Report of the Directors

The board of directors of the Company (the "Board") is pleased to present the report of the board of directors, together with the audited financial statements of the Group for the year ended 31 December 2005.

(I) Principal Activities

The principal activities of the Group include production, transportation and sales of coal as well as power generation in the PRC. The coal business involves developing and operating coal mines, producing and processing coal, and the transportation and sale of coal products. The power generation business involves the use of coal sourced internally as well as external suppliers to generate power for sale primarily to power grid companies.

(II) 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

(III) Results of Operation

Financial results of the Group in 2005 are set out in section "Financial Statements" of this report.

(IV) 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 Shareholders' 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. Please refer to Note 13 to the financial statements of this report.

In addition, the Board proposed to distribute a 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 dividend distribution 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 Articles 168 and 169 of the Articles of Association of China Shenhua Energy Company Limited ("Articles of Association of the Company"), the Company shall declare dividends in Renminbi. Dividends of domestic shares shall be paid in Renminbi 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 Renminbi 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.

(V) Major Customers and Suppliers

The largest external customer and the five largest external customers of the Company accounted for approximately 7.8% and 25.5% respectively of the Company's revenues for the year ended 31 December 2005.

For the year ended 31 December 2005, the total amount of purchases made by the Company from its five largest suppliers accounted for RMB5.43 billion or 25% of the total purchases for the year. The amount of purchases from the largest supplier accounted for RMB2.727 billion or 12.6% of the purchases for the year. As far as the Company is aware, none of the Directors, their associates and shareholders who is interested in more than 5% of the share capital of the Company has any interest in the five largest suppliers and customers.

(VI) Purchase, Sale or Repurchase of Share of the Company

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

(VII) Minimum Public Float

The minimum public float of the Company satisfies the requirement in Rule 8.08 of the Listing Rules.

(VIII) Proceeds from IPO

The net proceeds from the Company's IPO were approximately RMB23.903 billion, after deduction of related expenses. For 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.

(IX) Property, Plant and Equipment

Additions to the property, plant and equipment of the Group for the year ended 31 December 2005 totalled RMB14.892 billion. Details of movements are shown under note 15 of "Financial Statements" of this report.

(X) Distributable Reserves

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

(XI) Shareholding of Substantial Shareholders

Details are set out in the section "Report of Corporate Governance" of this report.

(XII) Directors and Supervisors' Interests in the Share Capital of the Company

Details are set out in the section "Report of Corporate Governance" of this report.

(XIII) Staff Retirement Plan

The Company participated in various retirement plans organised by municipal and provincial governments for the staff in accordance with applicable regulations.

(XIV) Remuneration

In compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules, the Company has a remuneration committee to formulate compensation policies and determine and manage the compensation of the Company's senior management.

(XV) 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.

(XVI) Remuneration of the Directors and Supervisors

Details of the remuneration of the Company's director and supervisors are set out in note 10 of "Financial Statements" of this report.

(XVII) Share Appreciation Rights Scheme

The Company plans to grant share appreciation rights to its senior management each year in accordance with its Share 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, will be subject to approval by the shareholders at the shareholders' annual general meeting.

(XVIII) 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.

(XIX) Donation

The Group contributed a total of RMB11.83 million as charitable and other donations for the year ended 31 December 2005. Please refer to the section "Safety, Health, Environmental Protection and Social Responsibilities" of this report for details.

(XX) Subsidiaries

Details of the principal subsidiaries of the Company are contained in note 18 of section "Financial Statements" of this report.

(XXI) Connected Transactions

The following are the key connected transactions of the Group in 2005:

1. Exempted Connected Transactions

Non-competition Agreement

The Company 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.

2. Non-exempt Continuing Connected Transactions

(1) Export Agency Agreement

In respect of the export sales of our coal products by Shenhua Trading, we entered into an Export Agency Agreement dated 24 May 2005 with Shenhua Group for the export by Shenhua Trading of our coal products for a period of three years from 1 January 2005. Pursuant to the Export Agency Agreement, we appointed Shenhua Trading as our non-exclusive agent for the export of our coal products.

The principal terms of the Export Agency Agreement are: (a) the term shall be renewed upon our request; (b) Shenhua Group shall be appointed as our export agent in priority over other export agencies if the terms of export services offered by it are equal or more favorable than other export agencies; (c) the agency fee shall be based on the relevant market rates or lower rates and shall be payable monthly. Currently Shenhua Group is entitled to charge an agency fee of 0.7% of the FOB price of each tonne of coal exported; (d) we will designate export customers and determine the price of the coal to be exported; (e) Shenhua Trading will receive the purchase price on our behalf. The sale proceeds shall be remitted to us within five days from the date of receipt of the purchase price; and (f) subject to any material claims or losses arising from any material default or negligence on the part of Shenhua Trading, we shall indemnify Shenhua Trading against any claims or losses arising from its performance as our agent of coal export obligations under the Export Agency Agreement.

The Group paid a total of RMB70.13 million as agency fee to Shenhua Group for the year ended 31 December 2005.

(2) Agency Sales Agreement for the Xisanju Companies

Shenhua Group entered into an agency sales agreement dated 24 May 2005 (the "Agency Sales Agreement") with us and our subsidiary, Shenhua Inner Mongolia Coal Transportation and Sales Corporation ("Inner Mongolia Transportation and Sales"). Pursuant to the Agency Sales Agreement, we were appointed the exclusive agent in the PRC for the sale of all the thermal coal produced by Shenhua Wuda Mining Company Limited, Shenhua Haibowan Mining Company Limited and Shenhua Baotou Mining Company Limited being collectively referred to as "Xisanju Companies" (each is a subsidiary of Shenhua Group) and the non-exclusive agent for the sale of the coking coal produced by the Xisanju Companies.

The principal terms of our appointment are: (a) the term of the agreement is three years commencing from 1 January 2005 and is renewable on our request; (b) Inner Mongolia Transportation and Sales will be the exclusive sales agent for all the thermal coal and non-exclusive sales agent for the coking coal produced by the Xisanju Companies. The selling price will be determined by us according to the spot market price, subject to confirmation by Shenhua Group; (c) no agency fee shall be charged for sales within Inner Mongolia. The agency fee for the sales outside Inner Mongolia shall be determined according to the costs of providing such agency service plus a profit margin of 5% of such costs. Inner Mongolia Transportation and Sales shall receive RMB0.50 for each tonne of coal sold under this arrangement monthly, with a settlement of any under or over payment at the end of each auditing year based on the above mentioned method of calculating the agency fees, as soon as the amount of the costs has been audited; and (d) the proceeds of such sales shall be payable to the Xisanju Companies directly by the customers and the Xisanju Companies shall pay the agency fees to us monthly.

For the year ended 31 December 2005, the agency sales fee of coal receivable by the Group from Xisanju Companies was RMB9.68 million.

(3) Mutual Provision of Production Supplies and Ancillary Services Agreement

Shenhua Group and us entered into an agreement on 24 May 2005, for the mutual provision of production supplies and ancillary services.

The principal terms of this mutual supply agreement are as follows: (a) Shenhua Group and we will share the information network systems at no cost to either party; (b) production supplies and ancillary services to be provided by Shenhua Group to us include: (i) Provision of production supplies: explosives, fuses, oil products, and other related or similar production supplies and services; (ii) Ancillary production services: security, logistics and support services, tendering services and other related or similar services; and (iii) Ancillary administrative services: social security and pension management services and staff data recording services; (c) production supplies and ancillary services to be provided by us to Shenhua Group: water supplies, rolling stock management, rail transportation, other related or similar production supplies or services; (d) this mutual supply agreement is for a term of three years commencing from 1 January 2005 and may be renewed upon mutual agreement between the two parties; (e) if the terms and conditions of similar production supplies or ancillary services offered by an independent third party are not better than those offered by one party, the other party shall give priority in sourcing the requisite production supplies and services from the first party; (f) each party may terminate the provision of production supplies and ancillary services on six months' notice unless the other party is unable to obtain similar production supplies and ancillary services from other third parties; and (g) other than the pension administration and temporary staff data services which will be provided by Shenhua Group free of charge and the sharing of use of the information system network, the above goods and services will be provided according to the following pricing policy: (i) the price prescribed by the state (including any price prescribed by any relevant local government), if applicable; (ii) where there is no state-prescribed price but there is a state-guidance price, then state-guidance price; (iii) where there is neither a state-prescribed price nor a state-guidance price, the market price; or (iv) where none of the above is applicable or where it is not practical to apply the above pricing policies in reality, the price agreed between the relevant parties shall be the reasonable costs incurred in providing the goods or services plus a profit margin of 5% of such costs.

For the year ended 31 December 2005, the Group (1) paid a total of RMB753.27 million as agency fee to Shenhua Group for its provision of production supplies and ancillary service; and (2) generated an income of RMB110.22 million for provision of products and services to Shenhua Group.

(4) Mutual Supply of Coal Agreement

Shenhua Group and us entered into an agreement on 24 May 2005 for the mutual provision of coal to the other ("Mutual Supply of Coal Agreement").

The principal terms of the Mutual Supply of Coal Agreement include the following: (a) the term of this agreement is for three years commencing from 1 January 2005 and may be renewed upon agreement; (b) all coal should be sold at the prevailing market price. "Market price" shall mean (i) the price at which the same type of coal product is provided by independent third parties under normal commercial terms in the ordinary course of their businesses in the same area or in the vicinity; or (ii) the price at which the same type of coal product is provided by either party to an independent third party upon normal commercial terms in the ordinary course of business at that time and in the same area; (c) if the terms and conditions offered by an independent third party are no more favorable than those offered by a party for the supply/purchase of the same type of coal, the other party shall give priority in purchasing/providing its coal from/to such a party; (d) the terms and conditions for the provision/purchase of coal by one party to/from the other party shall not be less favorable than those for the provision of coal by that one party to any independent third party or less favorable than those for coal sold by the other party to any independent third party; (e) each party agrees that it, and undertakes to procure that its subsidiaries, shall give priority in the supply of coal to the other party, irrespective of whether such coal could be supplied by any third party or the terms of supply by any third party are the same as those offered by that party; and (f) each party is entitled to purchase coal from any independent third party if such a third party is able to provide coal to it on better terms and conditions than those offered by the other party.

For the year ended 31 December 2005, the Group (1) had a total of RMB927.28 million as expense in respect of Shenhua Group's provision of coal to the Group; and (2) generated an income of RMB401.84 million for provision of coal to Shenhua Group.

(5) Zhonglian Supply Agreement

We have entered into an agreement with Shenhua Zhonglian Energy Holdings Co., Ltd., ("Zhonglian Energy") dated 24 May 2005. Zhonglian Energy holds a 25% equity interest in our non-wholly owned subsidiary, Shuozhou Shenhua Tengda Coal Cleaning and Selection Co., Ltd. ("Shenhua Tengda"). Zhonglian Energy also holds a 70% equity interest in Zhonglian Shuozhou. According to the Listing Rules, Zhonglian Energy is our connected person as it is a substantial shareholder in one of our subsidiaries and Zhonglian Shuozhou is also our connected person by reason of it being an associate (as defined in the Listing Rules) of Zhonglian

Energy. Prior to the Restructuring, Zhonglian Shuozhou sold coal to one of our subsidiaries, Shenhua Changyun High Technology Coal Blending Co., Ltd. ("Changyun Coal Blending"). Shenhua Tengda provided coal washing services to Zhonglian Shuozhou.

The principal terms of the Zhonglian Supply Agreement are as follows: (a) the term of the Zhonglian Supply Agreement is for three years commencing from 1 January 2005; (b) if the terms of the coal washing services provided by independent third parties are not more favorable than that provided by Shenhua Tengda, Zhonglian Shuozhou must give priority to the coal washing services provided by Shenhua Tengda; (c) if the terms for the purchase of coal by an independent third party are not more favorable than that offered by Changyun Coal Blending, Zhonglian Shuozhou must give priority in selling coal to Changyun Coal Blending; (d) if the price offered by an independent third party is not more favorable than that offered by Zhonglian Shuozhou, Shenhua Tengda must give priority in providing coal washing services to Zhonglian Shuozhou; (e) if the terms for the supply of coal by independent third parties are not more favorable than that offered by Zhonglian Shuozhou, Changyun Coal Blending must give priority in buying coal from Zhonglian Shuozhou; (f) the price for the coal supplied by Zhonglian Shuozhou to Changyun Coal Blending and the price for the coal washing services to be supplied by Shenhua Tengda to Zhonglian Shuozhou shall both be calculated and settled according to the prevailing market price; (g) without prejudice to the supply of coal and the provision of coal washing services described above, both parties are entitled to supply coal and to provide coal washing services (as the case may be) to other independent third parties; and (h) either party may terminate the contract upon giving the other six months' written notice.

For the year ended 31 December 2005, the Group (1) had a total of RMB289.98 million as expense to Shenhua Group for provision of coal by the subsidiaries of Zhonglian Energy; and (2) generated an income of RMB18.19 million for provision of coal washing services to the subsidiaries of Zhonglian Energy.

(6) Dingzhou Coal Supply Agreement

We hold a 51% equity interest in Hebei Guohua Cangdong Power Co., Ltd., one of the equity holders of which is Hebei Province Development and Investment Company, which also holds a 40.5% interest in Hebei Guohua Dingzhou Power Co., Ltd. ("Dingzhou Power Company"). Prior to the Restructuring, one of our subsidiaries, Beijing Guohua Logistics Company Limited supplied coal to Dingzhou Power Company. The transactions will continue after the Global Offering. According to the Listing Rules, Hebei Province Development and Investment Company is our connected person and Dingzhou Power Company is also our connected person by reason of it being an associate (as defined in the Listing Rules) of Hebei Province Development and Investment Company. To regulate the relationships between the parties in these respects, we have entered into a coal supply agreement on 24 May 2005 relating to our supply of coal to Dingzhou Power Company.

The principal terms of the Dingzhou Coal Supply Agreement are as follows: (a) the term of the agreement is for three years commencing from 1 January 2005; (b) if the terms of the sale of coal offered by independent third parties are not more favorable than those offered by Dingzhou Power Company, we shall give priority to Dingzhou Power Company for our supply of coal. Conversely, Dingzhou Power Company agrees to give us priority in the purchase of coal if the terms offered by independent third parties are not more favourable than those offered by us; (c) the prices for the coal supplies rendered by us or our subsidiaries to Dingzhou Power Company shall be calculated and settled according to the prevailing market price; (d) we are entitled to supply coal to any third party; and (e) either party may terminate the agreement upon giving the other party six month's written notice.

For the year ended 31 December 2005, the Group generated an income of RMB731.43 million for provision of coal to Dingzhou Power Company.

(7) Supply of Power by Our Power Plants to Substantial Shareholders of Some of Our Non-wholly Owned Subsidiaries

One of our indirect subsidiaries, Tianjin Guohua Panshan Power Generation Company, operates the Panshan Power which supplies power generated by it to one of its own substantial equity holders, the North China Power Grid Co., Ltd. ("Northern Grid Corporation"). Pursuant to the Listing Rules, Northern Grid Corporation is a connected person (being a substantial shareholder (as defined in the Listing Rules) at our subsidiary level) and any transactions between it, its associates (including its holding company, subsidiaries or fellow subsidiaries) and us are connected transactions. Similarly, our Sanhe Power Company Limited and CLP Guohua Beijing Thermal Power Branch, which are two of our indirect subsidiaries, also supply power generated by their respective power plants to Northern Grid Corporation, which is a subsidiary of State Grid Corporation.

In addition, four of our power plants also sell the power generated by them through the power grid company(ies) where they are located. The ultimate purchaser of power generated by each of these subsidiaries are the relevant local power grid companies (each a "Power Purchaser" and collectively the "Power Purchasers"). As these Power Purchasers are all owned or controlled by the same parent company, the State Power Grid Corporation of China, they are all fellow subsidiaries of a connected person and therefore, the supply of power to these power grid companies are all connected transactions within the Listing Rules. Each of our power plants has entered into interim power purchase agreements ("Interim Purchase Agreements") with its corresponding Power Purchasers to supply them power until 31 December 2005.

The principal terms of the Interim Purchase Agreements are as follows: (a) the term commenced from 1 January 2005 until the signing of long-term power sales and purchase agreement and in no event later than 31 December 2005; (b) the total amount of power purchase from each of our power plants is regulated by the relevant authorities under the principle of equality between all power suppliers and the relevant Power Purchaser; and (c) the price of power supplied to the relevant Power Purchaser will be determined pursuant to the regulations of the PRC government and be approved by the relevant authorities.

For the year ended 31 December 2005, the Group generated an income of RMB7,843.88 million for power supply to North China Power Grid Co., Ltd., Northeastern China Power Grid Co., Ltd. and Northwestern China Power Grid Co., Ltd.

(8) Properties Leasing Agreement

We have entered into a properties leasing agreement on 24 May 2005 with Shenhua Group (the "Properties Leasing Agreement") regarding the terms and conditions for the lease of these buildings.

The principal terms of the Properties Leasing Agreement are: (a) the lease is for a period of ten years from 1 January 2005, and may be renewed upon agreement; (b) no rent is payable by us in relation to each of the properties rented before Shenhua Group obtains the relevant certificates of property ownership for that piece of property. Thereafter, the annual rent (exclusive of all taxes payable, which shall be paid by Shenhua Group) shall be calculated based on comparable market rates and shall be payable by us on a half-yearly basis; (c) the rent will be reviewed every three years and the revised rent shall not be higher than the market rental rates of similar properties; (d) if Shenhua Group negotiates to sell a property leased by us to a third party, we shall have a pre-emptive right to purchase such property under terms no less favorable to us; and (e) we may sub-let any of the properties with the consent of Shenhua Group.

For the year ended 31 December 2005, the Group (1) paid a rental payment of RMB49.26 million to Shenhua Group; and (2) had no rental income since rental service to be provided to Shenhua had not commenced.

The independent non-executive directors of the Company have reviewed the non-exempt continuing connected transactions (1) to (8) set out above and are of the opinion that: (1) these transactions are within the ordinary course of business of the Group; (2) these transactions are conducted on normal commercial terms, or where there was no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as applicable) independent third parties; and (3) these transactions are conducted in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

For the year ended 31 December 2005, three connected transactions of the Company exceeded the annual cap disclosed in the prospectus. These transactions include products and ancillary services provided by Shenhua Group to the Group which incurred an expense of approximately RMB753.3 million, as compared to the annual cap set at RMB707.4 million; coal sales made by the Group to Shenhua Group which generated an income of approximately RMB401.8 million, as compared to the annual cap set at RMB226.1 million; and the agency fees received by the Group for services provided to Xisanju Companies which generated an account payable of approximately RMB9.7 million, as compared to the annual cap set at RMB4.7 million. Please refer to the Company's announcement published on 20 March 2006 for details of the reasons for exceeding the annual caps of these transactions.

In accordance with the Listing Rules, these three connected transactions shall not be required for approval by the independent shareholders.

The auditor of the Company has reviewed the transactions and issued a relevant letter to the Board to state that: (1) these transactions received the approval by the Board of the Company; (2) they are not aware of any indication which would make them believe that these transactions were not conducted in compliance with the related terms of agreements for the transactions or their prices were not made in line with the Group's pricing policy; (3) except those stated in (4), they are not aware of any other matters which would make them believe that these connected transactions exceeded the maximum limit of exemption as approved by the Hong Kong Stock Exchange; and (4) in respect of the Mutual Provision of Production Supplies and Ancillary Services Agreement, Mutual Supply of Coal Agreement and Agency Sales Agreement for the Xisanju Companies, the expenses incurred by the Group due to Shenhua Group's provision of production materials and ancillary service, the income generated from provision of coal to Shenhua Group and the amount receivable by the Group from Shenhua Group for coal sales agency service provided to Xisanju Companies, exceeded the maximum limit of exemption as approved by the Hong Kong Stock Exchange for the year ended 31 December 2005.

3. Waivers

The Company has obtained a waiver from the Hong Kong Stock Exchange prior to the Company's listing in relation to connected transactions (1) to (6), and (8) set out above from strict compliance with the announcement and/or independent shareholders' approval requirements of the Listing Rules until 31 December 2007. The Hong Kong Stock Exchange granted a waiver to the Company in relation to connected transaction (7) set out above from strict compliance with the announcement and independent shareholders' approval requirements of the Listing Rules until 31 December 2005.

(XXII) Pre-emptive rights

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

(XXIII) Auditors

The Company has appointed KPMG and KPMG Huazhen as the international and PRC auditors, respectively, of the Company for the year ended 31 December 2005. KPMG has conducted the audit of the financial statements which were prepared in accordance with International Financial Reporting Standards ("IFRSs"). 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.

(XXIV) 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 the report of directors, 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.