

REPORT OF THE DIRECTORS

The directors (the "Directors") of China Resources Power Holdings Company Limited (the "Company") have the pleasure in presenting to the shareholders their report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Group is to invest, develop, operate and manage large coal-fired power plants in the more affluent regions in China. Particulars of the Company's principal subsidiaries and associates are set out in notes 18 and 19 to the financial statements, respectively.

GROUP PROFIT

The consolidated income statement is set out on page 79 and shows the Group's profit for the year ended 31 December 2005. A discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided in the Management's Discussion and Analysis on pages 20 to 49 of this Annual Report.

DIVIDENDS

An interim dividend of HK3 cents per share was paid on 3 October 2005.

The Board of Directors resolved to recommend the payment of a final dividend of HK10 cents per share and a special dividend of HK6 cents per share for the year ended 31 December 2005 to shareholders whose names appear on the Register of Members of the Company on 19 May 2006. The proposed dividends will be paid on or about 5 June 2006 following approval at the Annual General Meeting.

PROPERTY, PLANT AND EQUIPMENT

Details of the movement in property, plant and equipment of the Group and the Company during the year are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 36 to the financial statements. There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares (the "Shares") during the year.

RESERVES

Distributable reserves of the Company amounted to HK\$3,063.5 million as at 31 December 2005 (2004: HK\$240.1 million). Movement in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on pages 83 to 84 of this Annual Report and note 38 to the financial statements, respectively.

BANK LOANS AND OTHER BORROWINGS

The total borrowings of the Group as at 31 December 2005 amounted to HK\$11,045.3 million (2004: HK\$9,059.5 million). Particulars of borrowings are set out in note 34 to the financial statements.

DIRECTORS

The Directors who held office during the year and as at the date of this Annual Report are as follows:

Executive Directors:

Mr. Song Lin	(Chairman)
Mr. Wang Shuai Ting	(Vice Chairman and Chief Executive Officer)
Mr. Shen Zhong Min	(Chief Operation Officer)
Mr. Tang Cheng	
Mr. Zhang Shen Wen	
Ms. Wang Xiao Bin	(appointed on 13 February 2006)

Non-Executive Director:

Mr. Jiang Wei

Independent Non-Executive Directors:

Mr. Fong Ching, Eddy	
Mr. Anthony H. Adams	
Mr. Wu Jing Ru	
Mr. Chen Ji Min	(appointed on 13 February 2006)

Mr. Wang Shuai Ting, Mr. Shen Zhong Min, Mr. Tang Cheng and Mr. Zhang Shen Wen have entered into service contracts with the Company on 22 August 2003 for a term of three years.

Other than as disclosed above, as at 31 December 2005, none of the Directors had a service contract with the Company or any subsidiaries which is not determinable by the employing company within one year without payment of compensation other than statutory compensation.

In accordance with Article 120 of the Company's Articles of Association, Mr. Wang Shuai Ting, Mr. Shen Zhong Min and Mr. Wu Jing Ru retire and being eligible, offer themselves for re-election in the forthcoming annual general meeting of the Company. In addition, in accordance with Article 98 of the Company's Articles of Association, Mr. Chen Ji Min and Ms. Wang Xiao Bin, who were appointed on 13 February 2006, will retire and offer for re-election in the forthcoming annual general meeting of the Company.

The Company has received annual confirmation from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

Biographical details of the Directors as at the date of this report are set out on pages 16 to 18 of this Annual Report. Details of Directors' remuneration are provided under note 12 to the financial statements.

SHARE OPTIONS

The Company has two share option schemes, namely the pre-IPO share option scheme and the share option scheme as follows:

(A) Pre-IPO Share Option Scheme

The Company adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") on 6 October 2003. The purposes of the Pre-IPO Share Option Scheme are to attract and retain the best available personnel; to provide additional incentive to employees, directors, consultants and advisors of (a) the Company, its subsidiaries and associated companies and (b) China Resources (Holdings) Company Limited ("CRH") and its subsidiaries; and to promote the success of the business of the Company, its subsidiaries and associated companies. The Pre-IPO Share Option Scheme ended on 12 November 2003, being the date on which dealings in the Shares commenced on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and no further options under the Pre-IPO Share Option Scheme can be granted after that date. The provisions of the Pre-IPO Share Option Scheme shall remain in full force and effect for a period of 10 years from 6 October 2003.

Under the Pre-IPO Share Option Scheme, each option has a 10-year exercise period within which there is a total vesting period of five years. Commencing from the first, second, third, fourth and fifth anniversaries of the date of grant of an option, the relevant grantee may exercise up to 20%, 40%, 60%, 80% and 100% respectively of the Shares comprised in his or her option.

As at 31 December 2005, a total of 164,137,000 Shares (representing approximately 4.3% of the existing issued share capital of the Company) may be issued by the Company upon exercise of all options which had been granted under the Pre-IPO Share Option Scheme.

Movement of the options under the Pre-IPO Share Option Scheme during the year ended 31 December 2005 is as follows:

Name of Director	Date of grant	Number of options outstanding as at 1 January 2005	Number of options lapsed or cancelled during the year	Number of options exercised during the year ^(Note)	Number of options outstanding as at 31 December 2005	Date of expiry	Exercise price (HK\$)
Song Lin	6 Oct 2003	2,000,000	—	—	2,000,000	5 Oct 2013	2.80
Wang Shuai Ting	6 Oct 2003	4,500,000	—	—	4,500,000	5 Oct 2013	2.80
Shen Zhong Min	6 Oct 2003	3,000,000	—	—	3,000,000	5 Oct 2013	2.80
Tang Cheng	6 Oct 2003	3,000,000	—	—	3,000,000	5 Oct 2013	2.80
Zhang Shen Wen	6 Oct 2003	3,000,000	—	—	3,000,000	5 Oct 2013	2.80
Jiang Wei	6 Oct 2003	1,000,000	—	—	1,000,000	5 Oct 2013	2.80
Aggregate total of employees	6 Oct 2003	100,575,000	—	(140,000)	100,435,000	5 Oct 2013	2.80
Aggregate total of other participants	6 Oct 2003	49,130,000	(104,000)	(1,824,000)	47,202,000	5 Oct 2013	2.80
		166,205,000	(104,000)	(1,964,000)	164,137,000		

Note: The weighted average closing prices of the Shares immediately before the dates on which the options were exercised was HK\$4.32.

(B) Share Option Scheme

A share option scheme (the "Share Option Scheme") was approved by a resolution in writing of the shareholders of the Company on 6 October 2003. The purposes of the Share Option Scheme are to attract and retain the best available personnel; to provide additional incentive to employees, directors, consultants and advisors of (a) the Company, its subsidiaries and associated companies and (b) CRH and its subsidiaries; and to promote the success of the business of the Company, its subsidiaries and associated companies.

The Board may, at its absolute discretion, offer an option to eligible person to subscribe for the Shares at an exercise price and subject to the other terms of the Share Option Scheme. Upon acceptance of the offer of a grant, the grantee shall pay HK\$1.00 to the Company as nominal consideration for the grant.

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 367,000,000 Shares of the Company, being 10% of the total number of Shares in issue immediately prior to the date on which dealings in the Shares commenced on the Stock Exchange.

The total number of Shares issued and to be issued upon the exercise of the options granted to or to be granted to each eligible person under the Share Option Scheme and any other schemes of the Company or any of its subsidiaries (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue.

Options granted have a 10-year exercise period within which there is a total vesting period of five years. Commencing from the first, second, third, fourth and fifth anniversaries of the date of grant of an option, the relevant grantee may exercise up to 20%, 40%, 60%, 80% and 100% respectively of the Shares comprised in his or her option.

The Share Option Scheme will remain in force for a period of 10 years from 6 October 2003.

On 18 March 2005, in consideration of HK\$1.00 per grant, options to subscribe for an aggregate of 35,000,000 Shares at an exercise price of HK\$3.99 (being the highest of (1) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date the share option was granted, (2) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant, or (3) the nominal value of the Shares) were conditionally granted to 70 grantees under the Share Option Scheme.

On 18 November 2005, in consideration of HK\$1.00 per grant, options to subscribe for an aggregate of 61,800,000 Shares at an exercise price of HK\$4.725 (being the highest of (1) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date the share option was granted, (2) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant, or (3) the nominal value of the Shares) were conditionally granted to 263 grantees under the Share Option Scheme.

As at 31 December 2005, a total of 124,300,000 Shares (representing approximately 3.3% of the existing issued share capital of the Company) may be issued by the Company upon exercise of all options which had been granted under the Share Option Scheme.

Movement of the options granted under the Share Option Scheme during the year ended 31 December 2005 is as follows:

Name of Director	Date of grant	Number of options outstanding as at 1 January 2005	Number of options granted during the year	Number of options lapsed or cancelled during the year	Number of options outstanding as at 31 December 2005	Date of expiry	Exercise price (HK\$)
Song Lin	18 Mar 2005	—	900,000	—	900,000	17 Mar 2015	3.99 ⁽¹⁾
Wang Shuai Ting	18 Mar 2005	—	900,000	—	900,000	17 Mar 2015	3.99 ⁽¹⁾
Shen Zhong Min	18 Mar 2005	—	600,000	—	600,000	17 Mar 2015	3.99 ⁽¹⁾
Tang Cheng	18 Mar 2005	—	600,000	—	600,000	17 Mar 2015	3.99 ⁽¹⁾
Zhang Shen Wen	18 Mar 2005	—	600,000	—	600,000	17 Mar 2015	3.99 ⁽¹⁾
Jiang Wei	18 Mar 2005	—	600,000	—	600,000	17 Mar 2015	3.99 ⁽¹⁾
Aggregate total of employees	1 Sept 2004	23,600,000	—	(400,000)	23,200,000	31 Aug 2014	4.25
	18 Mar 2005	—	22,300,000	—	22,300,000	17 Mar 2015	3.99 ⁽¹⁾
	18 Nov 2005	—	52,050,000	—	52,050,000	17 Nov 2015	4.725 ⁽²⁾
Aggregate total of other participants	1 Sept 2004	4,300,000	—	—	4,300,000	31 Aug 2014	4.25
	18 Mar 2005	—	8,500,000	—	8,500,000	17 Mar 2015	3.99 ⁽¹⁾
	18 Nov 2005	—	9,750,000	—	9,750,000	17 Nov 2015	4.725 ⁽²⁾
		27,900,000	96,800,000	(400,000)	124,300,000		

- Note: 1. The closing price of the Shares immediately before the date on which the options were granted was HK\$3.875.
2. The closing price of the Shares immediately before the date on which the options were granted was HK\$4.675.

DIRECTORS' INTERESTS IN SECURITIES

Save as disclosed below, as at 31 December 2005, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 Laws of Hong Kong) ("SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Companies, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein:

(A) The Company

Details of shares and outstanding options granted under the Pre-IPO Share Option Scheme and Share Option Scheme in the Company held by the Directors as at 31 December 2005 are as follows:

Name of Director	Capacity			Number of issued ordinary shares held		Percentage of the issued share capital of the Company	
Wang Shuai Ting	Beneficial Owner			350,000		0.009%	

Name of Director	Capacity	Date of grant	Date of expiry	Exercise price (HK\$)	Number of options and underlying shares as at 1 Jan 2005	Number of options granted during the year	Number of options exercised during the year	Number of options and underlying shares as at 31 Dec 2005	Percentage of the issued share capital of the Company
Song Lin	Beneficial Owner	6 Oct 2003	5 Oct 2013	2.80	2,000,000	—	—	2,000,000	0.052%
	Beneficial Owner	18 Mar 2005	17 Mar 2015	3.99	—	900,000	—	900,000	0.024%
Wang Shuai Ting	Beneficial Owner	6 Oct 2003	5 Oct 2013	2.80	4,500,000	—	—	4,500,000	0.118%
	Beneficial Owner	18 Mar 2005	17 Mar 2015	3.99	—	900,000	—	900,000	0.024%
Shen Zhong Min	Beneficial Owner	6 Oct 2003	5 Oct 2013	2.80	3,000,000	—	—	3,000,000	0.079%
	Beneficial Owner	18 Mar 2005	17 Mar 2015	3.99	—	600,000	—	600,000	0.016%
Tang Cheng	Beneficial Owner	6 Oct 2003	5 Oct 2013	2.80	3,000,000	—	—	3,000,000	0.079%
	Beneficial Owner	18 Mar 2005	17 Mar 2015	3.99	—	600,000	—	600,000	0.016%
Zhang Shen Wen	Beneficial Owner	6 Oct 2003	5 Oct 2013	2.80	3,000,000	—	—	3,000,000	0.079%
	Beneficial Owner	18 Mar 2005	17 Mar 2015	3.99	—	600,000	—	600,000	0.016%
Jiang Wei	Beneficial Owner	6 Oct 2003	5 Oct 2013	2.80	1,000,000	—	—	1,000,000	0.026%
	Beneficial Owner	18 Mar 2005	17 Mar 2015	3.99	—	600,000	—	600,000	0.016%
Fong Ching, Eddy	Beneficial Owner	18 Nov 2005	17 Nov 2015	4.725	—	200,000	—	200,000	0.005%
Anthony H. Adams	Beneficial Owner	18 Nov 2005	17 Nov 2015	4.725	—	200,000	—	200,000	0.005%
Wu Jing Ru	Beneficial Owner	18 Nov 2005	17 Nov 2015	4.725	—	200,000	—	200,000	0.005%

(B) China Resources Enterprise, Limited

China Resources Enterprise, Limited ("CRE"), a fellow subsidiary of the Company, has a share option scheme to subscribe for the shares in CRE. Details of shares and outstanding options in CRE held by the Directors as at 31 December 2005 are as follows:

Name of Director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of CRE
Song Lin	Family Interest ^(Note)	200,000	0.009%
Wang Shuai Ting	Beneficial Owner	150,000	0.007%
Tang Cheng	Beneficial Owner	80,000	0.004%

Name of Director	Capacity	Date of grant	Date of expiry	Exercise price (HK\$)	Number of options and underlying shares as at 1 Jan 2005	Number of options granted during the year	Number of options exercised during the year	Number of options and underlying shares as at 31 Dec 2005	Percentage of the issued share capital of CRE
Song Lin	Beneficial Owner	7 Feb 2002	6 Feb 2012	7.17	2,000,000	—	—	2,000,000	0.090%
	Beneficial Owner	14 Jan 2004	13 Jan 2014	9.72	2,500,000	—	—	2,500,000	0.112%
	Family Interest ^(Note)	20 Jun 2000	19 Jun 2010	7.19	200,000	—	—	200,000	0.009%
Wang Shuai Ting	Beneficial Owner	5 Mar 2002	4 Mar 2012	7.35	450,000	—	(450,000)	—	—
Tang Cheng	Beneficial Owner	5 Mar 2002	4 Mar 2012	7.35	80,000	—	(80,000)	—	—
Zhang Shen Wen	Beneficial Owner	5 Mar 2002	4 Mar 2012	7.35	50,000	—	—	50,000	0.002%
Jiang Wei	Beneficial Owner	8 Mar 2002	7 Mar 2012	7.50	600,000	—	—	600,000	0.027%

Note: The shares in CRE and the outstanding options were held by the spouse of Mr. Song Lin.

(C) China Resources Logic Limited

China Resources Logic Limited ("CR Logic"), a fellow subsidiary of the Company, has a share option scheme to subscribe for the shares in CR Logic. Details of shares and the outstanding options in CR Logic held by the Directors as at 31 December 2005 are as follows:

Name of Director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of CR Logic
Song Lin	Beneficial Owner	3,600,000	0.135%

Name of Director	Capacity	Date of grant	Date of expiry	Exercise price (HK\$)	Number of options and underlying shares as at 1 Jan 2005	Number of options granted during the year	Number of options exercised during the year	Number of options and underlying shares as at 31 Dec 2005	Percentage of the issued share capital of CR Logic
Song Lin	Beneficial Owner	21 Sept 2000	20 Sept 2010	0.59	6,900,000	—	—	6,900,000	0.259%
	Beneficial Owner	13 Jan 2004	12 Jan 2014	0.906	2,000,000	—	—	2,000,000	0.075%
Wang Shuai Ting	Beneficial Owner	9 Apr 2002	8 Apr 2012	0.82	540,000	—	—	540,000	0.020%
Tang Cheng	Beneficial Owner	9 Apr 2002	8 Apr 2012	0.82	90,000	—	—	90,000	0.003%
Zhang Shen Wen	Beneficial Owner	9 Apr 2002	8 Apr 2012	0.82	60,000	—	—	60,000	0.002%
Jiang Wei	Beneficial Owner	9 Apr 2002	8 Apr 2012	0.82	720,000	—	—	720,000	0.027%

(D) China Resources Land Limited

China Resources Land Limited ("CR Land"), a fellow subsidiary of the Company, has a share option scheme to subscribe for the shares in CR Land. Details of outstanding options in CR Land held by the Directors as at 31 December 2005 are as follows:

Name of Director	Capacity	Date of grant	Date of expiry	Exercise price (HK\$)	Number of options and underlying shares as at 1 Jan 2005	Number of options granted during the year	Number of options exercised during the year	Number of options and underlying shares as at 31 Dec 2005	Percentage of the issued share capital of CR Land
Song Lin	Beneficial Owner	1 Jun 2005	31 May 2015	1.23	—	900,000	—	900,000	0.032%
Wang Shuai Ting	Beneficial Owner	4 Mar 2002	31 Jan 2012	1.59	540,000	—	—	540,000	0.019%
Tang Cheng	Beneficial Owner	4 Mar 2002	31 Jan 2012	1.59	100,000	—	—	100,000	0.004%
Zhang Shen Wen	Beneficial Owner	4 Mar 2002	31 Jan 2012	1.59	60,000	—	—	60,000	0.002%
Jiang Wei	Beneficial Owner	4 Mar 2002	3 Mar 2012	1.59	720,000	—	—	720,000	0.026%
	Beneficial Owner	1 Jun 2005	31 May 2015	1.23	—	700,000	—	700,000	0.025%

ARRANGEMENT FOR DIRECTORS TO ACQUIRE SHARES

Other than disclosed in "Directors' Interests in Securities" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or the chief executive or their respective associates, of the Company to acquire benefits by means of the acquisition of shares in, or debt securities of, the Company or any associated corporation and none of the Directors and chief executive, or their spouse and children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries, holding companies or fellow subsidiaries was a party and in which a Director had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

In addition there was no contract of significance between the Company and its controlling shareholder (or its subsidiaries) (if any) and there was no contract of significance for the provision of services to the Company by its controlling shareholder (or its subsidiaries) (if any) subsisting during the year.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 December 2005, the Directors were not aware of any other persons (other than a Director or chief executive, whose interests are disclosed in the section headed "Directors' Interests in Securities" above) who had an interest or short position in the Shares or underlying shares of the Company as recorded in the register kept pursuant to Section 336 of the SFO:

Name of shareholders	Capacity	No. of Shares held	Approximate % of shareholding
CRH	Beneficial owner	2,750,000,000	72.2%
CRC Bluesky Limited	Interest of a controlled corporation	2,750,000,000	72.2%
China Resources Co., Limited ("CRL")	Interest of a controlled corporation	2,750,000,000	72.2%
China Resources National Corporation ("CRNC")	Interest of a controlled corporation	2,750,000,000	72.2%

Note: CRH is a 100% subsidiary of CRC Bluesky Limited, which is in turn owned as to 100% by CRL, which is in turn held as to 99.98% by CRNC. Each of CRNC, CRL and CRC Bluesky Limited is deemed by virtue of Part XV of the SFO to have the same interests in the share capital of the Company as those of CRH.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

- (a) On 11 April 2005, a rental agreement was entered into between China Resources Property Management Co., Ltd. (the "Lessor"), a wholly-owned subsidiary of CRH and the Company in respect of Rooms 3203-3204, 32nd Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong. The term of such rental agreement is 2 years commencing from 1 April 2005 to 31 March 2007 at a monthly rent of HK\$65,877 exclusive of rates, management fee and air-conditioning fee. The total leasable area of the premises is 3,137 square feet. The total rent payable per annum is HK\$790,524. Half of all the rights, interests, liabilities and obligations of the Company under this rental agreement were assigned to Resources Shajiao C Investments Limited, a subsidiary of the Company, pursuant to a novation agreement dated 17 October 2003.

- (b) On 22 July 2005, a rental agreement was entered into between the Lessor and the Company in respect of Rooms 2001-2002, 20th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong. The term of such rental agreement is 2 years commencing from 20 September 2005 to 19 September 2007 at a monthly rent of HK\$64,974 exclusive of rates, management fee and air-conditioning fee. The total leasable area of the premises is 3,094 square feet. The total rent payable per annum is HK\$779,688.
- (c) On 16 September 2005, a rental agreement was entered into between the Lessor and the Company in respect of Rooms 20A, 20th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong. The term of such rental agreement is 23 months commencing from 20 October 2005 to 19 September 2007 at a monthly rent of HK\$18,627 exclusive of rates, management fee and air-conditioning fee. The total leasable area of the premises is 887 square feet. The total rent payable per annum is HK\$223,524.
- (d) In November 2004, a rental agreement was entered into between China Resources (Shenzhen) Co., Ltd., a wholly-owned subsidiary of CRH and China Resources Power Project Service Co., Ltd., a wholly-owned subsidiary of the Company in respect of 22nd Floor, China Resources Building, 5001 Shen Nan Dong Road, Shenzhen. The term of such rental agreement is three years commencing from 1 December 2004 to 30 November 2007 at a monthly rent of RMB260,955 exclusive of rates, management fee and air-conditioning fee. The total leasable area of the premises is 1,933 square meter. The total rent payable per annum is RMB3,131,460.
- (e) The Company entered into a management agreement dated 17 October 2003 with CRH in respect of the management of two power plant project companies held by CRH. The management agreement relates to CRH entrusting the Company to manage CRH's 65% and 55% interests in Yunnan China Resources Power (Honghe) Company Limited and Fuyang China Resources Power Company Limited, respectively, for a term of three years in return for a fixed service fee of HK\$2,000,000 in aggregate per annum. The management agreement grants to the Company a right of renewal subject to the agreement of the parties in respect of the service fees thereunder.
- (f) A deed of option dated 17 October 2003 was executed by CRNC in favour the Company, under which the Company was granted an option, in consideration of a nominal amount of HK\$1.00, to acquire all of CRNC's interest in 25% of the entire registered capital of Hengfeng Phase II. The Company exercised its right of acquisition on 30 August 2004. The consideration was RMB65,000,000, being the amount equal to the net book value of Hengfeng Phase II on the same day as determined by an independent valuer. The acquisition was completed in January 2005.

The independent non-executive directors have confirmed that the above connected transactions and continuing connected transactions:

- (i) have been entered into in the ordinary course of the Company's business;
- (ii) had been entered into either:
 - (a) on normal commercial terms; or
 - (b) where there was no available comparison to judge whether they are on normal commercial terms, on terms no less favourable than those available to or from independent third parties; and
- (iii) had been entered into on terms that are fair and reasonable so far as the independent shareholders of the Company are concerned, and in accordance with the terms of the agreement governing such transactions.

MAJOR CUSTOMERS AND SUPPLIERS

Purchases from the Group's five largest suppliers together accounted for 30.8% of the Group's total purchases during the year. The five largest suppliers are 大同煤礦集團有限責任公司 (Datong Coal Mine Group Co., Ltd.) (7.4%), 上海中煤華東有限公司 (Shanghai China Coal East China Co., Ltd.) (6.8%), 上海神華煤炭運銷有限公司 (Shanghai Shenhua Coal Transport & Sale Co., Ltd.) (6.3%), 平頂山天安煤業股份有限公司 (Pingdingshan Tianan Coal Mining Co., Ltd.) (5.9%), and 義馬煤業(集團)有限責任公司 (Yima Coal (Group) Co., Ltd.) (4.4%). To the best knowledge of the Directors, neither the Directors, their associates, nor any shareholders who owns more than 5% of the Company's issued share capital had any interest in any of the Group's top five suppliers.

Sales to the Group's five largest customers together accounted for 98.2% of the Group's total turnover during the year. The five largest customers are 江蘇省電力公司 (Jiangsu Electric Power Company) (34.8%), 廣東省廣電集團公司 (Guangdong Guangdian Group Company) (20.7%), 華中電網有限公司 (Central China Grid Company Limited) (20.4%), 河南省電力有限公司 (Henan Provincial Power Company) (18.7%), 中國華北電網有限公司 (North China Grid Company Limited) (3.6%). To the best knowledge of the Directors, neither the Directors, their associates, nor any shareholders who owns more than 5% of the Company's issued share capital had any interest in the Group's top five suppliers.

At no time during the year did a Director, an associate of a Director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) have any interest in any of the Group's five largest suppliers or customers.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company and its subsidiaries did not purchase, sell or redeem any securities of the Company during the year ended 31 December 2005.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied, throughout the financial year, with the code provision set out in the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules. For details, please refer to the Corporate Governance Report on pages 50 to 61 in this Annual Report.

MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code throughout the year ended 31 December 2005.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

AUDIT COMMITTEE

The financial statements have been reviewed by the Audit Committee. All of the four Audit Committee members are appointed from the independent non-executive Directors, with the Chairman of the Audit Committee having appropriate professional qualifications and experience in financial matters, including review of financial statements.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs Deloitte Touche Tohmatsu as the auditors of the Company.

On behalf of the Board

Song Lin
Chairman

Hong Kong, 20 March 2006