中国神华
CHINA SHENHUA

中国神华能源股份有限公司
CHINA SHENHUA ENERGY COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1088)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

FINANCIAL HIGHLIGHTS

- Revenues of the Group in 2005 were RMB52.242 billion, representing an increase of RMB12.975 billion or 33.0% over 2004.
- Profit attributable to equity shareholders of the Company for the year was RMB15.632 billion, representing an increase of RMB6.697 billion or 75.0% over 2004.
- Basic earnings per share were RMB0.937.
- EBITDA was RMB29.519 billion, representing an increase of RMB8.873 billion, or 43.0%, over 2004.
- The Board recommends the distribution of a final dividend of RMB2.261 billion (pre-tax) or RMB0.125 per share (pre-tax) for the year of 2005.

On behalf of the board of directors (the "**Board**") of China Shenhua Energy Company Limited (the "**Company**" or "**China Shenhua**"), I am pleased to present the results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2005 and the related data for the corresponding period of 2004.

Audited financial information of the Group for the year ended 31 December 2005 prepared in accordance with International Financial Reporting Standards ("**IFRSs**") are as follows:

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2005
(Expressed in Renminbi)

	Note	**2005** **RMB million**	2004 *RMB million (restated – Note 1)*
Revenues			
Coal revenue		**39,926**	28,079
Power revenue		**10,879**	9,866
Other revenues		**1,437**	1,322
Total operating revenues	*2*	**52,242**	39,267
Cost of revenues			
Materials, fuel and power		**(5,821)**	(4,452)
Personnel expenses		**(2,046)**	(1,564)
Depreciation and amortisation		**(5,182)**	(4,795)
Repairs and maintenance		**(2,660)**	(2,146)
Transportation charges		**(6,215)**	(5,557)
Others		**(3,195)**	(2,708)
Total cost of revenues		**(25,119)**	(21,222)
Selling, general and administrative expenses		**(3,289)**	(2,492)
Other operating expense, net		**(150)**	(54)
Total operating expenses	*4*	**(28,558)**	(23,768)
Profit from operations		**23,684**	15,499
Net financing costs	*5*	**(2,060)**	(2,358)
Investment income		**10**	–
Share of profits of associates		**461**	198
Profit before income tax		**22,095**	13,339
Income tax	*6*	**(4,083)**	(2,773)
Profit for the year		**18,012**	10,566
Attributable to:			
Equity shareholders of the Company		**15,632**	8,935
Minority interests		**2,380**	1,631
Profit for the year		**18,012**	10,566
Dividends payable to equity shareholders of the Company attributable to the year			
Dividends resolved and proposed after the balance sheet date	*7*	**7,404**	7,549
Basic earnings per share (RMB)	*8*	**0.937**	0.596

CONSOLIDATED BALANCE SHEET

at 31 December 2005
(Expressed in Renminbi)

	Note	**2005** **RMB million**	2004 RMB million (restated – Note 1)
Non-current assets			
Property, plant and equipment, net		**82,358**	72,923
Construction in progress		**19,160**	12,352
Intangible assets		**1,293**	1,210
Interest in associates		**3,686**	2,731
Other investments		**74**	109
Lease prepayments		**3,839**	3,766
Deferred tax assets		**1,431**	1,242
Total non-current assets		**111,841**	94,333
Current assets			
Inventories		**3,572**	2,691
Accounts and bills receivable, net	*9*	**2,682**	2,913
Prepaid expenses and other current assets		**1,274**	3,239
Time deposits with original maturity over three months		**66**	55
Cash and cash equivalents		**19,825**	7,138
Total current assets		**27,419**	16,036
Total assets		**139,260**	110,369
Current liabilities			
Short-term borrowings and current portion of long-term borrowings		**9,443**	13,857
Current portion of long-term payable		**72**	–
Accounts and bills payable	*10*	**6,601**	4,411
Income tax payable		**1,124**	1,475
Accrued expenses and other payables		**5,597**	4,704
Total current liabilities		**22,837**	24,447
Net current assets/(liabilities)		**4,582**	(8,411)
Total assets less current liabilities		**116,423**	85,922

Non-current liabilities		
Long-term borrowings, less current portion	**39,933**	46,332
Long-term payable, less current portion	**2,405**	–
Accrued reclamation obligations	**852**	650
Deferred tax liabilities	**744**	459
Total non-current liabilities	**43,934**	47,441
	72,489	38,481
Equity		
Share capital	**18,090**	15,000
Reserves	**39,292**	10,396
Equity attributable to equity shareholders of the Company	**57,382**	25,396
Minority interests	**15,107**	13,085
TOTAL EQUITY	**72,489**	38,481

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2005
(Expressed in Renminbi)

	Equity attributable to equity shareholders of the Company										
	Share capital *RMB Million (Note i)*	**Share premium** *RMB Million*	**Capital reserve** *RMB Million*	**Revaluation reserve** *RMB Million*	**Future development fund** *RMB Million*	**Statutory reserves** *RMB Million*	**Other reserves** *RMB Million*	**Retained earnings/ shareholder's equity** *RMB Million*	**Total** *RMB Million*	**Minority interests** *RMB Million*	**Total equity** *RMB Million*
At 1 January 2004	–	–	–	7,203	138	284	849	7,987	16,461	11,628	28,089
Capitalisation upon legal establishment of the Company	15,000	–	(6,591)	–	(138)	(284)	–	(7,987)	–	–	–
Profit for the year	–	–	–	–	–	–	–	8,935	8,935	1,631	10,566
Appropriations	–	–	–	–	338	230	–	(568)	–	–	–
Revaluation surplus realised	–	–	–	(17)	–	–	–	17	–	–	–
Capital contributions from minority interests	–	–	–	–	–	–	–	–	–	133	133
Distributions to minority interests	–	–	–	–	–	–	–	–	–	(307)	(307)
At 31 December 2004	15,000	–	(6,591)	7,186	338	230	849	8,384	25,396	13,085	38,481
At 1 January 2005	15,000	–	(6,591)	7,186	338	230	849	8,384	25,396	13,085	38,481
Issuance of shares upon public offering	3,090	21,568	–	–	–	–	–	–	24,658	–	24,658
Shares issue expenses	–	(755)	–	–	–	–	–	–	(755)	–	(755)
Profit for the year	–	–	–	–	–	–	–	15,632	15,632	2,380	18,012
Appropriations	–	–	–	–	543	2,898	–	(3,441)	–	–	–
Revaluation surplus realised	–	–	–	(2)	–	–	–	2	–	–	–
Realisation of deferred tax	–	–	–	–	–	–	(10)	10	–	–	–
Dividend for 2004	–	–	–	–	–	–	–	(7,549)	(7,549)	–	(7,549)
Capital contributions from minority interests	–	–	–	–	–	–	–	–	–	830	830
Distributions to minority interests	–	–	–	–	–	–	–	–	–	(1,188)	(1,188)
At 31 December 2005	18,090	20,813	(6,591)	7,184	881	3,128	839	13,038	57,382	15,107	72,489

Note (i): The Company was incorporated on 8 November 2004 with a registered share capital of 15,000,000,000 domestic state-owned ordinary shares with a par value of RMB1.00 each. Such shares were issued to Shenhua Group Corporation Limited ("Shenhua Group") in consideration for the assets and liabilities transferred from Shenhua Group.

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 were converted into H shares and sold to Hong Kong and overseas investors. In July 2005, the Company issued 304,620,455 H shares with a par value of RMB1.00 each, at a price of HK$7.50 per H share upon the exercise of the over-allotment option in connection with the global initial public offering. 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 of Hong Kong Limited during the year.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2005
(Expressed in Renminbi)

	2005	2004
	RMB million	*RMB million*
Net cash from operating activities	**24,088**	18,934
Net cash used in investing activities	**(17,578)**	(17,995)
Net cash from financing activities	**6,177**	2,037
Net increase in cash and cash equivalents	**12,687**	2,976

NOTES TO THE FINANCIAL INFORMATION

for the year ended 31 December 2005
(Expressed in Renminbi)

1 New and revised IFRSs

The International Accounting Standards Board has issued a number of new and revised IFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group and/or the Company after the adoption of these new and revised IFRSs have been summarised in financial statements. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

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

(a) Change in presentation of minority interests

The adoption of revised IAS 1, *Presentation of financial statements* and revised IAS 27, *Consolidated and separate financial statements* has resulted in a change in presentation of minority interests in the financial statements.

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to shareholders (the equity shareholders of the Company).

With effect from 1 January 2005, in order to comply with IAS 1 and IAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity shareholders of the Company, and minority interests in the results of the Group for the year are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between the minority interests and the equity shareholders of the Company.

The presentation of minority interests in the consolidated balance sheet, consolidated income statement and consolidated statement of changes in equity for the comparative period has been restated accordingly.

(b) Presentation of shares of associates' taxation (IAS 1, Presentation of financial statements)

In prior years, the Group's share of taxation of associates accounted for using the equity method was included as part of the Group's income tax in the consolidated income statement. With effect from 1 January 2005, in accordance with the implementation guidance in IAS 1, the Group has changed the presentation and includes the share of taxation of associates accounted for using the equity method in the respective shares of profit or loss reported in the consolidated income statement before arriving at the Group's profit or loss before tax. These changes in presentation have been applied retrospectively with comparatives restated.

(c) *Accounting for investments in subsidiaries, jointly controlled entities and associates in separate financial statements*

IAS 27, *Consolidated and separate financial statements*, replaced IAS 27 (revised 2000), *Consolidated financial statements and accounting for investments in subsidiaries* and related interpretations. The Company has elected to account for investments in subsidiaries, jointly controlled entities and associates at cost with effect from 1 January 2005 when separate financial statements are prepared. In prior years, these investments were accounted for using the equity method. The balance sheet of the Company has been restated accordingly.

The following table discloses the adjustments that have been made in accordance with IAS 27 to each of the line items in the balance sheet of the Company as previously reported as at 31 December 2004.

	2004 (as previously reported)	**Effect of new policy (decrease in net assets)**	**2004 (restated)**
	RMB million	*RMB million*	*RMB million*
Investments in subsidiaries	17,604	(1,516)	16,088
Interest in associates	2,472	(140)	2,332
Reserves	(20,076)	1,656	(18,420)

(d) *Scope of related parties (IAS 24, Related party disclosures)*

As a result of the adoption of revised IAS 24, *Related party disclosures*, the definition of related parties has been expanded such that state-controlled entities are included. The revised IAS 24 also requires the compensation of key management personnel to be disclosed. The Group has included these additional disclosures in the financial statements.

2 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.

3 Segment information

The Group's risks and rates of return are affected predominantly by differences in the products and services it produces. The Group's primary format for reporting segment information is business segments with geographical segments as its secondary format.

Business segments:

	Coal		Power		Corporate and other *(Note i)*		Eliminations		Total	
	2005 ***RMB million***	2004 *RMB million*	**2005** ***RMB million***	2004 *RMB million*	**2005** ***RMB million***	2004 *RMB million*	**2005** ***RMB million***	2004 *RMB million*	**2005** ***RMB million***	2004 *RMB million (restated – Note 1)*
Revenues										
External sales	41,344	29,369	10,898	9,898	–	–	–	–	52,242	39,267
Inter-segment sales	4,156	3,002	53	40	–	–	(4,209)	(3,042)	–	–
Total operating revenues	45,500	32,371	10,951	9,938	–	–	(4,209)	(3,042)	52,242	39,267
Cost of revenues										
Cost of coal production	(9,627)	(7,383)	–	–	–	–	1,190	910	(8,437)	(6,473)
Cost of coal transportation	(11,297)	(9,481)	–	–	–	–	804	726	(10,493)	(8,755)
Cost of power sales	–	–	(7,517)	(6,419)	–	–	2,195	1,398	(5,322)	(5,021)
Others	(853)	(946)	(14)	(27)	–	–	–	–	(867)	(973)
Total cost of revenues	(21,777)	(17,810)	(7,531)	(6,446)	–	–	4,189	3,034	(25,119)	(21,222)
Selling, general and administrative expenses	(2,215)	(1,792)	(855)	(600)	(219)	(100)	–	–	(3,289)	(2,492)
Other operating (expenses)/ income, net	(207)	(74)	57	20	–	–	–	–	(150)	(54)
Profit/(loss) from operations	21,301	12,695	2,622	2,912	(219)	(100)	(20)	(8)	23,684	15,499

Reconciliation of profit from operations to profit for the year:

	2005	2004
Net financing costs	(2,060)	(2,358)
Investment income	10	–
Share of profits of associates *(Note ii)*	461	198
Income tax	(4,083)	(2,773)
Profit for the year	18,012	10,566

Notes: (i) "Corporate and other" represents miscellaneous revenue and expenses that are immaterial.
(ii) The amount was shown net of tax of RMB160 million (2004: RMB47 million).

Geographical segments:

	2005 *RMB million*	2004 *RMB million*
Domestic markets	**42,606**	31,155
Export sales – Asia Pacific markets	**9,351**	7,815
Export sales – other markets	**285**	297
Total operating revenues	**52,242**	39,267

4 Total operating expenses

	2005 *RMB million*	2004 *RMB million*
Personnel expenses	**3,100**	2,217
– including contribution to retirement plans	**347**	283
– share appreciation rights expense	**1**	–
Depreciation and amortisation	**5,374**	4,949
Loss on disposal of property, plant and equipment	**187**	75
Cost of inventories	**20,719**	16,830
Research and development costs	**24**	12
Auditors' remuneration	**27**	20
– audit services	**25**	4
– tax services	**2**	2
– other services	**–**	14
Operating lease charges on properties	**285**	379
Provisions for accounts receivable, other receivables and inventories	**32**	283
Impairment losses on property, plant and equipment	**41**	–

5 Net financing costs

	2005 *RMB million*	2004 *RMB million*
Interest on loans from banks and other financial institutions, and other borrowings wholly repayable within five years	**3,178**	2,742
Less: Interest expense capitalised	**(601)**	(305)
Net interest expense	**2,577**	2,437
Interest income	**(266)**	(72)
Foreign exchange (gain)/loss	**(619)**	138
Loss/(gain) on remeasurement of derivative financial instruments to fair value	**368**	(145)
	2,060	2,358

6 Income tax

Income tax in the consolidated income statement represents:

	2005 *RMB million*	2004 *RMB million* *(restated – Note 1)*
Provision for PRC income tax	**3,987**	2,310
Deferred taxation	**96**	463
	4,083	2,773

7 Dividends

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

	2005 *RMB million*	2004 *RMB million*
Special dividend to Shenhua Group resolved after the balance sheet date	**5,143**	–
Final dividend proposed after the balance sheet date of RMB0.125 per ordinary share	**2,261**	7,549
	7,404	7,549

(b) Dividend payable to Shenhua Group attributable to the previous financial year, approved and paid during the year

	2005 *RMB million*	2004 *RMB million*
Final dividend in respect of the previous financial year approved and paid during the year (2004: nil)	**7,549**	–

8 Earnings per share

The calculation of basic earnings per share for the year ended 31 December 2005 was based on the profit attributable to equity shareholders of the Company for the year of RMB15,632 million (2004: RMB8,935 million) and the weighted average number of shares in issue during the year ended 31 December 2005 of 16,678 million (2004: 15,000 million). The weighted average number of shares in issue during the year ended 31 December 2004 represents the number of shares issued and outstanding upon the legal formation of the Company on 8 November 2004, as if such shares have been outstanding for the above entire year.

The Company had no dilutive potential shares outstanding for both years presented.

9 Accounts and bills receivable, net

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

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

	2005 *RMB million*	2004 *RMB million*
Current	**2,639**	2,725
Within one year	**39**	169
Between one and two years	**2**	11
Between two and three years	**2**	2
Over three years	**–**	6
	2,682	2,913

10 Accounts and bills payable

The following is the ageing analysis of accounts and bills payable:

	2005	2004
	RMB million	*RMB million*
Within one year	**6,189**	3,866
One to two years	**368**	440
Two to three years	**24**	93
Over three years	**20**	12
	6,601	4,411

11 Comparative figures

Due to the adoption of new and revised IFRSs during the current year, the presentation of certain items and balances in the financial information has been revised to comply with the new requirements. Accordingly, certain comparative figures have been reclassified to conform to the current year's presentation.

12 Review of accounts

The financial results for the year ended 31 December 2005 have been reviewed with no disagreement by the Audit Committee of the Company.

CHAIRMAN'S STATEMENT

On 15 June 2005, the Company successfully listed on the Hong Kong Stock Exchange, with its global initial public offering being the largest among coal companies in the world. The Company's public offering was awarded the "Asia Best IPO of 2005" by Asiamoney, a financial magazine renowned in Asia, through survey and selection by global institutional investors.

Financial Performance

In 2005, the Company saw substantial growth in its businesses and outperformed all the Company's major financial and operational targets. Operation revenues of the Group were RMB52,242 million, representing a year-on-year increase of RMB12,975 million, or an increase of 33.0%. Profit attributable to equity shareholders of the Company for the year was RMB15,632 million, representing a year-on-year increase of RMB6,697 million, or an increase of 75.0%. Basic earnings per share were RMB0.937, representing a year-on-year increase of RMB0.341, or an increase of 57.2%.

In addition to the favourable coal and power markets, the excellent results were attributable to prudent production and operation under the management of the Company, as well as the diligence and dedication of all staff. This resulted in sustained growth of the Company's operations which met the expectation and garnered the confidence of investors in capital markets as well as shareholders.

Business Development

In 2005, commercial coal production of the Company was 121.4 million tonnes, representing a year-on-year increase of 19.8%, and commercial coal sales were 144.4 million tonnes, representing a year-on-year increase of 13.8%. The seaborne coal amounted to 100.2 million tonnes, representing a year-on-year increase of 14.8%, of which coal shipped through Huanghua Port was 67.1 million tonnes, representing a year-on-year increase of 47.8%. Total power generation was 39.21 billion kwh, representing a year-on-year increase of 3.2%. Total output dispatch was 36.37 billion kwh, representing a year-on-year increase of 2.5%.

During the year, Shendong Coal Branch of the Company produced 102.41 million tonnes of raw coal, to become the leading coal production base in China with an annual production capacity of more than 100 million tonnes. The annual capacity of Shenshuo Rail Line reached 110 million tonnes, to become the second coal transporting rail line in China with more than 100 million tonnes in annual carrying capacity. Shuohuang Rail Line was inspected and approved for operation in the year. The annual throughput of Huanghua Port exceeded 67.09 million tonnes and became the second largest port in China by annual throughput. The technologically advanced first unit of Ninghai Power Plant commenced power generation and was identified as a "power generaton unit marking a breakthrough of 500 GW of installed capacity in China" by the National Development and Reform Commission ("NDRC") and the China Electricity Council.

While our operations developed rapidly and our financial performance improved continuously, the Company placed significant emphasis on production safety management, and implemented measures to enhance such management. In 2005, the Company averted many major accident and breakdown of electrical and mechanical equipment. The fatality rate for every million tonnes of raw coal produced was 0.023, much lower than the average level of 2.811 for major coal mines in China.

The Company also placed much emphasis on technological innovation. In 2005, 47 domestic patents were obtained and 50 new patents were applied for. In 2005, the Company was granted various awards, including the "Advanced Enterprise of China Coal Industry in Technological Innovation", "Second Prize for Science and Technological Advancement in Coal Technology", "Third Prize for Science and Technological Advancement in Coal Technology" and "Third Prize for Science and Technological Advancement in Power Generation". A total of 17 technological innovation projects were initiated in 2005.

Corporate Governance

In 2005, the Company further strengthened its corporate governance. It amended and compiled its internal rules of corporate governance in a timely manner in compliance with relevant laws and regulations of China, including Hong Kong, to provide an important guide to good internal corporate governance.

In 2005, the Company held four board meetings in March, May, August and November respectively, and two general meetings in March and May respectively.

Business Environment

1. ***International Market:***

   The International Monetary Fund has forecasted that global economic growth in 2006 will be 4.3%, of which Japan's will be 2%, Korea 5% and China Taiwan 5%, being equal to or slightly higher than that of 2005. It is expected that demand for coal will continue to increase gradually. In 2006, coal supply in the Asia-Pacific region is also expected to present a gradual upwards trend. Increase of coal production in Australia is expected to be 4 to 5 million tonnes and that of Indonesia will be about 10 million tonnes, while the export volume of China is expected to remain stable.

2. ***Domestic Market:***

   According to the preliminary forecast of the NDRC and the 2005 Statistical Report on National Economy and Social Development issued by the State Statistical Board, the PRC GDP in 2005 was RMB18,232.1 billion, representing an increase of 9.9% on a year-on-year basis; industry added value was RMB7,619 billion, representing an increase of 11.4%; annual raw coal production volume was 2.19 billion tonnes, coal consumption was 2.14 billion tonnes and power generation was 2.47 million GWh, representing year-on-year increase of 9.9%, 10.6% and 12.3% respectively.

(1) Coal Market

According to the preliminary forecast of the NDRC, domestic demand for coal in 2006 will be about 2.17 billion tonnes, of which coal for power generation will account for 1.21 billion tonnes. In addition to an export volume of about 80 million tonnes, the aggregate demand will be approximately 2.25 billion tonnes. In respect of coal production capacity, according to statistical data provided by the NDRC, the aggregate capacity of all coal mines licensed to produce coal was 2.26 billion tonnes as at April 2005. On 27 December 2005, the NDRC issued a notice on the coordination of the production and transportation among key coal mines in 2006, which stated that, subject to a generally stable condition of power and coal prices, the PRC Government will terminate its measures taken to interfere with power and coal prices adopted at the end of 2004. Transaction prices will now be decided by contracting parties and new measures will be implemented accordingly. The PRC government has been increasingly concerned about the production safety of coal mines, as well as protection for and reasonable mining of coal resources, and therefore tightening the requirements in respect of coal mine operations. As a result, more than 5,000 small-scale coal mines without basic conditions for safe production have been closed down. This will in turn affect coal production volumes to a certain extent. The Ministry of Land and Resources has promulgated that small mines located within the base of large-scale mines will be reduced by 70% by 2010 and will generally cease to operate by 2015. In respect of coal transportation capacity, in the year of 2006, Daqin Rail Line has gained 50 million tonnes of transportation capacity through reconstruction, while Houyue Rail Line has gained about 5 million tonnes of transportation capacity. However, the transportation capacity of major rail lines such as Shitai, Taijiao and Longhai have reached saturation and it will be difficult to increase their transportation capacity. The capacity expansion project of Qinhuangdao Port “Coal Phase 4” has been completed, and “Coal Phase 5” will be completed in the first quarter of 2006, thus adding 65 million tonnes of throughput capacity in total. In conclusion, the total demand and supply of coal in the PRC in 2006 is generally expected to be the same, and the market coal price is basically expected to remain stable without significant changes.

(2) Power Market

In 2005, the installed capacity in the PRC reached 508,410 MW, representing a year-on-year increase of 14.9%, of which 384,130 MW were coal-fired power, accounting for approximately 75.6% of the total capacity, or a year-on-year increase of 16.6%. Power generation volume in the PRC reached 2,470 billion kwh, representing a year-on-year increase of 12.3%, of which the volume of coal-fired power was 2,018.0 billion kwh, representing approximately 81.5% of the aggregate volume of power generated. The accumulated utilization hours of power generation equipment were 5,411 hours, of which the utilization hours of coal-fired power equipment were 5,876 hours. The consumption of coal for nationwide power supply was 374g/kwh. The total power usage was 2,468.9 billion kwh, representing a year-on-year increase of 13.5%, of which daily urban domestic power usage was 283.8 billion kwh, representing a year-on-year increase of 16.2%.

On 15 December 2004, the NDRC issued a notice regarding the arrangement for establishment of a link between coal and power prices, such that when this arrangement is implemented, the power enterprises will absorb 30% of the effect of any coal price increase. It allows the on-grid tariff to be adjusted with reference to the changes in sales price of coal thereafter. In May 2005, the PRC government implemented this arrangement for the first time.

The State Grid Corporation expects that in 2006, additional installed capacity of power generation in the PRC will be about 81,170 MW and the total installed capacity will reach 590,000 MW. Power consumption in the PRC is expected to reach 2.75 trillion kwh, representing a year-on-year increase of about 11.8%. The largest power supply shortage in the PRC will amount to 10,000 MW, located mainly in Guangdong, Zhejiang and Hebei southern grids.

Future Outlook

Looking ahead, demand for coal for power generation is expected to continue to increase steadily as a result of continuing global economic growth and the expected increase in the demand for power in the PRC, thereby accelerating the increase in demand for coal for power generation. These favourable factors could provide a positive business environment for the Company. With our continued efforts in expanding and upgrading our coal and power generation businesses, the Company is well placed to capitalise on the opportunities arising from the increasing demand for energy in the PRC.

The Company has determined, after prudent study of its business environment and market trends, its strategies for development for the next five years as follows: committing to industry modernisation, using coal as the foundation of our coal and power businesses with the support of scientific management techniques and continuous innovation, we are seeking, through motivation, innovation and expansion, an annual increase in coal production and sales of more than 15 million tonnes, and our coal production capacity to reach 200 million tonnes per year by 2010 so as to become a key player in the global energy industry with a competitive edge in the international market by ensuring that its operations remain intrinsically safe, maintaining the quality of its products, remaining technologically creative, maintaining a high resource recovery rate and by developing sustainably. To this end, the Company will implement the following in 2006:

- developing even more strongly and on a larger scale into a fully integrated energy enterprise with a global competitive edge to join the ranks of the top energy enterprises worldwide;

- remaining committed to industry modernisation and develop into an efficient enterprise with an emphasis on quality products;

- when appropriate, acquiring the quality assets of the coal and power business of Shenhua Group Corporation Limited ("**Shenhua Group**");

- seizing every opportunity and participating actively in the integration of coal companies in China by selectively conducting mergers and acquisitions in a prudent manner so as to increase our market share and coal reserves;

- actively sourcing foreign coal resources to improve our global market share;

- improving the corporate governance structure of the Group, capitalising on the functions of independent directors, and strengthening the control of our internal control systems so as to reduce operational risks;

- increasing innovation in our key operating areas. Transformation of our preferred use of domestically manufactured equipment, coordinated mining technology in respect of resources and environment, water-saving power generation technology, our high calorific efficiency technology and development of technological creativity, into economic benefits for the Company;

- strengthening our strategy of expanding our talent base. A new system will be designed for the establishment of a larger talent base to foster the development of our Company;

- strengthening our relationship with our strategic investor, and will set up our International Consulting Committee as soon as possible in order to increase the scope and level of cooperation.

- strengthening our management of relationships with investors. We will communicate closely with analysts in investment banks, institutional investors, medium and small investors as well as the financial media to increase the transparency of the Company's operations and improve our quality of information disclosure.

Through the joint efforts of the directors as well as our excellent management and staff, I am confident that the Company will continue to develop steadily and provide better products and services to our customers, thereby providing stable returns to our shareholders.

REVIEW OF BUSINESS OPERATIONS

Commercial coal production	2002 *Million* tonnes	2003 *Million* tonnes	2004 *Million* tonnes	**2005** ***Million*** **tonnes**	04-05 Change %	02-05 Compound growth rate %
Shendong Mines	47.1	66.2	80.7	**94.9**	17.6	26.3
Daliuta-Huojitu	15.3	19.5	19.9	**19.6**	(1.5)	8.6
Yujialiang	10.0	11.6	14.1	**15.5**	9.9	15.7
Shangwan	3.2	4.0	12.5	**11.5**	(8.0)	53.2
Bulianta	7.1	9.6	11.1	**16.5**	48.6	32.5
Halagou	2.0	2.9	2.5	**12.3**	392.0	83.2
Others	9.5	18.6	20.6	**19.6**	(4.9)	27.3
Zhunge'er Mines	10.0	12.2	14.2	**19.8**	39.4	25.6
Wanli Mines	2.5	3.2	5.4	**5.0**	(7.4)	26.0
Shengli Mines	–	–	1.1	**1.6**	45.5	N/A
Total	59.6	81.6	101.3	**121.4**	19.8	26.8

Coal sales	2002 *Million tonnes*	2003 *Million tonnes*	2004 *Million tonnes*	**2005** ***Million tonnes***	04-05 Change %	02-05 Compound growth rate %
Domestic sales	58.3	73.4	100.3	**121.1**	20.7	27.6
Northern China	26.6	30.5	44.4	**49.1**	10.6	22.7
Eastern China	19.3	25.8	31.3	**57.7**	84.3	44.1
Southern China	8.3	12.0	19.1	**8.5**	(55.5)	0.8
Northeast	3.5	3.9	5.2	**4.8**	(7.7)	11.1
Others	0.6	1.1	0.4	**0.9**	125.0	14.5
Export sales	18.3	25.7	26.6	**23.3**	(12.4)	8.4
Korea	8.0	11.3	9.4	**8.3**	(11.7)	1.2
Taiwan, China	4.7	6.7	7.5	**6.7**	(10.7)	12.5
Japan	3.0	4.8	4.8	**4.4**	(8.3)	13.6
Others	2.6	2.8	4.9	**3.9**	(20.4)	14.5
Total	76.6	99.1	126.9	**144.4**	13.8	23.5

Marketable reserves*	As at 31 December 2004 *100 million tonnes*	**As at 31 December 2005** ***100 million Tonnes***	04-05 Change %
Thermal coal	58.7	**57.4**	(2.2)

* *JORC standard*

Turnover of railway transport	2003 *Billion tonnes km*	2004 *Billion tonnes km*	**2005** ***Billion tonnes km***	04-05 Change %	03-05 Compound growth rate %
Self-owned railways	49.1	64.3	**84.3**	31.1	31.0
State-owned railways	21.3	24.5	**23.8**	(2.9)	5.7
Total	70.4	88.8	**108.1**	21.7	23.9

Seaborne coal volume	2002 *Million tonnes*	2003 *Million tonnes*	2004 *Million tonnes*	**2005** ***Million tonnes***	04-05 Change %	02-05 Compound growth rate %
Huanghua Port	16.5	31.2	45.4	**67.1**	47.8	59.6
Tianjin Port	13.2	18.3	21.7	**15.5**	(28.6)	5.5
Qinhuangdao Port	18.6	19.3	20.2	**17.7**	(12.4)	(1.6)
Total	48.3	68.8	87.3	**100.2**	14.8	27.5

(I) Coal Segment

1. Overview

In 2005, the Company achieved excellent operating results in its coal segment, fulfilling the promise made to shareholders. In 2005, the Company's commercial coal production exceeded 121 million tonnes, representing a year-on-year increase of 20.10 million tonnes, or an increase of 19.8%. Sales volume of commercial coal amounted to 144 million tonnes, representing a year-on-year increase of 17.45 million tonnes, or an increase of 13.8%. In addition, according to announcements issued by the Ministry of Land and Resources and the NDRC, the Company's Shendong Mines is the largest among the 13 large-scale coal bases in China. Shendong Mines, Zhunge'er Mines and Shengli Mines have been included into the national planning of mines. In the future, the PRC government will increase its support for the Company's development of these mines.

In 2005, the Company's coal production accounted for 6.2% of the national coal production and 12% of the national thermal coal production, export sales accounted for 33% of the national export market share, domestic coal sales accounted for 31% of coastal thermal coal market share.

2. Coal Reserves

In 2005, marketable reserves reached 5.74 billion tonnes. Based on the commercial coal production in 2005, the Company has at least 47 years of exploitable resources.

Marketable reserves	**As at 31 December 2005** ***Million tonnes***	As at 31 December 2004 *Million tonnes*	04-05 Change %
Shendong Mines	**3,550.7**	3,645.6	(2.6)
Shengli Mines	**872.1**	873.7	(0.2)
Zhunge'er Mines	**952.8**	972.6	(2.0)
Wanli Mines	**369.0**	374.0	(1.3)
Total	**5,744.5**	5,865.9	(2.1)

3. Coal Production

In 2005, Shendong Mines became the first coal mine in China to achieve a production capacity of 100 million tonnes. At the same time, it maintained its leading global position in terms of the production volume of its underground coal mine and production efficiency of underground miners. Shendong Mines adopted a highly mechanical method of longwall mining and a centralised production management and safety system. It has allowed the longwall face of underground mines to reach 240-360m, with a walkway length of 4,000-6,000m, and three working faces with a capacity of ten million tonnes per year, which have effectively enhanced production efficiency and resource recovery rate.

During the past four years, the production of Shendong Mine's commercial coal has increased from 47.10 million tonnes in 2002 to 94.95 million tonnes in 2005. With the commencement of operations of Halagou's longwall coal mining system at the end of 2004, Shendong Mines has constructed five 10-million tonne mines including Daliuta, Bulianta, Yujialiang, Halagou and Shangwan mines.

In 2005, the production of Shendong Mine's commercial coal accounted for 78.2% of the total production of the Company's commercial coal. In 2005, the annual coal production per capita in underground coal mines of Shendong Mines was 29,813 tonnes, representing a 5.6% increase as compared to 2004.

Heidaigou mine of the Zhunge'er Mines is the second largest open-cut mine in China. The mine adopts the truck and conveyor mining method but is in the process of adopting dragline mining techniques. It achieved a commercial coal production of 19.77 million tonnes, with a resource recovery rate of 98%, in 2005.

4. Coal Transportation

In 2005, the aggregate turnover of the Company's rail transportation of coal was 108.1 billion tonnes km, representing a year-on-year increase of 19.3 billion tonnes km, or an increase of 21.7%. In 2005, the total turnover of the coal transportation of the Company's self-owned railways was 84.3 billion tonnes km, representing a year-on-year increase of 20 billion tonnes km, or an increase of 31.1%. Rate of utilisation of self-owned railways reached 78.0%.

Turnover of self-owned rail lines	**2005** *Billion tonnes km*	2004 *Billion tonnes km*	04-05 Change %
Shenshuo Rail Line	**23.6**	18.5	27.6
Shuohuang Rail Line	**51.2**	37.9	35.1
Dazhun Rail Line	**6.1**	5.1	19.6
Baoshen Rail Line	**3.5**	2.8	25.0
Total	**84.3**	64.3	31.1

In 2005, as the second eastbound coal freight rail line in China, Shenshuo Rail Line's transportation volume reached 110 million tonnes, making it the second coal transportation rail line in China after the Daqin Rail Line with an annual transportation capacity of more than 100 million tonnes. Shuohuang Rail Line had an annual transportation volume of 95.50 million tonnes. As of 31 December 2005, the Company owned about 16,541 open-top railway transport vehicles with a capacity of 61 tonnes each.

In 2005, the volume of seaborne coal processed by Huanghua Port was 67.09 million tonnes, representing a year-on-year increase of 21.69 million tonnes or 47.8%, contributing to 46.5% of the commercial coal sales of the Company in 2005. The breakwalls constructed at Huanghua Port was approved for operation on 15 October 2005 which effectively addressed the accumulation of sediment. On 17 November 2005, the first fully laden 60,000-tonne ship set sail from Huanghua Port, marking a historic loading record for Huanghua Port.

5. Coal Sales

(1) Domestic Sales

In 2005, the Company sold 121 million tonnes of coal in the domestic market, accounting for 83.9% of the Company's commercial coal sales, of which, long-term contract sales attributed for 77.3% of domestic sales; spot sales attributed for 22.7% of domestic sale. The details of coal sales are as follows:

	2005				
	Mine Mouth *Million tonnes*	**Direct Arrival (alongside railway)** *Million tonnes*	**Seaborne (Port FOB)** *Million tonnes*	**Total** *Million tonnes*	**Percentage in Total Domestic Sale** *%*
Domestic Long-Term Contract Sales	2.1	32.4	59.0	93.5	77.3
Domestic Spot Sales	3.8	5.8	17.9	27.5	22.7
Total Domestic Sales	5.9	38.2	76.9	121.1	100.0
Percentage in Total Domestic Sale	4.9	31.5	63.6		

Sales volume to the five largest external customers was 21.92 million tonnes, accounting for 18.1% of the Company's total domestic sales volume; sales to the largest external customer were 5.61 million tonnes, accounting for 4.6% of the Company's total domestic sales volume. The five largest customers of the Company were either power plants or fuel companies.

(2) Export Sales

In 2005, the Company exported 23.30 million tonnes of coal, accounting for 16.1% of the Company's commercial coal sales. All export sales were conducted by way of long-term contracts.

Sales to the five largest customers were 15.45 million tonnes, accounting for 66.3% of the Company's total sales volume; sales to the largest customer were 5.30 million tonnes, accounting for 22.7% of the Company's total sales volume. The five largest customers of the Company were either power plants or fuel companies.

(3) External Customers and Internal Sales of the Group

In 2005, by nature of customers, the majority of the Company's coal were sold to external customers and accounted for 128 million tonnes, representing a 14.6% increase over 2004. Sales to external customers accounted for 88.6% of total annual coal sales volume in 2005. Apart from that, 11.4% of coal sales were attributable to the power generation business of the Group.

	2005		2004	
Sales	**Sales volume** ***Million Tonnes***	**Percentage in total sales volume**	Sales volume *Million Tonnes*	Percentage in total sales volume
Sales to external customers	**128.0**	**88.6**	111.7	88.0
Sales for power generation business of the Group	**16.4**	**11.4**	15.2	12.0
Total sales volume	**144.4**	**100.0**	126.9	100.0

(II) Power Segment

		2005				
Power plant in operation	**Related power grid**	**Installed capacity** ***(MW)***	**Total power generation volume** ***(100 million kwh)***	**Total power sales volume** ***(100 million kwh)***	**Average utilisation hours** ***(hour)***	**Generation Standard Coal Consumption** ***(g/kwh)***
Beijing Thermal	North China Power Grid	**400**	**26.6**	**23.7**	**6,660**	**272**
Panshan Power	North China Power Grid	**1,000**	**62.9**	**59.2**	**6,295**	**312**
Sanhe Power	North China Power Grid	**700**	**45.6**	**43.3**	**6,519**	**308**
Taishan Power	Southern Power Grid	**1,200**	**82.5**	**77.3**	**6,878**	**300**
Suizhong Power	Northeast Power Grid	**1,600**	**93.4**	**88.3**	**5,839**	**313**
Guohua Zhunge'er	North China Power Grid	**660**	**48.6**	**45.1**	**7,357**	**304**
Ninghai Power Plant*	East China Power Grid	**600**	**2.8**	**0.04**	**6,250**	**288**
Zhunge'er Energy Power Plant	North China Power Grid	**200**	**14.8**	**13.4**	**7,391**	**369**
Shenmu Power	Northwest Power Grid	**200**	**14.9**	**13.5**	**7,431**	**363**
Total		**6,560**	**392.1**	**363.7**	**6,533**	**308**

* *In December 2005, Ninghai Power Plants 600MW unit commenced power generation.*

				2004			
Power plant in operation	Related power grid	Installed capacity *(MW)*	Total power generation volume *(100 million kwh)*	Total power sales volume *(100 million kwh)*	Average utilisation hours *(hour)*	Generation Standard Coal Consumption *(g/kwh)*
Beijing Thermal	North China Power Grid	400	25.7	22.7	6,416	275
Panshan Power	North China Power Grid	1,000	63.9	60.3	6,394	312
Sanhe Power	North China Power Grid	700	46.2	43.7	6,606	309
Taishan Power	Southern Power Grid	1,200	66.5	62.6	6,407	311
Suizhong Power	Northeast Power Grid	1,600	96.3	90.9	6,018	314
Guohua Zhunge'er	North China Power Grid	660	49.4	45.8	7,480	310
Zhunge'er Energy Power Plant	North China Power Grid	200	15.1	13.7	7,550	305
Shenmu Power	Northwest Power Grid	200	16.7	15.2	8,354	363
Total		5,960	379.8	354.9	6,551	314

As of 31 December 2005, the Company controlled and operated nine coal-fired power plants. The total installed capacity and equity capacity were 6,560MW and 3,441MW respectively, representing year-on-year increases of 10.1% and 11.9%.

The power plants of the Company are principally located in costal areas, where demand for electricity is strong and where prices are high.

Over the past years, the Company has adopted the management concept of maintaining a small management team but seeking extensive consultation in relation to its power business. The Company has benefitted from the adoption of the NOSA Five-Star Management System and streamlining management methods. In 2005, the total power generation of the Company was 39.21 billion kwh, representing a year-on-year increase of 1.23 billion kwh, or an increase of 3.2%; total power output dispatch was 36.37 billion kwh, representing a year-on-year increase of 880 million kwh, or an increase of 2.5%; the average utilisation hours of power generation equipment reached 6,533 hours, remained the same as 2004.

In 2005, coal consumption by the Company's power business amounted to 16.62 million tonnes; of which, 15.44 million tonnes of Shenhua coal were utilised, accounting for 92.9% of all the coal used. Standard Coal consumption per power generation unit was 308 g/kwh, representing a year-on-year decrease of 6g/kwh indicating that the efficiency of coal combustion has further improved.

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 set out in the report for this year.

(I) Overview

For the year ended 31 December 2005, the profit before income tax of the Group was RMB22.095 billion, representing an increase of 65.6% as compared to that of 2004. The profit attributable to equity shareholders of the Company was RMB15.632 billion, representing an increase of 75.0% as compared to that of 2004. Basic earnings per share of the Company was RMB0.937. Profits of both our coal and power segments achieved historic highs in 2005. The increase in profit was primarily due to the Group's abililty to capitalise in a timely manner on the high demand and prices in the coal market and by expanding our mining activities to raise coal production and the adoption of marketing measures to boost coal sales volumes as well as the acceleration in the generation of power, consolidation of corporate management and our devotion to the innovation of technology and management techniques.

The comparison between the year ended 31 December 2005 and the year ended 31 December 2004:

(II) Combined Results of Operations

1. *Operating revenues*

Operating revenues increased 33.0% from RMB39.267 billion for the year ended 31 December 2004 to RMB52.242 billion for the year ended 31 December 2005. The increase was primarily due to (1) increases in the price as well as the production and sales of coal; and (2) implementation of the policy of indexing power prices to coal prices, resulting in an increase in the average on-grid tariff.

2. *Cost of Revenues*

Cost of revenues increased 18.4% from RMB21.222 billion for the year ended 31 December 2004 to RMB25.119 billion for the year ended 31 December 2005. The increase was primarily due to (1) the increase in commercial coal production and sales volume as well as gross power generation/total power output dispatch; (2) increases in expenses in purchasing external coal, personnel expenses, repairs and maintenance; and (3) the corresponding increase in amount of depreciation and amortisation as a result of the increase in average balance of fixed assets.

3. *Materials, Fuel and Power*

Materials, fuel and power increased 30.8% from RMB4.452 billion for the year ended 31 December 2004 to RMB5.821 billion for the year ended 31 December 2005. The increase was primarily due to (1) the increase in prices of coal purchased externally; and (2) the enhanced throughput of our own rail lines and ports resulting in increased consumption of power.

4. *Personnel expenses*

Employees remuneration costs increased 30.8% from RMB1.564 billion for the year ended 31 December 2004 to RMB2.046 billion for the year ended 31 December 2005. The increase was primarily due to our improved operating results in 2005 and the corresponding increase in personnel wages and benefits as well as adjustments to our employee composition which resulted in an increase in personnel expenses.

5. *Depreciation and Amortisation*

Depreciation and amortisation increased 8.1% from RMB4.795 billion for the year ended 31 December 2004 to RMB5.182 billion for the year ended 31 December 2005. The increase was primarily due to increases in investments in fixed assets and average balance of fixed assets which resulted in an increase in provisions for depreciation and amortisation.

6. *Repairs and Maintenance*

Repairs and maintenance increased 24.0% from RMB2.146 billion for the year ended 31 December 2004 to RMB2.660 billion for the year ended 31 December 2005. The increase was primarily due to the conduct of major repairs of coal mining equipment and change of rail tracks.

7. *Transportation Charges*

Transportation charges increased 11.8% from RMB5.557 billion for the year ended 31 December 2004 to RMB6.215 billion for the year ended 31 December 2005. The increase was primarily due to the increase of contributions to port construction fund as well as higher national rail freight prices which resulted in an increase in transportation charges of coal.

8. *Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased 32.0% from RMB2.492 billion for the year ended 31 December 2004 to RMB3.289 billion for the year ended 31 December 2005. The increase was primarily due to the rise in selling, general and administrative personal expenses and taxes such as business tax.

9. *Profit from Operations*

Profit from operations increased 52.8% from RMB15.499 billion for the year ended 31 December 2004 to RMB23.684 billion for the year ended 31 December 2005.

10. *Net Financing Costs*

Net financing costs decreased 12.6% from RMB2.358 billion for the year ended 31 December 2004 to RMB2.060 billion for the year ended 31 December 2005. The decrease in financing costs was primarily due to: (1) the proceeds from our global initial public offering which increased our bank deposits resulting in a growth in interest income of RMB0.194 billion; and (2) the weakening of the exchange rate of Japanese Yen to Renminbi resulted in a foreign exchange gain of RMB0.987 billion. Meanwhile, this caused a loss of RMB0.368 billion in the fair value of our swap contracts; and (3) the weakening of exchange rate of Hong Kong dollars to RMB caused a foreign exchange loss of RMB0.368 billion in the proceeds from our global initial public offering.

11. *Profit before Income Tax*

Profit before income tax increased 65.6% from RMB13.339 billion for the year ended 31 December 2004 to RMB22.095 billion for the year ended 31 December 2005.

12. *Income Tax*

Income tax increased 47.2% from RMB2.773 billion for the year ended 31 December 2004 to RMB4.083 billion for the year ended 31 December 2005. The increase was primarily due to an increase in taxable income.

13. Profit attributable to equity shareholders of the Company

Profit attributable to equity shareholders of the Company increased 75.0% from RMB8.935 billion for the year ended 31 December 2004 to RMB15.632 billion for the year ended 31 December 2005.

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

(III) Coal Segment

1. Operating revenues

Operating revenues increased 40.6% from RMB32.371 billion for the year ended 31 December 2004 to RMB45.500 billion for the year ended 31 December 2005. The increase was primarily due to the increases in coal prices and the volume of production and sales of coal. The average coal price of the Group in 2005 was RMB305 per tonne, marking an increase of RMB60 per tonne, or 24.5% as compared to RMB245 per tonne in the previous year.

Revenues from sales to external customers increased 40.8% from RMB29.369 billion for the year ended 31 December 2004 to RMB41.344 billion for the year ended 31 December 2005. The increase was primarily due to the increases of coal price and the sales volume of coal.

Revenues from sales by our coal segment to our power segment increased 38.4% from RMB3.002 billion for the year ended 31 December 2004 to RMB4.156 billion for the year ended 31 December 2005. The increase was primarily due to the increases of coal prices and the volume of coal sold.

The following table shows the sales volume of coal in 2005:

Sales		**2005**	
	Sales volume *million tonnes*	**Percentage of sales volume** *%*	**Sales price** *RMB/tonne*
Total domestic sale/weighted average price	**121.1**	**83.9**	**285**
Long-term contract sales volume/weighted average price	**93.5**	**77.3**	**276**
Mine mouth	**2.1**	**2.2**	**132**
Direct arrival (along rail lines)	**32.4**	**34.7**	**208**
Seaborne (FOB)	**59.0**	**63.1**	**318**
Spot sales volume/weighted average price	**27.5**	**22.7**	**314**
Mine mouth	**3.8**	**13.8**	**93**
Direct arrival (along rail lines)	**5.8**	**21.1**	**298**
Seaborne (FOB)	**17.9**	**65.1**	**367**
Export sales/price	**23.3**	**16.1**	**414**
Total sales volume/weighted average price	**144.4**	**100.0**	**305**

The total sales volume increased from 126.9 million tonnes in 2004 to 144.4 million tonnes in 2005, of which domestic sales increased by 20.8 million tonnes, from 100.3 million tonnes in 2004 to 121.1 million tonnes in 2005. Export sales decreased by 3.3 million tonnes from 26.6 million tonnes in 2004 to 23.3 million tonnes in 2005. The weighted average price of coal increased from RMB245 per tonne in 2004 to RMB305 per tonne in 2005. The increase was primarily due to the increase of the weighted average prices for domestic and export sales from RMB229 per tonne and RMB305 per tonne in 2004 to RMB285 per tonne and RMB414 per tonne in 2005 respectively.

For the domestic sales, sales volume from long-term contracts increased from 72.5 million tonnes in 2004 to 93.5 million tonnes in 2005. Spot sales volume decreased from 27.8 million tonnes in 2004 to 27.5 million tonnes in 2005. The weighted average prices of long-term contracts and spot sales increased from RMB224 per tonne and RMB243 per tonne in 2004 to RMB276 per tonne and RMB314 per tonne in 2005 respectively.

Sales	**2005**			2004		
	Sales volume *million tonnes*	**Percentage of Sales volume** *%*	**Sales price** *RMB/tonne*	Sales volume *million tonnes*	Percentage of Sales volume *%*	Sales Price *RMB/tonne*
Sales to external customers	**128.0**	**88.6**	**312**	111.7	88.0	251
Domestic sales to external customers	**104.6**	**81.8**	**290**	85.1	76.2	235
Export sales	**23.3**	**18.2**	**414**	26.6	23.8	305
Sales to the Group power business	**16.4**	**11.4**	**253**	15.2	12.0	198
Total sales volume/weighted average price	**144.4**	**100.0**	**305**	126.9	100.0	245

2. *Cost of Revenues*

Cost of revenues increased 22.3% from RMB17.810 billion for the year ended 31 December 2004 to RMB21.777 billion for the year ended 31 December 2005. The increase was primarily due to (1) coal price increases resulting in a rise in the amount expended in purchasing coal from third parties; and (2) increases in fees for coal washing and selection for better environmental protection as well as the increase in costs of payments for surface restoration.

The table below sets out the average unit cost of coal sales:

	2005 *RMB/tonne*		2004 *RMB/tonne*	
	Including coal purchased from third parties	**Excluding coal purchased from third parties**	Including coal purchased from third parties	Excluding coal purchased from third parties
Average cost of sales per tonne	**145.0**	**131.7**	132.9	125.3
Average production cost per tonne	**66.7**	**57.3**	58.2	52.9
Average transportation charges per tonne	**78.3**	**74.4**	74.7	72.4

Average cost of sales per tonne in 2005 (excluding coal purchased from third parties) increased from that of 2004 by only RMB6.4. Such cost can generally be controlled. Average cost of sales per tonne in 2005 (including coal purchased from third parties) increased from that of 2004 by RMB12.1. This was mainly caused by the increase in prices of coal purchased from third parties.

3. *Profit from Operations*

Profit from operations increased 67.8% from RMB12.695 billion for the year ended 31 December 2004 to RMB21.301 billion for the year ended 31 December 2005.

(IV) Power Segment

1. *Operating revenues*

The operating revenues increased 10.2% from RMB9.938 billion for the year ended 31 December 2004 to RMB10.951 billion for the year ended 31 December 2005. The increase was primarily due to the rise in total power output dispatch of the Group and the average tariff. The average tariff of RMB274.4 per MWh for the year ended 31 December 2004 increased 7.3% to RMB294.4 per MWh for the year ended 31 December 2005.

The table below sets out the status of power generation segment in 2005 and 2004:

2005

Operating Power Plant	**Power sales price** ***(RMB/MWh)***	**Power sales cost** ***(RMB/MWh)***	**Fuel cost** ***(RMB/MWh)***	**Standard coal price** ***(RMB/tonne)***
Beijing Thermal	**357**	**198.6**	**99**	**317.2**
Panshan Power	**325**	**210.9**	**117**	**353.9**
Sanhe Power	**297**	**194.7**	**112**	**344.6**
Taishan Power	**359**	**231.0**	**145**	**453.6**
Suizhong Power	**273**	**215.0**	**135**	**406.2**
Guohua Zhunge'er	**202**	**135.9**	**62**	**192.6**
Ninghai Power Plant	**309**	**N/A**	**134**	**446.7**
Zhunge'er Energy Power Plant	**170**	**135.9**	**58**	**128.4**
Shenmu Power	**223**	**152.5**	**64**	**161.3**
Weighted average	**294.4**	**199.9**	**118.3**	**358**

2004

Operating Power Plant	Power sales price *(RMB/MWh)*	Power sales cost *(RMB/MWh)*	Fuel cost *(RMB/MWh)*	Standard coal price *(RMB/tonne)*
Beijing Thermal	334	178.32	82	265.4
Panshan Power	298	104.10	95	277.2
Sanhe Power	275	177.41	90	270.8
Taishan Power	340	191.92	126	380.5
Suizhong Power	264	193.02	109	327.8
Guohua Zhunge'er	186	104.10	48	125.4
Ninghai Power Plant	N/A	N/A	N/A	N/A
Zhunge'er Energy Power Plant	162	131.60	53	116.0
Shenmu Power	217	106.99	26	61.7
Weighted average	274.4	174.70	94.7	268

2. *Cost of Revenues*

Cost of revenues increased 16.8% from RMB6.446 billion for the year ended 31 December 2004 to RMB7.531 billion for the year ended 31 December 2005. The increase was primarily due to the rise in coal prices resulting in an increase in fuel costs.

3. *Profit from Operations*

Profit from operations decreased 10.0% from RMB2.912 billion for the year ended 31 December 2004 to RMB2.622 billion for the year ended 31 December 2005.

(V) Liquidity and Financial Resources

For the year ended 31 December 2005, the principal financial resources of the Group were cash from operating activities, short-term and long-term borrowings and the proceeds from global initial public offering. The funds of the Group were mainly used in operating activities, capital expenditure, repayments of short-term and long-term borrowings and dividends distribution to Shenhua Group.

(VI) Cash flow from operating activities

For the year ended 31 December 2005, net cash flow from operating activities of the Group increased 27.2% from RMB18.934 billion for the year ended 31 December 2004 to RMB24.088 billion for the year ended 31 December 2005. This was primarily due to an increase in sales revenues.

(VII) Cash Flow Used in Financing Activities

The table below sets out the net borrowings of the Group as at 31 December 2005 and 31 December 2004:

	As of 31 December	
	2005	2004
	RMB million	*RMB million*
Short-term borrowings and current portion of long-term borrowings	**9,443**	13,857
Long-term borrowings, less current portion	**39,933**	46,332
Total borrowings	**49,376**	60,189
Less:		
Cash and cash equivalents	**19,825**	7,138
Time deposits with original maturity over three months	**66**	55
Net borrowings	**29,485**	52,996

The long-term borrowings were repayable as follows:

	As of 31 December	
	2005	2004
	RMB million	*RMB million*
Within one year or on demand	**3,692**	5,616
After one year but within two years	**6,154**	4,950
After two years but within five years	**14,739**	21,869
After five years	**19,040**	19,513
	43,625	51,948

As of 31 December 2005, 87% of the total amount of outstanding borrowings of the Group was in Renminbi, 12% of its borrowings in Japanese Yen and 1% of its borrowings in US Dollars.

As compared with the year ended 31 December 2004, the Group had an increase of 203.2% in net cash flow used in financing activities for the year ended 31 December 2005. This was primarily due to the net proceeds of RMB23.903 billion from the global initial public offering of the Company and an increase in the net repayment amount from the previous year.

As at 31 December 2005, none of the Group's borrowings were secured.

(VIII) Total Debt Capitalisation Ratio

For the year ended 31 December 2005, the total debt capitalisation ratio of the Company decreased 20 percentage points from 61.3% for the year ended 31 December 2004 to 41.2% for the year ended 31 December 2005. The total debt capitalisation ratio = [long-term interest-bearing debt + short-term interest-bearing debt (including bills payable)]/(total debt + total equity).

(IX) Significant Investments

For the year ended 31 December 2005, the Group had no new significant external investments.

(X) Significant Acquisitions and Disposals

For the year ended 31 December 2005, the Group had no significant acquisitions and disposals.

(XI) Exchange Rate Risk

Since 21 July, 2005, China has adopted a managed floating exchange rate regime based on market demand and supply with reference to a basket of currencies. The People's Bank of China administers and regulates the exchange rate of Renminbi taking into account domestic and foreign economic and financial conditions.

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

(XII) Commodity Value Risk

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

(XIII) Industry Risk

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

(XIV) Contingent Liabilities

As of 31 December 2005, the status of the Group's contingent liabilities was as follows:

1. Bank Guarantees

As of 31 December 2005, the Group had the following guarantees for bank loans, which are not expected to result in significant liability.

	2005 ***RMB million***	2004 *RMB million*
Associates	**310**	130
Third parties	**–**	109
	310	239

As of 31 December 2005, no asset of the Group was encumbered.

2. Environmental Protection Responsibility

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

3. Contingent Legal Liabilities

As of 31 December 2005, the Group was not involved in any material litigation or arbitration. To the best knowledge of the Company, the Group had no material litigation or claim which was pending, or threatened against the Company. As of 31 December 2005, the Group was the defendant of certain non-material litigations as well as the plaintiff of some other litigation arising from the ordinary course of its business. The likely outcome of these contingent liabilities, litigation and other legal proceedings are not certain. The management of the Group believes any possible legal liability which may be incurred will not adversely affect the Group's financial condition.

4. *Group's Insurance*

Consistent with what we believe is the customary practice for PRC coal mining entities, in the year ended 31 December 2005, the Group had not maintained fire, liability or other property insurance covering our property, equipment or inventory in our coal operations. We maintain business interruption insurance or third-party liability insurance for personal injuries or environmental damages arising from accidents on our property or relating to our operations for certain of our power plants and for our vehicles. In relation to its transportation operations, we carry property insurance for our freight rail cars, and we carry vehicle insurance at our Huanghua Port. Besides, in accordance with requirement of relevant regulations, the Group maintained insurance for its employees against occupational injury, medical treatment, third party liability and unemployment.

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

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

CAPITAL EXPENDITURE

(I) Status of Capital expenditure in 2005

The table below sets out the status of capital expenditure of the Company for the year ended 31 December 2005:

	2005			
	Planned *RMB million*	*%*	**Used** *RMB million*	*%*
Coal segment	**11,424**	**56.1**	**13,609**	**61.7**
Mines	**5,256**	**25.8**	**8,562**	**38.8**
Railway	**3,493**	**17.2**	**2,669**	**12.1**
Port	**2,675**	**13.1**	**2,378**	**10.8**
Power segment	**8,930**	**43.9**	**8,447**	**38.3**
Others	**–**	**–**	**4**	**0.0**
Capital expenditure in total	**20,354**	**100.0**	**22,060**	**100.0**

* Capital expenditure is the total cost (including costs paid and payable) incurred during the year to acquire assets that are expected to be used for more than one period.

Total capital expenditure of the Company in 2005 was RMB22.060 billion of which RMB1.740 billion was used in recurring capital expenditure. In capital expenditure of 2005, RMB8.562 billion was used in the coal mining business, mainly for the purchase of mining rights, mine construction and purchase of coal mining equipment. RMB2.669 billion was used in the coal transportation business mainly for the development of Huangwan Rail Line as well as the development of Tianjin Coal Dock, which accounted for RMB0.860 billion and RMB1.600 billion respectively. The remaining expenditure was attributable to the capacity expansion and redevelopment of railway and port. RMB8.447 billion was used in new construction projects of our power business, including mainly the first phase of Ninghai power plant (RMB3.470 billion), power generation units 3-5# of Taishan Power (RMB2.140 billion) and the first phase of Huanghua power plant (RMB1.710 billion). Currently, each of the new construction and technology upgrading projects is progressing smoothly with construction and quality well under control. It is expected the construction will be completed according to the scheduled plan.

In 2005, the aggregate amount of IPO proceeds used in capital expenditure was RMB5.779 billion, of which RMB3.369 billion was used in coal mining business mainly for mines construction in Shendong Mines and Wanli Mines and the purchase of coal mining equipment. RMB0.870 billion were used in coal transportation business mainly for the upgrade of capacity expansion technology in the Shenshuo Rail Line and the construction of Huanghua Port and Tianjin Coal Dock. RMB1.487 billion were used as the capital for power business, including mainly the first phase of Ninghai power plant, power generation units 3-5# of Taishan Power and the first phase of Huanghua power plant.

(II) Capital Expenditure Plan for 2006

The table below sets out the capital expenditure plan of the Company in 2006:

	2005		**2006**	
	Used RMB million	%	**Planned RMB million**	**%**
Coal segment	13,609	61.7	15,055	75.4
Mines	8,562	38.8	10,462	52.4
Railway	2,669	12.1	3,058	15.3
Port	2,378	10.8	1,535	7.7
Power segment	8,447	38.3	4,921	24.6
Others	4	0.0	–	–
Capital expenditure in total	22,060	100.0	19,976	100.0

Total planned capital expenditure of the Company in 2006 is RMB19.976 billion, of which recurring capital expenditure is expected to be RMB2.146 billion. In the capital expenditure of 2006, RMB15.055 billion is expected to be used in coal business, while RMB4.921 billion is expected to be used in power generation business.

1. *Major Projects of Coal Business*

(1) Shendong Mines

Capital expenditure for the development is planned to be RMB4.41 billion, to be used mainly to maintain, expand and upgrade the production capacity of Shendong Mines. The capital expenditure is principally to be used in the capacity expansion of Shigetai mine to reach an expected annual production capacity of 10 million tonnes per year in 2007; the restructuring and expansion of the mines in Shangwan, Bulianta and Huhewusu – Erlintu so that the total annual production capacity of these mines will be increased to 30 million tonnes per year in 2007; and the purchase of coal mining equipment.

(2) Wanli Mines

Capital expenditure is planned to be RMB3.18 billion mainly for constructing a new mine in Wanli Mines. The mine is expected to be fully completed by 2008 with production capacity of 20 million tonnes per year. In the meantime, we will continue to enhance the production capacity and efficiency of all production mines of the Wanli Mines through technological upgrades.

(3) Zhunge'er Mines

Capital expenditure is planned to be RMB2.57 billion mainly for installing the walking draglines in the Heidaigou Mines, and conducting facility upgrade and purchase of equipment. It is expected the walking draglines will be used for coal production in the first half of 2007, which will further enhance the production capacity of the Heidaigou Mine. Meanwhile, we will commence construction of Ha'erwusu open-cut mine for a production capacity of 20 million tones/year. The mine is expected to commence production in 2008.

(4) Shengli Mines

Capital expenditure is planned to be RMB300 million mainly for continuing the development and construction of open-cut mines.

(5) Rail Line

Capital expenditure is planned to be RMB3.06 billion to continue to strengthen the capability of our railway transportation network. The expenditure will be used mainly for a number of purposes. We will continue the construction of roads, bridges and ancillary projects as well as rail installation for the Huangwan Rail Line which is expected to be completed at the end of 2006. The Rail Line leading to the Shenhua Tianjin Coal Dock, with a total length of 8km, is an ancillary railway connecting Huangwan Rail Line and Shenhua Tianjin Coal Dock, is expected to be completed together with Huangwan Rail Line and Shenhua Tianjin Coal Dock at the end of 2006. A new approximately 18 km coal transportation railway of Dazhun Rail Line, which will connect with Ha'erwusu open-cut mines, is expected to be completed in 2007. The project for adding two extra lines will commence to increase the transportation capacity of certain lines of Dazhun Rail Line. The project for adding two extra lines will commence to increase the transportation capacity of extension lines and certain lines of Baoshen Rail Line. Technology upgrade and purchase of equipment will be made to increase the capacity of Shenshuo Rail Line. We will also construct railway vehicle maintenance centers and purchase new trucks and equipment to increase transportation capacity.

(6) *Port*

Capital expenditure is planned to be RMB1.54 billion, which will be used to expand the capacity of the port. Mainly, it will be used in the construction of Shenhua Tianjin Coal Dock and to increase the throughput of Huanghua Port. Shenhua Tianjin Coal Dock will be launched at the end of 2006, with an annual turnover of 35 million tonnes.

2. *Major projects of power generation business*

Capital expenditure is planned to be RMB4.92 billion mainly for the completion of power plants under construction, including the first phase of Ninghai power plant (RMB1.77 billion), power generation units 3-5# of Taishan Power (RMB1.26 billion), the first phase of Huanghua power plant (RMB1.33 billion), and operation of technology upgrade in power plants such as desulphurisation (RMB560 million).

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

The Company plans to provide funds for capital expenditure through cash from operations, short and long-term loans, part of the proceeds from our global initial public offering and other debts and equity financing.

SIGNIFICANT MATTERS

Corporate Governance

After our listing on Hong Kong Stock Exchange in 15 June 2005, the Company has complied fully with the requirements under Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules.

The Board has reviewed the relevant corporate governance documents adopted by the Company, and is of the opinion that the documents contain all the provisions of the Code on Corporate Governance Practices (hereinafter referred to as ("**Code on Corporate Governance Practices**") of the Listing Rules. In respect of the following areas, our internal corporate governance rules are more stringent than the Code on Corporate Governance Practices:

1. In addition to the audit committee and remuneration committee, the Company has also established a strategy planning committee and a safety, health and environmental committee.

2. All members of the audit committee are independent non-executive directors, of whom Dr. Chen Xiaoyue holds the relevant professional qualification or professional knowledge related to accounting or financial management.

The 2005 annual results have been reviewed by the audit committee.

The directors of the Company believe the internal control system of the Company is relatively developed, reasonable and effective, which reasonably ensures that the Company and its directors perform their prescribed obligations under the Listing Rules and relevant laws and regulations in Hong Kong. It also ensures that the directors of the Company may reasonably evaluate the financial position and prospects of the Company and its subsidiaries.

The Company has set up an internal audit department, which is mainly responsible for checking and evaluating the internal control system of the Company. The internal audit department is accountable to the Board, reports to the audit committee, and works under the stewardship of the President of the Company.

Connected Transactions

For the year ended 31 December 2005, three connected transactions of the Company exceeded the annual caps disclosed in the prospectus. They relate to, the Group's expenses for Shenhua Group's provision of production supplies and ancillary services; income generated from the Group's coal supply to Shenhua Group; and income from coal sales agency fee received by the Group from the Xisanju Companies. An announcement containing details of these transactions will be made separately.

On 10 March 2006, the board of directors passed the "Resolution on Certain Connected Transactions of the Company Exceeding Annual Caps in 2005", in which they authorised a sub-committee of directors, comprising directors Chen Biting, Wu Yuan and Ling Wen, to carry out all acts relating to the exceeding of annual caps of these connected transactions of the Company in 2005 in accordance with the requirements of the Listing Rules of the Hong Kong Stock Exchange.

Structure of Share Capital

The table below sets out the structure of share capital of the Company as at 31 December 2005:

Type of shares	Number of shares	Proportion
Domestic Shares	14,691,037,955	81.21%
H Shares	3,398,582,500	18.79%
Total	18,089,620,455	100.00%

Dividends

On 10 March 2006, the board of directors considered and decided to distribute a special dividend of RMB5.143 billion to Shenhua Group, and authorised a Board committee comprising directors Chen Biting, Wu Yuan and Ling Wen to implement such distribution in accordance with a resolution in the 2004 Annual General Meeting and "The audited financial results of the Company between 1 January 2005 to 14 June 2005" which was considered and approved by the sixth meeting of the first board of directors of the Company.

In addition, the Board proposed to distribute a final dividend of RMB0.125 per share (pre-tax) for the period between 15 June 2005 and 31 December 2005 to all equity shareholders of the Company. The proposed final dividend will be considered in the shareholders' annual general meeting to be held on 12 May 2006. The dividend will be paid to shareholders whose names appear on the register of members at the close of business on 12 May 2006. The register of members will be closed from 12 April 2006 to 12 May 2006 inclusive, during which period no transfer of shares will be registered. In order to qualify for the dividend, all transfer documents must be lodged together with the relevant share certificates, at Computershare Hong Kong Investor Services Limited (address: Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) no later than 4:00 p.m. on 11 April 2006.

Pursuant to Article 168 and 169 of the Articles of Association of the Company, the Company shall declare dividends in RMB. Dividends of domestic shares shall be paid in RMB while dividends of H Shares shall be paid in Hong Kong dollars. The value of Hong Kong dollars shall be calculated on the basis of the average exchange rate of RMB and Hong Kong dollars announced by the Bank of China five working days before the date of declaration of dividend by the shareholders' annual general meeting on 12 May 2006.

The final dividend will be paid on or about 30 May 2006.

Purchase, Sale or Repurchase of Share of the Company

For the year ended 31 December 2005, none of the Company and each of its subsidiaries had purchased, sold or repurchased any securities (as defined in the Listing Rules) of the Company.

Proceeds from Global Initial Public Offering

The net proceeds from the Company's global initial public offering were approximately RMB23.903 billion, after deduction of related expenses. In the year ended 31 December 2005, the net proceeds were used to fund the Company's capital expenditures, reduce part of the Company's indebtedness and also for general corporate purposes.

Distributable Reserves

As of 31 December 2005, the aggregate amount of reserves which is available for distribution to the equity shareholders of the Company was RMB9.700 billion.

Service Contracts

The Company has entered into service contracts with all its directors and supervisors for a period of 3 years. The Company's directors, supervisors and senior management receive compensation in the form of salaries, bonuses, housing allowances and other benefits-in-kind, including contributions to pension plans.

Stock Appreciation Rights Scheme

The Company plans to grant stock appreciation rights to its senior management each year in accordance with its Stock Appreciation Rights Scheme. The amount of the first grant will be 2.8 million shares, representing 0.08% of the total share capital of 3.399 billion shares of the overseas listed foreign shares (H shares), which were granted to 13 people including the Chairman of the Board, directors of the Company (except independent directors), chairman of the supervisory committee, President, executive vice president, vice presidents and secretary to the Board, and which will be subject to approval by the shareholders at the shareholders' annual general meeting.

Management Contracts

Other than the service contracts of the officers of the Company, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company.

Non-competition Agreement

We entered into a Non-competition Agreement with Shenhua Group on 24 May 2005. Pursuant to this agreement, Shenhua Group agreed not to compete with us in our core business and granted us options and pre-emptive rights to acquire the businesses retained by Shenhua Group and certain future business from Shenhua Group.

For the year ended 31 December 2005, except for matters disclosed in the prospectus of the Company dated 2 June 2005, no directors or independent non-executive directors made any decision as to whether to exercise the options.

Pre-emptive rights

There are no provisions regarding pre-emptive rights under the Articles of Association of the Company and the Company Law of the PRC, which would oblige the Company to issue new shares to its existing shareholders in proportion to their existing shareholdings.

Auditors

The Company has appointed KPMG and KPMG Huazhen as the international and PRC auditors of the Company for the year ended 31 December 2005. KPMG has conducted the audit work of the financial statements which are prepared in accordance with International Financial Reporting Standards. KPMG and KPMG Huazhen have been engaged by the Company since its listing date. Resolutions for re-appointments of KPMG and KPMG Huazhen as the international and PRC auditors of the Company for the year ending 31 December 2006 will be proposed at the forthcoming shareholders' annual general meeting on 12 May 2006.

Taxation

For the year ended 31 December 2005, no foreign shareholder who is not resident of the PRC is liable for Individual or Enterprise Income Tax, Capital Gains Tax, Stamp Duty or Estate Duty of the PRC in relation to their holding of shares of the Company. Shareholders are urged to consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H shares.

By order of the Board
Chen Biting
Chairman

Beijing, China
10 March 2006

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

The annual report of the Company for the year ended 31 December 2005 will be published on the website of The Stock Exchange of Hong Kong Limited (http://www.hkex.com.hk) and on the website of the Company (http://www.csec.com).

"Please also refer to the published version of this announcement in South China Morning Post"