

Chairman's Statement



Dear Shareholders,

It is my pleasure to present the annual report of the Company for the year ended 31 December 2005.

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

(I) Financial Performance

In 2005, the Company saw substantial growth in its businesses and outperformed all the Company's major financial and operational targets. Operating revenues of the Company 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%.

1. Mr. Chen Biting, Chairman of the Board

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 expectations and garnered the confidence of investors in capital markets as well as shareholders.

(II) 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 at Huanghua Port was 67.1 million tonnes, representing a year-on-year increase of 47.8%. Gross 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%.

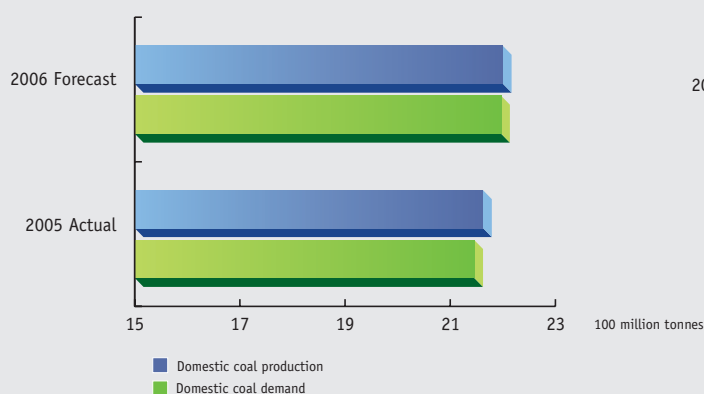
Shendong Mines of the Company produced 102.41 million tonnes of raw coal in the year, and became the first coal production base in China with an annual production capacity of more than 100 million tonnes. The annual transportation volume of Shenshuo Rail Line reached 110 million tonnes, making it the second coal transporting rail line in China with more than 100 million tonnes in transportation capacity. Shuohuang Rail Line was inspected and approved for operation officially by the authorities 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 capacity. The technologically advanced first unit of Ninghai Power Plant commenced commercial operation and was identified as "the power generation 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.

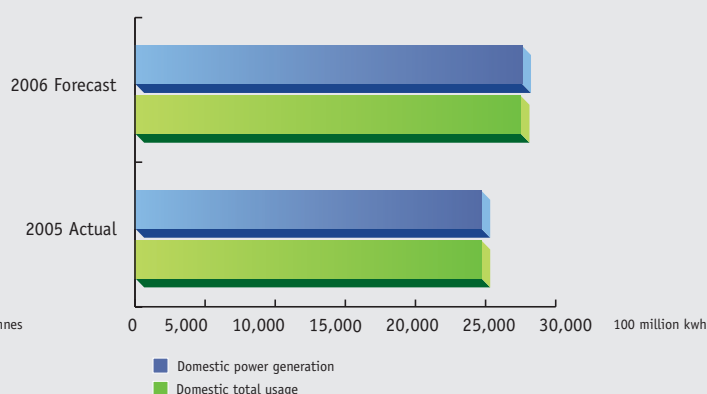
While our operations developed rapidly and our economic efficiency improved continuously, the Company placed significant emphasis on production safety management and implemented measures to enhance such management. In 2005, the Company averted major accidents and breakdown of electrical and mechanical 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

China Coal Market Analysis



China Power Market Analysis





Science and Technological Advancement in Coal Technology” and “Third Prize for Science and Technological Advancement in Power Generation”. Meanwhile, 17 technological innovation projects were initiated in 2005.

(III) 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 shareholders' meetings in March and May respectively.

(IV) Business Environment

1. International Market

The International Monetary Fund has forecasted that global economic growth in 2006 will be 4.3%, of which that of Japan, Korea and China Taiwan will be 2%, 5% and 5% respectively, which is 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 upward trend. Increase of coal production in Australia is expected to be 4 to 5 million tonnes and that in Indonesia will be about 10 million tonnes, while the export volume of China is expected to remain stable.

2. Domestic Market

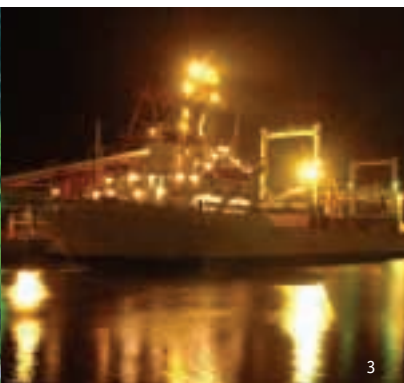
According to the 2005 Statistics on National Economy and Social Development issued by the State Statistical Board and the

preliminary forecast of the NDRC, 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%; raw coal production volume was 2.19 billion tonnes, coal consumption was 2.14 billion tonnes and gross power generation was 2,470 billion kwh, 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 statistics provided by the NDRC, the aggregate capacity of all coal

1. Coal conveyer belts at Huanghua Port
2. Shuohuang Rail Line
3. Coal berth at Huanghua Port
4. Power generation units of Dingzhou Power Plant
5. Guohua Taishan Power Plant



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 thermal coal prices, the PRC Government will terminate its measures taken to interfere with thermal 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 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 coal

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, Daqin Rail Line has gained 50 million tonnes of transportation capacity through infrastructure upgrades, while Houyue Rail Line has gained about 5 million tonnes of transportation capacity in 2006. However, the transportation capacities of major rail lines such as Shitai, Taijiao and Longhai have reached their full transportation capacity, which will be difficult to increase. The capacity expansion project of Qinhuangdao Port "Coal Phase IV" was completed, and "Coal Phase V" 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%. Gross power generation in the PRC reached 2,470 billion kwh, representing a year-on-year increase of 12.3%, of which coal-fired power generated was 2,018.0 billion kwh, representing approximately 81.5% of the aggregate power generated. The utilisation hours of power generation units were 5,411 hours, of which that of coal-fired power units were 5,876 hours. The coal consumption rate 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 power usage was 283.8 billion kwh, representing a year-on-year increase of 16.2%.

Chairman's Statement

On 15 December 2004, the NDRC issued a policy to index thermal coal price to power tariff, allowing power generation companies to pass through 70% of increase in thermal coal prices to end users through increases in on-grid tariffs. In May 2005, the PRC government implemented this policy for the first time.

The State Grid Corporation estimates that in 2006, the installed capacity of power generation units in the PRC will increase to about 81,170 MW and the total installed capacity will reach 590,000 MW. Power consumption in the PRC is expected to reach 2,750 billion 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 grid.

(V) Future Outlook

In future, coal demand for power generation is expected to continue to increase steadily as a result of sustained global economic growth. In addition, the demand for power in the PRC is expected to increase, thereby accelerating the growth in coal demand 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 will be well-positioned to capture 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 annual coal production capacity to reach 200 million tonnes by 2010 so as to become a key player in the global energy industry with a competitive edge in the international market by building intrinsically safe operations, maintaining the quality of its products, remaining technologically creative, maintaining a high resource recovery rate and developing sustainably. To this end, the Company will implement the following in 2006:

- to strengthen and enlarge our businesses with the aim of becoming an integrated energy enterprise with a global

competitive edge to join the ranks of the top energy enterprises worldwide;

- to practise the concept of industry modernisation and emphasise on quality control;
- when appropriate, to acquire the quality assets of the coal and power businesses of Shenhua Group Corporation Limited ("Shenhua Group");
- to seize every opportunity and participate actively in the integration of coal industry in China by selectively conducting mergers and acquisitions in a prudent manner so as to increase our market share and coal reserves;
- to actively source foreign coal resources to improve our global market share;
- to improve the corporate governance structure of the Group, capitalise on the functions of independent directors, and strengthen our internal control systems so as to reduce operational risks;

- to increase 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 efficient technology and development of technological creativity, into economic benefits for the Company;
- to expand our talent base. A new system will be designed for the establishment of a larger talent base to facilitate our development;
- to strengthen our relations with strategic investors, and set up our International Consulting Committee as soon as possible in order to enhance the scope and level of cooperation; and
- to improve our management of investor relations. We will take the initiative to strengthen relations with institutional investors, medium and private investors, analysts as well as the financial media to increase the transparency of the Company's operations and enhance the 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 pursue sustainable growth and provide better products and services to our customers, thereby providing satisfactory returns to our shareholders.

Finally, I would like to take this opportunity to express my appreciation to our customers and shareholders' support as well as all directors and staff for their dedication over the past year.



Chen Biting
Chairman

Beijing, China
10 March 2006