

Review of Business Operations

Commercial coal production	2002 <i>Million tonnes</i>	2003 <i>Million tonnes</i>	2004 <i>Million tonnes</i>	2005 <i>Million tonnes</i>	04-05 Year-on -Year %	02-05 Compound annual growth rate ("CAGR") %
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 <i>Million tonnes</i>	2003 <i>Million tonnes</i>	2004 <i>Million tonnes</i>	2005 <i>Million tonnes</i>	04-05 Year-on -Year %	02-05 CAGR %
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 China	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
China Taiwan	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

	As at 31 December		Year-on -Year %
	2004 <i>100 million tonnes</i>	2005 <i>100 million tonnes</i>	
Marketable coal reserves*			
Thermal coal	58.7	57.4	(2.2)

* Australian Code of Reporting of Mineral Resources and Ore Reserves, effective December 2004 ("JORC code").

Total turnover of coal transportation	2003	2004	2005	04-05	03-05
	<i>Billion tonne km</i>	<i>Billion tonne km</i>	<i>Billion tonne km</i>	Year-on -Year %	CAGR %
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 sales	2002	2003	2004	2005	04-05	02-05
	<i>Million tonnes</i>	<i>Million tonnes</i>	<i>Million tonnes</i>	<i>Million tonnes</i>	Year-on -Year %	CAGR %
Huanghua Port	16.5	31.2	45.4	67.1	47.8	59.6
Qinhuangdao Port	18.6	19.3	20.2	17.7	(12.4)	(1.6)
Tianjin Port	13.2	18.3	21.7	15.5	(28.6)	5.5
Total	48.3	68.8	87.3	100.2	14.8	27.5

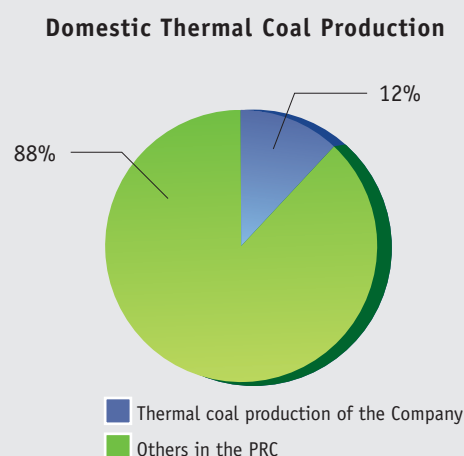
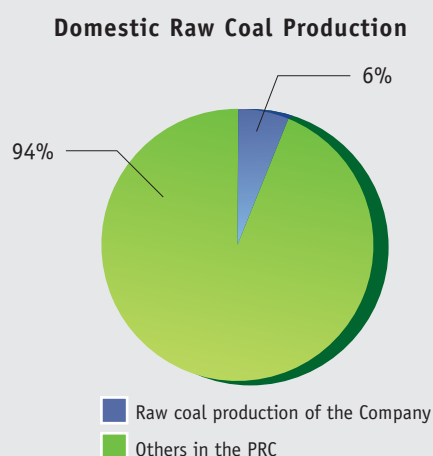
Review of Business Operations

(I) Coal Segment

1. Overview

In 2005, the Company achieved excellent operating results in its coal segment, fulfilling the promise made to shareholders while maintaining our core strategies and capturing lucrative investment opportunities. 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%. Coal sales volume 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 coal mines. The PRC government is expected to further strengthen its support for the Company's development of these mines in future.

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





2. Coal Reserves

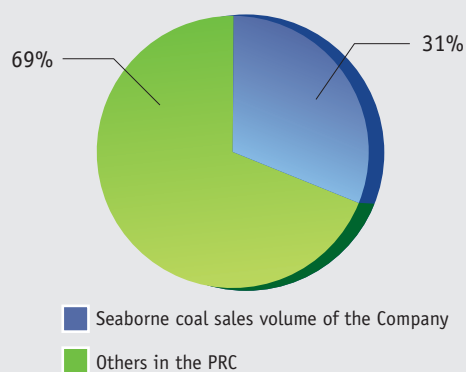
In 2005, the Company's marketable coal reserves reached 5.74 billion tonnes. Based on the commercial coal production in 2005, the Company has resources which may be exploited for another 47 years.

Marketable coal reserves*	As at 31 December		Year-on -Year %
	2005 <i>Million tonnes</i>	2004 <i>Million tonnes</i>	
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)

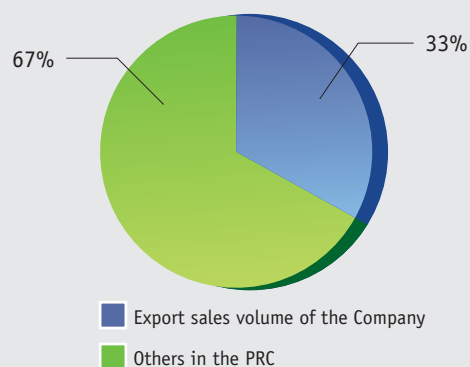
* JORC code

1. Coal processing plant at Shendong Mines
2. Long wall mining face at Shendong underground mines

Coastal Thermal Coal Market



Domestic Coal Export Market



Review of Business Operations

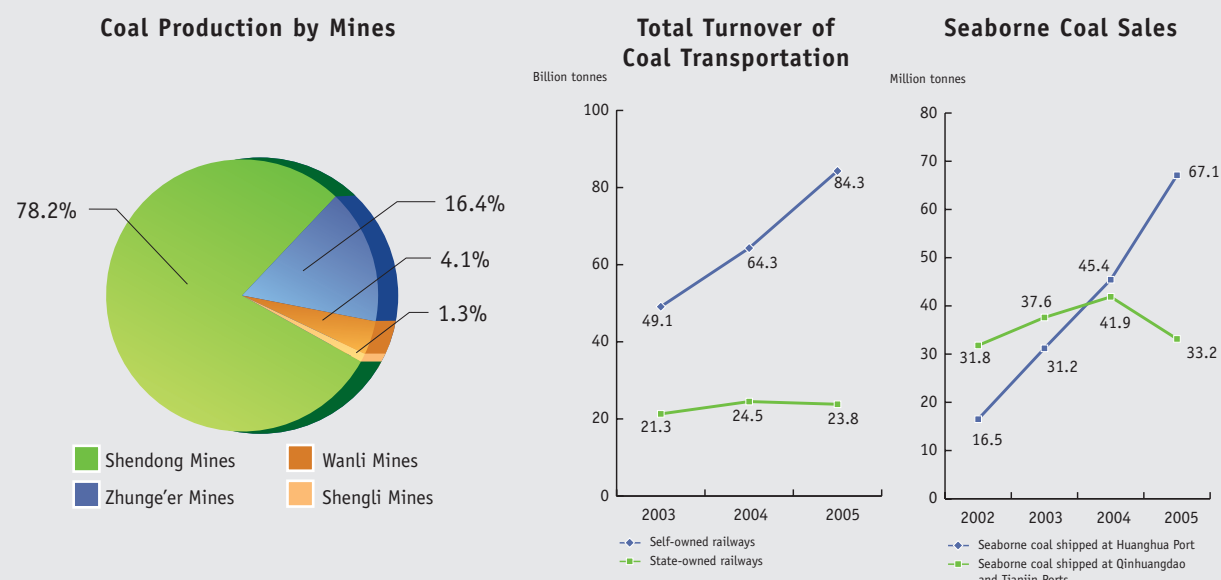
3. Coal Production

In 2005, Shendong Mines became the first coal production base in China to achieve a production capacity of 100 million tonnes. It has also maintained its global leading position in terms of the production volume and efficiency of its underground mine. Shendong Mines apply fully-mechanised long-wall mining technology and centralised production management and safety systems in its underground mines. Long-wall panels range from 240m to 360m in width and from 4,000m to 6,000m in length. There are three working faces each with an annual output of ten million tonnes, which have effectively enhanced production efficiency and resource recovery rate.

During the past four years, the commercial coal production at Shendong Mines 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 built five 10-million tonne mines including Daliuta, Bulianta, Yujiali, Halagou and Shangwan mines.

In 2005, the commercial coal production at Shendong Mines accounted for 78.2% of the total commercial coal production of the Company. In 2005, the annual coal production per capita in underground mines of Shendong Mines was 29,813 tonnes, representing a 5.6% increase as compared with that of 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 applying 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 total turnover of the Company's coal transportation was 108.1 billion tonne km, representing a year-on-year increase of 19.3 billion tonne km, or an increase of 21.7%. In 2005, the total turnover of coal transportation of the Company's self-owned railways was 84.3 billion tonne km, representing a year-on-year increase of 20 billion tonne km, or an increase of 31.1%. During that time, the utilisation rate of self-owned railways reached 78.0%.

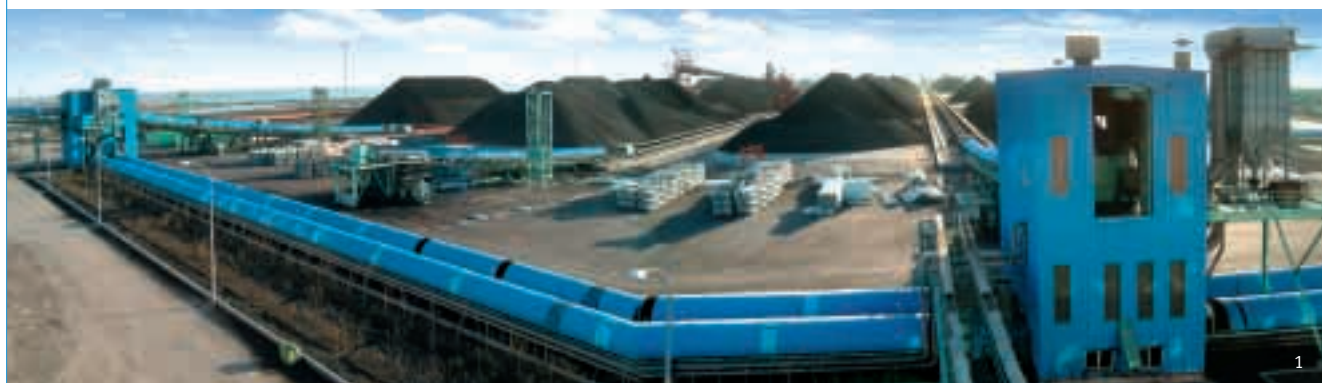
Turnover of self-owned railways	2005 Billion tonne km	2004 Billion tonne km	Year-on- Year %
Shenshuo	23.6	18.5	27.6
Shuohuang	51.2	37.9	35.1
Dazhun	6.1	5.1	19.6
Baoshen	3.5	2.8	25.0
Total	84.3	64.3	31.1

In 2005, as the second primary west-to-east coal rail line in China, the transportation volume of the Shenshuo Rail Line reached 110 million tonnes, making it the second dedicated 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 at 31 December 2005, the Company owned approximately 16,541 open-top freight cars, each with a loading capacity of 61 tonnes.

In 2005, the volume of seaborne coal shipped at 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 coal sales volume of the Company. The sediment breakwalls constructed along the ship entry channel at Huanghua Port passed its official inspection on 15 October 2005 and the breakwalls effectively mitigated the accumulation of sediment at the port. On 17 November 2005, the first fully coal laden 60,000-tonne ship set sail from Huanghua Port, marking a historic loading record for Huanghua Port.

1. Sediment breakwalls along the ship entry channel at Huanghua Port
2. Rotary railcar dumpers at Huanghua port
3. Electrified railways of Shuohuang

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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 coal sales, of which, long-term contract sales attributed for 77.3%; spot market sales accounted for 22.7%. The details are as follows:

Domestic sales by form of sales in 2005	Mine mouth <i>Million tonnes</i>	Direct arrival (alongside railway) <i>Million tonnes</i>	Seaborne (FOB) <i>Million tonnes</i>	Total <i>Million tonnes</i>	Percentage in total domestic sales %
Domestic long-term contract sales	2.1	32.4	59.0	93.5	77.3
Domestic spot market sales	3.8	5.8	17.9	27.5	22.7
Total	5.9	38.2	76.9	121.1*	100.0
Percentage in total domestic sales (%)	4.9	31.5	63.6		

* Total domestic sales

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

(2) Export Sales

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 performed under long-term contracts.

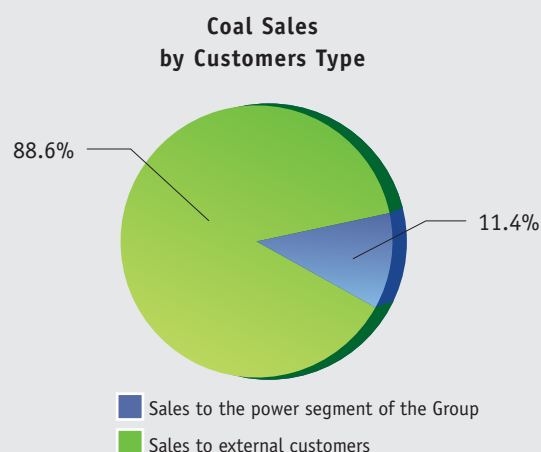
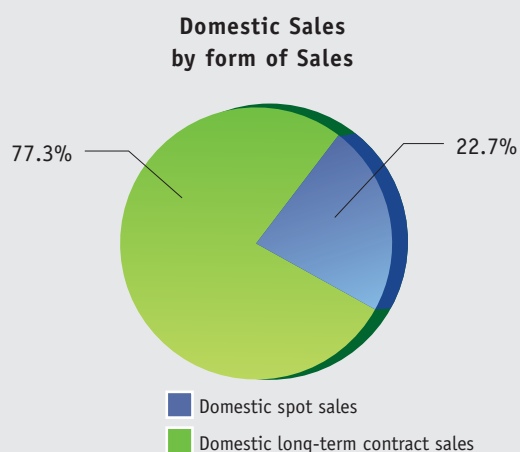
Coal sales volume to the five largest export customers were 15.45 million tonnes, accounting for 66.3% of the Company's total export sales volume; among which, sales to the largest customer were 5.30 million tonnes, accounting for 22.7% of the Company's total export sales volume. The five largest export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

1. Coal storage site at Huanghua Port

(3) External Customers and Internal Sales of the Group

In 2005, by customer type, the majority of the Company's coal was 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. 11.4% of coal sales was attributable to the power segment of the Group.

Coal sales by customer type	2005		2004	
	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 to the power segment of the Group	16.4	11.4	15.2	12.0
Total	144.4	100.0	126.9	100.0



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(II) Power Segment

2005

Operating power plants	Regional grid	Installed capacity MW	Gross power generation 100 million kwh	Total power output dispatch 100 million kwh	Average utilisation hours hour	Standard coal consumption rate g/kwh
Beijing Thermal	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*	East China Power Grid	600	2.8	0.04	6,250	288
Zhunge'er Power	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/Weighted Average		6,560	392.1	363.7	6,533	308

* In December 2005, Phase I of Ninghai Power, a 600MW unit, commenced commercial operation.

2004

Operating power plants	Regional grid	Installed capacity MW	Gross power generation 100 million kwh	Total power output dispatch 100 million kwh	Average utilisation hours hour	Standard Coal Consumption rate g/kwh
Beijing Thermal	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 Power	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/Weighted Average		5,960	379.8	354.9	6,551	314



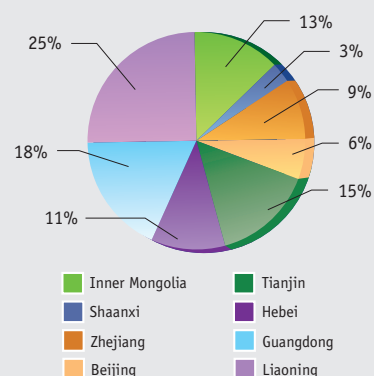
As at 31 December 2005, the Company controlled and operated nine coal-fired power plants. The total installed capacity and equity capacity was 6,560MW and 3,441MW respectively, representing year-on-year increases of 10.1% and 11.9%.

The power plants of the Company are primarily positioned in coastal areas of China, where the demand for electricity is strong and tariffs are comparatively high.

Over the past years, the Company has adopted the concept of minimum staff employment with maximum outsourced consultation in the management of its power business. The Company has benefitted from the adoption of the NOSA Five-Star Management System and lean production. In 2005, the gross 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 units reached 6,533 hours, remaining basically unchanged from 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 consumed, accounting for 92.9% of the total coal consumption. Standard coal consumption rate was 308 g/kwh, representing a year-on-year decrease of 6g/kwh indicating that the efficiency of coal combustion improved.

Power Capacity by Region



1. Sanhe Power Plant
2. Power generation controlling center