.1	1,438	75.1	19.2

For the six months ended 30 June 2008, cost of revenues in the coal segment of the Group was RMB25.123 billion (the first half of 2007: RMB20.784 billion), representing an increase of 20.9% over the same period of last year. Cost of revenues mainly comprised of the cost of coal purchased from third parties, cost of coal production and cost of coal transportation. The increase was mainly attributable to the increase in purchasing price and the volume of coal purchased from third parties, as well as the increase in the sales volume of self-produced coal and the increase in the cost of production.

The unit production cost of self-produced coal in coal segment was RMB74.2/tonne (the first half of 2007: RMB68.2/tonne), representing an increase of 8.8% over the same period of last year. The reasons of increase were mainly attributable to:

- (a) Materials, fuel and power was basically flat with those in the first half year of 2007. The main reason was that upon the significant increase in the production of our Wanli Mines and Shengli Mines, due to the effect of economies of scale, the unit cost of materials, fuel and power in these two mining areas dropped, while in the first half year of 2008, the additional productions were mainly derived from Wanli Mines and Shengli Mines. Due to the structural reasons, the overall unit cost of materials, fuel and power decreased.
- (b) Decrease in personnel expenses. The main reason was that upon the significant increase in the production of our Wanli Mines and Shengli Mines, the unit cost of personnel expense in those two mining areas dropped as result of the effect of economies of scale, while in the first half year of 2008, the additional productions were mainly derived from Wanli Mines and Shengli Mines. Due to the structural reasons, the overall personnel expenses decreased.
- (c) Decrease in depreciation and amortisation. The main reason was that after the significant increase in the production of our Wanli Mines and Shengli Mines, the unit cost of depreciation and amortisation in these two mining areas reduced as result of the effect of economies of scale, while in the first half year of 2008, the additional productions were mainly derived from Wanli Mines and Shengli Mines. Due to the structural reasons, the overall depreciation and amortisation decreased.
- (d) Reasons for the increase in others in the unit production cost mainly included:
  - (i) Transformation fund, environmental restoration fund and sustainable development fund levied by Shanxi province;
  - (ii) Increase in the rate of land use tax;
  - (iii) Increase in service charges.

In the first half of the year, the volume of coal purchased from third parties amounted to 26.0 million tonnes, representing an increase of 3.3 million tonnes or 14.5% over the same period of last year. The unit cost of coal purchased from third parties was RMB264.8/tonne (the first half of 2007: RMB207.8/tonne), representing an increase of 27.4% over the same period of last year. The main reason for the increase was: the coal price in the spot market during the first half of 2008 increased significantly and the Company mainly purchased coal from the spot markets.

### c. Profit from operations

For the six months ended 30 June 2008, profit from operations of the Group's coal segment was RMB14.347 billion (the first half of 2007: RMB8.723 billion), representing an increase of 64.5% over the same period of last year. During the same period, the operating margin of the coal segment increased from 28.1% to 34.9%.

## 2 Railway

By making full use of the integrated transportation system consisting of self-owned railways and ports, the Group solved the universal problem of transportation bottleneck that other domestic coal producers may face, which let the Group enjoy a unique competitive advantage in the coal industry. Based on the five connected self-owned railways, not only the Group can continuously transport coal to ports and sell to markets all over China and other countries, but also we have sufficient room to adjust the sales volume of coal so as to get more market share within coastal regions to provide customers with steady and sufficient coal products.

### (1) Railway operation

#### Turnover of railway transportation

	For the six months ended 30 June		
	2008	2007	Percentage
	Billions of tonne	Billions of tonne	change
	km	km	%
Self-owned railways	<b>62.5</b>	56.6	10.4
Shenshuo Railway	<b>15.7</b>	14.2	10.6
Shuohuang-HuangWan Railway	<b>38.3</b>	35.2	8.8
Dazhun Railway	<b>5.5</b>	5.0	10.0
Baoshen Railway	<b>3.0</b>	2.2	36.4
State-owned railways	<b>11.7</b>	12.2	(4.1)
Total	<b>74.2</b>	68.8	7.8

Currently, the Group owns and operates five railways, including Shuohuang Railway, Shenshuo Railway, Dazhun Railway, Baoshen Railway and Huangwan Railway, with an aggregate length of approximately 1,367 km. Of which, Shenshuo-Shuohuang Railway is one of China's two major railways for the coal transportation from the western regions to the eastern regions of China. In the first half of 2008, the Company conducted the traction test on unit trains with a capacity of 10,000 tonnes along the whole Shenshuo-Shuohuang rail line and achieved complete success, which provided technical support for the Company to operate trains with a capacity of 10,000 tonnes on its railways. Meanwhile, the Company developed the first set of "Railway Transportation Comprehensive Simulation Training System" in China, which filled the blank of China in this field and improved the operation and management training of railway staff.

The total turnover of railway transportation by the Group in the first half of 2008 was 74.2 billion tonne km (the first half of 2007: 68.8 billion tonne km), representing an increase of 7.8%. Of which, turnover of self-owned railway transportation of the Company was 62.5 billion tonne km (the first half of 2007: 56.6 billion tonne km), representing an increase of 10.4%. The turnover of self-owned railway transportation accounted for 84.2% of the total turnover of railway transportation, which had increased as compared to 82.3% in the first half of 2007. The increase in the proportion of the turnover of self-owned railway transportation to the total turnover helped the Company further reduce the transportation cost per tonne.

## **(2) Operating results of railway segment**

### **a. Revenues**

For the six months ended 30 June 2008, revenues of railway segment of the Group before elimination on consolidation were RMB8.770 billion (the first half of 2007: RMB7.927 billion), representing an increase of 10.6% over the same period of last year. Of which, revenues generated by railway segment from internal coal transportation was RMB7.850 billion (the first half of 2007: RMB7.208 billion), representing an increase of 8.9% over the same period of last year, and accounted for 89.5% of the revenues of the railway segment. Meanwhile, the Group utilised the surplus transportation capacity of the railways to provide transportation services to third parties and generated transportation income. The main reason for the increase in revenues of the railway segment in the first half of 2008 was the increase in the volume of transportation.

## b. Cost of revenues

### Cost of revenues of railways

	For the six months ended 30 June	
	2008	2007
	RMB million	RMB million
Cost of internal transportation	<b>3,118</b>	2,641
Materials, fuel and power	<b>762</b>	596
Personnel expenses	<b>558</b>	531
Repairs and maintenance	<b>444</b>	316
Depreciation and amortisation	<b>797</b>	756
Cost of transportation on national railways	<b>53</b>	18
Others	<b>504</b>	424
Cost of external transportation	<b>469</b>	331
Sub-total	<b>3,587</b>	2,972
Other operating costs	<b>43</b>	89
Total	<b>3,630</b>	3,061

For the six months ended 30 June 2008, cost of revenues of the Group's railway segment was RMB3.630 billion (the first half of 2007: RMB3.061 billion), representing an increase of 18.6% over the same period of last year. The increase was mainly attributable to the increase in unit transportation cost and the transportation volume.

The unit transportation cost of the railway segment was RMB0.057/tonne km (the first half of 2007: RMB0.053/tonne km), representing an increase of 7.5% over the same period of last year. The increase was mainly attributable to:

- (a) Increase in cost of materials, fuel and power. The increase was mainly due to the adoption of internal combustion engine of some of our locomotives, and in the first half year of 2008, price of fuel rose.
- (b) Increase in repairs and maintainance. The increase was mainly due to the increasing inspection and maintainance expenses along with the increase in the usage life.
- (c) Increase in others. The increments were mainly due to the increase in external assignment expenses.

### c. Profit from operations

For the six months ended 30 June 2008, profit from operations of the Group's railway segment was RMB4.868 billion (the first half of 2007: RMB4.628 billion), representing an increase of 5.2% over the same period of last year. In the same period, the operating margin of railway segment decreased from 58.4% to 55.5%.

### 3 Port

Besides enjoying self-owned railways specialised in coal transportation, the Group also owns and operates Huanghua Port and Shenhua Tianjin Coal Dock with the annual capacity for seaborne coal over 100 million tonnes.

#### (1) Port operation

##### Seaborne coal sales

	For the six months ended 30 June		Percentage
	2008	2007	change
	Million tonnes	Million tonnes	%
Self-owned ports	<b>52.0</b>	49.0	6.1
Huanghua Port	<b>41.5</b>	39.8	4.3
Shenhua Tianjin Coal Dock	<b>10.5</b>	9.2	14.1
Third-party ports	<b>16.4</b>	15.1	8.6
Qinhuangdao Port	<b>8.7</b>	9.5	(8.4)
Tianjin Port	<b>7.3</b>	5.0	46.0
Others	<b>0.4</b>	0.6	(33.3)
Total	<b>68.4</b>	64.1	6.7

The Group owns and operates Huanghua Port and Shenhua Tianjin Coal Dock, which have become the major hub the coal sales to domestic coastal markets and overseas markets. Of which, Huanghua Port is the second largest port for seaborne coal in China. In addition, the Group transports coal through Qinhuangdao Port, Tianjin Port and other third-party ports as well.

In the first half of 2008, seaborne coal sales of the Group reached 68.4 million tonnes, which accounted for 59.4% of the Company's commercial coal sales in the first half of the year. Of which, the volume of seaborne coal through Huanghua Port and Shenhua

Tianjin Coal Dock reached 52.0 million tonnes, representing an increase of 3.0 million tonnes or 6.1% over the same period of last year, which accounted for 76.0% of the total volume of seaborne coal of the Company.

## (2) Operating results of port segment

### a. Revenues

For the six months ended 30 June 2008, revenues of port segment before elimination on consolidation were RMB993 million (the first half of 2007: RMB949 million), representing an increase of 4.6%. Of which, revenues generated by port segment from internal coal transportation amounted to RMB966 million (the first half of 2007: RMB915 million), representing an increase of 5.6% over the same period of last year, and accounted for 97.3% of the revenues in port segment. The increase in revenues of port segment in the first half of 2008 was mainly attributable to the increase in seaborne coal sales.

### b. Cost of revenues

#### Cost of revenues of ports

	For the six months ended 30 June	
	2008	2007
	RMB million	RMB million
Cost of internal transportation	<b>652</b>	658
Materials, fuel and power	<b>81</b>	73
Personnel expenses	<b>37</b>	39
Repairs and maintenance	<b>47</b>	54
Depreciation and amortisation	<b>283</b>	283
Others	<b>204</b>	209
Cost of external transportation	<b>17</b>	19
Sub-total	<b>669</b>	677
Other operating costs	<b>4</b>	–
Total	<b>673</b>	677

For the six months ended 30 June 2008, cost of revenues of the Group's port segment was RMB673 million (the first half of 2007: RMB677 million), representing a decrease of 0.6% over the same period of last year.

The unit transportation cost of port segment was RMB12.9/tonne (the first half of 2007: RMB13.8/tonne), representing a decrease of 6.5% over the same period of last year. The decrease was mainly due to the unit transportation cost decreased as a result of the economies of scale resulted from the increase in the volume of transportation.

### **c. Profit from operations**

For the six months ended 30 June 2008, profit from operations of the Group's port segment was RMB222 million (the first half of 2007: RMB187 million), representing an increase of 18.7% over the same period of last year. In the same period, the operating margin of port segment increased from 19.7% to 22.4%.

## **4 Unit cost of sales after consolidation of coal, railway and port operations<sup>1</sup>**

As compared with other coal companies, the operating model integrating coal, railway, port and power businesses represents unique competitive advantages of China Shenhua. The railways and ports of the Company mainly transport its own coal. Therefore, we can divide the Company's operations into two major segments of coal and power. Among which, the coal segment includes coal production, railway and port transportation. Cost of sales after elimination on consolidation of profit and cost from the three segments of coal production, railway and port, we may analyse the impact of the coal operations in each mining area on the Company's operating results.

In the first half of 2008, the cost of sales per tonne<sup>2</sup> of coal including the coal purchased from third parties of the Company was RMB172.8, and the gross profit margin per tonne of coal sales was 49.1%. The cost of sales per tonne of self-produced coal in Shendong Mines was approximately RMB141.0, and the gross profit margin per tonne of coal sales was approximately 65.4%. The cost of sales per tonne of self-produced coal in Wanli Mines was approximately RMB113.9, and the gross profit margin per tonne of coal sales was approximately 54.0%. The cost of sales per tonne of self-produced coal in Zhunge'er Mines was approximately RMB128.1, and the gross profit margin per tonne of coal sales was approximately 44.4%. The cost of sales per tonne of self-produced coal in Shengli Mines was approximately RMB39.0, and the gross profit margin per tonne of coal sales was approximately 50.7%.

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- 1 Coal sales of the Company are blended according to the request from customers, it is not possible to differentiate accurately between the sales of self-produced coal and the sales of coal purchased from third parties. The Company estimates the price of self-produced coal by mine according to the quality of coal, sales type and selling price. Hence, the price and gross profit margin of the sales of self-produced coal by mine are estimated data, for investors' reference only.
  - 2 Cost of sales per tonne of coal of the Company represents coal production and procurement costs plus transportation cost after elimination on consolidation of the three segments of coal, railway and port. Cost of sales per tonne of self-produced coal by mine represents coal production cost plus transportation cost after elimination on consolidation of the three segments of coal, railway and port.

## 5 Power<sup>1</sup>

### (1) Power generation

#### Installed capacity of coal-fired power plants

		As at 31 December 2007	First half of 2008 Additions of installed capacity	As at 30 June 2008 Installed capacity	Equity installed capacity
	Location	Installed capacity MW	installed capacity MW	Installed capacity MW	installed capacity MW
Huanghua Power	Hebei	1,200	–	1,200	612
Panshan Power	Tianjin	1,000	–	1,000	332
Sanhe Power	Hebei	1,300	–	1,300	365
Guohua Zhunge'er	Inner Mongolia	1,320	–	1,320	896
Beijing Thermal	Beijing	400	–	400	204
Zhunge'er Power	Inner Mongolia	200	300	500	289
Dingzhou Power	Hebei	–	1,200	1,200	486
Suizhong Power	Liaoning	1,600	–	1,600	1,040
Ninghai Power	Zhejiang	2,400	–	2,400	1,440
Jinjie Energy	Shaanxi	1,800	600	2,400	1,680
Shenmu Power	Shaanxi	200	–	200	102
Taishan Power	Guangdong	3,000	–	3,000	2,400
Shendong Coal	Shanxi/Shaanxi/ Inner Mongolia	324	–	324	301
Shendong Power	Shaanxi/ Inner Mongolia	347	400	747	422
<b>Total</b>		<b>15,091</b>	<b>2,500</b>	<b>17,591</b>	<b>10,569</b>

1 On 15 November 2007, the shareholders' meeting of Dingzhou Power resolved to revise the Articles of Association of Dingzhou Power, such that the Company was empowered to appoint the majority of the board of directors of Dingzhou Power so as to obtain control over Dingzhou Power. On 29 February 2008, Zhunge'er Energy, the Company's subsidiary, acquired the entire remaining equity interests in its associate, Zhunger'er Coal Gangue Power, and Zhunge'er Coal Gangue Power was included in the scope of the Company's consolidated financial statements since 29 February 2008.

## Comprehensive performance indicators of coal-fired power plants for the first half of 2008

		Gross power generation 100 million kwh	Total power output dispatch 100 million kwh	Average utilization hours Hour	Standard coal consumption rate for power output dispatch g/kwh
Huanghua Power	North China Power Grid	34.7	33.1	2,889	313
Panshan Power	North China Power Grid	30.5	28.6	3,052	330
Sanhe Power	North China Power Grid	31.1	29.1	2,396	337
Guohua Zhunge'er	North China Power Grid	30.6	27.8	2,316	338
Beijing Thermal	North China Power Grid	12.3	10.9	3,070	266
Zhunge'er Power	North China Power Grid	9.8	8.7	2,430	465
Dingzhou Power	North China Power Grid	38.5	36.5	3,210	323
Suizhong Power	Northeast Power Grid	41.8	39.5	2,610	330
Ninghai Power	East China Power Grid	67.8	64.2	2,826	320
Jinjie Energy	North China Power Grid	49.2	44.9	2,588	343
Shenmu Power	Northwest Power Grid	7.2	6.5	3,580	394
Taishan Power	South China Power Grid	93.5	87.8	3,116	317
Shendong Coal	Northwest/North China Power Grid	9.8	8.6	3,026	374
Shendong Power	Northern China/ Shaanxi province local Power Grid	16.3	14.5	2,403	428
Total/weighed average		473.1	440.7	2,795	332

The Group is keen on developing clean thermal power business which has synergies with the coal business. As at 30 June 2008, the Group controlled and operated 14 coal-fired power plants with the total installed capacity and equity installed capacity of 17,591 MW and 10,569 MW respectively. The equity installed capacity accounted for 60.1% of the total installed capacity. The average capacity of generation unit of the Group had reached 352 MW at the end of the period.

Gross power generation of the Group's coal-fired units in the first half of 2008 was 47.31 billion kwh, representing an increase of 9.31 billion kwh or 24.5% over the same period of last year. Total power output dispatch of the coal-fired units was 44.07 billion kwh, representing an increase of 8.62 billion kwh or 24.3% over the same period of last year; the average utilisation hours of the coal-fired units was 2,795 hours, representing a decrease of 167 hours over the same period of last year, which was 240 hours higher than the national average level of 2,555 hours.

In the first half of 2008, coal consumption for the power segment of the Group was 20.9 million tonnes, of which, the consumption of Shenhua coal was 19.8 million tonnes, which accounted for 94.7% of the total consumption. The standard coal consumption rate of power output dispatch was 332g/kwh. Due to the increase of coal gangue units, the thermal efficiency decreased as compared with the same period in 2007. However, the commencement of operations of coal gangue units increased the economic added value of the power business of the Company.

Besides coal-fired power generation, the Group also operates a gas-fired power plant, Yuyao Power, and a wind power company, Zhuhai Wind Energy. The installed capacity of Yuyao Power in the first half of 2008 was 780 MW, gross power generation was 76 million kwh and the on-grid power tariff was RMB390.9/MWh. The installed capacity of Zhuhai Wind Energy was 16 MW; gross power generation was 15 million kwh and the on-grid power tariff was RMB597.5/MWh.

## **(2) Progress of construction projects**

In the first half of 2008, a coal-fired unit with capacity of 600 MW of Jinjie Energy successfully completed 168 hours full-load trial operation, which marked the full operation of the first two phases of Jinjie Energy. Two coal gangue units with capacity each of 200 MW of Shendong Power were successfully put into operation.

## **(3) Operation results of power segment**

### **a. Revenues**

For the six months ended 30 June 2008, revenues of power segment of the Group before elimination on consolidation was RMB13.910 billion (the first half of 2007: RMB11.667 billion), representing an increase of 19.2% over the same period of last year. The increase was mainly attributable to the increase in power generation. Since the newly-added units of the Company were mainly located in the mine mouth areas and along the rail lines, power tariff was relatively lower, thereby brought the average power tariff downward. Therefore, the growth of revenues was lower than the increase in power output dispatch.

## Power tariff of coal-fired power plants

		For the six months ended 30 June	
		2008	2007
Regional grid			(restated)
		RMB/MWh	RMB/MWh
Huanghua Power	North China Power Grid	286	298
Panshan Power	North China Power Grid	339	341
Sanhe Power	North China Power Grid	301	307
Guohua Zhunge'er	North China Power Grid	223	207
Beijing Thermal	North China Power Grid	382	382
Zhunge'er Power	North China Power Grid	206	174
Dingzhou Power	North China Power Grid	263	–
Suizhong Power	Northeast Power Grid	299	303
Ninghai Power	East China Power Grid	358	369
Jinjie Energy	North China Power Grid	211	222
Shenmu Power	Northwest Power Grid	258	246
Taishan Power	South China Power Grid	381	381
Shandong Coal	Northwest/North		
	China Power Grid	214	218
Shandong Power	Northern China/Shaanxi		
	province local Power Grid	239	246
Weighted average		<u>305</u>	<u>321</u>

### b. Cost of revenues

For the six months ended 30 June 2008, cost of revenues of the Group's power segment was RMB10.650 billion (the first half of 2007: RMB7.601 billion), representing an increase of 40.1% over the same period of last year. The major reasons of increase were:

- (a) the increase of power generation resulted in the cost increase;
- (b) The unit power generation cost increased, which was mainly attributable to: a. the decrease in the average utilization hours in the first half year led to an increase in all items in the unit cost; b. the increase in fuel prices led to an increase in materials, fuel and power; c. the increase in the number of staff led to an increase in personnel expenses.

## Fuel cost and standard coal price of power plants

		For the six months ended 30 June			
		2008		2007 (restated)	
	Regional grid	Fuel cost RMB/MWh	Standard coal price RMB/tonne	Fuel cost RMB/MWh	Standard coal price RMB/tonne
Huanghua Power	North China Power Grid	158	506	136	418
Panshan Power	North China Power Grid	155	469	132	399
Sanhe Power	North China Power Grid	158	469	130	401
Guohua Zhunge'er	North China Power Grid	86	255	77	232
Beijing Thermal	North China Power Grid	121	454	100	385
Zhunge'er Power	North China Power Grid	102	219	95	228
Dingzhou Power	North China Power Grid	149	462	–	–
Suizhong Power	Northeast Power Grid	181	549	153	461
Ninghai Power	East China Power Grid	204	638	174	530
Jinjie Energy	North China Power Grid	59	173	82	236
Shenmu Power	Northwest Power Grid	62	156	65	164
Taishan Power	South China Power Grid	217	683	172	540
Shendong Coal	Northwest/North China Power Grid	73	196	23	52
Shendong Power	Northern China/ Shaanxi province local Power Grid	94	219	74	165
Weighted average		<u>155</u>	<u>466</u>	<u>139</u>	<u>417</u>

### c. Profit from operations

For the six months ended 30 June 2008, the profit from operations of the Group's power segment was RMB2.496 billion (the first half of 2007: RMB3.345 billion), representing a decrease of 25.4% over the same period of last year. During the same period, the operating margin of power segment decreased from 28.7% to 17.9%.

### (III) Business environment analysis

In the first half of 2008, despite the adverse impact brought by natural disasters together with the complicated and ever-changing international economic environment, China's economy maintained relatively rapid growth as the whole, which provided favourable conditions for the Company's development.

China's growing economy has boosted strong demand for coal and other energy-related products. In the first half of the year, the coal industry demonstrated strong demands, continued tight supplies and soaring prices. Domestic sales of commercial coal in the first half year amounted to 1,201.67 million tonnes, representing an increase of 10.7% over the same period of last year. The railway transportation capacity for coal remained tight. Coal price continued to rise due to factors including demand-over-supply, policy-driven cost and substantial rise in price of energy products domestically and internationally.

During the first half year, domestic supply and demand of power was basically balanced as the whole despite tight power supplies in certain districts and during certain periods. Power consumption by the general public in the first half of 2008 recorded a growth of 11.7% over the same period of last year. The total installed capacity of power generation units with capacity of 6,000 KW or above achieved an increase of 14.1% over the same period of last year. However, since the spot price of thermal coal increased significantly, the average utilization hours of power generation facilities decreased and power tariffs remained under government's control, profitability of power generation enterprises decreased significantly.

Looking into the second half year, the Chinese government will implement the macro control policy of curbing further rise of commodity prices in order to maintain the steady and relatively fast development of economy. It is expected that China's economy will maintain an on-going and relatively fast growth in the second half year, which is helpful for the development of the coal and power industry. Economic development will further drive up the demand for energy products such as coal.

It is anticipated that major coal consumption industries will maintain relatively fast growth in the second half of this year, which in turn will lead to continuous strong demand for coal. Restricted by tight railway transportation capacity of the major coal producing regions and China's continued policy on consolidation and closure of small coal mines, it is expected that tight supply of coal will persist in the second half of the year, particularly during the peak seasons for coal consumption when tight supply of thermal coal may intensify. Policy related cost increase, such as potential reform on resource tax, may have an impact on the Company's cost control. Recently, the Country has adopted the temporary price-capping policy, which has curbed further rise of the spot price of coal. In the long run, China will continue its reform on coal marketization. Guided by the national industrial policy of "preferring large enterprises to small enterprises", large coal enterprises will have more space for development.

In the second half of the year, it is expected that domestic supply and demand of power will be basically balanced. The Country will continue to implement policies of encouraging industry consolidation, energy conservation and continuous phase-out of small coal-fired power generation units. Considering the increase of investment in the power industry in recent years, it is expected that installed power capacity in the whole country will further increase, and average utilization hours of power generation facilities will further drop, and power supplies may remain tight in certain districts and certain periods.

### **III. SIGNIFICANT MATTERS**

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

For the six months ended 30 June 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities (as provided in the Listing Rules of the Stock Exchange of Hong Kong Limited).

#### **Corporate Governance**

The Company is committed to improving its corporate governance, and has established a system of corporate governance practices in accordance with the Code of Corporate Governance Practices set out in Appendix 14 of the Listing Rules of the Stock Exchange of Hong Kong Limited. The Company has been in full compliance with the provisions of the Code of Corporate Governance Practices and most of the recommended best practices as specified therein throughout the six months period ended 30 June 2008.

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

The Company has formulated the "Model Code for Securities Transactions by Directors of China Shenhua Energy Company Limited", which is largely based on and formulated in accordance with the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as provided in Appendix 10 of the Listing Rules of the Stock Exchange of Hong Kong Limited. The Model Code for Securities Transactions by Directors of China Shenhua Energy Company Limited is on terms no less exacting than the required standards set out in the Model Code.

Such system requires all securities transactions of the Company's directors be made in accordance with the Model Code. The system also applies to senior management of the Company.

The Company has made specific enquiries on all directors of the Company, and all directors have confirmed that they had fully complied with the Model Code for the six months ended 30 June 2008.

Other than the directors' working relationships within the Company, none of the directors, supervisors or the senior management had any financial, business or family relationship or any relationship in other material aspects with each other.

Other than the directors' service contracts, none of the directors or supervisors had any actual personal interest, directly or indirectly, in any material contracts made by the Company or any of its subsidiaries in the six months ended 30 June 2008.

### **Audit Committee**

The Company has appointed independent non-executive directors and established its Audit Committee in accordance with the requirements under the Listing Rules of the Stock Exchange of Hong Kong Limited. All members of the Audit Committee of the Board are independent non-executive directors of the Company and the current members are Dr. Chen Xiaoyue (who is the Chairman of the Audit Committee of the Board and has relevant professional qualifications and experiences in financial management and accounting), Mr. Huang Yicheng and Mr. Anthony Francis Neoh. On 27 August 2008, the Audit Committee reviewed and voted on the Company's interim financial report for the six months ended 30 June 2008 and has agreed with, and resolved to submit the interim financial report to the Board for approval.

### **Subsequent Event**

After 30 June 2008, there is no occurrence of any important event that may affect the Group.

#### IV. DEFINITIONS

In this announcement, the following expressions shall have the meanings as set out below unless the context requires otherwise:

“Baoshen Railway”	Shenhua Baoshen Railway Co., Ltd.
“Beidian Shengli Energy”	Shenhua Beidian Shengli Energy Co., Ltd.
“Beijing Thermal”	CLP Guohua Power Co., Ltd. Beijing Thermal Power Branch
“Board”	The board of directors of the Company
“Branches and subsidiaries”	Branches and controlled subsidiaries of the Company, unless otherwise specified
“China Accounting Standards”	China Accounting Standards for Business Enterprises (2006) and its relevant regulations and interpretations issued by the Ministry of Finance of the People’s Republic of China
“Company” or “China Shenhua”	China Shenhua Energy Company Limited
“CLP Guohua”	CLP Guohua Power Co., Ltd.
“Dingzhou Power”	Hebei Guohua Dingzhou Power Co., Ltd.
“Group”	The Company or its subsidiaries
“Guohua Power Branch”	China Shenhua Guohua Power Branch
“Guohua Zhunge’er”	Inner Mongolia Guohua Zhunge’er Power Generation Co., Ltd.
“Ha’erwusu Coal Branch”	China Shenhua Ha’erwusu Coal Branch
“Huanghua Port”	Shenhua Huanghua Harbor Administration Co., Ltd.
“Huanghua Power”	Hebei Guohua Candong Power Co., Ltd.
“interim” or “half year”	The six months period ended 30 June 2008
“Jinfeng Coal Branch”	China Shenhua Jinfeng Coal Branch
“Jinjie Energy”	Shaanxi Guohua Jinjie Energy Corporation

“Ninghai Power”	Zhejiang Guohua Zheneng Power Co., Ltd.
“Panshan Power”	Tianjin Guohua Panshan Power Generation Co., Ltd.
“Rolling Stock Branch”	China Shenhua Rolling Stock Branch
“Sanhe Power”	Sanhe Power Generation Co., Ltd.
“Shendong Coal Branch”	China Shenhua Shendong Coal Branch
“Shendong Coal”	Shenhua Shenfu Dongsheng Coal Co., Ltd.
“Shenhua Finance”	Shenhua Finance Co., Ltd.
“Shendong Power”	Shenhua Shendong Power Co., Ltd.
“Shenhua Group”	Shenhua Group Corporation Limited
“Shenhua Tianjin Coal Dock”	Shenhua Tianjin Coal Dock Co., Ltd.
“Shenhua Trading”	Shenhua Coal Trading Co., Ltd.
“Shenmu Power”	CLP Guohua Shenmu Power Co., Ltd.
“Shenshuo Railway Branch”	China Shenhua Shenshuo Railway Branch
“Shuohuang Railway”	Shuohuang Railway Development Co., Ltd.
“Suizhong Power”	Suizhong Power Co., Ltd.
“Taishan Power”	Guangdong Guohua Yuedian Taishan Power Co., Ltd.
“The Xisanju Companies”	Shenhua Group Wuda Mining Co., Ltd., Shenhua Group Haibowan Mining Co., Ltd. and Shenhua Group Baotou Mining Co., Ltd., all of which are subsidiaries of Shenhua Group, and their respective subsidiaries
“Wanli Coal Branch”	China Shenhua Wanli Coal Branch
“Yuyao Power”	Zhejiang Guohua Yuyao Gas-fired Power Co., Ltd.
“Zhunge’er Coal Gangue Power”	Inner Mongolia Zhunge’er Coal Gangue Power Co., Ltd.

“Zhunge’er Energy”

Shenhua Zhunge’er Energy Co., Ltd.

“Zhunge’er Power”

Power assets controlled and operated by Shenhua Zhunge’er Energy Co., Ltd.

By order of the Board

**China Shenhua Energy Company Limited**

**Chen Biting**

*Chairman*

Beijing, 29 August, 2008

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