IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

中国神华
CHINA SHENHUA

China Shenhua Energy Company Limited

中國神華能源股份有限公司

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

GLOBAL OFFERING

Number of Shares offered pursuant to the Global Offering:	**3,063,500,000 H Shares (comprising 2,785,000,000 Offer Shares to be offered by the Company and 278,500,000 Offer Shares to be offered by the Selling Shareholder, subject to adjustment and the Over-allotment Option)**
Number of Hong Kong Public Offer Shares:	**153,175,000 H Shares (subject to adjustment)**
Number of International Offer Shares:	**2,910,325,000 H Shares (subject to adjustment and the Over-allotment Option)**
Maximum Offer Price:	**HK$9.25 per Offer Share (payable in full on application and subject to refund)**
Nominal Value:	**RMB1.00 each Share**
Stock Code:	**1088**

Joint Global Coordinators and Joint Bookrunners
(in alphabetical order)

China International Capital Corporation Limited | **Deutsche Bank** | **Merrill Lynch Far East Limited**

Joint Sponsors and Joint Lead Managers
(in alphabetical order)

China International Capital Corporation (Hong Kong) Limited | **Deutsche Bank AG, Hong Kong Branch** | **Merrill Lynch Far East Limited**

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Appendix X — Documents Delivered to the Registrar of Companies and Available For Inspection" in this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us (for our Company and on behalf of the Selling Shareholder) on the Price Determination Date. The Price Determination Date is expected to be on or about 8 June 2005 and, in any event, not later than 13 June 2005. The Offer Price will be not more than HK$9.25 and is currently expected to be not less than HK$7.25. Applicants for Hong Kong Public Offer Shares are required to pay, on application, the maximum offer price of HK$9.25 for each Hong Kong Public Offer Share, together with a brokerage of 1%, SFC transaction levy of 0.005% and investor compensation levy of 0.002% and Hong Kong Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price should be lower than HK$9.25.

The Joint Global Coordinators (on behalf of the Underwriters and with our and the Selling Shareholder's consent) may reduce the number of Offer Shares and/or the indicative offer price range below that stated in this prospectus (which is HK$7.25 to HK$9.25) at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Offer Shares and/or the indicative offer price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. If applications for Hong Kong Public Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, then even if the number of Offer Shares and/or the indicative offer price range is so reduced, such applications cannot be subsequently withdrawn. Further details are set forth in "Structure of the Global Offering" and "How to apply for Hong Kong Public Offer Shares" in this prospectus.

If, for whatever reason, we, the Selling Shareholder and the Joint Global Coordinators (on behalf of the Underwriters) are not able to agree on the Offer Price, the Global Offering (including the Hong Kong Public Offering) will not proceed.

We are incorporated, and substantially all of our businesses are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong, and the fact that there are different risks associated with investment in PRC-incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong, and should take into consideration the different market nature of our H Shares. Such differences and risks are set forth in "Risk Factors" and "Appendix VII — Summary of Principal Legal and Regulatory Provisions" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and/or purchase of and to procure applicants for the subscription for and/or purchase of the Hong Kong Public Offer Shares, are subject to termination by the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in the Offer Shares commences on the Hong Kong Stock Exchange. Such grounds are set forth in "Underwriting" in this prospectus. It is important that you refer to that section for further details.

2 June 2005

Application lists open[2]	11:45 a.m. on Tuesday, 7 June 2005
Latest time to lodge **WHITE** and **YELLOW** Application Forms	12:00 noon on Tuesday, 7 June 2005
Latest time to give **electronic application instructions** to HKSCC[3]	12:00 noon on Tuesday, 7 June 2005
Application lists close	12:00 noon on Tuesday, 7 June 2005
Expected Price Determination Date[4]	Wednesday, 8 June 2005
Announcement of the Offer Price, the indication of level of interest in the International Offering, the results of applications in the Hong Kong Public Offering and the basis of allotment of the Hong Kong Public Offer Shares to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before	Tuesday, 14 June 2005
Despatch of H Shares certificates and refund cheques[5] on or before	Tuesday, 14 June 2005
Dealings in H Shares on the Hong Kong Stock Exchange expected to commence on	Wednesday, 15 June 2005[6]

Notes:

(1) All times refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in "Structure of the Global Offering."

(2) If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force at any time between 9:00 a.m. and 12 noon on 7 June 2005, the application lists will not open on that day. Further information is set out in "How to Apply for Hong Kong Public Offer Shares — Effect of bad weather on the opening of the application lists."

(3) Applicants who apply for the Hong Kong Public Offer Shares by giving electronic application instructions to HKSCC should refer to "How to Apply for Hong Kong Public Offer Shares — Applying by giving electronic application instructions to HKSCC."

(4) The Price Determination Date, being the date on which the Offer Price and the number of Offer Shares in the Global Offering are to be determined, is expected to be on or about 8 June 2005 and, in any event, not later than 13 June 2005. If, for any reason, the Offer Price is not agreed by 13 June 2005, the Global Offering will not proceed and will lapse.

(5) Refund cheques will also be issued in respect of wholly or partially unsuccessful applications and also in respect of successful applications in the event that the Offer Price is less than the initial price per H Share payable on application. Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party to facilitate your refund. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund cheque. Applicants for 1,000,000 H Shares or more who have indicated in their Application Forms that they wish to collect refund cheques and H Share certificates personally from our H Share registrar may collect refund cheques and H Share certificates from Computershare Hong Kong Investor Services Limited at Rooms 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on 14 June 2005 or any other date notified by our Company in the newspapers as the date of despatch of share certificates/refund cheques. Applicants being individuals who opt for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations' chops. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our H Share registrar. Uncollected H Share certificates and refund cheques will be despatched by ordinary post to the addressees specified in the relevant Application Forms at the applicants' own risk. Further information is set out in "How to Apply for Hong Kong Public Offer Shares" in this prospectus.

(6) If there is any change in the expected timetable of the Hong Kong Public Offering, an announcement in Hong Kong will be published in the South China Morning Post (in English) and in the Hong Kong Economic Times (in Chinese).

H Share certificates will only become valid certificates of title if the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in "Underwriting — Hong Kong Public Offering — Grounds for Termination" has not been exercised, which is expected to be at around 8:00 a.m. on 15 June 2005. Investors who trade H Shares on the basis of publicly available allocation details prior to the receipt of H Share certificates or prior to the H Share certificates becoming valid certificates of title do so entirely at their own risk.

CONTENTS

You should rely only on the information contained in this prospectus to make your investment decision.

We have not authorised anyone to provide you with information that is different from that contained in this prospectus.

Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Selling Shareholder, the Joint Global Coordinators, the Joint Sponsors, the Hong Kong Underwriters, any of their respective directors or any other person or party involved in the Global Offering.

CONTENTS

This summary aims to give you an overview of the information contained in this prospectus. Because this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the H Shares. There are risks associated with any investment. Some of the particular risks in investing in the H Shares are set out in "Risk Factors." You should read the entire prospectus carefully before you decide to invest in the H Shares.

BUSINESS OVERVIEW

We are the leading integrated coal-based energy company focusing on the coal and power businesses in China. Both our coal and power businesses have experienced substantial growth with compound annual growth rates of 30.4% in coal production and 27.8% in power generation from 2002 to 2004.

- We are the largest coal producer and one of the largest coal marketers in China as measured by our coal production of 101.3 million tonnes and total internal and external sales volume of 126.9 million tonnes in 2004.
- We would have been the second largest listed coal company in the world as measured by our 5.9 billion tonnes of proved and probable reserves as of 31 December 2004, and would have been the fifth largest publicly listed coal producer in the world as measured by our 2004 coal production, had we been publicly listed.
- We are the only coal-based energy company in China that owns and operates a large-scale integrated coal transportation network, which consists of dedicated rail lines and port facilities.
- We are the largest export coal producer in China, exporting 26.6 million tonnes of coal in 2004, which accounted for approximately one third of China's total thermal coal exports in that year.
- We have a sizeable power generation business as measured by our total installed capacity of 5,960 MW as of 31 December 2004.

In 2004, we had total operating revenues of RMB39,267 million and profit for the year of RMB8,935 million.

Coal Operations

We are the largest coal producer in China, accounting for approximately 5.2% of China's total raw coal production in 2003. We have a large portfolio of high-quality coal reserves with geological conditions and coal characteristics favourable for operating large-scale mines. Based on our currently estimated 2005 annual production rate, we believe our proved and probable reserves of 5.9 billion tonnes as of 31 December 2004 will last for more than 50 years.

We currently operate four mining groups, the Shendong Mines, the Wanli Mines, the Zhunge'er Mines and the Shengli Mines, with a total of 21 operating mines in western and northern China. Among our four mining groups, the Shendong Mines and Wanli Mines are primarily underground mines while the Zhunge'er Mines and Shengli Mines are open-cut mines.

Our largest and most productive mining group is the Shendong Mines, which accounted for nearly 80% of our total coal production in 2004. According to John T. Boyd, independent mining and geological consultants, four of our Shendong Mines are among the ten largest underground coal mines in the world based on annual coal production in 2003. The average annual production per our mine-site employee at the underground Shendong Mines operated by us was, according to John T. Boyd, over 28,000 tonnes in 2004.

We focus on the production and sale of a variety of thermal coal products. Our coal generally has commercially attractive characteristics, including medium to high calorific value and medium to low ash, sulphur, phosphorus and chlorine content. We also engage in coal preparation and blending in order to adjust the coal characteristics in accordance with customer specifications.

We own and operate an integrated rail and port network, which facilitates our production and sale of coal and thus provides us with a valuable competitive advantage. This network consists of four rail lines with a total operating length of approximately 1,300 kilometres and the Huangwan Rail Line which is under construction. Our Shenshuo and Shuohuang Rail Lines together form one of the two primary dedicated eastbound coal freight rail lines in China. We also own and operate a dedicated port, Huanghua Port, and are constructing three coal berths at Tianjin Port.

Power Operations

We have a sizeable and rapidly growing power generation business. From 2002 to 2004, the compound annual growth rates of the equity capacity and power generation of our controlled power plants were approximately 15% and 28%, respectively. As of 31 December 2004, we controlled and operated eight coal-fired power plants, with total installed capacity and equity capacity of 5,960 MW and 3,075 MW, respectively. In addition, three coal-fired power plants and one gas-fired power plant that are controlled and will be operated by us are currently under construction. The total installed capacity and equity capacity of power plants controlled and operated by us are expected to increase to 12,140 MW and 7,191 MW, respectively, once these projects are completed by 2007. In addition, our equity capacity in operating power plants in which we own minority interests was 2,099 MW as of 31 December 2004.

We operate and develop power plants in regions with strong economic growth and attractive power tariffs (such as Beijing-Tianjin-Hebei, Zhejiang and Guangdong) or in proximity to our coal mines or coal transportation network (such as Inner Mongolia and Shaanxi) which enable us to capture the rapid increase in demand for electricity and ensure easy access to coal supplies. Our power plants currently under construction are concentrated in coastal regions of China, which have experienced rapid increases in power demand in recent years.

INDUSTRY OVERVIEW

China is the largest coal market in the world in terms of annual production and consumption, and is the second largest power market in the world in terms of total power generation and total installed capacity. In recent years, rapid economic growth in China has led to a significant increase in the consumption of coal and electric power. Between 2001 and 2003, total coal consumption in China increased by 25.1%, from 1,262 million tonnes to 1,579 million tonnes.

China's coal reserves and production are concentrated in western and northern China, while coal consumption is higher in eastern and southern China. Consequently, eastbound coal transportation has been a critical bottleneck for China's coal industry.

Coal is the primary power generation fuel source in China, accounting for 67.1% of total primary energy consumption in 2003. Coal is also widely used in the manufacture of steel and other industrial applications. Between 2001 and 2003, total power generation in China increased at a compound annual growth rate of 13.3%, from 1,484 TWh to 1,905 TWh. As China's economy continues to expand, we believe that demand for coal and power will continue to grow. For more detailed information on China's coal and power industries, see "Industry Overview."

COMPETITIVE STRENGTHS

We consider our business strengths to include the following, each of which is discussed in greater detail in "Business — Our Competitive Strengths":

- We are the largest coal company in China and one of the largest in the world as measured by our coal reserves, coal production and sales volume.
- We are well positioned to capture attractive opportunities in China's coal markets, especially in the fast-growing and strategically important markets in coastal China.
- We have a large, high-quality reserve base and are well positioned to acquire more high-quality resources.
- We operate several of the most productive and efficient underground coal mines in the world.
- Our integrated business operations provide us with a significant competitive advantage in securing critical coal transportation capacity and create substantial benefits for our operations.
- Our power business has been growing rapidly and is well positioned to capture attractive growth opportunities in China's power industry.
- We have a strong brand name and a large, long-term customer base, and provide customised sales services.
- Our senior management possesses extensive experience in the coal and power sectors.

BUSINESS STRATEGY

Our vision is to become the leading integrated coal-based energy company in the world. We will continue to seek opportunities to realise sustainable growth of our businesses and increase shareholder value. To achieve this, we will focus on the following strategies, each of which is discussed in greater detail in "Business — Business Strategy":

- Seek sustainable growth of our coal business.
- Further improve efficiency of our coal operations.
- Expand and upgrade our integrated rail and port transportation network.
- Enhance the effectiveness of our sales and marketing efforts.
- Expand our power business in strategically attractive regions and further improve its operating efficiency.
- Adopt effective financial management and investment practices.
- Maintain environmentally friendly operations and continue to improve worker health and safety.

SUMMARY HISTORICAL COMBINED FINANCIAL INFORMATION

The following tables present a summary of our historical combined financial information for the periods indicated. The summary income statement, segment financial information and cash flow information for the years ended 31 December 2002, 2003 and 2004, and the summary balance sheet information as of 31 December 2002, 2003 and 2004, are derived from, and should be read in conjunction with, our audited combined financial information as included in the Accountants' Report in Appendix I to this prospectus.

Since Shenhua Group controlled the coal and power operations and related assets and liabilities transferred to us, and continues to control us after the Restructuring, our historical combined financial information has been prepared as a combination of business under common control in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities transferred to us have been stated at historical carrying amounts and as adjusted by the revaluation of property, plant and equipment. The historical combined income statement and cash flow data presented below for each of the years in the two-year period ended 31 December 2003 also reflect results of operations for businesses and assets retained by Shenhua Group as part of the Restructuring. Although the businesses and assets retained by Shenhua Group were not transferred to us, they have been included in our historical combined financial information up to the effective date of the Restructuring, 31 December 2003, since they were an integral part of, or historically associated with, the Shenhua Group businesses. Except for income statement data for the year ended 31 December 2004, the income statement data for the other periods presented below include the results of operations for the businesses retained by Shenhua Group. The results of operations for such businesses are not reflected in our combined financial statements for periods ending after 31 December 2003. Except for balance sheet data as of 31 December 2002, the balance sheet data for the other periods presented below exclude data for the businesses retained by Shenhua Group. Such businesses and their related balance sheet data will not be reflected in our future combined balance sheets. Therefore, the summary historical combined financial information presented below for the year ended 31 December 2004 is not necessarily comparable with the summary historical combined financial information presented below for the years ended 31 December 2002 and 2003. In addition, the historical combined financial information included in this prospectus may not necessarily reflect our results of operations, financial position and cash flows in the future or what they would have been had we been a separate, stand-alone entity during the periods presented below. Please see Note 1 in Section V to the Accountants' Report in Appendix I to this prospectus for selected financial information of the retained businesses of Shenhua Group.

Unless otherwise indicated, our historical combined financial information is prepared and presented in accordance with IFRS.

SUMMARY

	Year Ended 31 December[10]		
	2002	2003	2004
	(RMB in millions, except per Share data)		
Income Statement Information[1]			
Revenues			
Coal revenue	13,393	17,596	28,079
Power revenue	5,914	7,024	9,866
Other revenues	2,122	2,375	1,322
Total operating revenues	21,429	26,995	39,267
Profit from operations	5,214	7,240	15,499
Profit before income tax and minority interests	2,461	4,451	13,386
Income tax	(454)	(854)	(2,820)
Profit before minority interests	2,007	3,597	10,566
Minority interests	(410)	(696)	(1,631)
Profit for the year	1,597	2,901	8,935
Earnings per Share[2] (RMB)	0.106	0.193	0.596

	As of 31 December[10]		
	2002	2003	2004
	(RMB in millions)		
Balance Sheet Information[3]			
Cash and cash equivalents	5,731	4,162	7,138
Total current assets	15,480	11,229	16,036
Property, plant and equipment, net[4]	58,300	66,832	72,923
Construction in progress	6,002	8,655	12,352
Total non-current assets	75,953	83,104	94,333
Total assets[4]	91,433	94,333	110,369
Short-term borrowings and current portion of long-term borrowings	15,143	14,801	13,857
Total current liabilities	22,493	22,073	24,447
Long-term borrowings, less current portion	43,320	43,298	46,332
Total liabilities	66,519	66,244	71,888
Minority interests	9,620	11,628	13,085
Shareholder's equity[4]	15,294	16,461	25,396

	Year Ended 31 December[10]		
	2002	2003	2004
	(RMB in millions)		
Segment Financial Information[1]			
Profit/(loss) from operations[5]			
Coal[6]	3,478	5,129	12,695
Power[7]	1,874	2,302	2,912
Corporate and others	(123)	(181)	(100)
Eliminations	(15)	(10)	(8)
Total profit from operations	5,214	7,240	15,499
Depreciation and amortisation[4]			
Coal	2,281	2,549	3,048
Power	1,322	1,401	1,901
Corporate and others	24	67	-
Total depreciation and amortisation	3,627	4,017	4,949
Capital expenditure[8]			
Coal	4,627	7,714	8,816
Power	2,687	5,004	6,217
Corporate and others	129	389	2
Total capital expenditure	7,443	13,107	15,035

	Year Ended 31 December[10]		
	2002	2003	2004
	(RMB in millions, except percentage data)		
Other Financial Information[1]			
Net cash from operating activities	4,468	8,111	18,934
Net cash used in investing activities	(9,045)	(11,938)	(17,995)
Net cash from financing activities	5,730	2,258	2,037
EBITDA[9]	9,140	11,398	20,693
EBITDA Margin[9]	42.7%	42.2%	52.7%

(1) The data for each of the years in the two-year period ended 31 December 2003 include the results of the businesses and assets retained by Shenhua Group after the Restructuring. The data for the year ended 31 December 2004, however, do not include the results of those businesses and assets, and therefore are not necessarily comparable with the data for the years ended 31 December 2002 and 2003.

(2) Earnings per Share have been computed by dividing profit for the year by a total of 15,000,000,000 Shares issued and outstanding upon our formation on 8 November 2004, as if such Shares had been outstanding for all relevant periods. We had no dilutive potential shares outstanding for the periods presented.

(3) The balance sheet data as of 31 December 2002 include the businesses and assets retained by Shenhua Group after the Restructuring, whereas the balance sheet data as of 31 December 2003 and 2004 do not include those businesses and assets.

(4) Includes the effect of revaluation of property, plant and equipment as of 31 December 2003.

(5) Segment profit/(loss) from operations does not take into account the effects of finance costs and investment income.

(6) Includes income from coal sold to external customers and our power segment as well as transportation and other services.

(7) Includes income from electric power sold to external customers and our coal segment.

(8) Segment capital expenditure is equal to the total cost incurred (including amounts paid and payable) during the periods to acquire segment assets that are expected to be used for more than one period.

(9) EBITDA, a measure used by management to measure our operating performance, is defined as profit for the year plus net financing costs, investment income, income tax, depreciation and amortisation and minority interests. EBITDA margin is calculated by dividing EBITDA by total operating revenues. We present our EBITDA and EBITDA margin here to provide additional information regarding our operating performance and because our management believes EBITDA is useful to investors as it is a measure commonly used by securities analysts, investors and other interested parties in the evaluation of companies in the mining industry on the basis of operating performance. EBITDA is not a recognised term under IFRS. You should not consider it an alternative to profit for the year as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of EBITDA and EBITDA margin may be different from the calculation used by other companies and therefore comparability may be limited. In addition, EBITDA is not intended to be a measure of free cash flow for management's discretionary use, as it does not reflect certain cash requirements such as interest payments, tax payments and debt service requirements.

The following table sets forth a full quantitative reconciliation of EBITDA to its most direct comparable IFRS measure, profit for the year, and the calculation of EBITDA margin.

	Year Ended 31 December		
	2002	2003	2004
	(RMB in millions, except percentage data)		
Profit for the year	1,597	2,901	8,935
Minority interests	410	696	1,631
Income tax	454	854	2,820
Investment income	(51)	(200)	-
Net financing costs	3,103	3,130	2,358
Depreciation and amortisation	3,627	4,017	4,949
EBITDA	9,140	11,398	20,693
Total operating revenues	21,429	26,995	39,267
EBITDA margin	42.7%	42.2%	52.7%

(10) No dividend has been paid or declared by the Company during the relevant period.

Summary Historical Operating Data

The following table sets forth summary operating data of our coal and power segments for the periods indicated.

	Year Ended 31 December		
	2002	2003	2004
Coal Segment			
Coal sales (million tonnes)(1)			
Domestic sales to external customers	49.3	62.0	85.1
Domestic sales to our power operations	9.0	11.4	15.2
Total domestic sales	58.3	73.4	100.3
Total export sales	18.3	25.7	26.6
Total coal sales	76.6	99.1	126.9
Average sales price (RMB/tonne)(2)	195	195	245
Unit cost (RMB/tonne)(3)	135	131	133
Power Segment(4)			
Total installed capacity (MW)	4,760	5,360	5,960
Equity capacity (MW)(5)	2,322	2,595	3,075
Total gross generation (GWh)	23,250	28,544	37,980
Total output dispatch (GWh)(6)	21,770	26,730	35,491

(1) Except for data for 2004, includes the coal sales of the Xisanju Mines that were included in the scope of our historical combined financial information but were retained by Shenhua Group following the Restructuring. The coal sales of the Xisanju Mines were 6.6 million tonnes and 8.0 million tonnes for the years ended 31 December 2002 and 2003, respectively.

(2) Total coal sales-related revenues of our coal segment divided by total coal sales volume of our coal segment. Our coal segment had non-coal sales revenues of RMB1,804 million, RMB1,923 million and RMB1,290 million in 2002, 2003 and 2004, respectively.

(3) The sum of cost of production and cost of transportation of our coal segment divided by the total sales volume of our coal segment.

(4) Includes only our controlled operating power plants.

(5) In addition, as of 31 December 2002, 2003 and 2004, we had an aggregate equity capacity of 7 MW, 167 MW and 2,099 MW, respectively, in power plants in which we own minority interests.

(6) Includes an insignificant amount of electricity supplied to our coal operations.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2005

Forecast combined net profits attributable to shareholders[1]	Not less than RMB14,133 million
Forecast earnings per Share	
(a) pro forma fully diluted[2]	RMB0.79 (HK$0.75)
(b) weighted average[3]	RMB0.86 (HK$0.80)

(1) The bases and assumptions on which the profit forecast has been prepared are set out in "Financial Information — Profit Forecast."

(2) The calculation of the forecast earnings per Share on a pro forma fully diluted basis is based on the forecast combined net profits attributable to shareholders for the year ending 31 December 2005 assuming that the Global Offering was completed on 1 January 2005 and a total of 17,785 million Shares were in issue during the entire year. This calculation assumes the Over-allotment Option is not exercised and 2,785 million Offer Shares were issued by the Company on 1 January 2005.

(3) The calculation of the forecast earnings per Share on a weighted average basis is based on the forecast combined net profits attributable to shareholders for the year ending 31 December 2005 and a weighted average number of 16,526 million Shares issued and outstanding during the year. This calculation assumes that (i) the Over-allotment Option is not exercised and (ii) 2,785 million Offer Shares will be issued by the Company pursuant to the Global Offering on 15 June 2005.

OFFER STATISTICS

Except where otherwise indicated, the Global Offering statistics have been prepared on the assumption that the Over-allotment Option is not exercised. The Offer Prices of HK$7.25 per H Share and HK$9.25 per H Share do not include the 1% brokerage, 0.005% Hong Kong Stock Exchange trading fee, 0.005% SFC transaction levy and 0.002% investor compensation levy which are payable by applicants under the Global Offering.

	Based on an Offer Price of HK$7.25 per H Share	**Based on an Offer Price of HK$9.25 per H Share**
Our Company's H Share market capitalisation upon completion of the Global Offering[1]	HK$ 22,210 million	HK$ 28,337 million
Our Company's total market capitalisation upon completion of the Global Offering[2]	HK$128,941 million	HK$164,511 million
Prospective price/earnings multiple		
(a) pro forma fully diluted[3]	9.7	12.3
(b) weighted average[4]	9.1	11.6
Pro forma adjusted net tangible asset value per Share[5]	HK$ 1.96	HK$ 2.26

(1) The calculation is based on 3,063,500,000 H Shares expected to be in issue following the completion of the Global Offering assuming the Over-allotment Option is not exercised.

(2) The calculation is based on 17,785,000,000 Shares expected to be in issue following the completion of the Global Offering assuming the Over-allotment Option is not exercised.

(3) The calculation of the prospective price/earnings multiple on a pro forma fully diluted basis is based on the forecast earnings per Share on a pro forma fully diluted basis at the respective Offer Prices of HK$7.25 and HK$9.25.

(4) The calculation of the prospective price/earnings multiple on a weighted average basis is based on the forecast earnings per Share on a weighted average basis at the respective Offer Prices of HK7.25 and HK$9.25.

(5) The pro forma adjusted net tangible asset value per Share has been arrived at after adjustments referred to in the paragraph headed "Unaudited pro forma adjusted net tangible assets" under the section "Unaudited pro forma financial information" in Appendix II to this prospectus, and is based on 17,785,000,000 Shares expected to be in issue following the completion of the Global Offering, assuming the Over-allotment Option is not exercised.

DIVIDEND POLICY

Our Board of Directors will determine the payment of dividends, if any, with respect to our Shares on a per-Share basis, and distribution of any dividend will also be subject to our shareholders' approval. Under the PRC Company Law and our Articles of Association, all of our shareholders have equal rights to dividends and distributions.

For holders of our H Shares, cash dividend payments, if any, will be declared by our Board of Directors in Renminbi and paid in Hong Kong dollars. In addition to cash, we may distribute dividends in the form of Shares. Any distribution of Shares, however, must be approved by special resolution of the shareholders. The amount of any dividend payment will depend upon factors including our financial results, shareholders' interests, general business conditions and strategies and capital requirements, as well as relevant statutory and regulatory restrictions. We can give no assurance that any dividends will be paid. See "Financial Information — Dividend Policy."

Under PRC law, dividends may be paid only out of distributable profits, which are our retained earnings, as determined in accordance with PRC accounting rules and regulations or IFRS, whichever is lower, less allocations to the statutory and discretionary funds. We will not ordinarily pay any dividends in a year in which we do not have any distributable earnings.

In accordance with the "Provisional Regulations Relating to Corporate Reorganisation of Enterprises and Related Management of State-owned Capital and Financial Treatment" issued by the MOF, we are required to make a distribution to Shenhua Group, our sole shareholder prior to the Global Offering, in an amount equal to the net profit generated during the period from 1 January 2004 to 7 November 2004, the date immediately prior to our incorporation.

On 27 March 2005, we (i) declared a dividend of approximately RMB7.5 billion to Shenhua Group, which is equal to our distributable profit for the period from 1 January 2004 to 31 December 2004 (including the mandatory distribution to Shenhua Group as described above) and (ii) resolved to make distributable to Shenhua Group our distributable profit for the period from 1 January 2005 to the calendar day immediately preceding our Listing Date (the "2005 Special Dividend"). The financial statements of the Company for the period from 1 January 2005 to the date immediately preceding the Listing Date will be audited. The Company will determine the 2005 Special Dividend with reference to the distributable profit as reflected in the audited financial statements for such period. The declaration of the 2005 Special Dividend will be disclosed through a public announcement. We will use our cash and cash equivalents to pay the declared dividend for 2004 to Shenhua Group prior to the Listing Date. The 2005 Special Dividend is expected to be paid to Shenhua Group in 2006 from our cash and cash equivalents.

Assuming the Listing Date is 15 June 2005, we estimate that the 2005 Special Dividend will be approximately RMB4.6 billion, being our estimated distributable reserve as at the date immediately preceding our Listing Date (calculated as 165 (being the number of days from 1 January 2005 to the date immediately preceding the Listing Date)/365 of the Group's forecast profit for the year ending 31 December 2005 determined in accordance with the PRC accounting rules and regulations, being the lower of the forecast profit determined in accordance with the PRC accounting rules and regulations or IFRS, less estimated appropriations to the statutory reserves).

Investors in the Global Offering should note that they will not be entitled to share in the 2005 Special Dividend and therefore any distributable profits for the year ending 31 December 2005 available for distribution to the Company's shareholders after the Global Offering will exclude the amount of the 2005 Special Dividend to be paid to Shenhua Group.

USE OF PROCEEDS

We estimate that the net proceeds to us from the Global Offering will be approximately HK$21,913 million, before exercise of the Over-allotment Option, after deducting the underwriting commissions and other estimated expenses payable by us in the Global Offering and assuming an initial public offering price of HK$8.25 per H Share, being the mid-point Offer Price, or if the Over-allotment Option is exercised in full, approximately HK$25,238 million, after deducting the underwriting commissions and other estimated expenses payable by us in the Global Offering and assuming the same mid-point Offer Price.

We intend to use the net proceeds to us from the Global Offering for the following purposes:

(i) up to 55%, or approximately HK$12,052 million, to fund our capital expenditures as follows:

- up to approximately HK$7,231 million for expanding and upgrading our coal production and transportation facilities; and
- up to approximately HK$4,821 million for developing new power projects;

(ii) up to 35%, or approximately HK$7,670 million, to reduce part of our indebtedness through the repayment of outstanding short-term borrowings and the current portion of long-term borrowings from third party financial institutions at interest rates ranging from 2.30% to 6.59% per annum and, to the extent there is any remaining amount of such net proceeds, the repayment of long-term borrowings from third party financial institutions at interest rates ranging from 3.60% to 6.59% per annum; and

(iii) the remaining amount for general corporate purposes, such as working capital, including, among others, purchase of supplies, financing fees, administrative expenses and other production costs, and potential acquisitions and strategic investments that are consistent with our business strategies (although no acquisitions or strategic investments are pending).

Net proceeds of approximately HK$3,325 million (the mid-point Offer Price of HK$8.25 per H Share) that we estimate we would receive from subscriptions for additional H Shares in the event the Over-allotment Option is exercised in full will be allocated to fund our capital expenditures.

In accordance with PRC regulations, the Selling Shareholder is required to sell a portion of its Shares in the Global Offering and contribute the proceeds of such sale to the NSSF. The Selling Shareholder estimates that it will receive net proceeds from the Global Offering of approximately HK$2,191 million, before exercise of the Over-allotment Option, after deducting the underwriting commissions and other estimated expenses payable by the Selling Shareholder in the Global Offering and assuming an initial public offering price of HK$8.25 per H Share, being the mid-point Offer Price. We will not receive any proceeds from H Shares sold by the Selling Shareholder in the Global Offering.

Pending the use of the net proceeds from the Global Offering for the purposes described above, and to the extent permitted under relevant PRC and Hong Kong law, we intend to deposit the proceeds in short-term interest-bearing accounts with licensed third party financial institutions or invest the proceeds in short-term money market instruments.

RISK FACTORS

We believe that there are certain risks involved in investing in our Shares. They can be categorised into:

- Risks relating to our businesses and China's coal and power industries
- Risks relating to the People's Republic of China
- Risks relating to the Global Offering

These factors are set out in ''Risk Factors'' and are summarised as follows:

Risks Relating to Our Businesses and China's Coal and Power Industries

- Our business and results of operations are susceptible to the cyclical nature of coal markets and are vulnerable to fluctuations in prices for coal
- Our operations are extensively regulated by the PRC government
- Our profitability and growth prospects depend upon our ability to successfully acquire and develop economically attractive coal reserves at competitive costs
- Competition in the PRC coal and power industries may increase and our business and prospects may be adversely affected if we are not able to compete effectively
- The coal reserve and other data in this prospectus are estimates and may be inaccurate, and our actual production, revenues and capital expenditures may differ materially from our estimates
- Accidents at our mines or other coal mines in the PRC could materially adversely affect our coal operations
- Our major capital projects may not be completed as planned, may exceed our original budgets and may not achieve the intended economic results or commercial viability
- Our financial performance and operating results could be materially adversely affected by our indebtedness
- The unavailability or shortage of reliable and sufficient coal transportation capacity could reduce our coal revenue by causing us to reduce our production volume or impairing our ability to supply coal to our customers
- Our coal and power operations may be adversely affected by operational risks and natural disasters and resulting losses for which we have limited insurance
- The high proportion of our total operating revenues represented by thermal coal, as well as our significant power generation business, make our results of operations vulnerable to any significant downturn in the PRC power industry
- Because a substantial portion of our coal sales are under long-term coal supply contracts, our ability to benefit from periods of increased spot prices is limited
- A significant reduction in purchases by our largest customers could adversely affect our coal revenue

- Our business operations may be materially adversely affected by present or future environmental regulations
- We have not obtained formal title certificates to some of the properties we occupy
- Inspections, examinations, inquiries or audits by PRC regulatory authorities may result in fines, other penalties or actions that could adversely affect our reputation
- The 2004 Audit by the NAO may result in adverse decisions that could adversely affect us or the price of our Shares
- Our limited operating history as a separate entity could affect our operating efficiency and your ability to evaluate our business and growth prospects
- We will be controlled by Shenhua Group, whose interests may differ from those of our other shareholders
- Failure by Shenhua Group to fulfill its obligations under certain arrangements entered into in connection with our Restructuring may have a material adverse effect on our business operations, growth prospects and profitability
- You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles, including, in particular, any financial projections, valuations or other forward-looking information

Risks Relating to the People's Republic of China

- Substantially all of our assets are located in China and substantially all of our revenue is derived from our operations in China. Accordingly, our results of operations and prospects are subject, to a significant extent, to economic, political and legal developments in China
- Economic, political and military conditions in the Asia-Pacific region are unpredictable, and our results of operations, financial condition and future prospects may be materially adversely disrupted if these conditions become unfavourable to our business
- Our financial condition and results of operations could be materially adversely affected by fluctuations in the value of the Renminbi or depreciation of the currencies in which we derive our revenues against the currencies in which our borrowings are denominated
- Government control of currency conversion may adversely affect our operations and financial results
- The PRC legal system is evolving and has inherent uncertainties that could limit the legal protection available to you
- You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management
- Holders of H Shares may be subject to PRC taxation should the current tax regulations change
- Any future outbreak of severe acute respiratory syndrome or any other epidemic in China may have a material adverse effect on our business operations, financial condition and results of operations

Risks Relating to the Global Offering

- An active trading market for our H Shares may not develop, and their trading prices may fluctuate significantly
- Because the Offer Price is higher than the net tangible book value per Share, you will experience immediate dilution in the book value of the H Shares purchased by you

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section headed "Glossary."

In this prospectus:

- *coal production figures are quoted in commercial tonnes, except in the "Industry Overview" section or as otherwise indicated; and*
- *all prices are quoted exclusive of VAT, except where otherwise stated.*

"AME"	AME Mineral Economics
"Anglo American" or "Strategic Investor"	Anglo American plc, a company incorporated in the United Kingdom
"Application Form(s)"	white application form(s) and yellow application form(s), or where the context so requires, any of them
"Articles of Association"	the articles of association of our Company, adopted on 28 December 2004 and as amended from time to time
"Associates"	has the meaning ascribed thereto under the Hong Kong Listing Rules
"BP Statistical Review"	BP Statistical Review of World Energy June 2004
"Barlow Jonker"	Barlow Jonker Pty Ltd., an independent mining research institution
"Beijing-Tianjin-Hebei"	an area in northern China consisting of Beijing and Tianjin municipalities and Hebei province
"Beijing-Tianjin-Tangshan power grid"	a regional power grid covering the area in northern China consisting of Beijing and Tianjin municipalities and northern Hebei province
"Bejoy Holdings"	Bejoy Holdings Inc., a company incorporated in the British Virgin Islands and a wholly owned subsidiary of CITIC Pacific Limited, a company listed on the Main Board of the Hong Kong Stock Exchange
"Board"	the board of Directors of our Company
"Bureau of Statistics"	中華人民共和國國家統計局 (National Bureau of Statistics of the PRC)
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Broker Participant"	a person admitted to participate in CCASS as a broker participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant

"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Broker Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"CCIRI"	China Coal Information Research Institute
"CICC"	China International Capital Corporation Limited
"CICC (HK)"	China International Capital Corporation (Hong Kong) Limited, a wholly owned subsidiary of CICC
"CSRC"	中國證券監督管理委員會 (China Securities Regulatory Commission)
"Chow Tai Fook Nominee"	Chow Tai Fook Nominee Limited, a company incorporated in Hong Kong and wholly beneficially owned by Dato Dr. Cheng Yu-Tung
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company Law" or "PRC Company Law"	中華人民共和國公司法 (Company Law of the PRC), as adopted at the Fifth Session of the Standing Committee of the Eighth NPC on 29 December 1993, effective 1 July 1994, as amended, supplemented or otherwise modified from time to time
"Computershare Hong Kong"	Computershare Hong Kong Investor Services Limited
"Controlling Shareholder"	has the meaning ascribed thereto under the Hong Kong Listing Rules and unless the context requires otherwise, refers to Shenhua Group
"Corporate Investors"	Bejoy Holdings, Bank of China Group Investment Limited, Chow Tai Fook Nominee, Hillwin, Kerry Holdings and Maniton, or any of them
"Deutsche Bank"	Deutsche Bank AG, Hong Kong Branch
"Director(s)"	the director(s) of our Company, including all executive, non-executive and independent non-executive directors
"Domestic Shares"	ordinary shares in the capital of our Company, with a nominal value of RMB1.00 each, which are subscribed for and fully paid up in Renminbi by PRC nationals and/or PRC incorporated entities
"Global Offering"	the Hong Kong Public Offering and the International Offering
"Group"	our Company and its subsidiaries
"H Shares"	overseas listed foreign invested shares of par value RMB1.00 each in the ordinary share capital of our Company, which are to be subscribed for and traded in HK dollars and for which an

	application has been made for the granting of listing, and permission to deal, on the Hong Kong Stock Exchange
"Hillwin"	Hillwin Limited, a company incorporated in the British Virgin Islands and a wholly beneficially owned subsidiary of Singbo Limited, a private company incorporated in the British Virgin Islands and wholly owned by Dr. Lee Shau Kee
"HK$," "HK dollars" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
"Hong Kong," "HK" or "China Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as amended from time to time)
"Hong Kong Public Offering"	the offer by our Company of initially 153,175,000 H Shares for subscription by the public in Hong Kong (subject to adjustment as described in "Structure of the Global Offering") for cash at the Offer Price (plus brokerage, SFC transaction levy, investor compensation levy, and Hong Kong Stock Exchange trading fee) on and subject to the terms and conditions described in this prospectus and the Application Forms as further described in "Structure of the Global Offering — The Hong Kong Public Offering"
"Hong Kong Public Offer Shares"	the H Shares offered for subscription pursuant to the Hong Kong Public Offering
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offering listed as such in "Underwriting — Hong Kong Underwriters"
"Hong Kong Underwriting Agreement"	the underwriting agreement relating to the Hong Kong Public Offering entered into among our Company, the Joint Global Coordinators and the Hong Kong Underwriters on 1 June 2005
"IFRS"	International Financial Reporting Standards promulgated by the International Accounting Standards Board ("IASB"); IFRS include International Accounting Standards ("IAS") and their interpretations
"International Offering"	the offering of an aggregate of 2,910,325,000 H Shares by us and the Selling Shareholder to professional and institutional investors and other investors, as further described in "Structure of the Global Offering"

"International Offer Shares"	the H Shares offered pursuant to the International Offering
"International Purchasers"	the purchasers in the International Offering, led by the Joint Global Coordinators, who are expected to enter into the International Purchase Agreement
"International Purchase Agreement"	the underwriting agreement relating to the International Offering which is expected to be entered into among our Company, the Selling Shareholder, the Joint Global Coordinators and the International Purchasers on or around 8 June 2005
"Joint Global Coordinators"	CICC, Deutsche Bank and Merrill Lynch
"Joint Sponsors"	CICC (HK), Deutsche Bank and Merrill Lynch
"KPMG"	KPMG, Certified Public Accountants, the auditors and reporting accountants of the Company as described in "Parties involved in the Global Offering"
"Kerry Holdings"	Kerry Holdings Limited, a company incorporated in Hong Kong and a member of the Kuok Group, being the group of companies owned or controlled by Mr. Kuok Hock Nien and/or interests associated with him
"Latest Practicable Date"	27 May 2005
"Listing Date"	the date on which dealings in the H Shares commence on the Hong Kong Stock Exchange
"MLR"	中華人民共和國國土資源部 (Ministry of Land and Resources of the PRC)
"MOC"	中華人民共和國交通部 (Ministry of Communications of the PRC)
"MOF"	中華人民共和國財政部 (Ministry of Finance of the PRC)
"MOFCOM"	中華人民共和國商務部 (Ministry of Commerce of the PRC)
"MOR"	中華人民共和國鐵道部 (Ministry of Railways of the PRC)
"Macau" or "China Macau"	the Macau Special Administrative Region of the PRC
"Mandatory Provisions"	到境外上市公司章程必備條款 (the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas) (as amended, supplemented or otherwise modified from time to time), for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas (including Hong Kong), which were promulgated by the former PRC Securities Commission of the State Council and the former State Commission for Restructuring the Economic Systems of the PRC on 27 August 1994

"Maniton"	Maniton Holdings Inc., a company incorporated in the British Virgin Islands and wholly beneficially owned by Mr. Yung Chi Kin
"Merrill Lynch"	Merrill Lynch Far East Limited
"NDRC"	中華人民共和國國家發展和改革委員會 (National Development and Reform Commission of the PRC)
"NPC"	中華人民共和國全國人民代表大會 (National People's Congress of the PRC) and its Standing Committee
"NSSF"	中華人民共和國全國社會保障基金理事會 (National Council for Social Security Fund of the PRC)
"Offer Price"	the final Hong Kong dollar price per H Share (exclusive of brokerage, SFC transaction levy, investor compensation levy and Hong Kong Stock Exchange trading fee) at which the H Shares are to be subscribed for and issued pursuant to the Hong Kong Public Offering, to be determined as further described in "Structure of the Global Offering — Pricing and Allocation"
"Offer Shares"	the Hong Kong Public Offer Shares and the International Offer Shares together, where relevant, with any additional H Shares issued and sold pursuant to the exercise of the Over-allotment Option
"Our Company," the "Company," "we" and "us"	中國神華能源股份有限公司 (China Shenhua Energy Company Limited), a joint stock limited company established in the PRC on 8 November 2004, and, except where the context otherwise requires, all of its subsidiaries
"Over-allotment Option"	the option expected to be granted by the Selling Shareholder and us to the International Purchasers, exercisable by the Joint Global Coordinators on behalf of the International Purchasers, for up to 30 days after the Listing Date, to require the Selling Shareholder to sell and us to issue and allot up to an aggregate of 459,525,000 additional H Shares solely to cover over-allotments in the International Offering as described in the section headed "Structure of the Global Offering"
"PBOC"	中國人民銀行 (People's Bank of China)
"PBOC Rate"	the exchange rate for foreign exchange transactions set daily by the PBOC based on the previous day's PRC interbank foreign exchange rates and with reference to current exchange rates on the world financial markets
"PRC," "China" or the "People's Republic of China"	the People's Republic of China. Except where the context otherwise requires, references in this prospectus to the PRC or China do not apply to China Hong Kong, China Macau or China Taiwan

"PRC GAAP"	the PRC Accounting Standards and Accounting Regulations for Business Enterprises and its supplementary regulations
"PRC National Audit Office" or "NAO"	中華人民共和國審計署 (National Audit Office of the PRC)
"Price Determination Date"	the date, expected to be on or around 8 June 2005 but no later than 13 June 2005, on which the Offer Price is fixed for the purposes of the Global Offering
"Promoter" or "Selling Shareholder"	Shenhua Group
"Province" or "province"	each being a province or, where the context requires, a provincial level autonomous region or municipality under the direct supervision of the central government of the PRC. Inner Mongolia Autonomous Region is referred to in this prospectus as "Inner Mongolia" or "Inner Mongolia province"
"QIBs"	qualified institutional buyers as defined in Rule 144A
"RMB" or "Renminbi"	Renminbi yuan, the lawful currency of the PRC
"Regulation S"	Regulation S under the US Securities Act
"Restructuring"	the restructuring of Shenhua Group in preparation for the listing of our H Shares on the Hong Kong Stock Exchange, the particulars of which are described in "Restructuring" and "Appendix IX — Statutory and General Information — Further information about our Company — Restructuring" to this prospectus
"Rule 144A"	Rule 144A under the US Securities Act
"SACMS"	中華人民共和國國家煤礦安全監察局 (State Administration of Coal Mine Safety of the PRC)
"SAEP"	中華人民共和國國家環境保護總局 (State Administration for Environmental Protection of the PRC)
"SAFE"	中華人民共和國國家外匯管理局 (State Administration of Foreign Exchange of the PRC)
"SASAC"	中華人民共和國國務院國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of the State Council)
"SAT"	中華人民共和國國家稅務總局 (State Administration of Taxation of the PRC)
"SAWS"	中華人民共和國國家安全生產監督管理總局 (State Administration of Work Safety of the PRC)

"Securities and Futures Ordinance" or "SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"SERC"	中華人民共和國國家電力監管委員會 (State Electricity Regulatory Commission of the PRC)
"SFC"	the Securities and Futures Commission of Hong Kong
"Shares"	shares of our Company of nominal value RMB1.00 each, comprising both Domestic Shares and H Shares
"Shendong Mines"	coal production operations in 中國神華能源股份有限公司神東煤炭分公司 (China Shenhua Shendong Coal Branch), one of our branch companies
"Shengli Energy"	神華北電勝利能源有限公司 (Shenhua Beidian Shengli Energy Co., Ltd.), a non-wholly owned subsidiary of our Company
"Shengli Mines"	coal production operations in Shengli Energy
"Shenhua Finance"	神華財務有限公司 (Shenhua Finance Company Limited), a subsidiary of Shenhua Group in which we directly and indirectly own an equity interest of 32.89%
"Shenhua Group"	神華集團有限責任公司 (Shenhua Group Corporation Limited), being the sole promoter of our Company and except where the context otherwise requires, all of its subsidiaries excluding our Company, our subsidiaries and our interests in long-term investments, and where the context refers to any time prior to the establishment of Shenhua Group, those entities and businesses that were contributed to Shenhua Group upon its establishment
"Shenhua Trading"	神華煤炭運銷公司 (Shenhua Coal Trading Company Limited), a wholly owned subsidiary of Shenhua Group
"Southern Power Grid Company"	中國南方電網有限責任公司 (China Southern Power Grid Company)
"Special Regulations"	國務院關於股份有限公司境外募集股份及上市的特別規定 (the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies), promulgated by the State Council on 4 August 1994, as amended, supplemented or otherwise modified from time to time
"State," "state" or "PRC government"	the government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof
"State Council"	中華人民共和國國務院 (State Council of the PRC)
"State Grid Corporation"	國家電網公司 (State Grid Corporation of China)

"Supervisors"	the members of the supervisory committee of our Company
"Tianlong Corporation"	神東天隆集團有限責任公司 (Shendong Tianlong Group Corporation), a company established in the PRC, the equity interest of which is 75.0% owned by its employees and 25.0% owned by Shenhua Group
"Track Record Period"	the period comprising the three financial years ended 31 December 2004
"US Securities Act"	the US Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"US$" or "US dollar"	United States dollars, the lawful currency of the United States
"Underwriters"	collectively, the Hong Kong Underwriters and the International Purchasers
"Underwriting Agreements"	collectively, the Hong Kong Underwriting Agreement and the International Purchase Agreement
"United States" or "US"	the United States of America
"VAT"	value-added tax
"Wanli Mines"	coal production operations in 中國神華能源股份有限公司萬利煤炭分公司 (China Shenhua Wanli Coal Branch), one of our branch companies
"Xisanju Companies"	collectively, 神華集團烏達礦業有限責任公司 (Shenhua Wuda Mining Company Limited, or Wuda Mining), 神華集團海勃灣礦業有限責任公司 (Shenhua Haibowan Mining Company Limited or Haibowan Mining) and 神華集團包頭礦業有限責任公司 (Shenhua Baotou Mining Company Limited or Baotou Mining), all of which are subsidiaries of Shenhua Group, and their respective subsidiaries
"Xisanju Mines"	coal production operations of the Xisanju Companies
"Zhunge'er Energy"	神華准格爾能源有限責任公司 (Shenhua Zhunge'er Energy Company Limited), a non-wholly owned subsidiary of our Company
"Zhunge'er Mines"	coal production operations in Zhunge'er Energy

GLOSSARY

This glossary contains explanations of certain technical terms used in this prospectus. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.

Terms Relating to Coal Operations

Term	Definition
ash content	Incombustible impurities contained in coal which affect the burning characteristics of coal.
beneficiation	Treatment of raw material by drying, flotation, gravity or magnetic separation.
black coal	All coal of higher rank than lignite.
calorific value	The heat of combustion of a unit quantity of coal. It is expressed in British Thermal Units per pound (BTU/lb), kilocalories per kilogramme (kcal/kg) or mega joules per kilogramme (MJ/kg). The gross calorific value includes all heat of vaporisation of water. Net calorific value assumes all water is in the vapour phase.
coal	A solid, brittle, more or less distinctly stratified combustible carbonaceous rock, formed by partial to complete decomposition of vegetation.
coal blending	Mixing coal in predetermined and controlled quantities to adjust the chemical or burn characteristics of the resulting coal or to produce a more uniform product.
coal preparation	The process of selectively removing residual stone material from raw coal through beneficiation at a coal preparation or coal washing plant.
coal residual stone	Mineral material of low economic value that is so intimately associated with coal that it must be mined with coal. Often removed by beneficiation at a coal preparation or washing plant.
coal seam	A geological structure containing a series of layers of coal, shale and other mineral materials of various thickness within a defined zone.
coke	Bituminous coal from which the volatile components have been removed.
coking coal	Coal used to create coke, which is consumed in the steel reduction process, also known as metallurgical coal.
commercial coal	Coal saleable as product, which may include varying proportions of raw and cleaned coals.
continuous miner	A mining machine designed to remove coal from the face with the use of a rotating cutting head and to load that coal into shuttle cars or onto conveyors.
dragline	A large excavation machine used in surface mining to remove overburden covering a coal seam. The dragline casts a wire rope-

	hung bucket a distance, collects the extracted material by pulling the bucket towards itself on the ground with a second wire rope (or chain), elevates the bucket, and dumps the material onto a spoil bank, in a hopper or on a pile.
FOB	Free on board. An FOB contract price does not include insurance and freight from the point of shipping.
indicated coal resource	An indicated coal resource is that part of a coal resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence as defined by the JORC Code.
JORC Code	Australian Code of Reporting of Mineral Resources and Ore Reserves, effective December 2004.
Kcal/kg	Kilocalorie per kilogramme.
lignite	A low rank coal containing high moisture of generally greater than 20% as it lies in the seam prior to mining.
longwall mining	A fully mechanised underground mining method in which the mining face is supported by a hydraulic shield while the coal is excavated by a shearer and then transported to the surface by conveyors. When mining of the longwall panel has been completed, the longwall system is moved to a new mining area. The key characteristics of longwall mining include high productivity, comparatively high reserve recovery rates, safety and reliability.
marketable coal reserves	The tonnages of coal reserves, at specified moisture and quality, available for sale after accounting for preparation plant yield. Marketable coal reserves are reported in terms of probable reserves or proved reserves.
measured coal resource	A measured coal resource is that part of a coal resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence as defined by the JORC Code.
melting point	The temperature at which a solid substance turns to a liquid state.
mining face	The working area where the extraction of overburden or coal takes place in an underground or open-cut mine.
mining ratio	Ratio of overburden waste which must be removed per tonne of coal reserve mined, typically expressed in cubic metres per tonne of coal.
moisture content	The amount of moisture in coal, expressed as a percentage of the weight of the coal. Two types of moisture can be found in coal, including: (i) free or surface moisture, which can be removed by exposure to air, and (ii) inherent moisture, which is trapped in the coal and can be removed by heating the coal.

NOSA Five-Star Management System	NOSA Integrated Five-Star Safety, Health and Environmental Protection Management System, which is a system framework for the management of safety, health and environment.
open-cut mine	A mine where the coal is extracted after removing the overlying strata or overburden.
overburden	The soil and rock that must be removed in order to expose an ore deposit.
pillar	An area of coal which is not mined in order to support the overlying strata in a mine; sometimes left permanently to protect surface structures. See definition of "room-and-pillar mining."
preparation plant	Plant used for beneficiation of raw coal to make a product suitable for a particular use.
preparation plant yield	Ratio of cleaned coal to raw coal, expressed as a percentage.
probable reserves	Probable reserves under the JORC Code, which are the economically mineable part of an indicated coal resource, and in some circumstances, measured coal resource. They include diluting materials, and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Unless otherwise indicated, in this prospectus (excluding Appendix V) "probable reserves" refers to marketable probable reserves.
proved reserves	Proved reserves under the JORC Code, which are the economically mineable part of a measured coal resource. They include diluting materials, and allowances for losses which may occur when the material is mined and after accounting for preparation plant yield. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Unless otherwise indicated, in this prospectus (excluding Appendix V) "proved reserves" refers to marketable proved reserves.
pulverised coal	Coal which has been ground into particles. Pulverised coal becomes combustible when sprayed with compressed air.
raw coal	A mineral in its raw, untreated state subsequent to extraction and prior to sizing and other beneficiation.
reclamation	In the context of mining, refers to the process of restoring land and the environment to their original state following mining

	activities. The process commonly includes "recontouring" or reshaping the land to its approximate original appearance, restoring topsoil and planting native grass and ground cover. Reclamation operations generally are initiated before the mining of a site is completed.
recoverable reserves	Proved and probable reserves prior to adjustment for preparation plant yield.
rolling stock	Any type of rail car, including any type of locomotive or freight car.
room-and-pillar mining	A traditional method of underground mining in which the mine roof of an area being mined, the "room," is supported by coal pillars left at regular intervals. Coal pillars are of two types, permanent and recoverable, and also include pillars left in mine tunnels.
shortwall (continuous mines) mining	Shortwall (continuous) mining is used to increase reserve recovery rate for layers of coal which are of irregular shape or otherwise not suited to large-scale longwall mining. The size of a mining face is determined in accordance with the stability of the roof with the walls of the mine face supported by coal pillars. The coal is removed by a continuous miner unit, and then transported to the surface via conveyor belts or shuttle cars.
sulphur content	Sulphur contained in coal. Sulphur content can vary from coal seam to coal seam and sometimes within seam. "Low sulphur" coal has a variety of definitions but typically is used to describe coal consisting of 1.0% or less sulphur.
thermal coal	Thermal coal, also normally referred to as "steam" or "steaming coal," is used in combustion processes by power producers and industrial users to produce steam for power and heat. It is generally lower in heat and higher in volatile matter than metallurgical coal.
throughput capacity	The volume of freight that can be handled in a given period.
tonne kilometre	Load in tonnes multiplied by the distance transported in kilometres.
truck and shovel mining	A mining method that involves the removal of overburden and the recovery of coal in open-cut mines by shovels, excavators and front-end loaders, which load the coal into trucks for transportation to preparation plants.
turnover of coal freight traffic	A measure of the volume of coal freight traffic, expressed in tonne kilometres.
underground mine	A mine where the coal is extracted from below the surface without removing the overburden.

underground mining	The extraction of coal or its products from rock strata by underground mining methods such as room-and-pillar mining, shortwall (continuous mines) mining and longwall mining.
volatile matter content	The amount of volatile matter in coal, expressed as a percentage of the weight of the coal. Volatile matter refers to substances, other than water, that are driven off as gas or vapor when coal is heated under certain prescribed conditions.

Terms Relating to Power Operations

Term	Definition
auxiliary power	Electricity consumed by a power plant in the course of power or heat generation.
average realised tariff	For any period, the average power tariffs realised from the sale of electric power in such period.
average utilisation hours	Total power generated divided by weighted average installed capacity.
dispatch	The schedule of production for all the generating units on a power system, generally varying from moment to moment to match production with power requirements. As a verb, to dispatch a power plant means to direct the plant to operate.
equity capacity	The pro rata portion of the installed capacity of a power plant which is attributable to us through our ownership interest.
equivalent availability factor	For any period, the ratio (expressed as a percentage) of a power plant's available hours to the total number of hours in such period.
excess output	The amount by which the total output of a power plant in a particular year exceeds its planned output for such year, but does not include output sold subject to competitive bidding. Excess output is subject to on-grid tariffs agreed to with the provincial grid in which a power plant is located.
grid	A transmission system for electricity.
gross generation	For a specific period, the total amount of electrical power produced by a power plant in that period including the power consumed by the power plant in the course of generation, also referred to as actual generation and total power generation.
GW	Gigawatt, equivalent to one million kilowatts.
GWh	Gigawatt-hour, equivalent to one million kilowatt hours.
installed capacity	The full-load continuous rating of a generator as designated by the manufacturer, usually denominated in MW.
KW	Kilowatt, equivalent to one thousand watts.
KWh	Kilowatt-hour. The standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that

	would be produced by a generator producing one thousand watts for one hour.
MW	Megawatt, equivalent to one million watts.
MWh	Megawatt-hour, equivalent to one thousand kilowatt-hours.
net generation	For a specified period, the total amount of power produced by a power plant, less the auxiliary power.
on-grid tariff	The price at which an independent power producer sells its electricity to a grid operator.
output subject to competitive bidding	The amount of output sold pursuant to on-grid tariffs subject to competitive bidding.
peak loading	The maximum demand on a power plant or power system during a specific period of time.
planned output	The actual amount of electricity sold by a power plant in accordance with annually determined target gross generation level in a particular year, at the on-grid tariffs approved by the PRC government. Approved on-grid tariffs for planned output are generally higher than approved on-grid tariffs for excess output and the realised average tariffs for output subject to competitive bidding.
primary energy	All energy consumed by end users, excluding electricity, but including the energy consumed at electric utilities to generate electricity.
standard coal	Coal with an energy content of 7,000 kilocalories per kilogramme.
total output	The actual amount of electricity sold by a power plant in a particular year, which equals total power generation less auxiliary power.
TWh	Terawatt hours, equivalent to one thousand gigawatt hours (GWh).
weighted average installed capacity	For a specified period, the available capacity of a generating unit multiplied by the number of hours in such period during which such generating unit is integrated into the relevant transmission network divided by the number of calendar hours in such period.

FORWARD-LOOKING STATEMENTS

We have included in this prospectus forward-looking statements that state our intentions, beliefs, expectations or predictions for the future, in particular under ''Business,'' ''Financial Information,'' ''Appendix II — Unaudited Pro Forma Financial Information'' and ''Appendix V — Independent Technical Report.''

These forward-looking statements include, without limitation, statements relating to:

- our business strategies and plan of operations;
- our capital expenditure plans;
- our operations and business prospects;
- our dividend policy;
- estimates of coal reserves and coal resources;
- projects under construction or planning;
- the regulatory environment of our industries in general; and
- future developments in our industries.

In some cases, we use the words ''anticipate,'' ''believe,'' ''could,'' ''estimate,'' ''expect,'' ''forecast,'' ''intend,'' ''may,'' ''plan,'' ''potential,'' ''project,'' ''seek,'' ''should,'' ''will,'' ''would,'' and similar expressions to identify forward-looking statements.

These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our control. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual outcomes may differ materially from the information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set forth in ''Risk Factors'' and the following:

- supply and demand changes in coal and power markets;
- changes in prices for coal and power;
- reduction in the use of coal as a fuel source for power generation;
- our production and transportation capabilities;
- replacement of our coal reserves;
- availability of sufficient and reliable transportation resources;
- long-term coal supply arrangements;
- our plans and objectives for future operations and expansion or consolidation;
- the effectiveness of our cost-control measures;
- our relationship with, and other conditions affecting, our customers;
- risks inherent to coal mining, including geologic conditions or equipment problems;
- competition;
- inflationary trends and interest rate changes;
- the effects of changes in currency exchange rates;

- environmental laws, including those directly affecting our coal and power operations, and those affecting our customers' coal usage;
- regulatory and court decisions;
- future legislation, including regulations and rules as well as changes in enforcement policies;
- changes in political, economic, legal and social conditions in China, including the PRC government's specific policies with respect to investment in the coal and power industries, economic growth, inflation, foreign exchange and the availability of credit;
- economic conditions in East Asia, the United States, Europe and elsewhere in the world;
- weather conditions or catastrophic weather-related damage; and
- our liquidity and financial condition.

Subject to the requirements of the Hong Kong Listing Rules, we do not intend to publicly update or revise any forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Because of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in our H Shares. You should pay particular attention to the fact that we are a PRC company and are governed by a legal and regulatory environment which in some respects may differ from that which prevails in other countries. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The trading price of our H Shares could decline due to any of these risks, and you may lose all or part of your investment. For more information concerning the PRC and certain related matters discussed below, please refer to Appendix VII "Summary of Principal Legal and Regulatory Provisions" and Appendix VIII "Summary of Articles of Association." You should also refer to the other information contained in this prospectus, including the financial statements and related notes.

This prospectus also contains forward-looking statements that involve risks and uncertainties. See "Forward-looking Statements."

Risks Relating to Our Businesses and China's Coal and Power Industries

Our business and results of operations are susceptible to the cyclical nature of coal markets and are vulnerable to fluctuations in prices for coal.

As the majority of our revenue is derived from sales of coal, our business and operating results are substantially dependent upon the prices we charge for our coal as well as the domestic and international demand for coal. We price our coal by reference to prices in the domestic and international coal markets, which are influenced by changes in supply and demand in these markets. The domestic and international coal markets are cyclical and have in the past exhibited significant fluctuations in supply, demand and prices from year to year. These fluctuations have been caused by numerous factors beyond our control, including, among others, general economic conditions in the PRC and elsewhere in the world, milder or severer than normal weather conditions and fluctuations in the development and growth of industries with high demand for coal, such as the power and steel industries. Historically, the domestic and international coal markets have frequently alternated between periods in which demand increases faster than production capacity and supply, causing prices and margins to increase, and periods in which production capacity and supply increase faster than demand, causing prices and margins to decline. There can be no assurance that the domestic or international demand for coal will stay at the current level or continue to grow, or that the domestic and international coal markets will not experience periods of overcapacity and excess supply. A significant decline in demand for, or over-supply of, coal may have a material adverse effect on our business, results of operations and financial condition.

A majority of our coal sales are made in the PRC domestic market. A portion of our coal sales in China are made on the spot market or pursuant to short-term supply contracts with a term generally of one year or less. There has been significant price volatility on the domestic spot market. Coal prices in the domestic market are directly affected by changes in supply and demand in the domestic market and, to a lesser extent, fluctuations in coal prices in the international markets. In addition, the PRC government indirectly influences coal prices through its regulation of power tariffs and its control over allocation of the transportation capacity of the national rail system. Since mid-2003, coal prices in China have increased significantly, reaching their highest level in recent years. Any significant downturn in domestic prices for coal could materially adversely affect our business, results of operations and financial condition.

Coal prices in the international markets also fluctuate and are affected by numerous factors beyond our control, including, among others, global economic conditions, global and regional supply and demand for coal and coal-related products, competition from other energy sources, milder or severer than normal weather conditions and speculative coal trading in the international markets. Any significant decline in demand for, or over-supply of, coal could have a materially adverse impact on our revenues from coal export sales, and could also adversely affect our revenues from domestic coal sales to the extent that such decline has affected coal prices in the domestic coal market.

Our operations are extensively regulated by the PRC government.

Our operations are subject to extensive regulation by the PRC government. Central governmental authorities, such as NDRC, SAEP, MOFCOM, MLR, SACMS, MOR, MOC, SERC and SAT, and provincial and local authorities and agencies regulate many aspects of China's coal and power industries, including, among others, the following aspects:

- the granting and renewal of coal exploration rights and mining rights;
- the granting of production licences;
- resource recovery rate requirements;
- allocation of the coal transportation capacity on the national rail system;
- pricing of coal transport services;
- coal export quotas, permits and VAT rebates;
- the adoption of temporary measures to limit increases in coal prices;
- regulation of power tariffs;
- planning and construction of new power plants;
- power dispatch;
- taxes, duties and fees; and
- environmental, safety and health standards.

The compliance costs, liabilities and requirements associated with these and any new regulations can have a significant impact on our operations. For example, in 2004, the SAT increased the resource tax for the coal mines in our Shendong Mines from RMB1.5 per tonne to RMB2.3-3.2 per tonne of coal sold.

In addition, we cannot give any assurance that our results of operations will not be materially adversely affected by any future changes in government regulations and policies. In particular, with respect to our power business, any future reduction in our tariffs, our inability to raise tariffs, or any change in on-grid tariff-setting mechanisms, may adversely affect the revenue and profit of our power operations.

Our profitability and growth prospects depend upon our ability to successfully acquire and develop economically attractive coal reserves at competitive costs.

Our coal reserves decline as we produce coal. Our ability to sustain or increase our current level of production in the long-term is dependent upon the acquisition of new coal reserves, the development of new coal mining projects and the expansion of existing mining operations. No assurance can be given that our planned development and expansion projects will result in additional economically recoverable coal reserves or that we will continue to succeed in developing new mines.

The acquisition of new mines in the PRC requires the approval of the PRC government. We must obtain various government permits in order to develop our reserves. See ''Regulation — The Coal Industry — Mining Operations.'' Delay or failure in securing the relevant PRC government approvals or permits as well as any adverse change in government policies may cause a significant adjustment to our development and acquisition plans, which may materially adversely affect our profitability and growth prospects.

Competition in the PRC coal and power industries may increase and our business and prospects may be adversely affected if we are not able to compete effectively.

Competition in the coal industry is based on many factors, including, among others, price, production capacity, coal quality and characteristics, transportation capability and costs, blending capability and brand name. Our coal business competes in the domestic and international markets with other large domestic and international coal mining companies. Due to their proximity to the coastal areas of China, some of our domestic competitors may have lower transportation costs than we do. See ''Business — Competition — Coal Operations.'' The domestic market is highly fragmented and we face price competition from some small local coal producers that produce coal for significantly lower costs than we do due to various factors including their lower expenditure on safety and regulatory compliance. In addition, domestic coal producers compete for the right to obtain and develop coal reserves. Some of our overseas competitors may have greater coal production capacity as well as greater financial, marketing, distribution and other resources than we do, and may enjoy more established brand names in international markets.

Our power business competes in the domestic market with other PRC power generation companies, including independent power producers such as China Huaneng Group, China Datang Corporation, China Guodian Corporation, China Huadian Corporation and China Power Investment Corporation. Compared to these five biggest power companies in China, which collectively owned and managed approximately 45% of China's total power generation capacity in 2002, our power business is substantially smaller. We primarily compete with these larger independent power producers in securing opportunities to develop new power projects. In addition, there is intense competition among operating power plants for increase in dispatched output and higher on-grid tariffs. In this respect, we compete against various players, including power plants owned by large power companies and smaller local power producers that are located in the markets where we operate. If we are not able to compete successfully, our growth opportunities may be limited and our revenue and profitability may be adversely affected. In recent years, the ongoing reform of the PRC power industry has included experimental programs to set on-grid tariffs through competitive bidding. In 2004, 0.6% of our total power output dispatched was sold through the competitive bidding process. The tariffs determined by competitive bidding may be lower than the tariffs under planned generation. In the future, competitive bidding may further increase price competition among domestic power generation companies, and have a material adverse effect on the results of our power operations. See ''Regulation — The Power Industry — Pricing.''

We cannot assure you that increased competition in the future, including competition from new competitors who may emerge as a result of the consolidation of the coal and power industries in China, will not have a material adverse effect on our results of operations and financial condition.

The coal reserve and other data in this prospectus are estimates and may be inaccurate, and our actual production, revenues and capital expenditures may differ materially from our estimates.

The coal reserve data, on which our production and capital expenditure plans are based, are estimates that were made by our Company and reviewed and substantiated by John T. Boyd, independent mining and geological consultants. These reserve estimates may be inaccurate and may differ materially from our actual production results. There are inherent uncertainties in estimating reserves, including many factors, assumptions and variables that are beyond our control. Our actual volume of reserves, rates of production and coal characteristics may be different from these estimates.

Fluctuations in coal prices, production costs, coal transportation costs, or different recovery rates may ultimately result in our estimated reserves being revised. If such a revision results in a substantial reduction in proved or probable reserves at one or more of our major mines, it could adversely affect our results of operations, financial condition and growth prospects. For more information on our reserves, including the qualifications to John T. Boyd's independent technical report, see "Appendix V — Independent Technical Report."

Accidents at our mines or other coal mines in the PRC could materially adversely affect our coal operations.

We have experienced accidents at our mines, and we cannot assure you that accidents will not occur in the future. In 2002, 2003 and 2004, we experienced five, ten and one fatalities, respectively, at our mines, which represented a coal mining employee fatality rate per million tonnes of raw coal produced of 0.0765, 0.1157 and 0.0096, respectively. In the same periods, the employee fatality rate per million tonnes of raw coal produced for major PRC coal producers was 1.25, 1.07 and 0.95, respectively, according to SAWS. The occurrence of accidents at our mines may result in substantial disruptions of our business operations and financial losses, damage to our reputation, lawsuits and other compensatory claims and payouts, fines, penalties and mandatory suspension of production.

In addition, even if accidents do not occur at our mines, accidents that occur at other mines associated with us could adversely affect our business. The Xisanju Mines, which are retained by Shenhua Group as part of the Restructuring, have previously experienced accidents due to their unfavourable mining conditions and high methane gas levels. If accidents occur in the Xisanju Mines in the future, the reputation of our Company and Shenhua Group and the price of our Shares may be adversely affected.

According to SAWS, the PRC coal industry suffered 6,027 fatalities in the year ended 31 December 2004. Despite the PRC government's efforts to implement more stringent safety standards, serious accidents, particularly those caused by methane explosions, continue to occur. During periods of high coal demand, accidents result in part from insufficient attention to safety, maintenance and working conditions associated with overproduction. Recent significant mining accidents in China have prompted the PRC government to strengthen safety regulations, and future accidents may result in further regulations. We may be required to devote substantial financial and other resources to comply with these regulations.

Our major capital projects may not be completed as planned, may exceed our original budgets and may not achieve the intended economic results or commercial viability.

Our currently planned projects require aggregate capital expenditures of approximately RMB45.8 billion from 2005 through to 2007. See "Financial Information — Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Expenditures." Our planned projects could be delayed or adversely affected by a number of factors beyond our control, including, among others, regulatory approvals and permits, availability of sufficient funding, natural conditions, fuel supply and technical or human resources.

We must obtain PRC government approvals for all of our significant capital investment projects. We cannot give any assurance that all our projects will be approved or there will not be a delay in securing such approvals. Because the commercial viability of our future development plans for our coal and power businesses depends largely on these projects, our future profitability and financial condition could be materially adversely affected if any of these projects is not approved, or is not approved on a timely basis.

Moreover, actual costs for our capital projects may exceed our original budgets. As a result of project delays, cost overruns, changes in market circumstances or other reasons, we may not be able to achieve the intended economic benefits or demonstrate commercial viability of these projects, which in turn may materially adversely affect our results of operations, financial condition and growth prospects.

Our financial performance and operating results could be materially adversely affected by our indebtedness.

We are subject to a high degree of financial leverage. We have relied on both short-term and long-term borrowings to fund a portion of our capital requirements, and expect to continue to do so in the future. As of 31 December 2004, we had total outstanding debt (including borrowings from banks and other financial institutions, loans from Shenhua Group and bills payable) of approximately RMB60.9 billion and we had net current liabilities of approximately RMB8.4 billion. As of 31 December 2004, our liabilities-to-assets ratio (defined as total liabilities divided by total assets), debt-to-asset ratio (defined as total debt divided by total assets) and gearing ratio (defined as total debt divided by total equity) were 65.1%, 55.2% and 158.3%, respectively. For the year ended 31 December 2004, our EBITDA interest coverage ratio (defined as the multiple of EBITDA divided by interest expenses before interest capitalised) was 7.5 times.

On 27 March 2005, we (i) declared a dividend of approximately RMB7.5 billion to Shenhua Group, which is equal to our distributable profit for the year ended 31 December 2004, and (ii) resolved to make distributable to Shenhua Group our distributable profit for the period from 1 January 2005 to the calendar day immediately preceding the date of our listing on the Hong Kong Stock Exchange. We paid to Shenhua Group the declared dividend for the year ended 31 December 2004 from our cash and cash equivalents. In addition, the resolved distribution to Shenhua Group for the period in 2005 is expected to be paid to Shenhua Group in 2006 from our cash and cash equivalents. Such dividend payments have resulted and are expected to result in a significant decrease in our cash and cash equivalents. As a result, we may incur additional borrowings to fund our planned capital expenditures.

The degree to which we are leveraged could have important consequences, including, but not limited to:

- requiring a substantial portion of our cash flow from operations to be used for financing our debt service, thereby reducing the availability of the cash flow to fund working capital, capital expenditures or other general corporate uses;
- increasing our exposure to interest rate fluctuations;
- increasing our exposure to exchange rate fluctuations;
- limiting our ability to obtain, and increasing the cost of, additional financing to fund future working capital, capital expenditures or general corporate uses; and
- limiting our flexibility in planning for, or reacting to, changes in our business and within the coal and power industries.

We may face substantial financial and operational risks if our business environment or interest or exchange rates change, or if our cash flows and capital resources are insufficient to fund our debt service obligations. We may be forced to sell assets, seek additional capital or seek to restructure or refinance our indebtedness, which may not be successful or provide sufficient remedial measures. Failure to service our debt could result in the imposition of penalties, including increases in rates of interest that we pay on our debt and legal actions against us by our creditors, or even bankruptcy.

The unavailability or shortage of reliable and sufficient coal transportation capacity could reduce our coal revenue by causing us to reduce our production volume or impairing our ability to supply coal to our customers.

A significant portion of our coal is transported over the national rail system and through non-Shenhua ports since our own transportation network cannot satisfy all of our coal transportation needs. Currently, the national rail system and non-Shenhua ports in China are unable to fully satisfy the coal transportation demand in China. We have at times experienced delays in securing sufficient allocation of transport capacity, rolling stock or port facilities through the national rail system and non-Shenhua ports which have caused delays in coal deliveries to our customers. We cannot give any assurance that in the future we will not experience insufficient allocation of transportation capacity or delays in deliveries to our customers.

In addition, our seaport, Huanghua Port, has experienced an accumulation of sediment in its waterways, which has adversely affected its capacity and operations. We have incurred significant expenditures for dredging sediment and constructing a breakwall to reduce the impact of this sediment accumulation. We may be required to continue to invest substantial resources to address this situation.

Our coal and power operations may be adversely affected by operational risks and natural disasters and resulting losses for which we have limited insurance.

Our coal operations, including coal mining, transportation and sales, are subject to significant risks and hazards beyond our control that can adversely impact our coal production and transportation capacities, delay coal deliveries and cause significant business interruptions, personal injuries, property or environmental damage, as well as increase the mining cost at particular mines for varying lengths of time. These risks include natural disasters (such as earthquakes), severe weather conditions (such as storms that impact accumulation of sediment in waterways), lack of water supplies, unexpected maintenance or technical problems, key equipment failures, geological variations in coal quality, seam thickness, and the amount and characteristics of rock and soil overlying and surrounding coal deposits, as well as underground mining risks such as mine collapse, gas leaks or explosions, fire and flooding. The operation of power plants also involves significant risks, including failure or substandard performance of equipment, unscheduled overhaul, improper installation or operation of equipment, environmental hazards, industrial accidents and natural disasters.

The occurrence of any of these events, and the consequences resulting from them, may not be covered adequately, or at all, by our insurance policies. A substantial portion of our mining operating assets, including our longwall and continuous miner units, coal preparation plants and coal loading equipment, are currently not covered by any property or casualty insurance. In addition, except for some of our power plants, we do not carry any business interruption insurance or insurance covering environmental damage arising from accidents on our property or relating to our operations. See ''Business — Insurance.'' Losses incurred or payments we may be required to make may have a materially adverse effect on our results of operations and financial condition to the extent such losses or payments are not insured.

The high proportion of our total operating revenues represented by thermal coal, as well as our significant power generation business, make our results of operations vulnerable to any significant downturn in the PRC power industry.

Our coal operations focus primarily on the production and sale of thermal coal used in power generation. Thermal coal sold to external power producers and supplied to our power generation business accounted for 76.9%, 71.3% and 71.2% of our total domestic coal sales, as measured by tonnes of coal, in 2002, 2003 and 2004, respectively. Moreover, 41.9%, 42.4% and 50.8% of our total operating revenues in 2002, 2003 and 2004, respectively, were attributable to our domestic thermal coal sales. Our power generation business not only contributed approximately 25.1% of our total operating revenues in 2004, it is also the largest consumer of our coal, accounting for approximately 12.0% of our total coal sales volume in 2004. Therefore, our results of operations are vulnerable to any significant downturn in the PRC power industry.

Because a substantial portion of our coal sales are under long-term coal supply contracts, our ability to benefit from periods of increased spot prices is limited.

We sell a substantial portion of our coal under long-term coal supply contracts, which we define as contracts with a term greater than 12 months. The contract prices for coal shipped under these contracts are determined and adjusted annually and thus may be below the current market price for comparable coal at any given time, depending on the timeframe of contract execution. As a consequence of the substantial volume of our sales that are subject to these long-term agreements, we have less coal available with which to capitalise on higher coal prices if and when they arise. In addition, these long-term coal supply contracts typically allow the parties to make annual price adjustments. Therefore, we may not be able to take full advantage of the prevailing high coal prices in the spot market.

A significant reduction in purchases by our largest customers could adversely affect our coal revenues.

We derived 45.7%, 43.3% and 35.1%, respectively, of our coal revenue from domestic and export sales to our ten largest external customers in 2002, 2003 and 2004. No assurance can be given that negotiations to extend existing coal supply contracts or enter into new contracts with those and other customers will be successful. In addition, these customers may not continue to purchase coal from us. If one or more of our largest external customers were to significantly reduce their coal purchases from us, or if we were unable to sell coal to them on terms as favourable to us as the terms under our current contracts, the revenue and profitability of our coal operations could be materially adversely affected.

Our business operations may be materially adversely affected by present or future environmental regulations.

We are subject to extensive and increasingly stringent environmental protection laws and regulations in China. See "Regulation — Environmental Protection." These laws and regulations:

- impose fees for the discharge of pollutants and waste substances;
- require the establishment of reserves for land reclamation and rehabilitation;
- impose fines for environmental violations; and
- allow the government, at its discretion, to close any facility that fails to comply with administrative orders requiring it to correct or stop operations causing environmental damage.

Our coal and power operations produce gaseous emissions, waste water and solid waste materials. Currently, the PRC government is moving towards more rigorous enforcement of applicable environmental laws and regulations and the adoption of more stringent environmental standards. For example, in recent years, power plants have been subject to increasing fees for discharges of gaseous emissions. In 2002, 2003 and 2004, our power operations paid air pollutant discharge fees to local governments of approximately RMB5.1 million, RMB12.2 million and RMB53.5 million, respectively. While our expenditure for environmental regulatory compliance has increased in recent years, our budgeted spending for future years may not be sufficient and we may need to allocate additional funds for such purpose. If we fail to comply with current or future environmental laws and regulations, we may be required to pay penalties or fines or take corrective actions, any of which may have a material adverse effect on our results of operations and financial condition.

We have not obtained formal title certificates to some of the properties we occupy.

As of 15 March 2005, we used or owned for our business operations 551 parcels of land with a total area of approximately 128 million square metres and approximately 4,000 buildings with an aggregate gross floor area of approximately 2.7 million square metres, as well as a number of buildings under construction all of which were located in the PRC.

Of the properties we use, Shenhua Group lacks formal title certificates in respect of two parcels of land with a total land area of 3.2 million square metres which are used by our Shenshuo Rail Line and leased to us pursuant to the Land Leasing Agreement. Shenhua Group is in the process of completing the legal procedures for obtaining the relevant title certificates of the two parcels of land used by Shenshuo Rail Line and has undertaken to us to cause the formal title certificates in respect of the two parcels of land to be registered in the name of Shenhua Group and leased to the Company before 8 November 2005. In addition, we lack formal title certificates to 175 buildings with a total area of approximately 99,775 square metres. Shenhua Group has also undertaken to have the title certificates to such 175 buildings registered in our name or the name of our subsidiaries before 8 November 2005. We have also undertaken to the Hong Kong Stock Exchange that such title certificates will be obtained within six months from our Listing Date.

Pursuant to the Restructuring, Shenhua Group contributed to us as capital certain land and buildings. Shenhua Group and we have applied to the relevant government authorities to change the title certificates to our name after our incorporation on 8 November 2004. However, because of the large number of properties involved, we are still in the process of finalising the change of registration of the land use rights or building ownership rights in respect of certain properties. See ''Business — Properties.''

We cannot assure you that we or Shenhua Group will be able to obtain all of the formal title certificates within such period of time. While we are indemnified by Shenhua Group for any losses (including consequential losses) or expenses that we may suffer from these title defects, our rights as owner or occupier of these properties and buildings may be adversely affected as a result of the absence of formal title certificates and we may be subject to lawsuits or other actions taken against us and/or lose the right to continue to operate on these properties.

Inspections, examinations, inquiries or audits by PRC regulatory authorities may result in fines, other penalties or actions that could adversely affect our reputation.

As a company with substantially all of its operations in China, we are subject to various periodic inspections, examinations, inquiries and audits by PRC regulatory authorities in accordance with applicable PRC laws and regulations. In the past, we have occasionally been subject to corrective actions by relevant regulators. Although these corrective actions have not had a material and adverse effect on our business, results of operations and financial condition, we cannot assure you that future inspections, examinations and audits by PRC regulatory authorities will not result in fines, other penalties or actions that could materially adversely affect our business, results of operations or financial condition. In addition, our reputation may be adversely affected if we are fined or otherwise penalised.

Furthermore, we cannot predict the outcome of any future inspections, examinations, inquiries or audits by PRC regulatory authorities or their impact upon Shenhua Group or our Company. While Shenhua Group has undertaken to us that it will indemnify us against any claims and losses incurred in connection with or arising from businesses, assets and liabilities transferred to us as a result of the Restructuring, we cannot assure you that our corporate image, the reputation and credibility of our management or the prices of our Shares would not be adversely affected by any negative outcome of any future inspections, examinations, inquiries or audits.

The 2004 Audit by the NAO may result in adverse decisions that could adversely affect us or the price of our Shares.

As one of the large State-owned enterprises under the direct supervision of the SASAC, Shenhua Group, our Controlling Shareholder, has been subject to audits from time to time by the NAO. We have been informed by Shenhua Group that, in connection with the departure of a member of senior management of Shenhua Group, as required by relevant PRC regulations, a senior management departure audit was initiated in 2004 which involved two stages, the first stage involving a review by NAO of the economic responsibilities of the departing senior management member that resulted in an NAO internal audit report, and the second stage involving the issuance of an audit opinion and/or audit decision based on the audit findings. We have been informed by Shenhua Group that the 2004 NAO audit report has been issued while the audit decision is pending. Since the audit decision for the 2004 audit has not been issued by the NAO to Shenhua Group, we cannot assure you that our corporate image, the reputation and credibility of our management, or the price of our H Shares would not be adversely affected if Shenhua Group becomes the target of any negative publicity as a result of the audit decision. The Company will make a public announcement when the audit decision is issued by the NAO. See "Relationship with Shenhua Group — NAO Audit."

Our limited operating history as a separate entity could affect our operating efficiency and your ability to evaluate our business and growth prospects.

We were established on 8 November 2004 as a result of the Restructuring under which Shenhua Group transferred to us substantially all of its coal production, sales, railway and port transportation and power generation operations as well as mining rights relating to our coal operations and other related assets, liabilities and interests. As a separate operating entity, we have a limited operating history which may impact your ability to evaluate our business and prospects. We are currently taking steps to integrate our business units, improve our management information and internal control systems and manage them in a centralised and coordinated manner. This integration process may present challenges to our management in terms of the synthesis of operations and personnel and the implementation of a centralised information management system. If we fail to complete our integration smoothly and rapidly, we may not be able to realise the full potential of our integrated business operations and therefore our business operations could be adversely affected.

We will be controlled by Shenhua Group, whose interests may differ from those of our other shareholders.

Immediately following the Global Offering, Shenhua Group will own a total of 82.77% of our share capital (or 80.65% if the Over-allotment Option is exercised in full). This ownership interest will enable Shenhua Group to elect our entire Board without the concurrence of any of our Company's other shareholders. Accordingly, Shenhua Group will be in a position to:

- control the policies, management and affairs of our Company;
- subject to applicable PRC laws and regulations and our Articles of Association, determine the timing and amount of dividend payments;
- subject to applicable PRC laws and regulations and our Articles of Association, adopt amendments to certain provisions of our Articles of Association; and
- otherwise determine the outcome of most corporate actions, including the enforcement of indemnities against Shenhua Group and, subject to the applicable requirements of the stock exchanges on which our Shares will be listed, cause our company to effect corporate transactions without the approval of minority shareholders.

Shenhua Group's interests may conflict with those of some or all of our minority shareholders. Shenhua Group may rely on dividends received from us as a significant means of funding its operations and business growth. We cannot give any assurance that Shenhua Group, as our controlling shareholder, will always vote its Shares in a way that benefits our minority shareholders.

Failure by Shenhua Group to fulfill its obligations under certain arrangements entered into in connection with our Restructuring may have a material adverse effect on our business operations, growth prospects and profitability.

In connection with our Restructuring, Shenhua Group has entered into certain arrangements with us, including a non-competition agreement, a restructuring agreement and a number of connected transaction agreements. See "Relationship with Shenhua Group" and "Connected Transactions."

Under the non-competition agreement, Shenhua Group (i) agreed that other than the Retained Businesses described under "Relationship with Shenhua Group — Competition — Retained Businesses," it will not compete with our core businesses, and (ii) granted us options and pre-emptive rights to acquire the Retained Businesses and certain future businesses from Shenhua Group. To reduce potential competition between us and the Xisanju Companies, one of the Retained Businesses, Shenhua Group also entered into an agency sales agreement whereby we were appointed the exclusive agent for the sale of all thermal coal produced by the Xisanju Companies. In addition, under the restructuring agreement, Shenhua Group agreed to indemnify us for losses and expenses arising from certain matters. Failure by Shenhua Group to fulfill its obligations under any of these arrangements may have a material adverse effect on our business operations, growth prospects and profitability.

You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles, including, in particular, any financial projections, valuations or other forward-looking information.

There has been press coverage in certain news publications about the Company and the Global Offering that included certain projections, valuations and other forward-looking information, including the article dated 17 May 2005 in Dow Jones Newswires, the articles dated 18 May 2005 in Bloomberg, South China Morning Post, Hong Kong Economic Journal, Hong Kong Economic Times and The Sun, the articles dated 19 May 2005 in South China Morning Post, Ming Pao Daily News, Wen Wei Po, Ta Kung Pao, Hong Kong Economic Journal, Hong Kong Economic Times, Sing Pao Daily News and Sing Tao Daily News, the article dated 20 May 2005 in Wen Wei Po, and the articles dated 23 May 2005 in The Sun, Oriental Daily News, Ming Pao Daily News and Hong Kong Economic Times. We wish to emphasise to potential investors that we do not accept any responsibility for the accuracy or completeness of such press articles and that such press articles were not prepared or approved by us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information, or of any assumptions underlying such projections, valuations or other forward-looking information, included in or referred to by the media. To the extent that any such statements are inconsistent with, or conflict with, the information contained in this prospectus, we disclaim them. Accordingly, you should not rely on any such information.

Risks Relating to the People's Republic of China

Substantially all of our assets are located in China and substantially all of our revenue is derived from our operations in China. Accordingly, our results of operations and prospects are subject, to a significant extent, to economic, political and legal developments in China.

The economic, political and social conditions, as well as government policies, of the PRC affect our business. The PRC economy differs from the economies of most developed countries in many respects.

Economic growth in the PRC has been uneven, both geographically and across various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government controls over capital investments or changes in tax regulations that are applicable to us. In addition, since late 2003, the PRC government has implemented certain measures to prevent the economy of China from overheating. Such governmental measures may cause a decrease in the overall level of economic activities, including demand for coal and power, and may have an adverse impact on economic growth in China, East Asia and elsewhere in the world.

A substantial portion of productive assets in China remains State-owned. In addition, the PRC government continues to play a significant role in regulating industrial development by imposing industrial policies. It also exercises significant control over PRC economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. We cannot assure you that China's economic, political or legal systems will not develop in a way that is detrimental to our business, results of operations and prospects.

Economic, political and military conditions in the Asia-Pacific region are unpredictable, and our results of operations, financial condition and future prospects may be materially adversely disrupted if these conditions become unfavourable to our business.

We conduct substantially all of our business and generate most of our revenues in China, the economy of which has been increasingly integrated with that of the Asia-Pacific region. In addition, substantially all of our business activities outside China are concentrated in the Asia-Pacific region. As a result, economic conditions in the Asia-Pacific region have a significant effect on our results of operations, financial condition and future prospects.

Changes in political or economic conditions in the Asia-Pacific region are difficult to predict and may adversely affect our operations, cause this region to become less attractive to businesses or impact political or economic conditions in the PRC, which may reduce our revenues or profit. For example, the recession that many Asia-Pacific countries and regions experienced in 1998 and early 1999 was characterised by currency fluctuations, liquidity shortages and an overall economic decline in the Asia-Pacific region. It is possible that occurrences of unfavourable economic conditions in the Asia-Pacific region in the future could reduce our revenues or profit and cause us to lower our capital expenditures, which may negatively impact our business over time.

In addition, some of the regions and countries in the Asia-Pacific region may experience or continue to experience political or military instability. The continuation, re-emergence or escalation of such political or military instability may have a material adverse effect on economic or social conditions in those regions and countries and may result in outbreaks of civil unrest, terrorist attacks or threats, or acts of war in the affected areas, any of which could have a material adverse effect on general economic conditions, consumer confidence and spending and market liquidity in the Asia-Pacific region.

We therefore cannot assure you that our results of operations, financial condition and future prospects will not be materially adversely affected by unfavourable economic, political or military conditions in the Asia-Pacific region.

Our financial condition and results of operations could be materially adversely affected by fluctuations in the value of the Renminbi or depreciation of the currencies in which we derive our revenues against the currencies in which our borrowings are denominated.

The value of the Renminbi may fluctuate in the future due to changes in China's political or economic conditions, although official exchange rates for conversion of Renminbi to foreign currencies, including U.S. and Hong Kong dollars, have generally been stable in recent years. Since 1994, the conversion of the Renminbi into foreign currencies, including Hong Kong and US dollars, has been based on rates set by the People's Bank of China, or PBOC, on a daily basis based on the previous day's interbank foreign exchange market rates and current exchange rates on the world financial markets. Any devaluation of the Renminbi, however, may adversely affect the value of dividends, if any, payable on our H Shares in foreign currency terms, since we will receive the majority of our revenues, and express our profits, in Renminbi. In addition, a substantial portion of our revenues are derived in Renminbi and a significant portion of our borrowings are denominated in Japanese yen. Because our financial statements are prepared in Renminbi, if the Renminbi depreciates against any of the other currencies in which our borrowings are denominated, the repayment costs of our borrowings will increase in Renminbi terms and our financial condition and results of operations could be materially adversely affected. In 2002, 2003 and 2004, we recognised unrealised foreign exchange losses of RMB693 million, RMB984 million and RMB218 million, respectively, due to fluctuations in the value of the Japanese yen. To reduce our foreign currency exposure, in July 2004, we hedged certain of our Japanese yen-denominated borrowings. However, we cannot assure you that we will not incur foreign exchange losses as a result of our foreign currency borrowings in the future. For further information on our foreign exchange risks and certain exchange rates, see "Information about this Prospectus and the Global Offering — Exchange Rate" and "Financial Information — Management's Discussion and Analysis of Financial Condition and Results of Operations — Market Risks — Foreign Exchange Rate Risk."

Government control of currency conversion may adversely affect our operations and financial results.

Except for our export revenues, which we receive in US dollars and which accounted for approximately 21% of our total operating revenues in 2004, we receive substantially all of our revenues in Renminbi, which currently is not a fully convertible currency. A portion of these revenues must be converted into other currencies to meet our foreign currency obligations. These foreign currency-denominated obligations include:

- payment of interest and principal on foreign currency-denominated debt;
- payment for equipment and materials purchased offshore; and
- payment of dividends declared, if any, in respect of our H Shares.

Under China's existing foreign exchange regulations, following the completion of the global offering, we will be able to pay dividends in foreign currencies without prior approval from the SAFE, by complying with certain procedural requirements. However, the PRC government may take measures in the future to restrict access to foreign currencies for current account transactions. We may not be able to pay dividends in foreign currencies to our shareholders if the PRC government decides to restrict access to foreign currencies for current account transactions. See "Financial Information — Dividend Policy."

Foreign exchange transactions under our capital account, including foreign currency-denominated borrowings from PRC or foreign banks and principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of PRC governmental authorities, including the SAFE. In particular, if we borrow foreign currency loans from foreign lenders, these loans must be registered with the SAFE. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures and other purposes.

The PRC legal system is evolving and has inherent uncertainties that could limit the legal protection available to you.

There are uncertainties regarding interpretation and enforcement of PRC laws and regulations that could limit the legal protections available to you.

We are organised under the laws of China and are governed by our Articles of Association. The PRC legal system is based on written statutes. Prior court decisions may be considered for reference but are not binding on subsequent cases and have limited precedential value. Since 1979, the PRC government has promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and their non-precedential effect, interpretation and enforcement of these laws and regulations involve uncertainties. In addition, as the PRC legal system evolves, changes in relevant laws and regulations and their interpretation and enforcement may have a material adverse effect on our business operations.

Corporate and securities laws in China differ from those in certain other jurisdictions and may afford less protection to our minority shareholders.

Unlike corporate and securities laws in certain other jurisdictions, such as the United States, it is not clear whether corporate and securities laws in China allow shareholders to sue the directors, supervisors, officers or other shareholders of a company on behalf of the company to enforce a claim against such party or parties that the company has failed to enforce itself. In addition, class action lawsuits by investors against a company are generally not instituted in China. The PRC Company Law imposes few obligations on a controlling shareholder with respect to protection of minority shareholders, although overseas listed joint stock companies, such as our company, are required to adopt certain provisions in their articles of association that are designed to protect minority shareholder rights. These provisions provide, among other things, that the rights of any class of shares, including H shares, may not be varied without a resolution approved by holders of not less than two-thirds of the shares of the affected class that are entitled to vote, and that, in connection with a merger or division involving our company under PRC Company Law, a dissenting shareholder may require us or the consenting shareholders to purchase the dissenter's shares at a fair price. Claims arising from these protective provisions would likely be novel and require arbitration.

Our profit may be adversely affected by changes in the preferential income tax treatment applicable to certain of our subsidiaries located in western China.

The PRC Provisional Regulations on Enterprise Income Tax stipulate that enterprises (including joint stock limited companies) incorporated in the PRC (except for foreign production and operations) will pay enterprise income tax at a rate of 33.0% on income earned from production and operations, and on other income, with tax concessions available where laws and regulations have provided for tax exemption or reduction.

Certain of our subsidiaries located in western China are entitled to preferential income tax rates at 7.5% or 15.0%. As the PRC tax system evolves, changes in relevant rules and regulations and their interpretation and enforcement in respect of the preferential tax treatment may have a material adverse effect on our profit.

Our Articles of Association require you to resolve disputes with us, our Directors, Supervisors, senior management and holders of our Domestic Shares only through arbitration in Hong Kong or China.

In accordance with the rules applicable to companies that are listed in Hong Kong and incorporated in China, our Articles of Association provide that disputes or claims between holders of H Shares and us, our Directors, Supervisors, senior management or holders of Domestic Shares, arising out of our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law and other relevant rules and regulations concerning the affairs of our company, including the transfer of our Shares, are to be resolved through arbitration by arbitration organisations in Hong Kong or China, rather than by a court of law. Awards that are made by the PRC arbitral authorities recognised under the Arbitration Ordinance (Chapter 341 of the Laws of Hong Kong) can be enforced in Hong Kong. Hong Kong arbitration awards are also enforceable in China. We cannot give assurance as to the outcome of any action brought in China to enforce an arbitral award made in favor of holders of H Shares in Hong Kong. Moreover, to our knowledge, there has not been any published report of judicial enforcement in the PRC by holders of H Shares of their rights under a company's articles of association or the PRC Company Law. See "Appendix VII — Summary of Principal Legal and Regulatory Provisions — The Arbitration Law" and "Appendix VII — Summary of Principal Legal and Regulatory Provisions — Hong Kong Laws and Regulations — Securities Arbitration Rules."

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

We are a company incorporated under the laws of China, and substantially all of our assets and our subsidiaries are located in China. In addition, all of our Directors (other than one of our independent non-executive Directors) and officers reside within China, and substantially all of the assets of our Directors and officers are located within China. As a result, it may not be possible to effect service of process outside of China upon most of our Directors or officers. Currently, China does not have treaties providing for the reciprocal recognition and enforcement of judicial judgments with the United States, the United Kingdom, Japan or most other Western countries. As a result, recognition and enforcement in China or Hong Kong of judgments of a court in any of these jurisdictions mentioned above may be difficult or impossible.

Holders of H shares may be subject to PRC taxation should the current tax regulations change.

Under the current tax laws, regulations and rulings of the PRC, dividends paid by us to holders of H Shares outside the PRC are exempt from PRC income tax. In addition, gains realised by individuals or enterprises upon the sale or other disposition of H Shares are currently exempted from PRC income tax. If these exemptions are withdrawn in the future, holders of H Shares may be required to pay income tax on dividends, which is currently imposed at the rate of 20% and would be required to be withheld by us at the time of payment, or capital gains tax, which may currently be imposed upon individuals at the rate of 20%. See "Appendix VI — Taxation and Foreign Exchange."

Any future outbreak of severe acute respiratory syndrome or any other epidemic in China may have a material adverse effect on our business operations, financial condition and results of operations.

From November 2002 to mid-2003, China, Hong Kong and certain other areas, largely in Asia, experienced an outbreak of a new and highly contagious form of atypical pneumonia, now known as severe acute respiratory syndrome, or SARS. This outbreak resulted in significant disruption to the affected populations and business and economic activities generally in the affected areas during its peak in 2003. Areas in China that were affected include areas where we have substantial business and management operations. On 5 July 2003, the World Health Organisation declared that SARS had been contained in China. However, new SARS cases have been sporadically reported in certain areas of China and other Asian countries since then. We cannot predict at this time whether the situation may again deteriorate or the extent of its effect on our business and operations. We cannot assure you that any new outbreak of SARS or any other epidemic will not significantly disrupt our operations, result in higher operating expenses for us, or restrict the level of economic activity generally, all of which may result in a material adverse effect on our business and prospects.

Risks Relating to the Global Offering

An active trading market for our H Shares may not develop, and their trading prices may fluctuate significantly.

Prior to the Global Offering, no public market for our H Shares existed. We cannot assure you that a liquid public market for our H Shares will develop or be sustained after the Global Offering. If an active public market for our H Shares does not develop after the Global Offering, the market price and liquidity of our H Shares may be adversely affected.

The price and trading volume for our H Shares may be highly volatile. Factors such as variations in our revenue, earnings and cash flow and announcements of new investments, discovery of new reserves, strategic alliances and/or acquisitions, or fluctuations in market prices for our products could cause substantial changes in the market prices for our H Shares. Any such development may result in large and sudden changes in the volume and price at which our H Shares will trade. We cannot assure you that these developments will not occur in the future.

Because the Offer Price is higher than the net tangible book value per Share, you will experience immediate dilution in the book value of the H Shares purchased by you.

The Offer Price will be higher than the net tangible book value per Share of the outstanding Shares issued to the Selling Shareholder. Therefore, purchasers of our H Shares in the Global Offering will experience an immediate dilution in pro forma combined net tangible book value of HK$6.14 per H Share, assuming the mid-point Offer Price of HK$8.25, and the Selling Shareholder will receive an increase in the net tangible book value per share of its Shares.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong and the Hong Kong Listing Rules for the purpose of giving information to the public with regard to our Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this prospectus misleading.

CSRC APPROVAL

We have obtained the CSRC's approval for the Global Offering and the submission of the application to list the H Shares on the Hong Kong Stock Exchange. In granting such approval, the CSRC accepts no responsibility for the financial soundness of our Company, nor for the accuracy of any of the statements made or opinions expressed in this prospectus or in the Application Forms.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The listing of the Offer Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. The Global Offering is managed by the Joint Global Coordinators. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is underwritten by the Hong Kong Underwriters on a conditional basis. The International Purchase Agreement relating to the International Offering is expected to be entered into on or about 8 June 2005, subject to agreement on the Offer Price among us (for our Company and on behalf of the Selling Shareholder) and the Joint Global Coordinators (on behalf of the Underwriters). If, for any reason, the Offer Price is not agreed among us (for our Company and on behalf of the Selling Shareholder) and the Joint Global Coordinators (on behalf of the Underwriters) by 13 June 2005, the Global Offering will not proceed. Further details about the Hong Kong Underwriters and the underwriting arrangements are contained in "Underwriting."

SELLING RESTRICTIONS

Each person acquiring Hong Kong Public Offer Shares will be required to confirm, or by his acquisition of Hong Kong Public Offer Shares will be deemed to confirm, that he is aware of the restrictions on offers of the Hong Kong Public Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and Japan or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the H Shares in certain jurisdictions may be restricted by law. We and the Underwriters require persons into whose possession this prospectus comes to inform themselves about and to observe any such restrictions.

United States

The Offer Shares have not been and will not be registered under the US Securities Act and may not be offered, sold, pledged or otherwise transferred within the United States or to, or for the account or benefit of, US persons, except in the United States to QIBs in reliance on Rule 144A or outside the United States pursuant to Regulation S.

The Offer Shares are being offered and sold outside the United States to non-US persons pursuant to Regulation S and within the United States to QIBs in reliance on Rule 144A. In addition, until the expiration of 40 days after the latter of the commencement of the Global Offering and the date of the closing of the Global Offering, an offer or sale of Offer Shares within the United States by any dealer (whether or not participating in this Global Offering) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A. Terms used above have the meanings set forth in Regulation S and Rule 144A.

Neither the US Securities and Exchange Commission nor any state securities commission in the United States or any other US regulatory authority has approved or disapproved of the Offer Shares or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offence in the United States.

Canada

The Offer Shares may not be offered or sold, directly or indirectly, in any province or territory of Canada or to, or for the benefit of, any resident of any province or territory of Canada except pursuant to an exemption from the requirement to file a prospectus in the province or territory of Canada in which such offer or sale is made and only by a dealer duly registered under the applicable securities laws of that province or territory in circumstances where an exemption from the applicable registered dealer requirements is available.

United Kingdom

This prospectus has not been approved by an authorised person in the United Kingdom and has not been registered with the Registrar of Companies in the United Kingdom. The Offer Shares may not be offered or sold in the United Kingdom and, prior to the expiry of a period of six months from the latest date of the issue of the Offer Shares, the Offer Shares may not be offered or sold to any persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses, or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended) or the Financial Services and Markets Act 2000 (the "FSMA") and where applicable provisions of the FSMA with respect to anything done by it in relation to any Offer Shares in, from or otherwise involving the United Kingdom have been complied with. In addition, no person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by such person in connection with the issue or sale of any Offer Shares except in circumstances in which section 21(1) of the FSMA does not apply to our Company.

Japan

It is expected that a public offering without a listing of the Offer Shares will be made in Japan. The Offer Shares may not be offered or sold directly or indirectly in Japan or to, or for the account or benefit of, any resident of Japan, or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident in Japan, except in accordance with the terms and conditions of a public offering without listing of the Offer Shares in Japan stated in the securities registration statement as filed with the Japanese authority under the Securities and Exchange Law of Japan (the ''SEL'') or pursuant to any exemption from the registration requirements of the SEL and otherwise in compliance with the SEL and applicable laws and regulations. As used in this paragraph, ''resident of Japan'' means any person residing in Japan, including any corporation or other entity organised under the laws of Japan.

The People's Republic of China

This prospectus does not constitute a public offer of the Offer Shares, whether by way of sale or subscription, in the PRC. The Offer Shares are not being offered and may not be offered or sold directly or indirectly in the PRC to or for the benefit of legal or natural persons of the PRC. According to the laws and regulatory requirements of the PRC, the H Shares may, subject to the laws and regulations of the relevant jurisdictions, only be offered or sold to natural or legal persons in China Taiwan, China Hong Kong or China Macau or any country other than the PRC, whether by means of a prospectus or otherwise.

CERTAIN MATTERS RELATING TO THE HONG KONG PUBLIC OFFERING

Application for Listing on the Hong Kong Stock Exchange

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Offer Shares, including any Offer Shares which may be issued or sold pursuant to the exercise of the Over-allotment Option. Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence on 15 June 2005.

Save as disclosed in this prospectus, no part of our share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

H Share Register and Stamp Duty

All of the H Shares issued pursuant to applications made in the Hong Kong Public Offering will be registered on our H Share register to be maintained in Hong Kong. Our principal register of members will be maintained by us at our head office in the PRC.

Dealings in the H Shares registered on our H Share register will be subject to Hong Kong stamp duty. See ''Appendix VI — Taxation and Foreign Exchange.''

Eligibility for Admission into CCASS

Subject to the granting of listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange and the compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Hong

Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the H Shares to be admitted into CCASS.

Professional Tax Advice Recommended

Applicants for the Hong Kong Public Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or dealing in H Shares. It is emphasised that neither we nor any of the Selling Shareholder, the Joint Global Coordinators, the Joint Sponsors, the Underwriters, nor their respective directors, nor any other person or party involved in the Global Offering accepts responsibility or any tax effects or liabilities of holders of H Shares resulting from the subscription, purchase, holding or disposal of H Shares.

Registration of Subscription, Purchase and Transfer of H Shares

We have instructed Computershare Hong Kong, our H Share registrar, and Computershare Hong Kong has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers a signed form to our H Share registrar in respect of those H Shares bearing statements to the effect that the holder:

(i) agrees with us and each of our shareholders, and we agree with each shareholder, to observe and comply with the PRC Company Law, the Special Regulations, and our Articles of Association;

(ii) agrees with us, each of our shareholders, Directors, Supervisors, managers and officers, and each of us acting for ourselves and for each of our Directors, Supervisors, managers and officers agrees with each of our shareholders, to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award, which arbitration shall be final and conclusive. See "Appendix VII — Summary of Principal Legal and Regulatory Provisions" and "Appendix VIII — Summary of Articles of Association";

(iii) agrees with us and each of our shareholders that the H Shares are freely transferable by the holders thereof; and

(iv) authorises us to enter into a contract on his behalf with each of our Directors and officers whereby such Directors and officers undertake to observe and comply with their obligations to our shareholders as stipulated in our Articles of Association.

STABILISATION

In connection with the Global Offering, Merrill Lynch Far East Limited (the "Stabilising Manager"), or any person acting for it may over-allocate or effect any other transactions with a view to supporting the market price of our H Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilising Manager or any person acting for it to do this. Such stabilising action, if taken, may be discontinued at any time, and must be brought to an end after a limited period. The possible stabilising action may be taken by the Stabilising Manager in connection with the Global Offering and may include primary and ancillary stabilising actions such as purchasing or agreeing to purchase any of the H Shares, exercising the Over-allotment Option in whole or in part, establishing a short position in the H Shares, liquidating long positions in our H Shares or offering or attempting to do any such actions. The number of H Shares which can be over-allocated will not exceed the number of H Shares which may be issued or sold under the Over-allotment Option, namely 459,525,000 H Shares, which represent 15.0% of the H Shares initially available under the Global Offering.

The Stabilising Manager may, in connection with the stabilising action, maintain a long position in the H Shares. There is no certainty regarding the extent to which and the time period for which the Stabilising Manager will maintain any such position. In the event of any liquidation of any such long position, there may be an impact on the market price of the H Shares. Stabilising action cannot be taken to support the price of any H Shares for longer than the stabilising period, which will begin on the Listing Date. The stabilising period is expected to expire on 7 July 2005, being the 30^{th} day from the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further action may be taken to support the price of the H Shares, demand for the H Shares, and therefore their price could fall. Investors should be aware that the price of the H Shares cannot be assured to stay at or above the Offer Price by any stabilising action that may be taken. Stabilising bids may be made or transactions effected in the course of a stabilising action at any price at or below the Offer Price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. Such transactions, if commenced, may be discontinued at any time.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedure for applying for Hong Kong Public Offer Shares is set forth in ''How to Apply for Hong Kong Public Offer Shares'' and in the Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set forth in ''Structure of the Global Offering.''

EXCHANGE RATE

Solely for your convenience, this prospectus contains translations of certain Renminbi amounts into Hong Kong dollars at specified rates. No representation is made that the Renminbi amounts could actually be converted into any Hong Kong dollar amounts at the rates indicated or at all. Unless we indicate otherwise, the translations of Renminbi into Hong Kong dollars have been made at the rate of RMB1.0637 to HK$1.00, the PBOC Rate prevailing on 31 December 2004. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding. Further information on exchange rates is set forth in ''Appendix VI — Taxation and Foreign Exchange.''

DIRECTORS

Name	Address	Nationality
Executive Directors		
Chen Biting	Room 1002, Unit 4, Building 3 Complex 17, Fensiting Hutong Andingmennei Avenue Dongcheng District Beijing, China	Chinese
Wu Yuan	Room 1505, Building 2 Complex 6, Xinghua Road Dongcheng District Beijing, China	Chinese
Ling Wen	2-7-1402, Complex 23 Huansi Avenue Xicheng District Beijing, China	Chinese
Non-executive Directors		
Zhang Xiwu	1903-1904, Building 2 Complex 6, Xinghua Road Dongcheng District Beijing, China	Chinese
Zhang Yuzhuo	3-5-1501, Complex 23 Huangsi Avenue Xicheng District Beijing, China	Chinese
Han Jianguo	10D, Tower A, 28 Xibahexili Chaoyang District Beijing, China	Chinese
Independent non-executive Directors		
Huang Yicheng	Room 202, Gate 1, Building 1 Cuiweixili Beijing, China	Chinese
Anthony Francis Neoh	22A, Block 4 Cavendish Heights 33 Perkins Road Jardine's Lookout Hong Kong	Chinese
Chen Xiaoyue	Room 101, Unit 4 South Building 12 Tsinghua University Haidian District Beijing, China	Chinese

SUPERVISORS

Name	Address	Nationality
Xu Zufa	602, Gate C, Building 15 Middle District, Donghuashibeili Chongwen District Beijing, China	Chinese
Wu Gaoqian	901, Building 2, Complex 6 Xinghua Road Dongcheng District Beijing, China	Chinese
Li Jianshe	39, Dongsishiertiao Dongcheng District Beijing, China	Chinese

SELLING SHAREHOLDER

Name	Address
Shenhua Group Corporation Limited	22 Andingmen Xibinhe Road Dongcheng District Beijing, China

PARTIES INVOLVED

	Name and Address
Joint Global Coordinators and Joint Bookrunners (in alphabetical order)	China International Capital Corporation Limited 28th Floor, China World Tower 2 No. 1, Jianguomenwai Avenue Beijing, China
	Deutsche Bank AG, Hong Kong Branch 55th Floor, Cheung Kong Center 2 Queen's Road Central Hong Kong
	Merrill Lynch Far East Limited 17th Floor, ICBC Tower 3 Garden Road Central, Hong Kong
Joint Sponsors and Joint Lead Managers (in alphabetical order)	China International Capital Corporation (Hong Kong) Limited Suite 2307, 23rd Floor One International Finance Centre 1 Harbour View Street Central, Hong Kong

	Name and Address
	Deutsche Bank AG, Hong Kong Branch 55th Floor, Cheung Kong Center 2 Queen's Road Central Hong Kong
	Merrill Lynch Far East Limited 17th Floor, ICBC Tower 3 Garden Road Central, Hong Kong
Co-Lead Managers (in alphabetical order)	BNP Paribas Peregrine Capital Limited 36th Floor, ICBC Tower 3 Garden Road Central, Hong Kong
	ICEA Capital Limited 42nd Floor, Jardine House 1 Connaught Place Central, Hong Kong
Co-Managers (in alphabetical order)	CITIC Capital Markets Limited 26th Floor, CITIC Tower 1 Tim Mei Avenue Central, Hong Kong
	DBS Asia Capital Limited 22nd Floor, The Center 99 Queen's Road Central Hong Kong
	First Shanghai Securities Limited 19th Floor, Wing On House 71 Des Voeux Road Central Hong Kong
	Guangdong Securities Limited Units 2505-06 25th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
	South China Securities Limited 28th Floor, Bank of China Tower 1 Garden Road Central, Hong Kong

	Name and Address
	Tai Fook Securities Company Limited 25th Floor, New World Tower 16-18 Queen's Road Central Hong Kong
Auditors and Reporting Accountants	KPMG Certified Public Accountants 8th Floor, Prince's Building 10 Chater Road Central, Hong Kong
Legal Advisers to our Company	*As to Hong Kong law* Herbert Smith 23rd Floor, Gloucester Tower 11 Pedder Street Central, Hong Kong *As to United States law* Sullivan & Cromwell LLP 28th Floor 9 Queen's Road Central Hong Kong *As to PRC law* King & Wood 31st Floor, Tower A Jianwai SOHO 39 Dongsanhuan Zhonglu Chaoyang District Beijing, China
Legal Advisers to the Joint Global Coordinators, the Joint Sponsors and the Underwriters	*As to Hong Kong law* Baker & McKenzie 14th Floor, Hutchison House 10 Harcourt Road Central, Hong Kong *As to United States law* Simpson Thacher & Bartlett LLP 7th Floor, ICBC Tower 3 Garden Road Central, Hong Kong

	Name and Address
	As to PRC law Haiwen & Partners Room 1711, Beijing Silver Tower No. 2 Dong San Huan North Road Chaoyang District Beijing, China
Property Valuer	American Appraisal China Limited Units 1506-1510 15th Floor, Dah Sing Financial Centre 108 Gloucester Road Wanchai, Hong Kong
Independent Technical Consultants	John T. Boyd Company 1500 Corporate Drive, Suite 100 Canonsburg, PA 15317 United States of America
Receiving Bankers	The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Central, Hong Kong
	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong
	Industrial and Commercial Bank of China (Asia) Limited ICBC Building 122-126 Queen's Road Central Central, Hong Kong

CORPORATE INFORMATION

	Name and Address
Registered Office in the PRC	Shenhua Tower 22 Andingmen Xibinhe Road Dongcheng District Beijing, China
Principal Place of Business in the PRC	Zhouji Tower, 4th Floor 16 Ande Road Dongcheng District Beijing, China
Business Address in Hong Kong	Unit B, 60th Floor Bank of China Tower 1 Garden Road Central, Hong Kong
Joint Company Secretaries	Huang Qing Ng Chai Ngee, Solicitor, Hong Kong
Qualified Accountant	Liu Yu, AICPA
Authorised Representatives	Ling Wen 2-7-1402, Complex 23 Huangsi Avenue Xicheng District Beijing, China
	Huang Qing Room 702, Unit 4, Building 3 Complex 17, Fensiting Hutong Andingmennei Avenue Dongcheng District Beijing, China
Audit Committee	Chen Xiaoyue Huang Yicheng Anthony Francis Neoh
Remuneration Committee	Anthony Francis Neoh Ling Wen Chen Xiaoyue
Strategic Planning Committee	Chen Biting Zhang Xiwu Wu Yuan

	Name and Address
Safety, Health and Environment Committee	Huang Yicheng Wu Yuan Zhang Yuzhuo Han Jianguo
Joint Compliance Advisers (in alphabetical order)	China International Capital Corporation (Hong Kong) Limited Suite 2307, 23rd Floor One International Finance Centre 1 Harbour View Street Central, Hong Kong
	Deutsche Bank AG, Hong Kong Branch 55th Floor, Cheung Kong Center 2 Queen's Road Central Hong Kong
	Merrill Lynch Far East Limited 17th Floor, ICBC Tower 3 Garden Road Central, Hong Kong
H Share Registrar and Transfer Office	Computershare Hong Kong Investor Services Limited Rooms 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
Principal Bankers	Industrial and Commercial Bank of China 55 Fuxingmennei Avenue Xicheng District Beijing, China
	China Construction Bank 25 Finance Street Xicheng District Beijing, China
	Bank of China 1 Fuxingmennei Avenue Xicheng District Beijing, China

Name and Address

Agricultural Bank of China
23A Fuxing Road
Haidian District
Beijing, China

Bank of Communications
188 Yincheng Road Central
Shanghai, China

This and other sections of this prospectus contain information relating to the PRC economy and the PRC coal and power industries or to international coal and other energy markets. The information has been derived from various publications or was obtained in communications with PRC government agencies. We have also commissioned Barlow Jonker and CCIRI to provide certain industry statistics for this section and elsewhere in this Prospectus. We have taken reasonable care in the extraction, compilation and reproduction of the information presented in this section. Neither we, the Selling Shareholder, the Underwriters nor any of their respective affiliates or advisers have independently verified the information directly or indirectly derived from official government sources, and such information may not be consistent with other information compiled within or outside China.

Unless otherwise specified, references to coal production data in this section are to raw coal production.

Coal is the most important source of energy in China, accounting for 67.1% of total primary energy consumption in 2003, according to the Bureau of Statistics, and 76.2% of total power generation in 2003, according to the State Grid Corporation. Production and consumption of coal have both increased significantly since 2000 as China's economy has grown quickly, with the demand for thermal coal being driven by growth in the power industry. According to the Bureau of Statistics, coal production in China increased at a compound annual growth rate of 19.8% between 2001 and 2003, and total coal production reached 1,667 million tonnes in 2003. According to the China Power Statistics Book 2004, total power generation in China increased from 1,233 TWh in 1999 to 1,905 TWh in 2003, representing a compound annual growth rate of 11.5% for that period.

While there are significant projects underway in China to utilise alternative fuel sources, coal is expected to remain China's primary fuel source for power generation. Barlow Jonker projects that coal will account for approximately 75% of total energy used for power generation in China by 2010.

The Global Coal Industry

Coal is generally regarded as one of the most affordable sources of energy in the world. Total global demand for coal is growing, particularly in Asia, as a result of an increasing demand for power, growing industrial production and the competitiveness of coal as a cost-efficient energy source. According to the BP Statistical Review, world coal production was 5,118.8 million tonnes and coal comprised approximately 26% of the world's primary energy consumption in 2003.

Coal, in particular thermal coal, is primarily consumed regionally due to high transportation costs relative to coal prices. As a result, global coal markets are segmented by geographical location and coal prices may vary significantly between regions of the world. In regions where coal resources are scarce, coal-fired power plants and other coal users are dependent on transport infrastructure to obtain coal supplies from other regions. Countries such as Japan and South Korea have high demand for coal but limited domestic coal resources, while other countries, such as Australia and South Africa, have abundant coal resources but relatively limited domestic demand.

In recent years, global demand for exported coal has grown due to a number of factors, including economic growth, which has stimulated higher consumption of coal, substitution of imported coal for domestic coal in Europe and volatile petroleum and natural gas prices.

The PRC Coal Industry

The PRC coal industry is characterised by (i) coal as the dominant source of energy, (ii) rapidly increasing production and consumption, (iii) geographic separation of the principal regions of supply and demand and (iv) a fragmented market in the process of consolidation.

Demand and Supply

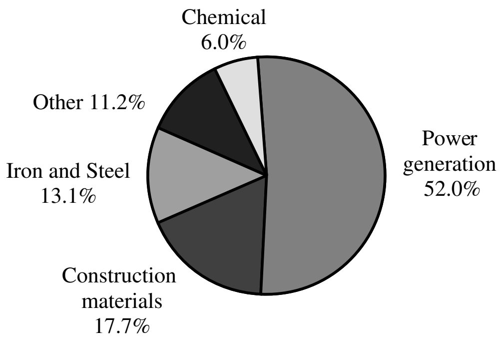
China was both the world's largest producer and consumer of coal in 2003, according to the BP Statistical Review. According to the Bureau of Statistics, in 2003, total coal production was approximately 1,667 million tonnes and total coal consumption was 1,579 million tonnes. The following table sets forth, for the periods indicated, the volume of China's coal consumption, production, coal imports and exports.

	Consumption	Production	Exports	Imports
		(million tonnes)		
1999	1,264	1,045	37.4	1.7
2000	1,245	998	55.1	2.1
2001	1,262	1,161	90.1	2.5
2002	1,366	1,380	83.8	10.8
2003	1,579	1,667	93.9	10.8

Source: The Bureau of Statistics

Coal-fired power generation continues to dominate coal consumption in China, accounting for more than half of total consumption. The iron and steel and construction materials industries also consume a significant amount of coal. According to the China National Coal Association, coal is expected to continue to account for the majority of total primary energy production in China for at least the next 20 years.

The following chart illustrates coal consumption by sector as a percentage of China's total estimated coal consumption in 2003.



Source: China Coal Market Summit Forum 2005

In addition to large State-owned coal mining companies, numerous small-scale enterprises also engage in coal production in China, resulting in a fragmented market. In response in part to safety and efficiency concerns, the PRC government has, since 1998, taken initiatives to consolidate the coal industry. These initiatives have included the closure of small coal mines that lack mining right permits or have poor safety records, and limitations on the construction of new mines. Despite these initiatives, many small-scale coal producers remain. According to the CCIRI, the ten largest coal producers in

China produced 403.0 million tonnes of coal in 2003, accounting for 24.2% of China's total coal production in that year.

The following table sets forth the coal production of the ten largest coal enterprises in China in 2003.

	Coal Production (million tonnes)	Percentage of Total Coal Production in China
Shenhua Group	102.0	6.1%
Datong Coal Mining Group Company	50.4	3.0
Xishan Coal and Electricity (Group) Co., Ltd.	46.1	2.8
Yankuang Group Company	45.6	2.7
China National Coal Group Corporation	35.9	2.2
Huainan Mining Group Co.	28.0	1.7
Pingdingshan Coal Group Co.	26.7	1.6
Kailuan Mining Group Co.	25.5	1.5
Yangquan Coal Group Co.	22.7	1.4
Huaibei Mining Group Co.	20.2	1.2
Total	403.0	24.2%

Source: CCIRI

Demand for coal has been high in recent years in China's coastal provinces. However, coal resources and production are concentrated mainly in western and northern China, which possess approximately 90% of China's coal resources. This geographic disparity between coal resources and demand has made the availability of sufficient and reliable coal transportation a critical aspect of China's coal industry.

The following table sets forth coal production data for the top five coal producing provinces in China in 2003.

	Coal Production in 2003 (million tonnes)
Shanxi	295
Shandong	147
Inner Mongolia	120
Henan	119
Guizhou	78
Total	759

Source: The Bureau of Statistics

The following table sets forth the coal deficits for selected provinces in China in 2003.

	Coal Consumption	Coal Production	Provincial Coal Deficit
		(million tonnes)	
Jiangsu	111.7	27.3	84.4
Guangdong	68.7	5.7	63.0
Hebei	128.0	69.1	58.9
Zhejiang	57.0	0.7	56.3
Shanghai	39.9	-	39.9
Tianjin	25.7	-	25.7
Beijing	28.0	9.9	18.1
Fujian	24.3	13.5	10.8
Total	483.3	126.2	357.1

Source: Barlow Jonker

Coal Transportation

Eastbound coal transportation is a critical aspect of China's coal industry. The national rail system is the primary supplier of long-distance coal transportation for many coal producers. Despite the PRC government's efforts to increase rail capacity, China's national rail system has been unable to fully satisfy the need for coal transportation. With energy demand rising, the shortage of coal transportation capacity has become a key bottleneck in the PRC energy sector. Coal producers who have secured reliable and sufficient access to rail and port transportation capacity therefore enjoy a significant competitive advantage. While the PRC government has adopted a medium- to long-term investment plan to expand the capacity of the national rail system, the inadequacy of coal transportation capacity on the national rail system is expected to continue for the foreseeable future.

A significant portion of coal produced in China is transported from producing regions in western and northern China to ports in eastern China, and then shipped to domestic customers in eastern and southern China as well as export markets. Some coal is also transported domestically by inland river passages. The primary coal shipping ports in China include Qinhuangdao Port, Tianjin Port, our Huanghua Port, Rizhao Port, Lianyungang Port and Qingdao Port. Qinhuangdao Port, currently the largest coal port in China, dispatched 109.8 million tonnes of coal in 2003, according to Barlow Jonker. The PRC government plans to expand the capacity of several coal shipping ports in the coming years.

Pricing

Since the elimination of State-guidance prices for thermal coal used in power generation in 2002, the price for thermal coal has largely been subject to market forces, and coal suppliers and power generation companies have generally been permitted to freely negotiate prices. However, power tariffs remain subject to extensive government regulation, which indirectly affects the domestic pricing of thermal coal. See "Regulation — The Coal Industry — Pricing and Allocation" for a further discussion of the pricing policy under applicable PRC laws and regulations. Factors contributing to fluctuations in coal prices in recent years include, among others, the overall performance of China's economy, business cycles in key industries (such as the power and steel industries) and coal production and transportation capacity. In addition, the allocation of coal transportation capacity on the national rail system by the PRC government has an indirect influence on coal prices because the national rail system is the primary means for coal transportation in China. Since 2000, domestic coal prices have been on an upward trend, driven primarily by increased demand from the power and steel industries.

The Asia-Pacific Coal Export Market

Overview

In recent years, the Asia-Pacific coal export market has been characterised by growth in both production and consumption. China, Japan, South Korea and China Taiwan have been key regions of growth in this market. The main coal suppliers to the Asia-Pacific coal export market include Australia, China and Indonesia. While Australia is the largest coal exporter in the world, coal exports from China have replaced some Australian exports in Asia's key coal-importing markets, such as South Korea, Japan and China Taiwan, due in part to China's geographic proximity to these markets.

AME forecasts thermal coal to be ''the growth engine'' of the international coal trade until at least 2010, with Asia accounting for the majority of this increase. In 2004, Asian thermal coal import demand represented approximately 54% of global thermal coal imports according to AME. In particular, AME estimates that Japan, South Korea and China Taiwan will account for a significant portion of global thermal coal import demand in 2005, and that thermal coal demand in Asia will grow at an average annual rate of approximately 3% between 2001 and 2010. Recent and planned additions of coal-fired power plants are expected to continue to increase demand for thermal coal imports in Asia.

The following table sets forth information relating to thermal coal imports for selected regions and countries for the periods indicated.

	2000	2001	2002	2003	2004	Compound Annual Growth Rate (2000-2004)
			(million tonnes)			
China	1.7	2.3	10.6	8.2	10.0	55.7%
South Korea	44.3	49.1	52.5	54.6	55.5	5.8
China Taiwan	39.2	41.5	42.6	46.0	50.5	6.5
Japan	82.8	92.4	94.4	102.6	108.0	6.9
Other Asia	44.5	47.0	52.2	60.5	64.8	9.9
Total Asia	212.5	232.3	252.3	271.9	288.8	8.0
Rest of world	184.0	211.5	203.3	232.5	243.0	7.2
Total	396.5	443.8	455.6	504.4	531.8	7.6%

Source: AME

Participation by the PRC Coal Industry

Beginning in the late 1990s, the PRC government had encouraged Chinese coal producers to participate in the export market through the introduction of tax incentives for coal exports. These incentives have contributed to significant growth in Chinese thermal coal exports in recent years. According to AME, Chinese thermal coal exports increased from 31.1 million tonnes in 1999 to a peak of 78.3 million tonnes in 2003, declining to 72.6 million tonnes in 2004.

Other factors contributing to the growth in China's coal exports include the proximity of China's coal-exporting ports to Asia's major coal-importing regions and recent improvements in rail and port infrastructure. In addition, the depreciation of the U.S. dollar against the Australian and South African currencies and transportation constraints in major coal exporting countries have also contributed to China's increased thermal coal exports.

Although the PRC government had encouraged coal exports in previous years, serious coal shortages in China in late 2003 led to adjustments in certain government policies, including a request that domestic coal producers give preference to domestic customers over exports. As a result, China's coal exports declined in the second half of 2003. Beginning in January 2004, thermal coal export VAT rebate was reduced from 13.0% to 11.0%. In May 2004, the PRC government:

- reinstated mandatory contributions to the port construction fund by coal exporters at RMB7 per tonne for coal exported from the Qinhuangdao and Tianjin Ports;
- reinstated mandatory contributions to the railway construction fund by coal exporters at RMB0.033 per tonne kilometre for export coal transported on certain east-west coal transport lines of the national rail system; and
- eliminated the port loading-charge discount of RMB5.7 per tonne and RMB2.0 per tonne for coal exported from the Qinhuangdao and Tianjin Ports, respectively.

These measures by the PRC government contributed to a reduction in total PRC thermal coal exports from 78.3 million tonnes in 2003 to 72.6 million tonnes in 2004, according to AME.

Effective 1 May 2005, the PRC government further reduced thermal coal export VAT rebate to 8.0%.

Since July 2004, China's coal exports have also been subject to a government allocation system under which only authorised coal exporters may apply and obtain coal export quotas from the PRC government. There are currently only four authorised coal exporters in China, including Shenhua Trading, a wholly owned subsidiary of Shenhua Group that is our non-exclusive coal export agent. In December 2004, the NDRC announced that the total national coal export quota for 2005 would be 80 million tonnes. See "Regulation — The Coal Industry — Exports."

In recent years, China has also begun to import sizeable quantities of coal, although its total coal imports remain much less than its coal exports. According to AME, China imported 1.2, 1.7 and 2.3 million tonnes of thermal coal in 1999, 2000 and 2001, respectively, for a three-year total of 5.2 million tonnes. However, in 2002, 2003 and 2004, due to an easing of restrictions on coal imports as well as import prices which compared favorably with rising domestic coal prices, thermal coal imports increased to 10.6, 8.2 and 10.0 million tonnes, respectively. This increase in coal imports was driven in part by demand from power plants in eastern and southern China which are distant from major coal supplies in western and northern China and incur relatively high domestic freight costs for their coal.

Pricing

Coal is sold under term contracts or on the spot market with the thermal and coking coal markets operating relatively independently of each other. In Asia, many thermal coal sales are negotiated under contracts with a term of one to five years with annual, negotiated volume and price adjustments. Price settlements between Japanese power companies and Australian coal producers have typically acted as benchmarks for pricing in the Asia-Pacific thermal coal export market. These contracts are usually settled in the first quarter of the year with new contract prices effective from April 1 to March 31 of the following year (the Japanese financial year).

As a result of China's reduction in exports, strong demand within the Asia-Pacific coal export market, and transport capacity issues in Australia and South Africa, spot export prices increased significantly in late 2003 and remained strong throughout 2004. According to Argus Coal Daily

International, FOB spot export prices for thermal coal shipments from Qinhuangdao Port averaged US$26.16 per tonne in 2002, US$28.86 per tonne in 2003 and US$55.62 per tonne in 2004.

Recent increases in spot prices have led some coal importers to reduce their reliance on spot purchases in favor of term contracts. Due to strong demand and high spot prices, coal supply contract prices within the Asia-Pacific coal export market increased sharply in 2004. According to AME, the average FOB Newcastle price for Australia-Japan contracts for thermal coal increased by approximately 65% from US$26.75 per tonne in the 2003 Japanese financial year to US$44.00 per tonne in the 2004 Japanese financial year.

The Power Industry

The PRC power industry is characterised by heavy dependence on coal for power generation, rapid expansion in recent years to become the second largest power market in the world in terms of total installed capacity and total power generation, and increasing competition resulting from gradual deregulation.

Evolution of the PRC Power Industry

Since the mid-1980s, the PRC government has been reforming the power industry by relaxing investment restrictions, encouraging investment and separating the ownership and operation of power plants from the power grid system. These government policies have encouraged the development of new power plants throughout China, which have contributed to an increase in the demand for coal and coal transportation, and supported economic growth in the PRC.

In December 2002, the State Power Corporation, which controls almost all of China's high voltage transmission grids and local power distribution networks, was reorganised into two power grid companies with control of the national transmission and distribution networks, and five large independent power generation groups. The two power grid companies, the State Grid Corporation and the Southern Power Grid Company, retained a small portion of the total power generation capacity in the PRC in 2002. As of 2002, the five large independent power generation groups, China Huaneng Group, China Datang Corporation, China Huadian Corporation, China Guodian Corporation and China Power Investment Corporation, collectively owned and managed approximately 45% of the total power generation capacity in China, with the remaining generation capacity being owned by other independent power producers, including us.

The NDRC has the authority to review and approve large power projects and to set on-grid tariffs in accordance with applicable law. See "Regulation — The Power Industry."

Demand and Supply

Power consumption in China has been growing rapidly in recent years. According to the Bureau of Statistics, from 1999 to 2003, power consumption in China grew at a compound annual growth rate of 11.8%, outpacing China's GDP compound annual growth rate of 8.3% over the same period. Growth in power consumption has been attributed to economic growth driven by industrialisation and improving living standards in the PRC. In 2003, industrial production accounted for 72.8% of China's power consumption, according to the China Electric Power Industry Statistical Yearbook, or the Power Industry Yearbook. Between 1999 and 2003, industrial consumption of power grew at a compound annual growth rate of 12.2%, according to the Power Industry Yearbook.

The following table sets forth certain data regarding the installed capacity, power generation and utilisation hours in China for the periods indicated.

	All Fuel Types			Thermal Power[1]		
Year	Installed Capacity	Power Generation	Utilisation Hours	Installed Capacity	Power Generation	Utilisation Hours
	(MW)	(TWh)	(h)	(MW)	(TWh)	(h)
1999	298,768	1,233	4,393	223,434	1,005	4,719
2000	319,321	1,369	4,517	237,540	1,108	4,848
2001	338,612	1,484	4,588	253,137	1,204	4,899
2002	356,571	1,654	4,860	265,547	1,352	5,272
2003	391,408	1,905	5,245	289,771	1,579	5,767

Source: Power Industry Yearbook

(1) Thermal power includes power generated from combustion of coal, natural gas and petroleum.

At the end of 2003, China had an aggregate installed capacity of approximately 391 GW, the second largest installed capacity in the world, according to the State Grid Corporation. However, the installed capacity of China's power plants is still insufficient to meet the current and projected demand for power. China has the potential for continued strong growth in the power industry as it has a relatively low per capita installed capacity of 303 watts, and a relatively low level of per capita power consumption of 1,462 KWh in 2003, compared to the United States and Japan.

Electricity Shortages

In recent years, China has experienced increasingly frequent power outages, particularly in the eastern and southern coastal areas where there has been rapid economic growth. This situation is especially critical during peak periods. The growth in power demand has resulted in power plants operating at full capacity during peak periods. This situation is further exacerbated by the lack of sufficient coal transportation capacity on the national rail system, which has limited the quantity of coal which can be transported to these high demand regions. As a result, 21 of the 31 provinces in China, particularly those in the eastern and southern coastal regions, experienced power shortages in 2003, according to the China Electric Power News.

The government has taken steps to alleviate this situation, including increasing the coal transportation capacity on the national rail system during periods of highest power demand, rationing and expanding inter-grid power transmissions, and installing long-distance high-voltage transmission lines to facilitate the transmission of power from the coal producing regions in northern and western China. In spite of these efforts, a number of provinces continued to experience power outages in 2004 and seasonal peak periods power shortages are expected to persist into the foreseeable future.

West-to-East Power Transmission Program

China's increasing power demand has put immense pressure on power supply in certain areas, especially in the relatively developed coastal regions, such as Beijing-Tianjin-Hebei area, Zhejiang and Guangdong. To ease the pressure on power supply in coastal provinces, China launched a west-to-east power transmission program in the late 1990s, which aims to transmit hydroelectric power and thermal power from resource abundant regions in western China to economically developed regions in coastal China.

Power Sources

According to the State Grid Corporation, coal fueled 76.2% of electricity generated in China in 2003. In addition to coal, significant new power projects are under development that utilise hydroelectric, nuclear or natural gas as fuel sources. While these alternative fuel sources are expected to increase their share of total electricity production in China in the coming years, according to Barlow Jonker, coal is expected to remain the dominant energy source, fueling an estimated 75% of total electricity production by 2010. The following table sets forth, for the periods indicated, total power output in the PRC by fuel source.

	2001		2002		2003	
	Power Generation	**Percentage of Total Power Generation**	**Power Generation**	**Percentage of Total Power Generation**	**Power Generation**	**Percentage of Total Power Generation**
	(TWh)		**(TWh)**		**(TWh)**	
Hydro power	261	17.6%	275	16.6%	281	14.8%
Thermal power[(1)]	1,205	81.2	1,352	81.7	1,579	82.9
Nuclear power and Others	18	1.2	27	1.6	44	2.3
Total	1,484	100.0%	1,654	100.0%	1,905	100.0%

Source: Power Industry Yearbook.

(1) Thermal power includes power generated from combustion of coal, natural gas and petroleum.

Pricing

The PRC Electric Power Law, which came into effect in 1996, sets the general principles for determining on-grid tariffs in China. Under the Electric Power Law, the on-grid tariffs granted to a power producer are formulated to provide reasonable compensation for costs and a reasonable return on investment. Pursuant to tariff reform guidelines issued in April 2001, the setting of on-grid tariffs for planned output is based on the operating term of a power plant as well as the average cost of comparable power plants within the same provincial grid. In 2003, the State Council approved a power pricing reform plan that seeks to encourage power generation and to address the adverse effects of increased coal costs on the PRC power industry by establishing a standardised and transparent power pricing mechanism.

In recent years, the PRC government has begun experiments to conduct power sales through a competitive bidding process in several provinces. The results so far suggest that the tariff rate determined by competitive bidding practices may be lower than that for planned output. See ''Regulation — The Power Industry — Pricing'' for further information on the regulation of power tariffs in China.

In 2003 and 2004, certain parts of China experienced power shortages due to increased demand for power caused by the rapid expansion of the PRC economy. To balance the demand and supply for electric power and address the adverse effect that the increase of coal prices had on the power industry, the NDRC, with the approval of the State Council, issued the Circular on Adjusting Power Tariffs in December 2003. Pursuant to this circular, effective 1 January 2004, the on-grid tariffs of coal-fired power plants that supply power to the provincial or regional grids have been increased by an average of RMB7 per MWh, inclusive of VAT, to offset increased operating costs resulting from recent increases in coal prices. Effective 1 January 2004, on-grid tariffs for power generated by newly-approved power plants and production by previously-approved power plants in excess of their respective 2003 levels have been set based on the average 2003 tariff in the provincial grid in which the power plant is located. The existing power plants are allowed to sell their excess output at tariffs based on the previous year's average on-grid tariffs of their service area. In December 2004, the NDRC issued a new policy to link thermal coal and power prices, allowing power generation companies to pass through 70.0% of certain increases in coal prices to end users through increases in on-grid tariffs. See "Financial Information — Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting Results of Operations — Sales Volume and On-grid Tariffs of Power" and "Regulation — The Power Industry — Pricing."

Overview

China's coal and power industries are subject to extensive regulations by the PRC government. These regulations govern a wide range of areas, including, among others, investments, exploration, production, mining rights, distribution, trading, transportation and exports related to coal, and investments, generation, pricing, dispatch and tariffs related to power. In addition, coal and power operations are subject to fees and taxes, as well as safety and environmental protection laws and regulations. The most important PRC regulatory authorities overseeing our coal and power operations include:

- The NDRC, which was formed pursuant to a resolution passed by the Tenth National People's Congress in March 2003 and has taken over substantially all authority from the former State Development and Planning Commission. The NDRC sets and implements major policies concerning China's economic and social development; reviews and approves investment projects exceeding a certain scale and in specified sectors of the economy in accordance with applicable laws; sets power tariffs and certain transportation rates including rail freight rates; and, in conjunction with the MOFCOM, administers coal export activities and export quotas.
- The MLR, which has the authority to grant land use and exploration rights licences, issues mining right permits, approves transfers and leases of mining rights and reviews mining rights fees and reserve evaluations.
- The SERC, whose main responsibilities include:
  - promulgating rules for the power industry;
  - supervising the operations and legal compliance of the power industry;
  - issuing and administering power business permits; and
  - supervising the power market.
- The SACMS, which supervises the safety of coal operations, implements various safety regulations and participates in investigating safety accidents.
- The SAEP, which is responsible for the supervision and control of environmental protection and monitoring of China's environmental system at the national level.
- The MOFCOM, which, together with the NDRC, determines the total volume of China's coal exports and the allocation of quotas among authorised coal exporters.
- The MOR, which is the primary PRC regulatory body responsible for supervising the railway industry and, together with the NDRC, approves railway construction and expansion plans, including railways designated or used for coal transportation.
- The MOC, which is the primary PRC regulatory body charged with supervising the port and shipping industries.

In addition, as our Controlling Shareholder, Shenhua Group, is a State-owned enterprise under the direct supervision of the SASAC, the SASAC has an indirect influence over us. In particular, the SASAC may designate certain nominees and request Shenhua Group to propose the appointment of such nominees as our Directors and senior management; the SASAC may also request Shenhua Group to remove our Directors and senior management in accordance with relevant procedures provided by law and our Articles of Association.

Recent Legislation

On 16 July 2004, the PRC State Council promulgated, with immediate effect, the Decision on Institutional Reform of Investment System, or the Investment Reform Decision, which significantly modifies the government approval process for major investment projects in China. The Investment Reform Decision eliminated the government approval requirements for investment projects that do not involve direct government funding, unless the investment projects are in the restricted sectors specified in an annual catalogue released by the State Council. This regulatory change reflects an on-going policy trend of the central government to let enterprises evaluate the economic potential of an investment project on their own, while the central government focuses regulatory supervision on environmental protection, industrial planning, social development, land allocation and other issues related to the public interest. The 2004 catalogue, which was attached as an annex to the Investment Reform Decision, sets forth approval requirements for investment projects in restrictive sectors, including, among others, coal mining, railways, ports and power generation, which are more fully described below. Applications for approvals for such investment projects are required to be made pursuant to the Investment Reform Decision and relevant administrative rules issued by the NDRC. The Investment Reform Decision also provides that large enterprises may submit to the State Council or NDRC a medium- to long-term development plan, which may include multiple investment projects in different sectors, for pre-approval instead of submitting projects for approval on an individual basis.

The Coal Industry

The Coal Law and the Mineral Resources Law

On 29 August 1996, the National People's Congress promulgated the Coal Law of the PRC, which became effective on 1 December 1996. The Coal Law sets forth requirements in many areas of coal production, including, among others, exploration, the approval of new mines, the issuance of production permits, the implementation of safety standards, the trading of coal, the protection of mining areas from destructive exploitation, the protection of miners and administrative supervision.

All mineral resources in China are owned by the State under the current Mineral Resources Law of the PRC, which was promulgated on 19 March 1986 and amended on 29 August 1996. The Mineral Resources Law governs, among other things, the granting of new mining rights. Exploration, exploitation and mining operations must comply with the provisions of the Mineral Resources Law and are under the supervision of the MLR.

Mining Operations

According to the Coal Law and the Mineral Resources Law, exploration and exploitation of coal is subject to supervision by the MLR and relevant local mineral resource bureau. Upon approval, an exploration licence for each proposed mine or a mining right permit for each mine will be granted by the MLR or the relevant local mineral resource bureau responsible for supervising and inspecting exploration and exploitation of mineral resources in the jurisdiction. Annual reports are required to be filed by the holders of mining right permits with the relevant administrative authorities that issued the permit. A coal producer must also obtain a production licence for each of its mines in order to begin producing and selling coal in China. In addition, the production capacity of each coal mine is subject to annual review by the NDRC or its provincial counterpart. If a coal producer intends to engage in business involving coal products which are not self-produced or self-processed, such as coal trading, it must also obtain an operational licence from the relevant authorities to conduct such business.

Pursuant to the Investment Reform Decision, applications for all coal mine development projects within the State plan mining areas are required to be submitted to the NDRC and the MLR for approval, while other mining projects are to be submitted to local governments and the local bureaux of land and resources. The NDRC is required to submit significant mining projects to the State Council for approval.

Under the Coal Law and the Mineral Resources Law, coal producers are required to achieve certain reserve recovery rates. Failure to achieve the applicable recovery rate may result in penalties, including the revocation of the coal producer's production permit.

It is unlawful for an entity or individual to conduct mining operations in areas previously authorised for exploitation by other mining operators. An entity whose mining operations cause harm to others in terms of production or living standards is liable to compensate the affected parties and to take necessary remedial measures. Under the Detailed Rules for the Implementation of the Mineral Resources Law, a mine operator must follow certain procedures in closing a mine, including, among others, submitting a mine closure geology report to the regulatory authority that originally approved the opening of the mine, and a mine closure report to the relevant mineral resources bureau.

Pricing and Allocation

In recent years, as part of its efforts to transform from a planned economy to a market economy, China has experimented with a variety of methods for setting and deregulating coal prices. Prior to January 1993, the PRC government set prices for coal allocated pursuant to a state coal allocation plan. Since then, the PRC government has relaxed its control over the prices of most types of coal, but retained control, until 2002, over the price of thermal coal used in power generation by providing a State guidance price. In July 2001, the State Development and Planning Commission, the predecessor of the NDRC, eliminated from 1 January 2002 the State guidance price for coal, including coal used for power generation. Starting from 2002, the prices for all types of coal have been largely subject to market forces. However, the extensive government regulation of on-grid tariffs indirectly affect the pricing of thermal coal. In addition, as the PRC government controls the national rail system, which is the primary means for coal transportation in China, its allocation of transportation capacity has an influence on the prices and allocation of coal transported through the national rail system.

In addition, under the PRC Price Law, if the price of an important commodity such as coal increases significantly or is likely to increase significantly, the central and provincial governments are authorised to issue temporary guidelines to limit such price increases. In August 2004, the NDRC issued a notice setting forth temporary measures to be imposed on thermal coal prices for certain regions, including Henan, Anhui and Shanxi provinces. These measures restrict negotiations of coal prices by power generation companies and coal suppliers to within an 8% range around the actual settlement prices of coal (inclusive of VAT) as of the end of May 2004. In December 2004, the NDRC issued a notice setting forth guidelines for pricing of thermal coal sales in 2005. Pursuant to these guidelines, to the extent that power generation companies and coal suppliers enter into new coal supply contracts for 2005, the NDRC notice proposes that the range for price negotiations between the parties be within 8% of the actual settlement prices of coal as of the end of September 2004.

In December 2004, the PRC government approved a proposal to link thermal coal and power prices, which allows adjustments in on-grid tariffs to partially reflect increases of coal prices. See ''Industry Overview — The Power Industry — Pricing.''

The production and supply of coal prior to 1993 was dictated by the PRC government's annual state coal allocation plan. Since then, the production and supply of coal has been gradually liberalised and largely subject to market forces. In recent years, it has been the NDRC's policy to encourage major domestic coal producers and power generation companies to enter into mid- to long-term coal supply contracts at the annual national coal trading convention.

Transportation

Railway Construction. Plans to construct railway lines must conform to the national railway development plan and be approved by the MOR or the relevant authority designated by the MOR. Applications for the construction and expansion of inter-provincial rail lines and rail lines that exceed 100 kilometres in length are also required to be approved by the NDRC. Prior to commencing operations, a rail line must pass the inspection sponsored by the relevant authority that approved the construction plan of the rail line.

Freight Rate. The national rail system imposes a uniform freight rate approved by the NDRC. Each of the rail lines we own and operate may not charge more than the maximum freight rate approved by the NDRC, which reflects the construction costs of the rail line as well as a reasonable investment return. Any adjustment to such maximum freight rate requires approval from the NDRC.

Allocation of Railway Capacity. In practice, coal transport capacity on China's national rail system is allocated by the MOR, pursuant to an annual plan, and is also provided through non-plan allocations. Entities apply each year to the MOR, with a copy to the NDRC, for an allocation of annual rail capacity. The MOR, or the relevant authority designated by the MOR, then makes allocation decisions at the annual national coal trading convention, and issues its annual transportation plan. Application to the relevant railway and transportation regulatory authorities is also required to obtain additional, non-plan freight transportation capacity.

Port Operations. Under the PRC Ports Law, effective 1 January 2004, newly constructed port facilities may not begin operating until they are inspected and approved by the relevant government authorities in charge of transportation, safety, customs and maritime matters. Upon approval, a permit for the port operations will be granted by the relevant local port authority. The Administrative Measures for Port Operations, promulgated by the MOC in accordance with the PRC Ports Law and effective from 1 June 2004, address more detailed aspects relating to port operations, such as the application and issuance of port operation permits, the business operation, administrative supervision and inspection of ports. In addition, pursuant to the Investment Reform Decision, applications for construction of any specialised coal, ore, oil and gas docks or shipping berths with a shipping capacity in excess of 2.0 million tonnes must be approved by the NDRC and the MOC.

Service charges and fees, such as port fees for import and export cargo, which are either set by the State plan or subject to a State guidance price, are charged to the users of port facilities pursuant to regulations promulgated by the MOC and reviewed and approved by the NDRC and the local pricing authority.

Shipping-related businesses, such as vessel or cargo agencies, cargo handling businesses, customs declarations businesses and logistics businesses, must also obtain requisite qualification certificates or licenses.

Territorial Water Use Rights. Pursuant to the PRC Territorial Waters Law, promulgated on 27 October 2001 and effective from 1 January 2002, users of PRC territorial waters may apply to the county-level or higher government to obtain a certificate for the right to use sea areas adjacent to such government jurisdiction. Unless exempted by the PRC Territorial Waters Law or related regulations, users of PRC territorial water are required to pay royalties for such usage.

Land reclaimed from the sea is classified as State-owned land. Holders of the original right to use such sea areas before reclamation are required to apply to the local bureau of land and resources for a land use right certificate for the right to use such reclaimed land within three months after the relevant reclamation project is completed.

Exports

In China, the import and export of goods and technologies and the provision of international trade services are governed by the PRC Foreign Trade Law, effective 1 July 2004. Under the amended Foreign Trade Law, the Cargo Import and Export Ordinance and the Administrative Measures of Coal Export Quota, coal exports remain subject to State control and require governmental approval. Currently, there are only four authorised coal exporters, Shenhua Trading, China Coal Energy Group Company, China National Minerals Import & Export Company Limited and Shanxi Coal Import & Export Group Company. In connection with the Restructuring, we have entered into an agency agreement with Shenhua Trading, pursuant to which Shenhua Trading acts as our non-exclusive coal export agent. See "Connected Transactions — Non-exempt Continuing Connected Transactions between Shenhua Group and Us — Export Agency Agreement." Pursuant to regulations promulgated in January 2004, China's coal exports have been subject to a government approval system since 1 July 2004, under which the NDRC and the MOFCOM are responsible for determining the total volume of China's coal export quota and allocating the quota among the authorised coal exporters. The total quota will take into consideration China's economic needs, rational use of coal resources, the PRC government's economic policy and the dynamics in the domestic and international coal markets. Each year, after the NDRC publishes the total coal export quota for the following year, authorised coal exporters are required to submit written applications for the following year's quota to the NDRC. The NDRC and the MOFCOM then allocate the annual quota for the following year among the authorised coal exporters. Each year's quota expires on December 31. Upon receiving quota approval, authorised coal exporters may apply for coal export permits to the relevant authority designated by the MOFCOM. Authorised coal exporters are also required to report their monthly quota usage to the NDRC. In October 2004, the NDRC announced that the total national coal export quota for 2005 will be 80 million tonnes.

Safety

The SACMS is the PRC government authority exercising control over and supervision of the safety of coal production. In order to proceed with the construction of a coal mine project, the project's safety designs and procedures must be examined and approved by the SACMS or its local offices. Upon the completion of a coal mine construction project and before the commencement of production, further inspection and approval by the SACMS or its local offices of the facilities and conditions is required. The SACMS also conducts regular safety inspections of coal producers pursuant to the PRC Safety Production Law and the PRC Mining Safety Law and applicable safety regulations. Producers who fail to comply with safety regulations are subject to penalties, including fines and suspension of operations. In addition, mining companies are required to report to relevant government authorities in charge of labor administration and coal mines, within 24 hours, any safety accident that causes serious personal injuries or fatalities.

Under the Implementation Measures for Coal Production Safety Permits, effective 17 May 2004, each operating coal mine is required to apply for a coal production safety permit from the SACMS or its local bureau prior to 13 January 2005. The coal production safety permits will be valid for an initial period of three years, after which they will be renewable. To further strengthen the safety regulation of coal mines, the SACMS and SAWS issued the Amended Coal Mine Safety Procedures effective from 1 January 2005. The Amended Coal Mine Safety Procedures set forth higher production safety requirements and stricter safety standards for coal producers in China.

Under the PRC Railway Law, effective 1 May 1991, the MOR, together with other relevant government authorities, is responsible for supervising and administering the safety of railway operations in China. The Railway Law and relevant industry-specific regulations provide for maintenance and periodic inspections of railway facilities.

Under the PRC Ports Law and the Administrative Measures for Port Operations, port operators are required to establish production safety and worker safety systems. The local port authorities are authorised by the MOC to inspect ports and to order corrective action to cure safety deficiencies.

The Power Industry

The Electric Power Law and the Electric Power Regulatory Ordinance

The Electric Power Law of the PRC became effective on 1 April 1996. The Electric Power Law sets out the regulatory framework of the power industry. One of the stated purposes of the Electric Power Law is to protect the legitimate interests of investors, operators and consumers. The Electric Power Law also states that the PRC government encourages and regulates PRC and foreign investment in the power industry.

On 15 February 2005, the State Council promulgated the Electric Power Regulatory Ordinance, which became effective on 1 May 2005. The Electric Power Regulatory Ordinance sets forth regulatory requirements for many aspects of the power industry, including, among others, the issuance of electric power business permit, the regulatory inspections of power generators and grid companies and the legal liabilities from violations of the regulatory requirements.

Approvals and Licences for Power Plants

Prior to July 2004, the establishment of a new power project and power plant expansions with a generation capacity exceeding 300 MW involved three sequential rounds of approvals by the NDRC of (i) the project proposal, (ii) the feasibility study and (iii) the commencement of construction. As a result of the promulgation of the Investment Reform Decision, the three-step approval process described above is no longer needed for the establishment of most new power projects unless the projects are funded by the PRC government.

Pursuant to the Investment Reform Decision, applications for all new coal-fired power plants are required to be submitted to the NDRC for approval. In addition, the NDRC submits the applications for significant power plant projects to the State Council for approval. Prior to the commencement of construction, applicants are also required to obtain requisite permits, including business licences and approvals related to plant site, land use rights, construction and the environment.

The SERC is currently planning to implement a market-access permit system in the power industry. If such system is implemented, power plants will be required to obtain power business permits and to register with the SERC or other authority designated by it.

Pricing

Prior to the effectiveness of the Electric Power Law in 1996, electricity tariffs were generally set under the State plan, and most electricity was purchased from power plants at State-planned rates set by government agencies. Since 1996, the Electric Power Law has set forth general principles for determining power tariffs. The Electric Power Law states that tariffs are to be formulated to provide reasonable compensation for costs and a reasonable return on investment, to share expenses fairly and to promote the construction of power projects. The on-grid tariffs for planned output and excess output are subject to a review and approval process involving the NDRC and the provincial price bureaus.

On 23 April 2001, the former State Development and Planning Commission issued the Notice Regarding Issues Related to Standardisation of Electric Power Tariffs modifying the previous approach to the determination of on-grid tariffs. The previous tariff-setting mechanism was based on the cost of individual power plants and fixed rates of return. The guidelines replaced this with a new mechanism that is based on the operating term of a power plant as well as the average costs of comparable power plants within the same provincial grid. The average production term of a coal-fired power plant is fixed at 20 years and the operational term for a hydropower plant is fixed at 30 years. For a newly constructed power plant, the calculation of its on-grid tariffs is based on the average cost of similar advanced generators that were constructed during the same period within the same regional grid. Such average cost usually takes into consideration various factors, including construction costs, operating and administrative expenses, maintenance and repair costs and interest expenses. In addition, pursuant to the Circular on Adjusting Power Tariffs issued by the NDRC on 21 December 2003 and effective 1 January 2004, tariffs for newly approved power plants, and for production by previously approved power plants in excess of their 2003 output, are set based on the average 2003 tariff in the provincial grid in which the power plant is located.

In June 2003, the SERC established a pilot trial program whereby regional power markets in eastern and northeastern China were established and competitive bidding was implemented for the sale of power. Under the Notice of Temporary Measures for the Northeast China Power Market, enacted by the SERC in December 2003, power sold through the bidding process in the northeastern China power market may account for up to 20% of total power sold in that market. Under the Experimental Measures for the Eastern China Power Market, enacted by the SERC on 30 March 2004, beginning in May 2004, power sold through the bidding process in the eastern China power market may only account for a certain percentage of the total power sold in that market. The experimental results so far suggest that the average tariff rate determined by competitive bidding may be lower than the average tariff rate under planned generation. In addition, the market share of a power producer in a regional power market may not exceed a prescribed percentage determined by the SERC.

In July 2003, the State Council approved a power tariff reform plan and stated that their long-term objective is to establish a standardised and transparent on-grid tariff-setting mechanism.

In December 2004, the NDRC, with the approval of the State Council, issued a new policy to link thermal coal and power prices which will allow power generation companies to pass through 70% of certain increases in coal prices to end users through increases of on-grid tariffs. Under this new policy, when the average coal price increases by more than 5% within a six-month period, 70% of such increase would be passed through to end users of electricity power through an increase of on-grid tariffs, while power generation companies will bear the remaining 30% of the increased coal costs. If the average coal prices increase by less than 5% within such six-month period, the on-grid tariffs would remain unchanged. This new policy will be retrospectively applied from June 2004, using the sale prices of thermal coal as of the end of May 2004 as the base for calculating the fluctuation of the average coal prices during the following six-month period.

On 28 March 2005, the NDRC issued the Temporary Measures on Regulation of On-grid Tariffs, which provides regulatory guidance for the power tariff reform plan approved by the State Council in July 2003. For power plants within the regional grids that have not implemented competitive bidding tariff-setting mechanisms, on-grid tariffs will be set and announced by the NDRC or the provincial price bureaus based on production costs plus a reasonable investment return. For power plants within the regional grids that have implemented competitive bidding tariff-setting mechanisms, on-grid tariffs will consist of two components: (i) a capacity tariff determined by the NDRC based on the average investment cost of the generators competing within the same regional grid and (ii) a competitive tariff determined through the competitive bidding process. This NDRC regulation became effective from 1 May 2005.

Dispatch

All electric power produced in China is dispatched through power grids, except for electric power generated by facilities not connected to a grid. Dispatch of power to each grid is administered by dispatch centres owned and operated by the power grids. Each dispatch centre is required to dispatch electric power pursuant to the Regulations on the Administration of Electric Power Dispatch to Networks and Grids issued by the State Council, effective 1 November 1993, and in accordance with a power consumption schedule. This schedule is generally determined according to, among other factors:

- power supply agreements entered into between a power grid and large or primary electricity customers, where such agreements take into account the power generation and consumption plans formulated annually by the PRC government;
- dispatch agreements entered into between a dispatch centre and each power plant subject to its dispatch;
- interconnection agreements between power grids; and
- the actual conditions of the grids, including equipment capabilities and safety reserve margins.

Safety

In accordance with the Measures for Regulating the Work Safety of Electricity, issued by the SERC in March 2004, power plants are responsible for maintaining their safety operations in accordance with requirements set by the regional grid in which they are located. Power plants are required to report to the SERC, the SAWS and relevant local government authorities, within 24 hours, any safety accident that causes worker fatalities or is classified as a serious or extraordinary accident.

Environmental Protection

China has adopted extensive environmental laws and regulations that affect operations of coal production, coal transportation and power generation. There are national and local standards applicable to land rehabilitation, reforestation, emissions control, discharges to surface and subsurface water and the generation, handling, storage, transportation, treatment and disposal of waste materials. Pursuant to the PRC Environmental Protection Law, the SAEP is empowered to formulate national environmental quality and discharge standards and monitors China's environmental system at the national level. Environmental protection bureaus at the county level and above are responsible for environmental protection within their areas of jurisdiction. Local environmental protection bureaus may set stricter local standards compared to the national standards. Enterprises are required to comply with the stricter of the two sets of standards.

Under the PRC Law of Land Administration, promulgated on 25 June 1986, and amended on 29 December 1988, 29 August 1998 and 28 August 2004, and the Land Rehabilitation Regulations, issued by the State Council in 1988 and effective 1 January 1989, if mining activities result in damage to arable land, grassland or forest, the mining operator must take measures to return the land to an arable state within a prescribed time frame. The rehabilitated land must meet the rehabilitation standards, as required by law from time to time, and may only be used upon examination and approval by the land authorities. Any entity or individual that fails to fulfill its rehabilitation obligations may be fined, required to pay rehabilitation fees and/or denied application for land use rights by the local bureau of land and resources.

In addition, mining companies using forest areas in their operations are required to pay reforestation fees pursuant to the PRC Forest Law, the Implementation Measures of the Forest Law and the Temporary Measures Regarding Payment of Reforestation Fees.

The PRC Environmental Protection Law requires any entity operating a facility that produces pollutants or other hazards to incorporate environmental protection measures into its operations and to establish an environmental protection responsibility system, which must adopt effective measures to control and properly dispose of waste gases, waste water, waste residue, dust or other waste materials.

Enterprises are required to register or file an environmental impact assessment with the local environmental protection bureau for approval before undertaking construction of any new production facility or major expansion or renovation of an existing production facility. A new, expanded or renovated facility will not be permitted to commence operation unless the local environmental protection bureau has inspected and determined to its satisfaction that the requisite environmental protection equipment has been appropriately installed at the facility. Environmental protection facilities should be designed, constructed and operated at the same time that a new production facility is designed, constructed and operated.

Any entity operating a facility that discharges pollutants, whether in the form of emissions, water, noise, or materials, must submit a pollutant discharge declaration statement detailing the amount, type, location and method of treatment. After reviewing the pollutant discharge declaration, the local environmental protection bureau will determine an amount of discharge allowable under the law and will issue a pollutant discharge license for that amount of discharge subject to the payment of discharge fees. If an entity discharges more than what is permitted by the pollutant discharge license, the local environmental protection bureau can fine the entity up to several times the discharge fees payable by the offending entity for its allowable discharge, require the offending entity to close its operations, or take other measures to remedy the problem.

The Implementation Measures for the Ocean Waste Administration Regulations, enacted by the PRC State Oceanic Administration in 1990, require entities to obtain a discharge permit from the local or regional bureau of oceanic administration prior to discharging waste into the sea, including sediments obtained from dredging. In addition, the Regulations on Coal Dust Control at Ports, jointly issued by the MOC and Ministry of Labour in 1991, set forth certain water spraying requirements when coal is transferred from rail cars into storage facilities in order to minimise the spread of coal dust at port facilities.

Under regulations including the Railway Environmental Protection Regulations enacted in 1997 by the MOR, railway operators must take measures to limit railway pollution, including coal dust and noise.

In recent years, power plants have also been subject to increasing fees for discharges of gaseous emissions. The increases in 2001 and 2002 were primarily due to implementation of sulphur dioxide discharge regulations by local governments in accordance with the PRC Law for the Prevention and Treatment of Air Pollution and the resulting increased discharge fees.

On 1 July 2003, the Administrative Regulation on the Levy and Use of Discharge Fees promulgated by the State Council and related implementation rules jointly promulgated by relevant government authorities, including the NDRC and the SAEP, came into effect. According to this regulation, the discharge fees payable by power plants for the emission of sulphur dioxide and ash will increase significantly during the three-year period beginning 1 July 2003. From 1 July 2003, all power plants in China became subject to the pollutant discharge levy system, pursuant to which discharge fees are levied based on the actual amount of all pollutants discharged, rather than on the basis of discharges in excess of a specified maximum threshold. In addition, starting from 1 July 2005, the discharge fees for emission of sulphur dioxide will be comparable to the general discharge fees for the emission of air pollutants. The discharge fees for the emission of nitrous oxide will also be comparable to the general discharge fees for emission of air pollutants. This regulation also provides that the amount of sulphur dioxide discharged by power plants with installed capacities of over 300 MW must be determined by the environmental protection bureaus at the provincial level. In addition, starting from 1 January 2005, for thermal power plants in operation before 31 December 1996, the average concentration of sulphur dioxide discharged by all the thermal boilers of a power plant may not exceed 2,100 mg per cubic meter; and for thermal power plants in operation during the period from 1 January 1997 to 31 December 2004, the concentration of sulphur dioxide discharged by each thermal boiler may not exceed 2100 mg per cubic meter. The implementation of these regulations will impact our power operations, in particular, requiring us to pay higher fees and to increase our expenditures to ensure compliance with the stricter environmental requirements. See "Risk Factors — Risks Relating to Our Businesses and China's Coal and Power Industries — Our business operations may be materially adversely affected by present or future environmental regulations."

Emissions of waste water by power plants and the collection of water discharge fees are regulated by the PRC Water Pollution Control Law, enacted in 1984 and amended in 1996, and the Administrative Regulations on the Levy and Use of Discharge Fees, issued by the State Council on 2 January 2003 and effective 1 July 2003.

Remedial measures under the Environmental Protection Law and various environmental regulations include warnings, payments of damages and the impositions of fines. Any entity undertaking a construction project that fails to install pollution prevention and control facilities in compliance with applicable environmental standards may be ordered to suspend production or operations and may be fined. Criminal liability may be imposed for a serious violation of environmental laws and regulations that causes loss of property, personal injuries or death.

In addition to the PRC environmental laws and regulations, China and over 160 other nations are signatories to the United Nations 1992 Framework Convention on Climate Change, which is intended to limit emissions of greenhouse gases, such as carbon dioxide. In December 1997, in Kyoto, Japan, 84 of the signatories to the 1992 convention, including China, established a binding set of emission targets for developed nations. These restrictions, known as the Kyoto Protocol, propose emission targets to reduce greenhouse gas emissions that could adversely affect the price of and demand for coal. The Kyoto Protocol came into force on 16 February 2005. At present, the Kyoto Protocol has not set any specific emission targets for certain countries, including China.

Taxation and Fees

Coal producers and power generators in China are subject to a range of taxes and fees levied by the PRC central and local governments. In addition, coal producers are required to set aside certain reserves including, among others, reserves for the future development and mining structure maintenance fund and reserves for safety production fund, based on the volume of raw coal produced. The current rates for the future development and mining structure maintenance fund and production safety fund are RMB8.50-10.50 per tonne and RMB3.00-8.00 per tonne, respectively.

The table below sets forth material taxes and fees that are payable by us.

Item	Base	Rate	Relevant Business Segment(s)
Corporate income tax	Taxable income	33.0%, 15.0% or 7.5%[(1)]	Coal and Power
VAT	Revenue from domestic coal sales	13.0%	Coal
	Revenue from export coal sales	13.0%[(2)]	Coal
	Revenue from power sales	17.0%	Power
Business tax	Revenue from service	3.0 or 5.0%	Coal[(3)]
City construction tax	Amount of VAT[(4)] and business tax	5.0% to 7.0%	Coal and Power
Education surcharge	Amount of VAT[(4)] and business tax	3.0%	Coal and Power
Resource tax	Aggregate volume of coal sold	RMB1.5 to 3.2 per tonne	Coal
Resource compensation fee	Revenue from coal sales	1.0% of the approved recovery rate divided by actual recovery rate	Coal
Mining rights use fee	Mining area covered	RMB1,000 per square kilometre per year	Coal
Discharge fees for emission of sulphur dioxide	Sulphur dioxide emitted	1 July 2003 - 30 June 2004: RMB0.2/0.95 Kg	Power
		1 July 2004 - 30 June 2005: RMB0.4-0.5/0.95 Kg	
		1 July 2005 - 30 June 2006: RMB0.6/0.95 Kg	
Discharge fees for emission of nitrous dioxide	Nitrous dioxide emitted	From 1 July 2004: RMB0.6/0.95Kg	Power

(1) Under China's Western China Development policy, several of our subsidiaries and affiliates located in western China are entitled to a preferential income tax rate of 15.0% between 2001 to 2010. In addition, Shenshuo Rail Line is entitled to a preferential income tax rate of 7.5%, which will expire in 2005.

(2) Since 1 January 2004, the export VAT rebate for export coal was reduced from 13.0% to 11.0%, which makes the effective VAT rate for revenue from export coal sales 2.0%. Effective 1 May 2005, the export VAT rebate was further reduced to 8.0%.

(3) The business tax primarily arises from coal transportation operations.

(4) For the revenue from export coal sales, the calculation of VAT is based upon the statutory rate of 13.0%.

The Restructuring

We were established as a joint stock company with limited liability under PRC law on 8 November 2004 following the restructuring of our Controlling Shareholder, Shenhua Group, in anticipation of the Global Offering. Shenhua Group is a wholly state-owned enterprise. Prior to the Restructuring, Shenhua Group operated 31 coal mines, 11 power plants, two research institutes as well as coal liquefaction and research facilities. Pursuant to the restructuring agreement entered into between Shenhua Group and us, the Restructuring took effect on 31 December 2003. Shenhua Group transferred to us substantially all of its coal production, transportation and sales operations and power generation operations as well as mining rights related to our coal operations and other related assets, liabilities and interests in exchange for shares in our Company.

The specific assets and liabilities Shenhua Group transferred to us include:

- substantially all of the operating assets and liabilities relating to coal production at our Shendong Mines and Wanli Mines, including, among others, mining rights for our operating mines and planned mines as well as Shenhua Group's equity interests in Zhunge'er Energy and Shengli Energy;
- all operating assets and liabilities relating to coal transportation, including, among others, Shenhua Group's equity interests in the Shuohuang Rail Line, Baoshen Rail Line and the Huanghua Port, as well as assets in the Shenshuo Rail Line and the China Shenhua Rolling Stock Branch;
- assets and liabilities relating to coal sales and marketing operations;
- substantially all of the core operating assets and liabilities relating to power generation, including, among others, Shenhua Group's equity interests in eight operating power plants, four power plants under construction and other minority investments;
- assets and liabilities relating to information system and communications for the coal and power operations transferred to us;
- research and development institutions relating to the transferred operating assets and liabilities;
- contractual rights and obligations relating to the businesses transferred to us;
- employees associated with the businesses transferred to us;
- licenses and approvals related to the businesses transferred to us; and
- business and financial records, books and data and technological data and know-how related to the businesses transferred to us.

Shenhua Group retained the assets, liabilities and interests in limited coal production and power generation operations and its coal liquefaction projects. Shenhua Group's continuing business activities, for which Shenhua Group has retained the assets and liabilities, include, among others:

- operating certain coal mines (principally, the Xisanju Mines producing thermal coal and coking coal) and power plants (principally, certain small-scale coal residual stone power plants);

- providing coal export agency services to us and other PRC coal-producers through Shenhua Trading, a wholly owned subsidiary of Shenhua Group, which holds a state-authorised coal export licence;
- developing the coal liquefaction and coal chemical businesses;
- providing certain production supplies, logistics and other ancillary services;
- providing financing services to Shenhua Group and its related parties;
- leasing land use rights and buildings; and
- engaging in real estate development business.

In consideration of the assets and operations transferred to us, we issued 15,000,000,000 of our Domestic Shares to Shenhua Group upon our formation which, until the Global Offering, represented our entire issued share capital. Domestic Shares are ordinary shares in our share capital, which may only be subscribed to by, and traded among, legal and natural persons and other entities of the PRC.

In the restructuring agreement, Shenhua Group has agreed to indemnify us against certain taxes, claims and losses incurred in connection with the Restructuring, as well as any breach of the provisions of the restructuring agreement by Shenhua Group. These are more fully described in "Connected Transactions — Non-exempt Continuing Connected Transactions between Shenhua Group and Us — Restructuring Agreement." These indemnities include all payments, costs or expenses incurred as a result of resolving related claims. Similarly, we have agreed to indemnify Shenhua Group against any claims arising from our breach of any provisions of the restructuring agreement.

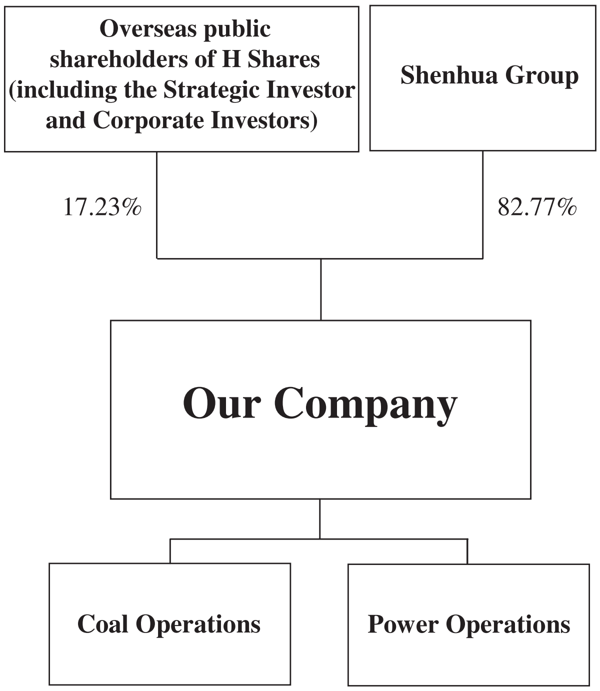
In connection with the Restructuring, we have entered into a number of agreements with Shenhua Group, which took effect on 1 January 2004. Pursuant to these agreements, we and Shenhua Group and some of its subsidiaries will continue to purchase various products and services from each other as more fully described in "Connected Transactions." In addition, we and Shenhua Group have entered into a non-competition agreement whereby Shenhua Group has undertaken to not compete with us in our core businesses, as defined in the non-competition agreement. See "Relationship with Shenhua Group — Competition — Non-competition Agreement" for a description of the non-competition agreement.

The Restructuring required approvals from relevant PRC government authorities, including, among others, the State Council, the SASAC, the NDRC, the CSRC, the MOF and the MLR. We and Shenhua Group have obtained all relevant approvals for the Restructuring.

In connection with the Restructuring and in accordance with the "Provisional Regulations Relating to Corporate Reorganisation of Enterprises and Related Management of State-owned Capital and Financial Treatment" issued by the MOF, we are required to make a distribution to Shenhua Group, our sole shareholder prior to the Global Offering, in an amount equal to the net profit generated during the period from 1 January 2004 to 7 November 2004, the date immediately prior to our incorporation. See "Financial Information — Dividend Policy."

Our Corporate Structure

The following chart sets out our corporate organisation and our ownership structure following the Restructuring and after giving effect to the Global Offering, assuming that the Over-allotment Option is not exercised:



Following the Restructuring, our major subsidiaries and branch companies include:

- China Shenhua Shendong Coal Branch, which operates our Shendong Mines;
- Shenhua Zhunge'er Energy Company Limited, which operates our Zhunge'er Mines, Dazhun Rail Line and Zhunge'er Power Plant;
- China Shenhua Wanli Coal Branch, which operates our Wanli Mines;
- Shenhua Beidian Shengli Energy Company Limited, which is developing our Shengli Mines and plans to develop our Shengli Power Plant;
- China Shenhua Coal Sales Centre, which is a branch company in charge of our coal sales and marketing activities;
- China Shenhua Shenshuo Railway Branch, which operates our Shenshuo Rail Line;
- Shuohuang Railway Development Company Limited, which operates our Shuohuang Rail Line and is constructing our Huangwan Rail Line;
- Shenhua Baoshen Railway Company Limited, which operates our Baoshen Rail Line;
- China Shenhua Rolling Stock Branch, which manages our rolling stock;
- Shenhua Huanghua Harbor Administration Company Limited, which operates our Huanghua Port;
- Shenhua Tianjin Coal Dock Company Limited, which is developing our coal berths at Tianjin Port;
- China Shenhua Guohua Power Branch, which coordinates our power operations;

- CLP Guohua Power Company Limited, which operates our Beijing Thermal Power Plant, Panshan Power Plant and Sanhe Power Plant;
- Inner Mongolia Guohua Zhunge'er Power Generation Company Limited, which operates our Guohua Zhunge'er Power Plant;
- Hebei Guohua Cangdong Power Company Limited, which owns our Huanghua Power Plant (currently under construction);
- Zhejiang Guohua Zheneng Power Company Limited, which owns our Ninghai Power Plant (currently under construction);
- Zhejiang Guohua Yuyao Gas-fired Power Company Limited, which owns our Yuyao Power Plant (currently under construction);
- Guangdong Guohua Yuedian Taishan Power Company Limited, which operates generation units No. 1 and 2 of our Taishan Power Plant and is constructing generation units No. 3, 4 and 5;
- Suizhong Power Company Limited, which operates our Suizhong Power Plant; and
- CLP Guohua Shenmu Power Company Limited, which operates our Shenmu Power Plant.

Unless otherwise indicated and except for the revenue and the associated sales volume and price data, all data for periods ended on or prior to 31 December 2003 provided in this Business section include only data relating to the businesses and assets that were transferred to us in connection with our Restructuring in anticipation of the Global Offering. Unless otherwise indicated, data included in our combined financial statements for periods ended on or prior to 31 December 2003 but relating to businesses or assets retained by Shenhua Group are not presented in this Business section. For further information on the Restructuring, see "Restructuring." The operations retained by Shenhua Group are not ours and their results of operations are not, and will not be, reflected in our consolidated financial statements for any period subsequent to 31 December 2003.

Overview

We are the leading integrated coal-based energy company focusing on the coal and power businesses in China. Both our coal and power businesses have experienced substantial growth with compound annual growth rates of 30.4% in coal production and 27.8% in power generation from 2002 to 2004.

- We are the largest coal producer and one of the largest coal marketers in China as measured by our coal production of 101.3 million tonnes and total internal and external sales volume of 126.9 million tonnes in 2004.
- We would have been the second largest listed coal company in the world as measured by our 5.9 billion tonnes of proved and probable reserves as of 31 December 2004, and would have been the fifth largest publicly listed coal producer in the world as measured by our 2004 coal production, had we been publicly listed.
- We are the only coal-based energy company in China that owns and operates a large-scale integrated coal transportation network, which consists of dedicated rail lines and port facilities.
- We are the largest export coal producer in China, exporting 26.6 million tonnes of coal in 2004, which accounted for approximately one third of China's total thermal coal exports in that year.
- We have a sizeable power generation business as measured by our total installed capacity of 5,960 MW as of 31 December 2004.

In 2004, we had total operating revenues of RMB39,267 million and profit for the year of RMB8,935 million.

We have a large portfolio of high-quality coal reserves with geological conditions and coal characteristics favourable for operating large-scale mines. Based on our currently estimated 2005 annual production rate, we believe our proved and probable reserves of 5.9 billion tonnes as of 31 December 2004 could last for more than 50 years.

We own and operate an integrated rail and port network, which facilitates our production and sale of coal and thus provides us with a valuable competitive advantage. This network consists of four rail lines with a total operating length of approximately 1,300 kilometres and the Huangwan Rail Line which is under construction. Our Shenshuo and Shuohuang Rail Lines together form one of the two primary dedicated eastbound coal freight rail lines in China. We also own and operate a dedicated port, Huanghua Port, and are constructing three coal berths at Tianjin Port.

We have a sizeable and rapidly growing power generation business. From 2002 to 2004, the compound annual growth rates of the equity capacity and power generation of our controlled power plants were approximately 15% and 28%, respectively. As of 31 December 2004, we controlled and operated eight coal-fired power plants, with total installed capacity and equity capacity of 5,960 MW and 3,075 MW, respectively. In addition, three coal-fired power plants and one gas-fired power plant that are controlled and will be operated by us are currently under construction. The total installed capacity and equity capacity of power plants controlled and operated by us are expected to increase to 12,140 MW and 7,191 MW, respectively, once these projects are completed by 2007. In addition, our equity capacity in operating power plants in which we own minority interests was 2,099 MW as of 31 December 2004.

Our Competitive Strengths

We are the largest coal company in China and one of the largest in the world, as measured by our coal reserves, coal production and sales volume.

We are the largest coal producer and one of the largest coal marketers in China, as measured by our coal production and sales in 2004. Had we been publicly listed, we would have had the second largest coal reserves of any publicly listed coal company in the world in terms of proved and probable reserves as of 31 December 2004, and would have been the fifth largest coal company in the world in terms of 2004 coal production. We are also the largest export coal producer in China, exporting 26.6 million tonnes of coal in 2004.

Our large-scale operations enable us to realise significant economies of scale in production efficiency, procurement, sales and marketing and many other aspects of our operations. In addition, we believe that large customers, such as major power generators and industrial companies prefer to purchase coal from large coal companies to ensure quality and stable supplies, and reduce logistical and administrative expenses.

We are well positioned to capture attractive opportunities in China's coal markets, especially in the fast-growing and strategically important markets in coastal China.

Rapid growth in the PRC economy in recent years continues to create substantial demand for coal in China. Our existing operation, infrastructure and expansion plan provide us with a strong platform to seize growth opportunities in China. As the only coal company in China that owns and operates a large-scale integrated rail and port transportation network, we believe we are better positioned than many of our domestic competitors to make timely delivery of our coal products to customers in China's coastal provinces, where China's coal demand is concentrated.

We have a large, high-quality reserve base and are well positioned to acquire more high-quality resources.

We had proved and probable reserves of 5.9 billion tonnes as of 31 December 2004. Coal reserves at most of our mines generally have favourable geological conditions, including relatively thick flat-lying coal seams located at relatively shallow depths, stable ground conditions and simple geological structures. These geological conditions are very favourable for developing and operating large-scale coal mines and have enabled us to quickly develop high-production mines with relatively low capital and operating costs. In addition, the geological conditions in many of our mines are favourable for highly mechanised longwall and continuous miner production methods, resulting in improved operating efficiency and increased safety. See "Appendix V — Independent Technical Report."

In light of our size and our leading market position, we believe that we are well positioned to continue to expand our coal reserve base and operations through selective pursuit of attractive acquisition opportunities.

We operate several of the most productive and efficient underground coal mines in the world.

According to John T. Boyd, our Shendong Mines, which accounted for nearly 80% of our total coal production in 2004, are among the most efficient underground coal mines in the world. We employ world-class, highly mechanised longwall and continuous miner technology at our Shendong Mines, and have accumulated significant expertise in deploying appropriate mining methods to suit the different geological conditions at each of our underground mines. We also employ advanced technology at our coal preparation and blending facilities as well as our rail loading stations.

In 2004, the average annual production per our mine-site employee at the underground Shendong Mines operated by us was, according to John T. Boyd, over 28,000 tonnes. See "Appendix V — Independent Technical Report." In addition to our Shendong Mines, which are located in the Shenfu Dongsheng Coalfield, we have also established several large-scale mines in other coalfields, demonstrating our ability to efficiently exploit coal reserves in areas with different geological conditions. In recognition of our achievements in the application of advanced technology in our coal production operations at the Shendong Mines, the PRC government awarded Shenhua Group First Prize for Science and Technological Advancement in 2003.

Our integrated business operations provide us with a significant competitive advantage in securing critical coal transportation capacity and create substantial benefits for our operations.

We believe we are the only coal-based energy company in China that has large-scale coal and power operations coupled with an integrated coal transportation network. We believe our integrated coal mining and transportation operations have provided us with a competitive advantage by:

- ensuring a significant amount of guaranteed and stable transportation capacity for our coal products, which allows us to:
  - ship a substantial percentage of our coal on our own transportation network, thereby reducing reliance on third-party rail and port systems; and
  - improve our delivery scheduling and timely delivery of our coal;
- facilitating the seaborne transportation of our coal by ensuring access to dedicated port facilities at our Huanghua Port;
- lowering our unit transportation cost by providing more direct routes from our Shendong Mines to the Huanghua Port; and
- providing dedicated sites for blending and storage of coal prior to delivery and shipment.

In 2004, our total turnover of coal freight traffic on our rail network was 64.3 billion tonne kilometres, and we shipped 45.4 million tonnes of coal from our Huanghua Port, which comprised approximately 36% of our coal sales and approximately 52% of our seaborne coal sales in 2004.

We also benefit from the combination of our coal production and power generation operations. In 2004, our coal operations supplied more than 92% of the coal consumed by our power business, and our power business consumed approximately 12% of our total coal sales volume. Our power plants provide a stable and growing demand for a significant portion of our coal production. Our supply of coal allows our power plants to maintain sufficient and stable inventories of coal to ensure uninterrupted power generation during times of constrained coal supply. We also believe our access to a stable coal supply provides our power business with a competitive advantage when we seek rights to develop new power plant projects in the PRC and compete for more power dispatch.

Our power business has been growing rapidly and is well positioned to capture attractive growth opportunities in China's power industry.

We have, since 1999, developed a sizeable and rapidly growing power generation business in order to provide an internal market for our coal, reduce fluctuations in coal sales and capitalise on the increasing demand for, and shortages of, power in China. As of 31 December 2004, the total installed capacity of the power plants we own and operate was 5,960 MW. From 2002 to 2004, the compound annual growth rate of power generation of our controlled operating power plants was 27.8%. We are developing four additional power plants with an additional planned total installed capacity of 6,180 MW. Our power plants under construction are located primarily in coastal provinces, such as Zhejiang and Guangdong provinces, and are thus well positioned to capture the fast-growing power demand and commercially attractive power tariffs in the economically dynamic coastal provinces.

We have a strong brand name and a large, long-term customer base, and provide customised sales services.

We focus on cultivating stable and long-term relationships with large, financially stable domestic and international customers, and emphasise timely delivery of high-quality coal that meets customer specifications. We also serve the varying needs of our customers by offering a wide range of thermal coal products, based upon our expertise in coal preparation and blending. We emphasise tailored services to our large customers through our products and the provision of after-sales services.

We believe our efforts have earned us a leading market reputation and helped us build a strong ''Shenhua Coal'' brand name and a loyal customer base, both domestically and in the Asia-Pacific coal export market. Our coal production and transportation capacity and emphasis on customer service have assisted us in securing long-term coal supply contracts, including a number of coal supply contracts with large-scale independent power producers in China.

Our senior management possesses extensive experience in the coal and power sectors.

Our senior management team has extensive experience in the coal and power sectors. In addition, they possess significant experience in financial management and operations. Several members of our senior management team have worked together for several years at Shenhua Group cultivating Shenhua Group's leading market position. Our management team is focused on creating shareholder value. In order to align the interests of our management and key employees with those of our shareholders and further motivate our management, we have adopted a stock appreciation rights incentive plan for our senior management and key employees. See ''Directors, Supervisors, Senior Management and Employees.''

Business Strategy

Our vision is to become the leading integrated coal-based energy company in the world. We will continue to seek opportunities to realise sustainable growth of our businesses and increase shareholder value. To achieve this, we will focus on the following strategies:

Seek sustainable growth of our coal business

We seek continued growth through expanding our coal production and sales with a focus on increasing our market share in coastal China. We intend to:

- maintain and expand a high-quality and abundant reserve portfolio through selective acquisition of commercially attractive assets and coal reserves;
- optimise production at our existing mines and develop highly productive and efficient new mines; and
- increase our seaborne shipments of coal and our market share in coastal China by leveraging our integrated transport network.

Further improve efficiency of our coal operations

We plan to further improve production efficiency by:

- utilising advanced mining equipment and technologies;
- improving resource recovery in a cost-effective manner; and
- further reducing production costs through increasing the usage of reliable domestically manufactured mining equipment.

Expand and upgrade our integrated rail and port transportation network

We plan to increase the capacity of our rail and port facilities in order to facilitate more seaborne shipment of coal. Our aim is to ensure efficient and timely delivery of our coal products. To achieve this, we plan to:

- expand the throughput capacity of our Huanghua Port and construct three coal berths at the Tianjin Port;
- construct additional rail lines to increase our transportation capacity and provide greater port access; and
- increase the transportation capacity and operating efficiency of our current rail lines through upgrades, including by installing automated blocking systems, expanding and constructing additional stations and using more powerful locomotives and larger capacity freight cars.

Enhance the effectiveness of our sales and marketing efforts

We expect to secure stable and long-term demand from large customers and to diversify our coal product portfolio to capture profitable growth opportunities. We plan to:

- balance our coal sales by pursuing both long-term supply contracts and sales in the spot market to maintain our flexibility to capture market opportunities;
- cultivate and maintain a stable and loyal customer base;

- diversify our product mix and develop new, high value-added coal products;
- leverage our knowledge of power generation in the customisation of our thermal coal products; and
- promote and strengthen our "Shenhua Coal" brand and our reputation for quality coal in both the domestic and export markets.

Expand our power business in strategically attractive regions and further improve its operating efficiency

We intend to:

- leverage our stable supply of Shenhua coal to selectively capture opportunities and strengthen our position in the attractive power markets in China;
- develop power plants either in regions with robust economic growth and attractive power tariffs or in proximity to our coal mines or transportation network;
- focus on large-capacity, high-efficiency and environmentally friendly coal-fired power plants;
- further improve our maintenance programme to increase the availability factor of our power plants; and
- strive to reduce our coal consumption rate.

Adopt effective financial management and investment practices

We believe that effective management analysis and utilisation of financial information are critical to our business. We seek to adopt and continue to refine prudent financial and investment management with a framework comparable to international standards. We have centralised our financial controlling and consolidated all major investment decisions at our central corporate level. We have also developed and adopted an investment decision process that emphasises maximising returns on capital employed and effectively managing financial risks. We intend to:

- build and maintain our financial strength through careful management of key financial and operational measures such as capital expenditures and cash flows;
- optimise our capital structure to efficiently fund our operations and capital expenditures; and
- strengthen our financial management and internal controls through implementing and upgrading a fully integrated information management system.

Maintain environmentally friendly operations and continue to improve worker health and safety

We regard the maintenance of high environmental standards and the health and safety of our employees as our significant responsibilities. We have established a Safety, Health and Environmental Committee under our Board of Directors to formulate appropriate policies and standards. In order to further improve our working environment, we have implemented the NOSA Five-Star Management System at most of our power plants and mines. We intend to:

- utilise new coal cleaning technologies;
- manage waste material more effectively;

- construct environmentally friendly power plants;
- reforest and rehabilitate land at our mines; and
- further expand the application of the NOSA Five-Star Management System throughout our operations.

Our Corporate History

We were established as a joint stock limited company under PRC law on 8 November 2004 following the restructuring of our Controlling Shareholder, Shenhua Group, in anticipation of the Global Offering. Shenhua Group is a wholly State-owned enterprise. Prior to the Restructuring, Shenhua Group operated 31 coal mines, 11 power plants, two research institutes as well as coal liquefaction and research facilities. Pursuant to the restructuring agreement entered into between Shenhua Group and us, the Restructuring took effect on 31 December 2003. Shenhua Group transferred to us substantially all of its coal production, transportation and sales operations and power generation operations, as well as mining rights relating to our coal operations and other related assets, liabilities and interests in exchange for Shares. Shenhua Group retained the assets, liabilities and interests relating to its remaining businesses, including, among others, coal production operations at the Xisanju Mines. In connection with the Restructuring, we have also entered into a number of agreements with Shenhua Group, pursuant to which we and Shenhua Group and some of its subsidiaries will continue to provide various products and services to each other as more fully described in "Connected Transactions." Upon completion of the Global Offering, Shenhua Group will own an 82.77% interest in us (and 80.65% if the Over-allotment Option is exercised in full). For further details regarding the Restructuring, see "Restructuring."

Before the establishment of the Company as a joint stock limited company on 8 November 2004, our business operations were conducted by Shenhua Group and were operated under substantially the same management team as our current management team. After the establishment of the Company, the senior management team of Shenhua Group was appointed as the senior management of the Company. As a result, the business operations of the Company have operated under substantially the same management throughout the Track Record Period.

The predecessor to Shenhua Group, Huaneng Refined Coal Company, was established in 1985 to develop the Shendong Mines. In 1989, coal production began at the Shendong Mines and railway operations began on the Baoshen Rail Line. Shenhua Group was established with the approval of the State Council as a wholly State-owned enterprise in 1995. In 1996, our Shenshuo Rail Line began operations. In 1997, the Dazhun Rail Line began operations. In 1998, Zhunge'er Energy Company, 神華集團金烽煤炭有限責任公司 (Shenhua Jinfeng Coal Company Limited) and Wanli Mines were merged into Shenhua Group. In 1999, the Xisanju Mines were merged into Shenhua Group, and a wholly owned subsidiary of Shenhua Group, Guohua Power, was founded to operate and develop our power generation business. In 2001, our Shuohuang Rail Line began operations, and, in 2002, our Huanghua Port began operations, thus completing the initial development of our integrated coal production, rail and port network. In 2004, we began to develop our operations at the Shengli Mines.

Coal Operations

Overview

Our coal operations consist of the following integral business activities:

- coal mining and processing;
- sales and marketing; and
- coal transportation.

We currently operate four mining groups, the Shendong Mines, the Wanli Mines, the Zhunge'er Mines and the Shengli Mines with a total of 21 operating mines in western and northern China. Among our four mining groups, the Shendong Mines and Wanli Mines are primarily underground mines while the Zhunge'er Mines and Shengli Mines are open-cut mines. We own and operate our Shendong Mines and Wanli Mines through branch companies, and operate the Zhunge'er Mines and Shengli Mines through majority-owned subsidiaries in which we hold a 57.8% and 62.5% interest, respectively.

Our largest and most productive mining group is the Shendong Mines, which accounted for nearly 80% of our total coal production in 2004. According to John T. Boyd, four of our Shendong Mines are among the ten largest underground coal mines in the world based on annual coal production in 2003. The average annual production per our mine-site employee at the underground Shendong Mines operated by us was, according to John T. Boyd, over 28,000 tonnes in 2004. See "Appendix V — Independent Technical Report."

The following table provides information on our coal production by each of our current four mining groups during the periods described:

Mining Group	Coal Production		
	2002	2003	2004
	(million tonnes)		
Shendong Mines	47.1	66.2	80.7
Wanli Mines	2.5	3.2	5.4
Zhunge'er Mines	10.0	12.2	14.2
Shengli Mines	-	-	1.1
Total	59.6	81.6	101.3

We currently plan to continue to increase our coal production to meet the growing demand for our coal products. Our planned coal production for 2005, 2006 and 2007 is approximately 117 million tonnes, 133 million tonnes and 149 million tonnes, respectively.

As of 31 December 2004, we had total proved and probable coal reserves of 5.9 billion tonnes. Our reserve estimates are based upon estimates that were made by our Company in accordance with PRC law and reviewed, reclassified and substantiated by John T. Boyd in accordance with the JORC Code. An independent technical report prepared by John T. Boyd is attached as Appendix V to this prospectus. The following table, which extracts data from the independent technical report, provides information on our coal reserves and resources as of 31 December 2004. For definitions of the technical terms used in the table, see "Glossary."

Mining Group	Mine Type	Marketable Reserves[1]			Recoverable Reserves[2,3,4]	Resources[2,3]		
		31 December 2004						
		Proved	Probable	Total	Total	Measured	Indicated	Total
					(million tonnes)			
Shendong Mines	UG/OC	1,053.7	2,591.9	3,645.6	3,898.7	2,061.6	5,843.7	7,905.2
Wanli Mines	UG	323.6	50.4	374.0	391.3	862.2	95.8	958.0
Zhunge'er Mines	OC	138.3	834.4	972.6	1,023.8	164.0	976.5	1,140.5
Shengli Mines	OC	641.0	232.7	873.7	910.1	943.3	700.0	1,643.3
Total		2,156.5	3,709.4	5,865.9	6,223.9	4,031.0	7,615.9	11,647.0

(1) Yield of saleable coal from recoverable reserves after coal preparation. Marketable reserves under the JORC Code are divided into proved and probable reserves.

(2) Resources and reserves are reported on a 100% ownership basis. We wholly own the Shendong and Wanli Mines, and own majority interests of 57.8% and 62.5% in the Zhunge'er and Shengli Mines, respectively.

(3) All of our coal reserves and resources are categorised as thermal coal.

(4) Recoverable reserves are the economically mineable part of measured and indicated coal resources.

Our portfolio of reserves generally has geological and mining conditions that are very favorable for developing and operating large-scale underground and open-cut mines, including thick coal seams located relatively near the surface, low quantities of methane gas and a relatively low mining ratio.

We focus on the production and sale of a variety of thermal coal products. The most important characteristics for thermal coal include calorific value, sulphur content, ash content, moisture content and volatile matter content. Our coal products generally have commercially attractive characteristics, including medium to high calorific value and medium to low ash, sulphur, phosphorous and chlorine content. We also engage in coal preparation and blending in order to adjust the characteristics of our coal in accordance with customer specifications.

Since 2004, we have expanded the types of thermal coal we sell in order to meet the needs of our customers and to take greater advantage of market opportunities in specialised, higher-premium thermal coal products. The following table sets forth the coal characteristics of our current principal thermal coal products:

	Calorific Value	Sulphur Content	Ash Content	Moisture Content	Ash Melting Point	Volatile Matter Content
	(Kcal/kg)	(%)	(%)	(%)	(°C)	(%)
Shenhua Super Low Ash Coal	6,000	0.4	5.0	14.0	1,200	26.0-33.0
Shenhua Fine Coal	5,900	0.4	8.0	14.0	1,200	26.0-33.0
Shenhua Prime Mixed Coal	5,800-5,900	0.5	9.0	15.0	1,150	26.0-33.0
Shenhua Mixed Coal	5,600-5,800	0.6	10.0	16.0	1,150	24.0-33.0
Prime Mixed Black Coal	5,600	0.6	22.0	10.0	1,450	24.0-33.0
Mixed Black Coal	5,100	1.0	28.0	10.0	1,450	24.0-33.0
Shenhua Lump Coal	5,600	0.6	8.0	14.0	1,150	24.0-33.0
Shenhua Raw Coal	5,700	0.6	10.0	15.0	1,150	24.0-33.0
Thermal Blended Coal[1]	5,400-5,900	-	10.0-18.0	10.0-14.0	1,200-1,400	24.0-33.0
Zhunge'er Mixed Coal 5100	5,100	0.6	22.0	9.0	1,450	24.0-30.0
Zhunge'er Mixed Coal 5000	5,000	0.5	23.0	9.0	1,450	24.0-30.0

(1) Thermal blended coal is a mixture of coal which is customised to meet specific customer requirements. The characteristics of thermal blended coal can vary widely according to the designated specifications of particular customers.

We own and operate an integrated rail and port network, which facilitates our production and sale of coal and thus provides us with a valuable competitive advantage. This network consists of four rail lines with a total operating length of approximately 1,300 kilometres and the Huangwan Rail Line which is under construction. Our Shenshuo and Shuohuang Rail Lines together form one of the two primary dedicated eastbound coal freight rail lines in China. We also own and operate a dedicated port, Huanghua Port, and are constructing three coal berths at Tianjin Port.

Shendong Mines

According to John T. Boyd, we operate four of the world's ten largest underground coal mines at the Shendong Mines, as measured by 2003 annual coal production. We believe the Shendong Mines have achieved world-class production scale and efficiency through the application of highly mechanised longwall mining methods to their relatively thick coal seams. In 2004, the Shendong Mines produced 80.7 million tonnes of coal, accounting for nearly 80% of our total coal production during that period. Over the last three years, annual coal production at the Shendong Mines has increased from 47.1 million tonnes in 2002 to 80.7 million tonnes in 2004. As measured by coal production in 2004, five of our six largest mines are at the Shendong Mines.

The Shendong Mines, with the exception of the Kangjiatan Mine, are located in the Shenfu Dongsheng Coalfield, which is located in northern China on both sides of the boundary between Shaanxi and Inner Mongolia provinces. The Shendong Mines generally produce high-quality coal and have a simple geological composition with relatively low methane gas levels, and thick, relatively flat-lying coal seams located near the surface.

The Shendong Mines currently consist of ten underground mines and two open-cut mines. Some of our Shendong mines include more than one mine access and hold more than one mining right permit, but are operated and managed as one mine to improve operational efficiency.

Production at most of our large-scale underground mines at the Shendong Mines is primarily characterised by:

- favourable geological conditions with relatively simple mine layouts resulting in relatively fast development of new mines;
- use of highly mechanised longwall mining and continuous miner development methods leading to high productivity;
- highly mechanised and efficient coal transport and handling systems;
- modern coal preparation plants at most operations; and
- centralised production management and safety systems.

A significant percentage of the underground mining equipment used at the Shendong Mines, including most of our fully mechanised longwalls and key equipment used at our coal preparation plants, is imported from international manufacturers of specialised mining equipment. Allocation and maintenance of mining equipment for the Shendong Mines is monitored and managed by a centralised equipment department through a computerised Enterprise Assets Management, or EAM, system, which significantly enhances our operational efficiency. We also have a maintenance centre at the Shendong Mines supported by an on-site team of foreign technicians from international mining equipment vendors.

In recognition of our achievements in applying productive and efficient mining methods and management at the Shendong Mines, the PRC central government awarded our Controlling Shareholder, Shenhua Group, First Prize for Science and Technological Advancement in 2003. We believe our Shendong Mines are an industry leader in China, having achieved ISO 9001, ISO 14001 and ISO 18001 accreditation and having recently commenced the implementation of the NOSA Five-Star Management System.

Pursuant to a service agreement entered into in January 2005, we have engaged Tianlong Corporation to provide labour, logistics and maintenance services to us for the mining of residual coal at four of our mines, namely, the Shigetai, Huoluowan, Wujiata and Dahaize mines. For additional information see "— Production Processes — Mines Subcontracted to Tianlong Corporation."

Our Five Largest Shendong Mines. Our five largest Shendong Mines produced 64.9 million tonnes of coal in 2004, accounting for 64.1% of our total annual coal production.

Daliuta-Huojitu Mine

The Daliuta-Huojitu Mine had total coal production of 15.3 million tonnes, 19.5 million tonnes and 19.9 million tonnes in 2002, 2003 and 2004, respectively. Our operations at the Daliuta-Huojitu Mine include two large-scale highly efficient longwall mines, Daliuta and the adjacent Huojitu, which were merged in and have been managed as one mine since December 2000. The Daliuta-Huojitu Mine had aggregate proved and probable reserves of 725.9 million tonnes as of 31 December 2004.

The Daliuta-Huojitu Mine is located in northern Shaanxi province near the border with Inner Mongolia, which is also near the headquarters of our Shendong Mines. The Daliuta-Huojitu Mine produces premium quality coal with a low sulphur content and high calorific value. It also has our largest rail loading station and our largest coal preparation plant. This rail loading station is located on our Shenshuo Rail Line, facilitating rapid loading and dispatch of coal.

Daliuta is, according to John T. Boyd, the third largest underground coal mine in the world, as measured by the volume of coal production in 2003. Daliuta was our first mine in which we adopted large-scale, highly mechanised longwall production and continuous miner development methods. Coal production at Daliuta began in 1996. Coal production at Daliuta in 2002, 2003 and 2004 was 10.4 million, 10.9 million tonnes and 9.4 million tonnes, respectively. Daliuta has three primary coal seams with a thickness of between 4.3 and 6.5 metres. Daliuta had proved and probable reserves of 400.5 million tonnes as of 31 December 2004.

Huojitu is, according to John T. Boyd, the seventh largest underground coal mine in the world, as measured by the volume of coal production in 2003. Huojitu uses highly mechanised longwall production and continuous miner development methods we first developed at Daliuta. Coal production at Huojitu was 4.9 million tonnes, 8.6 million tonnes and 10.5 million tonnes in 2002, 2003 and 2004, respectively. Huojitu has three primary coal seams with a thickness of between 3.2 and 8.7 metres. Huojitu had proved and probable reserves of 325.4 million tonnes as of 31 December 2004.

Yujialiang Mine

The Yujialiang Mine is, according to John T. Boyd, the second largest underground coal mine in the world, as measured by the volume of coal production in 2003. Coal production at the Yujialiang Mine has grown in the last three years from 10.0 million tonnes in 2002 to 11.6 million tonnes in 2003 and 14.1 million tonnes in 2004. Production at the Yujialiang Mine employs highly mechanised longwall mining and continuous miner equipment. The Yujialiang Mine has a modern rail loading station and a coal preparation plant. As of 31 December 2004, the proved and probable reserves in the Yujialiang Mine were 194.9 million tonnes.

The Yujialiang Mine was previously operated by Shenhua Group under a lease. Pursuant to a transfer agreement dated 5 March 2005, we acquired the mining rights for the Yujialiang Mine from the Shenmu County Yujialiang Mine, a local State-owned enterprise, which is an independent third party not connected with us. As consideration for the mining rights, we have agreed to pay the transferor a fixed-rate per tonne fee for the remaining economic life of the Yujialiang Mine, which is estimated to be 14 years based on the estimated 2005 annual production rate. We expect to use cash flows generated from our operating activities to fund ongoing payments to the transferor.

The Yujialiang Mine is located in the southern region of the Shenfu Dongsheng Coalfield in Shaanxi province, on the route of our Shenshuo Rail Line. The Yujialiang Mine has two primary coal seams with a thickness of between 4.0 and 4.3 metres.

Shangwan Mine

Coal production at the Shangwan Mine has grown by almost 300% in the past three years, increasing from 3.2 million tonnes in 2002 to 4.0 million tonnes in 2003 and 12.5 million tonnes in 2004. Since late 2003, the Shangwan Mine has employed highly mechanised longwall and continuous miner equipment and technology, leading to a significant increase in production. The Shangwan Mine has a modern rail loading station and coal preparation plant. The rail loading station is located on our Baoshen Rail Line for ease of transport to our customers. The Shangwan Mine had proved and probable reserves of 244.8 million tonnes as of 31 December 2004.

The Shangwan Mine is located in Inner Mongolia and has three primary coal seams with a thickness of between 2.6 and 6.2 metres.

Bulianta Mine

According to John T. Boyd, the Bulianta Mine is the fifth largest underground coal mine in the world in terms of annual coal production in 2003. Coal production at the Bulianta Mine has grown in the last three years from 7.1 million tonnes in 2002 to 9.6 million tonnes in 2003 and 11.1 million tonnes in 2004. The Bulianta Mine has a modern rail loading station and coal preparation plant. The rail loading station is located on our Baoshen Rail Line for ease of transport to our customers. The Bulianta Mine had proved and probable reserves of 309.9 million tonnes as of 31 December 2004.

The Bulianta Mine is located in Inner Mongolia. The Bulianta Mine has three primary coal seams with a thickness of between 3.3 and 6.7 metres.

Kangjiatan Mine

Coal production at the Kangjiatan Mine has more than tripled from 2.3 million tonnes in 2002 to 7.5 million tonnes in 2003 and was 7.3 million tonnes in 2004. The Kangjiatan Mine employs advanced longwall and continuous miner equipment and technology, and we have further enhanced our facilities and mining techniques for the relatively complex geological structure and high levels of methane gas of this mine. The Kangjiatan Mine also has a modern rail loading station and a coal preparation plant. The rail loading station is located on our Shenshuo Rail Line. The Kangjiatan Mine had proved and probable reserves of 399.7 million tonnes as of 31 December 2004.

The Kangjiatan Mine was previously operated by Shenhua Group under two leases. Pursuant to two transfer agreements dated 11 March 2005, we acquired the mining rights for the Kangjiatan Mine from the Baode County Dongguan Township Coal Mine and the Baode County Qiaotou Coal Mine, two local township enterprises, each of which is an independent third party not connected with us. As consideration for the mining rights, we have agreed to pay the transferors a fixed-rate per tonne fee for the remaining economic life of the Kangjiatan Mine, which is estimated to be approximately 38 years based on the estimated 2005 annual production rate. We expect to use cash flows generated from our operating activities to fund ongoing payments to the transferor.

The Kangjiatan Mine is located in Shanxi province. The Kangjiatan Mine has two primary coal seams with a thickness of between 5.6 and 7.5 metres.

Other Shendong Mines. In addition to the mines described above, our Shendong Mines also include five other underground mines and two open-cut mines. We expect increases in coal production at these mines as we further selectively implement highly mechanised longwall and continuous miner techniques.

Planned Developments at the Shendong Mines. We currently plan capital expenditures of approximately RMB2.9 billion, RMB2.8 billion and RMB2.0 billion in 2005, 2006 and 2007, respectively, to sustain, expand and upgrade our production capacity at the Shendong Mines. Our plans for expansion include, among others:

- development of a new mine at the southern extension of Shigetai Mine with projected annual production capacity of 10 million tonnes by 2007;
- integration and expansion of Shangwan, Bulianta, and Huhewusu-Erlintu Mines to reach an aggregate annual production of 30 million tonnes by 2007; and
- purchase of coal production equipment.

In addition, we have recently obtained mining rights for the Batuta and Huhewusu-Erlintu Mines at the southern extension of the Shendong Mines. We are also exploring further opportunities to obtain additional mining rights and coal reserves at the southern extension of the current mining areas of the Shendong Mines. However, we have not entered into any definitive agreements for any such potential future acquisitions.

Wanli Mines

The Wanli Mines currently consist of seven underground mines. Total production at the Wanli Mines has doubled in the past three years, from 2.5 million tonnes in 2002 to 3.2 million tonnes in 2003 and 5.4 million tonnes in 2004. Our total proved and probable reserves at the Wanli Mines were estimated to be 374.0 million tonnes as of 31 December 2004.

The Wanli Mines are located in the northern section of the Shenfu Dongsheng Coalfield with the exception of the Chengpo Mine, which is located in the Zhunge'er Coalfield. Currently, coal produced by the Wanli Mines is primarily transported by rail and truck to customers.

We are currently taking measures to increase production capacity and efficiency at the Wanli Mines. We currently plan capital expenditures of approximately RMB963 million, RMB980 million and RMB680 million in 2005, 2006 and 2007, respectively, to increase annual production at the Wanli Mines to 16.5 million tonnes by 2007. Our major plans for expansion include the development of a new mine as well as the installation of belt conveyors and a longwall mining unit at the Wanli Mines.

Zhunge'er Mines

We conduct our coal production operations in the Zhunge'er Coalfield through Zhunge'er Energy, a subsidiary in which we hold a 57.8% interest. The remaining 42.2% equity interest is held by China

Cinda Assets Management Corporation. Zhunge'er Energy currently holds the sole mining rights to 50.3 square kilometres of the Zhunge'er Coalfield where our Heidaigou Mine is located. In addition to its mining operations, Zhunge'er Energy also manages and operates the Zhunge'er Energy Power Plant and the Dazhun Rail Line. For information on the Zhunge'er Power Plant and the Dazhun Rail Line, see "— Power Operations — Our Power Plants — Power Plants Serving the North China Power Grid — Zhunge'er Energy Power Plant" and "— Coal Operations — Coal Transportation."

Heidaigou Mine. The Heidaigou Mine was the second largest open-cut mine in China in terms of annual coal production in 2003. Coal production at the Heidaigou Mine has increased by approximately 41% in the past three years, from 10.0 million tonnes in 2002 to 12.2 million tonnes in 2003 and 14.2 million tonnes in 2004, representing a compound annual growth rate of 18.7%. We currently plan to increase our annual production capacity at the Heidaigou Mine to 20.0 million tonnes by the end of 2006. As of 31 December 2004, the total proved and probable reserves of the Heidaigou Mine were 972.6 million tonnes.

The Heidaigou Mine currently utilises a combination of bucket wheel excavator and truck and shovel methods for removing the overburden and mining coal. We are installing a walking dragline to improve the efficiency of and increase our production at the Heidaigou Mine. The walking dragline is expected to commence operations in the second half of 2006. Coal is mined from the open-cut pit, transported to the adjacent coal preparation facility and then loaded onto rail cars at our rail loading station for further transportation via our Dazhun Rail Line. The Dazhun Rail Line interconnects with the Daqin Rail Line of the national rail system at Datong, which is one of the two primary eastbound rail lines designated for coal transport. As of 31 December 2004, our rail loading station and coal preparation facility at the Heidaigou Mine each had an annual capacity of approximately 15 million tonnes.

The Heidaigou Mine is located approximately 127 kilometres from Hohhot, the capital of Inner Mongolia. The coal reserves of Heidaigou Mine lie at a depth of between 100 metres and 150 metres, with coal seams of up to 28.8 metres in thickness and a current mining ratio of approximately 4.6:1, which may vary during the mining process.

Planned Developments at the Zhunge'er Mines. We currently plan capital expenditures of approximately RMB702 million, RMB422 million and RMB3,203 million in 2005, 2006 and 2007, respectively, to expand and upgrade our production capacity at the Zhunge'er Mines. Our major plans for expansion include:

- expansion of the Heidaigou Mine and its ancillary facilities to increase its annual production capacity to 20 million tonnes by the end of 2006; and
- development of an additional large scale open-cut mine in the Zhunge'er Coalfield, which is expected to be operated by us.

Shengli Mines

We are developing a large-scale open-cut mine in the Shengli Coalfield, which is located in Inner Mongolia. The Shengli Mines have a planned mining area of 34.4 square kilometres with proved and probable reserves of 873.7 million tonnes as of 31 December 2004. Preliminary exploration information indicates that coal deposits at the Shengli Mines may have an overburden varying from approximately 20 metres to 180 metres and a low mining ratio of approximately 2.7:1. The Shengli Mines produce lignite coal, which generally has a lower calorific value than coal produced by our three other mining groups. The Shengli Mines produced 1.1 million tonnes of coal in 2004.

Coal production of Shengli Mines is currently estimated to reach the designed capacity of 10.0 million tonnes per year by 2009. We plan capital expenditures of approximately RMB700 million in each of 2005 and 2006 to develop the Shengli Mines. Current plans for the construction of the Shengli Mines also include a loading station. We anticipate that future large-scale production at the Shengli Mines will utilise excavators, truck and shovel and a dragline for removing overburden and mining coal. We operate the Shengli Mines through a joint venture company, Shengli Energy, in which we have a majority interest of 62.5% and the remaining 37.5% equity interest is held by Northern United Power Company Limited and Xilinguolemeng State Asset Management Company, which own 35% and 2.5%, respectively.

Mining Rights

As part of our the Restructuring, we obtained from Shenhua Group mining rights with different durations for each of the coal mines we own. Some of our operating mines include more than one mine access and hold more than one mining right permit, but are operated and managed as one mine to improve operational efficiency. We have registered mining right permits in our name for all of our currently operating mines, with the exception of the Heidaigou Mine, whose mining rights are held by our subsidiary, Zhunge'er Energy. The respective terms of the permits have been extended to the estimated economic life of the mine or the relevant approved terms from the date of renewal or obtaining of the mining rights, whichever is shorter. See "Appendix V — Independent Technical Report — Mining Rights — Mining Right Permit Review." We entered into transfer agreements with the relevant mining rights holders of the Yujialiang and Kangjiatan Mines to acquire the mining rights to the Yujialiang and Kangjiatan Mines in March 2005, and have recently obtained the mining right permits for these two mines. John T. Boyd Company, independent mining and geological consultants, have included the reserves for the Kangjiatan Mine in our total reserves on the basis of our acquisition of the mining right.

Where residual reserves remain after the expiration of the term of the mining rights, the holders of mining rights can apply for extensions for additional terms. We have obtained an undertaking from the MLR that the mining right permits for our mines will be extended for the remaining economic life of those mines upon our application for renewal. We have also obtained endorsement by the MLR, as noted on each mining right permit for which we currently intend to seek extension upon its expiration, that an extension will be granted upon the expiration of the current mining right permit. King & Wood, our PRC counsel, has advised us that, with the above undertaking and endorsement by the MLR, we have been granted a legally effective renewal right with respect to our mining rights permits under PRC law. For any mine that has remaining proved and probable reserves after the expiration of the mining right permit, we intend to submit an application to renew the mining right permit in due course.

The following table provides details of our mining right permits:

Coal Producer/Mining Right Area	Certificate Number	Mining Method	Mining Right Permit Grant Date (yr/month)	Mining Right Validity (yrs)	Mining Right Permit Renewal Date (yr/month)
Shendong					
Bulianta	1000000520011	UG	2000/07	30	2030/07
Dahaize	1000000520010	UG	2002/09	15	2017/09
Daliuta					
Daliuta	1000000520039	UG	2005/04	30	2035/04
Huojitu	1000000520008	UG	2000/07	30	2030/07
Halagou	6100000520079	UG	2005/03	5	2010/10
Houbulian	1500000520108	OC	2005/03	5	2010/03
Huoluowan	1000000520028	UG	2005/03	1	2006/09
Kangjiatan	1400000520401/02	UG	2005/05	10	2015/05
Shangwan	1000000520026	UG	2005/03	25	2030/07
Shigetai	1000000520007	UG	2000/07	30	2030/07
Wujiata	1000000520006	OC/UG	2003/04	3	2006/04
Wulanmulun	1000000520027	UG	2005/03	15	2020/12
Yujialiang	1000000520047	UG	2005/04	30	2035/04
Zhunge'er					
Heidaigou(1)	1000000140152	OC	2001/12	30	2031/12
Wanli					
Chaonaogou					
Chaonaogou	1500000520079	UG	2005/01	5	2010/01
Dongsheng	1500000520095	UG	2005/03	5	2010/03
Chengpo	1500000520094	UG	2005/03	5	2010/03
Cuncaota	1500000520114	UG	2005/03	5	2010/03
Jinfeng Cuncaota	1000000520032	UG	2005/03	1	2005/12
Liuta					
Ahuigou	1500000520117	UG	2005/03	5	2010/03
Liuta	1000000520031	UG	2000/12	15	2015/12
Shenshan	1500000420606	UG	2004/12	5	2009/12
Tanggonggou					
Tanggonggou Main Incline	1500000520116	UG	2005/03	5	2010/03
Tanggonggou No.2	1500000520115	UG	2005/03	5	2010/03
Tanggonggou No.3	1500000520118	UG	2005/03	3	2008/03
Wanli No.1	1000000520029	UG	2005/03	10	2015/12
Wanli No.2	1000000520030	UG	2005/03	13	2018/03
Shengli					
Shengli No.1	1000000510013	OC	2005/02	30	2035/02
Shendong Extension					
Batuta	1000000510012	UG	2005/02	30	2035/02
Huhewusu-Erlintu	1000000510014	UG	2005/02	30	2035/02

(1) We have a 57.8% interest in Zhunge'er Energy which owns 100% of Heidaigou Mine.

We are in compliance with applicable resource recovery rate requirements. The application of modern production techniques allows us to achieve high resource recovery rates. We have not been penalised by the relevant authorities for any violations of applicable resource recovery rates at our mines.

Production Processes

We employ efficient production methods and technology in our coal operations, including the use of fully mechanised longwalls and continuous miners, modern coal preparation and loading facilities and our computerised EAM system.

Underground Mines. We primarily employ three types of mining methods at our underground mines.

- Longwall mining is a fully mechanised underground mining method in which the mining face is supported by a hydraulic shield while the coal is excavated by a shearer and then transported to the surface by conveyors. When mining of the longwall panel has been completed, the longwall system is moved to a new mining area. The key characteristics of longwall mining include high productivity, comparatively high reserve recovery rates, safety and reliability.
- Shortwall (continuous miner) mining with continuous miner units is used to increase our reserve recovery rate for layers of coal which are of irregular shape or otherwise not suited to large-scale longwall mining. The size of a mining face is determined in accordance with the stability of the roof with the walls of the mine face supported by coal pillars. The coal is removed by a continuous miner unit, and then transported to the surface via conveyor belts or shuttle cars.
- Room-and-pillar mining is a traditional mining method which is employed where geological conditions and roof conditions are complex and not suitable for longwall or shortwall mining methods. The coal is removed from a mining face, while pillars are left between mining areas to support the roof. Room-and-pillar mining requires comparatively less investment, but is more labour-intensive than the other two mining techniques.

The specific mining method or combination of methods chosen for each underground mine is dependent on the particular geological conditions and design of each mine. Most of our underground mines at the Shendong Mines utilise highly mechanised longwall and continuous miner methods. As of 31 December 2004, we owned 12 longwall units and 36 continuous miner units at our Shendong Mines.

Open-cut Mines. Coal production at our open-cut mines is currently by truck and shovel mining methods. Coal is transported from the open-cut mine by truck and conveyors to one of our coal preparation and handling plants. We are installing a walking dragline to improve efficiency at our Heidaigou Mine.

We have seven coal preparation and handling plants at our Shendong Mines and an additional coal preparation and handling plant at the Heidaigou Mine of our Zhunge'er Mines, which have a combined total annual capacity of 133 million tonnes as of 31 December 2004. Most of our coal preparation and handling plants are highly automated and equipped with advanced coal washing technology. Each of our coal preparation and handling plants is connected to our adjacent rail lines, and many are monitored by control rooms that are linked by computers and video cameras.

After processing, coal is loaded onto rail cars at our automated, high-speed loading stations connecting our mines with our rail lines. As of 31 December 2004, the loading stations at the

Shendong and Zhunge'er Mines had an aggregate annual loading capacity of 125 million tonnes. Most mines at our Shendong Mines, as well as our Zhunge'er Mines, are accessible by rail. The loading stations located at our Shendong Mines and our Heidaigou Mine are equipped with automated high-speed loading machines capable of fully loading and automatically weighing a 61-tonne rail car with coal in approximately one minute. After loading, the rail cars from our Shendong Mines are dispatched along our Shenshuo or Baoshen Rail Lines and the rail cars from the Heidaigou Mine are dispatched along our Dazhun Rail Line for transportation to our domestic and international customers. To meet projected increases in our coal production at the Shendong Mines, we plan to build two new loading stations.

Our Wanli Mines, which are all underground mines, currently utilise non-mechanised room-and-pillar mining. After being extracted from a mine face, coal is loaded onto trucks and conveyers for transport to the surface. The majority of the coal from the Wanli Mines is transported directly by rail and truck to customers. We plan to selectively implement longwall mining method in some of our Wanli Mines.

We also engage in coal blending in order to adjust the ash melting point and other characteristics of our coal to meet customer specifications. To ensure the high quality of our coal products, we have established and implemented quality control systems in accordance with applicable PRC national and industrial standards and ISO 9001. Our quality control measures include (i) regular inspections of the coal quality at mining faces, (ii) monitoring of coal quality throughout the production, preparation and transportation process and (iii) promptly responding to customer feedback regarding our coal quality. In 2002, our sales and marketing department obtained full ISO 9001 accreditation and received the National Award from the PRC National Quality Inspection Association. Our efforts in quality control have earned us a reputation for delivering high-quality coal products in accordance with customer specifications and helped us to promote our "Shenhua Coal" brand name in the domestic and international markets.

Mines Subcontracted to Tianlong Corporation. We have engaged Tianlong Corporation to provide labour, logistics and maintenance services at our Shigetai, Huoluowan, Wujiata and Dahaize Mines. These four mines are relatively small scale and generally not suitable for highly mechanised mining methods. Pursuant to the service agreement, we are entitled to determine the annual coal production volume of these four mines. The price for services provided by Tianlong Corporation is determined on a fixed rate per-tonne basis, which was set with reference to the estimated unit production costs plus 5%, with annual adjustments to reflect changes in production costs and market conditions. The price was approximately RMB68 per tonne in 2004 and increased to approximately RMB85 per tonne in 2005, which reflects an increase in production costs during this period.

Prior to its restructuring in May 2004, Tianlong Corporation (formerly known as Shendong Duojing Corporation) was a wholly owned subsidiary of Shenhua Group. As part of the restructuring of Shenhua Group's coal operations to separate ancillary operations from principal businesses, a sizable number of employees were terminated with severance. Such severance compensation was treated as a capital contribution by the terminated employees to Tianlong Corporation. As a result, former employees of Shenhua Group, who are independent third parties not connected with us, currently hold a 75.0% equity interest in Tianlong Corporation. The remaining 25.0% interest is held by Shenhua Group.

Sales and Marketing

In this "Sales and Marketing" subsection, revenue relating to our coal sales and the associated sales volume and price data for periods ended on or prior to 31 December 2003 include data relating to the Xisanju Mines that were included in our historical combined financial statements but retained by Shenhua Group in connection with the Restructuring. Our results of operations do not and will not include the Xisanju Mines in our consolidated financial statements for any period subsequent to 31 December 2003.

Overview. We are one of the largest domestic marketers of coal and the largest export coal producer in China in terms of our domestic sales and export volume in 2004. We sold 67.6 million, 87.7 million and 111.7 million tonnes of coal to external customers in 2002, 2003 and 2004, respectively. In addition, we also sold 9.0 million, 11.4 million and 15.2 million tonnes of coal to our power operations in 2002, 2003 and 2004, respectively.

We sell the majority of our coal in the domestic market. In 2002, 2003 and 2004, including our internal coal sales to our power business, approximately 76.1%, 74.1% and 79.0%, respectively, of our total coal sales were sold in the domestic market, and approximately 23.9%, 25.9% and 21.0%, respectively, were exported. In 2002, 2003 and 2004, we purchased 13.3 million tonnes, 14.2 million tonnes and 22.8 million tonnes, respectively, of coal from third parties for coal blending and resale. For further discussions about our coal sales, see "Financial Information — Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting Results of Operations — Sales Volume and Prices of Coal."

The following table sets forth information regarding our coal sales volume and average sales prices for the periods indicated. The sales volume data for 2002 and 2003 includes sales by the Xisanju Mines, which were retained by Shenhua Group as part of the Restructuring.

	Year Ended 31 December					
	2002		2003		2004	
	(million tonnes)	(RMB/ tonne)	(million tonnes)	(RMB/ tonne)	(million tonnes)	(RMB/ tonne)
Domestic sales to external customers	49.3	188	62.0	194	85.1	235
Domestic sales to our power operations	9.0	170	11.4	154	15.2	198
Total domestic sales	58.3	185	73.4	188	100.3	229
Total export sales	18.3	226	25.7	216	26.6	305
Total coal sales(1)	76.6	195	99.1	195	126.9	245

(1) In 2002, 2003 and 2004, our coal production was 59.6 million tonnes, 81.6 million tonnes and 101.3 million tonnes, respectively, and we purchased 13.3 million tonnes, 14.2 million tonnes and 22.8 million tonnes of coal from third parties for coal blending and resale, respectively. Our total internal and external coal sales volume in 2002, 2003 and 2004 was 76.6 million tonnes, 99.1 million tonnes and 126.9 million tonnes, respectively. The differences between our total coal sales and the sum of our coal production and purchases from third parties were due to the non-inclusion of the Xisanju Mines' production for 2002 and 2003 as well as changes in coal inventory.

The five largest external customers of our coal segment accounted for approximately 32.3%, 29.1% and 24.5% of our total coal revenues in 2002 and 2003 and 2004, respectively. The largest external customer of our coal segment accounted for approximately 10.5%, 11.5% and 7.1% of our total coal revenues during the same periods. The five largest external customers of our coal segment are either power plants or coal trading companies. None of our Directors, Supervisors or senior management, nor those of Shenhua Group, nor any person related to our directors or those of Shenhua Group, is related to or owns any interest in any of the five largest external customers of our coal segment.

Our sales and marketing department obtains most of the coal for sale from our mining operations. Our sales and marketing department is headquartered in Beijing and has 18 sales offices throughout China.

Domestic Sales. In 2004, we sold 100.3 million tonnes of our coal in the domestic market, accounting for 79.0% of our total coal sales volume. Our domestic sales are concentrated in the power sector. Approximately 71.2% of our domestic coal sales in 2004 were to power generators (including our power operations), 2.1% were to the metallurgic sector and the remaining 26.7% were to coal trading companies and customers in other sectors, including construction materials and chemicals. The largest domestic consumer of our coal in 2004 was our power business, which consumed approximately 15.2 million tonnes of our coal, accounting for approximately 15.1% of our domestic coal sales in 2004. The following table sets forth, for the periods indicated, our domestic sales of coal products by industry.

	Year Ended 31 December					
	2002		2003		2004	
	Sales Volume (million tonnes)	Percentage of Sales Volume	Sales Volume (million tonnes)	Percentage of Sales Volume	Sales Volume (million tonnes)	Percentage of Sales Volume
Power plants[(1)]	44.8	76.9%	52.3	71.3%	71.4	71.2%
Metallurgical producers[(2)]	2.9	4.9	4.0	5.4	2.1	2.1
Others[(3)]	10.6	18.2	17.1	23.3	26.8	26.7
Total domestic sales[(4)]	58.3	100.0%	73.4	100.0%	100.3	100.0%

(1) Includes coal sold to our power business.

(2) Includes both coking and thermal coal for periods up to and including the year ended 31 December 2003. For 2004, includes only thermal coal.

(3) Others include coal trading companies and customers in the construction materials and chemicals sectors.

(4) The sales volume data for 2002 and 2003 include sales by the Xisanju Mines, which were retained by Shenhua Group in the Restructuring.

We make our domestic coal sales to customers throughout China, in particular, customers in coastal regions. The following table sets forth our coal sales in China by geographic region for the periods indicated.

	Year Ended 31 December					
	2002		2003		2004	
	Sales Volume (million tonnes)	Percentage of Sales Volume	Sales Volume (million tonnes)	Percentage of Sales Volume	Sales Volume (million tonnes)	Percentage of Sales Volume
Northern China[(1)]	26.6	45.6%	30.5	41.6%	44.4	44.3%
Eastern China[(2)]	19.3	33.1	25.8	35.1	31.3	31.2
Southern China[(3)]	8.3	14.2	12.0	16.4	19.1	19.0
Northeastern China[(4)]	3.5	6.0	3.9	5.4	5.2	5.2
Others[(5)]	0.6	1.1	1.1	1.6	0.4	0.4
Total domestic sales	58.3	100.0%	73.4	100.0%	100.3	100.0%

(1) Includes Beijing, Hebei, Shanxi and Tianjin and Inner Mongolia.

(2) Includes Anhui, Fujian, Jiangsu, Jiangxi, Shandong, Shanghai and Zhejiang.

(3) Includes Guangdong, Hainan and Guangxi.

(4) Includes Heilongjiang, Jilin and Liaoning.

(5) Includes all other provinces of the PRC.

Coal Supply Contracts

Consistent with PRC coal industry practice, a substantial portion of our domestic sales is made pursuant to coal supply contracts negotiated during the annual national coal trading convention. We have also used the domestic spot market not only for sales of our coal production in excess of the amount that is contracted for under our contracts, but also to introduce new products such as lump coal to the market.

Prior to 2004, our domestic coal supply contracts typically had a term of one year. Since 2004, in order to secure market demand for our coal products, derive greater benefits from the current strong pricing environment and maintain long-term relationships with our large customers, we have entered into an increasing number of long-term coal supply contracts which typically have terms of three years. As of 31 December 2004, we have entered into over 30 of such three-year coal supply contracts that commit us to total sales to external and internal customers of approximately 76 million tonnes in 2005, 91 million tonnes in 2006 and 107 million tonnes in 2007. In addition, as of 31 March 2005, we have entered into a number of one-year coal supply contracts that commit us to total sales to external and internal customers of approximately 30 million additional tonnes in 2005.

Our coal supply contracts typically contain provisions that require us to deliver coal with specific coal characteristics. Failure to meet these specifications can result in price adjustments, economic penalties, suspension or cancellation of shipments or termination of the contracts. In some instances, buyers have the option to adjust annual or monthly volumes. We generally bear the cost of coal transportation from the coal mine to the port or other point of delivery, with the purchaser paying for any subsequent shipping charges. In some instances, we are also responsible for obtaining maritime insurance and assuming the risk of loss until the coal reaches the destination port.

We determine the payment method applicable to a specific customer based on such factors as our prior dealings with that customer, its current financial position and the prevailing market conditions. For new or short-term customers, payment in full must be made prior to delivery. For certain large customers with whom we have long-term relationships and with whom we enter into coal supply contracts at the annual national coal trading convention, we offer terms such as payment on acceptance. Approximately 67.3% of our total sales volume to domestic external customers in 2004, as measured by tonnes of coal sold, was to such long-term customers. All payments by our domestic customers are in RMB. In recent years, we have not experienced any significant payment collection issues.

The following table sets forth selected price information, for the periods indicated, for our domestic sale to external customers and our power segment in terms of term contract sales and spot market sales.

	Year Ended 31 December								
	2002			2003			2004		
	Price	Sales Volume	Percentage of Sales Volume	Price	Sales Volume	Percentage of Sales Volume	Price	Sales Volume	Percentage of Sales Volume
	(RMB/ tonne)	(million tonnes)		(RMB/ tonne)	(million tonnes)		(RMB/ tonne)	(million tonnes)	
Average Price									
Term contracts	185	54.0	92.6%	186	62.9	85.7%	224	72.5	72.3%
Spot market sales	185	4.3	7.4	197	10.5	14.3	243	27.8	27.7
Weighted Average Price/ Total Domestic Sales[1]	185	58.3	100%	188	73.4	100%	229	100.3	100%

(1) The domestic sales volume data for 2002 and 2003 include sales by the Xisanju Mines, which were retained by Shenhua Group as a part of the Restructuring.

Since 2002, the price of coal in China has been largely determined by market forces. However, the PRC government through the regulation of on-grid tariffs and its allocation of capacity of the national rail system has indirect influence over coal pricing. In addition, the State Council and provincial governments may adopt temporary measures to limit price increases. For additional information, see ''Regulation — The Coal Industry — Pricing and Allocation.''

The weighted average sales price per tonne for our total domestic sales of coal to external customers, over the past three years, was RMB188 in 2002, RMB194 in 2003 and RMB235 in 2004. For additional information on our domestic coal pricing, including a discussion of pricing trends, see ''Financial Information — Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting Results of Operations — Sales Volume and Prices of Coal.''

The weighted average FOB price of coal for seaborne domestic sales (inclusive of VAT) through our coal sales centre and shipped from Tianjin Port, Qinhuangdao Port and Huanghua Port, including sales to our power segment, was approximately RMB262, RMB255 and RMB299 per tonne for 2002, 2003 and 2004, respectively.

The Chinese domestic coal market remains fragmented, with many small to medium-sized coal producers primarily concentrated in the principal coal producing regions. See ''Industry Overview — The PRC Coal Industry — Demand and Supply.'' Our large volume of production differentiates us from many of our competitors and we believe it is a significant competitive advantage. See ''— Competition — Coal Operations — Domestic Competition.'' We believe that large customers, such as major power generators, large iron and steel manufacturers and construction materials companies, prefer to purchase coal from large coal companies to ensure quality and stable supplies and reduce logistical and administrative expenses.

Exports. We are China's largest export coal producer, as measured by our production of export coal in 2004. We believe that our exports accounted for approximately 26.0%, 32.8% and 36.6% of the PRC's thermal coal export sales in 2002, 2003 and 2004, respectively. Our export volumes have increased in recent years, from 18.3 million tonnes in 2002 to 25.7 million tonnes in 2003 and 26.6 million tonnes in 2004. However, our export volume has decreased as a percentage of total sales volume from 23.9% in 2002 to 25.9% in 2003 and 21.0% in 2004, due to strong demand in the domestic market during the same period.

We focus on the Asia-Pacific coal export markets. Our exports to South Korea, China Taiwan and Japan collectively accounted for approximately 86%, 89% and 82% of our total exports in 2002, 2003 and 2004, respectively. In 2004, our coal exports to South Korea accounted for approximately 17% of South Korea's total thermal coal imports. The following table provides a geographic breakdown of our coal exports for the periods indicated.

	Year Ended 31 December					
	2002		2003		2004	
	Export Volume	Percentage of Total Exports	Export Volume	Percentage of Total Exports	Export Volume	Percentage of Total Exports
	(thousand tonnes)		(thousand tonnes)		(thousand tonnes)	
South Korea	8,020	43.9%	11,337	44.1%	9,386	35.3%
China Taiwan	4,651	25.5	6,739	26.2	7,490	28.2
Japan	2,974	16.3	4,804	18.7	4,837	18.2
Others[(1)]	2,608	14.3	2,804	10.9	4,882	18.4
Total	18,253	100.0%	25,684	100.0%	26,595	100.0%

(1) Includes, among others, India, the Philippines, Turkey and the United States.

The price of our exported coal is determined by market forces, which differ from market to market due to the regional nature of the world thermal coal export market. The primary export market for our coal products, the Asia-Pacific coal export market, is characterised by growing demand for coal that is expected to continue to grow due to the recent and planned additions of coal-fired power plants in the region. See "Industry Overview — The Global Coal Industry." The average price of our exported coal was RMB226 per tonne in 2002, RMB216 per tonne in 2003 and RMB305 per tonne in 2004. The increases in coal export prices since 2003 generally have been reflected in our export contracts.

Prior to the Restructuring, we conducted our export sales through Shenhua Trading, a wholly owned subsidiary of Shenhua Group, which holds a coal export licence. The export licence of Shenhua Trading was not transferred to us under the Restructuring because such transfer was not permitted under current PRC regulations. In connection with the Restructuring, we have entered into an export agency agreement with Shenhua Group pursuant to which we appointed Shenhua Trading as our non-exclusive export agent to conduct export sales of our coal for an agency fee. See "Connected Transactions — Non-exempt Continuing Connected Transactions — Export Agency Agreement."

Our export contracts generally have a term ranging from one to seven years. As of 31 December 2004, our export contracts committed us to total export sales of approximately 22.4 million tonnes in 2005. Subject to customer consents, the substantial majority of this volume can be renewed for 2006 and 2007. Our export contracts typically provide annual price adjustments, and contain delivery and coal quality terms. Most contracts contain provisions that require us to deliver coal within certain ranges of specific coal characteristics. Failure to meet these specifications may result in price adjustments. The contracts typically stipulate procedures for quality control, sampling and weighing. In some instances, buyers have the option to adjust annual or monthly volumes within a pre-set range as agreed by the parties. We believe we have a good record of meeting our contractual delivery, supply and coal quality requirements. We generally sell our coal FOB at the loading port, with purchasers paying ocean freight. Payments for our export sales are made by letters of credit in U.S. dollars.

Under regulations issued by the PRC government, beginning in July 2004, authorised domestic coal exporters are required to apply to the NDRC for annual coal export quotas, and to report their monthly approved export quota usage to the NDRC. In accordance with the authorised quota of Shenhua Group under the national coal export quota system, we exported 26.6 million tonnes of coal in 2004. In October 2004, the NDRC announced that the total national coal export quota for 2005 would be 80 million tonnes. See "Regulation — The Coal Industry — Exports" and "Risk Factors — Risks Relating to Our Businesses and China's Coal and Power Industries — Our operations are extensively regulated by the PRC government."

Coal Transportation

We are the only coal-based energy company in China that owns and operates an integrated large-scale coal transportation network. Our coal transportation network, which is integral to our coal operations, is critical to our coal sales in the coastal regions and export markets by ensuring a stable and reliable means of transportation for a significant portion of our coal sales. As of 31 December 2004, our integrated transportation network consisted of rail lines with a total operating length of 1,300 kilometres, a dedicated port at Huanghua, three coal berths currently under construction at Tianjin Port and the Huangwan Rail Line currently under construction that will connect the Shuohuang Rail Line and Tianjin Port. In addition to our dedicated rail and port transportation network, we make use of the national rail system and third-party port facilities to transport our coal to our domestic and export customers.

We believe our integrated transportation network provides us with a significant competitive advantage in securing critical coal transportation capacity. In China, coal reserves and production are primarily concentrated in the western and northern provinces, but coal consumption is primarily concentrated in the more economically developed coastal regions in China. Therefore, a significant amount of coal needs to be transported via rail from the coal producing areas in western and northern China to eastern ports for seaborne shipments to the coastal regions. Despite the PRC government's efforts to increase rail transportation capacity in recent years, the national rail system has been unable to fully satisfy the increasing need for such eastbound coal transportation. As a result, our integrated transportation network is critical to our coal sales in the coastal regions and export markets since it ensures a stable and reliable means of transportation for a significant portion of our coal sales and timely delivery to our customers.

To enable our transportation network to meet the needs of our increasing coal production and sales, we currently plan to increase the transportation capacity of our integrated transportation network. The planned annual transportation capacity for our Shenshuo Rail Line and Shuohuang Rail Line in 2007 is 140 million tonnes and 150 million tonnes, respectively, and the planned annual throughput capacity of our Huanghua Port and the Shenhua Tianjin Coal Dock in 2007 are approximately 85 million tonnes and 35 million tonnes, respectively.

Our Rail Network. Our rail network currently consists of four lines, the Baoshen Rail Line, the Shenshuo Rail Line, the Shuohuang Rail Line and the Dazhun Rail Line. The Shenshuo and Shuohuang Rail Lines together form one of the two primary eastbound coal freight rail lines in China and play a key role in providing supplies of coal to the economically developed coastal areas of the country.

As of 31 December 2004, our Shenshuo Rail Line and Shuohuang Rail Line had an annual transportation capacity of 89.0 million tonnes and 100.0 million tonnes, respectively, and our Baoshen Rail Line and Dazhun Rail Line each had an annual transportation capacity of 20.0 million tonnes. In 2004, our four rail lines collectively transported 112.3 million tonnes of our coal, an increase of 26.6% over the 88.7 million tonnes transported in 2003. In 2004, the total turnover of coal freight traffic on our rail lines was 64.3 billion tonne kilometres, compared to 49.1 billion tonne kilometres in 2003 and 31.7 billion tonne kilometres in 2002.

We own our rail network either through sole or controlling interests in our rail subsidiaries. The table below sets forth certain operating information for each of our rail lines for the periods indicated.

			Year Ended 31 December					
			2002		2003		2004	
	Operating Length	Maximum Freight Rate[5]	Shenhua Coal Transportation Volume	Shenhua coal as a percentage of total Freight Volume	Shenhua Coal Transportation Volume	Shenhua coal as a percentage of total Freight Volume	Shenhua Coal Transportation Volume	Shenhua coal as a percentage of total Freight Volume
	(km)	(RMB/ tonne km)	(million tonnes)		(million tonnes)		(million tonnes)	
Baoshen[1]	172	0.15	6.6	46.7%	4.4	31.7%	5.5	36.6%
Shenshuo[2]	270	0.18	45.0	95.7	68.4	96.3	85.0	96.6
Shuohuang[3]	594	0.12	32.4	99.6	54.1	99.5	73.5	98.4
Dazhun[4]	264	0.15	10.2	65.8	12.3	62.5	15.3	59.1

(1) We hold 88.16% of the Baoshen line and Shaanxi Local Rail Company and Inner Mongolia Ruyi Industry Company each hold 5.92%. The Baoshen Rail Line has a limited passenger service.

(2) We are the sole owner of the Shenshuo Rail Line.

(3) We hold 52.7% of the Shuohuang Rail Line, with China Rail Construction and Development Centre and Hebei Province Construction Investment Company holding the remaining 41.2% and 6.1%, respectively.

(4) We hold a 57.8% interest in Zhunge'er Energy, which is the direct controlling shareholder and the owner of 100% of the Dazhun Rail Line. China Cinda Assets Management Corporation holds the other 42.2% interest in Zhunge'er Energy. The Dazhun Rail Line has a limited passenger service.

(5) We impose freight rates which may not exceed the maximum freight rate approved by the NDRC for each rail line. The rates presented apply to all periods indicated.

In 2002, 2003 and 2004, transportation services to our company accounted for approximately 86.3%, 87.6% and 88.0%, respectively, of our railway freight volume, with the remainder consisting of transportation services to third parties. Our rail transportation services to third parties included shipments of coal from local coal mines located near the paths of our major rail lines.

We impose freight charges on our third party customers, which may not exceed the applicable maximum rate per tonne per kilometre approved by the NDRC. The maximum rates reflect the costs and expenses of each rail line and a reasonable return on investment. See ''Regulation — The Coal Industry — Transportation — Freight Rate.''

We manage the rolling stock for our rail lines through our rail and rolling stock subsidiaries. The principal aspects of our train operations, including rolling stock management, are monitored and controlled through an information technology system, which includes specialised software providing real-time data on the location, performance and maintenance of our freight cars. As of 31 December 2004, we owned approximately 16,800 61-tonne-capacity open-top freight cars.

Shenshuo and Shuohuang Rail Lines

The Shenshuo and Shuohuang Rail Lines form the backbone of our rail transportation network, and effectively lower our transportation costs by providing a more direct rail transportation route from our Shendong Mines and Wanli Mines to ports in eastern China. The Shenshuo and Shuohuang Rail Lines are used to transport coal from the Shendong Mines to our Huanghua Port and other ports for further shipment to our domestic and international customers. Both lines are electrified and double-tracked, allowing the use of electric locomotives and heavy-weight freight cars. In 2004, our coal comprised approximately 96.6% and 98.4%, respectively, of total freight volume on the Shenshuo and Shuohuang Rail lines.

The Shenshuo Rail Line has an operating length of 270 kilometres, stretching from our Daliuta mine in Shaanxi province eastward to Shuozhou in Shanxi province. The Shenshuo Rail line began operations in 1996 and had an annual freight capacity of 89.0 million tonnes as of 31 December 2004.

The Shuohuang Rail Line stretches for 594 kilometres from Shenchi South station on the Shenshuo Rail Line in west Shanxi province to our Huanghua Port. Shuohuang Rail Line began operations in 2001. As of 31 December 2004, with its recently completed automatic control system, the Shuohuang Rail Line had an annual freight capacity of 100 million tonnes. We operate the Shuohuang line through a subsidiary in which we hold a 52.7% interest.

Dazhun Rail Line

Our Dazhun Rail Line stretches for 264 kilometres from Zhunge'er in Inner Mongolia eastward to Datong in Shanxi province, where the line connects to the Daqin Rail Line of the national rail network, which is one of the two primary eastbound coal freight rail lines in China. The Dazhun Rail Line began operation in 1997. As of 31 December 2004, the Dazhun Rail Line had an annual freight capacity of 20.0 million tonnes and was used primarily for transportation of our coal from the Heidaigou Mine. In 2004, our coal comprised approximately 59.1% of total freight volume on the Dazhun Rail Line. The Dazhun Rail Line is an electrified single track line.

Baoshen Rail Line

Our Baoshen Rail Line stretches for 172 kilometres from Baotou in Inner Mongolia to Daliuta in Shaanxi province. Baoshen Rail Line began operation in 1989. As of 31 December 2004, the Baoshen Rail Line had an annual freight capacity of 20.0 million tonnes. The Baoshen Rail Line is a single track rail line using diesel locomotives. In 2004, our coal comprised 36.6% of the total freight volume on the Baoshen Rail Line.

Planned Railway Developments. We intend to continue to increase the transportation capacity of our rail network. We are in the process of installing automated blocking systems to increase our freight throughput capacity. We currently plan capital expenditures of approximately RMB3.5 billion, RMB1.7 billion and RMB1.6 billion in 2005, 2006 and 2007, respectively, for our rail transportation network. Our major planned projects include:

Huangwan Rail Line

The Huangwan Rail Line is anticipated to be a 67-kilometre coal freight rail line from the Huanghua South station on the Shuohuang Rail Line to the Tianjin Port via the Wangjiamatou Station on the Ligang Rail Line. We expect that the Huangwan Rail Line will facilitate our coal transportation to the Tianjin Port, where we are constructing our three berths through a joint venture company. See "— Port Facilities." We anticipate completion of the Huangwan Rail Line by the end of 2006. The initial designed annual freight shipping capacity of the Huangwan Rail Line is 37.7 million tonnes by 2007. The Huangwan Rail Line will be constructed by our Shuohuang Rail Line subsidiary.

Huangda Rail Line

We are currently conducting a feasibility study for the Huangda Rail Line, which would cover approximately 209 kilometres from the Huanghua South station on the Shuohuang Rail Line to the Longkou Port and the Dongying Port in Shandong province via the Dajiawa station on the Dalailong Rail Line. By providing us access to the Longkou Port and the Dongying Port, the Huangda Rail Line would increase the number of ports we can utilise to ship our coal to our customers. The line would also facilitate delivery of our coal into the coal market of Shandong province.

National Rail Transportation System. In addition to our four rail lines, we also transport a substantial portion of our coal via the national rail transportation system and local railways in China. We use the national rail system, which experiences capacity restraints from time to time, to transport coal for varying distances to final customer destinations. See ''Industry Overview — The PRC Coal Industry — Coal Transportation.'' In recent years, the freight charges assessed on a per-tonne basis for transportation along the national rail system have increased. We obtain rail capacity on the national rail system primarily through allocations of annual planned rail capacity made by the MOR at the annual national coal trading convention. See ''Regulation — The Coal Industry — Transportation — Allocation of Railway Capacity'' and ''Risk Factors — Risks Relating to Our Businesses and China's Coal and Power Industries — The unavailability or shortage of reliable and sufficient coal transportation capacity could reduce our coal revenue by causing us to reduce our production volume or impairing our ability to supply coal to our customers.''

We have also entered into transportation services agreements with several entities within the national rail transportation system to use their locomotives and rail cars for coal transportation on our rail lines. The agreements are entered into annually and generally provide for monthly payment by us of rail transportation fees based upon the volume of services provided.

Port Facilities. We make use of our Huanghua Port as well as third-party port facilities to ship our coal. In addition, we are constructing three coal berths at the Tianjin Port.

The table below sets forth the volume of our coal shipped through the following primary seaports for the periods indicated.

	Year ended 31 December		
	2002	2003	2004
		(million tonnes)	
Our Port			
Huanghua Port	16.5	31.2	45.4
Other Ports			
Tianjin Port	13.2	18.3	21.7
Qinhuangdao Port	18.6	19.3	20.2
Total	48.3	68.8	87.3

Huanghua Port

The Huanghua Port, which began full-scale commercial operations in 2002, provides us with a dedicated seaport and is the primary means by which we transport coal to customers in the coastal provinces of China as well as the Asia-Pacific coal export market. The Huanghua Port is located in Hebei province, approximately 230 kilometres southeast of Beijing, and is the eastern terminus of our Shuohuang Rail Line. In 2002, 2003 and 2004, we shipped 16.5 million, 31.2 million and 45.4 million tonnes, respectively, of coal through the Huanghua Port. We operate the Huanghua Port through a joint venture company in which we hold a controlling interest of 70%, with the remaining 30% interest held by Hebei Province Construction Investment Company.

The Huanghua Port is equipped with modern port handling equipment, including a network of storage sites and conveyors, a computerised control room, and automated, high-speed freight car unloading and ship loading facilities. In September 2004, we completed an expansion of the Huanghua Port, increasing its annual throughput capacity to 65.0 million tonnes and its coal storage capacity to

4.5 million tonnes. The Huanghua Port now has seven berths, allowing it to simultaneously load ships with a freight capacity ranging from 10,000 tonnes to 100,000 tonnes, with a total capacity of 345,000 tonnes. We also plan to invest in additional high-speed freight car unloading equipment to meet the port's increased throughput capacity. We plan to expand its annual throughput capacity to 85.0 million tonnes by 2007.

Natural conditions at the Huanghua Port include a rapid accumulation of sediment and frequent high winds in the months between October and May, which have had an adverse impact on our operations and have caused us to incur RMB211 million, RMB364 million and RMB418 million in dredging expenses for 2002, 2003 and 2004, respectively. In addition to the dredging, we are in the process of constructing two breakwalls with a total length of approximately 21 kilometres and a projected cost of RMB1.6 billion to address the accumulation of sediment. We expect to complete the construction of the breakwalls in late 2005.

Shenhua Tianjin Coal Dock

In order to provide additional dedicated sea transport capacity for our expanding coal production, we are expanding our current usage of the Tianjin Port by developing our own coal docking facilities at the Shenhua Tianjin Coal Dock of the Tianjin Port. As Tianjin is a deep-water port, we anticipate that our facilities at the Tianjin Port will be capable of accommodating ships with a freight capacity of up to 150,000 tonnes and the three berths at the Tianjin Port will also serve as our back-up port to the Huanghua Port.

In May 2004, we and the Tianjin Port Group Company formed a joint venture company, Shenhua Tianjin Coal Dock Company Limited, which is currently constructing three specialised coal loading berths with a designed annual shipping capacity of 35 million tonnes. We hold a 55% interest in the joint venture company, with the remaining 45% held by the Tianjin Port Group Company. Pursuant to the joint venture arrangement, we have agreed to ship certain annual minimum quantities of coal through these berths. We expect that the construction will last for a period of two to three years.

Shipping Joint Ventures

In addition to our port facilities, we have formed joint ventures with subsidiaries of China Ocean Shipping (Group) Company and China Shipping (Group) Company, two major shipping companies in China, to secure stable shipping capacity for a small portion of our coal sales.

Planned Development of Our Port Facilities

We currently plan capital expenditures of approximately RMB2,675 million, RMB1,900 million and RMB931 million in 2005, 2006 and 2007, respectively, to expand our port operations. A substantial portion of such expenditures will be for the expansion of Huanghua Port and development of our Shenhua Tianjin Coal Dock. See "Risk Factors — Risks Relating to Our Businesses and China's Coal and Power Industries — Our major capital projects may not be completed as planned, may exceed our original budgets and may not achieve the intended economic results or commercial viability."

Supplies and Maintenance

The main supplies we purchase for our coal mining operations include mining equipment, replacement parts, steel, cement, explosives, fuel and lubricants. The main supplies we purchase for our coal transportation operations are locomotives and other rolling stock, port equipment, spare parts, fuel and power. We do not believe our operations are dependent on any single supplier. We aim to increase our usage of high quality domestically manufactured mining equipment in order to further lower our costs, while maintaining our commitment to advanced production methods and technology.

We primarily outsource power from third parties for our coal mining operations. Water is obtained from surface and subsurface supplies. We also reuse water discharged during our mining operations, and we filter and reuse waste water in our coal production activities. See "— Environmental Matters — Coal Operations" and "— Intellectual Property." We have not experienced any significant interruptions in either power or water supply in recent years.

We emphasise scheduled and preventative maintenance throughout our coal operations in order to ensure a high level of efficiency and to minimise interruptions caused by necessary maintenance and repair. Our EAM systems at our Shendong Mines and Zhunge'er Mines monitor the use and condition of our equipment, which facilitates scheduling of preventative maintenance and replacement of equipment so as to minimise any loss in productivity during such maintenance.

We also have a central equipment department which coordinates the purchase, usage and maintenance of our longwall and continuous miner equipment at the Shendong Mines. Equipment maintenance at the Heidaigou Mine is conducted by Zhunge'er Energy. Each of our mines has dedicated maintenance personnel responsible for periodic inspections, maintenance and repair. We have daily and regular maintenance schedules in our mines to monitor mining conditions. See "— Coal Operations — Production Processes." In addition, we maintain ongoing relationships with domestic and international manufacturers of our equipment and machinery and retain such manufacturers to conduct repairs or maintenance when necessary, including an on-site maintenance team at the Shendong Mines.

In recent years, we have not experienced any interruptions or operational problems that were material to our coal operations.

Power Operations

Overview

We have a sizeable and rapidly growing power generation business. From 2002 to 2004, the compound annual growth rates of equity capacity and power generation of our controlled power plants were approximately 15% and 28%, respectively. As of 31 December 2004, we controlled and operated eight coal-fired power plants, with total installed capacity and equity capacity of 5,960 MW and 3,075 MW, respectively. In addition, three coal-fired power plants and one gas-fired power plant that are controlled and will be operated by us are currently under construction. The total installed capacity and equity capacity of power plants controlled and operated by us are expected to increase to 12,140 MW and 7,191 MW, respectively, once these projects are completed by 2007. In addition, our equity capacity in operating power plants in which we own minority interests was 2,099 MW as of 31 December 2004.

We operate and develop power plants in regions with strong economic growth and attractive power tariffs (such as Beijing-Tianjin-Hebei, Zhejiang and Guangdong) or in proximity to our coal mines or coal transportation network (such as Inner Mongolia and Shaanxi), which enables us to capture the rapid increase in demand for electricity and ensure easy access to coal supplies. Our power plants currently under construction are concentrated in China's coastal provinces, which have experienced rapid increases in power demand in recent years.

We control the operation of each of our operating power plants, most of which are held through joint venture companies. We believe our control allows us to standardise operating and management methods and to implement investment and financing decisions in a more effective, timely and consistent manner. We work in consultation with our joint venture partners on issues which require supermajority or unanimous consent. However, there is no assurance that there will not be any conflict of interests between us and our joint venture partners.

Our Power Plants

The tables below set forth summary information for each of the power plants we own or operate, those under construction or planned, and those in which we have a minority interest.

Our Operating Power Plants

	Regional Grid	Location	In-Service Dates	Current Installed Capacity	Our Effective Ownership Interest as of 31 December 2004	Our Equity Capacity	Joint Venture Partner(s) and Effective Equity Interest as of 31 December 2004	Remaining Joint Venture Term as of 31 December 2004
				(MW)		(MW)		(years)
Beijing Thermal	North China Power Grid[1]	Beijing	1999	400 (2x200)	51.0%[2]	204	CLP China (Beijing) Ltd. (49.0%)[3]	Evergreen
Panshan Power	North China Power Grid	Tianjin	1996	1,000 (2x500)	25.5[3]	255	Northern China Power Grid Ltd. Co. (25.0%) Tianjin Energy Investment Company (25.0%) CLP China (Beijing) Ltd. (24.5%)[3]	19
Sanhe Power	North China Power Grid	Hebei	1999/2000	700 (2x350)	28.1[3]	196	Beijing International Power Development Investment Company (30.0%) CLP China (Beijing) Ltd. (26.9%)[3] Hebei Provincial Construction and Investment Company (15.0%)	Economic life of generation units
Taishan Power (Units 1 and 2)	Southern Power Grid[4]	Guangdong	2003/2004	1,200 (2x600)	80.0	960	Guangdong Yuedian Group Co. Ltd. (20.0%)	22
Suizhong Power	Northeast Power Grid	Liaoning	2000	1,600 (2x800)	50.0	800	Liaoning Provincial Power Company (25.0%) Liaoning Provincial Energy Company (25.0%)	14
Guohua Zhunge'er	North China Power Grid	Inner Mongolia	2002	660 (2x330)	67.8[5]	447	Inner Mongolia Mengdian Huaneng Thermal Power Stock Company (30.0%) Cinda Assets Management Corporation (2.2%)	20
Zhunge'er Power	North China Power Grid	Inner Mongolia	1993	200 (2x100)	55.0	110	Cinda Assets Management Corporation (45.0%)[5]	N/A
Shenmu Power	Northwest Power Grid	Shaanxi	2000	200 (2x100)	51.0	102	CLP China (Shenmu) Limited (49.0%)	15
Total				5,960		3,075		

(1) North China Power Grid is managed by State Grid Corporation.

(2) Beijing Thermal is a branch company of CLP Guohua Power Company Limited, which is a joint venture 51.0% owned by our Company and 49.0% owned by CLP China (Beijing) Ltd.

(3) CLP Guohua Power Company Limited holds 100.0% interest in Beijing Thermal, a 50.0% interest in Panshan Power and a 55.0% interest in Sanhe Power.

(4) Southern Power Grid is managed by Southern Power Grid Company.

(5) As of December 31, 2004, we directly held a 65.0% interest in Guohua Zhunge'er and indirectly hold a 5.0% interest in Guohua Zhunge'er through Zhunge'er Energy, a joint venture 55.0% owned by our Company and 45.0% owned by Cinda Assets Management Corporation. In 2005, we increased our interest in Zhunge'er Energy to 57.8%, with the remaining 42.2% owned by Cinda Assets Management Corporation.

Our Power Plants Under Construction

	Regional Grid	Location	Construction Commencement Date	Estimated In-Service Dates	Planned Capacity	Our Ownership Interest	Our Equity Capacity	Joint Venture Partner(s) and Equity Interest as of 31 December 2004
					(MW)		(MW)	
Huanghua Power (Units 1 and 2) . . .	North China Power Grid	Hebei	2003	2006 and 2007	1,200 (2x600)	51.0%	612	Hebei Province Construction Investment Company (40.0%) Cangzhou City Construction Investment Company (9.0%)
Taishan (Units 3-5) . .	Southern China Power Grid	Guangdong	2004	2005 and 2006	1,800 (3x600)	80.0	1,440	Guangdong Yuedian Asset Management Co. Ltd. (20.0%)
Ninghai Power (Units 1-4)	East China Power Grid	Zhejiang	2004	2005 to 2007	2,400 (4x600)	60.0	1,440	Zhejiang Power Development Company (40.0%)
Yuyao Power[1]	East China Power Grid	Zhejiang	2004	2005	780 (1x780)	80.0	624	Yuyao City Construction and Development Co. Ltd. (20.0%)
Total					6,180		4,116	

(1) Yuyao Power will be fueled by natural gas.

Our Minority Investments in Power Plants

Power Plant	Regional Grid	Location	In-Service Dates	Current Installed Capacity	Our Minority Ownership Interest	Our Equity Capacity
				(MW)		(MW)
Dingzhou Power Plant (Units 1 and 2)[1]	North China Power Grid	Hebei	2004	1,200 (2x600)	40.5%	486
Zhejiang Jiahua Power	East China Power Grid	Zhejiang	2004	1,200 (2x600)	20.0	240
Northern United Power Company Limited	North China Power Grid	Inner Mongolia	2004	5,041[2]	20.0	1,008
Jingda Power	North China Power Grid	Inner Mongolia	2004	660	30.0	198
Haibowan Power	North China Power Grid	Inner Mongolia	2003	400	40.0	160
Wuhai Thermal	North China Power Grid	Inner Mongolia	2002	24	30.0	7
Total				8,525		2,099

(1) Hebei Province Construction and Investment Company holds a 40.5% interest in Dingzhou Power. We exercise significant influence over Dingzhou Power's operation through a joint venture arrangement.

(2) Northern United Power Company Limited is a holding company which owns power plants in the North China Power Grid with a total equity capacity of 5,041 MW as of 31 December 2004.

Power Plants Serving the North China Power Grid

The North China Power Grid is the largest regional power grid in China in terms of total installed capacity in 2003. This power grid covers the Beijing-Tianjin-Hebei region, which has exhibited fast economic growth in recent years. Between 2001 and 2003, the compound annual GDP growth rates in Beijing, Tianjin, Hebei provinces were 10.5%, 13.6% and 10.6%, respectively, which are higher than the national average of 8.8% during the same period, according to the 2004 China Statistical Yearbook. The Beijing-Tianjin-Hebei region has experienced strong growth in power demand in recent years driven by its fast economic growth. The table below sets forth an overview of the North China Power Grid.

North China Power Grid[(1)]	2001	2002	2003
Total Installed Capacity (MW)	72,072	78,955	87,363
Total Installed Capacity (Thermal Power) (MW)	68,791	75,608	84,007
Average Utilisation Hours	5,011	5,162	5,284
Average Utilisation Hours (Thermal Power)	5,205	5,342	5,448
Total Power Generated (GWh)	361,119	407,545	461,653
Total Power Generated (Thermal Power) (GWh)	358,066	403,919	457,675

	2001 — 2003
Compound Annual Growth Rate in Total Power Generation (%)	13.1
Compound Annual Growth Rate in Total Installed Capacity (%)	10.1

(1) For purpose of this calculation, the North China Power Grid is comprised of Beijing, Tianjin, Hebei, Shanxi, Shandong and Inner Mongolia provinces.

Source: Power Industry Yearbook for 2002 and 2003 and China's Electricity Market: Analysis and Research (2004 Autumn Report).

We operate five of our eight power plants within the region covered by the North China Power Grid. We believe that we are well positioned to benefit from the continued economic development and strong power demand of the Beijing-Tianjin-Hebei region. As of 31 December 2004, our equity capacity within the North China Power Grid accounted for approximately 40% of our total equity capacity. In addition, we exercise significant influence over the operations of Dingzhou Power Plant through a joint venture arrangement. We also have one coal-fired power plant under construction in this region.

CLP Guohua Power Plants. We have three coal-fired power plants in the Beijing-Tianjin-Hebei area, Beijing Thermal Power Plant in Beijing, Panshan Power Plant in Tianjin and Sanhe Power Plant in Hebei, collectively, the CLP Guohua Power Plants. The CLP Guohua Power Plants are owned by CLP Guohua Power Company Limited, or CLP Guohua, a joint stock company established in January 2001, which is approximately 51% owned by us and approximately 49% owned by CLP China (Beijing) Limited. As of 31 December 2004, the CLP Guohua Power Plants had a combined installed capacity of 2,100 MW, of which CLP Guohua had an equity capacity of 1,285 MW. The CLP Guohua Power Plants are fueled by coal primarily sourced from our Zhunge'er and Shendong Mines and transported by rail to each power plant.

Guohua Beijing Thermal Power Plant. The Guohua Beijing Thermal Power Plant, or Beijing Thermal, is located in Beijing, the capital of China. Beijing Thermal, which is a branch company of CLP Guohua, has two 200 MW coal-fired co-generation units which commenced operation in 1999. We have a 51% interest in Beijing Thermal. Beijing Thermal supplies heat as well as electricity to Beijing city. In view of its location in Beijing, efforts have been made, since its inception, to enhance environmental protection and reduce the impact on the environment in Beijing. Both units of the power plant are equipped with flue gas desulphurisation units. In addition, Beijing Thermal has a waste water-recycling system that significantly reduces discharges. Beijing Thermal has also embarked on a nitrous oxide reduction programme aimed at meeting the stringent nitrous oxide emission requirements imposed by the Beijing authorities. Beijing Thermal has obtained full ISO 14001 accreditation and in 2004 received a four-star rating under the NOSA Five-Star Management System. The weighted average standard coal price per tonne that we paid for coal consumed by Beijing Thermal was approximately

RMB243, RMB241 and RMB265 for 2002, 2003 and the 2004, respectively. The following table sets forth, for the periods indicated, certain operating statistics of Beijing Thermal.

	Beijing Thermal		
	2002	2003	2004
Gross Generation (MWh)	2,443,450	2,373,690	2,566,570
Total Dispatch (MWh)	2,170,200	2,096,360	2,267,574
Average Utilisation Hours	6,109	5,934	6,416
Equivalent Availability Factor (%)	94.6	91.9	95.3
Net Generation Standard Coal Consumption Rate (g/KWh)	322	310	311
Heat Supplied Standard Coal Consumption Rate (kg/GJ)	38	38	38
Shenhua Coal Usage (% of Total Coal Consumed)	100.0	100.0	100.0
Heat Supplied (GKJ)	7,695	9,005	9,489

Guohua Panshan Power Plant. The Guohua Panshan Power Plant, or Panshan Power, is located approximately 92 kilometres from Beijing. Panshan Power has two 500 MW coal-fired units, which began operations in 1996. Panshan Power's major generation equipment was manufactured in the former Soviet Union. Panshan Power is a key power plant serving the Beijing-Tianjin-Tangshan power grid. Panshan Power is owned by three parties, with CLP Guohua holding a 50% interest. It has obtained full ISO 14001 accreditation and, in 2004, received a five-star rating, the highest rating under the NOSA Five-Star Management System. The weighted average standard coal price per tonne that we paid for Panshan Power was approximately RMB252, RMB250 and RMB277 for 2002, 2003 and 2004, respectively. The following table sets forth, for the periods indicated, certain operating statistics of Panshan Power.

	Panshan Power		
	2002(1)	2003	2004
Gross Generation (MWh)	4,895,740	5,851,179	6,394,260
Total Dispatch (MWh)	4,573,607	5,480,911	6,025,368
Average Utilisation Hours	4,896	5,851	6,394
Equivalent Availability Factor (%)	77.1	89.5	86.4
Net Generation Standard Coal Consumption Rate (g/KWh)	332	332	331
Shenhua Coal Usage (% of Total Coal Consumed)	100.0	97.8	100.0

(1) Generation unit No. 1 underwent a scheduled overhaul in 2002.

Guohua Sanhe Power Plant. The Sanhe Power Plant, or Sanhe Power, is located on the border of Beijing and Hebei province. Sanhe Power has two 350 MW coal-fired units manufactured by Mitsubishi Corporation and is owned by three parties, with CLP Guohua holding a majority interest of 55%. The two generation units began commercial operations in 1999 and 2000, respectively and have been operating with high availability and reliability. Sanhe Power is one of the key power stations supporting the Beijing-Tianjin-Tangshan power grid, which is part of the North China Power Grid. Sanhe Power also has obtained full ISO 14001 accreditation and in 2004 received a five-star rating under the NOSA Five-Star Management System. The weighted average standard coal price per tonne that we paid for coal consumed by Sanhe Power was approximately RMB245, RMB247 and RMB271 for 2002, 2003 and 2004, respectively.

The following table sets forth, for the periods indicated, certain operating statistics of Sanhe Power.

	Sanhe Power		
	2002	2003	2004
Gross Generation (MWh)	3,889,620	4,231,812	4,624,460
Total Dispatch (MWh)	3,662,148	3,987,803	4,372,626
Average Utilisation Hours	5,557	6,045	6,606
Equivalent Availability Factor (%)	95.0	94.8	91.0
Net Generation Standard Coal Consumption Rate (g/KWh)	334	329	326
Shenhua Coal Usage (% of Total Coal Consumed)	100.0	98.5	100.0

Guohua Zhunge'er Power Plant. The Inner Mongolia Guohua Zhunge'er Power Plant, or Guohua Zhunge'er, is located adjacent to the site of our Heidaigou Mine in Inner Mongolia. Guohua Zhunge'er has two 330 MW coal-fired units, which began commercial operation in 2002. It is one of the primary power plants serving the Beijing-Tianjin-Tangshan power grid through the Western Inner Mongolia power grid. Guohua Zhunge'er is owned by three parties, with our Company holding a majority interest of 67.8%. The weighted average standard coal price per tonne that we paid for Guohua Zhunge'er was approximately RMB98, RMB93 and RMB125 for 2002, 2003 and 2004, respectively. The following table sets forth, for the periods indicated, certain operating statistics of Guohua Zhunge'er.

	Guohua Zhunge'er		
	2002	2003	2004(1)
Gross Generation (MWh)	1,722,226	4,191,422	4,937,060
Total Dispatch (MWh)	1,577,185	3,853,960	4,576,443
Average Utilisation Hours	5,433	6,351	7,480
Equivalent Availability Factor (%)	95.9	93.9	89.7
Net Generation Standard Coal Consumption Rate (g/KWh)	347	342	335
Shenhua Coal Usage (% of Total Coal Consumed)	100.0	97.6	93.4

(1) Generation unit No. 2 underwent a scheduled overhaul during 2004.

Zhunge'er Energy Power Plant. The Inner Mongolia Zhunge'er Energy Power Plant, or Zhunge'er Power, is owned by our subsidiary Zhunge'er Energy. Similar to Guohua Zhunge'er, Zhunge'er Power is located adjacent to the site of our Heidaigou Mine. Zhunge'er Power has two 100 MW coal-fired units. It began commercial operation in 1993. Zhunge'er Power is wholly owned by Zhunge'er Energy. In 2002, 2003 and 2004, approximately 23.5%, 22.4% and 17.6%, respectively, of the electricity supplied by Zhunge'er Power was directly used for Zhunge'er Energy's mining operations. The weighted average standard coal price per tonne that we paid for coal consumed by Zhunge'er Power was approximately RMB103, RMB99 and RMB116 for 2002, 2003 and 2004, respectively.

The following table sets forth, for the periods indicated, certain operating statistics of Zhunge'er Energy Power.

	Zhunge'er Energy Power		
	2002	2003	2004
Gross Generation (MWh)	1,230,653	1,357,424	1,509,919
Total Dispatch (MWh)[1]	870,697	957,197	1,130,534
Average Utilisation Hours	6,153	6,787	7,550
Equivalent Availability Factor (%)	91.6	96.6	92.1
Net Generation Standard Coal Consumption Rate (g/KWh)	398	405	407
Heat Supplied Standard Coal Consumption Rate (kg/GJ)	36	32	35
Shenhua Coal Usage (% of Total Coal Consumed)	100.0	100.0	98.6
Heat Supplied (GKJ)	1,156	1,293	1,524

(1) Total dispatch excludes electricity used by mining operations of Zhunge'er Energy.

Guohua Dingzhou Power Plant. The Guohua Dingzhou Power Plant, or Dingzhou Power, is located in Dingzhou, Hebei province, along our Shuohuang Rail Line. Dingzhou Power has an installed capacity of 1,200 MW, comprised of two 600 MW coal-fired units. Construction of Dingzhou Power began in 2001, and the two generation units began commercial operations in April and September 2004, respectively. Dingzhou Power supplies power to the power-constrained region in southern Hebei province. We and one of our local joint venture partners each hold a 40.5% interest in Dingzhou Power and the remaining interest is held by other third-party shareholders. We exercise significant influence over Dingzhou Power's operations through a joint venture arrangement. The weighted average standard coal price that we paid for Dingzhou Power was approximately RMB252 per tonne for 2004. The following table sets forth, for the periods indicated, certain operating statistics of Dingzhou Power.

	Dingzhou Power
	2004[1]
Gross Generation (MWh)	3,737,760
Total Dispatch (MWh)	3,531,335
Average Utilisation Hours	6,281
Equivalent Availability Factor (%)	91.8
Net Generation Standard Coal Consumption Rate (g/KWh)	331
Shenhua Coal Usage (% of Total Coal Consumed)	100.0

(1) Dingzhou generation unit No. 1 began commercial operation in April 2004.

Guohua Huanghua Power Plant (Under Construction). We are currently constructing the Guohua Huanghua Power Plant, or Huanghua Power, which is located along our Shuohuang Rail Line and adjacent to our Huanghua Port. Huanghua Power has a designed capacity of 1,200 MW, comprised of two 600 MW coal-fired units. Construction of Huanghua Power began in 2003, and its two generators are currently expected to begin commercial operations in 2006 and 2007, respectively. Huanghua Power will supply power to the southern Hebei area, which is one of the most power-constrained regions in Hebei province. In addition to power generation, Huanghua Power will also construct a desalination facility with a designed capacity of 20,000 cubic metres of fresh water per day. The fresh water produced by the desalination facility will be supplied to the Huanghua Port first and any residual amount will be sold for commercial and industrial use in the Cangzhou area, which has experienced water shortages in recent years. The joint venture company that owns Huanghua Power is owned by three parties, with our company holding a majority interest of 51%. Total investment for Huanghua Power is anticipated to be approximately RMB5.4 billion, of which approximately 20% will be financed by equity capital investments in Huanghua Power and approximately 80% by project loans.

Power Plants Serving the East China Power Grid

The East China Power Grid is the second largest regional power grid in China in terms of total installed capacity in 2003. It covers one of the most affluent regions in China, including Shanghai, Zhejiang and Jiangsu provinces. The economies in these coastal provinces have enjoyed relatively high growth rates when compared with other regions in China. For example, according to the 2004 China Statistical Yearbook, the GDP of Zhejiang province grew at a compound annual rate of 13.4% from 2001 to 2003, which is significantly higher than the national average of 8.8% during the same period. These coastal provinces have also experienced rapidly increasing electricity demand that has led to power shortages in recent years, and some of them maintain relatively high power tariffs. The table below sets forth an overview of the East China Power Grid.

East China Power Grid(1)	2001	2002	2003
Total Installed Capacity (MW)	71,939	76,026	81,097
Total Installed Capacity (Thermal Power) (MW)	59,021	61,120	65,037
Average Utilisation Hours	4,546	4,838	5,292
Average Utilisation Hours (Thermal Power)	4,904	5,304	5,875
Total Power Generated (GWh)	327,015	367,813	429,127
Total Power Generated (Thermal Power) (GWh)	289,436	324,204	382,112

	2001 — 2003
Compound Annual Growth Rate in Total Power Generation (%)	14.6
Compound Annual Growth Rate in Total Installed Capacity (%)	6.2

(1) The East China Power Grid is comprised of Shanghai, Jiangsu, Zhejiang, Anhui and Fujian provinces.

Source: Power Industry Yearbook for 2002 and 2003 and China's Electricity Market: Analysis and Research (2004 Autumn Report).

We currently do not have any operating power plants serving the East China Power Grid. We are currently building up our presence in the strategically important and attractive power market of eastern China by developing two large-capacity power plants in Zhejiang province, one of the most affluent coastal provinces in the PRC. Our total installed capacity and equity capacity in the East China Power Grid are expected to reach 3,180 MW and 2,064 MW, respectively, once these two projects are completed.

Guohua Ninghai Power Plant (Under Construction). We are currently constructing the Ninghai Power Plant, or Ninghai Power, which is located in Ninghai, Zhejiang province. Ninghai Power has a planned total installed capacity of 2,400 MW, comprising four 600 MW coal-fired generation units. Construction began at Ninghai Power in 2004, and it is currently expected to begin commercial operations between 2005 and 2007. We are developing this large-capacity power plant to meet the increasing power demand in Zhejiang province. We are also constructing an on-site dock at Ninghai Power so that our coal can be directly transported from our Huanghua port to ensure a stable fuel supply for Ninghai Power. Ninghai Power is being developed by us and a local joint venture partner, with our company holding a majority interest of 60%. Total investment for Ninghai Power is anticipated to be approximately RMB10.6 billion, of which approximately 20% will be financed by equity capital and approximately 80% by bank borrowings.

Guohua Yuyao Power Plant (Gas-Fired) (Under Construction). In addition to Ninghai Power, we are also developing the Yuyao Power Plant, or Yuyao Power, which is located in Yuyao, Zhejiang province, approximately 120 kilometres from Hangzhou. Yuyao Power will have a 780 MW gas-fired generator. Construction at Yuyao Power began in 2004 and it is currently expected to be completed in late 2005. Yuyao Power, together with Ninghai Power, will strengthen our position in the attractive power market of Zhejiang province.Yuyao Power is being jointly developed by us and our local joint venture partner, with our Company holding a controlling interest of 80%. Total investment for Yuyao Power is currently anticipated to be approximately RMB2.4 billion, of which approximately 20% will be financed by equity capital and approximately 80% by bank borrowings.

Power Plants Serving the South China Power Grid

The South China Power Grid is the third largest power grid in China in terms of total installed capacity in 2003. It covers Guangdong, which is one of the most economically developed provinces in China, as well as Guangxi, Hainan, Guizhou and Yunnan provinces. With a compound annual GDP growth rate of over 10% in the past decade, Guangdong province has experienced rapidly increasing power demand and power shortages during peak hours from time to time. Although grids in the western provinces of China have recently begun transmitting power to Guangdong province, the power shortages in Guangdong province are still expected to continue in the near future. The table below sets forth an overview of the South China Power Grid.

South China Power Grid	2001	2002	2003
Total Installed Capacity (MW)	57,452	61,018	68,956
Total Installed Capacity (Thermal Power) (MW)	36,087	37,193	41,644
Average Utilisation Hours	4,360	4,613	4,772
Average Utilisation Hours (Thermal Power)	4,596	5,075	5,457
Total Power Generated (GWh)	250,507	281,494	329,091
Total Power Generated (Thermal Power) (GWh)	165,841	188,757	227,259

	2001 — 2003
Compound Annual Growth Rate in Total Power Generation (%)	14.6
Compound Annual Growth Rate in Total Installed Capacity (%)	9.6

Source: Power Industry Yearbook for 2002 and 2003 and China's Electricity Market: Analysis and Research (2004 Autumn Report).

We have one operating power plant, the Taishan Power Plant, or Taishan Power, in Guangdong province, and are in the process of significantly expanding that plant. Upon the completion of our expansion project, our Taishan Power will have a total installed capacity of 3,000 MW.

Guohua Taishan Power (Units No. 1 and 2). Guohua Taishan Power (Units No. 1 and 2), or Taishan Power (Units No. 1 and 2), is one of the largest coal-fired power plants serving the Pearl River Delta region in Guangdong province and also serves as a key supporting power station on the power transmission route from the western provinces to Guangdong province. Taishan Power (Units No. 1 and 2) has two 600 MW coal-fired units, which began commercial operation in December 2003 and April 2004, respectively. To ensure stable coal supplies for Taishan Power (Units No. 1 and 2), we have built an on-site coal dock that enables us to ship coal from our Huanghua Port directly to the power plant. The weighted average standard coal price per tonne that we paid for Taishan Power (Units No. 1 and 2) was approximately RMB345 and RMB380 for 2003 and 2004, respectively. Taishan Power (Units No. 1 and 2) is owned by two parties, with our Company holding a controlling interest of 80%.

The following table sets forth operating statistics for Taishan Power (Units No. 1 and 2) for the periods indicated.

	Taishan Power (Units No. 1 and 2)	
	2003(1)	2004(2)
Gross Generation (MWh)	311,870	6,648,740
Total Dispatch (MWh)	297,023	6,261,000
Average Utilisation Hours	N/A	6,407
Equivalent Availability Factor (%)	N/A	91.2
Net Generation Standard Coal Consumption Rate (g/KWh)	341	330
Shenhua Coal Usage (% of Total Coal Consumed)	100	100

(1) Generation unit No. 1 began commercial operation in December 2003. Therefore, the operating statistics of average utilisation hours and equivalent availability factor are not meaningful.

(2) Generation unit No. 2 began commercial operation in April 2004.

Guohua Taishan Power (Units No. 3, 4 and 5) (Under Construction). We are expanding Taishan Power by constructing three additional 600 MW coal-fired generation units, Units No. 3, 4 and 5. Construction of Taishan Power (Units No. 3, 4 and 5) began in 2004 and the three generation units are scheduled to commence commercial operations in 2005 and 2006. Total investment for Taishan Power (Units No. 3, 4 and 5) is expected to be approximately RMB6.5 billion, of which approximately 25% will be financed by equity capital and approximately 75% by bank borrowing.

Power Plant Serving the Northeast China Power Grid

The Northeast China Power Grid covers Liaoning, Jilin and Heilongjiang provinces. The table below sets forth an overview of the Northeast China Power Grid.

Northeast China Power Grid(1)	2001	2002	2003
Total Installed Capacity (MW)	35,556	36,290	37,648
Total Installed Capacity (Thermal Power) (MW)	29,840	30,531	31,663
Average Utilisation Hours	3,990	4,125	4,404
Average Utilisation Hours (Thermal Power)	4,418	4,636	4,989
Total Power Generated (GWh)	141,865	149,683	165,817
Total Power Generated (Thermal Power) (GWh)	131,828	141,545	157,983

	2001 — 2003
Compound Annual Growth Rate in Total Power Generation (%)	8.1
Compound Annual Growth Rate in Total Installed Capacity (%)	2.9

(1) For purpose of this calculation, the Northeast China Power Grid is comprised of Liaoning, Jilin and Heilongjiang provinces.

Source: Power Industry Yearbook for 2002 and 2003 and China's Electricity Market: Analysis and Research (2004 Autumn Report).

Guohua Suizhong Power Plant. We currently have one operating power plant serving the Northeast China Power Grid. The Suizhong Power Plant, or Suizhong Power, is located in Liaoning province, which is one of the most industrialised provinces in China. The compound annual GDP growth rate in Liaoning province was 10.8% from 2001 to 2003, as reported in the 2004 China Statistical Yearbook.

The following table sets forth certain operating statistics for Suizhong Power for the periods indicated.

	2002	2003[(1)]	2004[(2)]
Gross Generation (MWh)	7,590,790	8,663,370	9,628,510
Total Dispatch (MWh)	7,132,290	8,153,780	9,091,370
Average Utilisation Hours	4,744	5,415	6,018
Equivalent Availability Factor (%)	92.5	84.0	83.8
Net Generation Standard Coal Consumption Rate (g/KWh)	333	333	332
Shenhua Coal Usage (% of Total Coal Consumed)	88.0	87.3	96.2

(1) Generation unit No. 2 underwent a scheduled overhaul in 2003.
(2) Generation unit No. 1 underwent a scheduled overhaul in 2004.

Suizhong Power is our largest operating power plant in terms of total installed capacity. It has two 800 MW coal-fired generation units. Suizhong Power's two generation units commenced commercial operation in June and October 2000, respectively. Suizhong Power's major generation equipment were manufactured by the former Soviet Union. As a large power station interconnecting the North China Power Grid and the Northeast China Power Grid, Suizhong Power plays a role in supporting the inter-grid power transmissions and regional power supply. Suizhong Power also has an on-site coal dock that facilitates stable and timely coal supplies shipped from our Huanghua Port. The weighted average standard coal price per tonne that we paid for Suizhong Power was approximately RMB275, RMB279 and RMB328 for 2002, 2003 and 2004, respectively. Suizhong Power is owned by three parties, with our Company holding a 50% interest acquired in 1999. Since 2000, Suizhong Power has been participating in an experimental competitive bidding process for power sales to the Northeast China Power Grid.

Power Plants Serving the Northwest China Power Grid

The Northwest China Power Grid comprises grids in Shaanxi, Gansu, Qinghai and Ningxia provinces. Economic growth in northwestern China has accelerated in recent years and is expected to further benefit from the PRC government's Western China Development policy in the coming years. For example, according to the 2004 China Statistical Year Book, Shaanxi province's GDP increased at a compound annual growth rate of 10.3% between 2001 and 2003, which is higher than the national average of 8.8% during the same period. The table below sets forth an overview of the Northwest China Power Grid.

Northwest China Power Grid	2001	2002	2003
Total Installed Capacity (MW)	21,003	22,030	24,503
Total Installed Capacity (Thermal Power) (MW)	12,990	13,807	16,079
Average Utilisation Hours	4,234	4,521	4,719
Average Utilisation Hours (Thermal Power)	4,990	5,499	5,800
Total Power Generated (GWh)	88,928	99,592	115,625
Total Power Generated (Thermal Power) (GWh)	64,818	75,930	93,259
		2001 — 2003	
Compound Annual Growth Rate in Total Power Generation (%)		14.0	
Compound Annual Growth Rate in Total Installed Capacity (%)		8.0	

Source: Power Industry Yearbook for 2002 and 2003 and China's Electricity Market: Analysis and Research (2004 Autumn Report)

Guohua Shenmu Power Plant. We currently have one operating power plant serving the Northwest China Power Grid. The Shenmu Power Plant, or Shenmu Power, is located in Shaanxi province. The following table sets forth certain operating statistics of Shenmu Power for the periods indicated.

	2002	2003	2004
Gross Generation (MWh)	1,433,890	1,563,636	1,670,840
Total Dispatch (MWh)	1,297,630	1,419,186	1,524,000
Average Utilisation Hours	7,169	7,818	8,354
Equivalent Availability Factor (%)	94.5	91.6	95.5
Net Generation Standard Coal Consumption Rate (g/KWh)	402	401	398

Shenmu Power has two 100 MW coal-fired generation units and is one of the largest operating power plants in northern Shaanxi province in terms of installed capacity. Shenmu Power is located in the Shenfu Dongsheng Coalfield and has been able to outsource fuel supply from third party coal producers at a relatively low price. The weighted average standard coal price per tonne that we paid for Shenmu Power was approximately RMB42, RMB49 and RMB62 for 2002, 2003 and 2004, respectively. Shenmu Power is a joint venture with CLP Holdings Limited in which we hold a majority interest of 51%. Shenmu Power has achieved a 3-star rating under the NOSA Five-Star Management System, and has obtained full ISO 9001 and ISO 14001 accreditations.

Development of Power Plants

We believe that demand for power in China will continue to grow, particularly in the coastal provinces and in northern China as China's economy continues its expansion. In order to capture the market opportunities created by this growth in demand for power, we have in recent years significantly expanded our power business by building new power plants (such as Ninghai Power and Taishan Power) and selective acquisitions of operating power plants (such as Beijing Thermal) located in attractive markets. We have been implementing our business strategies of developing large-capacity, highly efficient and cost-effective power plants in the provinces with fast economic growth or in proximity to our coal mines or coal transportation network.

We currently plan capital expenditures of RMB8.9 billion, RMB6.4 billion and RMB2.1 billion in 2005, 2006 and 2007, respectively, to develop new power plants. For additional information regarding our capital expenditures, see "Financial Information — Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Expenditures." In addition to developing power plants we own or operate, we have also invested in power generation companies in which we have a minority interest such as Northern United Power Company Limited.

In order to develop a new power plant, we must obtain requisite permits and regulatory approvals. See "Regulation — The Power Industry — Approval and Licences for Power Plants." After we and our joint-venture partner(s) have created a new project company for a proposed plant, the project company manages equipment procurement and selection of construction contractors in accordance with applicable bidding procedures set by the PRC government. As we are generally the largest shareholder in each of our new power plant subsidiaries, we generally select the superintendent for a new power plant from the senior management of our then-operating plants. We also invest in the training of operational personnel, adopt appropriate management techniques and structure programs to promote the safety, stability and performance of each power plant. All of our power plants currently under construction or development are designed to comply with applicable safety, environmental and performance standards.

Pricing and Sales

Tariffs for planned output charged by each of our power plants, and any adjustments of such tariffs, require approval from the NDRC and are also subject to review by the local provincial pricing bureau. Power plants in China sell power to the grid companies according to planned power output at the approved power tariffs. In addition, they sell power generated in excess of the planned output at a price as agreed upon with the provincial grid in which the power plant is located, which is generally lower than the tariff for planned output. See ''Regulation — The Power Industry — Pricing.'' In 2004, we sold 79.8% of our power through planned power output, at the applicable power tariff for each regional grid.

The power industry in the PRC is structured such that most power plants sell all of the electricity they generate to their respective local grid companies. Each of our operating power plants has entered into an agreement with the local grid companies for the sale of its power output. Generally, these agreements are subject to review annually.

The annual utilisation hours of the power plant are typically determined with reference to the average annual utilisation hours of similar generation units connected to the same grid. The agreement also specifies the expected annual power production of the power plant in accordance with grid minimum and maximum load requirements.

In recent years, the PRC government, as part of its reform of the power sector, has begun experiments in competitive bidding by power producers in power sales to grid companies. See ''Regulation — The Power Industry — Pricing.'' Since 2000, a percentage of power sold by Suizhong Power has been subject to an experimental competitive bidding process on the Northeast China Power Grid. In 2004, we sold 0.6% of our power through the competitive bidding process.

The following table sets forth, for the periods indicated, the tariffs (exclusive of VAT) for planned output dispatch, excess output dispatch, and competitive bidding output dispatch of each power plant we operate.

	Year ended 31 December		
	2002	2003	2004
		(in RMB/MWh)	
North China Power Grid			
Beijing Thermal			
Planned output dispatch	367	367	359
Excess output dispatch	224	229	238
Competitive bidding output dispatch	-	-	-
Average realised tariffs	329	334	334
Panshan Power			
Planned output dispatch	307	306	312
Excess output dispatch	226	221	239
Competitive bidding output dispatch	-	-	-
Average realised tariffs	306	292	298
Sanhe Power			
Planned output dispatch	280	279	286
Excess output dispatch	219	216	236
Competitive bidding output dispatch	-	-	-
Average realised tariffs	268	267	275
Guohua Zhunge'er			
Planned output dispatch	181	180	191
Excess output dispatch	100	-	168
Competitive bidding output dispatch	-	-	-
Average realised tariffs	167	180	186

	Year ended 31 December		
	2002	2003	2004
		(in RMB/MWh)	
Zhunge'er Power			
Planned output dispatch	159	159	162
Excess output dispatch	-	-	-
Competitive bidding output dispatch	-	-	-
Average realised tariffs	159	159	162
Dingzhou Power[1]			
Planned output dispatch	-	-	245
Excess output dispatch	-	-	179
Competitive bidding output dispatch	-	-	-
Average realised tariffs	-	-	238
South China Power Grid			
Taishan Power			
Planned output dispatch	-	318	340
Excess output dispatch	-	-	-
Competitive bidding output dispatch	-	-	-
Average realised tariffs	-	318	340
Northeast China Power Grid			
Suizhong Power			
Planned output dispatch	302	301	304
Excess output dispatch	137	141	178
Competitive bidding output dispatch	165	199	234
Average realised tariffs	274	266	264
Northwest China Power Grid			
Shenmu Power			
Planned output dispatch	179	258	256
Excess output dispatch	154	154	161
Competitive bidding output dispatch	-	-	-
Average realised tariffs	172	220	217

(1) We and our local joint venture partner each hold a 40.5% interest in Dingzhou Power, and the remaining interests are held by third-party shareholders. We exercise significant influence over Dingzhou Power's operations through a joint venture arrangement. The results of operations of Dingzhou Power are not, and have not been, consolidated with the results of our operations, but are presented here to provide additional information.

For additional information regarding on-grid tariffs, see "Financial Information — Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting Results of Operations — Sales Volume and On-grid Tariffs of Power."

Dispatch

Power plants in China produce power in accordance with the directives of the dispatch centres to which such power plants are linked. See "Regulation — The Power Industry — Dispatch." Our total power output dispatch to power grid companies from the power plants that we operate has increased rapidly in recent years, from 21,503 GWh in 2002 to 26,454 GWh in 2003 and 35,249 GWh in 2004. During this period, a substantial majority of our total power dispatched has been planned output, accounting for 84.5%, 81.8% and 79.8% in 2002, 2003 and 2004, respectively. Excess output dispatch accounts for a minor portion of our total power output dispatch, although its proportion has increased from approximately 14.3% in 2002 to approximately 19.6% in 2004 as we increased our excess dispatch output to meet increased demand on the power grids we serve. The following table sets forth, for the periods indicated, the planned output dispatch, excess output dispatch, competitive bidding output dispatch and total output dispatch for each power plant we operate.

	Year ended 31 December		
	2002	2003	2004
		(GWh)	
North China Power Grid			
Beijing Thermal			
Planned output dispatch	1,583	1,583	1,806
Excess output dispatch	587	513	461
Competitive bidding output dispatch	-	-	-
Total dispatch	2,170	2,096	2,268
Panshan Power			
Planned output dispatch	4,525	4,601	4,879
Excess output dispatch	49	880	1,146
Competitive bidding output dispatch	-	-	-
Total dispatch	4,574	5,481	6,025
Sanhe Power			
Planned output dispatch	2,920	3,181	3,461
Excess output dispatch	742	807	912
Competitive bidding output dispatch	-	-	-
Total dispatch	3,662	3,988	4,373
Guohua Zhunge'er			
Planned output dispatch	1,309	3,854	3,619
Excess output dispatch	268	-	958
Competitive bidding output dispatch	-	-	-
Total dispatch	1,577	3,854	4,576
Zhunge'er Power			
Planned output dispatch	871	957	1,131
Excess output dispatch	-	-	-
Competitive bidding output dispatch	-	-	-
Total dispatch	871	957	1,131
Dingzhou Power(1)			
Planned output dispatch	-	-	3,159
Excess output dispatch	-	-	373
Competitive bidding output dispatch	-	-	-
Total dispatch	-	-	3,531
South China Power Grid			
Taishan (Units No. 1 and 2)			
Planned output dispatch	-	297	6,261
Excess output dispatch	-	-	-
Competitive bidding output dispatch	-	-	-
Total dispatch	-	297	6,261
Northeast China Power Grid			
Suizhong Power			
Planned output dispatch	5,854	6,069	6,080
Excess output dispatch	1,032	1,227	2,791
Competitive bidding output dispatch	246	858	220
Total dispatch	7,132	8,154	9,091
Northwest China Power Grid			
Shenmu Power			
Planned output dispatch	900	900	900
Excess output dispatch	398	519	624
Competitive bidding output dispatch	-	-	-
Total dispatch	1,298	1,419	1,524

(1) We and our local joint venture partner, Hebei Province Construction and Investment Company, each holds a 40.5% interest in Dingzhou Power, and the remaining interests are held by third-party shareholders. We exercise significant influence over Dingzhou Power's operations through a joint venture arrangement. The results of operations of Dingzhou Power are not, and have not been, consolidated with the results of our operations, but are presented here to provide additional information.

Fuel Supply Arrangements

All of our operating power plants are fueled by coal, and all of our four power plants currently under development will be fueled by coal, except for Yuyao Power, which will be a gas-fired power plant.

In 2004, our operating power plants consumed a total of 16.4 million tonnes of coal, of which 92.3%, or 15.2 million tonnes, were supplied by our coal operations. Our power operations was the largest customer of our coal operations, accounting for approximately 12% of our coal sales volume in 2004. The price of coal supplied to our power operations approximates the price of the coal we sell to third parties that has comparable coal characteristics and transportation distance. Because of our integrated coal and power operations, we are able to secure access to sufficient, stable and timely supplies of coal from our coal operations, which we believe is a significant competitive advantage over many of our domestic competitors. One of the benefits of the reliable fuel supply is that we are able to store a sufficient and stable amount of coal at each of our power plants. In 2003 and 2004, while some power plants in China faced constrained coal supplies, all our power plants were able to maintain sufficient and stable inventories of coal, which helped to ensure uninterrupted power generation.

Our operating power plants also purchase a small proportion of non-Shenhua coal, primarily from other suppliers, for blending with Shenhua coal and for power generation. We purchased 1.2 million tonnes of non-Shenhua coal for our power operations in each of the three years 2002, 2003 and 2004. The weighted average of the standard coal prices per tonne for our operating power plants were approximately RMB222, RMB215 and RMB268 in 2002, 2003 and 2004, respectively.

The table below provides information, for the periods indicated, on our use of coal from our coal mining operations to fuel our power plants.

	Year Ended 31 December		
	2002	2003	2004
	(million tonnes, other than percentage data)		
Total Consumption of Coal	10.2	12.6	16.4
Consumption of Shenhua Coal	9.0	11.4	15.2
Percentage of Shenhua Coal Used	88.3%	90.5%	92.3%

Our power business is not dependent on any coal supplier other than our coal business.

Repair and Maintenance

We purchase a majority of primary equipment components for our power plants, including boilers, turbines and generators, from large domestic and international equipment manufacturers, such as the Shanghai Electric Group Company Limited and Mitsubishi Heavy Industries, Ltd. of Japan. We purchase our electronic control equipment primarily from Siemens Corporation of Germany. We believe that we are able to secure the supply of necessary equipment to meet the needs of our power plants currently under construction.

We manage maintenance at our power plants primarily through our own maintenance teams. Each of our power plants has a schedule for routine maintenance, regular inspections and repairs. Pursuant to our procedures, there are different levels of maintenance ranging from five days to 80 days depending on the maintenance requirements.

Our maintenance procedures are scheduled and coordinated to minimise any periods of power plant shutdown while ensuring stable power generation and high standards of maintenance and safety.

We have experienced unscheduled overhauls at our power plants as a result of equipment failure. Upon the occurrence of an unscheduled overhaul, we adjust our maintenance schedule to reduce the impact on operations.

Competition

As an integrated coal-based energy company, we face competition in our coal segment both domestically and internationally, and our power segment primarily competes with other power generation companies in China.

Coal Operations

Domestic Competition. While the PRC government has pursued a policy of industrial consolidation within the coal industry in recent years, the PRC coal industry remains highly fragmented. According to the CCIRI, the ten largest PRC coal producers, including our Company, only accounted for approximately 24% of the country's total coal production in 2003. Our coal sales volume is affected primarily by the market demand for our coal, our production capacity and our ability to transport coal to our customers.

We compete on the basis of reliable and timely delivery, customer service, coal quality and price. While we are the largest domestic coal producer as measured by the volume of coal production in 2003, we continue to face competition from major domestic thermal coal producers and their affiliates, including, among others, Datong Coal Mining Group Company, Yankuang Group Company, and China National Coal Group Corporation. According to the CCIRI, these three companies collectively produced 131.9 million tonnes of coal in 2003, accounting for approximately 7.9% of China's total coal production in 2003. In addition to our principal competitors, we also compete to a certain degree with smaller mines located in proximity to our customers. We have not yet experienced significant competition from imported coal. See "Risk Factors — Risks Relating to Our Businesses and China's Coal and Power industries — Competition in the PRC coal and power industries may increase and our business and prospects may be adversely affected if we are not able to compete effectively."

We believe our coal compares favourably with that of our major domestic competitors due to its high quality and stable supply. However, our coal typically has a relatively lower ash melting point than that of some of our competitors, necessitating coal blending in order to meet the specific requirements of some of our power generation customers.

We believe that our competitive advantages include:

- our ability, through our integrated transport network, to provide stable and timely coal deliveries to our customers;
- our large and stable supply of coal as a result of the scale of our coal production and reserves;
- our coal's favourable characteristics, including medium to high calorific value and low ash, sulphur, phosphorus and chlorine content;
- our market share in the economically attractive coastal regions of China; and
- our dedicated customer service and strong brand name.

See "— Our Competitive Strengths."

International Competition. We exported 18.3 million tonnes, 25.7 million tonnes and 26.6 million tonnes of coal in 2002, 2003 and 2004, respectively, accounting for 26.0%, 32.8% and 36.6%, respectively, of the total thermal coal exported from China during those periods. Our primary export markets are South Korea, China Taiwan and Japan, which collectively accounted for approximately 86%, 89% and 82% of our total exports in 2002, 2003 and 2004, respectively. These markets have a high demand for coal and are large coal importers because of their limited coal resources. Thermal coal is primarily consumed in regions where it is produced, due to high transportation costs. As a result, global coal markets are segmented by geography, and prices for coal may vary significantly from one region to another. With respect to export sales, we compete with other companies in China, including, among others, China National Coal Group Corporation, Shanxi Coal Import and Export Group Corporation Company, Datong Coal Mining Group Company and Yankuang Group Company, as well as with major overseas coal mining companies serving the Asia-Pacific coal export market, including, among others, BHP Billiton, Xstrata and Rio Tinto. For additional information, see "Industry Overview — The Asia-Pacific Coal Export Market." We compete on the basis of our coal quality, price, reliable and timely delivery and customer services. We believe our high quality coal, competitive price, geographic proximity to our primary export markets and ability to meet customer specifications are our competitive advantages.

Power Operations

Our competitors in the domestic power generation market include other power generating companies, in particular, the five large independent power generation group companies which were created after the PRC power industry restructuring in 2002, namely, China Huaneng Group, China Datang Corporation, China Huadian Group Corporation, China Guodian Corporation and China Power Investment Corporation, which collectively accounted for approximately 45% of China's total power generation capacity in 2002. These five independent power generators are much larger in scale and possess more financial and human resources than we do. We primarily compete with these large independent power producers for obtaining the rights to develop new power projects. We also compete against power plants owned by large power companies, smaller local power plants that are located in markets where we operate on the basis of a variety of factors, including but not limited to environmental impact and power tariffs. We believe that, in order to increase system stability, efficient and large-capacity power plants such as ours will be preferred as base load plants for the grids to which they connect. We cannot ensure, however, that competition will not increase in the future, particularly with greater use of competitive bidding. See "Risk Factors — Risks Relating to Our Businesses and China's Coal and Power Industries — Competition in the PRC coal and power industries may increase and our business and prospect may be adversely affected if we are not able to compete effectively" and "Regulation — The Power Industry — Pricing."

In markets where we operate, we believe that our competitive advantages include:

- relatively low environmental impact;
- stable coal supply;
- relatively large capacity generators;
- relatively stable power supply to grid companies;
- efficient and effective management of plant development and operations; and
- the geographic locations of our current and planned power plants.

Environmental Matters

We are committed to conducting our operations in a manner that complies with applicable environmental laws and regulations, and endeavour to mitigate the adverse impact of our operations on the environment. Our operations are currently subject to environmental laws and regulations relating to air and water emissions, hazardous substances and waste management. We have not had any material breaches of any environmental laws or regulations applicable to us. Our environmental protection systems and facilities comply with applicable PRC national and local environmental protection laws and regulations. As of December 31, 2004, we were not subject to any material environmental claims, lawsuits, penalties or disciplinary actions. However, the PRC government is moving towards more rigorous enforcement of applicable environmental laws and regulations and the adoption of more stringent environmental standards. The future imposition of stricter environmental legislation could have a material adverse effect on our financial condition and results of operations. See ''Regulation — Environmental Protection'' and ''Risk Factors — Risks Relating to Our Businesses and China's Coal and Power Industries — Our business operations may be materially adversely affected by present or future environmental regulations.''

We continue to invest in our environmental control systems as the environmental regulatory regime in China develops. Our expenditures for environmental regulatory compliance have increased in recent years. In 2002, 2003 and 2004, we had total expenditures for environmental compliance of RMB92 million, RMB215 million and RMB598 million, respectively, including the purchase and maintenance of environmental protection equipment such as desulphurisation units, rehabilitation efforts, and air emission discharge fees. The increase in total expenditure for environmental compliance in 2004 was primarily due to the purchase and installation of desulphurisation units.

Coal Operations

We are a leader in the PRC coal mining industry in environmental practices. Our mines are monitored and regularly inspected by local and provincial environmental bureaus. All new mines must conduct an environmental impact assessment before beginning construction. We have an environmental department that coordinates environmental impact assessments, testing, ecology, and rehabilitation projects. Each of our principal subsidiaries has its own environmental department or staff. We have established an environmental audit programme at each of our mines, and continue to review our environmental compliance, including our rehabilitation requirements.

We generally reuse and recycle the waste water and coal residual stones, which are the two principal waste products in our coal mining operations. We have developed new technology for water purification, which allows mine waste water to be reused for industrial purposes. Coal residual stones from our mines are generally collected and used to fuel power generation at several coal residual stone power plants operated by Shenhua Group.

Since 1996, we have set aside RMB0.45 per tonne of raw coal produced at our Shendong Mines, which is put into a designated re-forestation fund held by our environmental department. This fund is then used to make environmental improvements on our mine sites, and has resulted in a significant increase in the forestation coverage of the Shendong Mines area. Our Shendong Mines have received ISO 14001 accreditation. At our Huanghua Port, we employ modern equipment to spray water on the coal as it is transferred from our rail cars into storage and loading facilities in order to minimise the spread of coal dust. We also spray water on the coal transported by open-top freight cars to reduce the spread of coal dust during the rail transportation process. We intend to minimise the spread of coal dust during the transportation process through the adoption of new technologies.

Power Operations

We are committed to managing our power operations in accordance with applicable environmental laws and regulations. According to the emission standards promulgated by the PRC government in 1997, more restrictive standards to control sulphur dioxide and nitrous oxide emissions are applicable to all thermal power plant projects whose environmental impact studies have not yet been approved. These restrictive standards govern both the total sulphur dioxide emissions from the power plant and the emission density of each chimney.

Effective 1 July 2003, all power plants in China became subject to a pollutant discharge levy system, pursuant to which discharge fees are levied based on the actual amount of emissions discharged. See "Regulation — Environmental Protection." In 2002, 2003 and 2004, our power operations paid air pollutant discharge fees to local governments of approximately RMB5.1 million, RMB12.2 million and RMB53.5 million, respectively. This increase was primarily due to the increase in discharge volume associated with our increased power generation, and, to a lesser extent, the increase in the applicable rates for discharge fees.

We have adopted measures to reduce our emissions from our power plants. All of our power plants burn primarily our low sulphur and low ash content Shenhua coal and almost all of them have installed electrostatic precipitators. We have installed desulphurisation units in three of our power plants, and plan to gradually install such units in our remaining power plants in accordance with applicable regulations. We dispose of the ash from our power plants in accordance with applicable regulatory requirements. Each of our power plants also has a waste water treatment facility to treat and recycle water used by the power plant before discharge. We pay discharge fees based on the volume of waste water discharged.

In addition to the measures identified above, each power plant has its own environmental protection office and staff responsible for monitoring and operating the environmental protection equipment. The local environmental bureau monitors the level of emissions and bases its fee assessments on the results of its tests.

Occupational Health and Safety

We regard occupational health and safety as one of our important social responsibilities. Our business operations, particularly our coal mining operations, involve significant risks and hazards that are inherent in such activities. These risks and hazards could result in damage to, or destruction of, properties or production facilities, personal injury, environmental damage, business interruption and possible legal liability. See "Risk Factors — Risks Relating to Our Businesses and China's Coal and Power Industries — Our coal and power operations may be adversely affected by operational risks and natural disasters and resulting losses for which we have limited insurance."

We have a better safety record at our mines than many other major coal mines, transportation facilities and power plants in China. In 2002, 2003 and 2004, the employee fatality rate for our mines, which includes both full-time and temporary employees, was 0.0765, 0.1157 and 0.0096 persons per million tonnes of raw coal production, respectively. This is substantially lower than the average rate for major coal mines in the PRC, which was 1.25, 1.07 and 0.95, respectively, according to the SAWS. Although we have experienced mining accidents, including rock collapses, explosions and machinery incidents, our coal mines have not had any major accidents, as defined under applicable PRC law to mean accidents involving three or more fatalities, in recent years. Our coal mines had five, ten and one fatalities in 2002, 2003 and 2004, respectively. These accidents have not, individually or in the aggregate, had a material effect on our financial condition and results of operations. While we are committed to further reducing our fatality rates and maintaining high safety standards at our production facilities, there is no assurance that accidents will not occur in the future. See ''Risk Factors — Risks Relating to Our Businesses and China's Coal and Power Industries — Accidents at our mines or other coal mines in the PRC could materially adversely affect our coal operations.''

In recent years, we have undertaken many measures to improve mine safety. Each of our mines has a safety management system that clearly defines and sets achievable goals and targets against which performance is measured. We have adopted detailed safety procedures based on the geological characteristics and production methods of each mine in compliance with national safety guidelines, including bi-monthly safety inspections and training in safe work practices for our employees. We also began implementing the NOSA Five-Star Management System at our Shendong Mines.

Our transportation network and power plants are in compliance with applicable safety laws and regulations. Since 2002, we have implemented the NOSA Five-Star Management System and ISO 14001 standards at our power plants, and intend to continue broadening its use within our power facilities. We have not had any material safety accidents at our power plants or transport facilities in recent years.

We provide various healthcare benefits to our employees in accordance with applicable laws and regulations.

Research and Development

Our research and development activities are coordinated by our science, technology and information department at our headquarters in Beijing. We also have established a mining R&D centre at the Shendong Mines and a power R&D centre for our power business. Our research and development efforts focus on technologies that can be applied to our operations. Our current research and development projects include efforts to (i) increase the use of reliable domestically manufactured mining equipment at the Shendong Mines, (ii) improve our coal blending technologies, (iii) increase the combustion efficiency of Shenhua coal, (iv) mitigate sediment accumulation at the Huanghua Port, (v) increase the throughput capacity of our rail lines, (vi) development of generator cooling technology and (vii) improve environmental preservation at the mining areas of the Shendong Mines.

We believe we are a leader in the coal mining industry in China in the application of modern technology, research and development of new mining methods and the use of information technology in the management of our mines. In recognition of our achievements in applying productive and efficient mining methods and management at the Shendong Mines, the PRC government awarded our Controlling Shareholder, Shenhua Group, ''First Prize for Science and Technology Advancement'' in 2003. Maintenance at each of our two principal mining sites, the Shendong Mines and the Zhunge'er Mines, as well as the Huanghua Port, is coordinated by computerised EAM systems. Each EAM system contains substantial technical and operational data regarding thousands of pieces of equipment, and monitors the usage of the equipment in order to notify our maintenance staff when a piece of equipment has neared a point of scheduled maintenance or replacement as recommended by its manufacturer or by our own experience with such equipment.

Our senior management has a Technology Committee whose review is required for all proposed research and development projects. Our science, technology and information department coordinates the activities of our recently established expert consultative committee, consisting of 18 experts in technologies related to our business, and our expert database, which maintains relations with approximately 80 experts with whom we periodically consult.

Intellectual Property

In recent years, our Controlling Shareholder, Shenhua Group, has placed increasing emphasis on obtaining trademark and patent protection for intellectual property used in our business operations. In connection with the Restructuring, we have entered into a Trademark Licence Agreement with Shenhua Group, pursuant to which Shenhua Group has agreed to grant to us the right to use certain trademarks on a royalty-free basis for a term of 10 years, which is automatically renewable at our option. The registered trademarks we use in our business include, among others, "Shenhua," and "Guohua." See "Connected Transactions — Exempt Continuing Connected Transactions — Trademarks Licence Agreement."

As of 31 December 2004, our coal operations hold six patents for mining-related technologies, of which four patents are co-owned with third parties, and have five additional patent applications pending before the State Intellectual Property Office of the PRC, or SIPO. Two of these pending patents relate to mine water purification and water use technology. In connection with the Restructuring, we have also obtained joint rights with Shenhua Group to 57 currently pending patent applications which were jointly submitted by Shenhua Group and its subsidiary, Shenhua Shenfu Dongsheng Coal Company Limited, and by Shenhua Group and Wanli Coal Branch. The majority of these patent applications are for mining-related technologies, such as conveyor belts, mining machinery and blasting techniques.

Properties

American Appraisal China Limited, an independent real estate valuation company, valued our real property interests at approximately RMB11,743 million as of 15 March 2005. The letter, summary of values, valuation basis and the valuation certificates issued by American Appraisal China Limited in connection with its valuation are set out in Appendix IV to this prospectus.

We have applied to the SFC for an exemption from strict compliance with paragraph 34(2) of the Third Schedule to the Companies Ordinance and to the Hong Kong Stock Exchange for a waiver from strict compliance with Rules 5.01, 5.06(1) and 5.06(3) and paragraph 3(a) of Practice Note 16 of the Hong Kong Listing Rules, respectively, on the ground that it would not be practical and would be unduly burdensome for us to comply strictly with the relevant provisions of the Hong Kong Listing Rules and the Companies Ordinance by stating all the particulars required in those provisions in the valuation report set out in Appendix IV to this prospectus, and the inclusion of such detailed information would not be useful to investors as we are not a property company.

The exemption is granted by the SFC under Section 342A(1) of the Companies Ordinance and the waiver is granted by the Hong Kong Stock Exchange from Rules 5.01, 5.06(1) and 5.06(3) and paragraph 3(a) of Practice Note 16 of the Hong Kong Listing Rules, subject to the following conditions:

(a) the full valuation report in English complying with all applicable requirements under the Hong Kong Listing Rules and paragraph 34 of the Third Schedule to the Companies Ordinance, be made available for inspection in accordance with paragraph (e) of Appendix X to this prospectus.

(b) the valuer's letter and the valuer's certificate containing a summary valuation of all our property interests be included in this prospectus, such summary to be prepared based on the full valuation report and in the same form as that set out in Appendix IV to this prospectus.

As of 15 March 2005, our Company used or owned (i) the land use rights to 551 parcels of land with an aggregate area of approximately 128 million square metres; (ii) approximately 4,000 buildings with an aggregate floor area of approximately 2.7 million square metres; and (iii) a number of buildings under construction. These land and buildings are occupied by us in connection with our production and businesses.

Land

The land use rights transferred by Shenhua Group to us or otherwise used by us comprise:

- 204 parcels of authorised allocated land for which Shenhua Group has proper title certificates and has obtained authorisation from the relevant administrative authorities to manage and operate such allocated land use rights as well as eight parcels of land for which Shenhua Group has obtained granted land use right certificates (no additional land premium is required to be paid upon the transfer of these parcels of land);
- 268 parcels of retained allocated land and 69 parcels of granted land, the title certificates were held by the relevant subsidiaries of Shenhua Group prior to the Restructuring; and
- two parcels of land for which Shenhua Group has not established proper legal title and which are used by our Shenshuo Rail Line pursuant to the Land Leasing Agreement.

The transfer of the registration of the authorised allocated land use rights of those parcels of authorised allocated land held by Shenhua Group to our name has been completed and we or our relevant subsidiaries have obtained the relevant land use right certificates.

The land use rights of the 268 parcels of retained allocated land and 69 parcels of granted land held by the relevant subsidiaries of Shenhua Group were transferred to us upon Shenhua Group transferring to us the equity interest held by it in the relevant subsidiaries.

Shenhua Group does not have proper titles in relation to two parcels of land used by the Shenshuo Rail Line with an aggregate area of approximately 3.2 million square metres and subject to the Land Leasing Agreement. Shenhua Group has undertaken to complete the application and to obtain the land use certificates by 8 November 2005, the one year anniversary of the date of our incorporation on 8 November 2004. We have also undertaken to the Hong Kong Stock Exchange that such certificates will be obtained within six months from our Listing Date. These two parcels of land are the subject of the Land Leasing Agreement, which has a lease term of 20 years commencing from 1 January 2005.

Shenhua Group has undertaken to assist us in obtaining building ownership certificates for the buildings the proper title of which has not yet been obtained. Shenhua Group has also undertaken to indemnify us for all losses (including consequential losses) or damages which we may suffer at any time if we cannot obtain the remaining allocated land use right certificates and building ownership certificates and for all losses or damages which we may suffer as a result of the lack of title of Shenhua Group to any land and buildings of Shenhua Group leased to us, provided that such failure is not caused by us.

Buildings

The buildings transferred to us by Shenhua Group as part of the Restructuring comprise:

- 1,371 buildings for which Shenhua Group has proper building ownership certificates and 120 buildings for which Shenhua Group does not have proper building ownership certificates; and
- 2,471 buildings, the building ownership certificates of which are held by the relevant subsidiaries of Shenhua Group prior to the Restructuring and 55 buildings for which the relevant subsidiaries do not have proper building ownership certificates.

We have also undertaken to the Hong Kong Stock Exchange that building ownership certificates for the 175 buildings that currently do not have proper certificates will be obtained within six months from our Listing Date. Of these buildings, 62 buildings of approximately 12,358 square metres are owned by Shenhua Group and are located on the Shenshuo Rail Line and 113 buildings of approximately 87,417 square metres are either owned by us or by our relevant subsidiaries.

We have obtained building ownership certificates for most of 1,371 buildings to our name but because of the number of buildings involved and our recent incorporation, we are still waiting for the issuance of building ownership certificates of the remaining buildings. Under PRC laws and regulations, the transfer of registration of properties transferred to us through the Restructuring must be completed within six months from the date of our incorporation on 8 November 2004.

The building ownership of 2,471 buildings held by the relevant subsidiaries of Shenhua Group were acquired by us upon our acquiring the equity interests held by Shenhua Group in the relevant subsidiaries.

Buildings under construction

We also obtained from Shenhua Group a number of new buildings under construction. The relevant building ownership certificates of the buildings under construction will be obtained by us or our relevant subsidiary upon completion of the particular building and after proper registration with the relevant authorities. We intend to use these buildings as production and offices and for other general uses.

Leased buildings

Our principal executive offices are located at Zhouji Tower at 16 Ande Lu, Dongcheng District, Beijing and we obtained the right to occupy and use these offices pursuant to a lease agreement we entered into with Huarong Assets Management Company in November 2004.

We also leased from Shenhua Group certain buildings and properties with a total floor area of approximately 20,393 square metres pursuant to the Properties Leasing Agreement. In addition, we leased from independent third parties a total land area of approximately 12,151 hectares and certain buildings and ancillary facilities with a total gross floor area of approximately 29,731 square metres.

Insurance

In accordance with what we believe is the customary practice for PRC coal mining entities, we do not currently maintain 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 injury or environmental damages arising from accidents on our property or relating to our operations for certain of our power plants and for our vehicles. For our transportation operations, we carry property insurance for our freight rail cars, and we carry vehicle insurance at our Huanghua Port. In addition, we carry occupational injury, medical, third party liability and unemployment insurance for our employees, which complies with applicable regulations.

As of 31 December 2004, we carried approximately RMB55.3 billion of insurance coverage, which includes coverage for property, lost profits, plant and equipment, employee injury and third party liability, for all of our operating power plants. Consistent with our understanding of customary industry practice in China, we do not carry insurance for risks relating to our power plants that are under construction.

We will continue to review and assess our risk portfolio and make necessary and appropriate adjustments to our insurance practice in line with our needs and with industry practice with respect to insurance in China. See "Risk Factors — Risks Relating to Our Businesses and China's Coal and Power Industries — Our coal and power operations may be adversely affected by operational risks and natural disasters and resulting losses for which we have limited insurance."

Regulatory Compliance

Unless otherwise disclosed in this prospectus, we are in compliance with applicable laws and regulations in all material respects. Furthermore, the Directors are of the view that, unless otherwise disclosed in this prospectus, our Group has obtained all necessary licences, approvals and permits that are material for our Group's business operations in the PRC.

Legal Proceedings

Our Group is involved in legal proceedings in the ordinary course of business. While the outcome of such legal proceedings cannot be determined at present, we believe that we are not involved in any litigation, arbitration or administrative proceedings that could have a material adverse effect on our Group's financial condition or results of operations, taken as a whole.

OVERVIEW

We were established on 8 November 2004 with Shenhua Group as our sole promoter. Shenhua Group owned 100% of the share capital of our Company immediately prior to the Global Offering. Immediately after the completion of the Global Offering, Shenhua Group, a wholly state-owned enterprise, will directly own and control 82.77% of our issued share capital (or 80.65% if the Over-allotment Option is exercised in full) and Shenhua Group will be our Controlling Shareholder. Accordingly, transactions between Shenhua Group and us would constitute connected transactions under the Hong Kong Listing Rules.

As part of the Restructuring in connection with the Global Offering, Shenhua Group transferred to us substantially all of its coal production and sales operations, railroad and port transportation and power generation operations, as well as mining rights related to our coal operations and other related assets, liabilities and interests. Shenhua Group has retained the ownership of, and continues to operate assets and liabilities relating to, the remaining businesses and operations, including the coal liquefaction, coal-based chemical processing business, investment and finance business as well as limited coal production and power generation assets. In determining the businesses and assets to be transferred to us in the Restructuring and those to be retained by Shenhua Group, the guiding principle was that Shenhua Group's thermal coal production, transportation and sales operations and power generation operations should be transferred to our Company unless there were specific reasons, as described below, for retaining any such businesses or assets under Shenhua Group. The Restructuring was aimed to provide clear business delineation between our Company's businesses and assets and those retained by Shenhua Group. For details of the businesses and assets retained by Shenhua Group after the Restructuring, see "— Competition — Retained Businesses" below.

In connection with the Restructuring, we have entered into a number of agreements and arrangements with Shenhua Group and other connected persons (as defined under the Hong Kong Listing Rules). For details of such agreements and arrangements, see "Connected Transactions." In addition, we have entered into a non-competition agreement. For details, see "— Competition — Non-competition Agreement" below.

COMPETITION

Our Core Businesses

The core businesses conducted by us and our subsidiaries in the PRC currently are as follows:

- coal production, transportation and sales; and
- power generation.

We produce thermal coal and also purchase coal from third parties for coal blending and resale.

Retained Businesses

Following the Restructuring, the following interests have been retained by Shenhua Group which compete or may compete with our core businesses (the "Retained Businesses"):

- a 60.0% equity interest in 陝西國華錦界能源有限責任公司 (Shaanxi Guohua Jinjie Energy Corporation, or Jinjie Energy Corporation) which is proposing to engage in the power generation business;

- a 100.0% equity interest in 神華神東電力有限責任公司 (Shenhua Shendong Power Co., Ltd, or Shendong Power) which is engaged in the businesses of the production and sale of coal-based chemical processed products and power generation;
- a 100.0% equity interest in 國華能源投資有限公司 (Guohua Energy Investments Company Limited, or Guohua Investment) and the companies invested by Guohua Investment which are engaged in the businesses of the mining and sale of coal and power generation;
- a 100.0% equity interest in the Xisanju Companies which are principally engaged in the business of the mining and sale of coal, as well as power generation; and
- a 72.9% equity interest in 神華蒙西煤化股份有限公司 (Shenhua Mengxi Coal Chemical Company Limited, or Mengxi Coal) which is principally engaged in the businesses of coke production and coal preparation.

Our Directors believe that, save as disclosed herein, there is generally no competition between our core businesses and the Retained Businesses. A majority of the Retained Businesses conduct the mining, production or sale of coking coal. Although the Retained Businesses conduct the mining and sales of thermal coal to a certain extent, we have taken measures to ensure that they do not constitute direct competition with our mining and sales of thermal coal. Such measures include our entering into an agreement with Shenhua Group dated 24 May 2005 (the ''Non-competition Agreement'') to avoid and reduce competition, and an agency sales agreement (see the section headed ''Connected Transactions — Non-exempt Continuing Connected Transactions — Agency Sales Agreement for the Xisanju Companies'' for details) in relation to the Xisanju Companies, which are currently the only producers of thermal coal within Shenhua Group. Pursuant to this agency sales agreement, we will be the exclusive sales agent for all the thermal coal produced by the Xisanju Companies. Some Retained Businesses are in their developmental stages or are currently undergoing restructuring. There are also some Retained Businesses which apply unadvanced technology. Accordingly, the Retained Businesses were retained by Shenhua Group after the Restructuring. Pursuant to the Non-competition Agreement, Shenhua Group undertook not to compete with us in our core businesses and granted us, among other things, options to acquire, as well as pre-emptive rights to purchase, any interest in the Retained Businesses, including Shenhua Group's interest in the Xisanju Companies. For details, see the section headed ''Non-competition Agreement'' below. Shenhua Group has advised us that it intends to continue to operate the Retained Businesses, subject to any right we may have under the Non-competition Agreement to purchase such businesses.

Coal mining and power generation

Jinjie Energy Corporation

Jinjie Energy Corporation is a limited liability company, the equity capital of which is 60.0% owned by Shenhua Group and the remaining 24.0% and 16.0% by two other independent third parties. Jinjie Energy Corporation has not commenced commercial operations yet but it plans to establish a power plant in Shaanxi Province and to have ancillary coal mining capabilities for the main purpose of supplying coal to its power generation business.

Scope and Size of Business

Phase I of Jinjie Energy Corporation's development, which is expected to be completed by the end of 2006, will have a planned equity capacity of 720 MW, equivalent to approximately 8% of our total projected equity capacity in 2007, and a maximum ancillary annual coal production capacity of three million tonnes. Jinjie Energy Corporation has applied to the relevant authorities to proceed with the construction of Phase I and an application has been made for the acquisition of ancillary coal mining rights. The State Council has approved the proposed project and the feasibility study report is currently being reviewed by the relevant authorities. Upon commencement of commercial power generation, all of the power produced by Jinjie Energy Corporation's proposed power plant is expected to be sold to the North China Power Grid. Jinjie Energy has a long-term development plan to expand its annual coal production capacity to 10 million tonnes and total installed capacity to 3,600 MW.

Jinjie Energy Corporation is in its start-up stage and, not having commenced commercial operations, does not currently pose any direct or indirect competition with us. Upon the commencement of operations, however, Jinjie Energy Corporation will engage in coal production and power generation and will therefore compete with our business.

Rationale for Non-inclusion of Jinjie Energy Corporation in the Group

The equity interest of Shenhua Group in Jinjie Energy Corporation was not transferred to us as part of the Restructuring primarily because:

(i) the project is still in a start-up stage; and

(ii) we have an option under the Non-Competition Agreement to acquire Shenhua Group's interest in Jinjie Energy Corporation, subject to the prior consent of third parties, namely the other two shareholders of Jinjie Energy Corporation, 山東魯能發展有限公司 (Shandong Luneng Development Corporation) and 陝西銀河電力集團有限公司 (Shaanxi Electricity Yinhe Group Co,. Ltd) which hold 24% and 16%, respectively, of the equity interest in Jinjie Energy Corporation. If we are successful in obtaining such third party consents, Shenhua Group would be required to transfer its interest in Jinjie Energy Corporation to us. If the consents are not granted, the third parties would be obliged to acquire from Shenhua Group its interest in Jinjie Energy Corporation.

Delineation of Business

Jinjie Energy Corporation currently does not pose any competition with us as it is in its start-up stage. Upon the commencement of commercial operations, we may consider exercising our option under the Non-Competition Agreement to acquire Shenhua Group's interests in Jinjie Energy Corporation. Coal produced in Jinjie Energy Corporation may only be consumed by its own power generating plant after it commences commercial operations.

Shenhua Group's Involvement in Business

Given that Shenhua Group holds a 60% equity interest in Jinjie Energy Corporation, Shenhua Group will be involved in the business of Jinjie Energy Corporation after the commencement of commercial operations.

Management

The management of Jinjie Energy Corporation is independent of ours.

Shendong Power

Shenhua Group has retained its 100% equity interest in 神華神東電力有限責任公司 (Shenhua Shendong Power Co. Ltd., or Shendong Power). Shendong Power, together with its 65% subsidiary, 神華陽光發電有限責任公司 (Shenhua Yangguang Power Generation Co., Ltd. or Shenhua Yangguang Power) (collectively, the Shendong Power companies), are engaged in power generation and the sale of coal-based chemical products.

Scope and Size of Business

The Shendong Power companies are engaged mainly in business operations involving high power consumption such as those involving calcium carbide and the production and sale of coke used in the steel industry, coking oil and other coal-based chemical products. The power generation capability of Shendong Power is mainly to support these high power consuming operations. Shendong Power does not conduct any coal mining activities. Its sales activities primarily involve selling coal-based chemical products, which does not compete with the sale of thermal coal by us.

As at 31 December 2004, Shendong Power's own power plant had an installed capacity of 27 MW and the power generated in the year ended 31 December 2004 was 311 million KWh, of which 67 million KWh was supplied to the local grid in the Yulin region of Shaanxi province. One of our power plants, Shenmu Power, also operates in the Yulin region of Shaanxi province, but the competition between Shenmu Power and Shendong Power is very limited given that the power generated by Shenmu Power is directly dispatched to the Northwest Power Grid while the power generated by Shendong Power is dispatched to a local grid within the Yulin region. The installed capacity and the amount of power supplied by Shendong Power to the power grids are both less than 1% of that of our Company.

In addition, the coal residual stone-fired power plant of Shenhua Yangguang Power commenced operations in July 2004. It has an installed capacity of 50 MW and the power generated in the year ended 31 December 2004 was 106 million KWh. A significant portion of the power it generates is utilised by the calcium carbide operations of Shendong Power. Shenhua Yangguang Power is also constructing two additional coal residual stone-fired power plants, each with an installed capacity of 135 MW, which are expected to commence commercial operations in 2006. These two power plants are designed to utilise coal residual stones, a lower value waste product, to generate power for supply to Shendong Power. To the extent there is excess power, it will be dispatched to the local grid within the Yulin region.

The non-competition undertaking in the Non-competition Agreement does not prohibit the construction of the two residual coal stone-fired power plants because they were already under construction at the time of the Restructuring. Nevertheless, we have been granted an option under the Non-competition Agreement to acquire these two power plants.

Rationale for Non-inclusion of Shendong Power Companies in the Group

Shenhua Group's interests in the Shendong Power companies were not transferred to us as part of the Restructuring because:

(i) as stated above, the Shendong Power companies are engaged mainly in business operations involving high power consumption and the production and sale of coke used in the metallurgical industry and other coal-based chemical products. The nature of its business is therefore very different from that of our core business which is mainly thermal coal mining and power generation;

(ii) the power generating units are comparatively small in scale;

(iii) the power generated is mainly for their own consumption by their calcium carbide plant, and only a portion of power is sold to the local power grid; and

(iv) the installed capacity and the amount of power supplied to the power grids are both less than 1% of that of our Company.

Delineation of Business

The nature of our business and that of Shenhua Group in relation to the Shendong Power companies is very different. The Shendong Power companies are not involved in coal mining. The Shendong Power companies consume most of the power they generate. The amount of power left for supply to the power grids is less than 1% of that produced by us. The high power consuming operations relate to calcium carbide and the production and sale of coke used in the metallurgical industry, coking oil and other coal-based chemical products, all of which we do not produce.

Shenhua Group's Involvement in Business

Shenhua Group owns a 100% equity interest in Shendong Power and is therefore closely involved in the business of Shendong Power.

Management

The management of the Shendong Power companies is independent of ours.

Guohua Investment

As part of the Restructuring, Shenhua Group has retained its entire equity interest in Guohua Investment. Guohua Investment holds interests in a number of companies (collectively, known as the ''Guohua Investment companies''). The Guohua Investment companies are engaged principally in power generation and the mining and sale of coal.

Scope and Size of Business

Guohua Investment holds 15.77% of Huaneng International Power Development Corporation which in turn holds:

(1) an approximately 43% of the equity interest of Huaneng Power International Inc., the largest listed independent power generating company in the PRC currently. As at 31 December 2004, Huaneng Power International Inc. had an equity capacity of approximately 20,000 MW and the power it generated in that year was 114.3 billion KWh on a consolidated basis; and

(2) a 41% equity interest in 華能北京熱電有限責任公司 (Huaneng Beijing Cogeneration Company Limited). As at 31 December 2004, the installed capacity of Huaneng Beijing Cogeneration Company Limited was 845 MW.

Guohua Investment holds an 80.0% interest in 國華實業有限公司 (Guohua Enterprises Corporation) which in turn holds an equity interest of 47.0% in Fujian Shishi Power Generating Plant. Fujian Shishi Power Generating Plant has an insignificant amount of installed capacity of 18 MW as at 31 December 2004 and it generated 117.2 million KWh of power in 2004.

Scope and Size of Business

Guohua Investment holds a 72.25% equity interest in 國華能源有限公司 (Guohua Energy Co., Ltd.). Guohua Energy Co., Ltd has invested in various coal production and power generation companies, the details of which are as follows:

	Volume of coal produced in 2004	Amount of power generated in 2004	Installed capacity as at 31 December 2004	Guohua Energy's Ownership Interest as at 31 December 2004
	(million tonnes)	(million KWh)	(MW)	
國投新集能源股份公司 (Guotou Xinji Energy Co., Ltd.)	6.8	N/A	N/A	23.2%
集華興業煤炭公司 (Jihua Xingye Coal Corporation)	N/A	N/A	N/A	40.0%
集華風能有限公司 (Jihua Wind Power Co., Ltd.)	N/A	22.0	16.5	62.8%
湛江電力有限公司 (Zhanjiang Power Co., Ltd.)	N/A	7,940.0	1,200.0	24.0%
鶴崗電力有限公司 (Hegang Power Co., Ltd.)	N/A	2,810.0	600.0	18.0%
Total	6.8	10,772.0	1,816.5	

Rationale for Non-inclusion of Guohua Investment Companies in the Group

Shenhua Group has retained its equity interests in the Guohua Investment Companies because:

(i) as part of the strategy of the PRC government to find sustainable energy resources, the PRC government set up a government fund for the development of petroleum alternatives. Guohua Investment's investments were funded by this government fund. Shenhua Group acquired its interests in the Guohua Investment companies in 1998 at the direction of the PRC government;

(ii) Guohua Investment itself operates as an investment vehicle which makes financial investments and is not involved in any actual business activities on its own which competes with our business;

(iii) as Guohua Investment only holds minority interests in Huaneng International Power Development Corporation, which in turn holds investments interests in Huaneng International Co., Ltd. and Huaneng Beijing Cogeneration Company Limited, Guohua Investment does not control or manage the operations of these two companies;

(iv) Guohua Energy Co., Ltd. is primarily engaged in the development of renewable energy sources (such as wind) and the management of minority investment interests funded by the PRC government's designated fund for the development of petroleum alternatives. It was not transferred to the Group under the Restructuring because it does not directly operate a coal or power business; and

(v) Guohua Enterprises Corporation is primarily engaged in real estate development. It also holds certain minority investment interests, including an equity interest of 47.0% in Fujian Shishi, which had an insignificant amount of installed capacity of 18 MW as of 31 December 2004. As Guohua Enterprises was not transferred to the Group under the Restructuring, its investment interest in Fujian Shishi was not transferred to the Group either.

Shenhua Group's Involvement in Business

Although Shenhua Group holds a 100% interest in Guohua Investment, Shenhua Group is not involved in the management of any of the companies in which Guohua Investment holds minority interests.

Delineation of Business

Guohua Investment is an investment vehicle that does not directly engage in either the coal or power businesses.

Management

The management of each of the Guohua Investment companies is independent of ours.

Xisanju Companies

The Xisanju Companies are mining companies located in Inner Mongolia. The Xisanju Companies are principally engaged in the production and sale of coal as well as power generation.

Scope and Size of Business

As at 31 December 2004, the Xisanju Companies own and operate 10 mines with an additional mine under construction. In the three years ended 31 December 2004, the Xisanju Companies produced approximately 8.7 million tonnes, 10.3 million tonnes and 11.9 million tonnes, respectively, of raw coal. Their revenues from coal sales in the years ended 31 December 2002 and 2003, and the unaudited revenues recorded under PRC accounting standards from their coal sales in the year ended 31 December 2004, were approximately RMB887 million, RMB1,404 million and RMB2,514 million, respectively. The raw coal produced by the Xisanju Companies would account for only 13.4%, 11.9% and 11.4%, respectively, of the volume of raw coal produced by us in the same period. In the year ended 31 December 2004, approximately half of the coal produced by the Xisanju Companies (which accounts for approximately 5% of the coal our Company sold in the same period in terms of raw coal) was thermal coal which was sold to various coal purchasers within Inner Mongolia, where few of our customers are located. The remaining coal produced by the Xisanju Companies was coking coal. The extent of competition is therefore very limited. In addition, we have taken measures, by entering into the Non-competition Agreement and the Agency Sales Agreement, to ensure that the Xisanju Companies do not constitute direct competition with our business of mining and sales of thermal coal. For details on the agreements, see the sections headed "— Non-competition Agreement" below and "Connected Transactions — Non-exempt Continuing Connected Transactions — Agency Sales Agreement for the Xisanju Companies."

As of 31 December 2004, the coal residual stone-fired power generating plant of Wuda Mining, one of the Xisanju Companies, has an installed capacity of 24 MW and the power generated in that year was 205,000 MWh of which only 19,000 MWh was supplied to the local power grids. The installed capacity of, and the power supplied to power grids by, Wuda Mining's power plant amounts respectively to less than 1% of those of our Company. In addition, a coal residual stone-fueled power plant with an installed capacity of 50 MW is under construction and expected to be completed by the end of 2005. The power generated is expected to be used by Wuda Mining and sold to the local power grid. The extent of competition in terms of power generation is therefore also very limited.

Rationale for Non-inclusion of the Xisanju Companies in the Group

The Xisanju Companies are wholly owned by Shenhua Group. Shenhua Group has not transferred its interests in these companies and their affiliates to us because:

(i) approximately 51% of the coal produced by the Xisanju Companies is coking coal, which is different in nature from thermal coal produced by us, and there are significant coking coal reserves in the region around the city of Wuhai in Inner Mongolia. Shenhua Group is considering the possibility of consolidating the viable assets of the Xisanju Companies in that region to set up a production and processing base for coking coal. We have been given the right to acquire this coking coal business should the consolidation be successful. For details, see "— Non-competition Agreement" below;

(ii) the Xisanju Companies were historically controlled and managed directly by the former Ministry of Coal of the PRC. They were transferred for policy reasons to Shenhua Group in 1999 as part of the PRC government's overall plan for the consolidation of the coal industry. Four of the mines operated by the Xisanju Companies have undergone restructuring and asset disposals pursuant to relevant PRC government policies, either because the coal resources of these mines have been depleted or, if the coal resources have not been depleted, such mines have been operating at a loss. Application has also been made for another three to undergo similar restructuring and asset disposals;

(iii) The thermal coal produced by the Xisanju Companies contains much higher sulphur content (3.0% on average) than the thermal coal produced by us (0.5% on average). This has resulted in differences in customer bases between us and the Xisanju Companies; and

(iv) The Xisanju Companies generally use the national railway to transport their coal, while we generally transport our coal through our own railway network, thus retaining our valuable transportation capacity for our own business operations.

Delineation of Business

More than half of the coal produced by the Xisanju Companies is coking coal, which is different from the thermal coal which we produce. The thermal coal produced by the Xisanju Companies is much higher in sulphur content than the thermal coal produced by us, which gives rise to different groups of customers as we focus on coal sales to customers in the coastal region of China and the Asia-Pacific Export Coal Market, whilst the Xisanju Companies largely supply coal to customers within Inner Mongolia.

The installed capacity and the power dispatch to the power grids by Wuda Mining amount to less than 1% of our installed capacity and power dispatch to power grids. In addition, Wuda Mining only supplies power to local power grids.

Shenhua Group's Involvement in Business

Shenhua Group is the only shareholder of the Xisanju Companies and is involved in the business operations of the Xisanju Companies.

Management

The management of the Xisanju Companies is independent of ours.

To minimise competition between the Xisanju Companies and us, we have put in place arrangements for us to act as agent for the sale of the coal produced by the Xisanju Companies. For details of the arrangements, see the sections headed "Connected Transactions — Non-exempt Continuing Connected Transactions — Agency Sales Agreement for the Xisanju Companies."

Mengxi Coal

Shenhua Group has also retained its 72.9% direct and indirect equity interest in Mengxi Coal, a joint stock limited company incorporated in the PRC. Mengxi Coal has a 51% equity interest in 內蒙古鄂托克旗星光煤炭集團華宜煤業股份有限公司 (Inner Mongolia Ertuoke Xingguang Coal Group Huayi Coal Corporation, or Huayi Coal) which is engaged in coal washing and sales.

Mengxi Coal is engaged primarily in coke production. It does not own or operate any power generation units. Currently, it obtains its supply of coking coal from the Xisanju Companies and small-scale local mines within its own vicinity. Although it has obtained exploration rights to explore coking coal resources in Inner Mongolia, it is still applying for mining rights to mine those resources.

In the year ended 31 December 2004, approximately 0.7 million tonnes of coking coal were washed by Huayi Coal, and 0.2 million tonnes of washed coal were sold exclusively to Mengxi Coal.

Rationale for Non-inclusion of Mengxi Coal and Huayi Coal in the Group

Shenhua Group did not transfer its equity interests in Mengxi Coal and Huayi Coal to us as part of the Restructuring because:

(i) Mengxi Coal and Huayi Coal are engaged in the production and processing of coking coal, which is not in competition with our thermal coal business; and

(ii) in accordance with relevant PRC laws, the transfer or disposal of shares of a promoter in a joint stock limited company is prohibited within three years from the date of its establishment. As Mengxi Coal was established as a joint stock limited company in August 2002, Shenhua Group is not permitted to transfer its equity interest in Mengxi Coal to us until August, 2005 at the earliest.

Pursuant to the Non-competition Agreement, we have an option to acquire the interest of Shenhua Group in Mengxi Coal and Huayi Coal after August 2005. The Company currently has no specific plans to exercise this option.

Delineation of Business

Mengxi Coal is involved in the production of coking coal, which we do not produce. Huayi Coal provides coal washing services which complement, but do not compete with, our business.

Shenhua Group's Involvement in Business

Shenhua Group is the largest shareholder but it doesn't directly manage the business operations of Mengxi Coal.

Other Minority Interests Retained by Shenhua Group

Shenhua Group has also retained a minority equity interest in several companies. Although the companies have businesses that overlap with ours, these businesses are insignificant in size and therefore do not significantly compete with us.

Non-competition Agreement

We entered into the Non-competition Agreement with Shenhua Group, under which Shenhua Group agreed not to compete with us in our core businesses and granted us options and pre-emptive rights to acquire the Retained Businesses and certain future business from Shenhua Group.

Shenhua Group, has undertaken in the Non-competition Agreement that other than the Retained Businesses described above, during the period of the Non-competition Agreement, Shenhua Group will not, and Shenhua Group shall procure that any other company in which Shenhua Group is a substantial shareholder (as defined in the Hong Kong Listing Rules) (the ''Affiliates'') will not compete with us, directly or indirectly, whether on its own or jointly with another entity by participating in or providing any support to, any activities or business which directly or indirectly competes with our core businesses, whether inside or outside the PRC. The Retained Businesses are included in this undertaking even though they generally do not compete with our core business, and some of the Retained Businesses are either under development or currently undergoing restructuring. In addition, Shenhua Group has granted us options and pre-emptive rights to acquire the Retained Businesses under the Non-Competition Agreement.

Shenhua Group has undertaken in the Non-competition Agreement that during the period of the Non-competition Agreement:

(a) if Shenhua Group becomes aware of a business opportunity which directly or indirectly competes, or may lead to competition, with our core business, it or any of its subsidiaries will notify us of such business opportunity immediately upon becoming aware of it. Shenhua Group is also obliged to use its best efforts to procure that such opportunity is first offered to us upon terms which are fair and reasonable. Shenhua Group shall also use its best endeavours to procure that companies in which it holds an interest as a substantial shareholder comply with this provision. Our independent non-executive Directors will decide whether to take up such business opportunity; and

(b) we have been granted by Shenhua Group for the duration of the Non-competition Agreement:

    (i) options to purchase on the basis of valuations conducted by an independent valuer jointly appointed by Shenhua Group and us, subject to any relevant laws and applicable listing rules and existing third party pre-emption rights:

    - any interest in the Retained Businesses which directly or indirectly competes or is likely to compete with our core businesses and which is retained by Shenhua Group as part of the Restructuring; and
    - any interest in any business of Shenhua Group resulting from the business opportunity referred to in paragraph (a) above which has been offered to, but has not been purchased or taken up by us and has been retained by Shenhua Group or Affiliates;

    (ii) pre-emptive rights to purchase on no less favourable terms, if Shenhua Group or any of its Affiliates intends to transfer, sell, lease or license to any third party:

    - any interest in the Retained Businesses which directly or indirectly competes with or is likely to compete with our core businesses;
    - any interest in any business of Shenhua Group resulting from the business opportunity referred to in paragraph (a) above, which has been offered to, but

has not been purchased or taken up by us and has been retained by Shenhua Group or any of its subsidiaries or Affiliates; and

(iii) an option to acquire the interest held by Shenhua Group in its coal liquefaction and coal-based chemical processing business, on terms and at a price which is fair and reasonable; and a pre-emptive right to purchase such interest from Shenhua Group on terms no less favourable than those offered to any third party. On the exercise of this option or the pre-emptive right, Shenhua Group shall transfer such interest into our Company or our nominated subsidiary.

In relation to our pre-emptive rights described in paragraph (b)(ii) above, under the Non-competition Agreement, Shenhua Group must notify us before the transfer of its relevant interest to a third party. It is further provided that such notice must set out full terms of the proposed transfer and any information which may reasonably be required by us in order for us to make a decision as to whether we ought to exercise the pre-emptive rights.

Shenhua Group conducts semi-annual working meetings with all of its subsidiaries, including us, to review the operational and financial performance of its business portfolio and to discuss business plans. Members of our senior management will represent us at these meetings, at which they may make enquiries of the performance of the Retained Businesses to enable them to consider whether exercising the options is in our interest. Any decision relating to the exercise of our options and pre-emptive rights will be made by our Directors who do not hold any position in Shenhua Group, including our independent non-executive Directors. Further, any exercise or non-exercise of any option under the Non-competition Agreement would constitute a connected transaction. Our internal corporate governance rules regulating connected transactions provide that only the votes of Directors (including our independent non-executive Directors) who do not hold any position in the relevant connected person, being Shenhua Group in this case, will be counted when considering whether to exercise such an option.

If we decide to exercise any of the options and pre-emptive rights granted under the Non-competition Agreement, we will ensure that the then enlarged group will comply with the trading record requirements under Rule 8.05 of the Hong Kong Listing Rules.

If we decide to exercise or not to exercise any option or pre-emptive rights under the Non-competition Agreement, we will disclose such decision either in our annual reports or through public announcements in addition to complying with the disclosure requirements of the Hong Kong Listing Rules. The disclosure requirements for any decision to exercise or not to exercise the options to acquire interests held by Shenhua Group will be regulated by the Hong Kong Listing Rules. Accordingly, where a decision to exercise or not to exercise an option under the Non-competition Agreement is required under the Hong Kong Listing Rules to be disclosed, a public announcement will be made unless a waiver has been obtained from the Hong Kong Stock Exchange. In circumstances where a decision to exercise or not to exercise an option is not required to be announced under the Hong Kong Listing Rules, such as where the relevant percentage ratio is below the relevant de minimis thresholds, under the Hong Kong Listing Rules, disclosure of the decision will be made in our annual report of the year in which the decision is made. The value of the target company or business will be used for the purpose of calculating the relevant percentage ratio under the Hong Kong Listing Rules.

The Non-competition Agreement took effect on 24 May 2004 and shall remain effective until the earlier of (a) the date on which Shenhua Group directly or indirectly beneficially holds less than 30%

of our issued share capital; and (b) the date on which our Shares cease to be listed on the Hong Kong Stock Exchange, or any other recognised international stock exchange.

Other Business Opportunities Pursued by Shenhua Group

Shenhua Group is in the preliminary stages of discussions, and has recently entered into framework agreements with two relevant local government authorities, with respect to an investment opportunity in the Xinjiang Autonomous Region. The potential investee, a large State-owned enterprise, is primarily engaged in coal production and power generation operations in Xinjiang. In addition, Shenhua Group may explore other business opportunities which may result in acquisitions of equity interests in or assets of certain State-owned coal exploration and mining and power generation companies.

Shenhua Group had initially orally informed and offered to us the above business opportunities. Due to the significant uncertainties these opportunities involve, we, after careful evaluation, have decided not to take up the opportunities at their preliminary stages and permitted Shenhua Group to pursue them. Such uncertainties include, among others, the need to obtain relevant third-party consents and government approvals, the feasibility of business development plans, the need to restructure the target companies' business operations and assets, and the uncertainty as to the exact size of investment to be made.

One of the framework agreements relates to an investment in a company which principally conducts coal mining within the Xinjiang Autonomous Region, an area in which we do not have any significant business operations. Xinjiang Autonomous Region is a relatively isolated coal market in China due to its remote location and constrained transportation capacity. Its coal customers are therefore different from ours.

The other framework agreement relates to an investment in a company in the Xinjiang Autonomous Region which engages in coal exploration. Since we do not conduct coal exploration and do not have any significant business operations within the region, we do not believe this would give rise to any competition between Shenhua Group and us.

In addition, Shenhua Group informed the Company that it was in discussion with independent third parties regarding an investment opportunity in Mongolia. The potential project involves an acquisition, through a consortium, of an option to develop and operate a green-field coal project in Mongolia in cooperation with a Mongolian partner. Given that the proposed project is located in Mongolia whilst the Company's operations are currently substantially all in the PRC, and in light of the very preliminary stage of discussions on this potential investment and other uncertainties, including the need for Mongolian and PRC government approvals and third-party consents, we have decided not to take up this opportunity. We have permitted Shenhua Group to pursue this opportunity. Our decision was made after careful evaluation by all Directors, including our independent non-executive Directors. After receiving our notification, Shenhua Group has proceeded to sign a preliminary consortium agreement with such independent third parties.

We do not believe any interest Shenhua Group might acquire in this project would result in any competition between Shenhua Group and ourselves for reasons including the fact that this potential project is to be developed and operated in Mongolia and will not primarily involve the production and transportation of thermal coal, which is our core coal product.

We will continue to monitor the development of these opportunities and have reserved our rights to exercise our option under the Non-competition Agreement to acquire Shenhua Group's interest in the businesses that may result from such opportunities in the future.

INDEPENDENCE FROM SHENHUA GROUP

Having considered the following factors, we are satisfied that we can conduct our business independently of Shenhua Group and its associates after the Global Offering:

Independence of boards and management

Our Board, which includes three independent non-executive Directors, will function independently of Shenhua Group. In addition, our senior management is independent from the management of Shenhua Group and all personnel involved in production and management of our core assets were transferred into our Company at the time of Restructuring.

Non-competition undertaking

As stated in the sub-section headed "Non-competition Agreement" in this section, our Directors believe that we will not face significant competition, directly or indirectly, from Shenhua Group.

Our assets

As the promoter of our Company, Shenhua Group has transferred its main coal production, transportation, sales and power generation business to us. After our Company was established, Shenhua Group commenced procedures to transfer title to these assets to us and Shenhua Group has undertaken to complete these procedures within half a year after the date of our establishment.

Business operations

We are engaged mainly, amongst other things, in the production and sales of coal and other processed coal products, transportation of coal and other related materials, generation and sale of power. We have full rights to make decisions on and to carry out our own business operations independently. We hold all relevant licences necessary to carry on our business and we have sufficient capital, equipment and employees to operate our business independently.

Operational independence

Our operational decisions are made by our shareholders, Directors, Supervisors and management. We have established our own set of organisational structure made up of individual departments, each with specific areas of responsibilities. We have also established a set of internal controls to facilitate the effective operation of our business.

Continuing transactions with Shenhua Group

As Shenhua Group has retained certain businesses and associated assets and liabilities following the Restructuring, various continuing transactions are entered into between Shenhua Group and us. These transactions are governed by agreements entered into on an arm's-length basis and on normal or on better than normal, commercial terms, so far as the Company is concerned. For details of these transactions, see "Connected Transactions."

Finance Matters

We have a finance department and have established our own financial auditing system independent from Shenhua Group. We have an independent bank account, made independent tax registration and have employed a sufficient number of dedicated financial accounting personnel responsible for financial auditing of our Company's accounts.

We have historically engaged Shenhua Finance, a non-bank financial institution, for deposit, loan and other financial services. All arrangements between our Group and Shenhua Finance, including deposits of our Group placed with Shenhua Finance and loans from Shenhua Finance to our Group, will be eliminated prior to the Listing Date.

NAO AUDIT

In 2002, the NAO conducted its first audit of Shenhua Group, which focused on Shenhua Group's financial affairs in 2001. The NAO audit opinion recognised the overall integrity and quality of Shenhua Group's financial reporting system, but also identified certain weaknesses in the accounting and bookkeeping practices as well as internal controls of Shenhua Group, including improper recognition of revenue and expenses that resulted in an understatement of income. Based on the decision of the NAO, a subsidiary of Shenhua Group that was not transferred to the Company as part of the Restructuring paid a tax shortfall of approximately RMB1.5 million. Shenhua Group has since established a number of internal rules and practices since 2002, including an accounting management system that provides centralised and uniform accounting policies for budget planning, revenue and expense recognition and other accounting practices.

In 2004, the NAO conducted a senior management departure audit of Shenhua Group focusing on the economic responsibilities of Shenhua Group's former Chairman as required by the relevant PRC regulations after his retirement. The Company understands that the audit did not encompass environmental or safety issues. The audit decision for the 2004 audit has not been issued by the NAO to Shenhua Group. See "Risk Factors — Risks Relating to Our Businesses and China's Coal and Power Industries — The 2004 Audit by the NAO may result in adverse decisions that could adversely affect us or the price of our Shares."

In connection with our Restructuring and to regulate the continuing business relationship between us and Shenhua Group, we have entered into various agreements with Shenhua Group and other connected persons (as defined in the Hong Kong Listing Rules). These agreements relate to non-competition, sales and export agency, production supplies, trademark licensing, property leasing and other services.

We have set forth below key issues relating to our continuing connected transactions, including details regarding the continuing connected transactions, historical figures and forecast figures for these transactions based on business assumptions. The historical amounts mentioned below should not be read or relied upon as an indication of future transaction amounts.

CONNECTED TRANSACTIONS

In connection with the Restructuring, we have entered into a number of agreements and arrangements with Shenhua Group and other connected persons. Upon the listing of our H Shares on the Hong Kong Stock Exchange, the following transactions will constitute connected transactions under the Hong Kong Listing Rules.

Exempted Connected Transactions

1 *Restructuring Agreement*

We entered into a restructuring agreement (the "Restructuring Agreement") with Shenhua Group on 14 January 2005, as amended by a supplemental agreement dated 24 May 2005 between the same parties, pursuant to which, Shenhua Group transferred to us most of its business, assets and liabilities relating to its coal, power generation and rail and port operations. In respect of the transfer of liabilities, we and Shenhua Group have entered into separate agreements with the relevant creditors.

According to the Restructuring Agreement, Shenhua Group has agreed to indemnify us against, among other things:

- all taxes payable in respect of the transferred assets arising on or before 31 December 2003;
- all taxes not provided for by any tax provisions in the audited financial reports that are payable in respect of the transferred assets arising prior to the date of our establishment, and all taxes payable in respect of the assets, and businesses retained by Shenhua Group;
- all claims in connection with or arising from the transferred assets in respect of any period on or before 31 December 2003, unless disclosed and provided for in the audited financial reports;
- all claims arising from the negligence or default of Shenhua Group acting on our behalf in holding any assets, interests or liabilities that were not transferred to us, pending third party consents, on or after 31 December 2003; and
- (a) all claims arising out of the failure of Shenhua Group to transfer assets to us in accordance with the restructuring documents; (b) all claims arising out of the assets, interests and liabilities retained by Shenhua Group or arising from the transfer of any assets pursuant to the Restructuring Agreement; and (c) all claims arising out of any breach of any provisions of the Restructuring Agreement on the part of Shenhua Group.

Our Company has agreed to indemnify Shenhua Group for any claims against Shenhua Group which arise from any breach by us of any provisions of the Restructuring Agreement.

2 *Non-competition Agreement*

In connection with the Restructuring, we also entered into the 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 Retained Businesses and certain future business from Shenhua Group. See ''Relationship with Shenhua Group — Competition — Non-competition Agreement'' for details of the terms of the Non-competition Agreement.

Non-exempt Continuing Connected Transactions

3 *Export Agency Agreement*

Under PRC laws, a party exporting coal must hold and maintain a valid export licence or otherwise engage another party that maintains such a licence, as its agent, to do so. Shenhua Trading is one of the four PRC companies that holds and maintains an export licence for the export of coal. Given that the transfer of such coal export licence is not permitted under the current PRC regulatory regime, upon completion of the Restructuring, we will continue to export our coal products through Shenhua Trading to our overseas customers. No agency fee was paid by us to Shenhua Trading prior to our date of establishment. To regulate the relationship between Shenhua Group and us in the export sales of our coal products, we entered into an export agency agreement dated 24 May 2005 (the ''Export Agency Agreement'') 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:

- the term shall be renewed upon our request;
- 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 favourable than other export agencies;
- 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;
- we will designate export customers and determine the price of the coal to be exported;
- 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
- 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.

We believe the terms of the Export Agency Agreement are more favorable to us than terms that we can currently obtain from the other three export licence holders. In the event that the terms offered by the other export licence holders become more favorable than those offered by Shenhua Trading, we do not anticipate difficulties with entering into export agency arrangements with such export license holders. Should the term be renewed, we shall ensure that the requirements of Chapter 14A of the Hong Kong Listing Rules are complied with.

Historical export value

For the financial years ended 31 December 2002, 2003 and 2004, the total volume and value of our coal exported by Shenhua Trading were approximately 18.3 million tonnes, 25.7 million tonnes and 26.6 million tonnes and RMB4,129 million, RMB5,563 million and RMB8,112 million, respectively. Based on the above agency fee agreed under the Export Agency Agreement, the pro-forma agency fees that would have been paid to Shenhua Group in the years ended 31 December 2002, 2003 and 2004, were RMB28.9 million, RMB38.9 million and RMB56.8 million, respectively.

Annual caps

Based on our historical exports and on the assumption of continued growth in demand for our coal and increase in our revenues from coal sales, our Directors assume that the annual agency fees payable to Shenhua Group in respect of years ending 31 December 2005, 2006 and 2007 will be approximately RMB75.0 million, RMB94.4 million and RMB107.7 million, respectively.

4 *Agency Sales Agreement for the Xisanju Companies*

We produce thermal coal, while a major part of the coal produced by the Xisanju Companies which remain subsidiaries of Shenhua Group after our restructuring, is coking coal. We purchase coal from the Xisanju Companies for coal blending and resale. See ''Relationship with Shenhua Group — Competition'' for more information on the business of the Xisanju Companies and reasons for their retention by Shenhua Group.

To minimise potential competition between the Xisanju Companies and us, and to control the level and extent of sales of the coal produced by the Xisanju Companies, Shenhua Group entered into an agency sales agreement dated 24 May 2005 (the ''Agency Sales Agreement'') with us and our subsidiary, 神華內蒙古煤炭運銷有限責任公司 (Shenhua Inner Mongolia Coal Transportation and Sales Corporation, or 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 the Xisanju Companies and the non-exclusive agent for the sale of the coking coal produced by the Xisanju Companies. The principal terms of our appointment are:

- the term of the agreement is three years commencing from 1 January 2005 and is renewable on our request;
- 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;
- 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
- 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.

Should the term be renewed, we shall ensure that the requirements of Chapter 14A of the Hong Kong Listing Rules are complied with.

The Agency Sales Agreement was entered into through negotiations between the Xisanju Companies and us. Although four mines of the Xisanju Companies have undergone restructuring and asset disposal, the Xisanju Companies continue to operate their remaining mines. In addition, the agency fee for services we provide is the cost of providing the services plus a margin of 5%. A basic monthly fee of RMB0.50 for each tonne of coal sold is also payable by the Xisanju Companies, with any over- or under-payment settled at the end of the year. This ensures we recover a substantial part of our costs on a monthly basis and minimises credit given to the Xisanju Companies.

As most of the customers within Inner Mongolia are long-term customers of the Xisanju Companies and the sales volume to such customers is relatively low, there is limited need for our agency services within Inner Mongolia. On the foregoing basis, the Directors and the Sponsors are of the view that the terms of the Agency Sales Agreement as a whole are on normal commercial terms and are fair and reasonable and are in the interest of our shareholders as a whole.

Historical transaction value

The volume of coal sold (exclusive of the coal purchased by us) by the Xisanju Companies outside of Inner Mongolia for the years ended 31 December 2002, 2003 and 2004 was approximately 1.8 million tonnes, 2.2 million tonnes and 4.9 million tonnes, respectively. Based on the historical sales value, on a pro-forma basis assuming that we had been established on 1 January 2002 and the Agency Sales Agreement had been in place since such date, we would have been entitled to aggregate agency fees of approximately RMB1.2 million, RMB2.3 million and RMB3.6 million in the years ended 31 December 2002, 2003 and 2004, respectively.

Annual caps

Our Directors assume the coal sales by the Xisanju Companies will continue to grow by approximately 30% per year. Based on the historical production and sales figures of the Xisanju Companies and on the assumptions that the PRC economy continues to maintain its current growth rate, our Directors assume that the annual aggregate agency fees payable by the Xisanju Companies to us under the Agency Sales Agreement in respect of the years ending 31 December 2005, 2006 and 2007 will be approximately RMB4.7 million, RMB6.1 million, and RMB7.9 million, respectively.

5 *Mutual Provision of Production Supplies and Ancillary Services Agreement*

Prior to the Restructuring, Shenhua Group set up a network of information systems for the transmission and collation of data, telecommunications systems, computer applications and other similar network arrangements. Upon the completion of the Restructuring, the information systems have been shared between Shenhua Group and us as it is impossible for the information systems network to be completely separated without incurring excessive cost on the part of either party. We have therefore decided to share the information network systems at no cost to either party. Despite the sharing of the information network systems we will be able to ensure the independence and confidentiality of our information systems through the adoption of various appropriate identification and security measures such as the use of passwords.

After the Restructuring, and before we set up our own accounts or records with the relevant government authorities, Shenhua Group will continue to provide pension administrative services and temporary staff data recording services to us. Within one year of our establishment, we will conduct our own pension administration and staff data recording, upon which Shenhua Group shall cease to provide such administrative services to us. Shenhua Group has agreed to provide such services to us free of charge during the one year period.

After completion of the Restructuring, Shenhua Group will retain certain assets and businesses and will continue to provide certain goods and ancillary services to our core businesses. In addition, we will also provide certain goods and services to Shenhua Group on an arm's-length basis to support the businesses retained by Shenhua Group.

To regulate the relationship between Shenhua Group and us in respect of the mutual provision of production supplies and ancillary services, Shenhua Group and us entered into an agreement on 24 May 2005, for the mutual provision of production supplies and ancillary services (the ''Mutual Supply Agreement''). The principal terms of the Mutual Supply Agreement are as follows:

- Shenhua Group and we will share the information network systems at no cost to either party;
- Production supplies and ancillary services to be provided by Shenhua Group to us include:
  (1) Provision of production supplies: explosives, fuses, oil products, and other related or similar production supplies and services;
  (2) Ancillary production services: security, logistics and support services, tendering services and other related or similar services; and
  (3) Ancillary administrative services: social security and pension management services and staff data recording services;
- 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;
- the 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;
- 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;
- 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
- 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:
  (1) the price prescribed by the state (including any price prescribed by any relevant local government), if applicable;
  (2) where there is no state-prescribed price but there is a state-guidance price, then the state-guidance price;

(3) where there is neither a state-prescribed price nor a state-guidance price, the market price; or

(4) 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.

Should the term be renewed, we shall ensure that the requirements of Chapter 14A of the Hong Kong Listing Rules are complied with.

Historical transaction value

For the years ended 31 December 2002, 2003 and 2004, the pro-forma aggregate expenditures for the production supplies and ancillary services provided by Shenhua Group to us, being the subject matter of the Mutual Supply Agreement, would have been approximately RMB274.5 million, RMB604.7 million and RMB568.8 million, respectively. The aggregate expenditures for the production supplies and ancillary services provided by Shenhua Group to us for the year ended 31 December 2003 increased substantially during the relevant period, as the Xisanju Companies sold their rolling stock to us. In addition, due to the price increase of industrial materials, such as oil and explosives, the total amount paid by the Group to Shenhua Group for the purchase of such materials increased significantly.

For the years ended 31 December 2002, 2003 and 2004, the pro-forma aggregate revenues for the goods and ancillary services provided by us to Shenhua Group, being the subject matter of the Mutual Supply Agreement, would have been approximately RMB4.4 million, RMB53.0 million and RMB77.1 million, respectively. For the year ended 31 December 2003, the aggregate revenues for the goods and ancillary services provided by us to Shenhua Group increased substantially, as the Xisanju Companies started to hire rolling stock from us that year.

A breakdown of the approximate historical production supplies and ancillary services provided by Shenhua Group to our Company is set out below:

	2002	2003	2004
	(RMB in millions)		
Social Welfare and Ancillary Services	123.0	144.8	128.5
Mining Engineering	—	—	0.3
Agency Services	1.5	3.0	1.4
Equipment Import Services	16.0	5.7	8.4
Equipment Maintenance Services	27.5	26.2	48.7
Environmental Services	—	—	29.0
Rolling Stock Purchases	—	213.1	—
Materials Purchases	106.6	212.0	352.5
Total	274.5	604.7	568.8

Annual caps

Our Directors assume that the business of both Shenhua Group and us will continue to grow and the need for the mutual provision of production supplies and ancillary services between Shenhua Group and us will continue to increase. Based on the pro-forma historical transaction values between Shenhua Group and us, our Directors assume that pursuant to the Mutual Supply Agreement: (1) our annual expenditures in respect of production supplies and ancillary services to be provided by Shenhua

Group to us for the years ending 31 December 2005, 2006 and 2007 will reach approximately RMB707.4 million, RMB886.7 million, and RMB1,120.1 million, respectively, and (2) our annual revenues in respect of production supplies and ancillary services provided by us to Shenhua Group under the Mutual Supply Agreement for the years ended 31 December 2005, 2006 and 2007 will reach approximately RMB111.8 million, RMB153.0 million, and RMB202.0 million, respectively.

6 *Mutual Supply of Coal Agreement*

Under the Restructuring, Shenhua Group has retained certain coal assets and businesses relating to coal mines, principally, the Xisanju Mines, including all liabilities arising in the future from any accidents or disruptions of operations at the Xisanju Mines. Most of the coal produced by the Xisanju Mines is coking coal, whereas we produce thermal coal. The Xisanju Companies will continue to supply us with various types of coal for the purpose of coal blending and re-sale. For details on these mining assets and reasons why they are retained, see "Relationship with Shenhua Group — Competition."

After the Restructuring, we will also sell coal in small quantities to certain subsidiaries of Shenhua Group (which trade in coal) from which we will receive revenues on normal commercial terms.

To regulate the relationship between the parties in these respects, Shenhua Group and us, entered into an agreement on 24 May 2005 for the mutual provision of coal to the other (the "Mutual Supply of Coal Agreement").

The principal terms of the Mutual Supply of Coal Agreement include the following:

- the term of this agreement is for three years commencing from 1 January 2005 and may be renewed upon agreement;
- all coal should be sold at the prevailing market price. "Market price" shall mean (1) 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 (2) 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;
- if the terms and conditions offered by an independent third party are no more favourable 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;
- the terms and conditions for the provision/purchase of coal by one party to/from the other party shall not be less favourable than those for the provision of coal by that one party to any independent third party or less favourable than those for coal sold by the other party to any independent third party;
- 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

- 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.

Should the term be renewed, we shall ensure that the requirements of Chapter 14A of the Hong Kong Listing Rules are complied with.

Historical transaction value

For the financial years ended 31 December 2002, 2003 and 2004, on a pro-forma basis, the payment we made for the coal supplied by Shenhua Group to us, which are the subject matter of the Mutual Supply of Coal Agreement, was approximately RMB249.9 million, RMB527.4 million and RMB842.9 million, respectively. The increase was due to the increases in coal price and coal production by the Xisanju Companies.

For 2002 and 2004, on a pro-forma basis, the revenues we received from the sales of coal to Shenhua Group, which are the subject matter of the Mutual Supply of Coal Agreement, were approximately RMB3.0 million and RMB215.4 million respectively. No such coal was supplied to Shenhua Group in 2003. The increase from 2002 to 2004 was mainly due to the commencement of coal purchases by four subsidiaries of Shenhua Group from us for trading purposes.

Annual caps

Our Directors assume that the provision of coal between Shenhua Group and us will continue to grow, with the volume of coal supplied by Shenhua Group to us increasing by 15% per year, and the volume of the coal supplied by us to Shenhua Group increasing by 5% per year. Based on the above pro-forma historical transaction values and assuming normal growth of our businesses, our Directors assume that our annual expenditures in respect of coal provided by Shenhua Group to us for the years ending 31 December 2005, 2006 and 2007 will be approximately RMB969.3 million, RMB1,114.7 million, and RMB1,281.9 million, respectively, and our annual revenues in respect of the coal sold by us to Shenhua Group will be approximately RMB226.1 million, RMB237.4 million, and RMB249.3 million, respectively.

7 *Zhonglian Supply Agreement*

神華中聯能源控股有限公司 (Shenhua Zhonglian Energy Holdings Co., Ltd., or Zhonglian Energy) holds a 25% equity interest in our non-wholly owned subsidiary, 朔州神華騰達煤炭洗選有限公司 (Shuozhou Shenhua Tengda Coal Cleaning and Selection Co., Ltd. or Shenhua Tengda). Zhonglian Energy also holds a 70% equity interest in 神華中聯朔州煤業有限責任公司 (Shenhua Zhonglian Shuozhou Coal Co., Ltd., or Zhonglian Shuozhou). According to the Hong Kong 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 Hong Kong Listing Rules) of Zhonglian Energy.

Prior to the Restructuring, Zhonglian Shuozhou sold coal to one of our subsidiaries, 北京神華昌運高技術配煤有限公司 (Shenhua Changyun High Technology Coal Blending Co., Ltd., or Changyun Coal Blending). Shenhua Tengda provided coal washing services to Zhonglian Shuozhou from 2004. These transactions will continue after the Restructuring, and according to the Hong Kong Listing Rules, they will be connected transactions.

To regulate the relationships between the parties in relation to these transactions, we have entered into an agreement with Zhonglian Energy dated 24 May 2005 (the "Zhonglian Supply Agreement"). The principal terms of the Zhonglian Supply Agreement are as follows:

- the term of the Zhonglian Supply Agreement is for three years commencing from January 1, 2005;
- if the terms of the coal washing services provided by independent third parties are not more favourable than that provided by Shenhua Tengda, Zhonglian Shuozhou must give priority to the coal washing services provided by Shenhua Tengda;
- if the terms for the purchase of coal by an independent third party are not more favourable than that offered by Changyun Coal Blending, Zhonglian Shuozhou must give priority in selling coal to Changyun Coal Blending;
- if the price offered by an independent third party is not more favourable than that offered by Zhonglian Shuozhou, Shenhua Tengda must give priority in providing coal washing services to Zhonglian Shuozhou;
- if the terms for the supply of coal by independent third parties are not more favourable than that offered by Zhonglian Shuozhou, Changyun Coal Blending must give priority in buying coal from Zhonglian Shuozhou;
- 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;
- 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
- either party may terminate the contract upon giving the other six months' written notice.

Historical transaction value

For the financial years ended 31 December 2002, 2003 and 2004, total payments made by Changyun Coal Blending for the coal supplied by Zhonglian Shuozhou under the Zhonglian Supply Agreement were approximately RMB230.0 million, RMB163.0 million and RMB404.0 million, respectively. The increase in payment made by Changyun Coal Blending in 2004 is due to the increase of the amount of coal purchased by Changyun Coal Blending from Zhonglian Shuozhou as well as the significant increase in coal prices in 2004. For the financial year ended 31 December 2004, total payments made by Zhonglian Shuozhou to Shenhua Tengda for coal washing services were approximately RMB29.5 million. No coal washing services were provided by Shenhua Tengda to Zhonglian Shuozhou prior to 2004.

Annual caps

Our Directors assume that the transactions between the relevant subsidiaries of Zhonglian Energy and us will continue to grow. Based on the above historical transaction value, our Directors assume that our annual revenues in respect of the provision of coal washing services for the years ending 31 December 2005, 2006 and 2007 would increase by approximately 15% per year and therefore reach RMB33.9 million, RMB38.9 million, and RMB44.8 million, respectively, and annual expenditures in respect of coal bought by us from Zhonglian Shuozhou would increase by approximately 20% per year and therefore reach RMB484.8 million, RMB581.8 million, and RMB698.2 million, respectively.

8 *Dingzhou Coal Supply Agreement*

We hold a 51% equity interest in 河北國華滄東發電有限責任公司 (Hebei Guohua Cangdong Power Co., Ltd.), one of the equity holders of which is 河北省建設投資公司 (Hebei Province Development and Investment Company), which also holds a 40.5% interest in 河北國華定洲發電有限責任公司 (Hebei Guohua Dingzhou Power Co., Ltd.) (''Dingzhou Power Company'').

Prior to the Restructuring, one of our subsidiaries, 北京國華物流有限公司 (Beijing Guohua Logistics Company Limited) supplied coal to Dingzhou Power Company. The transactions will continue after the Global Offering. According to the Hong Kong 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 Hong Kong 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 (the ''Dingzhou Coal Supply Agreement'') relating to our supply of coal to Dingzhou Power Company. The principal terms of the Dingzhou Coal Supply Agreement are as follows:

- the term of the agreement is for three years commencing from 1 January 2005;
- if the terms of the sale of coal offered by independent third parties are not more favourable 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;
- 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;
- we are entitled to supply coal to any third party; and
- either party may terminate the agreement upon giving the other party six month's written notice.

Historical transaction value

We did not supply coal to Dingzhou Power Company prior to 2003. For the financial years ended December 31, 2003 and 2004, revenues generated from the supply of coal to Dingzhou Power Company under the Dingzhou Coal Supply Agreement were approximately RMB5.1 million and RMB314.6 million respectively. Revenues in 2003 accounted for the initial supply of coal prior to the commencement of operations of any of the generating units of Dingzhou Power Company. As disclosed in the section ''Business — Power Operations — Power Plants Serving the North China Power Grid — Guohua Dingzhou Power Plant'', one of the generation units of Dingzhou Power Company began commercial operations in April 2004 and the other in September 2004. The amount of coal supplied to Dingzhou Power Company increased significantly in that year and it would have been even greater had the power generation units been in operation since 1 January 2004.

Annual caps

Each of the two generating units has an installed capacity of 600 MW. The two power generating units of Dingzhou Power Company are expected to be in full operation for the whole of 2005. As a result, the amount of coal consumed by Dingzhou Power Company in 2005 is expected to be significantly higher than that consumed in 2004. The Directors also assume that the coal price will increase by approximately 30% in 2005, and thereafter by approximately 10% per year for each of 2006 and 2007. Accordingly, our Directors assume that our revenues generated from the supply of coal to Dingzhou Power Company will increase to reach approximately RMB818.0 million, RMB899.8 million and RMB989.8 million for each of the three years ending 31 December, 2007, respectively.

9 *Supply of Power by Our Power Plants to Independent Substantial Shareholders of Some of Our Non-wholly Owned Subsidiaries*

One of our indirect subsidiaries, 天津國華盤山發電有限責任公司 (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. or Northern Grid Corporation. Pursuant to the Hong Kong Listing Rules, Northern Grid Corporation is a connected person (being a substantial shareholder (as defined in the Hong Kong 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 中電國華電力股份有限公司北京熱電分公司 (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 at the subsidiary level, namely, Suizhong Power, Guohua Zhunge'er, Zhunge'er Power and Shenmu Power, also sell the power generated by them through the power grid company (ies) where they are located, namely, Northeastern China Power Grid Co., Ltd., North China Power Grid Co., Ltd and Northwestern China Power Grid Co., Ltd., respectively. 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 Hong Kong Listing Rules.

Historically, our subsidiaries supplied power to the Power Purchasers pursuant to individual power sale and purchase agreement which expired at the end of 2004. Each of our power plants mentioned above has entered into interim power purchase agreements ("Interim Purchase Agreements") with its corresponding Power Purchaser to extend the term of the power sale and purchase agreements to 31 December 2005. The principal terms of the Interim Purchase Agreement are as follows:

- 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;
- 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

- 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.

Historical transaction value

The supply of power by the power plants of our subsidiaries named above to these Power Purchasers generated approximately RMB5,676.6 million, RMB6,691.4 million and RMB7,519.7 million, respectively in aggregate revenues for the years ended December 31, 2002, 2003 and 2004.

Annual caps

Our Directors assume that the supply of power generated by the power plants of our subsidiaries named above to these Power Purchasers will continue to grow. Based on the above historical transaction values, our Directors assume that our annual revenues in respect of the sale of power by our power plants to these Power Purchasers for the year ending 31 December 2005 will reach RMB17,919 million. In calculating the increase in the caps from the historical figures, we have taken into account the increasing trend of the price of power and the expected commencement of operations of some of our new power plants in 2005 such as Ninghai Power with installed capacity of 2,400 MW which will operate in the coastal region of China where power tariffs are generally attractive. In calculating the cap, we have also assumed for the purpose of such cap that each of our power plants will be operating consistently at maximum capacity to allow our power plants to supply as much of the power they generate as possible whenever there is demand.

10 *Properties Leasing Agreement*

Upon completion of the Restructuring, Shenhua Group and us leased certain buildings and properties for general commercial business and ancillary uses from each other. Most of the buildings are leased from Shenhua Group for use as our offices. Shenhua Group has only leased one property from us, which is an office space used by one of the subsidiaries of Shenhua Group. 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:

- the lease is for a period of ten years from 1 January 2005, and may be renewed upon agreement;
- 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 on 10 January and 10 July each year or (if such a day is a public holiday) the first business day thereafter;
- the rent will be reviewed every three years and the revised rent shall not be higher than the market rental rates of similar properties;
- 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 favourable to us; and
- we may sub-let any of the properties with the consent of Shenhua Group.

Should the term be renewed, we shall ensure that the requirements of Chapter 14A of the Hong Kong Listing Rules are complied with.

American Appraisal China Limited, an independent valuer, has confirmed that the rental payments under the Properties Leasing Agreement reflect the prevailing market rates in the PRC and the terms of the agreement are fair and reasonable to us. The Joint Sponsors have also confirmed that the lease term of the agreement conforms with normal business practice in the PRC property market and is of a suitable duration to secure a favourable rental rate.

A term of 10 years is appropriate for the Properties Leasing Agreement, since (i) we are a mining company, the long-term stability of a 10-year tenure is required to avoid unnecessary disruption to our operations, (ii) the relevant land and buildings are of material significance to our operations, (iii) the term of the Properties Leasing Agreement conforms with normal business practice in the PRC property market, and (iv) the 10-year term assists in securing favorable rental rates.

Historical transaction value

For the financial years ended 31 December 2002, 2003 and 2004, the rental payments we made to Shenhua Group on a pro-forma basis, in respect of the lease of the buildings and properties which are the subject matter of the Properties Leasing Agreement were approximately, RMB13.7 million, RMB14.0 million and RMB48.8 million, respectively. The increase in rental payments in 2004 was due to the commencement of a new property lease from Shenhua Group to us for use by our Guohua Power Branch Company at an annual rental fee of RMB34.5 million. The rental payments Shenhua Group made to us were approximately RMB0.8 million for each of the three years ended 31 December 2004.

Annual caps

Based on the above historical transaction values and assumptions and the current agreed rental rates, our annual rental payable in respect of the Properties Leasing Agreement for each of the years ending 31 December 2005, 2006 and 2007 will be RMB51.0 million and our annual rental receivable in respect of the Properties Leasing Agreement for each of the years ending 31 December 2005, 2006 and 2007 will be RMB0.8 million.

Exempt Continuing Connected Transactions

11 *Trademarks Licence Agreement*

Our Company and Shenhua Group have entered into a trademarks licence agreement (the ''Trademarks Licence Agreement'') dated 24 May 2005.

Pursuant to the Trademarks Licence Agreement, Shenhua Group granted to us a non-exclusive licence to use the PRC registered trademarks registered and owned by it, namely ''Shenhua'' and ''Guohua'' brands in the form of Romanised spelling (Pinyin), Chinese Characters as well as in the form of a logo. The trademarks were licensed to us and our subsidiaries on a royalty-free basis for a term of ten years commencing from the 1 January 2004. We may renew the term for a further ten years by giving notice subject to relevant laws and regulations. Shenhua Group has agreed to maintain at its own cost the registration of such trademarks during the term of the Trademarks Licence Agreement. It has also agreed to increase the categories and places of registration of the licensed trademarks upon our reasonable request. Shenhua Group has also agreed to be responsible for any expenses for enforcement against any infringement of the licensed trademarks by any third parties. See ''Business — Intellectual Property'' also for a discussion on sharing of trademarks between the Group and Shenhua Group.

Should the term be renewed, we shall ensure that the requirements of Chapter 14A of the Hong Kong Listing Rules are complied with. As the grant of rights to use certain trademarks by Shenhua Group to us is on a free-of-charge basis, the transactions under the Trademarks Licence Agreement are exempted from the reporting, announcement and independent shareholder's approval requirements applicable to continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules as it falls within the de minimis threshold as stipulated under Rule 14A.33 of the Hong Kong Listing Rules.

12 *Land Leasing Agreement*

Upon completion of the Restructuring, we leased from Shenhua Group certain parcels of land for our general commercial and business use as permitted by relevant regulations of the Ministry of Land and Resources. We entered into a land use rights leasing agreement on 24 May 2005 with Shenhua Group (the ''Land Leasing Agreement'') regarding the terms and conditions for our lease of land use rights of two parcels of land used by our Shenshuo Rail Line. The principal terms of the Land Leasing Agreement are:

- The lease is for a period of 20 years from 1 January 2005. We shall be entitled, at our sole discretion, to renew the agreement for another 20 years on the same terms (subject to the then prevailing market rent) by giving one month's notice prior to the termination of the Land Leasing Agreement;
- We have an option to purchase the two parcels of land used by our Shenshuo Rail Line after Shenhua Group has obtained the relevant land use rights certificates at a price to be determined by an independent professional valuer;
- No rent shall be payable by us in relation to any parcel of land being rented before Shenhua Group has obtained the relevant land use rights certificate for that parcel of land, but thereafter the annual rent shall be determined between the parties based on the relevant laws and regulations then in force and the local market rate;
- Our rights to use the land use rights of the parcels of land under the Land Leasing Agreement may not be sub-let; and
- We may at any time during the term of the Land Leasing Agreement terminate the lease of any parcel of land leased under the Land Leasing Agreement upon service of three months' notice, but Shenhua Group may not unilaterally terminate the Land Leasing Agreement or any of the leasing arrangements under this agreement.

Should the term be renewed, we shall ensure that the requirements of Chapter 14A of the Hong Kong Listing Rules are complied with.

American Appraisal China Limited, an independent valuer, has confirmed that the terms of the agreement are fair and reasonable to us. The Joint Sponsors have also confirmed that the lease term of the agreement conforms with normal business practice in the PRC property market and is of a suitable duration to secure a favourable rental rate.

We believe a term of 20 years is appropriate for the Land Leasing Agreement since (i) we are a mining company, the long-term stability of a 20-year tenure is required to avoid unnecessary disruption to our operations, (ii) the relevant land and buildings are of material significance to our operations, (iii) the term of the Land Leasing Agreement conforms with normal business practice in the PRC property market, and (iv) the 20-year term assists in securing favorable rental rates.

Under the Land Leasing Agreement, the aggregate annual rent payable by us to Shenhua Group and its subsidiaries is RMB4.8 million. As the aggregate annual rent payable by us falls within the de minimis threshold as stipulated under Rule 14A.33 of the Hong Kong Listing Rules, the Land Leasing Agreement is not subject to any of the reporting, announcement and independent shareholders' approval requirements applicable to continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules.

13 *Loans from Our Connected Persons*

Some of the substantial shareholders which are connected persons (as described in paragraph 9 above and stipulated under the Hong Kong Listing Rules) of our subsidiaries (primarily our power plants) have also provided loans to our subsidiaries. These loans have been provided on normal commercial terms or terms which are more favorable than normal commercial terms. No security has been granted in respect of any of these loans. These loans amount to the provision of financial assistance by connected persons to our subsidiaries and these transactions are exempted from all reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.65(4) of the Hong Kong Listing Rules.

In July 2002, Shenhua Group issued debentures of RMB1.0 billion due July 2005. The debentures were issued before our establishment and their proceeds were used for constructing the second track of the Shenshuo Rail Line. In January 2005, Shenhua Group issued additional debentures of RMB1.0 billion due 2012. The terms of these debentures specify that the proceeds from this recent issue be used for upgrading the mining facilities at the Shendong Mines and constructing the second track of the Shuohuang Rail Line. The assets funded by these issues of debentures were transferred to us as part of the Restructuring. We entered into two entrustment loan agreements on 24 May 2005 with a third party commercial bank and Shenhua Group, pursuant to which amounts equal to the proceeds of the debenture issues were deposited by Shenhua Group with the commercial bank and on-lent to us by way of entrustment loan, the principal terms of which reflect the principal terms of the debentures. These loans have been issued on normal commercial terms without security. The loans will amount to the provision of financial assistance by a connected person to our subsidiaries and these transactions are exempted from all reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.65(4) of the Hong Kong Listing Rules.

14 *Dingzhou Maintenance Agreement*

As described in paragraph (8) above, Dingzhou Power Company is our connected person. One of our subsidiaries, Shuohuang Railway Development Company Limited, has been providing rail line maintenance services to Dingzhou Power Company since 2004. This transaction will continue after the listing.

To regulate the relationship between the parties in this respect, Shuohuang Railway Development Company Limited entered into an agreement with Dingzhou Power Company (the "Dingzhou Maintenance Agreement"). Pursuant to the Dingzhou Maintenance Agreement, Shuohuang Railway Development Company Limited shall maintain the exclusive rail line owned by Dingzhou Power Company on a daily basis. Dingzhou Power Company shall pay Shuohuang Railway Development Company Limited an annual service fee of approximately RMB3 million. The maintenance agreement is for a period of two years commencing from 1 January 2005 and may be renewed upon mutual agreement between the two parties. Should the term be renewed, we shall ensure that the requirements of Chapter 14A of Hong Kong Listing Rules are complied with.

As the aggregate annual revenues generated from the transaction falls below the de minimis threshold as stipulated under Rule 14A.33 of the Hong Kong Listing Rules, the Dingzhou Maintenance Agreement is not subject to any of the reporting, announcement and independent shareholders' approval requirements applicable to continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules.

Waivers

In respect of the transactions described in paragraph (1) above, save for the indemnities from each party in favour of the other under the Restructuring Agreement, the rights and obligations of the parties in respect of the Restructuring Agreement have been performed and thus the transactions will not continue after the listing of the H Shares on the Hong Kong Stock Exchange. Therefore, they will not be subject to any reporting, announcement or independent shareholders' approval requirements related to connected transactions under the Hong Kong Listing Rules. In respect of the indemnities under the Restructuring Agreement, any payment which in the future might be made by either party in performance of its obligations after the Global Offering would not constitute a new transaction. Any such payment would merely be performance of a transaction which was entered into prior to the Global Offering.

The connected transaction described in paragraph (2) above has been put in place for our benefit, was entered into prior to the Global Offering and is solely for the purpose of the Global Offering. Further, the transaction does not involve any monetary consideration. Accordingly, the transaction qualifies under Rule 14A.31(2) of the Hong Kong Listing Rules as a de minimis transaction exempt from the reporting, announcement and independent shareholders' approval requirements.

The exercise of any options granted under the Non-competition Agreement after listing would constitute a connected transaction under the Hong Kong Listing Rules. In addition, pursuant to Rule 14A.70(3), the non-exercise of any option will be treated as if the option were exercised and would constitute a connected transaction. We shall comply with the relevant reporting, announcement and/or independent shareholders' approval requirements pursuant to the Hong Kong Listing Rules should any of the options be exercised, if any of the options lapse without being exercised or if we have made a decision not to exercise any of the options.

In the view of our Directors (including our independent non-executive Directors), the transaction described in paragraph (2) above has been entered into on normal commercial terms that are better than those entered into in our usual and ordinary course of business and are in the interest of our shareholders as whole.

The transactions described in paragraphs (3) to (10) above will constitute non-exempt continuing connected transactions under the Hong Kong Listing Rules once the H shares are listed on the Hong Kong Stock Exchange. Apart from the transactions described in paragraphs (7) and (9) above, these transactions are also related party transactions as described in the Accountants' Report at Appendix I. As described in paragraphs (7) and (9) above, Zhonglian Shuozhou, Northern Grid Corporation, Northeastern China Power Grid Co., Ltd., and Northwestern China Power Grid Co., Ltd. are connected persons under the Hong Kong Listing Rules. However, they are not considered related parties under IFRS as we have no control or significant influence over, nor are we under common control with, these parties.

Pursuant to the Hong Kong Listing Rules, the non-exempt continuing connected transactions in paragraphs (3) to (10) would normally require full reporting, announcement and (where applicable) prior approval by independent shareholders, subject to the nature and the value of the transactions. Our Directors, including the independent non-executive Directors, consider that disclosure and approval of these transactions in full compliance with the Hong Kong Listing Rules would be impracticable and, in particular, add unnecessary administrative costs to us. In addition, our Directors believe that it is in our interests to continue with these transactions after the listing of our H Shares on the Hong Kong Stock Exchange and that such transactions are conducted on or on better than normal commercial terms, in our ordinary course of business and are fair and reasonable and in the interests of our shareholders as a whole. The Hong Kong Stock Exchange has granted us waivers from strict compliance with the announcement and (where applicable) independent shareholders' approval requirements of the Hong Kong Listing Rules in respect of each of these transactions subject to the aggregate value of each of these non-exempt continuing connected transactions for each financial year not exceeding the relevant annual cap amount set forth below:

	Proposed annual limit		
Expenditure	**2005**	**2006**	**2007**
	(RMB in millions)		
1. *Export Agency Agreement* Agency fees payable to Shenhua Group for the export of coal	75.0	94.4	107.7
2. *Mutual Supply Agreement* Annual amount payable to Shenhua Group for the provision of production supplies and ancillary services to us	707.4	886.7	1,120.1
3. *Mutual Supply of Coal Agreement* Annual amount payable to Shenhua Group for the supply of coal by Shenhua Group (including the Xisanju Companies) to us	969.3	1,114.7	1,281.9
4. *Zhonglian Supply Agreement* Annual amount payable by us to Zhonglian Energy (including Zhonglian Shuozhou) for coal supplied to us	484.8	581.8	698.2
5. *Properties Leasing Agreement* Annual rental payable by us to Shenhua Group for the lease of various buildings and properties	51.0	51.0	51.0

	Proposed annual limit		
Revenue	**2005**	**2006**	**2007**
	(RMB in millions)		
1. *Agency Sales Agreement* Annual agency fees for the sales of coal of the Xisanju companies	4.7	6.1	7.9
2. *Mutual Supply Agreement* Annual amount payable by Shenhua Group to us for our provision of production supplies and ancillary services to Shenhua Group	111.8	153.0	202.0
3. *Mutual Supply of Coal Agreement* Annual amount payable to us for our supply of coal to Shenhua Group	226.1	237.4	249.3

Revenue	Proposed annual limit 2005	2006	2007
	(RMB in millions)		
4. *Zhonglian Supply Agreement*			
Annual amount payable by Zhonglian Shuozhou to us for providing coal washing services	33.9	38.9	44.8
5. *Dingzhou Coal Supply Agreement*			
Annual amount payable by Dingzhou Power to us for our supply of coal to Dingzhou Power Company	818.0	899.8	989.8
6. *Interim Purchase Agreements*			
Annual amount payable by relevant power grid companies to us for our sales of power	17,919.0	—	—
7. *Properties Leasing Agreement*			
Annual rental payable by Shenhua Group to us for the lease of various buildings and properties	0.8	0.8	0.8

The Hong Kong Stock Exchange has granted waivers in relation to transactions under the following agreements from the announcement and independent shareholders' approval requirements of the Hong Kong Listing Rules:

- Mutual Supply Agreement
- Mutual Supply of Coal Agreement
- Zhonglian Supply Agreement
- Dingzhou Coal Supply Agreement
- Interim Purchase Agreements

The Hong Kong Stock Exchange has granted waivers in relation to transactions under the following agreements from the announcement requirement of the Hong Kong Listing Rules. Pursuant to Rule 14A.34 of the Hong Kong Listing Rules, these transactions are exempt from the independent shareholders' approval requirement of the Hong Kong Listing Rules:

- Export Agency Agreement
- Agency Sales Agreement for the Xisanju Companies
- Properties Leasing Agreement

In applying for the waivers, we have agreed that we will comply with the requirements specified under Rule 14A.42(3) of the Hong Kong Listing Rules.

Our Directors consider that the maximum aggregate annual values of all the continuing connected transactions described in paragraphs (3) to (10) above are fair and reasonable and all such continuing connected transactions have been entered into and will be carried out in the ordinary course of business, will be conducted on or on better than normal commercial terms and are fair and reasonable so far as our shareholders as a whole are concerned.

The transactions described in paragraph (13) above are exempt connected transactions within the meaning of Chapter 14A of the Hong Kong Listing Rules as they amount to the provision of financial assistance by connected persons to our subsidiaries on normal commercial terms or on terms which are more favorable than normal commercial terms.

The transactions described in paragraphs (11), (12) and (14) above are exempt connected transactions under the Hong Kong Listing Rules as the annual value of each of these transactions falls below the de minimis disclosure threshold set by the Hong Kong Listing Rules.

Confirmation from the Joint Sponsors

The Joint Sponsors have reviewed relevant documentation, information and historical data provided by us and have participated in due diligence and discussions among our advisers and us, and have also considered representations and confirmations from us and our Directors, to satisfy themselves of the reliability of the information provided in relation to the connected transactions described in paragraphs (1) to (10) above. Based on the above, the Joint Sponsors are of the view that (i) the continuing connected transactions described in paragraphs (3) to (10) above for which waivers are sought have been entered into in the ordinary course of business of the Company on normal commercial terms and are fair and reasonable as far as the Company's shareholders as a whole are concerned and (ii) that the proposed annual caps for these continuing connected transactions referred to above are reasonable.

MANAGEMENT

Board of Directors

Our Board of Directors consists of nine Directors, three of whom are independent non-executive Directors. All of our Directors were elected at the meeting of our sole shareholder in November 2004. Our Directors serve for a term of three years, renewable upon re-election or re-appointment. The SASAC may designate nominees and request Shenhua Group to propose the appointment of such nominees as our Directors and senior management, The SASAC may also request Shenhua Group to remove our Directors and senior management.

The Board of Directors is responsible to the shareholders' general meeting and exercises powers including, but not limited to:

(a) convening shareholders' general meetings and reporting on the Board's work to the shareholders general meetings;

(b) implementing the resolutions of shareholders' general meetings;

(c) determining our business plans and investment proposals;

(d) formulating our annual financial budget and final report;

(e) formulating our profit distribution plans and loss recovery plans;

(f) formulating proposals for the increase or decrease in our registered capital and the issue of corporate debentures;

(g) formulating our major acquisition and share repurchase plans, and plans for merger, division or dissolution;

(h) determining the establishment of our internal management structure;

(i) appointing or removing our President, and appointing or removing other senior officers based on the recommendations of our President, and determining their remuneration, award and discipline matters;

(j) formulating our basic management system; and

(k) formulating proposals for any amendment to our articles of association.

Except for items (f), (g) and (k) above and decision of our providing guarantee to any third party, which require the affirmative vote of two-thirds or more of all of our Directors, resolutions on any other items listed above may be approved by the affirmative vote of more than one-half of our Directors.

In addition to Board approval, the entry into profit distribution plans and loss recovery plans; changes in our registered capital; the issuance of debentures; amendments of our Articles of Association; and major corporate transactions, such as acquisitions, disposals, mergers, divisions or dissolutions, require approval of our shareholders.

Six of our Directors are currently affiliated with Shenhua Group or an affiliate of Shenhua Group.

Supervisory Committee

The PRC Company Law requires a joint stock company with limited liability to establish a board of Supervisors. The board of Supervisors is responsible for monitoring our financial matters and supervising the actions of our Board of Directors and our management personnel. Our board of

Supervisors consists of three Supervisors. One member of our board of Supervisors must be an employee representative elected by our employees. The remaining members must be appointed by shareholders in a general meeting. One member of our board of Supervisors serves as its chairman. Members of the board of Supervisors may not be a director, the President or the chief financial officer of our company. The term of office of our Supervisors is three years, which is renewable upon re-election or re-appointment.

The functions and powers of our board of Supervisors include, among others:

- reviewing and verifying financial reports and other financial information which have been prepared by the Board of Directors and which are proposed to be presented at shareholders' meetings;
- overseeing our Directors, president, vice presidents and other senior officers in order to prevent such persons from abusing their authority or infringing upon our interests;
- proposing special shareholders' meetings; and
- exercising other powers under our Articles of Association.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following table sets forth certain information concerning our Directors.

Name	Age	Position
Chen Biting	59	Chairman of the Board of Directors and Executive Director
Zhang Xiwu	46	Non-executive Director
Wu Yuan	59	Executive Director and President
Zhang Yuzhuo	43	Non-executive Director
Ling Wen	42	Executive Director, Executive Vice President and Chief Financial Officer
Han Jianguo	47	Non-executive Director
Huang Yicheng	78	Independent non-executive Director
Anthony Francis Neoh	58	Independent non-executive Director
Chen Xiaoyue	58	Independent non-executive Director

Directors

CHEN Biting, 59, has served as Chairman of our Board of Directors and an executive Director since November 2004. Mr. Chen is also Chairman of the board of directors of Shenhua Group and was previously the General Manager of Shenhua Group. Mr. Chen also serves as the Vice Secretary General of the No. 4 Standing Committee of the Chinese Electricity Council. Prior to joining Shenhua Group in November 2000, Mr. Chen served as Vice Governor of Jiangsu province, Director General of the Economic Planning Commission of Jiangsu province, Vice Secretary General of the Jiangsu provincial government, Deputy Director General of the Economic Planning Commission of Jiangsu province and Executive Vice Mayor of Yancheng City, Jiangsu province. Mr. Chen has over 30 years of experience in macroeconomic and enterprise management. He graduated from the University of Science and Technology of China in 1970.

ZHANG Xiwu, 46, has served as a non-executive Director since November 2004. Dr. Zhang has served as the General Manager of Shenhua Group since 2004. Previously, he served as a Vice General Manager of Shenhua Group, Chairman and General Manager of Shenhua Shendong Coal Company, Chairman of Shenhua Dongsheng Coal Company, Manager of the Fine Coal Business Department of Shenhua Group. Prior to joining Shenhua Group in August 1995, Mr. Zhang was Deputy Chief of the Bureau of Coal Industry of Jilin province and Deputy General Manager of the Northeast Inner Mongolia Coal Group Company. Dr. Zhang has in-depth industry knowledge of, and over 20 years of operational and management experience in the coal industry in China. He graduated from Jixi College of Technology in 1988, and he obtained a master's degree and a Ph.D degree from Liaoning University of Engineering and Technology in 1997 and 2003, respectively.

WU Yuan, 59, has served as the President and an executive Director of our Company since November 2004. Prior to joining our Company, he served as a Vice General Manager of Shenhua Group since 1998. Before joining Shenhua Group, Mr. Wu served as Vice Chairman and General Manager of CIECC Beijing Overseas Consulting Co., Ltd, Head of the Jixi Coal Machinery Plant, Deputy Section Chief of the Manufacturing Bureau of the Former Ministry of Coal Industry and Manager in charge of electric technology management at the Xishan Mining Bureau of Shanxi province. Mr. Wu has in-depth industry knowledge and extensive management experience in the PRC coal industry. He is a Senior Engineer and Vice President of the China Coal Industry Association. Mr. Wu graduated in 1970 from the Electrical Engineering Department of Tsinghua University.

ZHANG Yuzhuo, 43, has served as a non-executive Director since November 2004. Dr. Zhang is also a Vice General Manager of Shenhua Group and Chairman of 中國神華煤製油有限公司 (China Shenhua Coal Liquefaction Company Limited). Prior to joining Shenhua Group in December 2001, Dr. Zhang served as the President of the China Coal Research Institute, Chairman of China Coal Technology Corporation, Chairman of Tiandi Science & Technology Co. Ltd. and Deputy General Manager of Yankuang Group Co. Ltd. Dr. Zhang is experienced in management of research and development activities and has approximately 20 years of enterprise management experience in the coal industry in China. He graduated in 1982 from Shandong University of Science and Technology with a bachelor's degree, received a master's degree from China Coal Research Institute in 1985 and a Ph.D. degree from the University of Science and Technology of Beijing in 1989. From 1992 to 1996, Dr. Zhang conducted post-doctoral research and study of clean coal technology at the University of Southampton and Southern Illinois University at Carbondale.

LING Wen, 42, has served as the Executive Vice President, the Chief Financial Officer and an executive Director of our Company since November 2004. Dr. Ling is also Chairman of Shenhua Finance. Prior to joining our Company, Dr. Ling served as a Vice General Manager of Shenhua Group. Prior to joining Shenhua Group in December 2001, Dr. Ling served as Deputy General Manager of the International Business Department of the Industrial and Commercial Bank of China, Deputy General Manager of Industrial and Commercial Bank of China (Asia) Limited and Chairman of UB China Business Management Company Limited. Dr. Ling has in-depth and extensive experience in financial institution and enterprise management. He holds a professorship at the school of management of the Harbin Institute of Technology, is a member of the Institute of Financial Accountants of the United Kingdom and is a fellow-professional accountant of the National Institute of Accountants of Australia. Dr. Ling graduated from Shanghai Jiaotong University with a bachelor's degree in science in 1984, received a master's degree in system engineering from Harbin Institute of Technology in 1987 and received a Ph.D. degree in management engineering in 1991. From 1992 to 1994, Dr. Ling conducted research in macroeconomics as a post-doctoral fellow in the Department of Automation of Shanghai Jiaotong University.

HAN Jianguo, 47, has served as a non-executive Director since November 2004. Mr. Han has also been Vice General Manager of Shenhua Group since 2003. Previously, he served as Chairman and General Manager of Shenhua Trading. Prior to joining Shenhua Group in April 1998, Mr. Han also served as secretary to the Vice Minister of the former State Development and Planning Commission. Mr. Han is a Senior Engineer and is experienced in macroeconomic and enterprise management in the coal industry in China. He graduated from Fuxin College of Mining and Technology in Liaoning province with a bachelor's degree in 1983 and received a master's degree from Tongji University in 1999.

HUANG Yicheng, 78, has served as an independent non-executive Director since November 2004. Mr. Huang previously served as the Co-Chairman of the Sino-Russia Friendship, Peace and Development Committee, Deputy Director of the Financial and Economic Committee of the Eighth National People's Congress, Minister of the Ministry of Energy and Vice Minister of the former State Planning Commission. Mr. Huang is also a Senior Engineer.

NEOH Anthony Francis, 58, has served as an independent non-executive Director since November 2004. Mr. Neoh is a member of the International Advisory Committee of the CSRC and was previously the Chief Advisor to the CSRC. He was Chairman of the SFC from 1995 to 1998 and Chairman of the Technical Committee of the International Organisation of Securities Commissions from 1996 to 1998. From 1991 to 1994, he was a member of the Hong Kong Stock Exchange Council and its Listing Committee. He was appointed Queen's Counsel (now retitled Senior Counsel) in 1990. He was Nomura Visiting Professor for International Financial Systems at the Harvard Law School in 2004. He graduated from the University of London with a bachelor's degree in law in 1976. In 2003, Mr. Neoh was granted an honorary doctorate by the Chinese University of Hong Kong.

CHEN Xiaoyue, 58, has served as an independent non-executive Director since November 2004. Dr. Chen is President of Beijing National Accounting Institute, Director of Accounting Research Institute at Tsinghua University and President of the Education Committee of the China Accounting Academy. He is also a member of the Standing Committee of the China Accounting Academy, and serves as an independent non-executive Director of China United Telecommunications Corporation Limited, First Automotive Works Car Co., Ltd and Yunnan Baiyao Co., Ltd. Dr. Chen was previously Vice Dean of the Economic Management School of Tsinghua University and Dean of the Department of Accounting of Tsinghua University. He graduated in 1982 from Tsinghua University with a bachelor's degree and received his master's and Ph.D degrees from Tsinghua University in 1984 and 1988, respectively. Dr. Chen has an intimate knowledge of both PRC and international accounting standards and has accumulated significant experience in the review and establishment of internal controls, risk management measures and corporate governance of publicly listed companies. The Directors are of the view that Dr. Chen is suitable for the position of independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise, as required under Rule 3.10(2) of the Hong Kong Listing Rules.

Supervisors

The following table sets forth certain information concerning our Supervisors.

Name	Age	Position
Xu Zufa	56	Chairman of the board of Supervisors
Wu Gaoqian	54	Supervisor
Li Jianshe	51	Employee representative Supervisor

XU Zufa, 56, has served as Chairman of our board of Supervisors since November 2004. Mr. Xu is also Chairman of the Labour Union of Shenhua Group. Prior to joining Shenhua Group in July 2002, Mr. Xu served as Deputy Director and a director-level supervisor of the Organisation Department of the Central Committee of the Communist Party of China. Mr. Xu has extensive human resources management experience. He graduated from the Central Communist Party School with a bachelor's degree in 1993.

WU Gaoqian, 54, has served as a Supervisor of our Company since November 2004. Prior to joining our Company, Mr. Wu joined Shenhua Group in August 1996 served as Director of the Audit and Inspection Office of Shenhua Group. He graduated from the China People's Police University (now retitled China People's Public Security University) in 1987.

LI Jianshe, 51, has served as an employee representative Supervisor of our Company since November 2004. Mr. Li is also Deputy General Manager and Chairman of the Labour Union of Shenhua Huanghua Harbor Administration Company Limited. Prior to joining our company, Mr. Li served as Section Chief of the General Planning Office of Shenhua Group. Before joining Shenhua Group in December 2000, Mr. Li also served as Chief of the Secretary Section of General Office of the Ministry of Communications. Mr. Li is a Senior Engineer and graduated from Beijing University of Technology in 1978.

Senior Management

The following table sets forth certain information concerning our senior management.

Name	Age	Position
Hao Gui	42	Vice President
Wang Jinli	46	Vice President
Xue Jilian	50	Vice President
Hua Zeqiao	54	Vice President
Wang Pingang	43	Vice President
Huang Qing	39	Secretary to Board of Directors and Joint Company Secretary

HAO Gui, 42, has served as Vice President in charge of safety, health and environmental management and operational coordination of our Company since November 2004. Prior to joining our Company, he served as Vice Chief Economist of Shenhua Group, Chairman of Shenhua Mengxi Coal Chemical Company Limited, Chairman of Shenhua Zhonglian Shuozhou Coal Company, Chairman of Zhonglian Economic and Technological Development Company, Chief Economist of Shenhua Shenfu Fine Coal Company. Before joining Shenhua Group in May 1996, Mr. Hao acted as Vice Director of the Yanzishan Mine of Datong Coal Mining Bureau and lecturer at the Economics and Trade School of the China University of Mining and Technology. Mr. Hao is a Senior Economist and has in-depth industry knowledge with over 15 years of operational and managerial experience in the coal industry in

China. He graduated from China University of Mining and Technology with a bachelor's degree in 1984 and received a master's degree in 1987.

WANG Jinli, 46, has served as Vice President in charge of coal production at our Company since November 2004. Prior to joining our Company, Mr. Wang served as the Chairman of the board and General Manager of Shenhua Shendong Coal Company, Deputy General Manager of Shenhua Shendong Coal Company, Director of Shenhua Port Company, Director of the Changchun Coal Technology Centre and Director of the Hunchun Coal Mining Bureau. Mr. Wang is a Senior Engineer and has approximately 30 years of operational and experience in the coal industry in China. He graduated from Jilin University with a bachelor's degree in 1992 and received a master's degree from Liaoning Technical University in 2002.

XUE Jilian, 50, has served as Vice President in charge of transportation operations at our Company since November 2004. Mr. Xue has also served as Chairman and General Manager of Shuohuang Railway Development Company Limited since September 2003. Prior to joining Shenhua Group in April 1999, Mr. Xue served as Deputy Director and Chief Engineer of Number 16 Engineering Bureau of the Ministry of Railways. Mr. Xue is a professor-level Senior Engineer and has extensive operational and management experience in railway construction and rail transportation enterprises. He graduated in 1993 from Southwest Jiaotong University in Sichuan province with a bachelor's degree and received a master's degree from Southwest Jiaotong University in 2001.

HUA Zeqiao, 54, has served as Vice President of our Company in charge of coal marketing since November 2004. Mr. Hua has also been Chairman and General Manager of Shenhua Trading since 2004. Previously, he served as Deputy General Manager and Chairman of the Labour Union of Shenhua Trading and prior to joining Shenhua Group in September 1998, he also served as Chief Economist of the Jixi Mining Bureau, and Deputy Chief Economist and Head of the Marketing Office of the Jixi Mining Bureau. Mr. Hua is a Senior Economist and has over 30 years of operational and managerial experience in coal production and sales management. He graduated from Harbin Normal University with a bachelor's degree in 1991.

WANG Pingang, 43, has served as Vice President in charge of power operations of our Company since November 2004. Mr. Wang has also served as Chief Engineer of 北京國華電力有限公司 (Beijing Guohua Electric Corporation), since 2004. Previously, he served as General Manager, Deputy General Manager and Chief Engineer of Suizhong Power Generation Company, and prior to joining Shenhua Group in March 1999, he also served as Deputy Head of the Yuanbaoshan Power Plant. Mr. Wang is a Senior Engineer and has extensive operational and management experience in the power industry. He graduated from Northeast China Institute of Electric Power Engineering with a bachelor's degree in 1987.

HUANG Qing, 39, has served as Secretary to our board of Directors since November 2004 and is also a joint company secretary of our Company. Prior to joining our Company, Mr. Huang served as Deputy Director of the General Office of Shenhua Group from 2002 and secretary to the Chairman of Shenhua Group since July 2003. Prior to joining Shenhua Group in 1998, he served as Deputy General Manager of the Hubei Provincial Railway Company and secretary to the Vice Governor of the Hubei provincial government. Mr. Huang obtained a board secretary certification from the Shanghai Stock Exchange in 2004. Mr. Huang graduated from the National University of Defence Technology with a bachelor's degree in 1988 and received a master's degree from Guangxi University in 1991.

JOINT COMPANY SECRETARY

Ng Chai Ngee, 45, is a joint company secretary of our Company. Ms. Ng has served as the general counsel of the Legal Department (China Division) of Kerry Holdings Ltd. from June 2004. Prior to that, she served as in-house legal counsel and consultant to various divisions of the Kuok Group, including Shangri-la Asia Ltd. From 1989 to 1991, Ms. Ng was the executive secretary of the Law Society of Singapore, responsible for its organisation and management, including administration, finance, professional education programme, professional conduct and other issues. She carried on private practice as a lawyer at various law firms in Singapore between 1984 and 1989. She is qualified to practice law in Hong Kong, England and Wales and Singapore. She was appointed as our joint company secretary on a part-time basis in May 2005.

REQUIREMENTS UNDER RULE 8.17 AND RULE 19A.16

As Mr. Huang Qing does not possess the qualifications required under Rule 8.17(2) of the Hong Kong Listing Rules, he does not meet all the requirements under Rule 8.17. Given the important role of the company secretary in the corporate governance of a listed issuer, particularly in assisting the listed issuer as well as its directors in complying with the Hong Kong Listing Rules and other relevant laws and regulations, we have the following arrangement:

- to engage Ms. Ng Chai Ngee who meets the requirements under Rule 8.17 of the Hong Kong Listing Rules, as a joint company secretary to assist Mr. Huang Qing so as to enable him to acquire the relevant experience (required under Rule 8.17(3) of the Hong Kong Listing Rules) to discharge the functions as company secretary of our Company; and

- Ms. Ng Chai Ngee will be engaged as our joint company secretary for an initial period of three years from the date of listing of the Offer Shares.

Ms. Ng has obtained consent from her employer prior to taking up the position of joint company secretary of the Company. The Company is of the view that the proposed assistance by Ms. Ng to Mr. Huang Qing as joint company secretary would not be hindered in any way as a result of the part-time nature of the appointment.

We have applied to the Hong Kong Stock Exchange for, and have been granted, a waiver from strict compliance with the requirements of Rule 8.17 and Rule 19A.16 of the Hong Kong Listing Rules. Upon the expiry of the initial three years period, the qualifications of Mr. Huang Qing will be re-evaluated to determine whether the appointment of Mr. Huang Qing as our company secretary will satisfy the requirements laid down in Rule 8.17 of the Hong Kong Listing Rules.

QUALIFIED ACCOUNTANT

Liu Yu, 27, has served as our qualified accountant pursuant to Rule 3.24 of the Hong Kong Listing Rules. Ms. Liu is employed by us on a full-time basis and is a member of our senior management. Ms. Liu is a professional accountant and a member of the American Institute of Certified Public Accountants, an Associate of the National Institute of Accountants and an Associate of the Institute of Financial Accountants. Prior to joining Shenhua Group in April 2004 as a financial manager, Ms. Liu worked as an auditor at SF Partnership LLP and PricewaterhouseCoopers. Ms. Liu graduated from Renmin University of China with a bachelor's degree in Finance and holds a master's degree in management and professional accounting from the University of Toronto.

MANAGEMENT PRESENCE IN HONG KONG: RULE 8.12 AND RULE 19A.15 REQUIREMENTS

According to Rule 8.12 and Rule 19A.15 of the Hong Kong Listing Rules, an issuer must have sufficient management presence in Hong Kong including at least two of the issuer's executive Directors ordinarily resident in Hong Kong. Since the operation of our Company is in the PRC, we do not and, for the foreseeable future, will not, have management presence in Hong Kong. Currently, all of our executive Directors reside in the PRC. Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 8.12 and Rule 19A.15 of the Hong Kong Listing Rules. Both the authorised representatives of our Company will be readily contactable by the Hong Kong Stock Exchange and will readily make themselves available in Hong Kong whenever necessary to deal promptly with enquiries from the Hong Kong Stock Exchange. We have made arrangements to maintain effective communication between us and the Hong Kong Stock Exchange. Such arrangements include appointing Ms. Ng Chai Ngee, our joint company secretary, as an alternate to our authorised representatives, Dr. Ling Wen and Mr. Huang Qing. We believe that Ms. Ng Chai Ngee will be in a position to represent our Company, since as joint company secretary of our Company, she will have to familiarise herself with our affairs in order to comply with the obligations imposed on her under the Hong Kong Listing Rules, and she will have sufficient knowledge of our affairs in order to discharge her responsibilities as an alternate authorised representative of our Company. In addition, we have retained CICC (HK), Deutsche Bank and Merrill Lynch as compliance advisers to act as our alternative channel of communication with the Hong Kong Stock Exchange for the period from the Listing Date to the date when we mail our annual reports to our shareholders for the first full financial year immediately after our listing.

EMPLOYEES

As of 31 December 2002 and 2003, Shenhua Group had 97,504, and 81,951 employees, respectively. During the same periods, Shenhua Group had 9,910, and 11,674 temporary employees, respectively. After the Restructuring, we had 42,661 employees, including 11,679 temporary employees, as of 31 December 2004. The table below sets forth the number of our employees by their functions:

	As of 31 December 2004	
	Number of Employees	**% of Total**
Operations and maintenance		
Coal mining and transportation	22,447	52.6
Power generation	7,282	17.1
Management, finance and administrative	4,818	11.3
Research and development and technical support	2,366	5.5
Sales and marketing	869	2.0
Other	4,879	11.4
Total	42,661	100.0%

We have implemented a number of initiatives in recent years to enhance the productivity of our employees. Our employees are selected through a competitive process. We conduct periodic performance reviews for all our employees, and salaries and bonuses of employees are performance-based. In addition, we have implemented training programs for different job requirements. We believe that these initiatives have contributed to increased employee productivity.

We have unions at each mine that work to protect employees' rights and welfare benefits, organise education programs, encourage participation in management decisions and assist in mediating disputes between us and individual employees. We have not experienced any strikes or other labor disturbances that have interfered with our operations, and we believe that the relationship among our management, the labour unions and our employees is good.

The remuneration package for our employees generally includes salary and bonuses. Employees also receive welfare benefits including medical care, housing subsidies, child care and education, retirement, occupational injury insurance and other miscellaneous items. As required by applicable regulations, we participate in various retirement plans organised by municipal and provincial governments for our staff. We are required to make contributions to the retirement plans at rates ranging from 17% to 20% of the salaries, bonuses and certain allowances of our staff. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his retirement date. We have no other material obligations for the payment of pension benefits associated with these plans beyond the annual contributions described above. Our contributions for the years ended 31 December 2002, 2003 and 2004 were RMB179 million, RMB246 million and RMB283 million, respectively.

BOARD COMMITTEES

We have established the following four committees of our Board of Directors: an audit committee, a compensation committee, a strategy committee and a safety, health and environmental committee. The committees operate in accordance with terms of reference established by our Board of Directors.

Audit Committee. We have established an audit committee in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Hong Kong Listing Rules. The primary duties of the audit committee are to review and supervise our financial reporting process. All members of the audit committee are appointed by the Board. The audit committee currently consists of three independent non-executive Directors, Chen Xiaoyue, who serves as its chairman, Huang Yicheng and Anthony Francis Neoh.

The responsibilities of our audit committee after the completion of the Global Offering will include, among others:

- appointing and overseeing the work of our independent auditors and pre-approving all non-audit services to be provided by our independent auditors;
- reviewing our annual and interim financial statements, earnings releases, critical accounting policies and practices used to prepare financial statements, alternative treatments of financial information, the effectiveness of our disclosure controls and procedures and important trends and developments in financial reporting practices and requirements;
- reviewing the planning and staffing of internal audits, the organisation, responsibilities, plans, results, budget and staffing of our internal audit team and the quality and effectiveness of our internal controls;
- reviewing our risk assessment and management policies; and
- establishing procedures for the treatment of complaints received by us regarding accounting, internal accounting controls, auditing matters, potential violations of law and questionable accounting or auditing matters.

We believe that the composition and functioning of our audit committee following the completion of the global offering will comply with the applicable requirements of the Hong Kong Stock Exchange. We intend to comply with future requirements to the extent they become applicable to us.

Remuneration Committee. We have established a remuneration committee in compliance with the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules. The primary duties of the remuneration committee are to formulate the training and compensation policies and to determine and manage the compensation of our senior management. The remuneration committee currently consists of two independent non-executive Directors, Anthony Francis Neoh, who serves as its chairman, and Chen Xiaoyue and Ling Wen, an executive Director. The responsibilities of our remuneration committee include, among others:

- approving and overseeing the total compensation package for our executive officers, evaluating the performance of and determining and approving the compensation to be paid to our senior management;
- reviewing and making recommendations to our Board of Directors with respect to Director compensation, including equity-based compensation;
- administering and periodically reviewing and making recommendations to our board of directors regarding the long-term incentive compensation or equity plans made available to our Directors, employees and consultants; and
- reviewing and making recommendations to our Board of Directors regarding executive compensation philosophy, strategy and principles and preparing annual reports on the compensation of our senior management.

Strategy Planning Committee. We have established a strategy planning committee whose primary duties are to formulate our overall development plans and investment decision-making procedures. The strategy committee currently consists of Chen Biting, who serves as its chairman, Zhang Xiwu and Wu Yuan. The responsibilities of our strategic planning committee include, among others:

- reviewing our long-term development strategies;
- reviewing major issues affecting our development; and
- reviewing significant capital expenditure, investment and financing projects that require approval of our Board.

Safety, Health and Environmental Committee. We have established a safety, health and environmental committee, whose primary duties are to ensure that appropriate performance targets and benchmarks are in place for our health, safety and environmental obligations, as well as to monitor potential liabilities, changes in regulations, community expectations and technological changes which relate to safety, health and environmental issues. The safety, health and environment committee currently consists of Huang Yicheng, who serves as its chairman, Wu Yuan, Zhang Yuzhuo and Han Jianguo.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

We were incorporated on 8 November 2004. Prior to that, we did not exist as an independent legal entity and our operations were conducted by Shenhua Group. The compensation information set forth below for our Directors, Supervisors and various other employees, insofar as it relates to periods prior to our incorporation, is stated at historical amounts as if our current structure had been in existence throughout the relevant periods.

Our Directors, Supervisors and senior management receive compensation in the form of salaries, bonuses, housing allowances and other benefits-in-kind, including our contribution to the pension plan on their behalf. The aggregate fees and compensation paid to our Directors, Supervisors and senior management for the years ended 31 December 2002, 2003 and 2004 were approximately RMB4.0 million, RMB5.7 million and RMB7.8 million, respectively. As required by PRC regulations, we participate in various defined contribution retirement plans organised by provincial and municipal governments for our employees, including employees who are Directors, Supervisors and management personnel, to which we contributed RMB0.8 million for our Directors, Supervisors and senior management for the year ended 31 December 2004. The aggregate amount of compensation we paid to our five highest paid individual employees during the year ended 31 December 2004 was approximately RMB3.4 million. Under the existing arrangements currently in force, the aggregate remuneration payable to and benefits-in-kind received by our Directors and Supervisors in respect of the year ending 31 December 2005 are estimated to be approximately RMB3.4 million and RMB1.4 million, respectively.

Stock Appreciation Rights

In order to provide additional incentives for our senior management and to enhance the alignment between the performance of our senior management and shareholder value, we have adopted a plan of stock appreciation rights, or SARs, for our senior management and key employees. The plan is designed to link the financial interests of our senior management with our future results of our operations and the performance of our H Shares. No Shares will be issued or transferred under the SARs plan. Therefore, the issuance of SARs will not dilute our shareholders' holdings. Holders of SARs will have no right to vote or otherwise participate in any dividend distributions or any right arising from the liquidation or restructuring of our company.

Under the SARs plan, a share appreciation right represents the right to receive a cash payment equal to the appreciation, if any, in the fair market value of an H Share from the date of the grant of the right to the date of exercise, subject to the restriction that the payment does not exceed 300% of the exercise price.

SARs will be granted for a term of ten years from the date that the SAR plan is approved by our shareholders' meeting. All SARs will lapse after the ten-year term.

SARs will be granted in units, with each unit representing one H Share. The total numbers of SARs that have been granted may not exceed 10% of our issued share capital, including both domestic shares and H Shares. During any 12-month period, the number of SARs granted to any recipient may not exceed 1% of our total issued shares.

SARs may be granted annually after the Global Offering participants of the SAR plan as determined by our Board of Directors. Our Board of Directors may determine at any time that no further SARs will be issued.

Under the SARs plan, all SARs will have an exercise period of six years from the date of grant. A person may not exercise his or her SARs during the first 2 years after the date of grant. After the second, third and fourth year of the date of grant, the total number of SARs exercised by an individual may not in aggregate exceed one third, two thirds and 100%, respectively, of the total SARs granted to the individual person.

The vesting of SARs is expected to be based upon the percentage of the achievement of an annual target of return on equity set by our board of Directors at the beginning of each year, or the annual target. In relation to a year preceding any given year, it is expected that:

- if our actual return on equity for the preceding year meets or exceeds the annual target for that preceding year, the SARs scheduled to be vested in that preceding year will be fully vested;
- if our actual return on equity for the preceding year is between 60% and 100% of the annual target for that preceding year, the SARs scheduled to be vested in that preceding year will be vested proportionately in accordance with the percentage of the achievement of the annual target; and
- if our actual return on equity for the preceding year fails to achieve 60% of the annual target for that preceding year, the SARs scheduled to be vested in that preceding year will not be vested.

The exercise price of SARs granted at the time of the Global Offering will be the Offer Price. The exercise price of SARs granted after the Global Offering will be the fair market price of our H Shares as determined under the SARs plan. Upon exercise of SARs, the exercising participant will, subject to the restrictions under the SARs plan, receive a payment in RMB, after deducting any applicable withholding tax, equal to the product of the number of SARs exercised and the difference between the exercise price and market price of our H Shares at the time of exercise.

Substantial Shareholder

As at the date of this prospectus, the entire issued share capital of our Company is beneficially owned by Shenhua Group, the sole Promoter, as follows:

Name	Number of Domestic Shares	Voting Power (%)
Shenhua Group	15,000,000,000	100.00%

Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised) we expect that the only party interested in 10.0% or more of the voting power at any of our shareholders' general meeting will be:

Name	Number of Domestic Shares	Voting Power (%)
Shenhua Group	14,721,500,000	82.77%

If the Over-allotment Option is exercised in full, Shenhua Group will own 80.65% of our total issued Shares.

The sale of H Shares (to be converted from Domestic Shares) by Shenhua Group, the Selling Shareholder, in connection with the Global Offering has been approved by the CSRC and the SASAC in accordance with the approval from the State Council. In accordance with the relevant PRC regulations, Shenhua Group will be required to contribute the net proceeds from the sale of its H Shares in the Global Offering to the NSSF.

None of our Directors or Supervisors is a legal or beneficial owner of any of our Shares. We are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

For more information on Shenhua Group, see ''Restructuring'' and ''Relationship with Shenhua Group.''

As at the date of this prospectus, the registered capital of our Company is currently RMB15,000,000,000 divided into 15,000,000,000 Domestic Shares of nominal value of RMB1.00 each.

The following is a description of the share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately before and after the completion of the Global Offering:

Description of shares	Number of shares in issue before Global Offering	Approximate percentage of total issued capital	Number of shares in issue post Global Offering (without exercise of Over-allotment Option)	Approximate percentage of total issued capital	Number of shares in issue post Global Offering (with full exercise of the Over-allotment Option)	Approximate percentage of total issued capital
Domestic Shares held by Shenhua Group	15,000,000,000	100%	14,721,500,000	82.77%	14,679,725,000	80.65%
H shares	—	—	3,063,500,000	17.23%	3,523,025,000	19.35%
Total	15,000,000,000	100%	17,785,000,000	100.00%	18,202,750,000	100.00%

Our Shares

Domestic Shares and H Shares are both ordinary shares in the share capital of our Company. However, H Shares may only be subscribed for by, and traded in Hong Kong dollars between, legal or natural persons of China Hong Kong, China Macau, China Taiwan or any country other than the PRC. Domestic Shares, on the other hand, may only be subscribed for by, and traded between, legal or natural persons or other qualified entities of the PRC (other than China Hong Kong, China Macau and China Taiwan) and must be subscribed for and traded in Renminbi. All cash dividends in respect of H Shares are to be paid by our Company in Hong Kong dollars whereas all dividends in respect of Domestic Shares are to be paid by our Company in Renminbi.

In addition to cash, dividends may be distributed in the form of Shares. Any distribution of Shares, however, must be approved by special resolution of the shareholders. For holders of H Shares, dividends in the form of Shares will be distributed in the form of additional H Shares. For holders of Domestic Shares, dividends in the form of Shares will be distributed in the form of additional Domestic Shares.

All the existing 15,000,000,000 Domestic Shares are held by Shenhua Group, the sole Promoter as promoter shares (as defined in the PRC Company Law). In accordance with PRC Company Law, except as otherwise approved by the PRC government, promoter shares may not be sold within a period of three years from the date of establishment of a joint stock limited company. We were established as a joint stock limited company on 8 November 2004. In accordance with the State Council Tentative Measures Regarding Sale of State-owned Shares and Contribution to the NSSF, Shenhua Group is required and has obtained approval from the SASAC to sell such number of its Domestic Shares as equivalent to 10% of the total funds to be raised by us under the Global Offering. Accordingly, an aggregate of 278,500,000 H Shares (to be converted from Domestic Shares) are offered for sale at the Offer Price by Shenhua Group in the Global Offering. If the Over-allotment Option is exercised by the Joint Global Coordinators on behalf of the International Purchasers in full, the Selling Shareholder will sell an additional 41,775,000 H Shares (to be converted from Domestic Shares) in accordance with the requirement of the relevant PRC regulations. The net proceeds from the sale of these H Shares by Shenhua Group in the Global Offering will be remitted to the NSSF in accordance with the relevant PRC regulations.

Except as described above and in relation to the despatch of notices and financial reports to shareholders, dispute resolution, registration of shares on different parts of the register of shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles of Association and summarised in Appendix VIII to this prospectus, the Domestic Shares and the H Shares will rank pari passu with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. However, the transfer of Domestic Shares is subject to such restrictions as PRC law may impose from time to time.

Save for the Global Offering, we do not propose to carry out a public or private issue or to place securities within the next six months. We have not approved any share issue plan other than the Global Offering.

Our Company has given certain undertakings in respect of the issuance of the H Shares and other securities. See ''Underwriting — Underwriting Arrangements and Expenses — Undertakings to the Hong Kong Stock Exchange pursuant to the Hong Kong Listing Rules.''

On 29 April 2005, the CSRC issued the ''Notice concerning Issues in relation to Experimental Reforms for the Redesignation of Shares in Listed Companies'' (關於上市公司股權分置改革試點問題的通知) (the ''Share Redesignation Notice''). The Share Redesignation Notice, which took effect on issuance, sets out a procedure by which certain PRC listed companies may apply for a percentage of the non-tradable shares held by their controlling shareholders to be reclassified as stock exchange tradable shares. The procedure would require, amongst other things, the approval of shareholders of the relevant company and would be decided thereafter by the CSRC after consultation with the relevant companies and their sponsors. For any selected company, the holders of non-tradable shares may not, for a period of 12 months from the date such shares become tradable, deal in any reclassified shares on the stock exchange where the shares of the company are listed. After the expiry of the 12-month period, holders of non-tradable shares may not list and deal in shares representing more than 5.0% of the total issued share capital of the relevant company in the following 12-month period and not more than 10.0% in aggregate in the 24-month period after such initial trading date. The Share Redesignation Notice does not state whether it applies to H Share companies. However, Shenhua Group, which will hold 82.77% of our Shares after completion of the Global Offering, but before any exercise of the Over-allotment Option, and 80.65% of our Shares, assuming the Over-allotment Option is exercised in full, as our Promoter, is prohibited under the current PRC Company Law from disposing of any part of its interest in our Shares for a period of three years from the date of our establishment, being 8 November 2004. Our Company's PRC counsel has confirmed that such prohibition, which is a requirement under the current PRC Company Law, is not affected by the Share Redesignation Notice.

We confirm that we do not have any intention of seeking to have any part of the Shares that Shenhua Group will continue to hold after our listing redesignated as H Shares pursuant to the Share Redesignation Notice, whether during such three-year period or otherwise.

Minimum Public Float

Rule 8.08(1)(a) of the Hong Kong Listing Rules requires that at least 25% of an issuer's total issued share capital must at all times be held by the public, subject to the discretion of the Hong Kong Stock Exchange to permit a lower percentage in the circumstances described below. Rule 8.08(1)(b) provides that where an issuer has more than one class of security, other than that for which listing is sought, the total securities held by the public on all regulated markets must be at least 25% of the issuer's total issued share capital and the class of securities for which listing is sought, must not be less than 15% of the issuer's total issued share capital, having an expected market capitalisation at the time of listing of not less than HK$50,000,000.

Assuming completion of the Global Offering, the H Shares and the Domestic Shares will represent different classes of securities for the purpose of Rule 8.08. It is anticipated that upon the completion of the Global Offering, and prior to the exercise of the Over-allotment Option, our H Shares held in public hands will account for 17.23% of the total issued share capital of our Company, respectively. We have applied to the Hong Kong Stock Exchange for it to exercise its discretion to accept a lower percentage than that specified under Rule 8.08 on the basis that our market capitalisation will be not less than HK$10.0 billion at the time of listing. The Hong Kong Stock Exchange has agreed to a minimum percentage public float of 17.23% of our Company's total share capital, prior to any exercise of the Over-allotment Option.

SELECTED HISTORICAL COMBINED FINANCIAL INFORMATION AND OPERATING DATA

Selected Historical Combined Financial Information

The following tables present our selected historical combined financial information for the periods indicated. The selected income statement data, segment financial and cashflow data for the years ended 31 December 2002, 2003 and 2004, and the selected balance sheet data as of 31 December 2002, 2003 and 2004 are derived from, and should be read in conjunction with, the combined financial information as included in the Accountants' Report in Appendix I to this prospectus.

Prior to the Restructuring, our business operations were conducted by Shenhua Group. Since Shenhua Group controlled the business operations and the related assets transferred to us pursuant to the Restructuring, and continues to control us after the Restructuring, our historical combined financial information have been prepared as a combination of business under common control in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities transferred to us have been stated at historical carrying amounts and as adjusted by the revaluation of property, plant and equipment. In addition, the historical combined income statement and cash flow data presented below for each of the years in the two-year period ended 31 December 2003 reflect the financial position and results of operations for businesses and assets retained by Shenhua Group as part of the Restructuring. Although the businesses and assets retained by Shenhua Group were not transferred to us, they have been included in the historical combined financial information up to the effective date of the Restructuring, 31 December 2003, because they were an integral part of, or historically associated with, the Shenhua Group business. Accordingly, the financial information included in this section may not necessarily reflect what our results of operations, financial position and cash flows would have been had we been a separate and stand-alone entity during the periods presented below. For selected historical profit and loss information relating to businesses and assets retained by Shenhua Group, see Note 1 in Section V of the Accountants' Report in Appendix I to this prospectus.

Except for income statement data for the year ended 31 December 2004, the income statement data for the other periods presented below includes the results of operations of businesses retained by Shenhua Group. The results of such businesses will not be reflected in our combined financial information for periods ending after 31 December 2003. Except for balance sheet data as of 31 December 2002, the balance sheet data exclude data for the businesses and assets retained by Shenhua Group. Such businesses and their related balance sheet data will not be reflected in our future combined financial statements. Therefore, the selected historical combined financial information presented below for the year ended 31 December 2004 is not necessarily comparable with the selected historical combined financial information presented below for each of the years in the two-year period ended 31 December 2003.

The selected combined financial data should be read in conjunction with our combined financial information as included in the Accountants' Report in Appendix I to this prospectus and included elsewhere in this prospectus.

	Year Ended 31 December[10]		
	2002	2003	2004
	(RMB in millions, except per share data)		
Income Statement Information[1]			
Revenues			
Coal revenue	13,393	17,596	28,079
Power revenue	5,914	7,024	9,866
Other revenues	2,122	2,375	1,322
Total operating revenues	21,429	26,995	39,267
Cost of revenues			
Materials, fuel and power	(1,866)	(2,677)	(4,452)
Personnel expenses	(1,151)	(1,559)	(1,564)
Depreciation and amortisation	(3,370)	(3,674)	(4,795)
Repairs and maintenance	(846)	(1,529)	(2,146)
Transportation charges	(4,475)	(4,734)	(5,557)
Others	(2,515)	(3,058)	(2,708)
Total cost of revenues	(14,223)	(17,231)	(21,222)
Selling, general and administrative expenses	(1,804)	(2,217)	(2,492)
Other operating expense, net	(188)	(307)	(54)
Total operating expenses	(16,215)	(19,755)	(23,768)
Profit from operations	5,214	7,240	15,499
Deficit on revaluation of property, plant and equipment	-	(518)	-
Net financing costs	(3,103)	(3,130)	(2,358)
Gain on debt restructuring	-	613	-
Investment income	51	200	-
Share of profits of associates	299	46	245
Profit before income tax and minority interests	2,461	4,451	13,386
Income tax	(454)	(854)	(2,820)
Profit before minority interests	2,007	3,597	10,566
Minority interests	(410)	(696)	(1,631)
Profit for the year	1,597	2,901	8,935
Earnings per Share[2] (RMB)	0.106	0.193	0.596

	As of 31 December[10]		
	2002	2003	2004
	(RMB in millions)		
Balance Sheet Information[3]			
Cash and cash equivalents	5,731	4,162	7,138
Time deposits with original maturity over three months	1,187	255	55
Accounts and bills receivable, net	2,797	2,730	2,913
Total current assets	15,480	11,229	16,036
Property, plant and equipment, net[4]	58,300	66,832	72,923
Construction in progress	6,002	8,655	12,352
Total non-current assets	75,953	83,104	94,333
Total assets[4]	91,433	94,333	110,369
Short-term borrowings and current portion of long-term borrowings	15,143	14,801	13,857
Total current liabilities	22,493	22,073	24,447
Long-term borrowings, less current portion	43,320	43,298	46,332
Total liabilities	66,519	66,244	71,888
Minority interests	9,620	11,628	13,085
Shareholder's equity[4]	15,294	16,461	25,396

	Year Ended 31 December[10]		
	2002	2003	2004
	(RMB in millions)		
Segment Financial Information[1]			
Profit/(loss) from operations[5]			
Coal[6]	3,478	5,129	12,695
Power[7]	1,874	2,302	2,912
Corporate and others	(123)	(181)	(100)
Eliminations	(15)	(10)	(8)
Total profit from operations	5,214	7,240	15,499
Depreciation and amortisation[4]			
Coal	2,281	2,549	3,048
Power	1,322	1,401	1,901
Corporate and others	24	67	-
Total depreciation and amortisation	3,627	4,017	4,949
Capital expenditure[8]			
Coal	4,627	7,714	8,816
Power	2,687	5,004	6,217
Corporate and others	129	389	2
Total capital expenditure	7,443	13,107	15,035

	Year Ended 31 December[10]		
	2002	2003	2004
	(RMB in millions)		
Other Financial Information[1]			
Net cash from operating activities	4,468	8,111	18,934
Net cash used in investing activities	(9,045)	(11,938)	(17,995)
Net cash from financing activities	5,730	2,258	2,037
EBITDA[9]	9,140	11,398	20,693
EBITDA Margin[9]	42.7%	42.2%	52.7%

(1) The data for each of the years in the two-year period ended 31 December 2003 include the results of the businesses and assets retained by Shenhua Group after the Restructuring. The data for the year ended 31 December 2004, however, do not include the results of those businesses and assets, and therefore are not necessarily comparable with the data for each of the years ended 31 December 2002 and 2003.

(2) Earnings per Share have been computed by dividing profit for the year by a total of 15,000,000,000 shares issued and outstanding upon our formation on 8 November 2004 as if such Shares had been outstanding for all relevant periods. We had no dilutive potential shares outstanding for the periods presented.

(3) The balance sheet data as of 31 December 2002 includes businesses and assets retained by Shenhua Group after the restructuring, whereas the balance sheet data as of 31 December 2003 and 2004 do not include those businesses and assets.

(4) Includes the effect of revaluation of property, plant and equipment as of 31 December 2003.

(5) Segment profit/(loss) from operations does not take into account the effects of finance costs and investment income.

(6) Includes income from coal sold to external customers and our power segment as well as transportation and other services.

(7) Includes income from electric power sold to external customers and our coal segment.

(8) Segment capital expenditure is equal to the total cost incurred (including amounts paid and payable) during the periods to acquire segment assets that are expected to be used for more than one period.

(9) EBITDA, a measure used by management to measure our operating performance, is defined as profit for the year plus net financing costs, investment income, income tax, depreciation and amortisation and minority interests. EBITDA margin is calculated by dividing EBITDA by total operating revenues. We present our EBITDA and EBITDA margin here to provide additional information regarding our operating performance and because our management believes EBITDA is useful to investors as it is a measure commonly used by securities analysts, investors and other interested parties in the evaluation of companies in the mining industry on the basis of operating performance. EBITDA is not a recognised term under IFRS. You should not consider it an alternative to profit for the year as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of EBITDA and EBITDA margin may be different from the calculation used by other companies and therefore comparability may be limited. In addition, EBITDA is not intended to be a measure of free cash flow for management's discretionary use, as it does not reflect certain cash requirements such as interest payments, tax payments and debt service requirements.

The following table sets forth a full quantitative reconciliation of EBITDA to its most direct comparable IFRS measure, profit for the year, and the calculation of EBITDA margin.

	Year Ended 31 December		
	2002	2003	2004
	(RMB in millions, except percentage data)		
Profit for the year	1,597	2,901	8,935
Minority interests	410	696	1,631
Income tax	454	854	2,820
Investment income	(51)	(200)	-
Net financing costs	3,103	3,130	2,358
Depreciation and amortisation	3,627	4,017	4,949
EBITDA	9,140	11,398	20,693
Total operating revenues	21,429	26,995	39,267
EBITDA margin	42.7%	42.2%	52.7%

(10) No dividend has been paid or declared by the Company during the relevant period.

Selected Historical Operating Data

The following tables set forth selected operating data of our coal and power segments for the periods indicated.

	Year Ended 31 December		
	2002	2003	2004
Coal Segment			
Coal sales (million tonnes)(1)			
Domestic sales to external customers	49.3	62.0	85.1
Domestic sales to our power operations	9.0	11.4	15.2
Total domestic sales	58.3	73.4	100.3
Total export sales	18.3	25.7	26.6
Total coal sales	76.6	99.1	126.9
Average sales price (RMB/tonne)(2)	195	195	245
Unit cost (RMB/tonne)(3)	135	131	133
Power Segment(4)			
Total installed capacity (MW)	4,760	5,360	5,960
Equity capacity (MW)(5)	2,322	2,595	3,075
Total gross generation (GWh)	23,250	28,544	37,980
Total output dispatch (GWh)(6)	21,770	26,730	35,491

(1) Except for data for 2004, includes the coal sales of the Xisanju Mines that were included in the scope of our historical combined financial information but were retained by Shenhua Group following the Restructuring. The coal sales of the Xisanju Mines were 6.6 million tonnes and 8.0 million tonnes for the years ended 31 December 2002 and 2003, respectively.

(2) Total coal sales-related revenues of our coal segment divided by total coal sales volume of our coal segment. Our coal segment had non-coal sales revenues of RMB1,804 million, RMB1,923 million, and RMB1,290 million in 2002, 2003 and 2004, respectively.

(3) The sum of cost of production and cost of transportation of our coal segment divided by the total sales volume of our coal segment.

(4) Includes only our controlled operating power plants.

(5) In addition, as of 31 December 2002, 2003 and 2004, we had an aggregate equity capacity of 7 MW, 167 MW and 2,099 MW, respectively, in power plants in which we own minority interests.

(6) Includes an insignificant amount of electricity supplied to our coal operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in conjunction with our combined financial information as included in the Accountants' Report in Appendix I to this Prospectus, our selected historical combined financial information and operating data and the notes thereto included elsewhere in this prospectus. Our combined financial information has been prepared in accordance with IFRS.

Prior to the Restructuring, our business operations were conducted by Shenhua Group. Since Shenhua Group controlled the business operations and the related assets transferred to us in the Restructuring, and continues to control us after the Restructuring, our selected historical combined financial information have been prepared as a combination of businesses under common control in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities transferred to us have been stated at their historical carrying amounts and as adjusted by the revaluation of property, plant and equipment. The historical combined income statement and cash flow data presented below for periods prior to and including the year ended 31 December 2003 also reflect results of operations for businesses and assets retained by Shenhua Group as part of the Restructuring. Although the businesses and assets retained by Shenhua Group were not transferred to us, they have been included in our historical combined financial information up to the effective date of the Restructuring, 31 December 2003, since they were an integral part of, or historically associated with, the Shenhua Group business. For selected historical profit and loss information relating to these businesses, see Note 1 in Section V of to the Accountants' Report in Appendix I to this prospectus.

Except for the income statement data for the year ended 31 December 2004, the income statement data for other periods include the results of the businesses and assets retained by Shenhua Group. See "Restructuring." The results of such businesses and assets will not be reflected in our combined income statements for future periods ending after 31 December 2003. Except for the balance sheet data as of 31 December 2002, our balance sheet data excludes the assets and liabilities retained by Shenhua Group following the Restructuring. These assets and liabilities will not be reflected in our future balance sheets. Therefore, the historical financial information for the year ended 31 December 2004 is not necessarily comparable with the historical financial information for the year ended 31 December 2003.

Overview

We are the leading integrated coal-based energy company focusing on the coal and power businesses in China. We are the largest coal producer and one of the largest coal marketers in China, as measured by our coal production and sales volume in 2004. We also have a sizeable and rapidly growing power generation business, as measured by our total installed capacity as of 31 December 2004, and the compound annual growth rate of our total installed capacity between 2002 and 2004. We believe we are the only coal-based energy company in China that owns and operates a large-scale integrated coal transportation network, which consists of our own dedicated rail lines and port facilities. See "Business" for further descriptions of our business operations. We manage our operations and report our financial results according to the following two separate business segments:

- *Coal segment*, which develops and operates coal mines, produces and processes coal, transports coal, and sells coal products to our power segment and to external domestic and foreign customers.

- *Power segment*, which generates power for sale primarily to power grid companies, using coal sourced both from our coal segment and external suppliers.

The table below presents, for the periods indicated, our revenues, operating expenses and profit from operations in terms of amount and as a percentage of our total operating revenues, as well as the compound annual growth rate from 2002 to 2004.

	Year Ended 31 December						
	2002		2003		2004		
	Amount	Percentage of total operating revenues	Amount	Percentage of total operating revenues	Amount	Percentage of total operating revenues	Compound annual growth rate (2002-2004)
	(RMB in millions, except percentage data)						
Revenues[(1)]							
Coal revenue	13,393	62.5%	17,596	65.2%	28,079	71.5%	44.8%
Power revenue	5,914	27.6	7,024	26.0	9,866	25.1	29.2
Other revenues	2,122	9.9	2,375	8.8	1,322	3.4	(21.1)
Total operating revenues	21,429	100.0	26,995	100.0	39,267	100.0	35.4
Total operating expenses[(1)]	(16,215)	(75.7)	(19,755)	(73.2)	(23,768)	(60.5)	21.1
Profit from operations[(1)]	5,214	24.3%	7,240	26.8%	15,499	39.5%	72.4%

(1) The data for each of the years in the two-year period ended 31 December 2003 include the results of the businesses and assets retained by Shenhua Group after the Restructuring. The data for the year ended 31 December 2004, however, do not include the results of those businesses and assets, and therefore are not necessarily comparable with the data for the years ended 31 December 2002 and 2003.

Our total operating revenues increased by 26.0% from RMB21,429 million in 2002 to RMB26,995 million in 2003, and by a further 45.5% to RMB39,267 million in 2004. We expect our total operating revenues to continue to grow in the near future, driven mainly by increases in our sales volume of coal and power.

Our coal revenue, which does not include internal sales made to our power segment, increased by 31.4% and 59.6% in 2003 and 2004, respectively, from the prior comparable period. Our power revenue, which does not include internal sales made to our coal segment, increased by 18.8% and 40.5% for 2003 and 2004, respectively, from the prior comparable period. Our other revenues, consisting mainly of the provision of transportation and other services to third parties and the sale of ancillary materials and other goods, increased by 11.9% from 2002 to 2003, but decreased 44.3% from 2003 to 2004.

Our total operating expenses increased by 21.8% and 20.3% in 2003 and 2004, respectively, from the prior comparable period. Such increases were primarily due to our increased production of coal and power.

Our profit from operations increased by 38.9% and 114.1% for 2003 and 2004, respectively, from the prior comparable period, primarily due to the fact that increases in our total operating revenues have outpaced increases in our total operating expenses. As a result, our operating margin (calculated as profit from operations divided by total operating revenues) increased from 24.3% in 2002 to 26.8% in 2003, and 39.5% in 2004.

Factors Affecting Results of Operations

Our results of operations are primarily affected by the sales volume and pricing of our principal products, coal and power. Increasing market demand for our products in recent years has resulted in increased coal and power revenues. Expansion of our integrated transportation network has provided strong support for the growth of our coal operations by affording us access to reliable and stable transportation capacity. We have increased our power revenue through increases in our installed capacity and utilisation hours for our power plants. Our results of operations are also affected by other factors, including our cost of revenues and fluctuations in exchange rates and interest rates.

Sales Volume and Prices of Coal

The primary factors affecting our coal revenue are the sales volume and prices of coal. The following table shows selected operating data with respect to our coal sales to external customers for the periods indicated.

	Year Ended 31 December											
	2002				2003				2004[(1)]			
	Sales volume	Average sales price	Revenue	Percentage of total operating revenues	Sales volume	Average sales price	Revenue	Percentage of total operating revenues	Sales volume	Average sales price	Revenue	Percentage of total operating revenues
	(million tonnes)	(RMB per tonne)	(RMB in millions)		(million tonnes)	(RMB per tonne)	(RMB in millions)		(million tonnes)	(RMB per tonne)	(RMB in millions)	
Domestic Sales	49.3	188	9,264	43.2%	62.0	194	12,033	44.6%	85.1	235	19,967	50.8%
Export Sales	18.3	226	4,129	19.3	25.7	216	5,563	20.6	26.6	305	8,112	20.7
Total	67.6	198	13,393	62.5%	87.7	201	17,596	65.2%	111.7	251	28,079	71.5%

(1) The coal sales data for the year ended 31 December 2004 excludes the coal sales of the Xisanju Mines.

Sales Volume. Our coal sales volume to external customers increased by 29.7% from 67.6 million tonnes in 2002 to 87.7 million tonnes in 2003, and by a further 27.4% to 111.7 million tonnes in 2004. The main factors affecting our coal sales volume include:

- the market demand for our coal;
- our coal production capacity; and
- coal transportation capacity.

We currently focus on the production of a range of thermal coal products for use in power generation. We sell our coal mainly to power producers in the PRC domestic market and to the Asia-Pacific coal export market. Our coal sales volume is largely dependent upon the demand for our coal in these markets and our ability to meet such demand. Rapid growth in the PRC economy has created substantial energy demand in China. At the same time, Asian demand has also increased due to economic expansion and the addition of new coal-fired power generation capacity in the region. See "Industry Overview."

To meet this increasing market demand, we have significantly expanded production at our Shendong Mines. Our Shendong Mines produced 47.1 million tonnes, 66.2 million tonnes and 80.7 million tonnes of coal in 2002, 2003 and 2004, respectively, accounting for 79.0%, 81.1% and 79.7% of our total coal production excluding the Xisanju Mines, respectively, in the corresponding period.

We use our integrated transportation network as well as the national rail system to transport coal to our customers and coal shipping ports in eastern China. Our integrated transportation network consists of four rail lines, a dedicated port at Huanghua, Hebei province, as well as additional dedicated port facilities at the Tianjin Port and the Huangwan Rail Line, currently under construction, which connects the Shuohuang Rail Line and Tianjin Port. We believe that our integrated rail and port transportation network is one of our strategic competitive advantages. See "Business — Coal Operations — Coal Transportation." To meet our growing coal transportation needs, we intend to continue to expand the capacity of our integrated transportation network by upgrading our existing rail lines, using more powerful locomotives and larger rail cars and expanding our port facilities. We expect that increases in our coal sales volume will continue to be the main driver for our revenue growth in the future. Such increases, however, may be affected by the allocation to us of sufficient transport capacity on the national rail system and at third-party port facilities.

Coal Prices. Our coal revenue is influenced by fluctuations in domestic and international coal prices. The average domestic sales price of our coal sold to external customers increased by 3.2% from RMB188 per tonne in 2002 to RMB194 per tonne in 2003, and by a further 21.1% to RMB235 per tonne in 2004. The average export price of our coal decreased by 4.4% from RMB226 per tonne in 2002 to RMB216 per tonne in 2003, but increased by 41.2% to RMB305 per tonne in 2004. The main factors affecting the price of our coal include:

- the supply and demand for thermal coal in the PRC domestic market and in the Asia-Pacific coal export market;
- the availability of coal transportation capacity and the PRC government's regulation of power tariffs and allocation of transportation capacity on the national rail system; and
- coal characteristics and quality.

The domestic market price for thermal coal in China is largely subject to market forces, in particular, the supply and demand of thermal coal in the coastal provinces of China where the demand for coal has been stronger compared to some other regions in China.

Effective 1 January 2002, the State guidance price for thermal coal was eliminated. However, on-grid power tariffs remain subject to extensive regulation by the PRC government, which indirectly affects the domestic pricing of thermal coal. See "Regulation — The Coal Industry — Pricing and Allocation." In addition, the allocation by the PRC government of transportation capacity on the national rail system indirectly influences coal pricing, because the national rail system is the primary means for coal transportation in China. In recent years, the PRC government has encouraged major domestic coal producers and power generators to enter into long-term coal supply contracts at the annual national coal trading convention by allocating national rail capacity for these contracts. We sell a significant portion of our coal pursuant to these contracts, which are generally subject to the supply and demand of coal at the trading convention and based on then prevailing domestic market price of coal. The coal prices under these contracts are generally negotiated annually and therefore may not reflect the domestic market price of coal when the coal is delivered.

Within the Asia-Pacific coal export market, the annual negotiation and contract settlements between Japanese power utility companies and Australian coal producers have historically provided guidance for setting the thermal coal prices in the region. The average FOB spot market price for thermal coal shipped from Qinhuangdao, China, as reported by Argus International Coal Daily, was US$26.16 per tonne in 2002 and US$28.86 per tonne in 2003, but significantly increased to US$55.62 per tonne in 2004, primarily due to increased demand and constrained supply in the Asia-Pacific coal export market.

Our coal sales contracts usually contain provisions that adjust sales prices in accordance with the specified coal characteristics. We also engage in coal preparation and blending to adjust our coal characteristics in accordance with customer specifications.

Sales Volume and On-grid Tariffs of Power

The primary factors affecting our power revenue are the sales volume and on-grid tariffs of the electric power generated by our power operations. The following table presents, for the periods indicated, selected data relating to power sales to power grid companies.

	Year Ended 31 December											
	2002				2003				2004			
	Sales volume	Weighted average on-grid tariff	Revenue(1)	Percentage of total operating revenues	Sales volume	Weighted average on-grid tariff	Revenue(1)	Percentage of total operating revenues	Sales volume	Weighted average on-grid tariff	Revenue(1)	Percentage of total operating revenues
	(GWh)	(RMB per MWh)	(RMB in millions)		(GWh)	(RMB per MWh)	(RMB in (millions		(GWh)	(RMB per MWh)	(RMB in millions)	
Planned output dispatch	18,181	284	5,165	24.1%	21,650	274	5,925	21.9%	28,137	293	8,257	21.0%
Excess output dispatch	3,076	174	535	2.5	3,946	187	739	2.7	6,892	197	1,357	3.5
Competitive bidding output dispatch(2)	246	167	41	0.2	858	199	171	0.6	220	236	52	0.1
Total output dispatch	21,503	267	5,741	26.8%	26,454	258	6,835	25.3%	35,249	274	9,666	24.6%

(1) In addition to revenue from power sales, we derived RMB173 million, RMB189 million and RMB200 million from selling heat generated by our power operations in 2002, 2003 and 2004, respectively.

(2) Only Suizhong Power Plant sells a portion of its generated power pursuant to competitive bidding.

Sales Volume. Our total output dispatch increased by 23.0% from 21,503 GWh in 2002 to 26,454 GWh in 2003, and by a further 33.2% to 35,249 GWh in 2004. The main factors affecting our output dispatch include:

- economic growth in China, particularly in those provinces in which we operate;
- power demand and supply in China, particularly in those regional grids in which we operate; and
- competition, government policies and regulations that impact the dispatch levels of our power plants.

The overall growth of the PRC economy has been the main driver for the increased demand for power. Changes in economic conditions and demand for power in China, particularly in those provinces in which we operate, affect the volume of our total output dispatch. According to the 2004 China Statistical Yearbook, China's GDP grew at a compound annual growth rate of 8.8% from 2001 to 2003. Among our eight operating power plants, seven are located in provinces with annual GDP growth rates that were higher than the national average in 2003. In addition, among our four power plants currently under construction, three are located in Zhejiang and Guangdong provinces, two of the most affluent provinces in China, with GDP growth rates of 14.4% and 14.3%, respectively, in 2003.

In recent years, increased demand for power in certain regions of the PRC has outpaced the growth in power supply, causing power shortages during peak periods, particularly in the eastern and southern coastal provinces. We have increased our utilisation hours and installed capacity to meet this growing demand, resulting in a significant increase in our total output dispatch from 2002 to 2004. We plan to further increase our total output dispatch by constructing new power plants. See "Industry Overview — The Power Industry — Demand and Supply" and "Industry Overview — The Power

Industry — Electricity Shortages'' for more detailed discussions on power supply and demand in China.

Other factors which impact our output dispatch include the installed capacity of our competitors and government regulation of output dispatch. In the regions where we operate our power plants, we compete to secure more output dispatch and higher on-grid tariffs against both power plants owned by large power companies and smaller local power plants. See ''Business — Competition — Power Operations,'' ''Business — Power Operations — Dispatch'' and ''Regulation — The Power Industry — Dispatch'' for detailed discussions on competition and dispatch.

On-grid Tariffs. On-grid tariffs are generally set by the PRC government. See ''Regulation — The Power Industry — Pricing'' for a discussion of the government regulations affecting on-grid tariffs. We collect on-grid tariffs from provincial or regional power grids. In 2002, 2003 and 2004, our revenue from planned output dispatch was RMB5,165 million, RMB5,925 million and RMB8,257 million, respectively, accounting for 87.3%, 84.4% and 83.7%, respectively, of our power revenue in those periods. The remainder of our power revenue in those periods represented revenue from excess output dispatch, revenue from output subject to competitive bidding, and revenue from sales of heat generated from our power operations.

The main factors affecting our average on-grid tariffs are:

- on-grid tariffs for, and volume of, planned output, which are set by the PRC government;
- on-grid tariffs for, and volume of, excess output, which are determined by the agreement between each power plant and the provincial power grid; and
- the price of thermal coal.

Different on-grid tariffs are applicable to planned output, excess output and output subject to competitive bidding. In general, the on-grid tariffs for planned output and excess output are subject to a review and approval process involving the relevant provincial price bureaux and the NDRC. On-grid tariffs for planned output are generally based on the operating term of a power plant and average fixed and variable costs of comparable power plants connected to the same provincial grid. Such average costs include amortised construction costs, operating and administrative expenses, maintenance and repair costs and interest expense as well as fuel costs for the power plants. On-grid tariffs for excess output of a power plant are subject to the agreement with the provincial power grid in which the power plant is located. Such tariffs are generally based on the approved tariff in the provincial power grid. Since the dispatch for excess output does not incur any additional fixed costs, the on-grid tariffs for excess output are generally lower than those for planned output.

In June 2004, the NDRC issued notices on power tariffs in the Northeast China Power Grid, the North China Power Grid, the South China Power Grid, the East China Power Grid and the Northwest China Power Grid to set forth, for each provincial power grid except Guangdong province, (i) the uniform annual utilisation hours for planned output, (ii) the uniform on-grid tariffs for planned output and (iii) the uniform on-grid tariffs for excess output of coal-fired power plants connected to the provincial power grids.

The price of coal affects on-grid tariffs as increases in the price of coal may be partially passed through to on-grid tariffs, subject to the PRC government's approval. Since January 2004, the PRC government has twice raised power tariffs in response to increases in the price of thermal coal. In

December 2004, the PRC government decided to link thermal coal and power prices, allowing power generation companies to pass through 70% of certain increases of coal prices to end users through the increase of on-grid tariffs. See ''Industry Overview — The Power Industry — Pricing.''

Our weighted average on-grid tariff decreased from RMB267 per MWh in 2002 to RMB258 per MWh in 2003, but increased to RMB274 per MWh in 2004. The increase in the weighted average on-grid tariff from 2003 to 2004 was primarily due to increases in on-grid tariffs approved by the NDRC in 2004 and an increase in the output of Taishan Power, which began commercial operations in December 2003 and had an average realised tariff of RMB340 per MWh in 2004. Because the average realised tariff of the Taishan Power Plant was significantly higher than our weighted average on-grid tariffs in 2003 and 2004, the addition of Taishan Power increased our weighted average on-grid tariff in 2004. The decrease in the weighted average on-grid tariff from 2002 to 2003 was primarily due to an increase in the output of the Guohua Zhunge'er Power Plant, which began commercial operations in 2002 and had an average realised tariff of RMB167 per MWh and RMB180 per MWh in 2002 and 2003, respectively. Because the average realised tariff of the Guohua Zhunge'er Power Plant was significantly lower than our weighted average on-grid tariffs in 2002 and 2003, increased output from the Guohua Zhunge'er Power Plant lowered our weighted average on-grid tariff in 2003.

In recent years, the PRC government started an experiment to effect power sales through competitive bidding in several provinces in eastern and northeastern China. The experimental results so far suggest that on-grid tariffs subject to competitive bidding are generally lower than on-grid tariffs for planned output. We currently have one power plant, Suizhong Power Plant, that participates in this experiment and sells a small portion of power through competitive bidding. If the PRC government expands the implementation of competitive bidding, it may lower on-grid tariffs and therefore affect our power revenue.

Cost of Revenues

Our total cost of revenues increased by 21.1% from RMB14,223 million in 2002 to RMB17,231 million in 2003, and by a further 23.2% to RMB21,222 million in 2004. Our total cost of revenues is comprised of the cost of materials, fuel and power consumed, personnel expenses, depreciation and amortisation, repair and maintenance expenses, transportation charges and other expenses. Transportation costs on our own rail and port transportation network have been allocated among these costs of revenues. The transportation charges line item in our combined financial statements refers to the cost of transporting our coal on the national rail and port system. For a segment breakdown of our total transportation cost, see ''— Combined Results of Operations — Discussion of Segment Operations.'' The main factors affecting our cost of revenues are:

- costs of materials, fuel and power;
- transportation charges for coal transported on the national rail system and third-party ports; and
- depreciation and amortisation.

Costs of materials, fuel and power are incurred when we utilise raw materials, fuel and power from third parties for our coal and power operations. The trend of our cost of raw materials is in line with the trend of significant increases in our coal and power sales in recent years. We expect our total costs of materials, fuel and power to continue to increase as we expand our coal production and transportation and power generation.

Due to the increasing utilisation of our rail and port transportation network, the growth rate of our transportation charges payable to third parties has been slower than the growth rate of our coal revenue. Our Shenshuo and Shuohuang Rail Lines provide us with more direct routes to our customers in coastal regions, resulting in a lower cost of transportation per tonne than the cost of transporting coal on the national rail system and third-party ports. For further discussion of transportation costs, see "— Discussion of Segment Operations — Coal Segment" below.

Depreciation of our property, plant and equipment, except for our mining structures and mining rights, is calculated on a straight-line basis over the estimated useful life of the item, after taking into account its estimated residual value. Our mining structures and mining rights are depreciated on a units-of-production method, utilising only total proved and probable reserves in the depletion base. Our property, plant and equipment include buildings, mining structures and mining rights, mining-related machinery and equipment, power generators and related machinery and equipment, railway and port transportation structures, furniture, fixtures, motor vehicles and other equipment, and, other than our mining structures and mining rights, are depreciated over their respective estimated useful lives. As we expanded our operations and acquired more property, plant and equipment between 2002 and 2004, our depreciation and amortisation expenses increased; however, our depreciation and amortisation expenses as a percentage of total operating revenues decreased during the same period. We expect that our depreciation and amortisation costs will continue to increase as we expand our coal and power operations. In addition, the mining rights we recently acquired for the Yujialiang and Kangjiatan Mines are expected to contribute to increases in our depreciation and amortisation costs.

Personnel expenses are not a primary factor affecting our total costs of revenues. In 2002, 2003 and 2004, we had personnel expenses of RMB1,151 million, RMB1,559 million and RMB1,564 million, respectively, which were equivalent to 5.4%, 5.8% and 4.0% of our total operating revenues during the relevant periods. According to John T. Boyd, labour costs as a percentage of overall production costs at our largest mining group, the Shendong Mines, compare favourably with those in major coal-producing countries such as Australia and the United States. See "Appendix V — Independent Technical Report" for additional information comparing labour costs between the Shendong Mines and other major coal producing countries.

Foreign Currency Exposure

We borrowed funds denominated in foreign currencies, including U.S. dollars and Japanese yen, through the China Import and Export Bank and other PRC commercial banks, mostly to meet our foreign exchange needs in connection with the import of foreign equipment used in our coal and power operations as well as to fund a portion of our capital expenditures. To the extent that the Renminbi depreciates against any of these currencies, our repayment costs on these loans would correspondingly increase. As of 31 December 2004, our foreign currency borrowings, primarily denominated in Japanese yen, amounted to RMB9,548 million. Due to fluctuations in the value of the Japanese yen in recent years, we incurred unrealised foreign exchanges losses of RMB693 million and RMB984 million in 2002 and 2003, respectively. To mitigate our foreign currency exposure, in July 2004, we hedged a portion of our Japanese yen-denominated borrowings. In 2004, our unrealised foreign exchange losses decreased to RMB218 million.

For a further discussion of the effect of exchange rate fluctuations on our results of operations, see "— Market Risks — Foreign Exchange Rate Risk."

Interest Rate Exposure

We finance a significant portion of our business operations and capital projects with short-term and long-term borrowings. As of 31 December 2004, our outstanding short-term and long-term borrowings amounted to RMB60,189 million. See "— Indebtedness." For a discussion of the effect of interest rate fluctuations on our results of operations, see "— Market Risks — Interest Rate Risk."

The Restructuring

We were established as a joint stock limited company under PRC law on 8 November 2004 in connection with the Restructuring. Prior to the Restructuring, we did not exist as a separate legal entity and our operations were conducted by Shenhua Group and its predecessors. To effect the Restructuring, we and Shenhua Group entered into a restructuring agreement, under which the Restructuring took effect as of 31 December 2003. As part of the Restructuring, Shenhua Group transferred to us its principal coal production and transportation and power generation operations, together with the related assets, liabilities and interests. Shenhua Group retained the assets, liabilities and interests relating to its remaining businesses and operations, and certain financing services, information services, ancillary services and social services, including limited coal production, power generation operations and its coal liquefaction projects. For further details regarding the Restructuring, see "Restructuring."

Retained Businesses

Coal production and power generation operations, consisting primarily of the Xisanju Mines, small-scale coal residual stone power plants located at the Shendong Mines and other assets and liabilities retained by Shenhua Group, including, among others Guohua Investment Company, are reflected in our audited combined income statement and cash flow data for the two years ended 31 December 2003. These operations, assets and liabilities were associated with the production operations transferred to us and, accordingly, in preparing our combined financial information, the revenues and expenses associated with these operations, assets and liabilities were included in our audited combined financial information for each year in the two-year period ended 31 December 2003. As a result of the Restructuring of Shenhua Group, the assets and liabilities retained by Shenhua Group were reflected in our audited combined financial information as a distribution to Shenhua Group of RMB10,711 million on 31 December 2003, of which RMB9,042 million was a transfer of the cash associated with the businesses retained by Shenhua Group. We have not recognised and will not recognise revenues from these operations for the year ended 31 December 2004 or future periods. For selected historical profit and loss information on the businesses retained by Shenhua Group after the Restructuring, see Note 1 in Section V of the Accountants' Report in Appendix I to this prospectus.

Asset Revaluation

In connection with our incorporation and Restructuring, and as required by the relevant PRC regulations, we engaged China Enterprise Appraisal Co., Ltd., an independent appraiser registered in the PRC, to conduct a valuation of each asset class of our property, plant and equipment on a depreciated replacement cost basis as of 31 December 2003. The total value of our property, plant and equipment as of 31 December 2003 was revalued at RMB66,832 million. In connection with the revaluation, we recorded a credit of RMB8,778 million in 2003 with respect to the surplus on revaluation of certain property, plant and equipment. We also recorded an expense of RMB518 million in our combined income statement for the year ended 31 December 2003 with respect to the revaluation deficit in the carrying amount of certain property, plant and equipment below their historical cost bases. The reduction in the carrying amount was primarily the result of a current market decline in the replacement cost of certain property, plant and equipment. The net surplus on the revaluation of property, plant and equipment of RMB8,260 million has been reflected in our combined balance sheet as of 31 December 2003. The effect of the revaluation also increases our future depreciation and amortisation. Revaluations will be performed periodically to ensure that the carrying amount of property, plant and equipment does not differ materially from that which would be determined using fair value at each balance sheet date. See Note 13 in Section V of the Accountants' Report in Appendix I to this prospectus for further information on the revaluation.

Critical Accounting Policies

Our discussion and analysis of our operating results and financial condition are based on our audited combined financial information, which have been prepared in accordance with IFRS. Our operating results and financial condition are sensitive to accounting methods, assumptions and estimates that underlie the preparation of our combined financial information. We base our assumptions and estimates on historical experience and on various other assumptions that we currently believe to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. Our management evaluates these estimates on an ongoing basis. Actual results may differ from these estimates as facts, circumstances and conditions change or as a result of different assumptions.

Our management considers the following factors in reviewing our combined financial information:

- the selection of critical accounting policies; and
- the judgments and other uncertainties affecting the application of those critical accounting policies.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our audited combined financial information. Our principal accounting policies are set forth in detail in Note 2 in Section V of the Accountants' Report in Appendix I to this prospectus. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our audited combined financial information.

Accounting for Long-lived Assets

Depreciation. Property, plant and equipment (excluding mining structures and mining rights) are depreciated on a straight-line basis over the estimated useful life of the asset, after taking into account its estimated residual value. We review the estimated useful life of the asset regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The estimated useful lives are based on our historical experience with similar assets and have taken into account anticipated technological changes. The depreciation expense for future periods will be adjusted if there are significant changes from previous estimates.

Mining structures and mining rights are depreciated based on a units-of-production method, utilising only proved and probable reserves in the depletion base. There are numerous uncertainties inherent in estimating proved and probable reserves, and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the prices of coal, exchange rates, production costs or recovery rates may ultimately result in our reserves being adjusted. These changes in reserves could impact the amount of depreciation expense for future periods.

Impairment. The carrying amounts of long-lived assets, including property, plant and equipment, are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amount may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of impairment loss is the difference between the carrying amounts of the assets and their recoverable amounts. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the assets are discounted to their present value, which requires projecting cash flows for future years and assuming a pre-tax discount rate that reflects current market assessments of the time value of money and the risks inherent in the asset. Future cash flows are estimated based on production and sales plans, coal prices (considering current and historical prices, price trends and related factors), total proved and probable reserves, operating costs, reclamation costs and planned capital costs. These estimates are subject to risk and uncertainty; therefore, there is a possibility that changes in circumstances will alter these projections, which in turn may impact the recoverability of these assets.

Revaluation. As required by the relevant PRC rules and regulations with respect to the restructuring, our property, plant and equipment were revalued as of 31 December 2003. Subsequent to that revaluation, our property, plant and equipment were carried at the revalued amount, being the fair value as at the date of the revaluation, less subsequent accumulated depreciation and impairment losses. Revaluations will be performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. In determining when the revaluation will be performed, that requires a degree of judgment as to whether the carrying amount of property, plant and equipment differs from the fair value at the balance sheet date, and a degree of judgment in estimating the fair values of the assets. The results of subsequent revaluations may have an impact on the amount of revaluation deficit and surplus and the related depreciation expenses to the extent the fair values of our property, plant and equipment change significantly.

Land Reclamation and Other Environmental Costs

Our accrued reclamation obligations represent our estimates of required expenditures for land reclamation and mine closures for both our open-cut and underground mines in accordance with PRC rules and regulations. See "Regulation — Environmental Protection." We estimate this liability for final reclamation and mine closure based upon detailed calculations of the amount and timing of future cash spending for a third party to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability, such that the provision reflects the present value of the expenditures expected to be required to settle the obligation. We record a corresponding asset associated with the liability for final reclamation and mine closures. The liability and corresponding asset are recognised in the period during which the obligation is incurred. The asset is depreciated based on the units-of-production method over its expected life and the increase in the net present value of the obligation is included in the interest expense. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in the timing of reclamation activities), the revisions to the liability and corresponding asset are recognised at the appropriate discount rate, which will impact the amount of related amortisation, depreciation expenses and interest costs for future periods. As of 31 December 2002, 2003 and 2004, the reclamation obligations accrued by us amounted to RMB598 million, RMB628 million and RMB650 million, respectively.

The above provisions do not include remediation costs arising from accidental environmental contamination or other contingent events that give rise to a loss that is probable and reliably estimable. In addition, the cost of ongoing programs to prevent and control pollution and rehabilitate the environment is expensed as incurred.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts based on estimated probable losses resulting from the inability of our customers to make payments due to us. We base our estimates on the ageing of our accounts receivable balance, customer creditworthiness, and our historical write-off experience. If the financial condition of our customers were to deteriorate, actual write-offs might be higher than expected, which would adversely affect our operating results and financial condition through the recording of a higher allowance.

The Group has made a specific provision for the accounts receivable which was identified irrecoverable. A general provision is made on accounts receivable, except for those debts specifically identified recoverable. Provision for bad and doubtful debts is written back when the relevant debts are received or will be received. Our provision for bad and doubtful debts amounted to RMB310 million, RMB50 million and RMB25 million in 2002, 2003 and 2004 respectively. The decrease in provision for bad and doubtful debts from RMB310 million in 2002 to RMB50 million in 2003 is mainly due to the carve out of entities upon the Restructuring.

Provision for Inventory

We make provision on obsolete or damaged stock identified. The provision for inventory amounted to RMB392 million, RMB310 million and RMB326 million in 2002, 2003 and 2004 respectively. There was no material fluctuation in the provision for inventory during the three-year period ended 31 December 2004.

Deferred Tax Assets

We recognise deferred tax assets for all deductible temporary differences and operating tax loss carryforwards for tax purposes. At each reporting date, we assess whether a valuation allowance is required to reduce the amount of the deferred tax assets to a remaining amount that is probable to be realised. In assessing the need for a valuation allowance, we consider all available evidence, including projected future taxable income, tax planning strategies, historical taxable income, and the expiration period of the operating tax loss carryforwards. Differences in actual results from projections used in determining the valuation allowances could result in future adjustments to the allowances.

Changes to IFRS

The Company's financial statements have been prepared in accordance with IFRS promulgated by the International Accounting Standards Board (''IASB'').

The IASB has issued a number of new IFRSs and revised a number of existing IFRSs, which are effective for accounting periods beginning on or after 1 January 2005. These new or revised standards cover a number of areas including share-based payment, business combinations and consolidated and separate financial statements. The Company had not early adopted these new and revised IFRSs in the Financial Information. The Group has assessed the impact of these new and revised IFRSs and has concluded that the adoption of these new and revised IFRSs would not have a significant impact on its results of operations and financial position.

These issued IFRSs may result in the following changes in the future as to how the Group's results and financial position are prepared and presented.

- IFRS 2 ''Share-based Payment'' specifies the financial reporting by an entity when it undertakes a share-based payment transaction. All share-based payment transactions are recognised in the financial statements and are measured at fair value. In particular, it requires an entity to reflect in its profit or loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees.

- IFRS 3 ''Business Combinations'' replaces IAS 22 ''Business Combinations''

  - IFRS 3 requires all business combinations within its scope to be accounted for using the purchase method. IAS 22 permitted business combinations to be accounted for under the pooling-of-interests method for combinations classified as uniting of interests or the purchase method for combinations classified as acquisitions.

  - IFRS 3 requires goodwill acquired in a business combination to be measured after initial recognition at cost less any accumulated impairment losses. Thereafter, the goodwill is not amortised and instead must be tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. IAS 22 required acquired goodwill to be systematically amortised over its useful life, and included a rebuttable presumption that the useful life could not exceed twenty years.

- A revised IAS 27 ''Consolidated and Separate Financial Statements'' has become effective on 1 January 2005 which applies to accounting for investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of a parent, a venturer or investor.

  - This standard requires an entity to present minority interests in the consolidated balance sheet within equity, separately from the parent shareholders' equity. Though the previous version of IAS 27 precluded presentation of minority interests within liabilities, it did not require presentation within equity.

- The standard prescribes the accounting treatment for investments in subsidiaries, jointly controlled entities and associates when an entity elects, or is required by local regulations, to present separate financial statements. It requires these investments to be accounted for at cost or in accordance with IAS 39 "Financial Instruments: Recognition and Measurement."

Combined Results of Operations

The following table sets forth selected revenue and expense items as a percentage of our total operating revenues for the periods indicated and our compound annual growth rates from 2002 to 2004.

	Year Ended 31 December(1)						
	2002		2003		2004		
	Amount	Percentage of total operating revenues	Amount	Percentage of total operating revenues	Amount	Percentage of total operating revenues	Compound Annual Growth Rate (2002-2004)
	(RMB in millions, except percentage data)						
Revenues							
Coal revenue	13,393	62.5%	17,596	65.2%	28,079	71.5%	44.8%
Power revenue	5,914	27.6	7,024	26.0	9,866	25.1	29.2
Other revenues	2,122	9.9	2,375	8.8	1,322	3.4	(21.1)
Total operating revenues	21,429	100.0%	26,995	100.0%	39,267	100.0%	35.4%
Cost of revenues							
Materials, fuel and power	(1,866)	(8.7)	(2,677)	(9.9)	(4,452)	(11.3)	54.5
Personnel expenses	(1,151)	(5.4)	(1,559)	(5.8)	(1,564)	(4.0)	16.6
Depreciation and amortisation	(3,370)	(15.7)	(3,674)	(13.6)	(4,795)	(12.2)	19.3
Repairs and maintenance	(846)	(3.9)	(1,529)	(5.7)	(2,146)	(5.5)	59.3
Transportation charges	(4,475)	(20.9)	(4,734)	(17.5)	(5,557)	(14.2)	11.4
Others	(2,515)	(11.7)	(3,058)	(11.3)	(2,708)	(6.9)	3.8
Total cost of revenues	(14,223)	(66.4)%	(17,231)	(63.8)%	(21,222)	(54.1)%	22.2 %
Selling, general and administrative expenses	(1,804)	(8.4)	(2,217)	(8.2)	(2,492)	(6.3)	17.5
Other operating expense, net	(188)	(0.9)	(307)	(1.1)	(54)	(0.1)	(46.4)
Total operating expenses	(16,215)	(75.6)%	(19,755)	(73.1)%	(23,768)	(60.5)%	21.1%
Profit from operations	5,214	24.4	7,240	26.9	15,499	39.5	72.4
Deficit on revaluation of property, plant and equipment	-	-	(518)	(1.9)%	-	-	-
Net financing costs	(3,103)	(14.5)	(3,130)	(11.6)	(2,358)	(6.0)	(12.8)
Gain on debt restructuring	-	-	613	2.3	-	-	-
Investment income	51	0.2	200	0.7	-	-	-
Share of profits of associates	299	1.4	46	0.2	245	0.6	(9.5)
Income tax	(454)	(2.1)	(854)	(3.2)	(2,820)	(7.2)	149.2
Minority interests	(410)	(1.9)	(696)	(2.6)	(1,631)	(4.2)	99.5
Profit for the year	1,597	7.5%	2,901	10.8%	8,935	22.7%	136.5%

(1) The data for each of the years in the two-year period ended 31 December 2003 include the results of the businesses and assets retained by Shenhua Group after the Restructuring. The data for the year ended 31 December 2004, however, do not include the results of those businesses and assets, and therefore are not necessarily comparable with the data for the years ended 31 December 2002 and 2003.

Year Ended 31 December 2004 Compared to Year Ended 31 December 2003

Certain revenues and costs included in our results of operations for the year ended 31 December 2003 were associated with certain operations, assets and liabilities which were retained by Shenhua Group following the Restructuring. The financial results of these operations, assets and liabilities were not included in our results of operations in the year ended 31 December 2004 (and will not be included *in future periods). Therefore, our results of operations for the year ended 31 December 2003 are not necessarily comparable with the results of operations for the year ended 31 December 2004.*

Total Operating Revenue. Our total revenue increased by RMB12,272 million, or 45.5%, from RMB26,995 million in 2003 to RMB39,267 million in 2004, primarily due to increased revenues from our coal and power operations.

Coal Revenue. Revenue from our coal operations grew by 59.6% from RMB17,596 million in 2003 to RMB28,079 million in 2004. This increase was primarily due to increases in the sales volume and price of our coal products. The total volume of our coal sales increased by 27.4% from 87.7 million tonnes in 2003 to 111.7 million tonnes in 2004, as we captured growth in domestic and export market demand by increasing our production and transportation capacity. Due to strong demand in both the domestic market and Asia-Pacific export coal market, the average domestic price of our coal increased by 21.1% from RMB194 per tonne in 2003 to RMB235 per tonne in 2004, and the average export price of our coal increased by 41.2% from RMB216 per tonne in 2003 to RMB305 per tonne in 2004.

Power Revenue. Revenue from our power operations grew by 40.5% from RMB7,024 million in 2003 to RMB9,866 million in 2004. This increase was primarily due to an increase in the on-grid output dispatch to power grid companies of our power, and, to a lesser extent, an increase in our average on-grid tariffs. Our total output dispatch increased by 33.2%, from 26,454 GWh in 2003 to 35,249 GWh in 2004, primarily as a result of our increased generation capacity being met by increased demand on the power grids we serve. The generation units at our Taishan Power Plants that commenced commercial operations in December 2003 and April 2004, respectively, have increased our total installed capacity by 1,200 MW. The average utilisation hours of our power plants, which are driven by demand from the power grids, increased by 10.1% from 5,952 hours in 2003 to 6,551 hours in 2004. The weighted average on-grid tariff of our operating power plants increased by 6.2% from RMB258 per MWh in 2003 to RMB274 per MWh in 2004 primarily due to increases in tariffs for planned output and excess output dispatch approved by the NDRC and provincial pricing bureaus in 2004.

Other Revenues. Our other revenues decreased by 44.3% from RMB2,375 million in 2003 to RMB1,322 million in 2004. This decrease was primarily due to a decrease of RMB591 million in the sale of ancillary materials and other goods, including property, cement and other construction materials, chemicals and other raw materials. We do not expect to recover revenues from these sales in the future as these businesses have been retained by Shenhua Group as part of the Restructuring. In addition, the decrease in our other revenues was due to a decrease of RMB376 million in our revenue generated from the provision of transportation and other services to third parties as we increased our own coal transportation volume over our transportation network.

Operating Expenses. Total operating expenses increased by RMB4,013 million, or 20.3%, from RMB19,755 million in 2003 to RMB23,768 million in 2004. Although this increase was driven by increases in the volume of our coal production and power generation operations, it is less than that of our total operating revenues over the same period.

Cost of Revenues. Our total cost of revenues increased by 23.2% from RMB17,231 million in 2003 to RMB21,222 million in 2004, primarily as a result of increases in the cost of materials, fuel and power costs, transportation charges, depreciation and amortisation expenses and repair and maintenance expenses.

Our materials, fuel and power costs increased by 66.3% from RMB2,677 million in 2003 to RMB4,452 million in 2004, primarily due to our increased coal and power sales and increased purchases of coal that we purchased from third parties. As a result, materials, fuel and power costs as a percentage of total operating revenue increased from 9.9% from 2003 to 11.3% in 2004. Transportation charges increased by 17.4% from RMB4,734 million in 2003 to RMB5,557 million in 2004 primarily due to the reintroduction of mandatory contributions by coal exporters to national railway and port construction funds in May 2004 and an increase of RMB0.002 per tonne kilometre in the freight rate charged by the national rail system since December 2003. Due to increased utilisation of our own transportation network, however, transportation charges paid to third-party transportation service providers as a percentage of total operating revenues decreased from 17.5% in 2003 to 14.2% in 2004.

Depreciation and amortisation expenses increased by 30.5% from RMB3,674 million in 2003 to RMB4,795 million in 2004 primarily due to the addition of fixed assets at our Shenshuo and Shuohuang Rail Lines, Shendong Mines and new power plants since 2003, and the net surplus of fixed assets arising from the revaluation as of 31 December 2003. Repair and maintenance expenses increased by 40.4% from RMB1,529 million in 2003 to RMB2,146 million in 2004 due to major scheduled repairs and maintenance of our coal mining and transportation equipments and generation units.

Other costs of revenue decreased by 11.4% from RMB3,058 million in 2003 to RMB2,708 million in 2004, primarily due to decreases in the cost associated with the sale of ancillary materials and other goods and other expenses, as part of these business were retained by Shenhua Group as part of the Restructuring. This decrease was partially offset by an increase of RMB100 million in coal selection and other related fees and RMB70 million in sales taxes and surcharges arising from the increased the sales volume of coal products and the on-grid output dispatch of our power.

Personnel expenses remained relatively stable at RMB1,559 million in 2003 and RMB1,564 million in 2004. This was because the increase in per capita compensation was offset by the decrease in the number of employees, as a significant number of employees were retained by Shenhua Group as part of the Restructuring.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses increased by 12.4% from RMB2,217 million in 2003 to RMB2,492 million in 2004 primarily due to increased provisions for inventory and increased compensation for our selling and management personnel.

Net Other Operating Expense. Our net other operating expenses decreased from RMB307 million in 2003 to RMB54 million in 2004, primarily due to a decrease in loss on disposal of property, plant and equipment of RMB303 million.

Net Financing Costs. Net financing costs decreased by 24.7% from RMB3,130 million in 2003 to RMB2,358 million in 2004. This decrease was primarily due to a RMB766 million decrease in unrealised foreign exchange losses, which was partially offset by an increase of RMB208 million in net interest expense. In July 2004, we hedged a portion of our outstanding Japanese yen-denominated borrowings. As a result, our unrealised foreign exchange loss decreased to RMB218 million in 2004 from RMB984 million in 2003 and we recorded a gain of RMB145 million on remeasurement of derivative financial instruments to fair value. In 2004 the Japanese yen appreciated, with the US dollar exchange rate rising from US$1.00 to Japanese yen 107.13 as of 31 December 2003 to US$1.00 to JPY102.68 as of 31 December 2004.

Income Tax. Our income tax expense increased by 230.2% from RMB854 million in 2003 to RMB2,820 million in 2004, primarily due to the increase in our provision for income taxes associated with the increase in our total pre-tax income. While our statutory income tax rate is 33.0%, our effective tax rate was 21.1% in 2004, compared to 19.2% in 2003. The increase in our effective tax rate in 2004 was primarily due to the expiration of preferential tax treatment applied to some of our subsidiaries. The difference between the statutory tax rate and our effective tax rate was primarily due to the preferential income tax rates of 7.5% and 15.0% (which will expire in 2005 and 2010, respectively) applicable to certain of our subsidiaries located in western China. See Note 9 in Section V of the Accountants' Report in Appendix I for a reconciliation of our effective tax rate. The benefit arising from the difference between the statutory tax rate and our effective tax rate was RMB1,921 million and RMB783 million for 2004 and 2003, respectively.

Minority Interests. Our minority interests increased by 134.3% from RMB696 million in 2003 to RMB1,631 million in 2004, primarily due to an increase in the profit attributable to our minority shareholders in the Shuohuang Rail Line and our power plants.

Profit for the Year. For the reasons set forth above, our profit for the year increased by RMB6,034 million, or 208.0%, from RMB2,901 million in 2003 to RMB8,935 million in 2004.

Year Ended 31 December 2003 Compared to Year Ended 31 December 2002

Total operating revenues. Our total operating revenues increased by RMB5,566 million, or 26.0%, from RMB21,429 million in 2002 to RMB26,995 million in 2003, primarily due to increased revenues from our coal and power operations.

Coal Revenue. Revenue from our coal operations grew by 31.4% from RMB13,393 million in 2002 to RMB17,596 million in 2003. This increase was primarily due to an increase in the sales volume of our coal. The total volume of our coal sales increased by 29.7% from 67.6 million tonnes in 2002 to 87.7 million tonnes in 2003, as we captured the growth in domestic and global market demand by increasing our production and transportation capacity. The average domestic sales price of our coal increased by 3.2% from RMB188 per tonne in 2002 to RMB194 per tonne in 2003, while the average export price of our coal decreased by 4.4% from RMB226 per tonne in 2002 to RMB216 per tonne in 2003 due to unfavourable market conditions in the Asia-Pacific coal export market.

Power Revenue. Revenue from our power operations grew by 18.8% from RMB5,914 million in 2002 to RMB7,024 million in 2003. This increase was primarily due to an increase in our on-grid output dispatch. Our total output dispatch to power grid companies increased by 23.0% from 21,503 GWh in 2002 to 26,454 GWh in 2003, primarily as a result of increased demand on the power grids we serve. Our Guohua Zhunge'er Power Plant commenced commercial operation in 2002, increasing our total installed capacity by 660 MW. The average utilisation hours of our operating power plants increased by 15.6% from 5,147 hours in 2002 to 5,952 hours in 2003. The weighted average on-grid tariff of our operating power plants, however, decreased from RMB267 per MWh in 2002 to RMB258 per MWh in 2003. This decrease was primarily due to the addition of the Guohua Zhunge'er Power Plant in 2002, which has lower on-grid tariffs for its planned output because its location adjacent to our Heidaigou Mine enables it to operate with a relatively low fuel cost.

Other Revenues. Our other revenues grew by 11.9% from RMB2,122 million in 2002 to RMB2,375 million in 2003. This increase in 2003 was primarily due to an increase of RMB135 million in the sale of ancillary materials and other goods and an increase of RMB89 million in our revenue generated from rendering transportation and other services to third parties.

Operating Expenses. Total operating expenses increased by RMB3,540 million, or 21.8%, from RMB16,215 million in 2002 to RMB19,755 million in 2003. Although this increase was driven by increases in the volume of each of our coal production and power generation operations, this increase is less than that of our total operating revenues over the same period.

Cost of Revenues. Our total cost of revenues increased by 21.1% from RMB14,223 million in 2002 to RMB17,231 million in 2003, primarily as a result of increases in the cost of materials, fuel and power costs, repairs and maintenance expenses, personnel expenses, depreciation and amortisation expenses and other costs as we continued to expand our coal and power operations. Our materials, fuel and power costs increased by 43.5% from RMB1,866 million in 2002 to RMB2,677 million in 2003, primarily due to our increased coal and power sales as well as higher transportation volume over our rail and port network. As a result, materials, fuel and power costs as a percentage of total operating revenues increased from 8.7% in 2002 to 9.9% in 2003. Due to increased utilisation of our transportation network, transportation charges paid to third party transportation service providers as a percentage of total operating revenues decreased from 20.9% in 2002 to 17.5% in 2003.

Repair and maintenance expenses increased by 80.7% from RMB846 million in 2002 to RMB1,529 million in 2003 due to major scheduled repairs and maintenance on our coal mining and transportation equipment and the increased usage of our transportation facilities. Personnel expenses, excluding selling and management personnel expenses, increased by 35.4%, from RMB1,151 million in 2002 to RMB1,559 million in 2003, primarily due to increased compensation paid to our employees. Depreciation and amortisation expenses increased by 9.0% from RMB3,370 million in 2002 to RMB3,674 million in 2003 as we added new power plants in 2003. Other costs of revenues increased by 21.6% from RMB2,515 million in 2002 to RMB3,058 million in 2003, primarily due to increases in other expenses as a result of our expanded operations and dredging expenses incurred at our Huanghua Port. The dredging expenses at our Huanghua Port increased from RMB211 million in 2002 to RMB364 million in 2003 as Huanghua Port experienced severe storms in 2003.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses increased by 22.9% from RMB1,804 million in 2002 to RMB2,217 million in 2003. This increase was primarily due to increases in management personnel costs associated with the expansion of our operations, as well as increases in selling costs. Our management personnel costs increased by 38.7% from RMB597 million in 2002 to RMB828 million in 2003 due to the increased compensation for our selling and management personnel. Our selling costs (excluding personnel costs) increased by 29.6% from RMB409 million in 2002 to RMB530 million in 2003 due to increased sales volume.

Net Other Operating Expense. Our net other operating expense increased by 63.3% from RMB188 million in 2002 to RMB307 million in 2003. This increase was primarily due to an increase of RMB222 million in the loss from disposal of property, plant and equipment, which was offset in part by an increase of RMB34 million in the VAT refunds associated with coal exports we received.

Deficit on Revaluation of Property, Plant and Equipment. In connection with the Restructuring, we engaged China Enterprise Appraisal Co., Ltd. to conduct a valuation of each asset class of our property, plant and equipment on a depreciated replacement cost basis as of 31 December 2003. We recorded an expense of RMB518 million in our combined income statement for the year ended 31 December 2003 with respect to the revaluation deficit in the carrying amount of certain property, plant and equipment below their historical cost bases. The reduction in the carrying amount was primarily the result of a current market decline in the replacement cost of certain buildings, furniture, fixtures, motor vehicles and other equipment. See Note 13 in Section V of the Accountants' Report in Appendix I to this prospectus for further information on the revaluation.

Net Financing Costs. Net financing costs slightly increased by 0.9% from RMB3,103 million in 2002 to RMB3,130 million in 2003. As our foreign currency borrowings are primarily denominated in Japanese yen, this increase was primarily due to an increase in unrealised foreign exchange loss of RMB291 million in 2003 resulting from appreciation of the Japanese yen. This increase in net foreign exchange loss was partially offset by a decrease in net interest expense of RMB255 million in 2003. In 2003, the Japanese yen appreciated, with the US dollar exchange rate increasing from US$1.00 to Japanese yen 118.75 as of 31 December 2002 to US$1.00 to Japanese yen 107.13 as of 31 December 2003.

Gain on Debt Restructuring. In 2003, certain of our subsidiaries, including the subsidiaries operating the Xisanju Mines and Wanli Mines, restructured their debt with the lending banks and China Cinda Assets Management Corporation such that the lenders transferred loan principal and interest payable of a total face value amount of RMB701 million to China Cinda Assets Management Corporation, which then cancelled such loan principal and interest in exchange for a cash payment of RMB88 million. The difference of RMB613 million was recorded as a gain on debt restructuring.

Income Tax. Our income tax expense increased by 88.1% from RMB454 million in 2002 to RMB854 million in 2003, primarily due to an increase in our provision for income taxes associated with an increase in our total pre-tax income. While our statutory income tax rate is 33.0%, our effective tax rate was 19.2% in 2003, compared to 18.4% in 2002. The benefit arising from the difference between the statutory tax rate and our effective tax rate was RMB783 million and RMB496 million for 2003 and 2002, respectively. See Note 9 in Section V of the Accountants' Report in Appendix I to this prospectus for a reconciliation of our effective tax rate to the statutory tax rate.

Minority Interests. Our minority interests increased by 69.8% from RMB410 million in 2002 to RMB696 million in 2003, primarily due to an increase of RMB180 million in the profit for the year attributable to our minority shareholders in Shuohuang Rail Line.

Profit for the year. For the reasons set forth above, profit for the year increased by RMB1,304 million, or 81.7%, from RMB1,597 million in 2002 to RMB2,901 million in 2003.

Discussion of Segment Operations

We manage our operations and report our financial results according to two separate business segments, coal operations and power operations. The operations of our coal segment include mainly the development of our coal mines, production of coal from open-cut and underground mines as well as the sale, supply and rail and port transportation of coal to external customers and our power segment. The operations of our power segment consist of using coal (sourced primarily from our coal segment and third party coal suppliers) to generate power for sale primarily to power grid companies. These two reportable segments are managed separately due to differences in their production and distribution processes and margin characteristics.

We evaluate the performance of, and allocate revenues and expenses to, our two segments on an profit from operations basis, without considering the effects of finance costs or investment income. Headquarters expenses, corporate administrative costs, finance costs, investment income and expenses related to subsidiaries that are not a part of our coal and power segments are allocated to corporate and others, which is not a segment for our business segment reporting purposes.

The pricing for inter-segment transactions is set by reference to market prices or prices pre-determined by the PRC government. The price of coal supplied to our power segment approximates the price of coal we sell to third parties that has comparable coal characteristics and transportation distances. The price of power sold to our coal segment, which constitutes an insignificant amount of our power revenues, is also similar to the on-grid tariff for power we sell to grid companies. For additional information relating to our business segments and segment presentation, see Note 33 in Section V of the Accountants' Report in Appendix I to this prospectus.

Certain revenues and costs included in our results of operations for each of the years in the two-year period ended 31 December 2003 were associated with certain operations, assets and liabilities (including the Xisanju Mines) that were retained by Shenhua Group following the Restructuring. The financial results of these operations, assets and liabilities were not included in our results of operations in the year ended 31 December 2004 and will not be included in future periods. Therefore, the results of operations in both of our coal segment and power segment for each of the years in the two-year period ended 31 December 2003, particularly with respect to the coal segment, are not necessarily comparable with the results for the year ended 31 December 2004.

The following tables present our segment operating information for the periods indicated.

	Coal[1]			Power[1]			Corporate and others[1][2]			Eliminations[1]			Total[1]		
	Year Ended 31 December			Year Ended 31 December			Year Ended 31 December			Year Ended 31 December			Year Ended 31 December		
	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004
	(RMB in millions, except for operating margin)														
Revenues															
External sales	15,197[3]	19,519[3]	29,369[3]	5,986	7,068	9,898	246	408	-	-	-	-	21,429	26,995	39,267
Inter-segment sales	1,534	1,758	3,002	42	44	40	-	-	-	(1,576)	(1,802)	(3,042)	-	-	-
Total operating revenues	16,731	21,277	32,371	6,028	7,112	9,938	246	408	-	(1,576)	(1,802)	(3,042)	21,429	26,995	39,267
Cost of revenues															
Cost of coal production	(3,561)	(5,101)	(7,383)	-	-	-	-	-	-	589	859	910	(2,972)	(4,242)	(6,473)
Cost of coal transportation	(6,817)	(7,886)	(9,481)	-	-	-	-	-	-	499	466	726	(6,318)	(7,420)	(8,755)
Cost of power sales	-	-	-	(3,794)	(4,335)	(6,419)	-	-	-	473	467	1,398	(3,321)	(3,868)	(5,021)
Others	(1,436)	(1,427)	(946)	(33)	(18)	(27)	(143)	(256)	-	-	-	-	(1,612)	(1,701)	(973)
Total cost of revenues	(11,814)	(14,414)	(17,810)	(3,827)	(4,353)	(6,446)	(143)	(256)	-	1,561	1,792	3,034	(14,223)	(17,231)	(21,222)
Selling, general and administrative expenses	(1,275)	(1,500)	(1,792)	(308)	(401)	(600)	(221)	(316)	(100)	-	-	-	(1,804)	(2,217)	(2,492)
Other operating income/(expenses), net	(164)	(234)	(74)	(19)	(56)	20	(5)	(17)	-	-	-	-	(188)	(307)	(54)
Profit/(loss) from operations	3,478	5,129	12,695	1,874	2,302	2,912	(123)	(181)	(100)	(15)	(10)	(8)	5,214	7,240	15,499
Operating Margin[4]	20.8%	24.1%	39.2%	31.1%	32.4%	29.3%							24.3%	26.8%	39.5%
Deficit on revaluation of property, plant and equipment													-	(518)	-
Net financing costs													(3,103)	(3,130)	(2,358)
Gain on debt restructuring													-	613	-
Investment income													51	200	-
Share of profits of associates													299	46	245
Income tax													(454)	(854)	(2,820)
Minority interests													(410)	(696)	(1,631)
Profit for the year													1,597	2,901	8,935
Capital expenditure	4,627	7,714	8,816	2,687	5,004	6,217	129	389	2				7,443	13,107	15,035
Depreciation and amortisation	2,281	2,549	3,048	1,322	1,401	1,901	24	67	-				3,627	4,017	4,949
Share of profits/(losses) of associates	3	6	77	6	43	168	290	(3)	-				299	46	245

(1) The data for each of the years in the two-year period ended 31 December 2003 include the results of the businesses and assets retained by Shenhua Group after the Restructuring. The data for the year ended 31 December 2004, however, do not include the results of those businesses and assets, and therefore are not necessarily comparable with the data for the years ended 31 December 2002 and 2003.

(2) "Corporate and others" represents miscellaneous revenue and expenses that are immaterial. Corporate and others is not considered a reportable segment.

(3) Includes non-coal sales revenues of RMB1,804 million, RMB1,923 million and RMB1,290 million in 2002, 2003 and 2004, respectively.

(4) "Operating Margin" represents profit/(loss) from operations divided by total operating revenues.

	Year Ended 31 December		
	2002	2003	2004
	(RMB in millions)		
Cost of coal revenues[1]			
Raw materials, fuel and power consumed	1,163	1,615	3,370
Personnel expenses	566	820	616
Depreciation and amortisation	870	999	1,387
Repairs and maintenance	355	671	1,001
Transportation costs within mining areas	159	213	217
Other costs of coal production	448	783	792
Total cost of coal production	3,561	5,101	7,383
Internal transportation costs	2,501	3,365	4,141
External transportation costs	4,316	4,521	5,340
Total cost of coal transportation	6,817	7,886	9,481
Total other costs	1,436	1,427	946
Total cost of coal revenues	11,814	14,414	17,810

	Year Ended 31 December		
	2002	2003	2004
	(RMB in millions)		
Cost of power revenues[1]			
Fuel costs	1,752	2,037	3,361
Personnel expenses	198	242	355
Depreciation and amortisation	1,314	1,384	1,820
Repairs and maintenance	277	391	514
Other cost of power sales	253	281	369
Total cost of power sales	3,794	4,335	6,419
Total other costs	33	18	27
Total cost of power revenues	3,827	4,353	6,446

(1) The data for each of the years in the two-year period ended 31 December 2003 include the results of the businesses and assets retained by Shenhua Group after the Restructuring. The data for the year ended 31 December 2004, however, do not include the results of those businesses and assets, and therefore are not necessarily comparable with the data for the years ended 31 December 2002 and 2003.

Coal Segment

Year Ended 31 December 2004 Compared to Year Ended 31 December 2003

Revenue from our coal segment increased by 52.1% from RMB21,277 million in 2003 to RMB32,371 million in 2004, primarily as a result of increased sales prices and volumes of both our external and inter-segment coal sales.

Revenue generated from external sales of our coal increased by 50.5%, from RMB19,519 million in 2003 to RMB29,369 million in 2004, due to an increase in volume and higher prices for our coal. Our external sales increased by 27.4% from 87.7 million tonnes in 2003 to 111.7 million tonnes in 2004. The average sales price of our coal sold to third parties increased by 24.9% from RMB201 per tonne in 2003 to RMB251 per tonne in 2004.

Inter-segment sales increased by 70.8%, from RMB1,758 million in 2003 to RMB3,002 million in 2004, primarily due to an increase in the volume of coal we sold to our power segment as we expanded our power operations. The volume of our inter-segment coal sales increased by 33.3% from 11.4 million tonnes in 2003 to 15.2 million tonnes in 2004. The average sales price of our coal sold to our power segment increased from RMB154 per tonne in 2003 to RMB198 per tonne in 2004. In both 2003 and 2004, the average sales price of coal we sold to our power segment was lower than that of coal sold to third-party customers. This is primarily because the coal sold to our power segment has, on average, a shorter transportation distance than that to third party customers.

Total cost of revenues for our coal segment increased by 23.6% from RMB14,414 million in 2003 to RMB17,810 million in 2004, primarily reflecting increases in production and transportation costs associated with our increased coal sales. Our cost of revenues grew at a much slower rate than our total revenue primarily due to the effects of our improving economies of scale of our coal production and transportation operations.

Cost of coal production increased by 44.7% from RMB5,101 million in 2003 to RMB7,383 million in 2004, primarily due to increased costs of raw materials, fuel and power consumed and depreciation and amortisation of coal production assets. Costs for raw materials, fuel and power increased by 108.7%, from RMB1,615 million in 2003 to RMB3,370 million in 2004, primarily due to increased production volume and increased purchases of coal from third parties for coal blending and for resale. Cost of coal production attributable to coal purchased from third parties increased by 128.0% from RMB824 million in 2003 to RMB1,879 million in 2004, as we increased third-party coal purchases from 14.2 million tonnes in 2003 to 22.8 million tonnes in 2004. Personnel expenses declined by 24.9%, from RMB820 million in 2003 to RMB616 million in 2004, primarily due to the fact that employees of the Xisanju Mines were retained by Shenhua Group as part of Restructuring. Repairs and maintenance costs increased by 49.2% from RMB671 million in 2003 to RMB1,001 million in 2004 as some of our mining equipments underwent scheduled overhauls in 2004. Other production costs also increased by 1.1% from RMB783 million in 2003 to RMB792 million in 2004, primarily due to increased coal selection costs as the production volume increased, partially offset by the decrease in production costs due to the retention of the Xisanju Mines as part of the Restructuring.

Our cost of coal transportation increased 20.2%, from RMB7,886 million in 2003 to RMB9,481 million in 2004, primarily due to increased transportation volume over our own transportation network as well as the national rail system. The total turnover of freight traffic on our rail lines increased by 31.0% from 49.1 billion tonne kilometres in 2003 to 64.3 billion tonne kilometres in

2004, while the total tonnage of coal shipped from Huanghua Port increased 45.5% from 31.2 million tonnes to 45.4 million tonnes.

As our transportation capacity has increased, we have transported larger volumes of coal on our own transportation network. Thus, our internal transportation costs increased by 23.1% from RMB3,365 million in 2003 to RMB4,141 million in 2004, while our transportation costs over external networks only increased by 18.1% from RMB4,521 million in 2003 to RMB5,340 million in 2004. Cost of coal transportation attributable to coal purchased from third parties increased by 42.0% from RMB1,019 million to RMB1,447 million primarily due to the increased volume of third-party coal purchases. Compared to the national rail system, our rail lines provide us more direct routes to transport our coal to ports in eastern China, particularly our Huanghua Port, and therefore provide a lower average unit transportation cost than the national rail system. The distance from our Shendong Mines to the Huanghua Port via our Shenshuo and Shuohuang Rail Lines is approximately 821 kilometres, while the distance from our Shendong Mines to the Qinhuangdao Port is approximately 1,031 kilometres.

Depreciation and amortisation expenses increased by 19.6%, from RMB2,549 million in 2003 to RMB3,048 million in 2004, mainly due to increased depreciation of our mining structures and mining rights associated with our expanded production capacity.

Selling, general and administrative expenses increased by 19.5% from RMB1,500 million in 2003 to RMB1,792 million in 2004, primarily as a result of increased sales costs which were partially offset by the decrease in our workforce as certain employees were retained by Shenhua Group as part of the Restructuring. Net other operating expense decreased by 68.4% from RMB234 million in 2003 to RMB74 million in 2004. This decrease was due to other operating expenses of the Xisanju Mines being included in the results for 2003 but not for 2004.

As a result of the foregoing factors, our profit from operations of our coal segment increased by 147.5% from RMB5,129 million in 2003 to RMB12,695 million in 2004. The operating margin of our coal segment increased significantly from 24.1% in 2003 to 39.2% in 2004, primarily as a result of the more rapid growth in revenue from our coal operations surpassing the growth in our cost of revenues, due to higher coal prices and the improving economies of scale in our coal production and transportation operations.

Year Ended 31 December 2003 Compared to Year Ended 31 December 2002

Revenue from our coal segment increased by 27.2% from RMB16,731 million in 2002 to RMB21,277 million in 2003, primarily as a result of increased sales volume of both our external and inter-segment coal sales.

Revenue generated from external sales of our coal segment increased by 28.4% from RMB15,197 million in 2002 to RMB19,519 million in 2003, as our expanded production capacity met with increased market demand. The volume of our coal sold to third parties increased by 29.7% from 67.6 million tonnes in 2002 to 87.7 million tonnes in 2003.

Inter-segment sales increased by 14.6% from RMB1,534 million in 2002 to RMB1,758 million in 2003, while the volume of our coal sold to our power segment increased by 26.7% from 9.0 million tonnes in 2002 to 11.4 million tonnes in 2003. The growth rate of the volume of coal sold to our power segment is greater than that of revenue generated from inter-segment sales because the average sale price of our coal sold to our power segment decreased from RMB170 per tonne in 2002 to RMB154 per tonne in 2003. In each of 2002 and 2003, the average sales price of coal sold to our power segment was lower than that of coal sold to third-party customers. This is primarily because the coal sold to our power segment had, on average, a shorter transportation distance. The contribution of our external sales to our total operating revenues in our coal segment increased slightly from 90.8% in 2002 to 91.7% in 2003.

Total cost of revenues for our coal segment increased by 22.0% from RMB11,814 million in 2002 to RMB14,414 million in 2003, primarily reflecting increased costs of raw materials, fuel and power consumed and transportation costs related to our increased coal production. Our total cost of revenues grew at a slower rate than our coal revenue due to the effects of our improving economies of scale and synergies between our coal production and transportation operations.

Our cost of coal production increased by 43.2% from RMB3,561 million in 2002 to RMB5,101 million in 2003, primarily as a result of our increased production. Costs for raw materials, fuel and power consumed increased by 38.9%, from RMB1,163 million in 2002 to RMB1,615 million in 2003, primarily due to increased mining costs, purchases of spare parts for our longwall mining equipments and increased purchases of coal from third parties for coal blending and resale. Cost of coal production attributable to coal purchased from third parties increased by 20.6% from RMB683 million in 2002 to RMB824 million in 2003 as we increased third-party coal purchases from 13.3 million tonnes in 2002 to 14.2 million tonnes in 2003. Personnel costs increased by 44.9%, from RMB566 million in 2002 to RMB820 million in 2003, primarily due to increases in performance-based payments to our employees. Other production costs increased by 74.8% from RMB448 million in 2002 to RMB783 million in 2003, primarily reflecting an increase in labour service fees paid to third parties and increased leasing fees reflecting increased production at Yujialiang and Kangjiatan, which were then operated under leases. Repair and maintenance costs increased by 89.0% from RMB355 million in 2002 to RMB671 million in 2003 primarily due to large-scale overhauls of continuous miner units and belt conveyor systems at our Shendong Mines. Transportation costs within our mining areas also increased by 34.0% from RMB159 million in 2002 to RMB213 million in 2003 due to increased coal production.

Our cost of coal transportation increased 15.7% from RMB6,817 million in 2002 to RMB7,886 million in 2003 primarily due to an increase in the transportation volume of our rail and port network, which has a lower unit cost and shorter average transportation distance from our mining areas to the eastern ports of China compared to the national rail and port system. The increased utilisation of our internal transportation network is reflected in the growth in costs of transportation on our internal transportation network, which increased by 34.5%, from RMB2,501 million in 2002 to RMB3,365 million in 2003, while costs of transportation over external networks increased by 4.7%, from RMB4,316 million in 2002 to RMB4,521 million in 2003. Cost of coal transportation attributable to coal purchased from third parties increased by 6.7% from RMB955 million in 2002 to RMB1,019 million to 2003, primarily due to the increased volume of third-party coal purchases.

The total turnover of freight traffic on our rail lines increased by 54.9% from 31.7 billion tonne kilometres in 2002 to 49.1 billion tonne kilometres in 2003, while the total tonnage of coal shipped from the Huanghua Port nearly doubled from 16.5 million tonnes to 31.2 million tonnes during the same period as the Huanghua Port gradually reached its designed shipping capacity.

Depreciation and amortisation expenses increased by 11.7%, from RMB2,281 million in 2002 to RMB2,549 million in 2003, mainly due to increased depreciation of our mining structure, rail lines and port facilities.

Selling, general and administrative expenses increased by 17.6% from RMB1,275 million in 2002 to RMB1,500 million in 2003, primarily as a result of increased sales costs and the growth in our workforce. Net other operating expenses increased by 42.7% from RMB164 million in 2002 to RMB234 million in 2003 mainly due to an increase in the loss from disposal of property, plant and equipment.

As a result of the foregoing factors, profit from operations for our coal segment increased by 47.5% from RMB3,478 million in 2002 to RMB5,129 million in 2003. The operating margin of our coal segment increased from 20.8% in 2002 to 24.1% in 2003, primarily because the growth in revenue from our coal segment surpassed the growth in our cost of revenues due to the effects of increasing synergies between our coal production and transportation operations.

Power Segment

Year Ended 31 December 2004 Compared to Year Ended 31 December 2003

Revenue from our power segment increased by 39.7% from RMB7,112 million in 2003 to RMB9,938 million in 2004, primarily due to the addition of two 600 MW generation units at our Taishan Power in December 2003 and April 2004, respectively. Our Taishan Power dispatched 6,261 GWh of electricity in 2004. Its average realised tariff was RMB340 per MWh in 2004, which was significantly higher than our weighted average tariff of RMB274 per MWh in 2004. The increase of output dispatch from the Taishan Power accounted for 67.8% of the increase in our total output dispatch during the period. The volume of total output dispatch to power grid companies increased by 33.2% from 26,454 GWh in 2003 to 35,249 GWh in 2004. The weighted average on-grid tariff of total output dispatch increased by 6.2% from RMB258 per MWh in 2003 to RMB274 per MWh in 2004.

Total cost of revenues for our power segment increased 48.1% from RMB4,353 million in 2003 to RMB6,446 million in 2004, primarily reflecting increases in fuel costs and depreciation and amortisation costs. Fuel costs increased by 65.0% from RMB2,037 million in 2003 to RMB3,361 million in 2004, primarily due to our increased total generation output, increased fuel costs for Taishan Power Plant and a 24.7% increase in our weighted average standard coal price from RMB215 per tonne in 2003 to RMB268 per tonne in 2004. Repair and maintenance costs increased by 31.5% from RMB391 million in 2003 to RMB514 million in 2004, primarily as a result of scheduled overhauls at the Suizhong and Sanhe Power Plants and equipment maintenance at the Taishan Power Plant. Personnel expenses increased by 46.7% from RMB242 million in 2003 to RMB355 million in 2004, attributable to the commencement of commercial operations at Taishan Power as well as increases in salaries of our power segment employees.

Depreciation and amortisation expenses increased by 35.7% from RMB1,401 million in 2003 to RMB1,901 million in 2004 primarily due to the addition of Taishan Power.

Selling, general and administrative expenses increased by 49.6% from RMB401 million in 2003 to RMB600 million in 2004, primarily as a result of the addition of Taishan Power. Net other operating income was RMB20 million in 2004, in comparison with net other operating expenses of RMB56 million in 2003. This increase was primarily due to a decrease in loss from disposal of fixed assets of RMB42 million.

As a result of the foregoing factors, profits from operations of our power segment increased by 26.5%, from RMB2,302 million in 2003 to RMB2,912 million in 2004. The operating margin of our power segment, however, decreased from 32.4% in 2003 to 29.3% in 2004, as growth of our power cost of revenue slightly outpaced growth of our power revenue due to increased fuel costs during this period. If the price of coal continues to increase, our power segment's margin may continue to be affected to the extent that such increases are not reflected in, or offset by, increased on-grid tariffs.

Year Ended 31 December 2003 Compared to Year Ended 31 December 2002

Revenue from our power segment increased by 18.0% from RMB6,028 million in 2002 to RMB7,112 million in 2003, primarily as a result of an increased on-grid output sold to power grid companies, which increased by 23.0% from 21,503 GWh in 2002 to 26,454 GWh in 2003. Approximately 46% of the increase in total output dispatch was due to the addition of two 330 MW generation units at the Guohua Zhunge'er Power Plant, which began commercial operations in April and September 2002, respectively. In addition, driven by growth in power demand, the average utilisation hours of our power plants increased from approximately 5,147 hours in 2002 to 5,952 hours in 2003, contributing to an increase in total output dispatch. The average on-grid tariff decreased from RMB267 per MWh in 2002 to RMB 258 per MWh in 2003. This decrease was primarily due to the addition of the Guohua Zhunge'er Power Plant, which has lower on-grid tariffs because its location adjacent to our Heidaigou Mine enables it to operate with a relatively low fuel cost. The weighted average on-grid tariff of the Guohua Zhunge'er Power Plant was approximately RMB180 per MWh in 2003, which is significantly lower than the weighted average on-grid tariff of RMB258 per MWh for our power plants in 2003.

Total cost of revenues for our power segment increased by 13.7% from RMB3,827 million in 2002 to RMB4,353 million in 2003, primarily reflecting increases in fuel costs and maintenance costs. Fuel cost increased by 16.3% from RMB1,752 million in 2002 to RMB2,037 million in 2003. This increase was primarily associated with greater consumption of fuel due to our increased total generation output, which was partially offset by a 3.2% decrease in the weighted average standard coal price from approximately RMB222 per tonne to RMB215 per tonne. Repair and maintenance costs increased by 41.2% from RMB277 million in 2002 to RMB391 million in 2003, primarily as a result of scheduled overhauls at two of our power plants. Personnel costs increased by 22.2% from RMB198 million in 2002 to RMB242 million in 2003, primarily because the growth in our power segment headcount due to the addition of the two generation units at Guohua Zhunge'er Power as well as overall increases in employee salaries.

Depreciation and amortisation expenses increased by 6.0% from RMB1,322 million in 2002 to RMB1,401 million in 2003 primarily due to the addition of the Guohua Zhunge'er Power Plant.

Selling, general and administrative expenses increased by 30.2% from RMB308 million in 2002 to RMB401 million in 2003, primarily as a result of the addition of new power plants. Net other operating expenses increased by 194.7%, from RMB19 million in 2002 to RMB56 million in 2003 due to an increase in losses from the disposal of property, plant and equipment at certain power plants.

As a result of the foregoing factors, profit from operations from our power segment increased by 22.8%, from RMB1,874 million in 2002 to RMB2,302 million in 2003. The operating margin of our power segment increased from 31.1% in 2002 to 32.4% in 2003, primarily because the growth in our on-grid output dispatch surpassed the growth in our cost of power sales due to the effects of our improving economies of scale.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of working capital and longer-term funding needs have been cash flows from operations and short-term and long-term borrowings. Our primary use of funds have been capital expenditures and repayment of short-term and long-term borrowings. We have recently established a centralised management system for cash flows and borrowings and have implemented measures to reduce our financing costs.

Cash Flows and Working Capital

The following table summarises our cash flows for the periods indicated.

	Years Ended 31 December		
	2002	2003	2004
	(RMB in millions)		
Net cash from operating activities	4,468	8,111	18,934
Net cash used in investing activities	(9,045)	(11,938)	(17,995)
Net cash from financing activities	5,730	2,258	2,037
Cash and cash equivalents, at end of the year	5,731	4,162	7,138
Net increase/(decrease) in cash and cash equivalents	1,153	(1,569)	2,976

Our cash and cash equivalents decreased by RMB1,569 million from RMB5,731 million as of 31 December 2002 to RMB4,162 million as of 31 December 2003, and increased by RMB2,976 million to RMB7,138 million as of 31 December 2004. The RMB2,976 million increase in the amount of cash and cash equivalents for the year ended 31 December 2004 was primarily due to a substantial increase in net cash from operating activities primarily as a result of increased sales prices and volumes. The decrease in cash and cash equivalents from 2002 to 2003 was primarily due to a decrease of RMB3,472 million in net cash from financing activities in 2003 and an increase of RMB2,893 million in net cash used in investing activities, partially offset by an increase of RMB3,643 million in cash flows from operating activities in 2003.

Our principal source of liquidity is cash generated from operating activities. Net cash from our operating activities were RMB4,468 million, RMB8,111 million and RMB18,934 million in 2002, 2003 and 2004, respectively. Our net cash from operating activities increased by 81.5% and 133.4% in 2003 and 2004, respectively, primarily due to a substantial increase in cash generated from profit from operations in each of these periods. Taking advantage of this substantial increase in our cash flow, in September 2004, we repaid short-term borrowings in the amount of RMB2,800 million to reduce our financing costs.

Net cash used in investing activities was RMB9,045 million, RMB11,938 million and RMB17,995 million in 2002, 2003 and 2004, respectively. Net cash used in investing activities increased by 32.0% in 2003 mainly due to an increase of RMB3,911 million to fund capital expenditures in 2003. Net cash used in investing activities increased by 50.7% in 2004 primarily due to an increase of RMB4,554 million to fund capital expenditures in 2004.

Net cash from financing activities was RMB5,730 million, RMB2,258 million and RMB2,037 million in 2002, 2003 and 2004, respectively. Net cash from financing activities decreased by 60.6% in 2003 primarily due to a cash transfer in the amount of RMB9,042 million to the Shenhua Group relating to the assets retained by Shenhua Group in connection with the Restructuring. This decrease was also due to a RMB960 million increase in repayments of bank and other loans. Net cash from financing activities decreased by RMB221 million, or 9.8%, in 2004, primarily due to an increase in repayment of bank and other loans of RMB6,202 million.

Our working capital (defined as current assets minus current liabilities) was at a deficit of RMB7,013 million as of 31 December 2002, a deficit of RMB10,844 million as of 31 December 2003 and a deficit of RMB8,411 million as of 31 December 2004. Working capital deficit decreased by 22.4% in 2004 primarily due to an increase in cash and cash equivalents of RMB2,976 million as a result of substantially increased net cash from operating activities.

Working capital deficit increased by 54.6% in 2003 primarily due to a decrease in prepaid expenses and other current assets of RMB2,012 million and a decrease in cash and cash equivalents of RMB1,569 million. The decrease in prepaid expenses and other current assets was primarily due to a decrease in amounts due from Shenhua Group of RMB1,060 million. The decrease in cash and cash equivalents was due to the repayment of our long-term borrowings in order to reduce our interest expense.

We have begun to take measures to further reduce our working capital deficit, including, among others, tightening the screening of investment projects and strengthening the management of credit policy.

We expect to fund our working capital needs in the future largely from cash generated from operating activities, borrowings as well as a portion of the net proceeds from the Global Offering. Our Directors are of the opinion that, after taking into account the 2005 Special Dividend, our Company has sufficient working capital for at least the next 12 months.

CAPITAL EXPENDITURES

The following table sets forth our historical capital expenditure for the periods indicated.

	For the Year Ended 31 December					
	2002		2003		2004	
	(RMB in millions, except percentage data)					
Coal segment						
Mining	2,140	28.7%	3,370	25.7%	4,524	30.1%
Rail	2,062	27.7	2,686	20.5	2,407	16.0
Port	425	5.7	1,658	12.6	1,885	12.5
Total coal segment	4,627	62.2	7,714	58.8	8,816	58.6
Power segment	2,687	36.1	5,004	38.2	6,217	41.4
Corporate and others	129	1.7	389	3.0	2	-
Total capital expenditures[1]	7,443	100.0%	13,107	100.0%	15,035	100.0%

(1) Capital expenditures are the total costs incurred (including amounts paid and payable) during the period to acquire assets that are expected to be used for more than one period.

Our total capital expenditures increased by 76.1%, from RMB7,443 million in 2002 to RMB13,107 million in 2003, and further increased by 14.7% to RMB15,035 million in 2004. We used our capital expenditures primarily to expand the coal production, coal transportation and power generation capacities of our Company, including, among others, expansion of the Shendong Mines, construction of the Shuohuang Rail Line and Huanghua Port and development of new power plants.

The following table sets forth our planned capital expenditure requirements by segment for the periods indicated.

	For the Year Ended 31 December					
	2005		2006		2007	
	(RMB in millions, except percentage data)					
Coal segment						
Mining	5,256	25.8%	4,917	33.0%	5,925	56.0%
Rail	3,493	17.2	1,675	11.2	1,638	15.5
Port	2,675	13.1	1,900	12.8	931	8.8
Total coal segment	11,424	56.1	8,492	57.0	8,494	80.2
Power segment	8,930	43.9	6,403	43.0	2,094	19.8
Total capital expenditures[1]	20,354	100.0%	14,895	100.0%	10,588	100.0%

(1) Capital expenditures are the total costs incurred (including amounts paid and payable) during the period to acquire assets that are expected to be used for more than one period.

We must obtain PRC government approvals for any project involving significant capital investments in our operations. Based on the number of projects that have been approved by the relevant PRC authorities and the projects for which we currently believe we can obtain approval, we currently plan to spend approximately RMB20,354 million, RMB14,895 million and RMB10,588 million in 2005, 2006 and 2007, respectively, in capital expenditures. From 2005 to 2007, we currently plan to use approximately RMB16,098 million to expand our mining operations, RMB6,806 million to build and expand our rail lines, RMB5,506 million to expand our port facilities and RMB17,427 million to develop our power plants. To the extent we have additional capital investment projects, we intend to use the proceeds from the Global Offering and bank loans to fund such projects. See “Future Plans and Use of Proceeds.”

For further information with respect to our capital expenditure plan, see "Business — Coal Operations" and "Business — Power Operations."

Our current plan with respect to future capital expenditures is subject to change based upon the evolution of our business plan, including potential acquisitions, the progress of our capital projects, market conditions and our outlook on future business conditions. Other than as required by law, we do not undertake any obligation to publish updates of our capital expenditure plans. For more information, see "Forward-looking Statements."

We expect to fund our capital expenditure and debt service needs through a combination of cash generated from operating activities, short-term and long-term borrowings, a portion of the proceeds from the Global Offering and other debt and equity financing. In 2002 and 2003, our capital expenditures, which were RMB7,443 million and RMB13,107 million, respectively, exceeded our net cash from operating activities, which were RMB4,468 million and RMB8,111 million, respectively. In 2004, our net cash from operating activities substantially increased to RMB18,934 million, which exceeded our capital expenditures of RMB15,035 million. Our ability to obtain adequate financing to satisfy our capital expenditure and debt service requirements may be limited by our financial condition and results of operations and the liquidity of the international and domestic financial markets. Any failure by us to achieve timely rollover, extension or refinancing of our short-term and long-term debt may result in our inability to meet our obligations in connection with debt service, accounts payable and/or other liabilities when they become due and payable. In addition, prior to accessing the international and domestic capital markets, we may be required to obtain approvals from relevant PRC government authorities, including the SASAC, the CSRC, the NDRC and/or the SAFE. For a more detailed discussion of factors that may affect our ability to satisfy our financing requirements, see "Risk Factors — Risks Relating to Our Businesses and China's Coal and Power Industries — Our financial performance and operating results could be materially adversely affected by our indebtedness" and "Risk Factors — Risks Relating to Our Businesses and China's Coal and Power Industries — Our major capital projects may not be completed as planned, may exceed our original budgets and may not achieve the intended economic results or commercial viability."

In view of our creditworthiness and the current availability of funds in China and taking into consideration the financial resources available to us, including our internally generated funds, the presently available banking facilities and a portion of the estimated net proceeds of our Global Offering, we believe we have sufficient capital resources to satisfy our currently planned capital needs for the next 12 months.

INDEBTEDNESS

Our indebtedness as of 31 December 2002, 2003, 2004 and 30 April 2005, being the latest practicable date for the purpose of this indebtedness statement, is set forth below.

	As of 31 December			30 April
	2002	2003	2004	2005
	(RMB in millions)			
Short-term borrowings	5,218	11,413	8,241	6,899
Current portion of long-term borrowings	9,925	3,388	5,616	5,077
Long-term borrowings, less current portion	43,320	43,298	46,332	47,461
Bills payable	37	287	741	1,191
Total debt(1)	58,500	58,386	60,930	60,628

(1) Total debt includes short-term and long-term borrowings from Shenhua Finance and Shenhua Group. As of 31 December 2004, our short-term borrowings from Shenhua Finance, and long-term borrowings from Shenhua Finance and Shenhua Group were RMB1,141 million and RMB2,880 million, respectively. As of 31 December 2003, our short-term borrowings from Shenhua Finance, and long-term borrowings from Shenhua Finance and Shenhua Group were RMB1,752 million and RMB1,858 million, respectively. We did not record any short-term or long-term borrowings from Shenhua Finance as outstanding as of 31 December 2002 because such loans were eliminated as inter-company loans at that time.

As of 31 December 2004, we had short-term borrowings from Shenhua Finance of RMB1,141 million and long-term borrowings of RMB2,880 million from Shenhua Finance and Shenhua Group. Shenhua Finance is a financial institution approved and licensed by the PBOC to provide financial services to Shenhua Group and its subsidiaries in the PRC. These loans from Shenhua Finance and Shenhua Group carry the same interest rates and have commercial terms similar to those of third-party loans in the market. In 2002, Shenhua Group issued debentures bearing an interest rate of 3.51% per annum and due in 2005. The total proceeds of approximately RMB1,000 million from these debentures were used for our operations. However, the obligation to repay holders of the debentures upon maturity remains with Shenhua Group. Therefore, we have entered into a loan agreement with Shenhua Group to reimburse it for the principal and interest of the debentures payable by Shenhua Group to debenture holders.

In January 2005, Shenhua Group issued RMB1,000 million debentures due 2012. The debentures bear a floating interest rate of the higher of (i) 5.25% and (ii) 2.55% plus the 1-year benchmark depository rate published by the PBOC.

As of 30 April 2005, our short-term borrowings from Shenhua Finance, and long-term borrowings from Shenhua Finance and Shenhua Group were RMB858 million and RMB3,886 million, respectively. The borrowings from Shenhua Finance and Shenhua Group will be repaid prior to the Listing Date. See "Relationship with Shenhua Group — Finance Matters."

On 24 May 2005, we entered into two entrustment loan agreements with a third party commercial bank and Shenhua Group pursuant to which a total of RMB2,000 million were deposited by Shenhua Group with the commercial bank and on-lent to us by way of entrustment loan. For details of the agreement, see "Connected Transactions — Exempt Continuing Connected Transactions — Loans from Our Connected Persons."

Our short-term and long-term debts are primarily in the form of bank loans. We finance a significant portion of our business operations and capital expenditures with short-term and long-term borrowings obtained from commercial banks in China. We have established and maintained high credit ratings with our principal domestic commercial lenders, which have facilitated our ability to obtain credit on favourable terms to meet our financing requirements. In view of our creditworthiness and the current availability of funds in China, we believe that we are able to continue to obtain sufficient financing from PRC financial institutions. If, however, we are unable to roll over, extend or refinance in a timely manner a significant amount of our short-term borrowings, we may be unable to meet our debt servicing, accounts payable and other obligations. See "Risk Factors — Risks Relating to Our Businesses and China's Coal and Power Industries — Our financial performance and operating results could be materially adversely affected by our indebtedness."

Our short-term borrowings and the current portion of long-term borrowings decreased by 2.3%, from RMB15,143 million as of 31 December 2002 to RMB14,801 million as of 31 December 2003, and further decreased by 6.4% to RMB13,857 million as of 31 December 2004. Our short-term debt from banks and other financial institutions increased by 85.1%, from RMB5,218 million as of

31 December 2002 to RMB9,661 million as of 31 December 2003, but decreased by 26.5% to RMB7,100 million as of 31 December 2004. The increase in our short-term borrowings in 2003 resulted from our efforts, since 2002, to reduce financing costs by taking advantage of lower interest rates applicable to short-term borrowings. From 2002 to 2003, interest rates on short-term debt in China were approximately 0.2% to 0.5% lower than those on long-term debt. The weighted average interest rate of our short-term debt was 4.8% as of 31 December 2003, representing a 0.314% or a 31.4 basis point decrease from that as of 31 December 2002. As the PBOC increased benchmark interest rates in 2004, we repaid short-term borrowings of RMB2,800 million in September 2004 to reduce the proportion of short-term borrowings in our total liabilities.

Our relatively high level of short-term borrowings exposes us to liquidity risk. Our liquidity in the future will primarily depend on our ability to maintain adequate cash inflow from operations to meet our debt obligations as they become due and on our ability to obtain adequate external financing to meet our committed future capital expenditures. Our operating cash flows could be adversely affected by numerous factors beyond our control, including but not limited to fluctuations in coal price and power tariff, decreased demand for coal and power or increased competition. Our ability to obtain external financing depends on numerous factors, including but not limited to our financial performance and creditworthiness as well as our relationships with lenders.

We are subject to a high degree of financial leverage. As of 31 December 2002, 2003 and 2004, our debt-to-assets ratio (defined as the percentage of total debt divided by total assets) was 64.0%, 61.9% and 55.2%, respectively, and our debt-to-equity ratio (defined as the percentage of total debt divided by total equity) was 234.8%, 207.9% and 158.3%, respectively. For the year ended 31 December 2002, 2003 and 2004, our EBITDA interest coverage ratio (defined as a multiple of EBITDA divided by interest expenses before interest capitalised) was 3.2 times, 4.3 times and 7.5 times, respectively. An adverse change in our operating cash flows could adversely affect our financial position which in turn could weaken our ability to obtain additional debt financing and to renew our short-term debt facilities as they become due and payable.

We intend to gradually lower our financial leverage and reduce our level of indebtedness by further improving our cash generating capabilities and implementing a prudent capital expenditure plan. We also intend to rationalise the mix of our short-term indebtedness and long-term borrowings to gradually reduce our exposure to liquidity risk. We intend to use a portion of the proceed from the Global Offering to repay our short-term borrowings, See ''Future Plans and Use of Proceeds — Use of Proceeds.'' In addition we intend to broaden our external sources of funding to include equity and debt financings, subject to applicable regulatory and shareholders' approvals. We believe that the net proceeds of the Global Offering will help reduce our financial leverage.

Our short-term and long-term debts do not contain any financial or non-financial covenants that materially restrict our operations. We do not have any financial instruments held for trading purposes. Aside from the foreign currency hedges we entered into in July 2004 for our Japanese yen-denominated loans, we currently do not hold any derivative instruments that are designated and qualified as hedging instruments.

As of 30 April 2005 and 31 December 2004, none of our bank loans were secured by our property, plant and equipment. As of 31 December 2004, we had RMB4,327 million of borrowings that were guaranteed by Shenhua Group. As of 30 April 2005, we had no borrowings that were guaranteed by Shenhua Group.

As of 30 April 2005, we granted guarantees of RMB274 million to banks in respect of banking facilities granted to our associate and a third party.

Save as aforesaid and apart from intra-group liabilities, our Company and its subsidiaries did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, debt securities or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as at the close of business on 30 April 2005, being the latest practicable date for this indebtedness statement.

The Directors have confirmed that, save as disclosed above, there has not been any material change in the indebtedness, commitments or contingent liabilities of our Company since 30 April 2005.

Contractual Obligations and Commercial Commitments

The following table sets forth our contractual payments due by period as of 31 December 2004.

	Total	2005	2006	2007	2008	2009	There-after
				(RMB in millions)			
Contractual obligations							
Short-term borrowings	8,241	8,241	-	-	-	-	-
Long-term borrowings	51,948	5,616	4,950	7,469	8,254	6,146	19,513
Operating lease commitments	418	48	47	47	46	46	184
Capital commitments	28,440	16,751	8,969	2,651	69	-	-
Total contractual cash obligations	89,047	30,656	13,966	10,167	8,369	6,192	19,697

Other than guarantees of RMB239 million granted to third party banks in respect of banking facilities granted to our Company's associate and a third party, we did not have material commercial commitments as of 31 December 2004.

Off-Balance Sheet Arrangements

As of 31 December 2004, other than the foreign currency hedges we entered into in July 2004 for our Japanese yen-denominated loans, we did not have any material outstanding off-balance sheet arrangements. We have not entered, and do not intend to enter, into derivative transactions for trading purposes. We have, however, from time to time used financial instruments for hedging purposes. In addition, in the normal course of business, we have been a party to guarantees with off-balance-sheet risks. We will monitor the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognise any such losses under guarantees when those losses are estimable.

INFLATION

In the past three years, China has not experienced significant inflation, and therefore, inflation has not had a significant effect on our business during the past three years. According to the Bureau of Statistics, China's overall national inflation rate, as represented by the general consumer price index, was approximately –0.8%, 1.2% and 3.9% in 2002, 2003 and 2004, respectively.

MARKET RISKS

We are exposed to various types of market risks, including fluctuations in coal and power prices and changes in foreign exchange rates and interest rates.

We use financial instruments, including variable rate debt, to finance our capital projects and to manage risks associated with our interest rate risks. We may, from time to time, enter into currency swap agreements, foreign exchange forward contracts and interest swap agreements designed to mitigate our exposure to foreign currency risks and interest rate risks in connection with our borrowings denominated in foreign currencies. Such activities are subject to guidelines approved by our senior management. We do not hold any financial instruments for trading purposes.

The following discussion and tables summarise our market-sensitive financial instruments including fair value, maturity and contractual terms. Such discussions address market risks only and do not present other risks which we face in the normal course of business.

Product Price Risk

Our revenues and profit for the year are affected by fluctuations in the prices of coal and power.

Coal. We are exposed to fluctuations in the price of coal as the substantial majority of our revenue and profit for the year are generated from sales of thermal coal in the PRC domestic market and the Asia-Pacific coal export market. For additional information, regarding the average price per tonne of our domestic and export sales of thermal coal in 2002, 2003 and 2004, see "— Factors Affecting Results of Operations — Sales Volume and Prices of Coal."

We do not enter into commodity derivative instruments or futures to hedge any potential price fluctuations of coal or for trading purposes. Therefore, fluctuations in the prices of thermal coal could have a significant effect on our revenues and profit for the year. We have increased the number of our long-term coal supply contracts to reduce our exposure to fluctuations in coal prices. See "Risk Factors — Risks Relating to Our Businesses and China's Coal and Power Industries — Our business and results of operations are susceptible to the cyclical nature of coal markets and are vulnerable to fluctuations in prices for coal."

Power. We are exposed to fluctuations in the price of power as a significant portion of our revenue and profit for the year are generated from power sales to grid companies. For additional information, including our average on-grid tariffs in 2002, 2003 and 2004, see "— Factors Affecting Results of Operations — Sales Volume and On-grid Tariffs of Power." We do not enter into derivative instruments or futures to hedge any potential power price fluctuations or for trading purposes. Therefore, fluctuations in the price of power could have a significant effect on the revenues and profit for the year of our power operations.

Foreign Exchange Rate Risk

We conduct our business primarily in Renminbi, which is also our functional and reporting currency. The Renminbi is not a fully convertible currency. Many foreign currency exchange transactions involving Renminbi, including foreign exchange transactions under our capital account, are subject to foreign exchange controls and require the approval of the SAFE. Although the Renminbi to United States dollar exchange rate has been relatively stable since 1994, we cannot predict nor give any assurance of its future change or stability. Fluctuations in exchange rates may adversely affect the value, translated or converted into United States dollars or Japanese yen, of our net assets, earnings and any declared dividends. We cannot give any assurance that any future movements in exchange rates of the Renminbi against the United States dollar or other foreign currencies will not cause us to suffer foreign exchange losses or otherwise adversely affect our results of operations and financial condition. See ''Risk Factors — Risks Relating to the People's Republic of China — Our financial condition and results of operations could be materially adversely affected by fluctuations in the value of the Renminbi or depreciation of the currencies in which we derive our revenues against the currencies in which our borrowings are denominated'' and ''— Government control of currency conversion may adversely affect our operations and financial results.''

As of 31 December 2004, we had foreign currency borrowings in an aggregate amount equivalent to RMB9,548 million. To the extent that the Renminbi depreciates against any of the currencies in which our borrowings are denominated, our repayment costs on those borrowings will increase correspondingly. We experienced an unrealised foreign exchange loss of RMB693 million, RMB984 million and RMB218 million in the years ended 31 December 2002, 2003 and 2004, respectively. From 31 December 2002 to 31 December 2004, the Japanese yen appreciated from US$1.00 = JPY118.75 as of 31 December 2002 to US$1.00 = JPY102.68 as of 31 December 2004, according to the noon buying rates in New York for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York. To mitigate our exchange rate risk with respect to the Japanese yen, in July 2004 we hedged certain of our Japanese yen-denominated borrowings. As a result, we recorded a gain of RMB145 million on remeasurement of fair value of derivative financial instruments in 2004.

The following table provides the fair value of our financial instruments that are sensitive to foreign exchange rates as of 31 December 2004. For debt obligations, the table also presents principal cash flows and related weighted average interest rates by their maturity dates.

	2005	2006	2007	2008	2009	Thereafter	Total	Fair value
	(RMB equivalent in millions[1], except interest rates)							
Assets								
Cash and cash equivalents								
U.S. dollars	200	-	-	-	-	-	200	200
Time deposits								
U.S. dollars	5	-	-	-	-	-	5	5
Liabilities								
Long-term borrowings								
U.S. dollar-denominated borrowings								
Amount with variable rate	377	290	292	-	-	-	959	959
Average rate[2]	3.7%	3.7%	3.7%	-	-	-		
Japanese yen-denominated borrowings								
Amount with fixed rate	141	209	262	294	294	5,717	6,917	7,323
Average rate	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%		
Amount with variable rate	100	100	99	99	-	-	398	398
Average rate[2]	1.4%	1.4%	1.4%	1.4%	-	-		

(1) Amounts in foreign currencies have been translated into Renminbi at the rates of approximately US$1.00 = RMB8.2765 and JPY1.00 = RMB0.0797, respectively, being the exchange rates as of 31 December 2004. No representation is made that these foreign currency amounts could have been, or could be, converted into Renminbi at that rate on 31 December 2004, or any other rate.

(2) The average interest rates for variable rate loans are calculated based on the rates as of 31 December 2004.

Interest Rate Risk

The PBOC has the sole authority in China to establish and adjust the official interest rates for RMB-denominated borrowings. Financial institutions in China set their effective interest rates based on the benchmark interest rates published by the PBOC. The majority of our bank borrowings are denominated in Renminbi and borrowed from domestic commercial banks at interest rates that vary in accordance with the standard guidance interest rates announced by the PBOC. Interest rates and payment methods on borrowings denominated in foreign currencies are set by financial institutions based on interest rate changes in the international financial markets, cost of funds, risk levels and other factors.

We are exposed to interest rate risk resulting from fluctuations in interest rates on our short-term and long-term debts. Increases in interest rates will increase the cost of new borrowings and the interest expense with respect to outstanding floating rate debt, and therefore could have a material adverse effect on our financial position. In July 2004, we hedged certain of our Japanese yen-denominated borrowings to mitigate our interest rate risk. As of 31 December 2004, our debt consisted of fixed and variable rate debt obligations with maturity dates from 2005 to 2031.

The following table presents cash flows and related weighted average interest rates by expected maturity dates of our interest rate-sensitive financial instruments as of 31 December 2004.

	2005	2006	2007	2008	2009	Thereafter	Total	Fair value
	(RMB equivalent in millions, except interest rates)							
Liabilities								
Long-term borrowings								
RMB-denominated loans								
Fixed rate	1,305	414	1,128	486	213	78	3,624	3,536
Average rate	4.5%	4.9%	5.0%	5.0%	4.6%	5.2%		
Variable rate	3,693	3,937	5,688	7,375	5,639	13,718	40,050	40,050
Average rate	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%		
U.S. dollar-denominated loans								
Variable rate	377	290	292	-	-	-	959	959
Average rate[(1)]	3.7%	3.7%	3.7%	-	-	-		
Japanese yen-denominated loans								
Fixed rate	141	209	262	294	294	5,717	6,917	7,323
Average rate[(1)]	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%		
Variable rate	100	100	99	99	-	-	398	398
Average rate[(1)]	1.4%	1.4%	1.4%	1.4%	-	-		

(1) The average interest rates for variable rate loans are calculated based on the rates as of 31 December 2004.

ENVIRONMENTAL MATTERS

We paid pollutant discharge fees of approximately RMB7.2 million, RMB14.9 million and RMB57.3 million in 2002, 2003 and 2004, respectively. This steady increase in our discharge fees was primarily due to the increase in the rate for discharge fees and increased volume of pollutants discharged by our expanded power operations. Our capital expenditures for environmental programs in 2002, 2003 and 2004 amounted to approximately RMB58.2 million, RMB162.0 million and RMB494.4 million, respectively. The increase in our capital expenditure for environmental programs was primarily due to the expansion of our power operations, and to a lesser extent, expansion of our coal operations. In addition, this increase was partly due to the installation of desulphurisation units at our operating power plants, the adoption and enforcement of more stringent environment standards in China and additional expenditures in connection with voluntary environmental programs undertaken as part of our efforts to reduce the impact of our operations on the environment. We expect our environmental expenditure to further increase as we continue to expand our operations. There were no material environmental liabilities accrued as of 31 December 2004.

DISCLOSURE UNDER RULES 13.11 TO 13.19 OF THE HONG KONG LISTING RULES

The Directors confirm that as at the Latest Practicable Date, there were no circumstances which would give rise to the disclosure requirements under Rules 13.11 to 13.19 of the Hong Kong Listing Rules had the H Shares been listed on the Hong Kong Stock Exchange on that date.

ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of the Group as at 31 December 2004 comprises the historical audited combined net tangible assets of the Group as at 31 December 2004, as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus and the adjustments described below.

The unaudited pro forma adjusted net tangible assets has been prepared to show the effect on the audited net tangible assets of the Group as at 31 December 2004 as if the distribution of dividend by our Company to Shenhua Group of approximately RMB7.5 billion and the Global Offering had occurred on 31 December 2004.

The unaudited pro forma adjusted net tangible assets of our Group has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial position of our Group.

	Audited combined net tangible assets as at 31 December 2004	Dividend declared	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share	
	RMB million	RMB million	RMB million	RMB million	RMB	HKD
Based on the Offer Price of HK$7.25 for each Offer Share	24,186	7,549	20,450	37,087	2.09	1.96
Based on the Offer Price of HK$9.25 for each Offer Share	24,186	7,549	26,167	42,804	2.41	2.26

Note:

1. On 27 March 2005, a dividend of RMB7,549 million for the year ended 31 December 2004 was declared to Shenhua Group.
2. The estimated net proceeds from the Global Offering are based on the Offer Price of HK$7.25 per Share to HK$9.25 per Share, after deduction of the underwriting fees and other related expenses payable by the Company and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option.
3. The unaudited adjusted net tangible asset value per Share is arrived at after the adjustments referred to above and on the basis that 17,785 million Shares are in issue.
4. The unaudited pro forma adjusted net tangible assets of the Group does not take into account the effect of the distribution of our Company's profit for the period from 1 January 2005 to the date immediately preceding the date of our listing on the Hong Kong Stock Exchange to be distributed to Shenhua Group. The unaudited pro forma adjusted net tangible assets value will be reduced after taking into account such distribution.

5. Details of the valuation of the Group's properties as at 15 March 2005 are set out in Appendix IV to this prospectus. The unaudited net book value of the Group's properties as at 15 March 2005 was approximately the same as the valuation of the Group's properties as included in Appendix IV to this prospectus.

6. The translation of Renminbi into Hong Kong dollars has been made at the rate of RMB1.0637 to HK$1.00, the PBOC rate prevailing on 31 December 2004. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate or at any other rate or at all.

PROFIT FORECAST

We believe that on the bases and assumptions as set forth below and in the absence of unforeseen circumstances, our forecast combined net profits attributable to shareholders for the year ending 31 December 2005 will not be less than RMB14,133 million under IFRS. On the basis of the prospective financial information and the number of shares expected to be issued, assuming the Over-allotment Option is not exercised, the forecast combined net profits attributable to shareholders per share for the year ending 31 December 2005 would be approximately RMB0.79 on a pro forma fully diluted basis under IFRS.

Bases and Assumptions

The prospective financial information has been prepared based on IFRS which are effective for accounting periods beginning on or after 1 January 2005. See "— Critical Accounting Policies — Changes to IFRS" for more information. The adoption of the new IFRS does not have a significant impact on the Group's results of operations and financial position compared to the significant accounting policies previously adopted in the preparation of the Group's audited financial statements for each of the years ended 31 December 2002, 2003 and 2004, as summarised in Note 2 of the Accountants' Report. The forecast has been prepared based on the following principal assumptions:

- there will be no material change in existing political, legal, fiscal, market or economic conditions in China, Hong Kong, or any other country or territory in which we currently operate or which are otherwise material to our business;

- there will be no changes in legislation, regulations or rules in China, Hong Kong or any other country or territory in which we operate or with which we have arrangements or agreements, which materially adversely affect our business;

- there will be no material change in the bases or rates of taxation in China or any other country or territory in which we operate, except as otherwise disclosed in this prospectus;

- there will be no material changes in inflation rates, interest rates or foreign currency exchange rates from those currently prevailing; and

- there will be no material changes in coal prices and power tariff setting that will have a material adverse effect on our business.

DIVIDEND POLICY

Our Board of Directors will determine the payment of dividends, if any, with respect to our Shares on a per Share basis. Any dividend for a financial year shall be subject to shareholder's approval. Under the PRC Company Law and our Articles of Association, all of our shareholders have equal rights to dividends and distribution.

For holders of our H Shares, cash dividend payment, if any, will be declared by our Board of Directors in Renminbi and paid in Hong Kong dollars. For holders of our Domestic Shares, cash dividend payments, if any, will be declared by our Board of Directors in Renminbi and paid in Renminbi.

In addition to cash, dividends may be distributed in the form of Shares. Any distribution of Shares, however, must be approved by special resolution of the shareholders. For holders of our Domestic Shares, dividends in the form of Shares will be distributed in the form of additional Domestic Shares.

The declaration of dividends is subject to the discretion of our Board of Directors, which we expect will take into account factors such as the following:

- our financial results;
- our shareholders' interests;
- general business conditions and strategies;
- our capital requirements;
- contractual restrictions on the payment of dividends by us to our shareholders or by our subsidiaries to us;
- taxation considerations;
- possible effects on our creditworthiness;
- statutory and regulatory restrictions; and
- any other factors our board of directors may deem relevant.

In accordance with the applicable requirements of the PRC Company Law, we may only distribute dividends after we have made allowance for:

- recovery of accumulated losses, if any;
- allocations to statutory surplus reserves equivalent to 10% of our after-tax income, as determined under PRC accounting rules and regulations;
- allocations to the statutory public welfare fund equivalent to between 5% and 10% of our after-tax income, as determined under PRC accounting rules and regulations; and
- allocations to a discretionary surplus reserve fund as approved by our shareholders in a shareholders' meeting.

The minimum and maximum aggregate allocations to the statutory funds are currently 15% and 20%, respectively, of our profit for the year determined in accordance with PRC accounting rules and regulations. When the accumulated allocations to statutory surplus reserves reach 50% of our Company's registered capital, we will be no longer required to make allowances for allocation to the statutory surplus reserves.

Under PRC law, dividends may be paid only out of distributable profits, which are our retained earnings, as determined in accordance with PRC accounting rules and regulations or IFRS, whichever is lower, less allocations to the statutory and discretionary funds. We will not ordinarily pay any dividends in a year in which we do not have any distributable earnings.

We can give no assurance that any dividends will be paid. You should consider the assumptions underlying our forecasts contained in ''Profit Forecast,'' the risk factors affecting our company contained in ''Risk Factors'' and the cautionary notice regarding forward-looking statements contained in ''Forward-looking Statements.''

In accordance with the ''Provisional Regulations Relating to Corporate Reorganisation of Enterprises and Related Management of State-owned Capital and Financial Treatment'' issued by the the MOF, we are required to make a distribution to Shenhua Group, our sole shareholder prior to the Global Offering, in an amount equal to the net profit generated during the period from 1 January 2004 to 7 November 2004, the date immediately prior to our incorporation.

On 27 March 2005, we (i) declared a dividend of approximately RMB7.5 billion to Shenhua Group, which is equal to our distributable profit for the period from 1 January 2004 to 31 December 2004 (including the mandatory distribution to Shenhua Group as described above) and (ii) resolved to make distributable to Shenhua Group our distributable profit for the period from 1 January 2005 to the calendar day immediately preceding our Listing Date (the ''2005 Special Dividend''). The financial statements of the Company for the period from 1 January 2005 to the date immediately preceding the Listing Date will be audited. The Company will determine the 2005 Special Dividend with reference to the distributable profit as reflected in the audited financial statements for such period. The declaration of the 2005 Special Dividend will be disclosed through a public announcement. We used our cash and cash equivalents to pay the declared dividend for 2004 to Shenhua Group prior to the Listing Date. The 2005 Special Dividend is expected to be paid to Shenhua Group in 2006 from our cash and cash equivalents.

Assuming the Listing Date is 15 June 2005, we estimate that the 2005 Special Dividend will be approximately RMB4.6 billion, being our estimated distributable reserve as at the date immediately preceding our Listing Date (calculated as 165 (being the number of days from 1 January 2005 to the date immediately preceding the Listing Date)/365 of the Group's forecast profit for the year ending 31 December 2005 determined in accordance with the PRC accounting rules and regulations, being the lower of forecast profit determined in accordance with the PRC accounting rules and regulations or IFRS, less estimated appropriations to the statutory reserves).

Investors in the Global Offering should note that they will not be entitled to share in the 2005 Special Dividend and, therefore, any distributable profits for the year ending 31 December 2005 available for distribution to the Company's shareholders after the Global Offering will exclude the amount of the 2005 Special Dividend to be paid to Shenhua Group.

As described above, the declaration of the dividends with respect to our distributable profit for the period from 1 January 2004 to 7 November 2004, the date immediately preceding the date of our incorporation, is mandatory under the relevant MOF regulations. However, the declaration of dividends with respect to our distributable profits for the period from our date of incorporation to the date immediately preceding our Listing Date, including the 2005 Special Dividend, is made by us as a commercial decision.

The 2004 dividend and the 2005 Special Dividend are not indicative of the dividends that we may declare or pay in the future.

DISTRIBUTABLE RESERVES

According to our Articles of Association, the amount of retained profits available for distribution to our shareholders of the Company is the lower of the amount determined in accordance with the PRC accounting rules and regulations and the amount determined in accordance with IFRS. At 31 December 2004, the amount of retained profits available for distribution was approximately RMB7.5 billion, being the amount determined in accordance with the PRC accounting rules and regulations.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that there has been no material adverse change in our financial or trading position since 31 December 2004 (being the date to which our Company's latest consolidated financial results were prepared, as set out in the Accountants' Report in Appendix I to this prospectus).

FUTURE PLANS

See "Business — Business Strategy" for a detailed description of our Company's future plans.

USE OF PROCEEDS

We estimate that the net proceeds to us from the Global Offering will be approximately HK$21,913 million, before exercise of the Over-allotment Option, after deducting the underwriting commissions and other estimated expenses payable by us in the Global Offering and assuming an initial public offering price of HK$8.25 per H Share, being the mid-point Offer Price or if the Over-allotment Option is exercised in full, approximately HK$25,238 million, after deducting the underwriting commissions and other estimated expenses payable by us in the Global Offering and assuming the same mid-point Offer Price.

We intend to use the net proceeds to us from the Global Offering for the following purposes:

(i) up to 55%, or approximately HK$12,052 million, to fund our capital expenditures as follows:

- up to approximately HK$7,231 million for expanding and upgrading our coal production and transportation facilities; and
- up to approximately HK$4,821 million for developing new power projects;

(ii) up to 35%, or approximately HK$7,670 million, to reduce part of our indebtedness through the repayment of outstanding short-term borrowings and the current portion of long-term borrowings from third party financial institutions at the interest rates ranging from 2.30% to 6.59% per annum and, to the extent there is any remaining amount of such net proceeds, the repayment of long-term borrowings from third party financial institutions at interest rates ranging from 3.60% to 6.59% per annum; and

(iii) the remaining amount for general corporate purposes, such as working capital, including, among others, purchase of supplies, financing fees, administrative expenses and other production costs, and potential acquisitions and strategic investments that are consistent with our business strategies (although no acquisitions or strategic investments are pending).

Net proceeds of approximately HK$3,325 million (assuming the mid-point Offer Price of HK$8.25 per H Share) that we estimate we would receive from subscriptions for additional H Shares in the event the Over-allotment Option is exercised in full will be allocated to fund our capital expenditures.

In accordance with PRC regulations, the Selling Shareholder is required to sell a portion of its Shares in the Global Offering and contribute the proceeds of such sale to the NSSF. The Selling Shareholder estimates that it will receive net proceeds from the Global Offering of approximately HK$2,191 million, before exercise of the Over-allotment Option, after deducting the underwriting commissions and other estimated expenses payable by the Selling Shareholder in the Global Offering and assuming an initial public offering price of HK$8.25 per H Share, being the mid-point Offer Price. We will not receive any proceeds from H Shares sold by the Selling Shareholder in the Global Offering.

Pending the use of the net proceeds from the Global Offering for the purposes described above, and to the extent permitted under relevant PRC and Hong Kong law, we intend to deposit the proceeds in short-term interest-bearing accounts with licensed third-party financial institutions or invest the proceeds in short-term money market instruments.

THE STRATEGIC PLACING

As part of the International Offering, the Joint Global Coordinators, Shenhua Group and we have entered into a strategic placing agreement with Anglo American for the subscription by Anglo American at the Offer Price for such number of Offer Shares that may be purchased with US$150 million. Assuming the mid-point Offer Price of HK$8.25, and using the exchange rate of HK$7.80 to US$1.00, the total number of H Shares subscribed by Anglo American would be approximately 141,818,000 H Shares, which represents 0.80% of our issued and outstanding share capital or 4.63% of the H Shares outstanding after the Global Offering, assuming the Over-allotment Option is not exercised.

Anglo American is a leading global diversified mining and natural resources company. It has subsidiaries and investments in gold, platinum group metals, diamonds, coal, base and ferrous metals, industrial minerals and paper and packaging products. The businesses of Anglo American are geographically diverse, with operations in North and South Africa, Europe, Russia, South and North America and Australia.

Anglo American has an existing presence in China through investments in quarrying, manufacturing, packaging and zinc refining. As part of Anglo American's overall growth strategy, Anglo American is actively looking for new investment opportunities within China, particularly in coal and platinum.

We believe that Anglo American's interest in us, together with its investments in mining and natural resources, will help to raise our profile in the international markets, and may present us with potential business opportunities. If and when opportunities present themselves in the future, we may consider further arrangements for the parties' mutual benefit.

Conditions Precedent

The subscription obligation of Anglo American is conditional upon the Underwriting Agreements being entered into and having become unconditional.

Restrictions on Disposals by the Strategic Investor

Anglo American has agreed that, without the prior written consent of us and the Joint Global Coordinators, and save as provided in the strategic placing agreement:

- it will not, for a period of 12 months following the Listing Date, dispose of any H Shares subscribed for pursuant to the strategic placing agreement, other than transfers to any of its wholly owned subsidiaries and on the basis that the transferee will be subject to the same restrictions on disposals as those imposed on Anglo American pursuant to the strategic placing agreement; and
- after the 12-month lock-up period, it shall first notify us before the disposal of any H Shares subscribed by it pursuant to the strategic placing agreement, and it shall use all reasonable endeavours to ensure that any such disposal will not create a disorderly or false market for the H Shares.

For the above purpose, "dispose of" means, in respect of any H Shares (and any other securities derived from the H Shares pursuant to any rights issue, capitalisation issue, capital reorganisation or otherwise), offering, pledging, charging, selling, mortgaging, lending, creating, transferring or otherwise disposing of any legal or beneficial interest (including by the creation of or an agreement to create or selling or granting or agreeing to sell or grant any option or contract to purchase or any warrant or right to purchase) in the H Shares or any securities convertible into or exercisable or exchangeable for such H Shares, or contracting to do so, whether directly or indirectly, or entering into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences or incidents of ownership of such H Shares or securities, whether any of the foregoing transactions is to be settled by delivery of H Shares or such other securities, cash or otherwise.

THE CORPORATE PLACINGS

As part of the International Offering, the Joint Global Coordinators, Shenhua Group and we have entered into placing agreements with the Corporate Investors for the subscription by the Corporate Investors at the Offer Price for such number of Offer Shares that may be purchased with an aggregate of US$500 million. Assuming the mid-point Offer Price of HK$8.25, and using the exchange rate of HK$7.80 to US$1.00, the total number of H Shares subscribed by the Corporate Investors would be 472,725,000 H Shares, which represents 2.66% of our issued and outstanding share capital or 15.43% of the H Shares outstanding after the Global Offering, assuming the Over-allotment Option is not exercised.

The details of the subscription or purchase by each of the Corporate Investors will be as follows:

- Bejoy Holdings has agreed to purchase such number of Offer Shares that may be purchased with US$50 million. Assuming the mid-point Offer Price of HK$8.25, Bejoy Holdings will purchase 47,272,500 H Shares.

  Bejoy Holdings is a company incorporated in the British Virgin Islands and is a wholly-owned subsidiary of CITIC Pacific Limited, a company listed on the Main Board of the Hong Kong Stock Exchange.

- Maniton has agreed to purchase such number of Offer Shares that may be purchased with US$50 million. Assuming the mid-point Offer Price of HK$8.25, Maniton will purchase 47,272,500 H Shares.

  Maniton is a company incorporated in the British Virgin Islands and is wholly beneficially owned by Mr. Yung Chi Kin.

- Bank of China Group Investment Limited has agreed to purchase such number of Offer Shares that may be purchased with US$100 million. Assuming the mid-point Offer Price of HK$8.25, Bank of China Group Investment Limited will purchase 94,545,000 H Shares.

  Bank of China Group Investment Limited is a private company incorporated in Hong Kong and is wholly beneficially owned by Bank of China Limited.

- Chow Tai Fook Nominee has agreed to purchase such number of Offer Shares that may be purchased with US$100 million. Assuming the mid-point Offer Price of HK$8.25, Chow Tai Fook Nominee will purchase 94,545,000 H Shares.

  Chow Tai Fook Nominee is a company incorporated in Hong Kong and is wholly beneficially owned by Dato Dr. Cheng Yu-Tung.

- Hillwin has agreed to purchase such number of Offer Shares that may be purchased with US$100 million. Assuming the mid-point Offer Price of HK$8.25, Hillwin will purchase 94,545,000 H Shares.

  Hillwin is a wholly owned subsidiary of Singbo Limited. Singbo Limited is a private company incorporated in the British Virgin Islands and wholly beneficially owned by Dr. Lee Shau Kee.

- Kerry Holdings has agreed to purchase or to acquire through Perfex Overseas Limited, a company controlled by Kerry Holdings, such number of Offer Shares that may be purchased with US$100 million. Assuming the mid-point Offer Price of HK$8.25, Kerry Holdings will purchase 94,545,000 H Shares.

  Kerry Holdings is a private company limited by shares incorporated in Hong Kong and is a member of the Kuok Group, being the group of companies owned or controlled by Mr. Kuok Hock Nien and/or interests associated with him. Kerry Holdings is the Kuok Group's main investment vehicle in its Hong Kong listed companies, namely Kerry Properties Limited, Shangri-La Asia Limited and SCMP Group Limited.

We do not have any business relationship with any of the Corporate Investors.

Conditions Precedent

The subscription obligation of each of the Corporate Investors is conditional upon the Underwriting Agreements being entered into and having become unconditional.

Restrictions on Disposals by the Corporate Investors

Each of Maniton, Bejoy Holdings, Chow Tai Fook Nominee and Hillwin, and each of their respective controlling shareholders, has agreed that, without the prior written consent of us and the Joint Global Coordinators and save as provided in the respective corporate placing agreements:

- it will not, whether directly or indirectly, for a period of 12 months following the Listing Date, dispose of any of the H Shares acquired under the respective corporate placing agreements, or any direct or indirect interest in any company or entity holding any of such H Shares; and

- after the 12-month lock-up period, it shall first notify us before the disposal of any H Shares subscribed or purchased by each of the Corporate Investors (as the case may be), and it shall use all reasonable endeavours to ensure that any such disposal will not create a disorderly or false market for the H Shares.

Bank of China Group Investment Limited has agreed that, without the prior written consent of us and the Joint Global Coordinators and save as provided in the corporate placing agreement:

- it will not, for a period of 12 months following the Listing Date, dispose of any of the H Shares acquired under the corporate placing agreement other than transfers to any of its wholly owned subsidiaries and on the basis that the transferee will be subject to the restrictions on disposals imposed on it; and

- after the 12-month lock-up period, it shall first notify us before the disposal of any H Shares subscribed by it pursuant to the corporate placing agreement, and it shall use all reasonable endeavours to ensure that any such disposal will not create a disorderly or false market for the H Shares.

Kerry Holdings has agreed that, without the prior written consent of us and the Joint Global Coordinators and save as provided in the corporate placing agreement:

- it will not and will procure that Perfex Overseas Limited (to the extent any H Shares subscribed or purchased under the corporate placing agreement are held by Perfex Overseas Limited) will not, whether directly or indirectly, for a period of 12 months following the Listing Date, dispose of any of the H Shares acquired under the corporate placing agreement, or any direct or indirect interest in any company or entity holding any of the such H Shares; and

- after the 12-month lock-up period, it shall first notify us before the disposal of any H Shares subscribed by it pursuant to the corporate placing agreement, and it shall use all reasonable endeavours to ensure that any such disposal will not create a disorderly or false market for the H Shares.

Perfex Overseas Limited is a private company limited by shares incorporated in the British Virgin Islands and is a member of the Kuok Group, being the group of companies owned or controlled by Mr. Kuok Hock Nien and/or interests associated with him.

For the above purpose, ‘‘dispose of’’ means, in respect of any H Shares (and any other securities derived from the H Shares pursuant to any rights issue, capitalisation issue, capital reorganisation or otherwise), offering, pledging, charging, selling, mortgaging, lending, creating, transferring or otherwise disposing of any legal or beneficial interest (including by the creation of or an agreement to create or selling or granting or agreeing to sell or grant any option or contract to purchase or any warrant or right to purchase) in the H Shares or any securities convertible into or exercisable or exchangeable for such H Shares, or contracting to do so, whether directly or indirectly, or entering into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences or incidents of ownership of such H Shares or securities, whether any of the foregoing transactions is to be settled by delivery of H Shares or such other securities, cash or otherwise.

UNDERWRITERS

Hong Kong Underwriters

Joint Lead Managers
(in alphabetical order)

China International Capital Corporation (Hong Kong) Limited

Deutsche Bank AG, Hong Kong Branch

Merrill Lynch Far East Limited

Co-Lead Managers
(in alphabetical order)

BNP Paribas Peregrine Capital Limited

ICEA Capital Limited

Co-Managers
(in alphabetical order)

CITIC Capital Markets Limited

DBS Asia Capital Limited

First Shanghai Securities Limited

Guangdong Securities Limited

South China Securities Limited

Tai Fook Securities Company Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Public Offering, our Company is offering the Hong Kong Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the H Shares to be offered as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally to subscribe or procure subscribers for, their respective applicable proportions of the Hong Kong Public Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Purchase Agreement having been signed and becoming unconditional.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe for the Hong Kong Public Offer Shares are subject to termination, if, at any time prior to 8:00 a.m. on the Listing Date:

(i) there shall develop, occur, exist or come into effect:

(a) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority of Hong Kong, the PRC, Japan or the United States;

(b) any change or development involving a prospective change in local, national or international financial, political, military, industrial, economic, market or regulatory conditions in Hong Kong, the PRC, Japan or the United States;

(c) any change in the financial markets in Hong Kong, the PRC, the United States or generally in the international financial markets;

(d) a general moratorium on commercial banking activities in Hong Kong, the PRC, Tokyo or New York, as declared by the relevant authorities;

(e) a suspension or limitation in trading in securities generally on the Hong Kong Stock Exchange or the New York Stock Exchange or any material disruption in commercial banking or securities settlement, payment or clearance services or procedures in Hong Kong, the PRC, Japan or the United States;

(f) a change or development involving a prospective change in taxation or exchange control (or the imposition or implementation of any exchange control) or currency exchange rates or foreign investment regulations in Hong Kong, the PRC, Japan or the United States;

(g) the outbreak or escalation of hostilities involving Hong Kong, the PRC, Japan or the United States, or the declaration by Hong Kong, the PRC, Japan or the United States of a national emergency or war or the occurrence of any other calamity or crisis;

(h) any change or development or event involving a prospective change in the financial condition or in the business affairs, business operations, properties or trading position of our Company or the Group;

(i) any other event of force majeure, including without limitation, act of God, civil commotion, economic sanctions, fire, flood, explosion, terrorism, strike or lock-out involving Hong Kong, the PRC or the United States; or

(j) any material litigation or arbitration proceedings being instigated against any member of the Group,

which, individually or in the aggregate and in the sole opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters):

(1) is or will be or is likely to be materially adverse to the business, financial or other condition or prospects of our Company or the Group or, in the case of paragraph

(f) above, to any present or prospective shareholder of our Company in his/its capacity as such;

(2) has or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or the distribution of Offer Shares; or

(3) makes it inadvisable or impracticable to proceed with the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus;

(ii) any matter has arisen or has been discovered which would, had it arisen immediately before the date of this prospectus, not having been disclosed in this prospectus or known to the Joint Global Coordinators, constitute a material omission from this prospectus;

(iii) any statement contained in this prospectus has become or been discovered to be untrue, incorrect or misleading in any material respect;

(iv) there shall have occurred any matter or event, act or omission which gives rise or is reasonably likely to give rise to any material liability of our Company pursuant to the indemnities contained in the Hong Kong Underwriting Agreement;

(v) there comes to the notice of the Joint Global Coordinators any matter or event showing any of the warranties given by our Company in the Hong Kong Underwriting Agreement to be untrue or misleading in any material respect when given or repeated; or

(vi) there comes to the notice of the Joint Global Coordinators any material breach on the part of our Company of any of the provisions of the Hong Kong Underwriting Agreement,

then the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) may in their absolute discretion (and, in the case of (i)(a) to (j) above, after consultation with the Company, where practicable), upon giving notice in writing to our Company and the Hong Kong Underwriters, terminate the Hong Kong Underwriting Agreement with immediate effect.

Undertakings to the Hong Kong Stock Exchange pursuant to the Hong Kong Listing Rules

By us

Pursuant to Rule 10.08 of the Hong Kong Listing Rules, we have undertaken to the Hong Kong Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the date on which the Offer Shares first commence dealing on the Hong Kong Stock Exchange (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing), except in certain circumstances prescribed by Rule 10.08 of the Hong Kong Listing Rules.

By Shenhua Group

Pursuant to Rule 10.07(1), Shenhua Group, our Controlling Shareholder, has undertaken to the Hong Kong Stock Exchange that, except pursuant to the Global Offering or the Over-allotment Option, it shall not and shall procure that the relevant registered holder shall not:

(a) in the period commencing on the date by reference to which disclosure of the shareholding of Shenhua Group is made in this prospectus and ending on the date which is six months from the date on which dealings in the Offer Shares commence on the Hong Kong Stock Exchange (the "First Six-month Period"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Shares or securities of the Company in respect of which it is shown by this prospectus to be the beneficial owner; or

(b) in the period of six months commencing on the date on which the First Six-month Period expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, it would cease to be our controlling shareholder.

Pursuant to Rule 10.07(1), Shenhua Group has also undertaken to the Hong Kong Stock Exchange and us that, within the period commencing on the date by reference to which disclosure of shareholding of Shenhua Group is made in this prospectus and ending on the date which is 12 months from the date on which dealings in the Offer Shares commence on the Hong Kong Stock Exchange, it will:

(a) when it pledges or charges any Shares or our other share capital beneficially owned by it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of such Shares or other securities so pledged or charged; and

(b) when it receives any indications, either verbal or written, from any pledgee or chargee of any Shares or our other securities pledged or charged that such Shares or securities will be disposed of,

immediately inform us of any such indications.

We will inform the Hong Kong Stock Exchange as soon as we have been informed of the above matters (if any) by Shenhua Group and disclose such matters by way of a press notice which is published in the newspapers as soon as possible after being so informed by Shenhua Group.

Undertakings pursuant to the Hong Kong Underwriting Agreement

We have, pursuant to the Hong Kong Underwriting Agreement, undertaken to each of the Joint Global Coordinators, the Joint Sponsors and the Hong Kong Underwriters, and Shenhua Group has undertaken to procure, that except pursuant to the Global Offering or the Over-allotment Option, at any time during the First Six-month Period, we will not without the Joint Global Coordinators' prior written consent and unless in compliance with the Hong Kong Listing Rules:

(a) offer, pledge, charge, allot, issue, sell, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, or repurchase, any of our share capital or any securities convertible into or exercisable or exchangeable for or that represent the right to receive such share capital; or

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our share capital,

whether any of such transactions described in (a) or (b) above is to be settled by delivery of our share capital or such other securities, in cash or otherwise, or publicly disclose that we will or may enter into any transaction described above. In the event of a disposal as described in (a) or (b) above of any Shares or any interest therein or any of our securities in the six-month period commencing on the expiry of the First Six-month Period, we will take all reasonable steps to ensure that such a disposal will not create a disorderly or false market for our Shares.

Undertakings by Shenhua Group

Shenhua Group has undertaken to each of our Company, the Joint Global Coordinators, the Joint Sponsors and the Hong Kong Underwriters that except pursuant to the Global Offering or the Over-allotment Option, it shall not and shall procure that the relevant registered holder shall not:

(a) at any time during the First Six-month Period, sell, transfer or otherwise dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Shares or securities of the Company in respect of which it is shown by this prospectus to be the beneficial owner; or

(b) in the period of six months commencing on the date on which the First Six-month Period expires, dispose of, nor enter into any agreement to sell, transfer or otherwise dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities referred to in (a) above if, immediately following such sale, transfer or disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be our controlling shareholder.

Shenhua Group has also undertaken to each of our Company, the Joint Global Coordinators, the Joint Sponsors and the Hong Kong Underwriters that, within the period commencing on the date by reference to which disclosure of shareholding of Shenhua Group is made in this prospectus and ending on the date which is 12 months from the date on which dealings in the Offer Shares commence on the Hong Kong Stock Exchange, it will:

(a) when it pledges or charges any Shares or our other share capital beneficially owned by it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of such Shares or other securities so pledged or charged; and

(b) when it receives any indications, either verbal or written, from any pledgee or chargee of any Shares or our other securities pledged or charged that such Shares or securities will be disposed of,

immediately inform us of any such indications.

We will inform the Hong Kong Stock Exchange as soon as we have been informed of the above matters (if any) by Shenhua Group and disclose such matters by way of a press notice which is published in the newspapers as soon as possible after being so informed by Shenhua Group.

The International Offering

In connection with the International Offering, it is expected that our Company and Shenhua Group will enter into the International Purchase Agreement with the International Purchasers. Under the International Purchase Agreement, the International Purchasers to be named therein will severally agree to purchase all H Shares being sold in the International Offering.

Our Company and Shenhua Group, as the selling shareholder, are expected to grant to the International Purchasers the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Purchasers within 30 days from the Listing Date, to require Shenhua Group to sell and us to issue and allot up to an aggregate of 459,525,000 additional H Shares, representing in aggregate not more than 15.0% of the Offer Shares initially available under the Global Offering, at the same price per H Share under the International Offering, solely to cover over-allocations, if any, in the International Offering.

Commission and Expenses

The Hong Kong Underwriters will receive an underwriting commission of 2.5% of the aggregate Offer Price payable for the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering, out of which they will pay any sub-underwriting commission. For unsubscribed or unpurchased Hong Kong Public Offer Shares reallocated to the International Offering, our Company and Shenhua Group will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the Joint Global Coordinators and the relevant International Purchasers (but not the Hong Kong Underwriters). For International Offering Shares reallocated to the Hong Kong Public Offering, our Company and Shenhua Group will pay an underwriting commission, at the rate applicable to the International Offering, to the International Purchasers.

The aggregate underwriting commissions and fees, together with listing fees, SFC transaction levy, SFC investor compensation levy, the Hong Kong Stock Exchange trading fee, legal and other professional fees, and printing and other expenses relating to the Global Offering are estimated to amount to approximately HK$1,170 million, assuming the mid-point Offer Price of HK$8.25 and the Over-allotment Option is not exercised in total and are payable by our Company and Shenhua Group in proportion to the amount of H Shares offered by our Company and Shenhua Group in the Global Offering.

Hong Kong Underwriters' Interests in our Company

None of the Hong Kong Underwriters has any shareholding interests in the Group or the right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in any member of the Group.

Save as disclosed above, none of the Joint Sponsors and the Hong Kong Underwriters is legally or beneficially interested in any Shares of any of our members or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any of our members nor any interest in the Global Offering.

We have in accordance with Rule 3A.19 of the Hong Kong Listing Rules retained the Joint Sponsors as our joint compliance advisers. The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date.

GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering consists of:

(i) the Hong Kong Public Offering of 153,175,000 Offer Shares (subject to adjustment as described below) in Hong Kong, as described below under "The Hong Kong Public Offering"; and

(ii) the International Offering of an aggregate of 2,910,325,000 Offer Shares (subject to adjustment and the Over-allotment Option as described below) to institutional and professional investors and other investors expected to have a sizeable demand for our H Shares in Hong Kong and other jurisdictions outside the United States, in reliance on Regulation S (including a public offer without listing in Japan) and in the United States to QIBs in reliance on Rule 144A.

China International Capital Corporation Limited, Deutsche Bank AG, Hong Kong Branch and Merrill Lynch Far East Limited (in alphabetical order) are the Joint Global Coordinators and Joint Global Bookrunners for the Global Offering. Of the total of 3,063,500,000 H Shares comprising the Global Offering (assuming the Over-allotment Option is not exercised), 2,785,000,000 H Shares are newly issued and offered by our Company, representing approximately 90.91% of the Global Offering, and 278,500,000 H Shares are offered by the Selling Shareholder, representing approximately 9.09% of the Global Offering.

The number of Offer Shares to be offered under the Kong Public Offering and the International Offering may be subject to reallocation as described below under "Pricing and Allocation."

PRICING AND ALLOCATION

Pricing

The International Purchasers are soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective investors will be required to specify the number of Offer Shares they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or about, 8 June 2005.

Pricing of the Offer Shares for the purposes of the Global Offering will be fixed on the Price Determination Date, which is expected to be on or about 8 June 2005, but in any event not later than 13 June 2005, and the number of Offer Shares to be allocated under the Hong Kong Public Offering and the International Offering will be determined shortly thereafter by agreement among the Joint Global Coordinators (on behalf of the Hong Kong Underwriters and the International Purchasers), our Company and the Selling Shareholder.

The Offer Price will be not more than HK$9.25 and is currently expected to be not less than HK$7.25, unless otherwise announced by no later than the morning of the last day for lodging applications under the Hong Kong Public Offering as further explained below. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.**

Based on the level of interest expressed by prospective professional and institutional investors during the book-building process, the Joint Global Coordinators (on behalf of the Hong Kong Underwriters, and with our consent and with the consent of the Selling Shareholder) may reduce the number of Offer Shares and/or the indicative offer price range to below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering on 7 June 2005, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notices of the reduction of the number of Offer Shares and/or the indicative offer price range. Please note that the Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about 8 June 2005. Before submitting applications for the Hong Kong Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the indicative offer price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. **Applicants under the Hong Kong Public Offering should note that in no circumstances can applications be withdrawn once submitted, even if the number of Offer Shares and/or the offer price range is so reduced.** In the absence of any such notice so published, the Offer Price, if agreed upon with our Company, the Selling Shareholder and the Joint Global Coordinators, will under no circumstances be set outside the offer price range as stated in this prospectus.

Allocation

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

Allocation of our Offer Shares pursuant to the Global Offering will be determined by the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell, H Shares, after the listing of the H Shares on the Hong Kong Stock Exchange. Such allocation may be made to professional, institutional, corporate and, in the case of the public offering without listing in Japan, retail investors and is intended to result in a distribution of H Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our shareholders as a whole.

Allocation of Hong Kong Public Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Public Offer Shares validly applied for by applicants, but will otherwise be made strictly on a pro-rata basis, although the allocation of Hong Kong Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

The applicable Offer Price, the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering, and the basis of allocations of the Hong Kong Offer Shares are expected to be announced on 14 June 2005 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

Net Proceeds

The net proceeds from the Global Offering accruing to our Company are estimated to be approximately HK$21,913 million. The estimated net proceeds are calculated after deduction of underwriting commissions and estimated expenses payable by our Company in relation to the Global Offering, assuming that the Over-allotment Option is not exercised and an Offer Price of HK$8.25 per H Share, being the mid-point Offer Price.

The net proceeds from the Global Offering accruing to the Selling Shareholder (after deduction of underwriting commissions and estimated expenses payable by the Selling Shareholder in relation to the Global Offering, assuming that the Over-allotment Option is not exercised and an initial public offer price of HK$8.25 per H Share, being the mid-point Offer Price) are estimated to be approximately HK$2,191 million.

If the Over-allotment Option is exercised in full, assuming an Offer Price of HK$8.25 per H Share, being the mid-point Offer Price, the Company and the Selling Shareholder would receive additional net proceeds (after deducting commissions and expenses attributable to the exercise of the Over-allotment Option) of approximately HK$3,325 million and HK$333 million, respectively.

The net proceeds from the sale of H Shares received by the Selling Shareholder will be remitted to the NSSF in accordance with the relevant PRC laws and regulations.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for the Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

(i) the granting by the Listing Committee of the Hong Kong Stock Exchange of listing of, and permission to deal in, the H Shares being offered pursuant to the Global Offering (including the additional H Shares which may be made available pursuant to the exercise of the Over-allotment Option);

(ii) the execution and delivery of the International Purchase Agreement on or around the Price Determination Date; and

(iii) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the International Purchasers under the International Purchase Agreement having become unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in such Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 2 July 2005.

If, for any reason, the Offer Price is not agreed between our Company, the Selling Shareholder and the Joint Global Coordinators (on behalf of the Underwriters), the Global Offering (including the Hong Kong Public Offering) will not proceed.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering, including the Hong Kong Public Offering, will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be caused to be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in ''How to Apply for the Hong Kong Public Offer Shares — Refund of Application Monies.'' In the meantime, the application monies will be held in separate bank account(s) with the receiving bankers or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon a number of factors, some of which are not common to all such offerings. However, because the obligations of the respective Underwriters under each of the Underwriting Agreements are subject to the other Underwriting Agreement becoming unconditional, each of the offerings in the Global Offering is conditional upon the satisfaction or waiver of the conditions to the other offering in the Global Offering. The International Offering will have to become unconditional by the time the Hong Kong Public Offering is to become unconditional, being 8:00 a.m. on the day that dealings of the Offer Shares are expected to commence on the Hong Kong Stock Exchange.

H Share certificates for the Hong Kong Public Offer Shares are expected to be issued on 14 June 2005 but will only become valid certificates of title at 8:00 a.m. on 15 June 2005, the day that dealings in the Offer Shares are expected to commence on the Hong Kong Stock Exchange, if (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in ''Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination'' has not been exercised.

THE HONG KONG PUBLIC OFFERING

We are initially offering an aggregate of 153,175,000 Offer Shares at the Offer Price, representing approximately 5.0% of the 3,063,500,000 Offer Shares initially available under the Global Offering, for subscription by the public in Hong Kong. We have applied to the Hong Kong Stock Exchange for and have obtained a waiver from strict compliance with the requirement under paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules, so as to be able initially to offer 5% of the Offer Shares under the Hong Kong Public Offering. Subject to adjustment as mentioned below, the number of Offer Shares initially offered under the Hong Kong Public Offering will represent 0.86% of our total issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

The total number of the Hong Kong Public Offer Shares will be divided equally into two pools for allocation purposes only:

- Pool A: The Hong Kong Public Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Public Offer Shares with an aggregate subscription price of HK$5,000,000 (excluding brokerage, SFC transaction levy, investor compensation levy and Hong Kong Stock Exchange trading fee payable thereon) or less; and

- Pool B: The Hong Kong Public Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Public Offer Shares with an aggregate subscription price of more than HK$5,000,000 (excluding brokerage, SFC transaction levy, investor compensation levy and Hong Kong Stock Exchange trading fee payable thereon) and up to the value of Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Public Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Hong Kong Public Offer Shares in that pool will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Public Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 76,587,500 Hong Kong Public Offer Shares are liable to be rejected.

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him or her that he or she or any person(s) for whose benefit he or she is making the application has not indicated an interest for or applied for or taken up or been placed or allotted (including conditionally and/or provisionally) and will not indicate an interest for or apply for or take up or be placed or allotted (including conditionally and/or provisionally) any Offer Shares under the International Offering nor otherwise have participated or will participate in the International Offering, and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

We will reject multiple applications within Pool A or Pool B, and between the two Pools. Our Directors, the Hong Kong Underwriters and we will take reasonable steps to identify and reject applicants under the Hong Kong Public Offering from investors who have received Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Offer Shares in the Hong Kong Public Offering. Investors who have not received Offer Shares under the Hong Kong Public Offering may receive Offer Shares under the International Offering.

The Joint Global Coordinators (on behalf of the Hong Kong Underwriters and the International Purchasers) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that such investor is excluded from any application of Offer Shares under the Hong Kong Public Offering.

The Offer Price will be not more than HK$9.25 per Offer Share and is expected to be not less than HK$7.25 per Offer Share. Applicants for Hong Kong Public Offer Shares under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK$9.25 for each Hong Kong Public Offer Share, together with brokerage of 1%, SFC transaction levy of 0.005% and investor compensation levy of 0.002% and Hong Kong Stock Exchange trading fee of 0.005%. If the Offer Price as finally determined is less than HK$9.25 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy, investor compensation levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applications, without interest. Further details are set out below in the section headed "How to Apply for the Hong Kong Public Offer Shares — Refund of Application Monies."

In view of the substantial size of the Global Offering and the anticipated significant demand from professional and institutional investors, the Joint Sponsors on our behalf have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the clawback requirements specified in paragraph 4.2 of Practice Note 18 to the Hong Kong Listing Rules on the following basis. If the number of Offer Shares validly applied for in the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Offer Shares initially available under the Hong Kong Public Offering, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 229,762,500, 306,350,000 and 612,700,000 Offer Shares, respectively, representing approximately 7.5% (in the case of (i)), 10.0% (in the case of (ii)) and 20.0% (in the case of (iii)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). In such cases, the number of Offer Shares allocated in the International Offering will be correspondingly reduced, in such manner as the Joint Global Coordinators deem appropriate, and such additional Offer Shares will be reallocated to Pool A and Pool B in the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed or unpurchased Hong Kong Public Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

Subject to reallocation as described above and the Over-allotment Option, the International Offering will consist of an aggregate of 2,910,325,000 Offer Shares representing an aggregate of approximately 95.0% of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option) at the Offer Price.

Pursuant to the International Offering, the Offer Shares will be severally purchased by the International Purchasers and resold by them to certain professional and institutional investors and other investors anticipated to have a sizeable demand for the Offer Shares in Hong Kong, Europe and other jurisdictions outside the United States (other than the PRC) in offshore transactions in reliance on Regulation S (including a public offer without listing in Japan) and in the United States to QIBs in reliance on Rule 144A.

Each of our Company and the Selling Shareholder is expected to grant to the International Purchasers the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Purchasers within 30 days from the Listing Date to require us to issue and allot and the Selling Shareholder to sell up to an aggregate of 459,525,000 additional H Shares representing in aggregate 15.0% of the Offer Shares initially available under the Global Offering. These H Shares will be issued or sold at the same price per H Share under the International Offering solely to cover over-allocations, if any, in the International Offering.

Shenhua Group as the Selling Shareholder is initially offering a total of 278,500,000 H Shares (to be converted from Domestic Shares) for sale in the Global Offering. The Selling Shareholder may sell up to an aggregate of 41,775,000 additional H Shares, if the Over-allotment Option is exercised in full.

THE STRATEGIC AND CORPORATE PLACINGS

As part of the International Offering, the Joint Global Coordinators, the Selling Shareholder and we have entered into a strategic placing agreement with the Strategic Investor and corporate placing agreements with each of the Corporate Investors and the controlling shareholders of certain of the Corporate Investors. Please refer to "The Strategic and Corporate Placings" for further details.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on 15 June 2005, it is expected that dealings in H Shares on the Hong Kong Stock Exchange will commence at 9:30 a.m. on 15 June 2005.

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement.

We expect on or about 8 June 2005, shortly after determination of the Offer Price, to enter into the International Purchase Agreement relating to the International Offering.

Underwriting arrangements, the Hong Kong Underwriting Agreement and the International Purchase Agreement are summarised in "Underwriting."

STABILISATION

In connection with the Global Offering, Merrill Lynch Far East Limited, as stabilising manager (the "Stabilising Manager") or any person acting for it, may over-allot or effect transactions with a view to supporting the market price of the H Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilising Manager or any person acting for it to do this. Such stabilising action, if taken, may be discontinued at any time, and is required to be brought to an end after a limited period. Any such stabilisation activities will be entered into in accordance with all the applicable laws, rules and regulations.

The number of H Shares which can be over-allotted will not exceed the number of H Shares which may be issued and sold upon exercise of the Over-allotment Option, being 459,525,000 H Shares, representing 15.0% of the Offer Shares initially available under the Global Offering. The stabilisation price will not exceed the pricing limits stipulated by the Securities and Futures (Price Stabilising) Rules and will not, in any event, exceed the Offer Price.

The possible stabilising action which may be taken by the Stabilising Manager in connection with the Global Offering may involve (among other things) (i) over-allotment of H Shares, (ii) purchase of H Shares, (iii) establishing, hedging and liquidating positions in H Shares, (iv) exercising the Over-allotment Option in whole or in part and/or (v) offering or attempting to do any of the foregoing.

Specifically, prospective applicants for and investors in Offer Shares should note that:

- the Stabilising Manager may, in connection with the stabilising action, maintain a long position in the H Shares;
- there is no certainty regarding the extent to which and the time period for which the Stabilising Manager will maintain such a position, which are at the discretion of the Stabilising Manager;
- liquidation of any such long position by the Stabilising Manager may have an adverse impact on the market price of the H Shares;
- no stabilising action can be taken to support the price of the H Shares for longer than the stabilising period which will begin on the Listing Date and is expected to expire on 7 July 2005, being the 30th day after the date expected to be the latest date for lodging applications under the Hong Kong Public Offering. Accordingly, the stabilising period is expected to expire on 7 July 2005. After this date, when no further action may be taken to support the price of the H Shares, demand for the H Shares, and therefore the price of the H Shares, could fall;
- the price of any security (including the H Shares) cannot be assured to stay at or above its offer price by the taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the H Shares.

1. METHODS OF APPLYING FOR THE HONG KONG PUBLIC OFFER SHARES

There are two ways to make an application for the Hong Kong Public Offer Shares. You may either use a **white** or **yellow** Application Form or you may give **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Public Offer Shares on your behalf. Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC.

2. APPLYING BY USING A WHITE OR YELLOW APPLICATION FORM

Which Application Form to use

Use a **white** Application Form if you want the H Shares issued in your own name.

Use a **yellow** Application Form if you want the H Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Note: The Hong Kong Public Offer Shares are not available to existing beneficial owners of Shares in our Company, the Directors, Supervisors or chief executive of our Company or any of our subsidiaries, connected persons of our Company, or Associates of any of them or to legal or natural persons of the PRC or United States persons (as defined in Regulation S) or persons who do not have a Hong Kong address.

Where to collect the Application Forms

You can collect a **white** Application Form and this prospectus from:

Any participant of the Hong Kong Stock Exchange

or

China International Capital Corporation (Hong Kong) Limited
Suite 2307, 23rd Floor
One International Finance Centre
1 Harbour View Street
Central, Hong Kong

Deutsche Bank AG, Hong Kong Branch
55th Floor, Cheung Kong Center
2 Queen's Road Central
Hong Kong

Merrill Lynch Far East Limited
17th Floor, ICBC Tower
3 Garden Road
Central, Hong Kong

BNP Paribas Peregrine Capital Limited
36th Floor, ICBC Tower
3 Garden Road
Central, Hong Kong

ICEA Capital Limited
42nd Floor, Jardine House
1 Connaught Place
Central, Hong Kong

CITIC Capital Markets Limited
26th Floor, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

DBS Asia Capital Limited
22nd Floor, The Center
99 Queen's Road Central
Hong Kong

First Shanghai Securities Limited
19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

Guangdong Securities Limited
Units 2505-06
25th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

South China Securities Limited
28th Floor, Bank of China Tower
1 Garden Road
Central, Hong Kong

Tai Fook Securities Company Limited
25th Floor, New World Tower
16-18 Queen's Road Central
Hong Kong

or any of the following branches of **The Hongkong and Shanghai Banking Corporation Limited:**

	Branch Name	Address
Hong Kong Island	Hong Kong Main Branch	Level 3, 1 Queen's Road Central
	Aberdeen Centre Branch	Shop 2, G/F Site I, Aberdeen Centre, Aberdeen
	Causeway Bay Branch	1/F, Causeway Bay Plaza 2, 463-483 Lockhart Road
	Cityplaza Branch	Unit 065, Cityplaza I, Taikoo Shing
	Des Voeux Road Central Branch	China Insurance Group Building, 141 Des Voeux Road Central
	Hay Wah Building Branch	G/F Hay Wah Building, 71-85B Hennessy Road, Wanchai
	North Point Branch	G/F, Winner House, 306-316 King's Road, North Point
	The Westwood Branch	LG01-3, Lower Ground Floor, The Westwood, 8 Belcher's Street
Kowloon	Kwun Tong Branch	1 Yue Man Square, Kwun Tong
	Mei Foo Sun Chuen Branch	79, Broadway Stage 4, Mei Foo Sun Chuen
	Mongkok Branch	673 Nathan Road, Mongkok
	Ocean Centre Branch	Shop 355, Level Three, Ocean Centre, Harbour City
	Tai Yau Street Branch	26-28 Tai Yau Street, San Po Kong
	Tsim Sha Tsui Branch	82-84 Nathan Road, Tsimshatsui
	Waterloo Road Branch	71 Waterloo Road, Homantin
	Whampoa Garden Branch	Shop No. G6 & 6A, G/F., Site 4 Whampoa Garden
New Territories	Citylink Plaza Branch	Shops 38-46, Citylink Plaza, Shatin Station Circuit, Sha Tin
	Kwai Fong D & N Banking Centre	Shops Nos. 218A, 219-220, Level 2, Metroplaza, Kwai Fong
	Tuen Mun Town Plaza Branch	Shop 1, UG/F, Shopping Arcade Phase II, Tuen Mun Town Plaza
	Yuen Long Branch	G/F, HSBC Building Yuen Long, 150-160 Castle Peak Road, Yuen Long

or any of the following branches of **Bank of China (Hong Kong) Limited**:

	Branch Name	Address
Hong Kong Island	Bank of China Tower Branch	3rd Floor, 1 Garden Road
	Central District (Wing On House) Branch	71 Des Voeux Road Central
	409 Hennessy Road Branch	409-415 Hennessy Road, Wanchai
	Taikoo Shing Branch	Shop G1006-7, Hoi Sing Mansion, Taikoo Shing
	Aberdeen Branch	25 Wu Pak Street, Aberdeen
	Wan Tsui Road Branch	4 Lin Shing Road, Chai Wan
	Sheung Wan Branch	252 Des Voeux Road Central
	North Point (Kiu Fai Mansion) Branch	413-415 King's Road, North Point
Kowloon	Hoi Yuen Road Branch	55 Hoi Yuen Road, Kwun Tong
	Shanghai Street (Mong Kok) Branch	611-617 Shanghai Street, Mong Kok
	Whampoa Garden Branch	Shop G8B, Site 1, Whampoa Garden, Hung Hom
	Yau Ma Tei Branch	471 Nathan Road, Yau Ma Tei
	Kowloon Plaza Branch	Unit 1, Kowloon Plaza, 485 Castle Peak Road
	Diamond Hill Branch	G107 Plaza Hollywood, Diamond Hill
	Festival Walk Branch	Unit LG149, Festival Walk Kowloon Tong
	Humphrey's Avenue Branch	4-4A Humphrey's Avenue, Tsim Sha Tsui
New Territories	Castle Peak Road (Tsuen Wan) Wealth Management Centre	167 Castle Peak Road, Tsuen Wan
	Lucky Plaza Branch	Lucky Plaza, Wang Pok Street Shatin
	Sheung Shui Branch	61 San Fung Avenue, Sheung Shui
	Tuen Mun Town Plaza Branch	Shop 2, Tuen Mun Town Plaza Phase II

or any of the following branches of **Industrial and Commercial Bank of China (Asia) Limited**:

	Branch Name	Address
Hong Kong Island	Central Branch	ICBC Asia Building, 122-126 Queen's Road Central
	Sheung Wan Branch	152-154 Connaught Road Central
	Wanchai Branch	117-123 Hennessy Road, Wanchai
	West Point Branch	242-244 Queen's Road West
	Causeway Bay Branch	8 Causeway Road, Causeway Bay
Kowloon	Tsimshatsui Branch	Shop B, G/F, Railway Plaza, 39 Chatham Road South, Tsimshatsui
	Mongkok Branch	777 Nathan Road, Mongkok
	Shamshuipo Branch	G/F, 290 Lai Chi Kok Road, Shamshuipo
New Territories	Tsuen Wan Branch	339 Sha Tsui Road, Tsuen Wan
	Kwai Chung Branch	Unit G02, Tower A, Regent Centre 63 Wo Yi Hop Road, Kwai Chung

You can collect a **yellow** Application Form and this prospectus during the normal business hours from 9:00 am on Thursday, 2 June 2005 until 12:00 noon on Tuesday, 7 June 2005 from:

- the **Depository Counter of HKSCC** at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong;
- the **Customer Service Centre of HKSCC** at Upper Ground Floor, V-Heun Building, 128-140 Queen's Road Central, Hong Kong; or
- your stockbroker, who may have Application Forms and this prospectus available.

How to complete the Application Form

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

You should note that by completing and submitting the Application Form, amongst other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:

(i) agree with our Company, for itself and for the benefit of each shareholder of our Company and so that our Company will be deemed by its acceptance in whole or in part of the application, including applications made by HKSCC Nominees, to have agreed for itself and on behalf of each shareholder of our Company, to observe and comply with the Company Law, the Special Regulations, and the Articles of Association;

(ii) agree with our Company, each shareholder, Director, Supervisor, manager and officer of our Company, and our Company acting for itself and for each Director, Supervisor, manager and officer agrees with each shareholder of our Company, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning its affairs to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award, which arbitration shall be final and conclusive;

(iii) agree with our Company and each shareholder of our Company that the H Shares in our Company are freely transferable by the holder thereof;

(iv) authorise our Company to enter into a contract on your behalf with each of the Directors, Supervisors and officers whereby such Directors, Supervisors and officers undertake to observe and comply with his obligations to shareholders as stipulated in the Articles of Association;

(v) confirm that you have only relied on the information and representations in this prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;

(vi) agree that our Company, the Directors, the Joint Global Coordinators, the Underwriters, any other parties involved in the Global Offering and any of their respective directors, officers, employees, partners, agents or advisers are liable only for the information and representations contained in this prospectus, the Application Forms and any supplement to this prospectus;

(vii) undertake and confirm that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest in, and will not apply for or take up, or indicate an interest in, any International Offer Shares under the International Offering, nor otherwise have participated or will participate in the International Offering; and International Offer Shares under the International Offering, nor otherwise have participated or will participate in the International Offering; and

(viii) agree to disclose to our Company, our H Share registrar, receiving bankers, the Joint Global Coordinators, the Underwriters and their respective advisors and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application.

In order for the **yellow** Application Forms to be valid:

(i) **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**

   (a) the designated CCASS Participant or its authorised signatories must sign in the appropriate box in the Application Form; and

   (b) the designated CCASS Participant must endorse the Application Form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box in the Application Form.

(ii) **If the application is made by an individual CCASS Investor Participant:**

(a) the Application Form must contain the CCASS Investor Participant's name and his or her Hong Kong Identity Card Number; and

(b) the CCASS Investor Participant must insert its participant I.D. and sign in the appropriate box in the Application Form.

(iii) **If the application is made by a joint individual CCASS Investor Participant:**

(a) the Application Form must contain all joint CCASS Investor Participants' names and the Hong Kong Identity Card Numbers of all the joint CCASS Investor Participants; and

(b) the participant I.D. must be inserted and the authorised signatory(ies) of the CCASS Investor Participant's stock account must sign in the appropriate box in the Application Form.

(iv) **If the application is made by a corporate CCASS Investor Participant:**

(a) the Application Form must contain the CCASS Investor Participant's company name and Hong Kong Business Registration number; and

(b) the participant I.D. and company chop (bearing its company name) endorsed by its authorised signatory(ies) must be inserted in the appropriate box in the Application Form.

Signature(s), number of signatories and form of chop, where appropriate, should match with the records kept by HKSCC. Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of authorised signatory(ies) (if applicable), participant I.D. or other similar matters may render the application invalid.

If your application is made through a duly authorised attorney, our Company and the Joint Global Coordinators (or their respective agents and nominees) as its agent may accept it at their discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney. We and the Joint Global Coordinators, in the capacity as our agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

How many applications you may make

You may make more than one application for the Hong Kong Public Offer Shares if and only if:

You are a **nominee**, in which case you may make an application by: (i) giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Participant) or (ii) using a **white** or **yellow** Application Form, and lodge more than one Application Form in your own name if each application is made on behalf of different beneficial owners. In the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code

for each beneficial owner or, in the case of joint beneficial owners, for each such beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

Otherwise, multiple applications are not allowed.

It will be a term and condition of all applications that by completing and delivering an Application Form, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:

- (if the application is made for your own benefit) warrant that this is the only application which will be made for your benefit on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC via CCASS; or

- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which will be or has been made for the benefit of that other person on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC via CCASS and that you are duly authorised to sign the Application Form as that other person's agent.

Except where you are a nominee and provide the information required to be provided in your application, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC; or

- apply on one **white** or **yellow** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investment Participant or applying through a CCASS Broker or Custodian Participant) for more than 50% of the H Shares initially being offered for public subscription under the Hong Kong Public Offering, as more particularly described in "Structure of the Global Offering — The Hong Kong Public Offering"; or

- have applied for or taken up, or indicated an interest in, or have been or will be placed (including conditionally and/or provisionally) International Offer Shares under the International Offering or otherwise have participated or will participate in the International Offering.

Save as referred to above, **all** of your applications will also be rejected as multiple applications if more than one application is made for **your benefit** (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and

- the principal business of that company is dealing in securities; and

- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

Unlisted company means a company with no equity securities listed on the Hong Kong Stock Exchange.

Statutory control means you:

- control the composition of the board of directors of a company; or
- control more than half of the voting power of a company; or
- hold more than half of the issued share capital of a company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

Members of the public — time for applying for Public Offer Shares

Completed **white** or **yellow** Application Forms, together with payment attached, must be lodged by 12:00 noon on Tuesday, 7 June, 2005, or, if the application lists are not open on that day, then by the time and date stated in "Effect of bad weather on the opening of the application lists" below.

Your completed Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of The Hongkong and Shanghai Banking Corporation Limited, Bank of China (Hong Kong) Limited and Industrial and Commercial Bank of China (Asia) Limited listed under "Where to collect the Application Forms" above at the following times:

Thursday, 2 June 2005 — 9:00 a.m. to 4:30 p.m.

Friday, 3 June 2005 — 9:00 a.m. to 4:30 p.m.

Saturday, 4 June 2005 — 9:00 a.m. to 12:00 noon

Monday, 6 June 2005 — 9:00 a.m. to 4:30 p.m.

Tuesday, 7 June 2005 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, 7 June 2005 except as provided in "Effect of bad weather on the opening of the application lists."

The applications for the Hong Kong Public Offer Shares will not be processed and no allotment of any such Hong Kong Public Offer Shares will be made until the closing of the application lists. No allotment of any of the Hong Kong Public Offer Shares will be made later than Saturday, 2 July 2005.

Effect of bad weather on the opening of the application lists

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above, or
- a "black" rainstorm warning

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 7 June 2005. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

Business day means a day that is not a Saturday, Sunday or a public holiday in Hong Kong.

If the application lists do not open and close on Tuesday, 7 June 2005, the dates mentioned in "Expected Timetable" may be affected in which case a press announcement will be made by our Company.

Publication of Results

Our Company expects to announce the basis of allotment, the results of applications and the Hong Kong Identity Card/passport/Hong Kong Business Registration numbers of successful applicants under the Hong Kong Public Offering on Tuesday, 14 June 2005 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

Despatch/collection of H Share Certificate and Refund Cheques

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the Offer Price of HK$9.25 per H Share (excluding brokerage, SFC transaction levy, investor compensation levy and Hong Kong Stock Exchange trading fee thereon) initially paid on application, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy, investor compensation levy and Hong Kong Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary document of title will be issued in respect of the H Shares. No receipt will be issued for sums paid on application but, subject to personal collection as mentioned below, in due course there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

(a) for application on **white** Application Forms:(i) H Share certificate(s) for all the Hong Kong Public Offer Shares applied for, if the application is wholly successful; or (ii) H Share certificate(s) for the number of Hong Kong Public Offer Shares successfully applied for, if the application is partially successful (for wholly successful and partially successful applicants on **yellow** Application Forms: share certificates for the H Shares successfully applied for will be deposited into CCASS as described below); and/or

(b) for applications on **white** or **yellow** Application Forms, refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the maximum offer price per H Share paid on application in the event that the Offer Price is less than the offer price per H Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Hong Kong Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest. Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for purposes of issuing a refund. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of, or may invalidate your refund cheque.

Subject to personal collection as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and the difference between the Offer Price and the offer price per H Share initially paid on application (if any) under **white** or **yellow** Application Forms; and share certificates for wholly and partially successful applicants under white Application Forms are expected to be posted on or around Tuesday, 14 June 2005. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s).

H Share certificates will only become valid certificates of title at 8:00 a.m. on Wednesday, 15 June 2005 if the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in ''Underwriting — Grounds for Termination'' has not been exercised.

(a) If you apply using a white Application Form:

If you apply for 1,000,000 Hong Kong Public Offer Shares or more on a **white** Application Form and have indicated your intention in your Application Form to collect your refund cheque(s) (where applicable) and/or H Share certificate(s) (where applicable) from Computershare Hong Kong Investor Services Limited and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) and H Share certificate(s) (where applicable) from Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, 14 June 2005 or such other date as notified by our Company in the newspapers as the date of collection/despatch of refund cheques/H Share certificates. If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. If you do not collect your refund cheque(s) (where applicable) and/or H Share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified in your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares or if you apply for 1,000,000 Hong Kong Public Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) and/or H Share certificate(s) (where applicable) in person, your refund cheque(s) (where applicable) and/or H Share certificate(s) (where applicable) will be sent to the address on your Application Form on Tuesday, 14 June 2005, by ordinary post and at your own risk.

You will receive one share certificate for all the Hong Kong Public Offer Shares issued to you under the Hong Kong Public Offering (except pursuant to applications made on **yellow** Application Forms or by **electronic application instructions** to HKSCC via CCASS where H Share certificates will be deposited into CCASS).

(b) If you apply using a yellow Application Form:

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and you have elected on your **yellow** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **white** Application Form applicants as described above.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares or if you apply for 1,000,000 Hong Kong Public Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) in person, your refund cheque(s) (where applicable) will be sent to the address on your Application Form on Tuesday, 14 June 2005, by ordinary post and at your own risk.

If you apply for Hong Kong Public Offer Shares using a **yellow** Application Form and your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form at the close of business on Tuesday, 14 June 2005, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):

- for Hong Kong Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Public Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant:

- our Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the newspapers on Tuesday, 14 June 2005. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 14 June 2005 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your stock account.

3. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Public Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (https://ip.ccass.com) (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you complete an input request form at:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
Upper Ground Floor
V-Heun Building
128-140 Queen's Road Central
Hong Kong

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company and our H Share registrar.

Giving Electronic Application Instructions to HKSCC to Apply for Hong Kong Public Offer Shares by HKSCC Nominees On Your Behalf

Where a **white** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Public Offer Shares:

(i) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **white** Application Form or this prospectus;

(ii) HKSCC Nominees does the following things on behalf of each such person:

- agrees that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has input **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;

- undertakes and agrees to accept the Hong Kong Public Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number allocated to you under the application;

- undertakes and confirms that that person has not applied for or taken up or indicated an interest in, and will not apply for or take up or indicate any interest in any International Offer Shares under the International Offering nor otherwise participated or will participate in the International Offering;

- (if the electronic application instructions are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;
- (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorised to give those instructions as that other person's agent;
- understands that the above declaration will be relied upon by our Company, the Directors and the Joint Global Coordinators in deciding whether or not to make any allotment of Hong Kong Public Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;
- authorises our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Public Offer Shares allotted in respect of that person's **electronic application instructions** and to send H Share certificate(s) (where applicable) and/or refund monies (where applicable) in accordance with the arrangements separately agreed between our Company and HKSCC;
- confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf;
- agrees that our Company and the Directors are liable only for the information and representations contained in this prospectus, the Application Forms and any supplements to this prospectus;
- agrees to disclose that person's personal data to our Company, the Joint Global Coordinators, the H Share registrar, receiving bankers, the Underwriters and their respective advisers and agents and any information which they may require about that person;
- agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation and you may not revoke it other than as provided in this prospectus;
- agrees that that person cannot revoke the **electronic application instructions** before Saturday, 2 July 2005, such agreement to take effect as a collateral contract with our Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that our Company will not offer any Hong Kong Public Offer Shares to any person before Saturday, 2 July 2005, except by means of one of the procedures referred to in this prospectus. However, that person may revoke the instructions before Saturday, 2 July 2005 if a

person responsible for this prospectus under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

- agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by our Company;

- agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Public Offer Shares;

- agrees with our Company, for itself and for the benefit of each shareholder of our Company (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the shareholders of our Company, with each CCASS Participant giving **electronic application instructions**) to observe and comply with Company Law, the Special Regulations and the Articles of Association;

- agrees with our Company, each Shareholder, Director, Supervisor, manager and officer, and our Company acting for itself and for each Director, Supervisor, manager and officer agrees with each shareholder of our Company to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by Company Law or other relevant laws and administrative regulations concerning its affairs to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award, which arbitration shall be final and conclusive;

- agrees with our Company and each of the shareholders of our Company that the H Shares of our Company are freely transferable by the holders thereof;

- authorises our Company to enter into a contract on your behalf with each of the Directors, Supervisors and officers of our Company whereby each such Director, Supervisor and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association; and

- agrees that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum offer price, brokerage, SFC transaction levy, investor compensation levy and Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the offer price per H Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy, investor compensation levy and Hong Kong Stock Exchange trading fee, by crediting your designated bank account;
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **white** Application Form.

Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application.

No application for any other number of Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

Minimum Subscription Amount and Permitted Multiples

You may give or cause your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 500 Hong Kong Public Offer Shares. Such instructions in respect of more than 500 Hong Kong Public Offer Shares must be in one of the numbers or multiples set out in the table in the Application Forms.

Time for Inputting Electronic Application Instructions

CCASS Broker/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Thursday, 2 June 2005 — 9:00 a.m. to 8:30 p.m.[(1)]
Friday, 3 June 2005 — 9:00 a.m. to 8:30 p.m.[(1)]
Saturday, 4 June 2005 — 9:00 a.m. to 3:00 p.m.[(1)]
Monday, 6 June 2005 — 9:00 a.m. to 8:30 p.m.[(1)]
Tuesday, 7 June 2005 — 9:00 a.m.[(1)] to 12:00 noon

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Broker/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m on Thursday, 2 June 2005 until 12:00 noon on Tuesday, 7 June 2005 (24 hours daily, except the last application date).

Allocation of Hong Kong Public Offer Shares

For the purposes of allocating Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

Deposit of H Share Certificates into CCASS and Refund of Application Monies

- No temporary document of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of your designated CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account at the close of business on Tuesday, 14 June 2005, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the newspapers on Tuesday, 14 June 2005. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 14 June 2005 or such other date as shall be determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any)

payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 14 June 2005 and immediately after the credit of the Public Offer Shares to your CCASS Investor Participant stock account and the credit of refund monies to your designated bank account. HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the offer price per H Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Hong Kong Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 14 June 2005. No interest will be paid thereon.

Section 40 of the Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance.

Personal Data

The section of the Application Form entitled "Personal Data" applies to any personal data held by our Company and the H Share registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

The subscription of the Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our Company, the Directors, the Joint Sponsors, the Joint Global Coordinators and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions,** they should either: (i) submit a white or yellow Application Form; or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Tuesday, 7 June 2005.

4. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allotted the Hong Kong Public Offer Shares are set out in the notes attached to the Application Forms (whether you are making your application by an Application Form or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf), and you should read them carefully. You should note in particular the following situations in which the Hong Kong Public Offer Shares will not be allotted to you:

- **if your application is revoked or withdrawn:**

By completing and submitting an Application Form or **electronic application instructions** to HKSCC you agree that you cannot revoke your application on or before Saturday, 2 July 2005. This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or submit your electronic application. This collateral contract will be in consideration of our Company agreeing that our Company will not offer any Hong Kong Public Offer Shares to any person on or before Saturday, 2 July 2005 except by means of one of the procedures referred to in this prospectus.

You may only revoke your application on or before Saturday, 2 July 2005 if a person responsible for this prospectus under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to the prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of the prospectus as supplemented.

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives, or causes to give, **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance.

If your application has been accepted, it cannot be revoked or withdrawn. For this purpose, acceptance of applications will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

- **Full discretion of our Company or its agents to reject or accept your application:**

We and the Joint Global Coordinators (as agent for our Company), or their respective agents and nominees, have full discretion to reject or accept any application, or to accept only part of any application.

We, the Joint Global Coordinators and the Hong Kong Underwriter(s), in their capacity as our agents, and their agents and nominees do not have to give any reason for any rejection or acceptance.

- **If the allotment of Hong Kong Public Offer Shares is void:**

The allotment of Hong Kong Public Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** or apply by a **yellow** Application Form) will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the H Shares either:

- within 3 weeks from the closing of the application lists; or
- within a longer period of up to 6 weeks if the Listing Committee of the Hong Kong Stock Exchange notifies our Company of that longer period within 3 weeks of the closing date of the application lists.

- **You will not receive any allotment if:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefits you apply for have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Public Offer Shares and/or International Offer Shares in the International Offering. By filling in any of the Application Forms or apply by giving **electronic application instructions** to HKSCC, you agree not to apply for Hong Kong Public Offer Shares as well as International Offer Shares in the International Offering. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received International Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Hong Kong Public Offer Shares in the Hong Kong Public Offering;
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured upon its first presentation;
- your Application Form is not completed in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
- the Underwriting Agreements do not become unconditional; or
- the Underwriting Agreements are terminated in accordance with their respective terms.

You should also note that you may apply for H Shares under the Hong Kong Public Offering or indicate an interest for International Offer Shares under the International Offering, but may not do both.

5. HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

The maximum Offer Price is HK$9.25 per H Share. You must also pay brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Hong Kong Stock Exchange trading fee of 0.005% in full. This means that for every board lot of 500 H Shares you will pay HK$4,671.80. The Application Forms have tables showing the exact amount payable for multiples of H Shares up to 76,587,500 H Shares.

You must pay the amount payable upon application for H Shares by a cheque or a banker's cashier order in accordance with the terms set out in the Application Form (if you apply by an Application Form).

If your application is successful, brokerage is paid to participants of the Hong Kong Stock Exchange or the Stock Exchange (as the case may be), the SFC transaction levy, investor compensation levy and Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy and the investor compensation levy, collected on behalf of the SFC).

6. REFUND OF APPLICATION MONIES

If you do not receive any Hong Kong Public Offer Shares for any reason, we will refund your application monies, including brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Hong Kong Stock Exchange trading fee of 0.005%. No interest will be paid thereon. All interest accrued on such monies prior to the date of despatch of refund cheques will be retained for our benefit.

If your application is accepted only in part, we will refund the appropriate portion of your application monies, including the related brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Hong Kong Stock Exchange trading fee of 0.005%, without interest.

If the Offer Price as finally determined is less than the maximum Offer Price of HK$9.25 per H Share paid on application, appropriate refund payments (including the brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Hong Kong Stock Exchange trading fee of 0.005% attributable to the surplus application monies) will be made to successful applicants, without interest. Details of the procedure for refund are set out below in the section headed "Despatch/Collection of Share Certificates and Refund Cheques".

In a contingency situation involving a substantial over-subscription, at the discretion of our Company and the Joint Global Coordinators, cheques for applications for certain small denominations of Hong Kong Public Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) will be made on Tuesday, 14 June 2005 in accordance with the various arrangements as described above.

7. COMMENCEMENT OF DEALINGS IN THE H SHARES

Dealings in the H Shares are expected to commence on Wednesday, 15 June 2005.

The H Shares will be traded in board lots of 500 H Shares each. The stock code of the H Shares is 1088.

8. H SHARES WILL BE ELIGIBLE FOR CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and our Company complies with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong. As described in ''Appendix X — Documents Delivered to the Registrar of Companies and Available for Inspection'', a copy of the accountants' report is available for inspection.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

2 June 2005

The Directors
China Shenhua Energy Company Limited

China International Capital Corporation (Hong Kong) Limited
Deutsche Bank AG, Hong Kong Branch
Merrill Lynch Far East Limited

Dear Sirs,

Introduction

We set out below our report on the combined financial information relating to China Shenhua Energy Company Limited (the ''Company'') and its subsidiaries (hereinafter collectively referred to as the ''Group''), in Sections I to IX below, including the combined balance sheets of the Group as at 31 December 2002, 2003 and 2004, the balance sheet of the Company as at 31 December 2004, the combined income statements, the combined statements of changes in shareholder's equity and the combined statements of cash flows of the Group for each of the three years ended 31 December 2004 (collectively the ''relevant period''), and the notes thereto (the ''Financial Information''), for inclusion in the prospectus of the Company dated 2 June 2005 (the ''Prospectus'').

The Company was established as a joint stock company with limited liability in the People's Republic of China (the ''PRC'') on 8 November 2004 as part of the restructuring (the ''Restructuring'') of Shenhua Group Corporation Limited (''Shenhua'' or the ''Parent Company''), a state-owned enterprise, as described in Section V Note 1 below. The registered office of the Company is located at 22 Andingmen Xibinhe Road, Dongcheng District, Beijing, China.

During the relevant period, the annual financial statements of Shenhua and the entities now comprising the Group were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC and were audited by certified accountants registered in the PRC. We and KPMG Huazhen have acted as auditors of the Company since the date of its establishment. Please refer to Section V Note 1 for details.

Basis of preparation

The Financial Information has been prepared by the directors of the Company based on the management accounts or, where appropriate audited financial statements of the entities included in the preparation of the Financial Information, on the bases set out in Section V Note 1 below after making such adjustments as are appropriate. Adjustments have been made, for the purpose of this report, to restate those financial statements to conform with International Financial Reporting Standards (''IFRS'') promulgated by the International Accounting Standards Board and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Respective responsibilities of directors and reporting accountants

The directors are responsible for the preparation of the Financial Information which gives a true and fair view. In preparing the Financial Information which gives a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

Basis of opinion

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the management accounts or, where appropriate, audited financial statements of the entities included in the preparation of the Financial Information for the relevant period in accordance with Statements of Auditing Standards and Guidelines issued by the Hong Kong Institute of Certified Public Accountants (''HKICPA'') and we have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline ''Prospectuses and the reporting accountant'' issued by the HKICPA. We have not audited any financial statements of the entities now comprising the Group in respect of any period subsequent to 31 December 2004.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Financial Information, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of the Financial Information. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information, on the basis of presentation set out in Section V Note 1 below, gives a true and fair view of the Group's state of affairs as at 31 December 2002, 2003 and 2004, the Company's state of affairs as at 31 December 2004, and of the Group's combined results and combined cash flows for each of the three years ended 31 December 2004, and has been properly prepared in accordance with IFRS.

(I) COMBINED INCOME STATEMENTS

	Notes	Years ended 31 December 2002	2003	2004
		RMB million	RMB million	RMB million (Section V Note 1)
Revenues				
Coal revenue		13,393	17,596	28,079
Power revenue		5,914	7,024	9,866
Other revenues	3	2,122	2,375	1,322
Total operating revenues		21,429	26,995	39,267
Cost of revenues				
Materials, fuel and power		(1,866)	(2,677)	(4,452)
Personnel expenses		(1,151)	(1,559)	(1,564)
Depreciation and amortisation		(3,370)	(3,674)	(4,795)
Repairs and maintenance		(846)	(1,529)	(2,146)
Transportation charges		(4,475)	(4,734)	(5,557)
Others	4	(2,515)	(3,058)	(2,708)
Total cost of revenues		(14,223)	(17,231)	(21,222)
Selling, general and administrative expenses		(1,804)	(2,217)	(2,492)
Other operating expense, net		(188)	(307)	(54)
Total operating expenses	5	(16,215)	(19,755)	(23,768)
Profit from operations		5,214	7,240	15,499
Deficit on revaluation of property, plant and equipment	13(b)	-	(518)	-
Net financing costs	6	(3,103)	(3,130)	(2,358)
Gain on debt restructuring	7	-	613	-
Investment income	8	51	200	-
Share of profits of associates		299	46	245
Profit before income tax and minority interests		2,461	4,451	13,386
Income tax	9	(454)	(854)	(2,820)
Profit before minority interests		2,007	3,597	10,566
Minority interests		(410)	(696)	(1,631)
Profit for the year		1,597	2,901	8,935
Earnings per share (RMB)	10	0.106	0.193	0.596

(II) COMBINED BALANCE SHEETS OF THE GROUP AND BALANCE SHEET OF THE COMPANY

	Notes	The Group 31 December 2002 RMB million	The Group 31 December 2003 RMB million (Section V Note 1)	The Group 31 December 2004 RMB million (Section V Note 1)	The Company 31 December 2004 RMB million
Non-current assets					
Property, plant and equipment, net	13	58,300	66,832	72,923	21,894
Construction in progress	14	6,002	8,655	12,352	1,649
Intangible assets	15	918	1,113	1,210	343
Interests in subsidiaries	16	-	-	-	17,604
Interests in associates	17	2,386	1,065	2,731	2,472
Investments	18	2,796	154	109	21
Lease prepayments		3,648	3,794	3,766	547
Deferred tax assets	23	1,903	1,491	1,242	641
Total non-current assets		75,953	83,104	94,333	45,171
Current assets					
Inventories	19	2,333	2,662	2,691	1,528
Accounts and bills receivable, net	20	2,797	2,730	2,913	1,462
Prepaid expenses and other current assets	21	3,432	1,420	3,239	12,346
Time deposits with original maturity over three months	22	1,187	255	55	-
Cash and cash equivalents	22	5,731	4,162	7,138	4,977
Total current assets		15,480	11,229	16,036	20,313
Total assets		91,433	94,333	110,369	65,484
Current liabilities					
Short-term borrowings and current portion of long-term borrowings	24	15,143	14,801	13,857	8,359
Accounts and bills payable	25	3,198	3,547	4,411	2,213
Income tax payable		223	164	1,475	922
Accrued expenses and other payables	26	3,929	3,561	4,704	3,110
Total current liabilities		22,493	22,073	24,447	14,604
Net current (liabilities)/assets		(7,013)	(10,844)	(8,411)	5,709
Total assets less current liabilities		68,940	72,260	85,922	50,880
Non-current liabilities					
Long-term borrowings, less current portion	24	43,320	43,298	46,332	24,842
Accrued reclamation obligations	27	598	628	650	470
Deferred tax liabilities	23	108	245	459	172
Total non-current liabilities		44,026	44,171	47,441	25,484
Total liabilities		66,519	66,244	71,888	40,088
Minority interests		9,620	11,628	13,085	-
Shareholder's equity		15,294	16,461	25,396	25,396
Total liabilities and shareholder's equity		91,433	94,333	110,369	65,484

(III) COMBINED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

i) The Group

	Notes	Share capital	Capital reserves	Revaluation reserve	Future development fund	Statutory reserves	Other reserves	Retained earnings/ shareholder's equity (Note)	Total
		RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
As at 1 January 2002		-	-	-	760	999	-	10,843	12,602
Profit for the year		-	-	-	-	-	-	1,597	1,597
Appropriations	(i)	-	-	-	364	457	-	(821)	-
Contributions from Parent Company	(ii)	-	-	-	-	-	-	1,095	1,095
As at 31 December 2002		-	-	-	1,124	1,456	-	12,714	15,294
As at 1 January 2003		-	-	-	1,124	1,456	-	12,714	15,294
Profit for the year		-	-	-	-	-	-	2,901	2,901
Appropriations	(i)	-	-	-	471	1,232	-	(1,703)	-
Contributions from Parent Company	(ii)	-	-	-	-	-	-	1,886	1,886
Elimination of net deferred tax assets	23	-	-	-	-	-	-	(961)	(961)
Recognition of deferred tax assets	23	-	-	-	-	-	849	-	849
Net assets distributed to Parent Company in connection with the Restructuring	1	-	-	-	(1,457)	(2,404)	-	(6,850)	(10,711)
Revaluation of property, plant and equipment, net of minority interests	13	-	-	7,203	-	-	-	-	7,203
As at 31 December 2003		-	-	7,203	138	284	849	7,987	16,461
As at 1 January 2004		-	-	7,203	138	284	849	7,987	16,461
Capitalisation upon legal establishment of the Company	(iii)	15,000	(6,591)	-	(138)	(284)	-	(7,987)	-
Profit for the year		-	-	-	-	-	-	8,935	8,935
Appropriations	(i)	-	-	-	338	230	-	(568)	-
Revaluation surplus realised		-	-	(17)	-	-	-	17	-
As at 31 December 2004		15,000	(6,591)	7,186	338	230	849	8,384	25,396

Note: The shareholder's equity prior to establishment of the Company mainly represents the then capital of the entities now comprising the Group and the equity contributions from or distributions to the Parent Company.

ii) The Company

	Notes	Share capital	Capital reserves	Revaluation reserve	Future development fund	Statutory reserves	Other reserves	Retained earnings	Total
		RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Capitalisation upon legal establishment of the Company	(iii)	15,000	(6,591)	7,203	-	-	849	-	16,461
Profit for the year		-	-	-	-	-	-	8,935	8,935
Appropriation	(i)	-	-	-	338	230	-	(568)	-
Revaluation surplus realised		-	-	(17)	-	-	-	17	-
As at 31 December 2004		15,000	(6,591)	7,186	338	230	849	8,384	25,396

Notes:

(i) The Company was established on 8 November 2004. The appropriation to the statutory reserves for the year ended 31 December 2004 was made by the Company, whilst the appropriation for the two years ended 31 December 2003 represented the appropriation made by certain of the Company's subsidiaries.

Statutory surplus reserve

According to the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined in accordance with the PRC Accounting Rules and Regulations, to its statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, to expand the Company's businesses and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

For the year ended 31 December 2004, the Company transferred RMB115 million, being 10% of the net profit for the period from its establishment date of 8 November 2004 to 31 December 2004, which was calculated on a pro-rata basis of the full year profit of RMB7,779 million, as determined in accordance with the PRC Accounting Rules and Regulations, to this reserve.

As at 31 December 2002 and 2003, the statutory surplus reserve amounted to RMB760 million and RMB155 million respectively which represented the reserves being set up by certain of the Company's subsidiaries under similar requirements. The maximum amount of appropriations to the statutory reserve which represents 50% of the subsidiaries' registered capital as at 31 December 2002 and 2003, was RMB13,900 million and RMB13,318 million respectively.

Statutory public welfare fund

According to the Company's Articles of Association, the Company is required to transfer 5% to 10% of its net profit, as determined in accordance with the PRC Accounting Rules and Regulations, to the statutory public welfare fund. This fund can only be utilised on capital items for the collective benefits of the Company's employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders.

On 27 March 2005, the directors proposed and the sole shareholder approved a transfer of RMB115 million, being 10% of the net profit for the period from its establishment date of 8 November 2004 to 31 December 2004, which was calculated on a pro-rata basis of the full year profit of RMB7,779 million, as determined in accordance with the PRC Accounting Rules and Regulations, to this fund.

As at 31 December 2002 and 2003, the statutory public welfare fund amounted to RMB696 million and RMB129 million respectively, which represented the fund being set up by certain of the Company's subsidiaries under similar requirements.

Discretionary surplus reserve

The appropriation to the discretionary surplus reserve is subject to the shareholders' approval. The utilisation of the reserve is similar to that of the statutory surplus reserve.

The directors have not proposed any of the appropriation to the discretionary surplus reserve since 8 November 2004 (date of establishment of the Company).

Future development fund

Pursuant to regulations in the PRC, the Company and its subsidiaries are required to transfer an annual amount to a future development fund at RMB6.50 to RMB8.00 per tonne of raw coal mined (net of usage). The fund can only be used for the future development of the coal mining business and is not available for distribution to shareholders.

(ii) The contributions represented cash contributed to the Group by Parent Company in the year the contributions occurred.

(iii) On 8 November 2004, the Company was established with a registered share capital of RMB 15 billion representing 15 billion shares at RMB 1.00 each. As described in Section V Note 1, such shares were issued to Shenhua in consideration for the coal mining and power generating assets and liabilities transferred to the Company in connection with the Restructuring.

(iv) No dividend has been paid or declared by the Company during the relevant period.

(IV) COMBINED STATEMENTS OF CASH FLOWS

	Note	Years ended 31 December 2002 RMB million	2003 RMB million	2004 RMB million
Net cash from operating activities	(a)	4,468	8,111	18,934
Investing activities				
Capital expenditure		(8,201)	(12,112)	(16,666)
Lease prepayments		(545)	(297)	(96)
Purchase of investments		(1,144)	(1,582)	(1,596)
Proceeds from disposal of investments		991	893	14
Proceeds from disposal of property, plant and equipment		50	228	149
Increase in time deposits with maturity over 3 months		(506)	(448)	(130)
Maturity of time deposits with maturity over 3 months		310	1,380	330
Net cash used in investing activities		(9,045)	(11,938)	(17,995)
Financing activities				
Proceeds from bank and other loans		17,871	23,554	22,675
Repayments of bank and other loans		(13,641)	(14,601)	(20,803)
Dividend paid to minority interests		(101)	(198)	(307)
Contributions from minority interests		506	659	472
Contributions from Parent Company		1,095	1,886	-
Cash distributions to Parent Company in connection with Restructuring		-	(9,042)	-
Net cash from financing activities		5,730	2,258	2,037
Net increase/(decrease) in cash and cash equivalents		1,153	(1,569)	2,976
Cash and cash equivalents, at beginning of the year		4,578	5,731	4,162
Cash and cash equivalents, at end of the year		5,731	4,162	7,138

(a) Reconciliation of profit before income tax and minority interests to net cash from operating activities

	Years ended 31 December		
	2002	2003	2004
	RMB million	RMB million	RMB million
Profit before income tax and minority interests	2,461	4,451	13,386
Adjustments for:			
Depreciation and amortisation	3,627	4,017	4,949
Investment income	(51)	(200)	-
Interest income	(108)	(142)	(72)
Share of profits of associates	(299)	(46)	(245)
Gain on debt restructuring	-	(613)	-
Net interest expense	2,484	2,229	2,437
Gain on remeasurement of derivative financial instruments to fair value	-	-	(145)
Unrealised foreign exchange loss	693	984	218
Loss on disposal of property, plant and equipment and intangible assets	156	378	81
Deficit on revaluation of property, plant and equipment	-	518	-
Increase in accounts and bills receivable	(58)	(782)	(183)
Increase in inventories	(781)	(848)	(29)
Increase in prepaid expenses and other current assets	(1,163)	(1,237)	(299)
Increase in accounts and bills payable	237	1,171	1,624
Increase in accrued expenses and other payables	186	1,233	818
Cash generated from operations	7,384	11,113	22,540
Interest received	108	142	72
Interest paid	(2,752)	(2,812)	(2,711)
Dividend received from investments	46	167	32
Income tax paid	(318)	(499)	(999)
Net cash from operating activities	4,468	8,111	18,934

(V) NOTES TO THE FINANCIAL INFORMATION

1. Principal Activities, Organisation and Basis of Presentation

Principal activities

China Shenhua Energy Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in: (i) the production and sale of coal; and (ii) the generation and sale of power in the PRC. The Group operates 21 mines as well as an integrated railway network and a seaport that are primarily used to transport the Group's coal sales. The primary customers of the Group's coal sales include power plants and metallurgical producers in the People's Republic of China (the "PRC"). The Group operates 8 power plants in the PRC, which are engaged in the generation and sale of coal-based power to provincial/regional electric grid companies.

Organisation

The Company was established in the PRC on 8 November 2004 as a joint stock limited company as part of the Restructuring (as defined below) of Shenhua Group Corporation Limited ("Shenhua" or the "Parent Company"), a state-owned enterprise under the direct supervision of the State Council of the PRC. Prior to the establishment of the Company, the coal production and power generation operations were carried on by various mining companies and power plant entities wholly owned or controlled by Shenhua (the "Predecessor Operations").

The financial statements of Shenhua and the entities now comprising the Group were prepared in accordance with relevant accounting rules and regulations applicable to enterprises in the PRC for the years ended 31 December 2002, 2003 and 2004 and were audited by the following auditors:

	2002	2003	2004
Shenhua	China Audit Accountant Firm Ltd	Reanda Certified Public Accountants Co Ltd	Not applicable (Note i)
China Shenhua Coal Sales Centre (formerly Shenhua Coal Trading Company Limited)	Zhong Yu Certified Public Accountants	Reanda Certified Public Accountants Co Ltd	Not applicable (Note ii)
China Shenhua Wanli Coal Branch (formerly:			
— Shenhua Wanli Coal Company Limited	Zhong Yu Certified Public Accountants	Beijing Bokun Certified Public Accountants	Not applicable (Note ii)
— Shenhua Jinfeng Coal Company Limited)	Zhong Yu Certified Public Accountants	Reanda Certified Public Accountants Co Ltd	Not applicable (Note ii)
China Shenhua Shendong Coal Branch (formerly Shenhua Shenfu Dongsheng Coal Company Limited)	China Audit Accountant Firm Ltd	Reanda Certified Public Accountants Co Ltd	Not applicable (Note ii)

	2002	2003	2004
China Shenhua Guohua Power Branch (formerly Beijing Guohua Electric Corporation)	Pan-China Certified Public Accountants	Reanda Certified Public Accountants Co Ltd	Not applicable (Note ii)
China Shenhua Rolling Stock Branch (formerly Shenhua Rolling Stock Company Limited)	China Audit Accountant Firm Ltd	Jonten Certified Public Accountants	Not applicable (Note ii)
China Shenhua Shenshuo Railway Branch (formerly Shenhua Shenshuo Railway Company Limited)	China Audit Accountant Firm Ltd	Jonten Certified Public Accountants	Not applicable (Note ii)
Shenhua Baoshen Railway Company Limited	Zhongluhua Inner Mongolia Certified Accountants	Jonten Certified Public Accountants	Jonten Certified Public Accountants
Shenhua Zhunge'er Energy Company Limited	Heilongjiang Donglian Accountant Firm Co Ltd	Beijing Bokun Certified Public Accountants	Beijing Bokun Certified Public Accountants
Shuohuang Railway Development Company Limited	Zhong Yi Certified Public Accountants Ltd	Jonten Certified Public Accountants	Jonten Certified Public Accountants
Shenhua Huanghua Harbor Administration Company Limited	China Audit Accountant Firm Ltd	Reanda Certified Public Accountants Co Ltd	Reanda Certified Public Accountants Co Ltd
Guangdong Guohua Yuedian Taishan Power Company Limited	China Rightson Certified Public Accountants	China Rightson Certified Public Accountants	Reanda Certified Public Accountants Co Ltd
CLP Guohua Power Company Limited	PricewaterhouseCoopers Zhongtian Certified Public Accountants (formerly PWC Beijing Zhangchen Certified Public Accountants)	Deloitte Touche Tohmatsu CPA Ltd	Deloitte Touche Tohmatsu CPA Ltd
Shenhua Mengxi Coal Chemical Company Limited	Wuhai Haicheng Certified Public Accountants	Wuhai Huarui Certified Public Accountants	Not applicable (Note i)
China Shenhua Coal Liquefaction Company Limited	Not applicable (Note iii)	Reanda Certified Public Accountants Co Ltd	Not applicable (Note i)
Shenhua Baotou Mining Company Limited	Strait Certified Public Accountants	Beijing Bokun Certified Public Accountants	Not applicable (Note i)
Shenhua Wuda Mining Company Limited	Strait Certified Public Accountants	Jonten Certified Public Accountants	Not applicable (Note i)

	2002	2003	2004
Shenhua Haibowan Mining Company Limited	Strait Certified Public Accountants	Jonten Certified Public Accountants	Not applicable (Note i)
Shenhua Shendong Power Company Limited	China Audit Accountant Firm Ltd	Reanda Certified Public Accountants Co Ltd	Not applicable (Note i)
Shenhua International Trade Company Limited	Reanda Certified Public Accountants Co Ltd	Beijing Bokun Certified Public Accountants	Not applicable (Note i)
Shenhua Finance Company Limited (''Shenhua Finance'')	Great Wall Certified Public Accountants	Reanda Certified Public Accountants Co Ltd	Not applicable (Note i)
Guohua Energy Investment Company Limited	Beijing Tin Hua Certified Public Accountants	Reanda Certified Public Accountants Co Ltd	Not applicable (Note i)
Shenhua Tianjin Coal Dock Company Limited	Not applicable (Note iv)	Not applicable (Note iv)	Reanda Certified Public Accountants Co Ltd
Shenhua Beidian Shengli Energy Company Limited	Not applicable (Note iv)	Not applicable (Note iv)	Reanda Certified Public Accountants Co Ltd

Notes:

(i) These entities have been retained by Shenhua in accordance with the Restructuring.

(ii) These entities have been transformed into branches of the Company in accordance with the Restructuring and the accounts of which were not audited.

(iii) The entity was established in 2003.

(iv) These entities were established in 2003 and 2004 and commenced operations in 2004.

(v) All the above auditors are certified accountants registered in the PRC.

(vi) None of the above entities ever prepared IFRS financial statements which were audited by any auditors.

In connection with the Restructuring (as defined below), Shenhua's principal coal production and power generation operations together with the related assets and liabilities (as detailed below) that were to be transferred to the Company were segregated and separately managed effective on 31 December 2003 (the ''Restructuring''). Pursuant to the Restructuring, property, plant and equipment related to the operations and businesses that were to be transferred to the Company were revalued as at 31 December 2003 (see Note 13) as required by PRC rules and regulations. In addition, effective as at 1 January 2004, the Company and Shenhua entered into a number of agreements governing the provision of various products and services in respect of the Group (see Note 29). Shenhua has also agreed to indemnify the Company against any claims, including taxes, incurred in connection with or arising from assets, liabilities and interests with respect to the Predecessor Operations inclusive of the Retained Businesses (as defined below). In addition, the Company agreed to indemnify Shenhua against any claims arising from its breach of any obligation under the restructuring agreement.

The specific assets and liabilities Shenhua transferred to the Company include:

- substantially all of the operating assets and liabilities relating to coal production at Shenhua's Shendong mines and Wanli mines, including, among others, mining rights for the operating mines and planned mines as well as Shenhua's equity interests in certain mining companies;

- all operating assets and liabilities relating to coal transportation, including, among others, Shenhua's equity interests in rail line and port related companies;
- assets and liabilities relating to coal sales and marketing operations;
- substantially all of the core operating assets and liabilities relating to power generation, including, among others, Shenhua's equity interests in certain operating power plants and power plants under development; and
- other assets and liabilities (relating to information system and communication and research and development institutions), contractual rights and obligations, employees, licenses and approvals, business and financial records, books and data and technological data and know-how relating to the coal production and power generation operations.

On 8 November 2004, in consideration for Shenhua transferring the above coal mining and power generating assets and liabilities to the Company, the Company issued 15 billion ordinary domestic shares with a par value of RMB1.00 each to Shenhua. The shares issued to Shenhua represented the entire registered and paid-up share capital of the Company. In connection with the Restructuring, certain operating assets and liabilities historically associated with the Predecessor Operations were not transferred to the Company and were retained by Shenhua. In addition, Shenhua retained certain mining companies that were not considered strategically complementary to the Company's business. These operating assets and liabilities and mining companies are collectively referred to as the "Retained Businesses".

Basis of presentation

As Shenhua wholly owned or controlled the coal mining and power generating businesses and operations that were transferred to the Company before the Restructuring and continues to control and own 100% of the Company after the effective date of the Restructuring, the Restructuring is considered as a business combination under common control. The Restructuring is for the purpose of setting up the Company under the PRC rules and regulations to prepare for its proposed listing. As there was no change of controlling shareholders in the business combination, the Financial Information has been prepared as a combination of businesses under common control in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities transferred to the Company have been stated at historical carrying amounts and as adjusted by the revaluation of property, plant and equipment.

The financial information for each of the years in the two-year period ended 31 December 2003 presents the results of operations of the Company and its subsidiaries as if the Group had been in existence throughout the period from 1 January 2002 to 31 December 2003 (the date of the Restructuring) and as if the Predecessor Operations were transferred to the Company from Shenhua as of the beginning of the periods presented.

The financial information for each of the years in the two-year period ended 31 December 2003 includes the Retained Businesses whereas the financial information for the year ended 31 December 2004 does not. Although the Retained Businesses were not transferred to the Company, they have been included in the Financial Information up to the effective date of the Restructuring for the following reasons.

The directors consider that the historical financial information should reflect all of the Group's costs of doing business, including expenses incurred by the Parent Company on its behalf, if any. The historical financial information should include all relevant activities that have been a part of the history of the Group's coal mining and power generating operations.

In evaluating whether the historical 2002 and 2003 financial information prior to the Restructuring fairly presents the history of the Group's businesses, the directors consider, among others, the following:

- whether the Retained Businesses are in dissimilar businesses;
- whether the Retained Businesses were and will be operated autonomously both before and after the Restructuring; and
- whether the Retained Businesses have no more than incidental common facilities and costs.

The Retained Businesses were mainly engaged in coal mining or related businesses, financing and investment holding businesses that either were similar to the Group's business operations, did not operate autonomously or, their principal activities were integral to the Predecessor Operations before the Restructuring.

The tables below reflect the combined financial position and results of operations of the Retained Businesses:

(a) Financial position

	As at 31 December	
	2002	**2003**
	RMB million	**RMB million**
Cash and cash equivalents	1,448	9,042
Accounts and bills receivable, net	1,257	849
Inventories	673	519
Prepaid expenses and other current assets	2,890	3,647
Property, plant and equipment, net	3,006	3,590
Construction in progress	650	1,695
Deferred tax assets (Note 23(ii))	271	234
Lease prepayments	79	71
Intangible assets	76	79
Interests in associates and investments	4,650	4,440
Accounts and other payables	(3,187)	(3,696)
Borrowings	(3,731)	(9,759)
	8,082	10,711

(b) Results of operations

	Years ended 31 December	
	2002	2003
	RMB million	RMB million
Revenue	1,439	1,739
Loss from operations	(20)	(12)
Gain on debt restructuring	-	248
Investment income and share of profits of associates	334	160
Interest income, net of finance costs	23	159
Income tax	8	(47)
Profit for the year	316	481

As a result of the segregation and separate management of the Retained Businesses by Shenhua effective on 31 December 2003, the assets and liabilities retained by Shenhua have been reflected as a distribution to Parent Company in the combined statements of changes in shareholder's equity as at 31 December 2003. Accordingly, the financial information for each of the years in the two-year period ended 31 December 2003 includes the Retained Businesses while the financial information for the year ended 31 December 2004 presents the results of the Company and its subsidiaries without the results of the Retained Businesses. Therefore, the results of operations prior to the Restructuring are not necessarily comparable with the results subsequent to the Restructuring.

Management believes that all historical costs of operations have been reflected in the Financial Information. Expenses that were specifically identified to the Predecessor Operations, including the costs of ancillary, social and supporting services provided to the Predecessor Operations by Shenhua, are reflected in the Financial Information. Income taxes have been determined as if the Predecessor Operations were a separate taxable entity for all periods presented.

2. Significant Accounting Policies

(a) Statement of compliance

The Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"). IFRS includes International Accounting Standards ("IAS") and interpretations. The Financial Information also complies with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as applicable to Accountants' Reports for inclusion in Listing Documents.

(b) Basis of preparation of the Financial Information

The Financial Information is prepared on the historical cost basis as modified by the revaluation of property, plant and equipment (Note 13) and the marking to market of certain derivative financial instruments, as explained in the accounting policies set out below.

The preparation of the Financial Information in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Financial Information and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accounting policies set out below have been consistently applied for all periods presented in preparing the Financial Information.

(c) Basis of consolidation

The Financial Information includes the financial statements of the Company and its subsidiaries. Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases, and the share attributable to minority interests is deducted from or added to profit before minority interests. All significant intercompany balances and transactions have been eliminated in consolidation.

The particulars of the Company's principal subsidiaries are set out in Note 16.

(i) Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated in the Company's balance sheet at the Company's share of net assets under the equity method of accounting.

(ii) Associates

An associate is a company, not being a subsidiary, in which the Group exercises significant influence over the financial and operating policy decisions of the investee but does not have control over those decisions.

The combined income statements include the Group's share of the results of its associates for the period. In the combined balance sheets, interests in associates are stated at the Group's attributable share of net assets.

(d) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and time deposits with banks and other financial institutions with original maturities of three months or less. Cash equivalents are stated at cost, which approximates fair value. None of the Group's cash and cash equivalents is restricted as to withdrawal.

(e) Property, plant and equipment

Property, plant and equipment, which consist of buildings, mining structures and mining rights, mining related machinery and equipment, generators and related machinery and equipment, railway and port transportation structures and furniture, fixtures, motor vehicles and other equipment, are initially stated at cost, less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. When proved and probable coal reserves have been determined, costs incurred to develop coal mines are capitalised as part of the cost of the mining structures. All other expenditures, including the cost of repairs and maintenance and major overhaul, are expensed as they are incurred. Mining exploration costs, such as expenditures related to locating coal deposits and determining the economic feasibility, and the costs of removing waste materials or "stripping costs" are expensed as incurred.

Subsequent to the revaluation which was required by PRC rules and regulations in connection with the Restructuring and which was based on depreciated replacement costs (Note 13), property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation, less subsequent accumulated depreciation and impairment losses. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. When an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs is revalued simultaneously. When an asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to shareholder's equity as a component of revaluation reserve. However, a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense in the combined income statements. However, a revaluation decrease is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation reserve in respect of that same asset. Revaluations are to be performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the combined income statements on the date of disposal.

Depreciation is provided to write off the cost / revalued amount of each asset, other than mining structures and mining rights, over its estimated useful life on a straight-line basis, after taking into account its estimated residual value. The estimated useful lives of property, plant and equipment are as follows:

	Depreciable life
Buildings	20-50 years
Mining related machinery and equipment	5-18 years
Generators and related machinery and equipment	20-30 years
Railway and port transportation structures	30-45 years
Furniture, fixtures, motor vehicles and other equipment	5-10 years

Mining structures and mining rights are depreciated on a units-of-production method utilising only proved and probable coal reserves in the depletion base.

The Group's mining rights are of sufficient duration (or convey a legal right to renew for sufficient duration) to enable all reserves to be mined in accordance with current production schedules.

(f) Lease prepayments

Lease prepayments represent land use rights paid to the PRC's governmental authorities. Land use rights are carried at cost and are charged to the combined income statements on a straight-line basis over the respective periods of the rights which range from 30 years to 50 years.

(g) Construction in progress

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction, borrowing costs and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the period of construction.

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

(h) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses and are charged to the combined income statements on a straight-line basis over the estimated useful life of 20-25 years.

(i) Impairment of long-lived assets

The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that the recorded carrying amount of an asset may not be recoverable. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the combined income statements.

The Group assesses at each balance sheet date whether there is any indication that an impairment loss recognised for an asset in prior years may no longer exist. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A subsequent increase in the recoverable amount of an asset, when the circumstances and events that led to the write-down or write-off cease to exist, is recognised as income only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation if no impairment loss had been recognised.

(j) Inventories

Coal inventories are stated at the lower of weighted average cost and net realisable value. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs to completion and the estimated costs necessary to make the sale.

Inventories of ancillary materials, spare parts and small tools used in production are stated at cost less provision, if necessary, for obsolescence.

(k) Accounts and bills receivable

Accounts and bills receivable are stated at cost less allowance for doubtful accounts. The allowance for doubtful accounts is the Group's best estimate of the amount of probable credit losses in the Group's accounts receivable. The Group determines the allowance based on the evaluation of the recoverability and collectibility of individual accounts at the balance sheet date.

(l) Investments

Investments in non-marketable equity securities whereby the Group does not have the ability to exercise significant influence are stated at cost less provision for impairment losses. A provision is made where, in the opinion of management, there is an other-than-temporary impairment in the value of an investment. The provision is measured by the difference between the carrying value of the investment and the estimated fair value of the investment at the date the other-than-temporary impairment is assessed.

In determining whether an impairment is other-than-temporary, the Group considers whether it has the ability and intention to hold the investment until a market price recovery and whether evidence indicating the cost of investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, change in value subsequent to year end, and forecasted performance of the investee.

For debt securities, where the Group has the positive intent and ability to hold to maturity, they are stated at amortised cost less impairment losses.

Realised gains and losses from the sale of investment securities are determined on a specific identification basis.

(m) Provisions

A provision is recognised in the combined balance sheets when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount is reasonably estimable.

(n) Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably as follows:

(i) Revenues associated with the sale of coal and ancillary materials and other goods are recognised when the title to the goods has been passed to the customer which is at the date that the customer receives and accepts the goods. Acceptance occurs when the customer agrees to the amount and quality of the delivered goods. Export coal sales are recognised as revenues when the customers receive and accept the goods at the port and pay for freight costs.

(ii) Revenue from sale of power is recognised upon the transmission of electric power to the power grid companies, as determined based on the volume of electric power transmitted and the applicable fixed tariff rates agreed with the respective electric power grid companies annually.

(iii) Revenue from the rendering of transportation and other services is recognised upon the delivery or performance of the services.

(o) Net financing costs

Net financing costs comprise interest expense on borrowings calculated using the effective interest rate method, interest income on funds invested, foreign exchange gains and losses, and gains and losses on derivative financial instruments that are recognised in the combined income statements (see Note 2(q)). Interest costs are expensed in the combined income statements in the period in which they are accrued, except to the extent that they are capitalised as being attributable to the construction of an asset which necessarily takes a period of time to get ready for its intended use.

Interest income is recognised in the combined income statements as it accrues, taking into account the effective yield on the asset.

(p) Translation of foreign currencies

The Group's functional and reporting currency is Renminbi ("RMB"). Foreign currency transactions during the year are translated into RMB at the applicable rates of exchange quoted by the People's Bank of China ("PBOC") prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the applicable PBOC rates at the balance sheet dates. Foreign currency differences, other than those capitalised as construction in progress, are recognised as income or expense in the combined income statements.

(q) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. For derivatives that do not qualify for hedge accounting, the gain or loss from remeasurement to fair value is recognised immediately in the combined income statements. For derivatives that qualify for hedge accounting, the accounting for the gain or loss from remeasurement to fair value will depend upon whether the hedge qualifies as a cash flow or fair value hedge.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

(r) Obligations for land reclamation

The Group's obligations for land reclamation consist of spending estimates at both surface and underground mines in accordance with PRC rules and regulations. The Group estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash spending for a third party to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. The Group records a corresponding asset associated with the liability for final reclamation and mine closure. The obligation and corresponding asset are recognised in the period in which the liability is incurred. The asset is depreciated on the units-of-production method over its expected life and the liability is accreted to the projected spending date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and asset are recognised at the appropriate discount rate.

(s) Operating leases

Operating lease payments are charged to the combined income statements on a straight-line basis over the period of the respective leases.

(t) Retirement benefits

The Group's contributions to defined contribution retirement plans administered by the PRC government are recognised as an expense when incurred according to the contribution determined by the plans. Further information is set out in Note 30.

(u) Income taxes

Income tax comprises current and deferred tax. Current tax is calculated on the taxable income for the year by applying the applicable tax rates. Deferred tax is provided using the balance sheet method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax is calculated on the basis of the enacted tax rates that are expected to apply in the period when the asset is realised or the liability is settled. A deferred tax asset is recognised only to the extent that it is probable that future taxable income will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(v) Research and development costs

Research and development costs are recognised as expenses in the period in which they are incurred.

(w) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(x) Segment reporting

A business segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), and is subject to risks and rewards that are different from those of other segments. For the periods presented, the Group has two reportable business segments which are (i) coal operations; and (ii) power operations, and three reportable geographical segments which are (i) the PRC domestic markets; (ii) Asia Pacific markets-export sales; and (iii) other markets-export sales.

(y) Recently issued accounting standards

The IASB has issued a number of new IFRSs and revised a number of existing IFRSs, which are effective for the accounting periods beginning on or after 1 January 2005. These new or revised standards cover a number of areas including share-based payment, business combinations and consolidated and separate financial statements.

(i) IFRS 2 ''Share-based Payment'' specifies the financial reporting by an entity when it undertakes a share-based payment transaction. All share-based payment transactions are recognised in the financial statements and are measured at fair value. In particular, it requires an entity to reflect in its profit or loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees.

(ii) IFRS 3 ''Business Combinations'' replaces IAS 22 ''Business Combinations''. IFRS 3 requires all business combinations within its scope to be accounted for using the purchase method. IAS 22 permitted business combinations to be accounted for under the pooling of interests method for combinations classified as uniting of interests or the purchase method for combinations classified as acquisitions.

IFRS 3 requires goodwill acquired in a business combination to be measured after initial recognition at cost less any accumulated impairment losses. Thereafter, the goodwill is not amortised and instead must be tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. IAS 22 required acquired goodwill to be systematically amortised over its useful life, and included a rebuttable presumption that the useful life could not exceed twenty years.

(iii) A revised IAS 27 ''Consolidated and Separate Financial Statements'' has become effective on 1 January 2005 which applies to accounting for investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of a parent, a venturer or investor.

This standard requires an entity to present minority interests in the consolidated balance sheet within equity, separately from the parent shareholders' equity. Though the previous version of IAS 27 precluded presentation of minority interests within liabilities, it did not require presentation within equity.

The standard prescribes the accounting treatment for investments in subsidiaries, jointly controlled entities and associates when an entity elects, or is required by local regulations, to present separate financial statements. It requires these investments to be accounted for at cost or in accordance with IAS 39 ''Financial Instruments: Recognition and Measurement''

The Group had not early adopted these new and revised IFRSs in the Financial Information. The Group has assessed the impact of these new and revised IFRSs and has concluded that the adoption of these new and revised IFRSs would not have a significant impact on its results of operations and financial position.

3. Other Revenues

	Years ended 31 December		
	2002	2003	2004
	RMB million	RMB million	RMB million
Rendering of transportation and other services	1,508	1,597	1,221
Sale of ancillary materials and other goods	547	682	91
Others	67	96	10
	2,122	2,375	1,322

4. Cost of Revenues — Others

	Years ended 31 December		
	2002	2003	2004
	RMB million	RMB million	RMB million
Operating lease charges	256	221	317
Dredging expenses	211	364	418
Sales taxes and surcharges	141	226	296
Cost of sale of ancillary materials and other goods	250	426	95
Coal selection and minery fees	140	213	313
Public utilities expenses	231	250	76
Others	1,286	1,358	1,193
	2,515	3,058	2,708

5. Total Operating Expenses

	Years ended 31 December		
	2002	2003	2004
	RMB million	RMB million	RMB million
Personnel expenses	1,733	2,386	2,217
— including contribution to retirement plans	179	246	283
Depreciation and amortisation	3,627	4,017	4,949
Loss on disposal of property, plant and equipment	156	378	75
Cost of inventories (Note i)	10,256	12,781	16,830
Research and development costs	9	10	12
Auditors' remuneration	5	4	20
Operating lease charges	273	258	379

Notes:

(i) Cost of inventories includes RMB2,698 million, RMB3,245 million and RMB4,025 million for the years ended 31 December 2002, 2003 and 2004 respectively, relating to personnel expenses, depreciation and amortisation and operating lease charges, which amounts are also included in the respective amounts disclosed separately above for each of these types of expenses.

(ii) The Group had 94,786, 40,289 and 42,661 employees as at 31 December 2002, 2003 and 2004 respectively.

6. Net Financing Costs

	Years ended 31 December		
	2002	2003	2004
	RMB million	RMB million	RMB million
Interest on loans from banks and other financial institutions, and other borrowings wholly repayable within five years	2,843	2,649	2,742
Less: Interest expense capitalised*	(359)	(420)	(305)
Net interest expense	2,484	2,229	2,437
Interest income	(108)	(142)	(72)
Foreign exchange losses	727	1,043	138
Gain on remeasurement of derivative financial instruments to fair value	-	-	(145)
	3,103	3,130	2,358
* Interest expense was capitalised in construction in progress at the following rates per annum	1.8%-5.76%	1.8%-5.76%	1.8%-6.12%

7. Gain on Debt Restructuring

During 2003, certain subsidiaries of the Group entered into several debt restructuring agreements with their lenders whereby the lenders extinguished loan principal and interest payable totalling RMB701 million in exchange for cash payments of RMB88 million. The excess of the carrying amount of the payable settled over the cash consideration transferred has been recorded in the combined income statements as gain on debt restructuring.

8. Investment Income

	Years ended 31 December		
	2002	2003	2004
	RMB million	RMB million	RMB million
Dividend income	46	148	15
Net gain/(loss) on disposal of long-term investments	5	52	(15)
	51	200	-

9. Income Tax

Income tax in the combined income statements represents:

	Years ended 31 December		
	2002	2003	2004
	RMB million	RMB million	RMB million
Provision for PRC income tax	310	585	2,357
Deferred taxation (Note 23)	144	269	463
	454	854	2,820

A reconciliation of the expected tax with the actual tax expense is as follows:

	Years ended 31 December		
	2002	2003	2004
	RMB million	RMB million	RMB million
Profit before income tax	2,461	4,451	13,386
Expected PRC income tax expense at a statutory tax rate of 33% (Note i)	812	1,469	4,417
Differential tax rate on subsidiaries' income (Note i)	(496)	(783)	(1,921)
Non-deductible expenses (Note ii)	131	151	223
Non-taxable income	(15)	(49)	(5)
Tax losses not recognised	22	66	106
	454	854	2,820

Notes:

(i) The provision for PRC current income tax is based on a statutory rate of 33% of the assessable profit of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC for all periods presented, except for certain subsidiaries of the Company, which are exempted or taxed at preferential rates of 7.5% or 15%.

(ii) Amounts represent personnel and other miscellaneous expenses in excess of statutory deductible limits for tax purpose.

10. Earnings per share

Earnings per share for each of the years ended 31 December 2002, 2003 and 2004 has been computed by dividing profit for the year by the 15 billion shares issued to Shenhua as described in Note 1 and outstanding upon the formation of the Company on 8 November 2004, as if such shares have been outstanding for all periods presented.

The Company had no dilutive potential shares outstanding for all periods presented.

11. Directors' and Supervisors' Emoluments

The aggregate amounts of emoluments paid and payable to the directors and supervisors of the Company by the Group in respect of their services rendered for managing the business of the Group during the relevant period are as follows:

	Years ended 31 December		
	2002	2003	2004
	RMB million	RMB million	RMB million
Fees	-	-	-
Basic salaries, housing and other allowances and benefits in kind	1	2	1
Discretionary bonuses	1	1	3
Retirement scheme contributions	-	-	1
	2	3	5

The emoluments of the directors and supervisors are within the following band:

	Number of directors and supervisors		
	Years ended 31 December		
	2002	2003	2004
Nil — RMB1,060,000 (equivalent to HK$1,000,000)	9	9	12

None of the directors and the supervisors received any fees and bonuses as inducements to join or upon joining the Group, or compensation for loss of office during the relevant period. No directors or supervisors waived or agreed to waive any emoluments during the relevant period.

12. Individuals with Highest Emoluments

Of the five highest paid individuals of the Group, 3 are directors of the Company for the years ended 31 December 2002 and 2003 and 4 are directors of the Company for the year ended 31 December 2004 whose emoluments are included in Note 11 above.

The following table sets out the emoluments of the Group's remaining 2 highest paid individuals for the years ended 31 December 2002 and 2003 and 1 highest paid individual for the year ended 31 December 2004 who were not directors or supervisors of the Company during the relevant period:

	Years ended 31 December		
	2002	2003	2004
	RMB million	RMB million	RMB million
Basic salaries, housing and other allowances and benefits in kind	1	1	1
Discretionary bonuses	-	-	-
Retirement scheme contributions	-	-	-
	1	1	1

The emoluments of these individuals are within the following band:

	Number of individuals		
	Years ended 31 December		
	2002	2003	2004
Nil — RMB1,060,000 (equivalent to HK$1,000,000)	2	2	1

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the relevant period.

13. Property, Plant and Equipment, Net

	The Group						
	Buildings	Mining structures and mining rights	Mining related machinery and equipment	Generators and related machinery and equipment	Railway and port transportation structures	Furniture, fixtures, motor vehicles and other equipment	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Cost:							
As at 1 January 2002	7,574	2,142	10,178	19,739	24,861	2,192	66,686
Additions	107	-	97	29	805	230	1,268
Transferred from construction in progress	218	230	800	1,873	2,293	616	6,030
Disposals	(117)	(17)	(81)	(250)	(73)	(40)	(578)
As at 31 December 2002	7,782	2,355	10,994	21,391	27,886	2,998	73,406
Accumulated depreciation:							
As at 1 January 2002	1,717	660	3,598	2,882	1,951	1,142	11,950
Charge for the year	279	102	840	1,023	1,028	256	3,528
Written back on disposal	(61)	(1)	(32)	(249)	(13)	(16)	(372)
As at 31 December 2002	1,935	761	4,406	3,656	2,966	1,382	15,106
Net book value:							
As at 31 December 2002	5,847	1,594	6,588	17,735	24,920	1,616	58,300
Cost/valuation:							
As at 1 January 2003	7,782	2,355	10,994	21,391	27,886	2,998	73,406
Additions	187	4	163	7	454	465	1,280
Transferred from construction in progress	2,178	497	1,604	1,730	846	221	7,076
Disposals	(294)	(200)	(451)	(124)	(161)	(381)	(1,611)
Distribution to Parent Company in connection with the Restructuring	(1,967)	(120)	(2,492)	(73)	(106)	(581)	(5,339)
Revaluation	382	4,531	(737)	(671)	1,976	(272)	5,209
As at 31 December 2003	8,268	7,067	9,081	22,260	30,895	2,450	80,021
Representing:							
Cost	-	-	-	-	-	-	-
Valuation (on a depreciated replacement cost basis as at 31 December 2003)	8,268	7,067	9,081	22,260	30,895	2,450	80,021
	8,268	7,067	9,081	22,260	30,895	2,450	80,021
Accumulated depreciation:							
As at 1 January 2003	1,935	761	4,406	3,656	2,966	1,382	15,106
Charge for the year	310	165	807	1,089	1,234	283	3,888
Written back on disposal	(179)	(71)	(358)	(75)	(24)	(298)	(1,005)
Distribution to Parent Company in connection with the Restructuring	(546)	(45)	(895)	(46)	(31)	(186)	(1,749)
Revaluation	(43)	(458)	(1,219)	(854)	(344)	(133)	(3,051)
As at 31 December 2003	1,477	352	2,741	3,770	3,801	1,048	13,189
Net book value:							
As at 31 December 2003	6,791	6,715	6,340	18,490	27,094	1,402	66,832
Cost/valuation:							
As at 1 January 2004	8,268	7,067	9,081	22,260	30,895	2,450	80,021
Additions	90	80	67	22	736	195	1,190
Transferred from construction in progress	1,120	166	2,524	1,354	4,610	132	9,906
Disposals	(31)	(81)	(58)	(28)	(47)	(20)	(265)
As at 31 December 2004	9,447	7,232	11,614	23,608	36,194	2,757	90,852

	The Group						
	Buildings	Mining structures and mining rights	Mining related machinery and equipment	Generators and related machinery and equipment	Railway and port transportation structures	Furniture, fixtures, motor vehicles and other equipment	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Representing:							
Cost	1,210	246	2,591	1,376	5,346	327	11,096
Valuation (on a depreciated replacement cost basis as at 31 December 2003)	8,237	6,986	9,023	22,232	30,848	2,430	79,756
	9,447	7,232	11,614	23,608	36,194	2,757	90,852
Accumulated depreciation:							
As at 1 January 2004	1,477	352	2,741	3,770	3,801	1,048	13,189
Charge for the year	390	271	952	1,388	1,531	278	4,810
Written back on disposal	(7)	(17)	(26)	(1)	(6)	(13)	(70)
As at 31 December 2004	1,860	606	3,667	5,157	5,326	1,313	17,929
Net book value:							
As at 31 December 2004	7,587	6,626	7,947	18,451	30,868	1,444	72,923

	The Company						
	Buildings	Mining structures and mining rights	Mining related machinery and equipment	Generators and related machinery and equipment	Railway and port transportation structures	Furniture, fixtures, motor vehicles and other equipment	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Cost:							
Transferred from Parent Company in connection with the Restructuring	1,817	5,932	5,683	15	8,991	562	23,000
Additions	55	2	18	1	669	128	873
Transferred from construction in progress	148	166	2,361	-	514	14	3,203
Disposals	(31)	(22)	(57)	(10)	(5)	(8)	(133)
As at 31 December 2004	1,989	6,078	8,005	6	10,169	696	26,943
Representing:							
Cost	203	168	2,379	1	1,183	142	4,076
Valuation (on a depreciated replacement cost basis as at 31 December 2003)	1,786	5,910	5,626	5	8,986	554	22,867
	1,989	6,078	8,005	6	10,169	696	26,943
Accumulated depreciation:							
Transferred from Parent Company in connection with the Restructuring	326	304	996	5	1,447	245	3,323
Charge for the period	47	219	744	-	657	92	1,759
Written back on disposal	(7)	(5)	(12)	(1)	(1)	(7)	(33)
As at 31 December 2004	366	518	1,728	4	2,103	330	5,049
Net book value:							
As at 31 December 2004	1,623	5,560	6,277	2	8,066	366	21,894

(a) All of the Group's buildings and plant and equipment are located in the PRC.

(b) As required by the relevant PRC rules and regulations with respect to the Restructuring, the property, plant and equipment of the Group as at 31 December 2003 were revalued for each asset class by China Enterprise Appraisal Co., Ltd. (the "PRC valuers"), independent valuers registered in the PRC, on a depreciated replacement cost basis. The value of property, plant and equipment has been determined at RMB66,832 million and the portion of this amount relating to the Company's wholly-owned subsidiaries will serve as the tax base for such assets for future years (see Note 23). Surplus on revaluation of certain property, plant and equipment totalling RMB7,203 million after the effect of minority interests has been credited to the revaluation reserve in shareholder's equity while deficit arising from revaluation of certain property, plant and equipment totalling RMB518 million has been recognised as an expense for the year ended 31 December 2003. The reduction in the carrying amount was primarily the result of a current market decline in the replacement cost of certain building, furniture, fixtures, motor vehicles and other equipment. The net surplus on the revaluation of property, plant and equipment of RMB8,260 million has been reflected in the combined balance sheet of the Group as at 31 December 2003. The revaluation did not have an impact on depreciation expense for each of the years in the two-year period ended 31 December 2003 as the revaluation was performed and recorded as at 31 December 2003.

The Company's properties were also valued separately by American Appraisal China Limited, independent qualified valuers in Hong Kong, on a depreciated replacement cost basis, as at 15 March 2005. The value arrived at by these valuers is approximately the same as that arrived by the PRC valuers as adjusted for the depreciation for the period from 1 January 2004 to 15 March 2005.

(c) The historical carrying amount of the Group's property, plant and equipment as at 31 December 2003 and the revalued amount of these assets is as follows:

	Historical carrying amount	Revaluation surplus	Revaluation deficit	Revalued amount
	RMB million	RMB million	RMB million	RMB million
Buildings	6,366	539	(114)	6,791
Mining structures and mining rights	1,726	4,989	-	6,715
Mining related machinery and equipment	5,858	547	(65)	6,340
Generators and related machinery and equipment	18,307	377	(194)	18,490
Railway and port transportation structures	24,774	2,320	-	27,094
Furniture, fixtures, motor vehicles and other equipment	1,541	6	(145)	1,402
	58,572	8,778	(518)	66,832

(d) Had property, plant and equipment been carried at cost less accumulated depreciation, the historical carrying amounts as at 31 December 2004 would have been as follows:

	RMB million
Buildings	7,209
Mining structures and mining rights	1,767
Mining related machinery and equipment	7,462
Generators and related machinery and equipment	18,368
Railway and port transportation structures	28,769
Furniture, fixtures, motor vehicles and other equipment	1,680
	65,255

(e) Certain of the Group's bank loans were secured by certain of the Group's property, plant and equipment, which had an aggregate carrying value of approximately RMB93 million, RMB14 million and RMBNil million as at 31 December 2002, 2003 and 2004 respectively.

Up to the date of this report, the Group was in the process of applying for or changing registration of the title certificates of certain of its properties and mining rights with an aggregate carrying value of approximately RMB271 million as at 31 December 2004. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties or mining rights.

14. Construction in Progress

	The Group			The Company
	Years ended 31 December			Year ended 31 December
	2002	2003	2004	2004
	RMB million	RMB million	RMB million	RMB million
As at beginning of the year	6,050	6,002	8,655	-
Transferred from Parent Company in connection with the Restructuring	-	-	-	1,064
Additions	5,982	11,424	13,603	3,788
Transferred to property, plant and equipment	(6,030)	(7,076)	(9,906)	(3,203)
Distribution to Parent Company in connection with the Restructuring	-	(1,695)	-	-
As at end of the year	6,002	8,655	12,352	1,649

15. Intangible Assets

Intangible assets mainly represent the cost of acquiring railway route access and use rights. The movement of intangible assets is as follows:

	The Group			The Company
	Years ended 31 December			Year ended 31 December
	2002	2003	2004	2004
	RMB million	RMB million	RMB million	RMB million
As at beginning of the year	824	918	1,113	-
Transferred from Parent Company in connection with the Restructuring	-	-	-	357
Additions	193	403	242	-
Write off	-	-	(6)	-
Amortisation	(99)	(129)	(139)	(14)
Distribution to Parent Company in connection with the Restructuring	-	(79)	-	-
As at end of the year	918	1,113	1,210	343

16. Interests in Subsidiaries

	The Company
	31 December 2004
	RMB million
Share of net assets	17,604

Details of the Company's principal subsidiaries as at 31 December 2004, which are established in the PRC, are as follows:

Name of the company	Date of establishment	Type of legal entity	Particulars of registered capital	% held by the Company	Principal activities
Shenhua Zhunge'er Energy Co., Ltd.	31 October 1997	Limited company	Registered capital RMB7,706 million	55%	Coal mining and development
Shuohuang Railway Development Co., Ltd.	18 February 1998	Limited company	Registered capital RMB5,880 million	53%	Provision of transportation services
Shenhua Huanghua Harbor Administration Co., Ltd.	23 March 1998	Limited company	Registered capital RMB1,820 million	70%	Provision of harbour and port services
Shenhua Baoshen Railway Co., Ltd.	13 September 1999	Limited company	Registered capital RMB507 million	88%	Provision of transportation services
Guangdong Guohua Yuedian Taishan Power Co., Ltd.	28 March 2001	Limited company	Registered capital RMB1,243 million	80%	Generation and sale of electricity
CLP Guohua Power Co., Ltd.*	22 January 2001	Limited company	Registered capital RMB1,637 million	51%	Generation and sale of electricity

* Up to the date of this report, the Company was in the process of registering the title of its equity interest in this subsidiary.

17. Interests in Associates

	The Group			The Company
	31 December			31 December
	2002	2003	2004	2004
	RMB million	RMB million	RMB million	RMB million
Share of net assets	2,386	1,065	2,731	2,472

The Group's interests in associates are individually not material to the Group's financial conditions or results of operation for all periods presented. As at 31 December 2004, details of the Group's principal associates are as follows:

Name of the company	Type of legal entity	Particulars of registered capital	Proportion of ownership interest: Group's effective interest	% held by the Company	% held by the Company's subsidiaries	Principal activities
Zhejiang Jiahua Power Co., Ltd.	Limited company	Registered capital RMB2,055 million	20%	20%	-	Power generation
Hebei Guohua Dingzhou Power Co., Ltd.	Limited company	Registered capital RMB931 million	40.5%	40.5%	-	Power generation
Inner-Mongolia Haibowan Power Co., Ltd.	Limited company	Registered capital RMB280 million	40%	40%	-	Power generation
Inner-Mongolia Jingda Power Co., Ltd.	Limited company	Registered capital RMB455 million	30%	30%	-	Power generation
Northern United Power Co., Ltd.	Limited company	Registered capital RMB10,000 million	20%	20%	-	Investment in power plants
Shenhua Finance Co., Ltd.*	Limited company	Registered capital RMB700 million	33%	21%	19%	Provision of financial services

* Up to the date of this report, the Company was in the process of registering the title of its equity interest in this associate.

The above associates are established in the PRC and are not publicly traded on any stock exchanges.

18. Investments

	The Group			The Company
	31 December			31 December
	2002	2003	2004	2004
	RMB million	RMB million	RMB million	RMB million
Unlisted equity securities, at cost (Note i)	2,167	154	109	21
Listed debt securities held-to-maturity (Note ii)	629	-	-	-
	2,796	154	109	21
Listed debt securities, at market value	645	-	-	-

Notes:

(i) The above investments comprise certain associates and subsidiaries which are individually and in aggregate not material to the Group's financial positions and results of operation for all periods presented. The Group accounted for these interests at cost less provision for impairment losses.

(ii) As at 31 December 2002, the Group invested in government bonds and corporate debentures of RMB518 million and RMB111 million, respectively.

19. Inventories

	The Group			The Company
	31 December			31 December
	2002	2003	2004	2004
	RMB million	RMB million	RMB million	RMB million
Coal	510	749	698	332
Materials and supplies	1,823	1,913	1,993	1,196
	2,333	2,662	2,691	1,528

20. Accounts and Bills Receivable, Net

	The Group			The Company
	31 December			31 December
	2002	2003	2004	2004
	RMB million	RMB million	RMB million	RMB million
Accounts receivable	2,955	2,643	2,744	1,447
Less: allowance for doubtful accounts	(310)	(50)	(25)	(15)
	2,645	2,593	2,719	1,432
Bills receivable	152	137	194	30
	2,797	2,730	2,913	1,462

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

The following table summarises the changes in allowance for doubtful accounts for the years ended 31 December 2002, 2003 and 2004:

	The Group			The Company
	Years ended 31 December			Year ended 31 December
	2002	2003	2004	2004
	RMB million	RMB million	RMB million	RMB million
At beginning of the year	321	310	50	-
Transferred from Parent Company in connection with the Restructuring	-	-	-	38
Provision for the year	20	19	3	3
Write back	-	-	(21)	(19)
Written off	(31)	(113)	(7)	(7)
Distribution to Parent Company in connection with the Restructuring	-	(166)	-	-
At end of the year	310	50	25	15

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

	The Group			The Company
	31 December			31 December
	2002	2003	2004	2004
	RMB million	RMB million	RMB million	RMB million
Current	2,116	2,272	2,725	1,289
Within one year	587	439	169	161
Between one and two years	53	13	11	9
Between two and three years	24	2	2	-
Over three years	17	4	6	3
	2,797	2,730	2,913	1,462

21. Prepaid Expenses and Other Current Assets

	The Group			The Company
	31 December			31 December
	2002	2003	2004	2004
	RMB million	RMB million	RMB million	RMB million
Amounts due from Shenhua	1,220	160	970	899
Fair value of derivative financial instruments	-	-	145	145
Prepayments in connection with construction work and equipment purchases	274	213	1,440	1,176
Prepaid expenses and deposits	622	632	430	205
Value added tax refund receivables	221	9	-	-
Amounts due from subsidiaries	-	-	-	9,687
Amounts due from associates	200	65	-	-
Other receivables	805	308	221	216
Advances to staff	90	33	33	18
	3,432	1,420	3,239	12,346

The directors have confirmed that amounts due from Shenhua would be settled prior to the listing of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In the Company's balance sheet, the balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

22. Time Deposits with Original Maturity Over Three Months and Cash and Cash Equivalents

As at 31 December 2004, the Group and the Company had time deposits, bank balances and cash denominated in Renminbi amounting to RMB6,988 million (2003: RMB4,345 million, 2002: RMB6,662 million) and RMB4,949 million, respectively. Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

As at 31 December 2002, the deposits placed with Shenhua Finance by the entities comprising the Group were eliminated as Shenhua Finance was a subsidiary of the Group. Pursuant to the Restructuring, Shenhua Finance became an associated company of the Group as at 31 December 2003. As at 31 December 2003 and 2004, the Group had deposits of RMB2,502 million and RMB3,728 million respectively, placed with Shenhua Finance. The Company placed deposits of RMB2,808 million with Shenhua Finance as at 31 December 2004.

The directors have confirmed that deposits placed with Shenhua Finance would be withdrawn prior to the Listing of the Company on the Stock Exchange.

23. Deferred Tax Assets and Liabilities

Deferred tax assets and deferred tax liabilities are attributable to the items set out below:

	The Group								
	Assets			Liabilities			Net balance		
	31 December			31 December			31 December		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Current									
Allowances, primarily for receivables and inventories	208	24	69	-	-	-	208	24	69
Non-current									
Property, plant and equipment	1,339	326	247	(108)	(245)	(412)	1,231	81	(165)
Lease prepayment	-	915	894	-	-	-	-	915	894
Tax losses carried forward, net of valuation allowance (Note i)	182	30	22	-	-	-	182	30	22
Others	174	196	10	-	-	(47)	174	196	(37)
Deferred tax assets/(liabilities)	1,903	1,491	1,242	(108)	(245)	(459)	1,795	1,246	783

	The Company		
	Assets	Liabilities	Net balance
	31 December 2004		
	RMB million	RMB million	RMB million
Current			
Allowances, primarily for receivables and inventories	40	-	40
Non-current			
Property, plant and equipment	24	(127)	(103)
Lease prepayment	554	-	554
Others	23	(45)	(22)
Deferred tax assets/(liabilities)	641	(172)	469

A valuation allowance on deferred tax assets is recorded if it is probable that some portion or all of the deferred tax assets will not be realised through the recovery of taxes previously paid and/or future taxable income. The allowance is subject to ongoing adjustments based on changes in circumstances that affect the Group's assessment of the realisability of the deferred tax assets. The Group has reviewed its deferred tax assets as at 31 December 2002, 2003 and 2004. Based on this review, valuation allowances of RMB22 million, RMB66 million and RMB106 million were provided for the years ended 31 December 2002, 2003 and 2004, respectively as it was probable that the deferred tax assets of a subsidiary of the Company will not be realised through future taxable income. The Group determined the valuation allowance based on management's assessment of the probability that taxable profits will be available over the period which the deferred tax assets can be realised or utilised. In assessing the probability, both positive and negative evidence was considered, including whether it is probable that the operations will have future taxable profits over the periods which the deferred tax assets are deductible or utilised and whether the tax losses result from identifiable causes which are unlikely to recur. Based on this assessment, a valuation allowance was provided to reduce the deferred tax asset to the amount that is considered probable to be realised.

Notes:

(i) The valuation allowance is analysed as follows:

	The Group			The Company
	Years ended 31 December			Year ended 31 December
	2002	2003	2004	2004
	RMB million	RMB million	RMB million	RMB million
At beginning of the year	-	22	88	-
Allowance during the year	22	66	106	-
At end of the year	22	88	194	-

The gross amount of tax losses carried forward of the Group and the Company was RMB654 million and RMB64 million respectively as at 31 December 2004. As at 31 December 2004, the tax losses carried forward expire as follows:

	The Group	The Company
	31 December 2004	31 December 2004
	RMB million	RMB million
Year of expiry of tax losses		
2005	54	54
2006	-	-
2007	73	5
2008	206	5
2009	321	-
	654	64

Movements in temporary differences for the three years ended 31 December 2004 are as follows:

	The Group			
	As at 1 January 2002	Recognised in combined income statement	Recognised in shareholder's equity	As at 31 December 2002
	RMB million	RMB million	RMB million	RMB million
Current				
Allowances, primarily for receivables and inventories	199	9	-	208
Non-current				
Property, plant and equipment	1,268	(37)	-	1,231
Tax losses carried forward, net of valuation allowances	308	(126)	-	182
Others	164	10	-	174
Net deferred tax assets	1,939	(144)	-	1,795

	The Group			
	As at 1 January 2003	Recognised in combined income statement	Recognised in shareholder's equity	As at 31 December 2003
	RMB million	RMB million	RMB million	RMB million
Current				
Allowances, primarily for receivables and inventories	208	3	(187)	24
Non-current				
Property, plant and equipment	1,231	(194)	(956)	81
Lease prepayments	-	-	915	915
Tax losses carried forward, net of valuation allowances	182	(152)	-	30
Others	174	74	(52)	196
Net deferred tax assets	1,795	(269)	(280)	1,246

	The Group			
	As at 1 January 2004	Recognised in combined income statement	Recognised in shareholder's equity	As at 31 December 2004
	RMB million	RMB million	RMB million	RMB million
Current				
Allowances, primarily for receivables and inventories	24	45	-	69
Non-current				
Property, plant and equipment	81	(246)	-	(165)
Lease prepayments	915	(21)	-	894
Tax losses carried forward, net of valuation allowances	30	(8)	-	22
Others	196	(233)	-	(37)
Net deferred tax assets	1,246	(463)	-	783

	The Company			
	Transferred from Parent Company in connection with the Restructuring	Recognised in income statement	Recognised in shareholder's equity	As at 31 December 2004
	RMB million	RMB million	RMB million	RMB million
Current				
Allowances, primarily for receivables and inventories	-	40	-	40
Non-current				
Property, plant and equipment	-	(103)	-	(103)
Lease prepayments	569	(15)	-	554
Others	170	(192)	-	(22)
Net deferred tax assets	739	(270)	-	469

(ii) As described in Note 13, in connection with the Restructuring, the Group's property, plant and equipment were revalued as at 31 December 2003. For the Company's wholly owned subsidiaries, the financial statements' carrying amount will serve as the tax base for future years. As a result, the temporary differences that gave rise to the net deferred tax assets of the Company's wholly owned subsidiaries were eliminated. The reduction in net deferred tax assets of RMB961 million as at 31 December 2003 was eliminated and reflected as a decrease in shareholder's equity. In addition, as described in Note 1, in connection with the Restructuring, certain mining companies and the operating assets and liabilities of the Predecessor Operations were retained by Shenhua and not transferred to the Company. The net deferred tax assets of RMB234 million associated with these assets and liabilities are reflected as a decrease in shareholder's equity as at 31 December 2003 (see Note 1).

(iii) In connection with the Restructuring, the Group's land use rights were revalued as required by the relevant PRC rules and regulations as at 31 December 2003. The revalued amount will serve as the tax base for future years. The land use rights were not revalued for financial reporting purposes and accordingly, a deferred tax asset of RMB915 million is created with an increase in shareholder's equity of RMB849 million, net of minority interests of RMB66 million. Based upon the level of historical taxable income and projections of future taxable income, management believes it is more likely than not the Group will realise the benefits of the deferred tax assets.

24. Borrowings

The Group's and the Company's short-term borrowings comprise:

	The Group			The Company
	31 December			31 December
	2002	2003	2004	2004
	RMB million	RMB million	RMB million	RMB million
Borrowings from banks and other financial institutions	5,218	9,661	7,100	4,655
Loans from Shenhua Finance	-	1,752	1,141	650
Current portion of long-term borrowings	9,925	3,388	5,616	3,054
	15,143	14,801	13,857	8,359

The Group's and the Company's interest rate per annum on short-term borrowings was:

	The Group			The Company
	31 December			31 December
	2002	2003	2004	2004
Borrowings from banks and other financial institutions	3.00%-5.85%	3.94%-5.48% L+0.4%	3.98%-5.76% L+0.55%-0.63%	4.48%-5.31% L+0.55%-0.63%
Loans from Shenhua Finance	-	4.78%-5.48%	3.51%-5.58%	3.51%-5.58%
Current portion of long-term borrowings	2.30%-6.21% L+0.6%-1.12%	2.5%-6.21% L+0.4%-1.35%	2.30%-6.59% L+0.6%-1.35%	2.30%-6.59% L+0.6%

The Group's and the Company's long-term borrowings comprise:

		The Group			The Company
		31 December			31 December
		2002	2003	2004	2004
		RMB million	RMB million	RMB million	RMB million
Loans from banks and other financial institutions					
Renminbi denominated	Interest rates ranging from 3.60% to 6.59% per annum with maturities through 28 December 2023	42,146	34,267	40,794	17,456
US dollar denominated	Interest rates ranging at L+0.6%-1.12% per annum with maturities through 10 March 2013	2,395	1,537	959	871
Japanese Yen denominated	Interest rates ranging from 1.80% to 2.60% or L+1.35% per annum with maturities through 20 March 2031	7,564	8,763	7,315	6,917
EUR denominated	Interest rate at 2.50% with maturities through 30 May 2022	231	261	-	-
		52,336	44,828	49,068	25,244
Loan from Parent Company					
Renminbi denominated	Interest rates ranging at 3.51% per annum with maturities on 22 July 2005	-	972	1,006	1,037
Loans from Shenhua Finance					
Renminbi denominated	Interest rates ranging from 5.02% to 5.27% per annum with maturities through 27 October 2008	-	886	1,874	1,615
Debenture payables		909	-	-	-
		53,245	46,686	51,948	27,896
Less: current portion of long-term borrowings		(9,925)	(3,388)	(5,616)	(3,054)
		43,320	43,298	46,332	24,842

Interest rates comprise of fixed rates and London Interbank Offered Rate ("LIBOR"/"L")-related floating rates.

During 2003, loans with principal amount of RMB542 million and accrued interest of RMB159 million were extinguished (see Note 7).

During 2002, the Group issued debentures of RMB1,000 million. The debentures mature in 2005 and bear interest at 3.51% per annum. Pursuant to the Restructuring, the debentures were replaced by a loan from Parent Company effective from 31 December 2003.

Bank loans of RMB46 million as at 31 December 2002, RMB4 million as at 31 December 2003 and RMBNil million as at 31 December 2004 were secured by certain of the Group's property, plant and equipment with net book value of RMB93 million, RMB14 million and RMBNil million respectively.

The long-term borrowings were repayable as follows:

	The Group			The Company
	31 December			31 December
	2002	2003	2004	2004
	RMB million	RMB million	RMB million	RMB million
Within 1 year or on demand	9,925	3,388	5,616	3,054
After 1 year but within 2 years	2,481	5,486	4,950	2,289
After 2 years but within 5 years	10,813	10,492	21,869	10,206
After 5 years	30,026	27,320	19,513	12,347
	53,245	46,686	51,948	27,896

The directors have confirmed that the loans from Parent Company and Shenhua Finance would be settled prior to the listing of the Company on the Stock Exchange.

As at 31 December 2002, 2003 and 2004, bank loans of RMBNil million, RMB4,380 million and RMB4,327 million were guaranteed by the Parent Company (Note 29). The above guarantees were subsequently released.

The Group and the Company had unsecured banking facilities amounting to RMB1,000 million, RMB1,400 million and RMB979 million as at 31 December 2002, 2003 and 2004 respectively. As at 31 December 2002, 2003 and 2004, the utilised banking facilities amounted to RMB200 million, RMB1,344 million and RMB369 million respectively. Such banking facilities would be drawn down in accordance with the level of working capital and planned capital expenditure of the Company and its subsidiaries.

25. Accounts and Bills Payable

	The Group			The Company
	31 December			31 December
	2002	2003	2004	2004
	RMB million	RMB million	RMB million	RMB million
Trade accounts payable				
- third parties	2,940	2,890	3,604	1,623
- associates	221	370	66	537
	3,161	3,260	3,670	2,160
Bills payable	37	287	741	53
Total accounts and bills payable	3,198	3,547	4,411	2,213

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

	The Group			The Company
	31 December			31 December
	2002	2003	2004	2004
	RMB million	RMB million	RMB million	RMB million
Within one year	2,059	3,014	3,866	1,961
Between one and two years	684	241	440	252
Between two and three years	328	125	93	-
Over three years	127	167	12	-
	3,198	3,547	4,411	2,213

26. Accrued Expenses and Other Payables

	The Group			The Company
	31 December			31 December
	2002	2003	2004	2004
	RMB million	RMB million	RMB million	RMB million
Accrued staff wages and welfare benefits	1,377	671	1,034	602
Accrued interest payable	166	3	12	2
Accrued taxes other than income tax	598	282	825	552
Other accrued expenses and payables	1,337	1,810	1,944	1,526
Customer deposits and receipts in advances	451	795	889	428
	3,929	3,561	4,704	3,110

As at 31 December 2002, 2003 and 2004, the Group had amounts payable to related parties amounting to RMB14 million, RMB66 million and RMB430 million respectively. The Company had amounts payable to related parties amounting to RMB990 million as at 31 December 2004.

The directors have confirmed that amounts payable to related parties would be settled prior to the listing of the Company on the Stock Exchange.

27. Accrued Reclamation Obligations

The accrual for reclamation costs has been determined based on management's best estimates. However, so far as the effect on the land from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to change in the near term. The Group believes that the accrued reclamation obligations at each balance sheet date are adequate. The accrual is necessarily based on estimates and therefore, the ultimate liability may exceed or be less than such estimates.

	The Group			The Company
	Years ended 31 December			Year ended 31 December
	2002	2003	2004	2004
	RMB million	RMB million	RMB million	RMB million
At beginning of the year	571	598	628	-
Transferred from Parent Company in connection with the Restructuring	-	-	-	470
Accretion expense	27	30	22	-
At end of the year	598	628	650	470

28. Commitments and Contingent Liabilities

(i) Operating lease commitments

The Group leases business premises through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments nor impose restrictions on dividends, additional debt and/or further leasing. As at 31 December 2002, 2003 and 2004, future minimum lease payments under non-cancellable operating leases having initial or remaining lease terms of more than one year are payable as follows:

	The Group			The Company
	31 December			31 December
	2002	2003	2004	2004
	RMB million	RMB million	RMB million	RMB million
Within 1 year	3	2	48	37
After 1 year but within 5 years	4	4	186	143
After 5 years	5	2	184	143
	12	8	418	323

As at 31 December 2002, 2003 and 2004, the Group operated certain leased mines with expected economic lives of 15-20 years, as contracted for between Shenhua and the owners. Royalties were paid by Shenhua to the owners at fixed rates on a per tonne basis with reference to the annual production volume of such leased mines. Such royalty expenses were re-charged at nil margin by Shenhua to the Group during the respective years. The amounts of operating lease commitments for leased mines are not included in the above figures as the payments are made on a per tonne basis and cannot be quantified for future years.

Pursuant to the purchase agreements signed by the Company and the respective owners in March 2005, the Company agreed to acquire the mining rights of such leased mines at a consideration based on the reserves of such mines. The royalty contracts entered by Shenhua and the owners will then be terminated.

(ii) Capital commitments

As at 31 December 2002, 2003 and 2004, the Group had capital commitments for acquisition and construction of land and buildings and equipment, and for the acquisition of investments and associates as follows:

	The Group			
	31 December 2002			
	Land and buildings	Equipment	Investments / Associates	Total
	RMB million	RMB million	RMB million	RMB million
Authorised and contracted for	10,082	2,344	-	12,426
Authorised but not contracted for	9,394	9,204	-	18,598

	The Group			
	31 December 2003			
	Land and buildings	Equipment	Investments / Associates	Total
	RMB million	RMB million	RMB million	RMB million
Authorised and contracted for	6,856	8,562	-	15,418
Authorised but not contracted for	6,133	6,070	-	12,203

	The Group			
	31 December 2004			
	Land and buildings	Equipment	Investments / Associates	Total
	RMB million	RMB million	RMB million	RMB million
Authorised and contracted for	5,679	9,625	1,050	16,354
Authorised but not contracted for	7,831	4,255	-	12,086

	The Company			
	31 December 2004			
	Land and buildings	Equipment	Investments / Associates	Total
	RMB million	RMB million	RMB million	RMB million
Authorised and contracted for	129	636	1,050	1,815
Authorised but not contracted for	1,504	809	-	2,313

(iii) Contingent liabilities

(a) The Company has been advised by its PRC lawyers that, except for liabilities constituting or arising out of or relating to the business transferred to the Company in the Restructuring, no other liabilities were assumed by the Company, and the Company is not jointly and severally liable for other debts and obligations incurred by Parent Company prior to the Restructuring.

(b) As at 31 December 2002, 2003 and 2004, the undiscounted maximum amount of potential future payments under guarantees given to banks in respect of banking facilities granted to the parties below were as follows:

	The Group			The Company
	31 December			31 December
	2002	2003	2004	2004
	RMB million	RMB million	RMB million	RMB million
Subsidiaries	-	-	-	4,636
Associate	-	-	130	-
Third party	109	109	109	-
	109	109	239	4,636

The Group monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognises any such losses under guarantees when those losses can be estimated. As at 31 December 2002, 2003 and 2004, it was not probable that the Group would be required to make payments under these guarantees. Thus no liability was accrued for losses related to the Group's obligations under these guarantee arrangements.

(iv) Legal contingencies

The Group is a defendant in certain lawsuits as well as the plaintiff in other proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

(v) Environmental contingencies

To date, the Group has not incurred any significant expenditures for environmental remediation, is currently not involved in any environmental remediation, and apart from the provision for land reclamation costs, has not accrued any further amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved, and may move further towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include (i) the exact nature and extent of the contamination at various sites including, but not limited to coal mines and land development areas, whether operating, closed or sold, (ii) the extent of required cleanup efforts, (iii) varying costs of alternative remediation strategies, (iv) changes in environmental remediation requirements, and (v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under future environmental legislation cannot reasonably be estimated at present, and could be material.

29. Related Party Transactions

Companies are considered to be related if one company has the ability, directly or indirectly, to control the other company or exercise significant influence over the other company in making financial and operating decisions. Companies are also considered to be related if they are subject to common control.

The Group conducts business with enterprises directly or indirectly owned or controlled by the PRC government ("state-owned enterprises"). Furthermore, the PRC government itself represents a significant customer of the Group both directly through its numerous authorities and indirectly through its numerous affiliates and other organisations. The Group considers that the sales of goods and the provision of services to the PRC government authorities and affiliates and other state-owned enterprises are activities in the ordinary course of business and has not disclosed such activities as related party transactions.

The Group is controlled by the Parent Company and has significant transactions and relationships with the Parent Company and its affiliates. Related parties refer to enterprises over which the Parent Company is able to exercise significant influence or control. The Company also has entered into transactions with its associates, over which the Company can exercise significant influence. Because of the above relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

The Company had the following transactions with the Parent Company and its affiliates ("Shenhua Group") and the associates of the Company that were carried out in the normal course of business:

		Years ended 31 December		
	Notes	2002	2003	2004
		RMB million	RMB million	RMB million
Interest income	(i)	32	64	32
Purchases of ancillary materials and spare parts	(ii)	(133)	(225)	(353)
Ancillary and social services	(iii)	(2)	(3)	(139)
Transportation services income	(iv)	2	5	93
Interest expense	(v)	-	-	(150)
Purchase of coal	(vi)	(14)	(36)	(775)
Sale of coal	(vii)	3	5	519
Property leasing	(viii)	-	-	(49)
Transportation services expense	(ix)	(25)	(54)	(138)
Net deposits placed with related party	(x)	-	-	(1,226)
Net loans obtained from related party	(xi)	-	-	411
Repairs and maintenance services expense	(xii)	-	-	(49)
Agency income	(xiii)	-	-	4
Repairs and maintenance services income	(xiv)	-	-	5
Coal export agency expense	(xv)	-	-	(9)

Notes:

(i) Interest income represents interest earned from loans advanced to its associates and Shenhua Group. The applicable interest rate is determined in accordance with the prevailing saving deposit rate.

(ii) Purchases of ancillary materials and spare parts represent purchase of materials and utility supplies from Shenhua Group related to the Group's operations.

(iii) Ancillary and social services represent expenditures for social welfare and support services such as property management, water and electricity supply, and canteen paid to Shenhua Group.

(iv) Transportation services income represents income earned from its associates and Shenhua Group in respect of coal transportation services.

(v) Interest expense represents interest incurred in respect of borrowings from Shenhua Group. The applicable interest rate is determined in accordance with the prevailing borrowing rate.

(vi) Purchase of coal represents coal purchased from Shenhua Group. The coal purchased is subsequently used for power generation.

(vii) Sale of coal represents income from sale of coal to its associates and Shenhua Group.

(viii) Property leasing represents rental charge in respect of properties leased from Shenhua Group.

(ix) Transportation services expense represents expense related to coal transportation services provided by the Company's associates.

(x) Net deposits placed with related party represent deposits placed with/withdrawn from Shenhua Group.

(xi) Net loans obtained from related party represent loans obtained from/repaid to Shenhua Group.

(xii) Repairs and maintenance services expense represents expense related to machinery maintenance services provided by Shenhua Group.

(xiii) Agency income represents income earned from its associates and Shenhua Group in respect of coal sale agency service.

(xiv) Repairs and maintenance services income represents income earned from its associates and Shenhua Group in respect of machinery maintenance services.

(xv) Coal export agency expense represents expense related to coal export agency services provided by Shenhua Group.

In addition, as at 31 December 2002, 2003 and 2004, Shenhua Group provided guarantees to the Group on borrowings amounted to RMBNil million, RMB4,380 million and RMB4,327 million respectively. The above guarantees were subsequently released.

Except for the deposits placed with and loans from the Shenhua Group which would be terminated prior to the listing of the Company on the Stock Exchange, the above related party transactions are recurring and are covered by the following agreements after the Restructuring.

In connection with the Restructuring, the Company and Shenhua Group entered into a number of agreements effective as at 1 January 2004, which were subsequently revised as stated below. The terms of the principal agreements impacting the results of operations of the Company are summarised as follows:

(a) The Company entered into a three-year mutual supply agreement expiring 31 December 2006 which was subsequently extended to 31 December 2007 in the revised agreement with Parent Company for the mutual provision of production supplies and ancillary services. Pursuant to the agreements, Shenhua Group provides the Company with the production supplies, such as explosives, fuses, oil products, and other related or similar production supplies and services; ancillary production services including security, logistics and support services, tendering services, other related or similar services and use of the information network system; and ancillary administrative services, such as social security and pension management services and staff data recording services. On the other hand, the Company provides Shenhua Group with water supplies, rolling stock management, rail transportation and other related or similar production supplies or services and use of the information network system.

The products and services provided under the agreements, other than the pension management services and staff data recording services provided by Shenhua Group and the sharing of use of the information network system which are free of charge, are provided in accordance with the following pricing policy:

- price prescribed by the state (including any price prescribed by any relevant local government), if applicable;
- where there is no state-prescribed price but where there is a state-guidance price, then the state-guidance price;
- where there is neither a state-prescribed price nor a state-guidance price, the market price; or
- 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.

Each party may terminate the provision of production supplies and ancillary services on six months' prior written notice unless the other party is unable to obtain similar production supplies and ancillary services from third parties.

(b) The Company entered into a three-year coal supply agreement expiring 31 December 2006 which was subsequently extended to 31 December 2007 in the revised agreement with Parent Company. Pursuant to the agreements, the Group and Shenhua Group supply coal to each other in accordance with their needs. The coal supplied is charged at the prevailing market price. 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.

Each party may terminate the supply of coal by giving six months prior written notice to the other party. However, if the Company cannot conveniently purchase coal from a third party, Shenhua Group may not terminate the supply of coal under any circumstances.

(c) The Company entered into a three-year financial services agreement expiring 31 December 2006 which was subsequently terminated on 24 May 2005 with Shenhua Finance Company Limited, or Shenhua Finance, a subsidiary of Shenhua which was retained by the Shenhua

Group upon the date of Restructuring. Pursuant to the agreement, Shenhua Finance provides financial services to the Group. The terms and conditions of such services should not be less favourable than the terms and conditions of financial services rendered by other financial institutions. The interest rate for the Group's deposit with Shenhua Finance should not be lower than the lowest limit fixed by the People's Bank of China (''PBOC'') for the same type of deposit. The interest rate for loans made by Shenhua Finance to the Company should not be higher than the highest limit fixed by PBOC for the same type of loan.

(d) The Company entered into a ten-year property leasing agreement expiring 31 December 2013 which was subsequently extended to 31 December 2014 in the revised agreement with Parent Company. Pursuant to the agreements, the Group leases certain properties from Shenhua Group and vice versa. No rent is payable by the Company before Shenhua Group obtains the relevant certificate of property ownership for that piece of property. The rental charges are based on comparable market rates. If Shenhua Group negotiates to sell a leased property to a third party, the Company has a pre-emptive right to purchase such property under terms no less favourable to the Company. The lessee may sub-let any of the properties with the consent of lessor. The Group may at any time during the term of the property leasing agreement enter into or terminate the lease of the properties under the property leasing agreement by providing three months' written notice.

(e) The Company entered into a ten-year land leasing agreement expiring 31 December 2013 which was subsequently extended to 31 December 2024 in the revised agreement with Parent Company, which may be renewed upon request by the Company for another 20 years on the same terms (subject to the then prevailing market rent) by giving one month's written notice prior to expiry of the land leasing agreement. No rent is payable before Shenhua Group has obtained the relevant land use rights certificate for that parcel of land, but thereafter, the annual rent is determined between the parties based on the relevant laws and regulations then in force and the local market rate. The rights of the Group to use land under the land leasing agreement may not be sub-let. The Group may at any time during the term of the land leasing agreement terminate the lease of any parcel of land leased under the land leasing agreement by providing three months' written notice.

(f) The Company entered into a three-year agency agreement expiring 31 December 2006 which was subsequently extended to 31 December 2007 in the revised agreement with Parent Company for the export of coal on the Company's behalf. Shenhua Group is appointed as a non-exclusive export agent of the Company in priority over other export agencies if the terms of export services offered by it are equal or more favourable than other export agencies. Pursuant to the agreements, Shenhua Group is entitled to receive an agency fee based on the relevant market rates or lower rates. Currently, the rate is 0.7% of the free on board price of each tonne of coal exported by Shenhua Group on the Company's behalf.

(g) The Company and one of its subsidiaries entered into a three-year agency agreement expiring 31 December 2006 which was subsequently extended to 31 December 2007 in the revised agreement with Parent Company for the sale of coal by the Company's subsidiary on behalf of Shenhua Group to minimise any potential competition between Shenhua Group and the Company. The Company's subsidiary is appointed as the exclusive sales agent for Shenhua Group for thermal coal and non-exclusive sales agent for coking coal. The unit selling price for sales the Company's subsidiary makes as agent will be determined by the Company's subsidiary according to the spot market price, subject to confirmation by

Shenhua Group. Pursuant to the agreements, the Company's subsidiary is entitled to receive an agency fee which is based on its related costs incurred plus a profit margin of 5% for sale of coal outside the Inner Mongolia Autonomous Region. The Company's subsidiary does not charge any fee for sales of coal within the Inner Mongolia Autonomous Region.

(h) The Company entered into a ten-year trademark license agreement expiring 31 December 2013 which was subsequently amended by a supplemental agreement with Parent Company. Pursuant to the agreements, Shenhua Group has granted the Group a non-exclusive licence to use the registered trademarks in the PRC. The trademarks licensed under the trademark license agreement may be used by the Group on a royalty-free basis for a term of ten years, which is renewable for another term of ten years if so agreed by both parties. Shenhua Group has agreed to maintain at its own cost the registration of such trademarks during the term of the trademarks license agreement. Shenhua Group has also agreed to be responsible for the expenses for enforcement against any infringement of the licensed trademarks by third parties.

(i) The Company entered into a three-year coal supply agreement expiring 31 December 2006 which was subsequently extended to 31 December 2007 in the revised agreement with Hebei Guohua Dingzhou Power Generation Co., Ltd. (''Dingzhou'', an associate of the Company). Pursuant to the agreements, the Company's subsidiary supplies coal to Dingzhou. The coal supplied is determined in accordance with the prevailing market price. Each party may terminate the supply of coal at any time by providing six months prior written notice to the other party.

(j) A subsidiary of the Company entered into a one-year maintenance agreement with effect from 1 January 2004 which was subsequently renewed for two more years to 31 December 2006 in the renewed agreement with Dingzhou. Pursuant to the agreements, the Company's subsidiary provides rail line maintenance services to Dingzhou on a daily basis.

30. Employee Benefits Plan

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 17% to 20% of the salaries, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group's contribution for the year ended 31 December 2002, 2003 and 2004 are RMB179 million, RMB246 million and RMB283 million respectively.

On 8 November 2004, the Company's board of directors approved a scheme of share appreciation rights for the senior management of the Group with a term of 10 years. No shares will be issued under this scheme. The rights will be granted in units with each unit representing one H share of the Company and may be granted annually after its global offering as determined by the directors of the Company.

The rights to the units will have an exercise period of six years from the date of grant and can be exercised at the second, third and fourth anniversary of the date of grant and the total number of the rights exercised by an individual may not in aggregate exceed one third, two thirds and 100% respectively.

The exercise price of share appreciation rights initially granted is the initial public offering price of the Company's H shares. Upon exercise of the said rights, the exercising participant will, subject to the restrictions under the scheme, receive a payment in Renminbi, after deducting any applicable withholding tax, equal to the product of the number of rights excercised and the difference between the exercise price and market price of the H shares of the Company at the time of exercise.

As at 31 December 2004, no stock appreciation rights had been granted. The Company will recognise compensation expense of the share appreciation rights over the applicable vesting period.

31. Concentration of Credit Risk

Credit and concentration risks

The carrying amounts of cash and cash equivalents, time deposits, investments, accounts and bills receivable, other receivables and derivative financial instruments represent the Group's maximum exposure to credit risk in relation to these financial assets. Substantially all of the Group's cash and cash equivalents are held in major financial institutions located in the PRC, which management believes are of high credit quality. The Group's major customers are power plants, metallurgical companies and power grid companies, which accounted for significant amounts of the Group's total operating revenues during the relevant period. The Group has no significant credit risk with any of these customers since the Group maintains long-term and stable business relationships with these large customers in the coal and power industries. Accounts receivable are typically unsecured and denominated in RMB, and are derived from revenues earned from operations arising in the PRC. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on accounts receivable. The Group maintains an allowance for doubtful accounts and actual losses have been within management's expectations.

The Group does not have concentrations of available sources of labour, services, franchises, licences or other rights that could, if suddenly eliminated, severely impact its operations.

Business and economic risks

The majority of the Group's sales are sales to power plants and provincial/regional power grid companies, metallurgical companies, construction material producers and railway companies in the PRC. The Group generally has established long-term and stable relationships with these companies. The Group also sells its coal to provincial and city fuel trading companies.

The Group conducts its principal operations in the PRC and accordingly is subject to special considerations and significant risks not typically associated with investments in equity securities of United States and Western European companies. These include risks associated with, among others, the political, economic, legal environment and social uncertainties in the PRC, influence of the authorities over certain aspects of the Group's operations and competition in the coal mining industry.

In addition, the ability to negotiate and implement specific business development projects in a timely and favourable manner may be impacted by political considerations unrelated to or beyond the control of the Group. Although the PRC government has been pursuing economic reform policies for the past two decades, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered. There is also no guarantee that the PRC government's pursuit of economic reforms will be consistent or effective and as a result, changes in the rate or method of taxation, reduction in tariff protection and other import restrictions, and changes in policies and regulations affecting the coal mining and power industry may have a negative impact on the Group's operating results and financial condition.

Currency risk

Except for export sales which are transacted in US dollars, all of the revenue-generating operations of the Group are transacted in RMB, which is not freely convertible into foreign currencies. On 1 January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the PBOC. However, the unification of the exchange rate does not imply convertibility of RMB into Hong Kong dollars or other foreign currencies. All foreign exchange transactions must take place through the PBOC or other institutions authorised to buy and sell foreign exchange. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

In addition, the Group incurs foreign currency risk on borrowings that are denominated in a currency other than RMB. The currencies giving rise to this risk are primarily US dollars and Japanese Yen. To reduce the risk, the Group has entered into forward exchange contracts, details of which are set out in Note 32.

Interest rate risk

The interest rates and terms of repayment of the Group's borrowings are disclosed in Note 24. To reduce the interest rate exposure to fixed rate borrowings, the Group has entered into interest rate swaps, details of which are set out in Note 32.

32. Financial Instruments

Financial assets of the Group include cash and cash equivalents, time deposits, investments, accounts and bills receivable, amounts due from Shenhua, other receivables and derivative financial instruments. Financial liabilities of the Group include borrowings and accounts and bills payable. The Group does not hold nor issue financial instruments for trading purposes.

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32. Fair value estimates, methods and assumptions, set forth below for the Group's financial instruments, are made solely to comply with the requirements of IAS 32 and should be read in conjunction with the Financial Information. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgement is required to interpret market data to develop the estimates of fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following summarise the major methods and assumptions used in estimating the fair values of the Group's and the Company's financial instruments.

Long-term debt: The fair values of long-term debt are estimated by discounting future cash flows using current market interest rates offered to the Group for debt with substantially the same characteristics and maturities. As at 31 December 2002, 2003 and 2004, the carrying amounts and fair values of the Group's and the Company's long-term debt are as follows:

	The Group						The Company	
	31 December 2002		31 December 2003		31 December 2004		31 December 2004	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Long-term borrowings	53,245	53,575	46,686	47,059	51,948	52,266	27,896	28,250

Derivatives: Forward exchange contracts are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate. For interest rate swaps broker quotes are used. Those quotes are back tested using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument having a similar maturity at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

The Group had no positions in derivatives as at 31 December 2002 and 2003. Derivatives outstanding as at 31 December 2004 in connection with the fixed rate borrowings denominated in Japanese Yen are as follows:

Remaining term to maturity	The Group receives	Interest revenues	The Group pays	Interest charges
	(notional amount Japanese Yen million)		(notional amount US dollar million)	
Within 1 year . . .	-	-	-	-
After 1 year but within 5 years	9,574	Fixed 2.3%	89	6 month LIBOR-0.82% to 6 month LIBOR-1.14%
After 5 years . . .	12,320	Fixed 2.5% to 2.6%	112	Fixed 4.29% or 6 month LIBOR-0.28% to 6 month LIBOR-0.39%
	21,894		201	

The carrying amount and the fair value of the Group's and the Company's derivative financial instruments are as follows:

	The Group / The Company	
	31 December 2004	
	Carrying amount	Fair value
	RMB million	RMB million
Derivative financial instruments — Assets	145	145

Change in fair value is recognised as net financing costs in the combined income statement.

The fair values of all other financial instruments approximate their carrying amounts due to the nature or short-term maturity of these instruments.

33. 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 segment:

The Group has two reportable segments as follows:

(1) Coal operations — which produces coal from surface and underground mines, and the sale and transportation of coal to external customers and the power segment. The Group primarily sells its coal under long-term coal supply contracts which typically allow the parties to make annual price adjustments.

(2) Power operations — which uses coal, sourced from the coal mining segment of the Group and purchased from external suppliers, to generate the electric power for sale to external power grid companies and to the coal segment. The sales of power are not subject to long-term minimum power supply obligations. Electric power is sold to the power grid companies in accordance with planned power output at the tariff rates as approved by the relevant government authorities. Electric power produced in excess of the planned power output is sold at the tariff rate as agreed upon with the respective power grid companies which are generally lower than the tariff rates for planned power output.

The segments were determined primarily because the Group manages its coal and power generation businesses separately. The reportable segments are each managed separately due to differences in their operating, distribution and production processes and gross margin characteristics.

The Group evaluates the performance and allocates resources to its reportable segments on an income from operations basis, without considering the effects of finance costs or investment income. The accounting policies of the Group's reportable segments are the same as those described in the significant accounting policies (see Note 2). Corporate administrative costs and assets are not allocated to the operating segments; instead, operating segments are charged for direct corporate services. Inter-segment transfer pricing is based on market prices or prices pre-determined by the relevant governmental authority.

(i) Income statements

The following table presents segmental information:

	Coal			Power			Corporate and others (Note ii)			Eliminations			Total		
	Years ended 31 December			Years ended 31 December			Years ended 31 December			Years ended 31 December			Years ended 31 December		
	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004
	RMB million	RMB million	RMB million (Note i)	RMB million	RMB million	RMB million (Note i)	RMB million	RMB million	RMB million (Note i)	RMB million	RMB million	RMB million (Note i)	RMB million	RMB million	RMB million (Note i)
Revenues															
External sales	15,197	19,519	29,369	5,986	7,068	9,898	246	408	-	-	-	-	21,429	26,995	39,267
Inter-segment sales	1,534	1,758	3,002	42	44	40	-	-	-	(1,576)	(1,802)	(3,042)	-	-	-
Total operating revenues	16,731	21,277	32,371	6,028	7,112	9,938	246	408	-	(1,576)	(1,802)	(3,042)	21,429	26,995	39,267
Cost of revenues															
Cost of coal production	(3,561)	(5,101)	(7,383)	-	-	-	-	-	-	589	859	910	(2,972)	(4,242)	(6,473)
Cost of coal transportation	(6,817)	(7,886)	(9,481)	-	-	-	-	-	-	499	466	726	(6,318)	(7,420)	(8,755)
Cost of power sales	-	-	-	(3,794)	(4,335)	(6,419)	-	-	-	473	467	1,398	(3,321)	(3,868)	(5,021)
Others	(1,436)	(1,427)	(946)	(33)	(18)	(27)	(143)	(256)	-	-	-	-	(1,612)	(1,701)	(973)
Total cost of revenues	(11,814)	(14,414)	(17,810)	(3,827)	(4,353)	(6,446)	(143)	(256)	-	1,561	1,792	3,034	(14,223)	(17,231)	(21,222)
Selling, general and administrative expenses	(1,275)	(1,500)	(1,792)	(308)	(401)	(600)	(221)	(316)	(100)	-	-	-	(1,804)	(2,217)	(2,492)
Other operating income/(expenses), net	(164)	(234)	(74)	(19)	(56)	20	(5)	(17)	-	-	-	-	(188)	(307)	(54)
Profit/(loss) from operations	3,478	5,129	12,695	1,874	2,302	2,912	(123)	(181)	(100)	(15)	(10)	(8)	5,214	7,240	15,499
Reconciliation of profit from operations to profit for the year															
Deficit on revaluation of property, plant and equipment													-	(518)	-
Net financing costs													(3,103)	(3,130)	(2,358)
Gain on debt restructuring													-	613	-
Investment income													51	200	-
Share of profits of associates													299	46	245
Income tax													(454)	(854)	(2,820)
Minority interests													(410)	(696)	(1,631)
Profit for the year													1,597	2,901	8,935

Notes:

(i) As explained in Note 1, the results of operations for 2002 and 2003 are not necessarily comparable with the results of 2004.

(ii) "Corporate and others" represents miscellaneous revenue and expenses that are immaterial.

(ii) Balance sheets

Assets and liabilities dedicated to a particular segment's operations are included in that segment's total assets and liabilities. Assets which benefit more than one segment or are considered to be corporate assets are not allocated. "Unallocated assets" consists primarily of cash and cash equivalents, time deposits, investments and deferred tax assets. "Unallocated liabilities" consists primarily of short-term and long-term borrowings, income tax payable and deferred tax liabilities.

Interests in and earnings from associates are included in the segments in which the associates operate. Information on interests in associates is included in Note 17.

	31 December		
	2002	**2003**	**2004**
	RMB million	**RMB million (Note)**	**RMB million (Note)**
Assets			
Segment assets			
Coal	46,466	55,427	61,057
Power	27,749	31,617	36,442
Combined segment assets	74,215	87,044	97,499
Interests in associates			
Coal	89	142	469
Power	548	923	2,262
Total interests in associates	637	1,065	2,731
Unallocated assets	16,581	6,224	10,139
Total assets	91,433	94,333	110,369
Liabilities			
Segment liabilities			
Coal	(5,481)	(5,317)	(6,781)
Power	(1,393)	(1,802)	(2,563)
Combined segment liabilities	(6,874)	(7,119)	(9,344)
Unallocated liabilities	(59,645)	(59,125)	(62,544)
Total liabilities	(66,519)	(66,244)	(71,888)

Note: As explained in Note 1, the financial position of the Group as at 31 December 2002 is not necessarily comparable with the financial position as at 31 December 2003 and 2004.

(iii) Other segment information

	Coal			Power			Corporate and others (Note ii)			Total		
	Years ended 31 December			Years ended 31 December			Years ended 31 December			Years ended 31 December		
	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004
	RMB million	RMB million	RMB million (Note i)	RMB million	RMB million	RMB million (Note i)	RMB million	RMB million	RMB million (Note i)	RMB million	RMB million	RMB million (Note i)
Capital expenditure	4,627	7,714	8,816	2,687	5,004	6,217	129	389	2	7,443	13,107	15,035
Depreciation and amortisation	2,281	2,549	3,048	1,322	1,401	1,901	24	67	-	3,627	4,017	4,949
Share of profits/(losses) of associates	3	6	77	6	43	168	290	(3)	-	299	46	245

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

Notes:

(i) As explained in Note 1, the segment information for 2002 and 2003 are not necessarily comparable with segment information for 2004.

(ii) "Corporate and others" represents miscellaneous revenue and expenses that are immaterial.

Geographical segment:

The Group has three geographical segments by location of customers as follows:

(1) Domestic markets — external customers which are located in the PRC.

(2) Asia Pacific markets — export sales to customers which are located outside the PRC and primarily to customers in Korea and Japan.

(3) Other markets — export sales to customers which are located outside the PRC and the Asia Pacific region.

(i) Income statements

	Years ended 31 December		
	2002	2003	2004
	RMB million	RMB million	RMB million
Revenues			
Domestic markets	17,300	21,432	31,155
Export sales — Asia Pacific markets	4,107	5,472	7,815
Export sales — other markets	22	91	297
Total operating revenues	21,429	26,995	39,267

(ii) Balance sheets

The location of all the Group's production or service facilities and other assets is in the PRC.

34. Distributable Reserve

According to the Company's Articles of Association, the amount of retained profits available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with IFRS after the appropriation to reserves as detailed in Note (i) to the combined statements of changes in shareholder's equity.

As at 31 December 2004, the amount of retained profits available for distribution was RMB7,549 million, being the amount determined in accordance with PRC Accounting Rules and Regulations. The above amount included the amount retained by the Company for the period from 1 January 2004 (being the first day after the effective date of the Restructuring) to 7 November 2004 (being the day immediately prior to the date of its establishment). Pursuant to the Restructuring Agreement and the "Provisional Regulation relating to Corporate Restructuring of Enterprises and Related Management of State-owned Capital and Financial Treatment", which was issued by the PRC Ministry of Finance and became effective from 27 August 2002, the Company's profit for the period from 1 January 2004 to 7 November 2004 belongs to the Parent Company.

A final dividend of RMB7,549 million was declared to the Parent Company on 27 March 2005. As the dividend was declared after the balance sheet date, it has not been recognised as a liability at 31 December 2004.

35. Share Capital

	31 December 2004
	RMB million
Registered, issued and fully paid: 15 billion shares of RMB1.00 each	15,000

On 8 November 2004, the Company was established with a registered share capital of RMB15 billion representing 15 billion shares at RMB1.00 each. As described in Note 1, such shares were issued to Shenhua in consideration for the coal mining and power generating assets and liabilities transferred to the Company in connection with the Restructuring.

(VI) ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Company to be Shenhua Group Corporation Limited, a state-owned enterprise established in the PRC.

(VII) DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Same as disclosed in Section V Note 11 above, no emolument has been paid or is payable in respect of the relevant period by the Company to the directors and supervisors of the Company.

(VIII) SUBSEQUENT EVENTS

The following significant transactions took place subsequent to 31 December 2004:

(a) Related party transactions

The Company has entered into certain related party transaction agreements on 14 January 2005, which were subsequently revised or terminated on 24 May 2005, with its Parent Company to govern certain related party transactions. Please refer to Section V Note 29 for details.

(b) Acquisitions of mining rights

In March 2005, the Group entered into various purchase agreements in respect of mines currently leased by the Group. Please refer to Section V Note 28 for details.

(c) Profit distribution

On 27 March 2005, in addition to the declaration of 2004 dividend as detailed in Section V Note 34, the directors have proposed and the sole shareholder has approved that the distributable profit of the Company for the period from 1 January 2005 to the date immediately preceding the date of its listing on the Stock Exchange be entirely distributable to the Parent Company (see "Financial Information — Dividend Policy" of the Prospectus).

(IX) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2004.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong, China

The information set forth in this appendix does not form part of the accountants' report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this prospectus, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the accountants' report set forth in Appendix I to this prospectus.

(A) UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of the Group as at 31 December 2004 comprises the historical audited combined net tangible assets of the Group as at 31 December 2004, as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus and the adjustments described below.

The unaudited pro forma adjusted net tangible assets has been prepared to show the effect on the audited net tangible assets of the Group as at 31 December 2004 as if the distribution of dividend by the Company to Shenhua Group of approximately RMB7.5 billion and the Global Offering had occurred on 31 December 2004.

The unaudited pro forma adjusted net tangible assets of the Group has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial position of the Group.

	Audited combined net tangible assets as at 31 December 2004	Dividend declared	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share	
	RMB million	RMB million	RMB million	RMB million	RMB	HKD
Based on the Offer Price of HK$7.25 for each Offer Share	24,186	7,549	20,450	37,087	2.09	1.96
Based on the Offer Price of HK$9.25 for each Offer Share	24,186	7,549	26,167	42,804	2.41	2.26

Notes:

1. On 27 March 2005, a dividend of RMB7,549 million for the year ended 31 December 2004 was declared to Shenhua Group.
2. The estimated net proceeds from the Global Offering are based on the Offer Price of HK$7.25 or RMB7.71 per Share to HK$9.25 or RMB9.84 per Share, after deduction of the underwriting fees and other related expenses payable by the Company and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option.
3. The unaudited adjusted net tangible asset value per Share is arrived at after the adjustments referred to above and on the basis that 17,785 million Shares are in issue.
4. The unaudited pro forma adjusted net tangible assets of the Group do not take into account the effect of the distribution of the Company's profit for the period from 1 January 2005 to the date immediately preceding the date of its listing on the Hong Kong Stock Exchange to be distributed to Shenhua Group. The unaudited pro forma adjusted net tangible asset value will be reduced after taking into account such distribution.
5. Details of the valuation of the Group's properties as at 15 March 2005 are set out in Appendix IV to this prospectus. The unaudited net book value of the Group's properties as at 15 March 2005 was approximately the same as the valuation of the Group's properties as included in Appendix IV to this prospectus.
6. The translation of Renminbi into Hong Kong dollars has been made at the rate of RMB1.0637 to HK$1.00, the PBOC Rate prevailing on 31 December 2004. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate or at any other rate or at all.

(B) UNAUDITED PRO FORMA FULLY DILUTED FORECAST EARNINGS PER SHARE

The following unaudited pro forma fully diluted forecast earnings per Share for the year ending 31 December 2005 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 1 January 2005. This unaudited pro forma fully diluted forecast earnings per Share has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial results of the Group following the Global Offering.

Forecast combined net profits attributable to shareholders for the year ending 31 December 2005[1]	not less than RMB14,133 million
Pro forma forecast earnings per Share — fully diluted[2]	RMB0.79 (HK$0.75)

Notes:

1. The forecast combined net profits attributable to shareholders for the year ending 31 December 2005 is extracted from "Financial Information — Profit Forecast". The bases and assumptions on which the above profit forecast has been prepared are summarised in Appendix III to this prospectus.

   The forecast combined net profits attributable to shareholders for the year ending 31 December 2005 is based on the unaudited combined management accounts for the three months ended 31 March 2005 and a forecast of our combined results for the remaining nine months ending 31 December 2005. The accounting policies adopted in the forecast are based on the International Financial Reporting Standards ("IFRS") which are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new IFRSs does not have a significant impact on the Group's results of operations and financial position compared to the significant accounting policies previously adopted in the preparation of the Group's audited financial statements for each of the years ended 31 December 2002, 2003 and 2004.

2. The calculation of the forecast earnings per Share on a pro forma fully diluted basis is based on the forecast combined net profits attributable to shareholders for the year ending 31 December 2005 assuming that the Global Offering was completed on 1 January 2005 and a total of 17,785 million shares were in issue during the entire year. This calculation assumes the Over-allotment Option is not exercised and 2,785 million Offer Shares were issued by the Company on 1 January 2005.

(C) COMFORT LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION RELATING TO THE ADJUSTED NET TANGIBLE ASSETS AND PRO FORMA FULLY DILUTED FORECAST EARNINGS PER SHARE

The following is the text of a report received from the reporting accountants of the Company, KPMG, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus, in respect of the unaudited pro forma financial information of the Group.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

2 June 2005

The Directors
China Shenhua Energy Company Limited

China International Capital Corporation (Hong Kong) Limited
Deustche Bank AG, Hong Kong Branch
Merrill Lynch Far East Limited

Dear Sirs,

We report on the unaudited pro forma statement of adjusted net tangible assets and the unaudited pro forma fully diluted forecast earnings per share (''the Unaudited Pro Forma Financial Information'') as set out in parts A and B of Appendix II to the prospectus dated 2 June 2005 (''the Prospectus'') in connection with the Global Offering of China Shenhua Energy Company Limited (''the Company''), which has been prepared by the Company solely for illustrative purposes to provide information about how the Global Offering and the distribution of dividend by the Company to Shenhua Group after 31 December 2004 might have affected the combined net assets of the Company and its subsidiaries (the ''Group'') as at 31 December 2004. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in parts A and B of Appendix II to the Prospectus.

RESPONSIBILITIES

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the ''Listing Rules'').

It is our responsibility to form an opinion, as required by the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

Our work did not constitute an audit or review made in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the directors' judgements and assumptions, and because of its nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position or results of:—

— the Company and its subsidiaries had the share proceeds estimated by the Company been received on the relevant date; or

— the Company and its subsidiaries at any future date or for any future periods.

We make no comments regarding the reasonableness of the amount of net proceeds from the Global Offering, the application of those net proceeds, or whether such use will actually take place as described under "Use of proceeds" in the section headed "Future plans and use of proceeds" in the Prospectus.

OPINION

In our opinion:—

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Company; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong, China

The forecast combined net profits attributable to shareholders of the Group for the year ending 31 December 2005 are set out in the section headed "Financial Information — Profit Forecast."

(A) Bases and assumptions

The Directors have prepared the forecast combined net profits attributable to shareholders of the Group for the year ending 31 December 2005 on the basis of the results of the Group for the three months ended 31 March 2005 and a forecast of the combined results of the Group for the remaining nine months to 31 December 2005. The forecast has been prepared based on the following principal assumptions:

- there will be no material change in existing political, legal, fiscal, market or economic conditions in China, Hong Kong, or any other country or territory in which we currently operate or which are otherwise material to our business;
- there will be no changes in legislation, regulations or rules in China, Hong Kong or any other country or territory in which we operate or with which we have arrangements or agreements, which materially adversely affect our business;
- there will be no material change in the bases or rates of taxation in China or any other country or territory in which we operate, except as otherwise disclosed in this prospectus;
- there will be no material changes in inflation rates, interest rates or foreign currency exchange rates from those currently prevailing; and
- there will be no material changes in coal prices and power tariff setting that will have a material adverse effect on our business.

The accounting policies adopted in the Forecast are based on the International Financial Reporting Standards ("IFRS") which are effective for accounting periods beginning on or after 1 January 2005. For details, please refer to "Financial Information — Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Changes to IFRS." The adoption of the new IFRSs does not have a significant impact on the Group's results of operations and financial position compared to the significant accounting policies previously adopted in the preparation of the Group's audited financial statements for each of the years ended 31 December 2002, 2003 and 2004, as summarised in Note 2 of the Accountants' Report.

(B) Letter from the reporting accountants

The following is the text of a letter from the reporting accountants of the Company, KPMG, Certified Public Accountants, Hong Kong for the purpose of incorporation in this Prospectus, in respect of the profit forecast of the Group for the year ending 31 December 2005.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

2 June 2005

The Directors
China Shenhua Energy Company Limited

China International Capital Corporation (Hong Kong) Limited
Deutsche Bank AG, Hong Kong Branch
Merrill Lynch Far East Limited

Dear Sirs,

We have reviewed the accounting policies and calculations adopted in arriving at the forecast combined net profits attributable to shareholders of China Shenhua Energy Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ending 31 December 2005 (the "Forecast"), for which the directors of the Company (the "Directors") are solely responsible, as set out in the prospectus dated 2 June 2005 issued by the Company (the "Prospectus").

The Forecast has been prepared by the Directors based on the unaudited combined results of the Group for the three months ended 31 March 2005 and a forecast of the combined results of the Group for the remaining nine months ending 31 December 2005.

In our opinion, so far as the accounting policies and calculations are concerned, the Forecast has been properly compiled on the bases and assumptions made by the Directors as set out in Part A of Appendix III to the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report dated 2 June 2005, the text of which is set out in Appendix I to the Prospectus, after incorporating where applicable the new and revised International Financial Reporting Standards which are effective for accounting periods beginning on or after 1 January 2005.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong, China

(C) Letter from the Joint Sponsors

The following is the text of a letter, prepared for inclusion in this Prospectus received by the Directors from China International Capital Corporation (Hong Kong) Limited, Deutsche Bank AG, Hong Kong Branch and Merrill Lynch Far East Limited in connection with the forecast of the combined net profits attributable to shareholders for the year ending 31 December 2005.

CHINA INTERNATIONAL CAPITAL CORPORATION (HONG KONG) LIMITED	**DEUTSCHE BANK AG, HONG KONG BRANCH**	**MERRILL LYNCH FAR EAST LIMITED**

2 June 2005

The Directors
China Shenhua Energy Company Limited

Dear Sirs,

We refer to the forecast combined net profits attributable to shareholders of China Shenhua Energy Company Limited (the ''Company'', together with its subsidiaries, the ''Group'') for the year ending 31 December 2005 (the ''Forecast'') as set out in the subsection headed ''Profit Forecast'' in the section headed ''Financial Information'' in the prospectus of the Company dated 2 June 2005 (the ''Prospectus''). The Forecast has been prepared based on the unaudited combined results of the Group for the three months ended 31 March 2005 and a forecast of the combined results of the Group for the remaining nine months ending 31 December 2005.

We have discussed with you the bases and assumptions made by you as set out in Part A of Appendix III to the Prospectus upon which the Forecast has been made. We have also considered the letter dated 2 June 2005 addressed to yourselves and ourselves from KPMG regarding the accounting policies and calculations upon which the Forecast has been made.

On the basis of the foregoing and on the basis of the accounting policies and calculations adopted by you and reviewed by KPMG, we are of the opinion that the Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of **China International Capital Corporation (Hong Kong) Limited**	For and on behalf of **Deutsche Bank AG, Hong Kong Branch**	For and on behalf of **Merrill Lynch Far East Limited**
Yue Yang Executive Director	Yunfei Chen Director	Charles Wang Managing Director

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PRC Offices:
Hong Kong • Beijing • Shanghai • Guangzhou • Shenzhen

2 June 2005

The Board of Directors
China Shenhua Energy Company Limited
Beijing
The People's Republic of China

Dear Sirs

In accordance with your instructions to us to value the property interests held by China Shenhua Energy Limited (hereinafter referred to as the ''Company'') and its subsidiaries (together referred to as the ''Group'') in the People's Republic of China (the ''PRC''), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of these property interests as at 15 March 2005 (the ''valuation date'').

In valuing the property interests which are held by the Group, we have categorized the operations of the Company into two groups: (i) coal operations; and (ii) power operations. Individual operations are further classified into sub-groups according to the Group's management structure. The property interests of each sub-group are held or occupied by the same first-level subsidiaries or branches of the Company.

Furthermore, we did not value the property interests which are held by the affiliates of the Group and these property interests are not covered in this report. These properties are distributed in various locations within various provinces of the PRC.

Basis of Valuation

Wherever possible, our valuation is our opinion of the market value which we would define as intended to mean ''the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably prudently and without compulsion.''

For some property interests in Group I, our valuation is our opinion of their depreciated replacement cost which we would define as intended to mean ''an estimate of the market value for the existing use of the land, plus the current replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimizations.''

Valuation Methodology

There are three types of land involved in this valuation:

(1) Allocated land that has been authorised by the MLR for Shenhua Group to manage and operate, including contributing such allocated land as capital in the Company (''authorised allocated land'').

(2) Allocated land held by relevant subsidiaries of Shenhua Group that was transferred to the Company upon Shenhua Group transferring the equity interest it held in the relevant subsidiaries. Such transfer did not involve any change in the registered owner of the allocated land (''retained allocated land'').

(3) Granted Land held by Shenhua Group or the relevant subsidiaries of Shenhua Group that was transferred to the Company or upon Shenhua Group transferring the equity interest it held in the relevant subsidiaries.

Shenhua Group has obtained approvals from the MLR to treat the authorised allocated land as a capital contribution and the retention of the retained allocated land by the relevant subsidiaries which were transferred into the Company. Pursuant to relevant PRC law, Shenhua Group is entitled to lease or transfer such authorised allocated land among members of the Shenhua Group without further approvals by any administrative authorities. However, any change of land use or transfer to any third party outside the Shenhua Group is subject to approval by the MLR. In respect of the authorised allocated land, Shenhua Group is in the process of transferring those parcels of land with land use right certificates to the Company. Transfer of retained allocated land to other parties is subject to approval by the relevant PRC administrative authorities. No transfer of registration is required for retained allocated land of the Group as such land remains registered in the name of the relevant subsidiaries after the Restructuring.

We have valued a portion of the property interests in Group I by using the ''Direct Comparison Approach'' whenever market comparable transactions are available. However, for the rest of the properties in Group I, due to the fact that specific uses for those properties have been restricted, there are no readily identifiable market comparable, and these properties cannot be valued on the basis of direct comparison. Therefore, our valuation has been based on the depreciated replacement cost of the properties. The depreciated replacement cost approach generally provides the most reliable indication of value for property in the absence of a known market based on comparable sales.

For the property interests in Group I which are under construction, we have valued such property interests with regard to their prevailing cost level and status of construction as at the valuation date. We have also assumed that all consents, approvals and licences from the relevant Government authorities for these developments will be granted without any onerous conditions or undue delay which might affect their values.

We have attributed no commercial value to the land use rights, buildings and structures of the retained allocated land in Group I for the reason that these properties are restricted from transfer to other parties including among members of the Group without the approval from the relevant authorities.

We are of the opinion that the total depreciated replacement cost of these properties was in a total amount of RMB31,669,400,000 and the value attributable to the Group was RMB18,540,000,000 as at 15 March 2005 assuming that the Group has legal rights to freely occupy, let, mortgage or transfer these properties.

The property interests in Group II which are leased by the Company have no commercial value due to the prohibition against assignment, sub-letting or lack of substantial profit rent.

Assumptions

In cases where market value basis is adopted, our valuation has been made on the assumption that the owner sells the property interests in the open market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property and no forced sale situation in any manner is assumed in our valuation.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any of the property valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that all the interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

For the property interests held under long-term land use rights in the PRC, we have assumed that the owner of the property interests has free and uninterrupted rights to use the property interests for the whole of the unexpired term of its respective land use rights.

We have assumed that all consents, approvals and licences from relevant government authorities for the buildings and structures erected or to be erected thereon have been granted. Also, we have assumed that unless otherwise stated, all buildings and structures erected on the site are held by the owners or permitted to be occupied by the owner.

It is assumed that all applicable zoning and use regulations and restrictions have been complied with unless a non-conformity has been stated, defined and considered in the valuation certificate. Further, it is assumed that the utilization of the land and improvements is within the boundaries of the properties described and that no encroachment or trespass exists unless noted in the valuation certificate.

Other special assumptions and qualifications for each property, if any, have been stated in the footnotes of the valuation certificate for the respective group of property interests.

Title Investigation

For the property interests which were held by the Group in the PRC, the Company has acquired the requisite approvals from relevant authorities and obtained the relevant Granted Land Use Right Certificates, Allocated Land Use Right Certificates or other land title proofs. For the land use rights which are held by Shenhua Group, the Company is in the process of applying for transfer of registration of the relevant Land Use Right Certificates.

We have been provided with copies of various title documents relating to the property interests held by the Group. However, we have not inspected the original documents to verify ownership or to verify any amendments which may not appear on the copies handed to us. In our valuation, we have relied to a considerable extent on the information given by the Company and the legal opinion provided by its legal advisers, King & Wood (the "PRC legal advisers"), on the PRC laws regarding to the validity of the Group's titles to the property interests in the PRC.

All legal documents disclosed in this letter and valuation certificate are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the property interests set out in this letter and valuation certificate.

Limiting Conditions

We have relied to a very considerable extent on the information given by the Company and the legal opinion of the PRC legal adviser. We have no reason to doubt the truth and accuracy of the information provided to us by the Company and/or the PRC legal advisers which is material to the valuations. We have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, leases, particulars of occupancy, identification of properties, site and floor areas, construction costs incurred and all other relevant information. Dimensions, measurements and areas included in the valuation certificate are based on information provided by the Company and are therefore only approximations. No on-site measurements have been made. We have been advised by the Company that no material facts have been omitted from the information supplied.

We have inspected the exterior and where possible, the interior of the property interests included in the attached valuation certificate. In the course of our inspection, we did not notice any serious defects. However, no structural survey has been made and we are therefore unable to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have not carried out investigations on site in respect of the properties to determine the suitability of the ground conditions and the services, etc. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

In preparing our valuation report, we have complied with the requirements contained within the relevant provisions the Companies Ordinance and of those stipulated in Chapter 5 and Practice Notes 12 and 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except in respect of which exemptions and waivers have been applied for in respect of paragraphs 34(2) of the Third Schedule to the Companies Ordinance and Rules 5.01, 5.06(1), 5.06(3) and paragraph 3(a) of Practice Note 16 to the Listing Rules.

Unless otherwise specified, all amounts are denominated in Renminbi.

Our summary of valuation and valuation certificates are attached herewith.

Yours faithfully
For and on behalf of
American Appraisal China Limited
Leo C. Ho
BSc. MTP MBA MRICS MHKIS RPS
Vice President

Encl.

Note: *Mr. Leo C. Ho, who is a Chartered Surveyor since March 1989, has extensive experience in valuation of properties in Hong Kong, the PRC and other areas in the Asian Pacific Region.*

SUMMARY OF VALUATION

Group I — Property interests held by the Company and its subsidiaries in the PRC

No.	Property	Capital value in existing state as at 15 March 2005	Value attributable to the Group as at 15 March 2005
		RMB	RMB
Coal Operations			
1.	Land, various buildings and structures held by Shendong Mines	3,125,200,000	3,125,200,000
2.	Land, various buildings and structures held by Wanli Jinfeng Mine Branch Company	223,600,000	223,600,000
3.	Land, various buildings and structures held by Zhunge'er Energy and its subsidiaries	465,600,000	269,100,000
4.	Land, various buildings and structures held by Shengli Energy	124,700,000	77,937,500
5.	Land, various buildings and structures held by 煤炭銷售中心 (Coal Sales and Marketing Branch) of the Company	134,000,000	124,000,000
6.	Land, various buildings and structures held by China Shenhua Rolling Stock Branch	1,800,000	1,800,000
7.	Land, various buildings and structures held by 神朔鐵路分公司 (Shenshuo Railway Branch)	5,956,300,000	5,956,300,000
8.	Land, various buildings and structures held by 包神鐵路有限責任公司 (Baoshen Railway Company Limited) and its subsidiaries	1,200,000	1,057,920
9.	Land, various buildings and structures held by 朔黃鐵路有限責任公司 (Shuohuang Railway Development Company Limited) and its subsidiaries	No Commercial Value	No Commercial Value
10.	Land, various buildings and structures held by 神華黃驊港務有限責任公司 (Shenhua Huanghua Harbor Administration Company Limited)	9,500,000	6,650,000
Power Operations			
11.	Land, various buildings and structures occupied by 國華電力分公司 (Guohua Power Branch) and its subsidiaries	3,643,200,000	1,957,500,000
	Total:	13,685,100,000	11,743,145,420

Group II — Property interests leased by the Company and its subsidiaries in the PRC

No.	Property	Capital value in existing state as at 15 March 2005	Value attributable to the Group as at 15 March 2005
		RMB	RMB
12.	Various office spaces in Beijing, the PRC	No Commercial Value	No Commercial Value
13.	Various properties in Inner-Mongolia Autonomous Region and 5 cities in the PRC	No Commercial Value	No Commercial Value

VALUATION CERTIFICATE

Group I — Property interests held by the Group in the PRC

Coal Operations

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 15 March 2005
				RMB
1.	Land, various buildings and structures held by Shendong Mines	The properties comprise 12 coal mines and ancillary facilities of Shendong Mines which are situated on 83 parcels of land with a total site area of approximately 8,840,502 sq.m. located in Inner-Mongolia Autonomous Region, Shaanxi Province and Shanxi Province. The properties comprise 486 buildings, structures and ancillary facilities with a total gross floor area of approximately 408,963 sq.m., mainly completed between 1986 and 2005 (the ''Completed Properties''). The properties also include a number of buildings, structures and ancillary facilities with a total gross floor area of approximately 232,754 sq.m. which were under construction as at the valuation date (the ''CIP Properties''). A total construction cost of RMB884,694,258.66 has been incurred as at the valuation date. They are scheduled to be completed in 2006.	The properties are currently occupied by the Group for office, warehouse, workshop, dormitory, coal mining and other ancillary uses.	3,125,200,000

Notes:

1. 神府東勝煤炭有限責任公司 (Shenfu Dongsheng Coal Company Limited), a wholly owned subsidiary of Shenhua Group, has obtained the land use rights certificates of 82 parcels of allocated land with a total site area of approximately 8,816,726 sq.m. Shenhua Group has obtained the authorization of the MLR to transfer the land use rights of such allocated land to the Company as capital contribution (the ''authorised allocated land''). Shenfu Dongsheng Coal Company Limited and the Company are in the process of applying for change of registration of land user of the authorized allocated land under the name of the Company. As at the valuation date, land use rights certificates of 58 parcels of the authorized allocated land with a total site area of approximately 5,198,588 sq.m. have been registered in the name of the Company.

2. The Company has obtained a land use rights certificate for a parcel of granted land with an area of approximately 23,775 sq.m. and land use term of 50 years.

3. Shenfu Dongsheng Coal Company Limited has obtained the Building Ownership Certificate or Real Estate Ownership Certificate for a portion of the Completed Properties with a total gross floor area of approximately 404,311 sq.m. Shenfu Dongsheng Coal Company Limited and the Company are in the process of applying for change of registration of building ownership under the name of the Company. As at the valuation date, building ownership certificates or real estate ownership certificates with a total gross floor area of approximately 392,508 sq.m. of the Completed Properties have been registered in the name of the Company.

4. We have attributed no commercial value to 7 buildings of the Completed Properties with a total floor area of approximately 4,652 sq.m. without relevant title certificates. We are of the opinion that the depreciated replacement cost of these buildings (excluding the land) as at the valuation date would be RMB3,000,000 assuming all relevant title certificates have been obtained.

5. We have been provided with a legal opinion on the title to the properties issued by King & Wood, which contains, inter alia, the following information:-

   a. The Company has obtained the land use Rights Certificate of a parcel of granted land with an area of 23,775 sq.m., the land use rights and the building ownership on such granted land can be transferred, leased, charged or dealt with by other means within the validity period of the relevant land use right certificates and building ownership certificates.

   b. For the 82 parcels of allocated land with a total area of 8,816,726 sq.m., Shenhua Group has obtained the authorization of the MLR to manage and operate these parcels of land. Shenhua Group has the rights to use the land as capital contribution, lease or transfer among its directly held enterprises, subsidiaries and associated enterprises. After the Company has obtained the land use right certificates and building ownership certificates for such land and buildings, the land use rights and building ownership of such land and buildings can be transferred, leased, charged or dealt with by other legal means within the validity period of the relevant land use right certificates and building ownership certificates according to PRC laws and regulations. Prior to completion of the above procedures, there are no legal impediments on the use of such land and buildings by the Company.

   c. Of the approximately 486 buildings of the Completed Properties owned by the Company or its relevant subsidiaries and for which the Company and its relevant subsidiaries have obtained the relevant building ownership certificates, such buildings can be transferred, leased, charged or dealt with by other lawful means within the validity period of the relevant building ownership certificates. In respect of the buildings which are to be transferred and registered to the Company, upon completion of the relevant procedures, the Company and its relevant subsidiaries are entitled to transfer, lease, charge or deal with such buildings by other lawful means within the validity period of the relevant building ownership certificates. Before completion of the transfer and registration procedures, there are no legal impediments for use of such buildings by the Company and its relevant subsidiaries.

   d. As for the CIP Properties, for those properties which have been granted licence, permit, authorization and consent for their construction, there are no legal impediments to obtain building ownership certificates for such buildings upon completion of their construction. Upon obtaining the relevant building ownership certificates, the Company is entitled to transfer, lease, charge or deal with the building ownership of such buildings within the validity period of such building ownership certificates.

   e. Shenhua Group has undertaken to have the land use rights certificates and building ownership certificates registered under the name of the Company within six months from the incorporation date of the Company, to be responsible for all costs, expenses and claims incurred, and to indemnify the Company against all losses, claims, charges or expenses arising from the transfer of title registration.

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 15 March 2005
				RMB
2.	Land, various buildings and structures held by Wanli Jinfeng Mine Branch Company	The properties comprise 8 coal mines situated on 32 parcels of land with a total site area of approximately 1,672,040 sq.m. These coal mines are located in Inner-Mongolia Autonomous Region and Hebei Province. These coal mines comprise 152 buildings, structures and ancillary facilities with a total gross floor area of approximately 90,466 sq.m., mainly completed between 1985 and 2005 (the "Completed Properties"). The properties also include a number of buildings, structures and ancillary facilities with a total gross floor area of approximately 18,579 sq.m. which were under construction as at the valuation date (the "CIP Properties"). A total construction cost of RMB2,963,847 has been incurred as at the valuation date. They are scheduled to be completed in 2005.	The properties are currently occupied by the Group for office, warehouse, workshop, dormitory, coal mining and other ancillary uses.	223,600,000

Notes:

1. Wanli Coal Company Limited and Jinfeng Coal Company Limited, wholly owned subsidiaries of Shenhua Group, have obtained the land use rights certificates of 32 parcels of allocated land with a total site area of approximately 1,672,040 sq.m. Shenhua Group has obtained the authorization of the MLR to transfer the land use rights of such allocated land to the Company as capital contribution (the "authorised allocated land"). Wanli Coal Company Limited, Jinfeng Coal Company Limited and the Company are in the process of applying for change of registration of land user of the authorized allocated land under the name of the Company. As at the valuation date, land use rights certificates of 32 parcels of the authorized allocated land with a total site area of approximately 1,672,040 sq.m. have been registered in the name of the Company.
2. The Company has obtained land use rights certificates for 2 parcels of granted land with a total site area of approximately 19,286 sq.m. and land use term of 50 years.
3. Wanli Coal Company Limited and Jinfeng Coal Company Limited have obtained the Building Ownership Certificate or Real Estate Ownership Certificate of the Completed Properties with a total gross floor area of approximately 86,827 sq.m. Wanli Coal Company Limited, Jinfeng Coal Company Limited and the Company are in the process of

applying for change of registration of building ownership under the name of the Company. As at the valuation date, building ownership certificates or real estate ownership certificates with a total gross floor area of approximately 86,346 sq.m. of the Completed Properties have been registered in the name of the Company.

4. We have attributed no commercial value to 11 buildings of the Completed Properties with a total floor area of approximately 3,639 sq.m. without relevant title certificates. We are of the opinion that the depreciated replacement cost of these buildings (excluding the land) as at the valuation date would be RMB3,200,000 assuming all relevant title certificates have been obtained.

5. We have been provided with a legal opinion on the title to the properties issued by King & Wood, which contains, inter alia, the following information:-

   a. The Company has obtained the land use rights certificate of 2 parcels of granted land with a total area of 19,286 sq.m., the land use rights and the building ownership on such granted land can be transferred, leased, charged or dealt with by other means within the validity period of the relevant land use right certificates and building ownership certificates.

   b. For the 30 parcels of allocated land with a total area of 1,652,754 sq.m., Shenhua Group has obtained the authorization of the MLR to manage and operate these parcels of land. Shenhua Group has the rights to use the land as capital contribution, lease or transfer among its directly held enterprises, subsidiaries and associated enterprises. After the Company has obtained the land use right certificates and building ownership certificates for such land and buildings, the land use rights and building ownership of such land and buildings can be transferred, leased, charged or dealt with by other legal means within the validity period of the relevant land use right certificates and building ownership certificates according to PRC law and regulations. Prior to completion of the above procedures, there are no legal impediments on the use of such land and buildings by the Company.

   c. Of the approximately 152 buildings of the Completed Properties owned by the Company or its relevant subsidiaries and for which the Company and its relevant subsidiaries have obtained the relevant building ownership certificates, such buildings can be transferred, leased, charged or dealt with by other lawful means within the validity period of the relevant building ownership certificates. In respect of the buildings which are to be transferred and registered to the Company, upon completion of the relevant procedures, the Company and its relevant subsidiaries are entitled to transfer, lease, charge or deal with such buildings by other lawful means within the validity period of the relevant building ownership certificates. Before completion of the transfer and registration procedures, there are no legal impediments for use of such buildings by the Company and its relevant subsidiaries.

   d. As for the CIP Properties, for those properties which have been granted licence, permit, authorization and consent for their construction, there are no legal impediments to obtain building ownership certificates for such buildings upon completion of their construction. Upon obtaining the relevant building ownership certificates, the Company is entitled to transfer, lease, charge or deal with the building ownership of such buildings within the validity period of such building ownership certificates.

   e. Shenhua Group has undertaken to have the land use rights certificates and building ownership certificates registered under the name of the Company within six months from the incorporation date of the Company, to be responsible for all costs, expenses and claims incurred, and to indemnify the Company against all losses, claims, charges or expenses arising from the transfer of title registration.

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 15 March 2005 RMB
3.	Land, various buildings and structures held by Shenhua Zhunge'er Energy Company Limited ("Zhunge'er Energy") and its subsidiaries	The properties are located on 172 parcels of land with a total site area of approximately 30,207,437 sq.m. situated in Inner-Mongolia Autonomous Region and Shanxi Province. The properties comprise 1,035 buildings, structures and ancillary facilities with a total gross floor area of approximately 479,815 sq.m., mainly completed between 1970 and 2004 (the "Completed Properties"). The properties also include a number of buildings, structures and ancillary facilities which were under construction as at the valuation date (the "CIP Properties"). The total construction cost of RMB378,574,367 has been incurred as at the valuation date. They are scheduled to be completed in 2005.	The properties are currently occupied by the Group for office, warehouse, workshop, dormitory, and other ancillary uses.	465,600,000 (Value attributable to the Group: 269,100,000)

Notes:

1. Zhunge'er Engergy, a 57.8%-owned subsidiary of the Company, and its subsidiaries (referred to as "Zhunneng"), have obtained the land use rights certificates of 139 parcels of allocated land with a total site area of approximately 29,853,016 sq.m. ("retained allocated land").

2. Zhunneng has obtained the land use rights certificates of 33 parcels of granted land with a total site area of approximately 354,421 sq.m. and land use term of 50 years.

3. Zhunneng has obtained either building ownership certificates or real estate ownership certificates for a portion of the Completed Properties with a total gross floor area of approximately 478,884 sq.m.

4. We have attributed no commercial value to 4 buildings of the Completed Properties with a total floor area of approximately 931 sq.m. without relevant title certificates. We have also attributed no commercial value to the land use rights, buildings, structures and the construction work in progress on the retained allocated land for the reason that these properties are not allowed to transfer to other parties without the approval from the relevant local authorities. We are of the opinion that the depreciated replacement cost of these properties as at the valuation date would be RMB3,771,000,000 assuming all relevant title certificates have been obtained by the Group and the Group has legal rights to occupy, lease, mortgage or transfer the properties.

5. We have been provided with a legal opinion on the title to the properties issued by King & Wood, which contains, inter alia, the following information:-

   a. In respect of the 33 parcels of granted land with a total area of 354,421 sq.m., the relevant subsidiaries of the Company hold the relevant land use right certificates and building ownership certificates of such land and buildings. Such land use rights and buildings can be used as consideration for capital contribution, leased or transferred in accordance with the law.

b. In respect of the 139 parcels of allocated land with a total area of 29,853,016 sq.m., the relevant subsidiaries of the Company hold the relevant land use right certificates of such land and building ownership certificates of the buildings thereon. Upon obtaining the relevant approvals, the Company can transfer the land use rights of such land and buildings. The price paid for the land use rights of such allocated land can be retained by the transferor as its lawful revenue. If use of the land differs from the authorized uses of such allocated land, the transferee has to apply and pay land premium for such use.

c. Of the approximately 1,031 buildings owned by Zhunneng and for which Zhunneng has obtained the relevant building ownership certificates, such buildings can be transferred, leased, charged or dealt with by other lawful means within the validity period of the relevant building ownership certificates.

d. As for the CIP Properties, for those properties which have been granted licence, permit, authorization and consent for their construction, there are no legal impediments to obtain building ownership certificates for such buildings upon completion of their construction. Upon obtaining the relevant building ownership certificates, the Company is entitled to transfer, lease, charge or deal with the building ownership of such buildings within the validity period of such building ownership certificates.

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 15 March 2005
				RMB
4.	Land, various buildings and structures held by China Beidian Shengli Energy Company Limited ("Shengli Energy")	The properties are located on 3 parcels of land with a total site area of approximately 4,017,400 sq.m. situated in Inner-Mongolia Autonomous Region. The properties comprise 26 buildings, structures and ancillary facilities with a total gross floor area of approximately 8,300 sq.m., mainly completed between 1977 and 2004 (the "Completed Properties"). The properties also include a coal mine which was under construction as at the valuation date (the "CIP Properties"). The total construction cost of RMB55,698,432 has been incurred as at the valuation date. They are scheduled to be completed in 2005. The land use rights for the properties have been granted for a term of 50 years.	The properties are currently occupied by the Group for office, warehouse, workshop, mining and other ancillary uses.	124,700,000 (Value attributable to the Group: 77,937,500)

Notes:

1. Shengli Engergy, a 62.5%-owned subsidiary of the Company, has obtained the land use rights certificates of 3 parcels of granted land with a total site area of approximately 4,017,400 sq.m.

2. Shengli Engergy has obtained a Building Ownership Certificate for a building of the Completed Properties with a gross floor area of approximately 2,022 sq.m. As advised by the Group, the remaining portion of the Completed Properties will be demolished in the near future.

3. We have attributed no commercial value to 26 buildings of the Completed Properties with a total floor area of approximately 6,278 sq.m. without relevant title certificate. We are of the opinion that the depreciated replacement cost of these buildings as at the valuation date would be RMB2,093,000 assuming all relevant title certificates have been obtained by the Group and the Group has legal rights to occupy, lease, mortgage or transfer the properties.

4. We have been provided with a legal opinion on the title to the properties issued by King & Wood, which contains, inter alia, the following information:-

   a. In respect of the 3 parcels of granted land with a total area of 4,017,400 sq.m., the relevant subsidiaries of the Company hold the relevant land use right certificates and building ownership certificates of such land and buildings. Such land use rights and buildings can be used as consideration for capital contribution, leased or transferred in accordance with the law.

b. Of the building owned by Shengli Engergy and for which Shengli Engergy has obtained the relevant building ownership certificates, such buildings can be transferred, leased, charged or dealt with by other lawful means within the validity period of the relevant building ownership certificates.

c. As for the CIP Properties, for those properties which have been granted licence, permit, authorization and consent for their construction, there are no legal impediments to obtain building ownership certificates for such buildings upon completion of their construction. Upon obtaining the relevant building ownership certificates, the Company is entitled to transfer, lease, charge or deal with the building ownership of such buildings within the validity period of such building ownership certificates.

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 15 March 2005
				RMB
5.	Land, various buildings and structures held by Coal Sales and Marketing Branch of the Company	The properties are located on 9 parcels of land with a total site area of approximately 462,541 sq.m. situated in Inner-Mongolia Autonomous Region, Shanxi Province, Hebei Province, Tianjin and Shanghai. The properties comprise 72 buildings, structures and ancillary facilities with a total gross floor area of approximately 36,354 sq.m., mainly completed between 1991 and 2004 (the "Completed Properties").	The properties are currently occupied by the Group for office, warehouse and other ancillary uses.	134,000,000 (Value attributable to the Group: 124,000,000)

Notes:

1. 神華煤炭運銷有限責任公司 (Shenhua Coal Transportation and Sales Company) and 包頭神華煤業有限責任公司 (Baotou Shenhua Coal Company Limited), both are subsidiaries of Shenhua Group, have obtained the land use rights certificates of 6 parcels of allocated land with a total site area of approximately 375,186 sq.m. Shenhua Group has obtained the authorization of the MLR to transfer the land use rights of such allocated land to the Company as capital contribution (the "authorised allocated land"). Shenhua Coal Transportation and Sales Company, Baotou Shenhua Coal Company Limited and the Company are in the process of applying for change of registration of land user of the authorized allocated land under the name of the Company. As at the valuation date, all the land use rights certificates of 6 parcels of the authorized allocated land with a total site area of approximately 375,186 sq.m. have been registered in the name of the Company.

2. Shenhua Coal Transportation and Sales Company has also obtained the land use rights certificates of 3 parcels of granted land with a total site area of approximately 87,355 sq.m and land use term of 50 years. Shenhua Coal Transportation and Sales Company and the Company are in the process of applying for change of registration of land user of the granted land under the name of the Company. As at the valuation date, land use rights certificates of 1 parcel of the granted land with a total site area of approximately 2,348 sq.m. has been registered in the name of the Company.

3. Shenhua Coal Transportation and Sales Company and Baotou Shenhua Coal Company Limited have obtained the Building Ownership Certificates or Real Estate Ownership Certificates of the Completed Properties with a total gross floor area of approximately 24,868 sq.m. Shenhua Coal Transportation and Sales Company, Baotou Shenhua Coal Company Limited and the Company are in the process of applying for change of registration of building ownership under the name of the Company. As at the valuation date, building ownership certificates or real estate ownership certificates with a total gross floor area of approximately 16,804 sq.m. of the Completed Properties have been registered in the name of the Company.

4. We have attributed no commercial value to 34 buildings of the Completed Properties with a total floor area of approximately 11,109 sq.m. without relevant title certificates. We are of the opinion that the depreciated replacement

cost of these buildings (excluding the land) as at the valuation date would be RMB62,000,000 assuming all relevant title certificates have been obtained.

5. We have been provided with a legal opinion on the title to the properties issued by King & Wood, which contains, inter alia, the following information:-

   a. The Company has obtained the land use rights certificate of 3 parcels of granted land with a total area of 87,355 sq.m., the land use rights and the building ownership on such granted land can be transferred, leased, charged or dealt with by other means within the validity period of the relevant land use right certificates and building ownership certificates.

   b. For the 6 parcels of allocated land with a total area of 375,186 sq.m., Shenhua Group has obtained the authorization of the MLR to manage and operate these parcels of land. Shenhua Group has the rights to use the land as capital contribution, lease or transfer among its directly held enterprises, subsidiaries and associated enterprises. After the Company has obtained the land use right certificates and building ownership certificates for such land and buildings, the land use rights and building ownership of such land and buildings can be transferred, leased, charged or dealt with by other legal means within the validity period of the relevant land use right certificates and building ownership certificates according to PRC laws and regulations. Prior to completion of the above procedures, there are no legal impediments on the use of such land and buildings by the Company.

   c. Of the approximately 65 buildings of the Completed Properties owned by the Company or its relevant subsidiaries and for which the Company and its relevant subsidiaries have obtained the relevant building ownership certificates, such buildings can be transferred, leased, charged or dealt with by other lawful means within the validity period of the relevant building ownership certificates. In respect of the buildings which are to be transferred and registered to the Company, upon completion of the relevant procedures, the Company and its relevant subsidiaries are entitled to transfer, lease, charge or deal with such buildings by other lawful means within the validity period of the relevant building ownership certificates. Before completion of the transfer and registration procedures, there are no legal impediments for use of such buildings by the Company and its relevant subsidiaries.

   d. As for the CIP Properties, for those properties which have been granted licence, permit, authorization and consent for their construction, there are no legal impediments to obtain building ownership certificates for such buildings upon completion of their construction. Upon obtaining the relevant building ownership certificates, the Company is entitled to transfer, lease, charge or deal with the building ownership of such buildings within the validity period of such building ownership certificates.

   e. Shenhua Group has undertaken to have the land use rights certificates and building ownership certificates registered under the name of the Company within six months from the incorporation date of the Company, to be responsible for all costs, expenses and claims incurred, and to indemnify the Company against all losses, claims, charges or expenses arising from the transfer of title registration.

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 15 March 2005
				RMB
6.	Land, various buildings and structures held by Rolling Stock Branch Company	The properties comprise 5 residential units with a total gross floor area of approximately 641 sq.m. and 1 car parking space completed between 1998 and 2003. The properties are located in Hohhot, Datong, Beijing and Tianjin respectively.	The properties are currently occupied by the Group for office, staff quarter and car parking use.	1,800,000

Notes:

1. 神華鐵路貨車有限責任公司 (Shenhua Rolling Stock Company Limited), a wholly owned subsidiary of Shenhua Group, has obtained the Building Ownership Certificates or Real Estate Ownership Certificates of the Completed Properties with a total gross floor area of approximately 641 sq.m.. The land use rights of the Completed Properties have been granted for a term 70 years. Shenhua Rolling Stock Company Limited and the Company are in the process of applying for change of registration of building ownership under the name of the Company.

2. We have been provided with a legal opinion on the title to the properties issued by King & Wood, which contains, inter alia, the following information:-

   a. In respect of 5 units which are to be transferred and registered to the Company, upon completion of the relevant procedures, the Company and its relevant subsidiaries are entitled to transfer, lease, charge or deal with such buildings by other lawful means within the validity period of the relevant building ownership certificates. Before completion of the transfer and registration procedures, there are no legal impediments for use of such buildings by the Company and its relevant subsidiaries.

   b. Shenhua Group has undertaken to have the building ownership certificates registered under the name of the Company within six months from the incorporation date of the Company, to be responsible for all costs, expenses and claims incurred, and to indemnify the Company against all losses, claims, charges or expenses arising from the transfer of title registration.

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 15 March 2005
				RMB
7.	Land, various buildings and structures held by Shenshuo Railway China Shenhua Branch	The properties are located on 89 parcels of land with a total site area of approximately 17,681,424 sq.m. situated in Shaanxi Province and Shanxi Province. The properties comprise 771 buildings, structures and ancillary facilities with a total gross floor area of approximately 269,775 sq.m., mainly completed between 1980 and 2004 (the "Completed Properties"). The properties also include a number of structures and ancillary facilities which were under construction as at the valuation date (the "CIP Properties"). The total construction cost of approximately RMB102,749,306 has been incurred as at the valuation date. They are scheduled to be completed by the end of 2005.	The properties are currently occupied by the Group for office, warehouse, workshop, dormitory, railway transportation and other ancillary uses.	5,956,300,000

Notes:

1. 神朔鐵路有限責任公司 (Shenshuo Railway Company Limited), a wholly owned subsidiary of Shenhua Group, has obtained the land use rights certificates of 86 parcels of allocated land with a total site area of approximately 14,452,563 sq.m. Shenhua Group has obtained the authorization of the MLR to transfer the land use rights of such allocated land to the Company as capital contribution (the "authorised allocated land"). Shenshuo Railway Company Limited and the Company are in the process of applying for change of registration of land user of the authorized allocated land under the name of the Company. As at the valuation date, land use rights certificates of 77 parcels of the authorized allocated land with a total site area of approximately 12,389,421 sq.m. have been registered in the name of the Company.

2. Shenhua Group has applied for the land use rights certificates of 2 parcels of land with a total area of approximately 3,202,064 sq.m. which are currently occupied by the Group for railway line use.

3. The Company has obtained a land use rights certificate for a parcel of granted land with an area of approximately 26,797 sq.m. and a land use term of 50 years.

4. Shenshuo Railway Company Limited has obtained the Building Ownership Certificates or Real Estate Ownership Certificates for a portion of the Completed Properties with a total gross floor area of approximately 254,227 sq.m. Shenshuo Railway Company Limited and the Company are in the process of applying for change of registration of building ownership under the name of the Company. As at the valuation date, building ownership certificates or real estate ownership certificates with a total gross floor area of approximately 251,701 sq.m. of the Completed Properties have been registered in the name of the Company.

5. We have attributed no commercial value to 6 buildings of the Completed Properties with a total floor area of approximately 942 sq.m. without relevant title certificates. We have also attributed no commercial value to the land use rights, buildings and structures on the 2 parcel of land mentioned in note 2 above for the reason that these properties do not have proper legal title as at the valuation date. We are of the opinion that the depreciated replacement cost of these buildings and structures (excluding the land) as at the valuation date would be RMB573,000,000 assuming all relevant title certificates have been obtained.

6. We have been provided with a legal opinion on the title to the properties issued by King & Wood, which contains, inter alia, the following information:-

   a. The Company has obtained the land use rights certificate of a parcel of granted land with an area of 26,797 sq.m., the land use rights and the building ownership on such granted land can be transferred, leased, charged or dealt with by other means within the validity period of the relevant land use right certificates and building ownership certificates.

   b. For the 86 parcels of allocated land with a total area of 14,452,563 sq.m., Shenhua Group has obtained the authorization of the MLR to manage and operate these parcels of land. Shenhua Group has the rights to use the land as capital contribution, lease or transfer among its directly held enterprises, subsidiaries and associated enterprises. After the Company has obtained the land use right certificates and building ownership certificates for such land and buildings, the land use rights and building ownership of such land and buildings can be transferred, leased, charged or dealt with by other legal means within the validity period of the relevant land use right certificates and building ownership certificates according to PRC laws and regulations. Prior to completion of the above procedures, there are no legal impediments on the use of such land and buildings by the Company.

   c. In respect of the 2 parcels of allocated land with a total area of 3,202,064 sq.m., Shenhua Group is in the process of applying for the land use rights certificates of these 2 parcels of land. Before Shenhua Group obtains the land use rights certificates of such parcels of land, there should be no legal impediments for use of such land by the Company.

   d. Of the approximately 771 buildings of the Completed Properties owned by the Company or its relevant subsidiaries and for which the Company and its relevant subsidiaries have obtained the relevant building ownership certificates, such buildings can be transferred, leased, charged or dealt with by other lawful means within the validity period of the relevant building ownership certificates. In respect of the buildings which are to be transferred and registered to the Company, upon completion of the relevant procedures, the Company and its relevant subsidiaries are entitled to transfer, lease, charge or deal with such buildings by other lawful means within the validity period of the relevant building ownership certificates. Before completion of the transfer and registration procedures, there are no legal impediments for use of such buildings by the Company and its relevant subsidiaries.

   e. As for the CIP Properties, for those properties which have been granted licence, permit, authorization and consent for their construction, there are no legal impediments to obtain building ownership certificates for such buildings upon completion of their construction. Upon obtaining the relevant building ownership certificates, the Company is entitled to transfer, lease, charge or deal with the building ownership of such buildings within the validity period of such building ownership certificates.

   f. Shenhua Group has undertaken to have the land use rights certificates and building ownership certificates registered under the name of the Company within six months from the incorporation date of the Company, to be responsible for all costs, expenses and claims incurred, and to indemnify the Company against all losses, claims, charges or expenses arising from the transfer of title registration.

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 15 March 2005
				RMB
8.	Land, various buildings and structures held by Shenhua Baoshen Railway Company Limited and its subsidiaries	The properties are located on 37 parcels of lands with a total site area of approximately 12,326,199 sq.m. situated in Inner-Mongolia Autonomous Region and Shaanxi Province. The properties comprise 276 buildings, structures and ancillary facilities with a total gross floor area of approximately 119,105 sq.m., mainly completed between 1986 and 2004 (the "Completed Properties"). The properties also include a number of buildings, structures and ancillary facilities with a total gross floor area of approximately 17,078 sq.m. which were under construction as at the valuation date (the "CIP Properties"). A total construction cost of approximately RMB67,630,000 has been incurred as at the valuation date. They are scheduled to be completed in 2005.	The properties are currently occupied by the Group for office, warehouse, workshop, dormitory, railway transportation and other ancillary uses.	1,200,000 (88.16% interest attributable to the Group: 1,057,920)

Notes:

1. Shenhua Baoshen Railway Company Limited and its subsidiaries, an 88.16%-owned subsidiary of the Company (referred to as "Baoshen"), have obtained the land use rights certificates of 36 parcels of allocated land with a total site area of approximately 12,292,864 sq.m. ("retained allocated land").

2. Baoshen has obtained land use rights certificates of 1 parcels of granted land with a total site area of approximately 33,335 sq.m. and land use term of 50 years.

3. Baoshen has obtained either building ownership certificates or real estate ownership certificates for a portion of the Completed Properties with a total gross floor area of approximately 103,362 sq.m. As advised by the Group, the Group

has applied for the relevant title certificates for the rest of the Completed Properties with a total gross floor area of approximately 15,743 sq.m.

4. We have attributed no commercial value to 6 buildings of the Completed Properties with a total floor area of approximately 15,743 sq.m. without relevant title certificates. We have also attributed no commercial value to the land use rights, buildings, structures and the construction work in progress on the retained allocated land for the reason that these properties are not allowed to transfer to other parties without the approval from the relevant local authorities. We are of the opinion that the depreciated replacement cost of these properties as at the valuation date would be RMB1,564,100,000 assuming all relevant title certificates have been obtained by the Group and the Group has legal rights to occupy, lease, mortgage or transfer these properties.

5. We have been provided with a legal opinion on the title to the properties issued by King & Wood, which contains, inter alia, the following information:-

   a. In respect of the 1 parcel of granted land with a total area of 33,335 sq.m., Baoshen holds the relevant land use right certificates and building ownership certificates of such land and buildings. Such land use rights and buildings can be used as consideration for capital contribution, leased or transferred in accordance with the law.

   b. In respect of the 36 parcels of allocated land with a total area of 12,292,864 sq.m., Baoshen holds the relevant land use right certificates of such land and building ownership certificates of the buildings thereon. Upon obtaining the relevant approvals, the Company can transfer the land use rights of such land and buildings. The price paid for the land use rights of such allocated land can be retained by the transferor as its lawful revenue. If use of the land differs from the authorized uses of such allocated land, the transferee has to apply and pay land premium for such use.

   c. As for the CIP Properties, for those properties which have been granted licence, permit, authorization and consent for their construction, there are no legal impediments to obtain building ownership certificates for such buildings upon completion of their construction. Upon obtaining the relevant building ownership certificates, the Company is entitled to transfer, lease, charge or deal with the building ownership of such buildings within the validity period of such building ownership certificates.

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 15 March 2005
				RMB
9.	Land, various buildings and structures held by Shuohuang Railway Development Company Limited and its subsidiaries	The properties are located on 54 parcels of lands with a total site area of approximately 27,328,050 sq.m. situated in Shanxi Province and Hebei Province. The properties comprise 664 buildings, structures and ancillary facilities with a total gross floor area of approximately 267,476 sq.m., mainly completed between 1998 and 2004 (the ''Completed Properties''). The properties also include a number of structures and ancillary facilities with a total gross floor area of 16,818 sq.m. which were under construction as at the valuation date (the ''CIP Properties''). A total construction cost of approximately RMB1,473,200,000 has been incurred as at the valuation date. They are scheduled to be completed by the end of 2005. The land use rights for the properties have been granted for an unspecified term.	An office unit of the properties is leased to Shenhua Group for a term of 10 years expiring on 31 December 2013 at an annual rent of RMB800,000 The rest of the properties are currently occupied by the Group for office, warehouse, workshop, dormitory, railway transportation and other ancillary uses.	No Commercial Value

Notes:

1. Shuohuang Railway Development Company Limited (referred to as ''Shuohuang''), a 52.72%-owned subsidiary of the Company, and its subsidiaries, have obtained the land use rights certificates of 54 parcels of allocated land with a total site area of approximately 27,328,050 sq.m. (''retained allocated land'').

2. Shuohuang has obtained either building ownership certificates or real estate ownership certificates for a portion of the Completed Properties with a total gross floor area of approximately 267,379 sq.m. As advised by the Group, the Group has applied for the relevant title certificates for the rest of the Completed Properties with a total gross floor area of approximately 96 sq.m.

3. We have attributed no commercial value to one building of the Completed Properties with a total floor area of approximately 96 sq.m. without relevant title certificate. We have also attributed no commercial value to the land use rights, buildings, structures and the construction work in progress on the retained allocated land for the reason that these properties are not allowed to transfer to other parties without the approval from the relevant local authorities. We are of the opinion that the depreciated replacement cost of these properties as at the valuation date would be RMB13,572,300,000 assuming all relevant title certificates have been obtained by the Group and the Group has legal rights to occupy, lease, mortgage or transfer these properties.

4. We have been provided with a legal opinion on the title to the properties issued by King & Wood, which contains, inter alia, the following information:-

   a. In respect of 54 parcels of allocated land with a total area of 27,328,050 sq.m., Shuohuang holds the relevant land use right certificates of such land and building ownership certificates of the buildings thereon. Upon obtaining the relevant approvals, the Company can transfer the land use rights of such land and buildings. The price paid for the land use rights of such allocated land can be retained by the transferor as its lawful revenue. If use of the land differs from the authorized uses of such allocated land, the transferee has to apply and pay land premium for such use.

   b. As for the CIP Properties, for those properties which have been granted licence, permit, authorization and consent for their construction, there are no legal impediments to obtain building ownership certificates for such buildings upon completion of their construction. Upon obtaining the relevant building ownership certificates, the Company is entitled to transfer, lease, charge or deal with the building ownership of such buildings within the validity period of such building ownership certificates.

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 15 March 2005
				RMB
10.	Land, various buildings and structures held by Shenhua Huanghua Harbor Administration Company Limited and its subsidiaries	The properties are located on 8 parcels of lands with a total site area of approximately 10,982,819 sq.m. situated in Huanghua of Hebei Province. The properties comprise 60 buildings, structures and ancillary facilities with a total gross floor area of approximately 70,586 sq.m., mainly completed between 1999 and 2005 (the "Completed Properties"). The properties also include a number of buildings, structures and ancillary facilities which were under construction as at the valuation date (the "CIP Properties"). The total construction cost of approximately RMB1,068,000,000 has been incurred as at the valuation date. They are scheduled to be completed in various phases between 2005 and 2006.	The properties are currently occupied by the Group for office, warehouse, workshop, dormitory, and other ancillary uses.	9,500,000 (70% interest attributable to the Group: 6,650,000)

Notes:

1. Shenhua Huanghua Harbor Administration Company Limited, a 70%-owned subsidiary of the Company (referred to as "Huanghua"), has obtained the land use rights certificates of 6 parcels of allocated land with a total site area of approximately 10,929,277 sq.m. ("retained allocated land").

2. Huanghua has obtained land use rights certificates of 2 parcels of granted land with a total site area of approximately 53,542 sq.m. and land use terms of 40 and 50 years.

3. Huanghua has obtained either building ownership certificates or real estate ownership certificates for a portion of the Completed Properties with a total gross floor area of approximately 44,583 sq.m. As advised by the Group, the Group will apply for the relevant title certificates for the rest of the Completed Properties with a total gross floor area of approximately 26,003 sq.m. upon the completion of the related ancillary facilities.

4. We have attributed no commercial value to 12 buildings of the Completed Properties with a total floor area of approximately 26,003 sq.m. without relevant title certificates. We have also attributed no commercial value to the land use rights, buildings, structures and the construction work in progress on the retained allocated land for the reason that these properties are not allowed to transfer to other parties without the approval from the relevant local authorities. We are of the opinion that the depreciated replacement cost of these properties as at the valuation date would be RMB4,966,600,000 assuming all relevant title certificates have been obtained by the Group and the Group has legal rights to occupy, lease, mortgage or transfer these properties.

5. We have been provided with a legal opinion on the title to the properties issued by King & Wood, which contains, inter alia, the following information:-

   a. In respect of the 2 parcels of granted land with a total area of 53,542 sq.m., Huanghua holds the relevant land use right certificates and building ownership certificates of such land and buildings. Such land use rights and buildings can be used as consideration for capital contribution, leased or transferred in accordance with the law.

   b. In respect of 6 parcels of allocated land with a total area of 10,929,277 sq.m., Huanghua holds the relevant land use right certificates of such land and building ownership certificates of the buildings thereon. Upon obtaining the relevant approvals, the Company can transfer the land use rights of such land and buildings. The price paid for the land use rights of such allocated land can be retained by the transferor as its lawful revenue. If use of the land differs from the authorized uses of such allocated land, the transferee has to apply and pay land premium for such use.

   c. As for the CIP Properties, for those properties which have been granted licence, permit, authorization and consent for their construction, there are no legal impediments to obtain building ownership certificates for such buildings upon completion of their construction. Upon obtaining the relevant building ownership certificates, the Company is entitled to transfer, lease, charge or deal with the building ownership of such buildings within the validity period of such building ownership certificates.

Power Operations

No.	**Property**	**Description and tenure**	**Particulars of occupancy**	**Capital value in existing state as at 15 March 2005**
				RMB
11.	Land, various buildings and structures held by Guohua Power Branch Company and its subsidiaries	The properties comprise 10 power plants and other subsidiaries located on 64 parcels of lands with a total site area of approximately 14,489,884 sq.m. situated in Beijing, Tienjin, Zhenge'er in Inner-Mongolia Autonomous Region, Suizhong in Liaoning Province, Shenmu in Shaanxi Province, Sanhe and Cangdong in Hebei Province, Ninghai in Zhejiang Province, and Taishan in Guangdong Province. The properties comprise 477 buildings, structures and ancillary facilities with a total gross floor area of approximately 906,190 sq.m., mainly completed between 1990 and 2005 (the ''Completed Properties''). The properties also include a number of buildings, structures and ancillary facilities with a total gross floor area of approximately 76,550 sq.m. which were under construction as at the valuation date (the ''CIP Properties''). The estimated total construction cost of RMB1,192,000,000 has been incurred as at the valuation date. They are scheduled to be completed in 2006.	The properties are currently occupied by the Group for power generation and other ancillary uses.	3,643,200,000 (Value attributable to the Group: 1,957,500,000)

Notes:

1. The Group has obtained the land use rights certificates of 33 parcels of allocated land with a total site area of approximately 10,179,824 sq.m. (''retained allocated land'').

2. The Group has also obtained the land use rights certificates of 31 parcels of granted land with a total site area of approximately 4,310,060 sq.m. and land use terms ranging from 15 to 50 years.

3. The Group has obtained either building ownership certificates or real estate ownership certificates for a portion of the Completed Properties with a total gross floor area of approximately 888,070 sq.m. As advised by the Group, the Group has applied for the relevant title certificates for the rest of the Completed Properties with a total gross floor area of approximately 18,120 sq.m.

4. We have attributed no commercial value to 8 buildings of the Completed Properties with a total floor area of approximately 18,120 sq.m. without relevant title certificates. We have also attributed no commercial value to the land use rights, buildings, structures and the construction work in progress on the retained allocated land for the reason that these properties are not allowed to transfer to other parties without the approval from the relevant local authorities. We are of the opinion that the depreciated replacement cost of these properties as at the valuation date would be RMB7,146,200,000 assuming all relevant title certificates have been obtained by the Group and the Group has legal rights to occupy, lease, mortgage or transfer these properties.

5. We have been provided with a legal opinion on the title to the properties issued by King & Wood, which contains, inter alia, the following information:-

   a. In respect of the 31 parcels of granted land with a total area of 4,310,060 sq.m., the Group holds the relevant land use right certificates and building ownership certificates of such land and buildings. Such land use rights and buildings can be used as consideration for capital contribution, leased or transferred in accordance with the law.

   b. In respect of 33 parcels of allocated land with a total area of 10,179,824 sq.m., the Group holds the relevant land use right certificates of such land and building ownership certificates of the buildings thereon. Upon obtaining the relevant approvals, the Company can transfer the land use rights of such land and buildings. The price paid for the land use rights of such allocated land can be retained by the transferor as its lawful revenue. If use of the land differs from the authorized uses of such allocated land, the transferee has to apply and pay land premium for such use.

   c. As for the CIP Properties, for those properties which have been granted licence, permit, authorization and consent for their construction, there are no legal impediments to obtain building ownership certificates for such buildings upon completion of their construction. Upon obtaining the relevant building ownership certificates, the Company is entitled to transfer, lease, charge or deal with the building ownership of such buildings within the validity period of such building ownership certificates.

Group II — Property interests leased by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 15 March 2005
				RMB
12.	Various office spaces in Beijing, the PRC	The property comprise a number of office units and floor levels within 3 office buildings with a total floor area of approximately 20,393 sq.m. situated in Chaoyang District and Haidian District. The property is completed in or about 1999. The property is subject to a lease agreement for a term of 10 years commencing from 1 January 2004 and expiring on 31 December 2013 at a current annual rental of RMB45,678,853.	The properties are currently occupied by the Group for office and other ancillary uses.	No Commercial Value

Notes:

1. According to a Building Lease Agreement entered into between Shenhua Group and the Company dated 14 January 2005, a number of office units and floor levels with a total floor area of approximately 20,393 sq.m. are leased to the Group from Shenhua Group for a term of 10 years expiring on 31 December 2013 at a total current annual rental of RMB45,678,853 with free rental period applied for a total office spaces of 3,021 sq.m.

2. Shenhua Group has obtained proper title certificates for approximately 17,372 sq.m. of the property. Shenhua Group does not have proper title certificates for the remaining spaces of approximately 3,021 sq.m. of the property. Shenhua Group has promised that it will apply for the title certificates for the buildings and entered into an undertaking to indemnify the Company against for all costs, expenses and claims arising from any queries or interferences to the Company for using the property.

3. We have been provided with a legal opinion on the lease agreements to the properties issued by King & Wood, which contains, inter alia, the following information:-

   a. The Building Lease Agreement which was entered into between Shenhua Group and Company is legally enforceable.

   b. According to the Letter of Undertaking issued by Shenhua Group to the Company and the Building Lease Agreement, Shenhua Group has undertaken to indemnify the Company against for all costs, expenses and claims incurred, and will compensate the Company for all losses, claims, charges or expenses arising from the changing of land title registration. Shenhua Group has promised to try its best to legalize the leases of the properties and be responsible for all losses and damages arising from any queries or interferences to the Company for using the properties.

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September, 2004
				RMB
13.	Various properties in Inner-Mongolia Autonomous Region and 5 cities in the PRC	The properties comprise certain land, buildings and ancillary facilities with a total gross floor area of approximately 29,731 sq.m. and a total land area of approximately 12,151 hectares located in Inner-Mongolia Autonomous Region, Huanghua, Beijing, Hangzhou, Yuyao and Zhuhai. The buildings and structures were completed in various stages between 1982 and 2004.	The properties are currently occupied by the Group for office, production and other ancillary uses.	No Commercial Value

Notes:

1. Shenhua Group has leased a number of land, offices, staff quarters, ancillary buildings and car parking spaces with a total land area of approximately 12,151 hectares and a total gross floor area of approximately 29,731 sq.m. from other independent third parties. The properties are subject to 10 lease agreements with terms ranging from 1 to 30 years.

2. We have been provided with a legal opinion on the lease agreements to the properties issued by King & Wood, which contains, inter alia, the following information:-

   a. The lease agreements which were entered into between Shenhua Group and the individual third parties are legally enforceable.

   b. Shenhua Group has undertaken to assign the leases of the properties to the Company and has promised to use its best endeavours to legalize the leases of the properties and be responsible for all losses and damages arising from any queries, interferences or claims to the Company for using the properties.

12 May 2005
File: 3123.3

China Shenhua Energy Company Limited
No. 22, Andingmen Xibinhe Road
Dongcheng District, Beijing 100011
CHINA

Subject: Independent Technical Report
China Shenhua Energy Company Limited

Dear Sirs:

We have provided independent technical consultancy services for a review of your active coal mining operations, selected undeveloped coal deposits, railways and ocean ports. This report presents our Independent Technical Report (ITR) of Shenhua Group Corporation Limited (Shenhua Group) assets transferred to China Shenhua Energy Company Limited (China Shenhua).

Respectfully submitted,

JOHN T. BOYD COMPANY

By: /s/ JAMES W. BOYD
James W. Boyd
President

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INDEPENDENT TECHNICAL REPORT

1.0 Introduction

1.1 Preamble

John T. Boyd Company (BOYD) was engaged on 19 April 2004 to provide independent, technical consultancy services relative to reviewing active coal mining operations, selected undeveloped coal deposits, affiliated railways, and ocean ports of Shenhua Group Corporation (Shenhua Group). This Independent Technical Report (ITR) presents findings and conclusions of our review of the primary coal assets included in China Shenhua Energy Company Limited (China Shenhua).

The coal mining and related rail and port operations owned in whole or in part by China Shenhua are judged by BOYD to be world-class in terms of size, design and technology employed. With annual coal production exceeding 100 million tonnes (Mt) and control of associated railway and port infrastructure, China Shenhua has established a competitive advantage in future coal supply to domestic Chinese thermal coal consumers and into export markets in the Pacific Rim. China Shenhua's 3-year plan for coal production is shown in Section 2.0, Future Operations.

1.2 Assets

China Shenhua is one of the largest coal-producing conglomerate business enterprises in China and includes substantial holdings in coal (reserves and mining), railways, ocean ports and electricity generation. China Shenhua operates 21 coal mines, four railways and a seaport. Additional facilities at another seaport and a large opencut mine are presently under construction. According to BOYD's review of the world's largest listed coal companies, China Shenhua ranked fifth in terms of 2004 commercial output.

General locations of China Shenhua mining operations and infrastructure (rail and ports) and power plant assets are shown in Figure 1.

Figure 3 shows the location of China Shenhua's coal mines and resource areas with the exception of the Shengli mine.

A summary of conclusions developed during our independent review includes:

- China Shenhua controls a marketable reserve base of 5.9 billion tonnes according to JORC Code classification;
- China Shenhua mines are among the largest, most efficient and most productive underground coal mines in the world;
- Current operations of China Shenhua have a low cost structure from a world industry perspective which we believe is driven by efficient commercial coal output and Chinese coal industry economic conditions;
- China Shenhua is the only coal producer in the PRC to have its own dedicated infrastructure system comprising railways and ocean port facilities, which provides greater flexibility for the shipment of coal to domestic and foreign customers; and
- China Shenhua assets offer significant growth potential for coal production and transportation.

This report addresses the following primary coal assets included in China Shenhua:

1.2.1 China Shenhua Operating Mine Assets

Profiles of China Shenhua Mining Operations

Coal Producer/Mine	Mine Type	Method	Average Seam Thk.	Avg.[(a)] Mining Ratio	Year of[(b)] Initial Operation	Marketable Reserve Tonnes As of 31 Dec. 2004	Typical Coal Characteristics[(c)] AR Calorific Value	Typical Coal Characteristics[(c)] Dry Basis Sulfur	Typical Coal Characteristics[(c)] Dry Basis Ash
			(m)			(million)	(Kcal/kg)	(%)	(%)
Shendong (Inner Mongolia, Shaanxi and Shanxi Provinces)									
Bulianta	UG	LW/CM	4.7	-	1997	310	5,750	0.4	6
Dahaize[(d)]	UG	DB	2.5	-	1999	13	5,800	0.2	6
Daliuta									
Daliuta	UG	LW/CM	4.3	-	1996	400	5,850	0.4	7
Huojitu[(e)]	UG	LW/CM	5.2	-	2000	325	5,800	1.4	8
Halagou	UG	CM	6.0	-	1992	17	5,950	0.4	5
Huoluowan[(d)]	UG	DB	5.5	-	2001	74	6,000	0.4	8
Kangjiatan[(g)]	UG	LW/CM	5.6	-	2002	400	5,550	0.5	20
Majiata (Houbulian)[(f)]	OC	T/S	6.4	3.6	1997	6	5,950	0.5	6
Shangwan	UG	LW/CM	6.3	-	2003	245	5,700	0.5	8
Shigetai[(d)]	UG	DB	4.1	-	2001	138	5,900	0.5	8
Wujiata[(d)]	OC	T/S	9.2	3.6	1996	85	5,800	0.5	8
Wulanmulun	UG	LW/CM	5.6	-	1992	36	5,600	0.4	6
Yujialiang[(g)]	UG	LW/CM	4.3, 4.0	-	2001	195	6,200	0.2	6
Zhunge'er (Inner Mongolia)									
Heidaigou	OC	T/S	23.3	4.9	1999	973	5,050	0.5	24
Wanli (Inner Mongolia)									
Chaonaogou									
Chaonaogou	UG	DB	3.5	-	1994	1	4,950	0.9	13
Dongsheng[(h)]	UG	DB	4.6	-	1992	1	5,100	0.6	13
Chengpo	UG	DB	19.2	-	1992	11	5,800	0.8	8
Cuncaota	UG	DB	2.6	-	1992	118	5,900	0.4	11
Liuta									
Ahuigou[(i)]	UG	DB	3.4	-	1999	-	6,100	0.3	7
Liuta	UG	DB	3.5	-	1990	60	5,750	0.4	8
Shenshan	UG	DB	4.7	-	1993	13	5,150	1.0	11
Tanggonggou[(j)]	UG	DB	4.1	-	1988, 1990, 2003	23	4,550	0.8	13
Wanli No. 1	UG	DB	4.7	-	1995	115	5,500	1.0	15
Shengli (Inner Mongolia)									
Shengli No. 1[(k)]	OC	T/S	18	2.7	2009	874	3,300	0.8	19

(a) Average ratio bank cubic metres of overburden per tonne of raw coal reserve over the mining right area.

(b) Official approval date of operation.

(c) Reflects coal quality for mines with coal preparation facilities

(d) Tianlong Corporation provides mining and labor services on a contract basis.

(e) Operates under combined management group with Daliuta.

(f) China Shenhua has merged Majiata and Houbulian mining operations.

(g) China Shenhua has recently acquired the mining rights for those operations from the mining right holders pursuant to transfer agreements.

(h) Operates under combined management group with Chaonaogou.

(i) Operates under combined management group with Liuta.

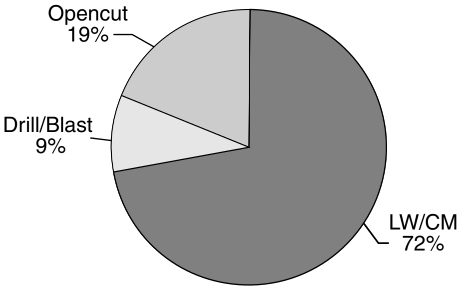
(j) Main Incline, No. 2 and No. 3 operate under one combined management group.

(k) Mine under development.

AR = As Received	OC = Opencut
DB = Drill & Blast	UG = Underground
LW = Longwall	CM = Continuous Miner
T/S = Truck/Shovel	

China Shenhua operating mine assets generally utilize both underground and opencut techniques. Production is dominated by high efficiency, longwall mines.

2004 Production by Method



1.2.2 Planned New Mine Developments/Expansions

Company/Mine	Type of Mine	Initial Operation Year	Planned Capacity (Mtpa)
Shendong			
Batuta	UG	2010	10[(a)]
Daliuta Extension	UG	2005	—[(b)]
Huhewusu-Erlintu	UG	2007	10[(c)]
Shigetai expansion	UG	2008	10
Zhungeer			
Heidaigou expansion	OC	2006	20
new mine	OC	2011	20
Wanli			
Wanli No. 1 expansion	UG	2008	5
Wanli Project	UG	2008	10
Shengli	OC	2009	10[(d)]

(a) Batuta will expand Wulanmulun's capacity.

(b) Daliuta Extension will sustain Daliuta's present output capacity.

(c) Huhewusu-Erlintu will expand Bulianta and Shangwan capacity.

(d) Shengli No. 1 is projected to attain 10.0 Mtpa capacity in 2009.

1.2.3 Coal Preparation and Loading Facilities

Coal Producer/Mine	Preparation Plant Loadout Location	Product Shipping	Level of Coal Processing	Preparation Plant Capacity (Cr-Screen/Wash)	Preparation Plant 2004 Recovery (%)
Shendong					
Bulianta	Bulianta	RR/Road	Cr.-Screen	13.1	94
Dahaize	Daliuta	RR/Road	Partial	37.4/18.4	94
Daliuta					
Daliuta	Daliuta	RR/Road	Partial	37.4/18.4	96

Coal Producer/Mine	Preparation Plant Loadout Location	Product Shipping	Level of Coal Processing	Preparation Plant Capacity (Cr-Screen/Wash)	Preparation Plant 2004 Recovery (%)
Huojitu	Daliuta	RR/Road	Partial	37.4/18.4	95
Halagou[(a)]	Ciyaowan Station	RR/Road	Cr.-Screen	NA	NA
Huoluowan	Shigetai Station	RR/Road	Cr.-Screen	NA	NA
Kangjiatan	Kangjiatan	RR/Road	Partial	9.9/16.1	84
Majiata (Houbulian)[(b)]	Bulianta	RR/Road	Cr-Screen	13.1	NA
Shangwan	Shangwan	RR/Road	Partial	10.5/6.6	95
Shigetai	Shigetai Station	RR/Road	Cr.-Screen	NA	NA
Wujiata	Shangwan	RR/Road	Partial	10.5/6.6	NA
Wulanmulun	Batuta	RR/Road	Partial	5.3/3.0	86
Yujialiang	Yujialiang	RR/Road	Partial	24.6/12.3	95
Zhunge'er					
Heidaigou[(c)]	Heidaigou	RR/Road	Full	15	97
Wanli					
Chaonaogou	On-site	Road	None	NA	NA
Chengpo	On-site	Road	None	NA	NA
Cuncaota	On-site	Road	None	NA	NA
Dongsheng	On-site	Road	None	NA	NA
Liuta					
Ahuigou	On-site	Road	None	NA	NA
Liuta	Batuta	RR/Road	None	NA	NA
Shenshan[(d)]	On-site	Road	None	NA	NA
Tanggonggou[(e)]	Chaonaogou	RR/Road	None	NA	NA
Wanli No. 1	Hanjiacun	RR/Road	None	NA	NA

(a) Rail spur under construction.
(b) China Shenhua has merged Majiata and Houbulian mining operations
(c) Seams 6^{-3} and 6^{-6} only (other seams sold raw, unwashed).
(d) Shenshan also trucked to Erdos.
(e) Main Incline, No. 2 and No. 3.
Cr-Screen = Crush and Screen

1.2.4 Railways

Company	% China Shenhua Ownership	Railway Length (km)	Coal 2004[(a)] Transported	Coal Annual Planned Capacity 2007
			(tonnes million)	
Baoshen	88.2	172	15	20
Shenshuo	100.0	270	88	140
Shuohuang	52.7	594	75	150
Dazhun[(b)]	57.8	264	26	47

(a) Total coal tonnage throughput — China Shenhua and others.
(b) Owned by Zhunge'er Energy.

1.2.5 Ocean Ports/Port Facilities

Company Port	% China Shenhua Ownership	Throughput 2004	Annual Planned Capacity 2007
		(tonnes million)	
Huanghua Port			
Huanghua[(a)]	70	45	85
Shenhua Tianjin Coal Dock			
Tianjin	55	(planned)	35

(a) China Shenhua has plans for a third phase of expansion at Huanghua Port to attain throughput of up to 85 Mtpa.

1.2.6 Historical Asset Performance

The historical performance for the China Shenhua assets are as follows:

Coal Production:

Coal Producer/Mine	Mine Type	Commercial Coal Tonnes 2002	2003	2004
			(000)	
Shendong				
Bulianta	UG	7,060	9,632	11,142
Daliuta/Huojitu	UG	15,268	19,472	19,896
Halagou	UG	2,005	2,868	2,514
Kangjiatan[(a)]	UG	2,322	7,460	7,274
Majiata (Houbulian)[(b)]	OC	1,213	1,688	1,661
Shangwan	UG	3,179	3,987	12,519
Wulanmulun	UG	943	1,960	3,205
Yujialiang[(a)]	UG	10,013	11,620	14,077
Other Shendong[(c)]	UG/OC	5,081	7,484	8,373
Total — Shendong		47,084	66,171	80,661
Zhunge'er				
Heidaigou	OC	10,046	12,237	14,157
Total — Zhunge'er		10,046	12,237	14,157
Wanli[(d)]				
Liuta/Ahuigou	UG	787	986	1,421
Wanli No. 1	UG	377	318	340
Other Wanli[(e)]	-	1,323	1,852	3,625
Total — Wanli		2,487	3,156	5,386
Shengli		-	-	1,098
Total — China Shenhua[(f)]		59,617	81,564	101,302

(a) China Shenhua has recently acquired the mining rights for these operations from the mining right holders pursuant to transfer agreements.

(b) China Shenhua has merged Majiata and Houbulian mining operations.

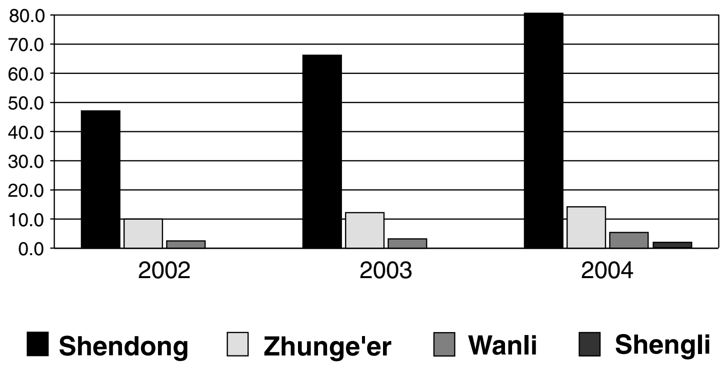
(c) Includes Dahaize, Huoluowan, Shigetai, and Wujiata (Tianlong provides mining and labor services for these mines on a contract basis) and unattributed production.

(d) Wanli includes the former Jinfeng mines. Jinfeng and Wanli comprise a single coal production unit with two mine management groups.

(e) Includes Chaonaogou, Chengpo, Cuncaota, Dongsheng, Shenshan, and Tanggonggou.

(f) Figures exclude third party coal purchases at the mine and coal producer level.

Commercial Tonnes (millions)



Rail Shipments:

	Total Coal Moved[a]		
	2002	2003	2004
	(million tonnes)		
Railway			
Baoshen	14.1	13.9	15.1
Shenshuo	47.0	71.0	88.0
Shuohuang	32.4	54.1	74.7
Dazhun	15.5	19.6	25.8

(a) Including China Shenhua and third party coal transport

Port Shipping Volumes:

	Tonnes Shipped		
	2002	2003	2004
	(million)		
Huanghua Port	16.5	31.2	45.4

1.2.7 Employment

China Shenhua's employment for the operating units directly concerned with coal production and railway and port operations totaled 27,207 registered and contract employees as of 31 December 2004. Employment levels by operating unit and business segment are shown below. Excluded from the employment figures below are personnel at Corporate Headquarters, the Trading Company, Guohua Power and Zhunge'er Energy power plants and other personnel, which are not involved in mining operations. Total China Shenhua employment for all business segments is 42,661 personnel (including 11,679 contract employees).

	Workforce		
	Registered	Contract	Total
Mining Group			
Shendong[(a)(b)]	6,147	-	6,147
Zhunge'er[(c)]	2,334	107	2,441
Wanli	1,029	596	1,625
Shengli	418	-	418
Subtotal	9,928	703	10,631
Railways	7,133	8,814	15,947
Ports	602	27	629
Total	17,663	9,544	27,207

(a) Excludes 356 personnel in the underground mines Dahaize, Huoluowan and Shigetai where Tianlong Corporation provides labor services on a contract basis.

(b) Excludes 104 personnel in the Wujiata opencut mine where Tianlong Corporation provides labor services on a contract basis.

(c) Zhunge'er has 89 and 18 contract workers at the Heidaigou Mine and coal preparation plant, respectively.

1.2.8 Historical Coal Production Costs

China Shenhua provided mine production costs for Shendong, Zhunge'er and Wanli mines and Shengli mine for the period 2002 through 2004. BOYD has reviewed and accepted these costs as reflecting China Shenhua's mining operations. Cash production costs directly associated with coal production include, but are not limited to, raw materials consumed, salary and wages, labor benefits, power, transportation expenses for transport of coal from mines to loading points, sales taxes and surcharges, general administrative expense and selling expenses and coal leasing payments.

From 2002 through 2004 mine cash costs have trended in a narrow band as China Shenhua's commercial output has doubled. China Shenhua's low-cost structure from a world industry perspective is driven by efficient commercial coal output, especially from the Shendong mines and Chinese coal industry economic conditions. Average annual mine cash costs by mining group are as follows:

	Mine Cash Costs RMB/Tonne (Commercial Basis)		
Mining Group	2002	2003	2004
Shendong	27	32	38
Zhunge'er	42	43	45
Wanli	40	38	35
Shengli	-	-	23
China Shenhua average	30	34	39

1.3 Scope of Work

By assignment, the scope of work for our technical review of China Shenhua's coal holdings included an independent assessment of:

- Reported coal reserves at designated operating and planned mine properties with a restatement of coal tonnage to comply with JORC Code requirements.

- Major mining operations including site visits to observe operations, assessment of current practices and performance, and validating future mine plans.
- Environmental overview to opine on operating standards observed as compared to World Bank/Chinese requirements.
- Business plan to opine on achievability, risks and opportunities for improvements.

While the focus of our work was China Shenhua's coal reserve holdings and mining operations, BOYD's remit also included an overview of the related China Shenhua subsidiaries covering:

- Rail transportation
- Ports/port facilities

The basis of our work was historical operating and other source data provided by Shenhua Group and China Shenhua, evaluated within the context of the BOYD project team's international mining, transportation and port infrastructure expertise. Unless otherwise noted in tables and charts, the data source is China Shenhua and where appropriate, Shenhua Group.

1.4 Work Program

During the course of this study, a ten- (10) person team of BOYD's US technical specialists in coal mining (underground and opencut), coal processing, geology and reserves, environmental, and railway and port operations completed a series of visits to China to complete firsthand observations of China Shenhua operations, to collect available source data, and to discuss historic performance and future plans with Shenhua Group and China Shenhua staff and management personnel. BOYD's Beijing office provided technical and translation support as well as logistics.

While the primary source of information (written and verbal) relied upon by BOYD in preparing this ITR was provided by Shenhua Group and China Shenhua, the basis of our professional opinion is founded on the technical expertise and broad international experience of the contributing BOYD team members. To ensure that our interpretation of the China Shenhua data was reasonable, follow-up visits were made to China after our initial analysis to confirm our findings and, where necessary, collect additional information.

The findings and conclusions presented in this ITR are supported by the text, tables and figures contained herein.

1.5 Forward-Looking Statements

Estimates of coal resources and reserves, as well as projections of coal mine output, are inherently forward-looking statements. Projections of future performance may differ from actual performance. Variations in performance from actual vs. projected may result from many factors including, but not limited to, inherent uncertainties in geologic data interpretation, occurrence of unforeseen geological conditions, change or lack of development in key domestic and international markets, material changes in market prices, variances in execution of construction and mine plans, and significant changes in projected materials, supplies, parts and equipment, operating costs and expenditures. Increased environmental compliance and changes in regulatory oversight for health and safety may also affect projected mining operations. Possible variations of future performance from the projections presented in this report are addressed in more detail in specific sections of this report.

Comments on the risks inherent in China Shenhua's various operations are discussed in the appropriate sections.

1.6 Project Team

The BOYD project team has extensive professional experience in resource, mine and processing plant evaluations. The BOYD project team, which conducted an independent technical review of China Shenhua, consisted of the following personnel:

Mr. Ronald L. Lewis — Managing Director, BS (Civil Engineering): Mr. Lewis has 33 years of experience in assessment and evaluation of coal mining companies with specialized expertise in the areas of coal/mineral reserve estimation, opencut and underground mine analysis and economic assessment of mining operations. He is a Registered Professional Mining Engineer and a recognized expert in mining property valuation.

Mr. James J. Schaeffer, Jr. — Executive Director — Asia Pacific, BS (Mining Engineering), MS (Business Administration): Mr. Schaeffer has 30 years of experience in the coal industry in coal processing and other aspects of mining operations. He is a Registered Professional Mining Engineer and oversees BOYD's Beijing (China) and Brisbane (Australia) offices.

Mr. Russell P. Moran — Vice President, BS (Geology), MS (Mining Engineering): Mr. Moran has 30 years of professional experience in exploration, evaluation and development of coal and mineral deposits. He is a Registered Professional Geologist, Certified Professional Geologist (AIPG) and Registered Professional Engineer with a diverse background in mine, reserve, and feasibility investigations, mineral exploration, geotechnical engineering, and mine and reserve valuations. Mr. Moran is a JORC Competent Person.

Mr. George V. Weisdack — Vice President, BS (Mining Engineering): Mr. Weisdack has 28 years of experience in assessment and evaluation of underground coal mining operations throughout the world. He is an expert with regard to reviewing and evaluating LW mining systems as well as CM mining operations.

Mr. David M. Carris — Executive Consultant, BS (Geology): Mr. Carris has spent nearly his whole 41-year career in the mining industry in the coal handling and processing sectors.

Mr. Zhong Dehui — General Manager, BS (Mining Engineering): Mr. Zhong has over 40 years experience in the mining industry, primarily in coal mine design at the Beijing Coal Design and Research Institute. His last position was that of Chief Engineer.

Mr. James F. Kvitkovich — Senior Mining Engineer, BS (Mining Engineering): Mr. Kvitkovich has 21 years experience in assessment and evaluation of underground coal mining operations throughout the world. He is a Registered Professional Engineer and is highly experienced with regard to reviewing and evaluating CM and LW mining operations.

Mr. Thaddeus J. Sobek — Senior Mining Engineer, BS (Civil Engineering): Mr. Sobek has 27 years as a mine engineering consultant with extensive international experience. He is a Registered Professional Engineer with a focus on opencut mine planning and design, mine feasibility and cost analysis, equipment application and selection, equipment appraisal, and productivity and efficiency surveys.

Mr. Thomas G. Simonetti — Senior Environmental Engineer, BS (Biology), MS (Civil Engineering): Mr. Simonetti has 31 years of professional experience in various aspects of environmental engineering as applied to mining operations. He is a Registered Professional Engineer with background in mine reclamation and restoration, mine drainage treatment, mine waste storage facility design, and environmental risk assessment.

Mr. Steven B. Kerr — Senior Geologist, BS (Geology), MS (Geology): Mr. Kerr has 20 years professional experience in exploration, evaluation and development of coal and mineral deposits. Mr. Kerr is a Registered Professional Geologist and Certified Professional Geologist (AIPG).

Mr. Frank A. Hilty — Mining Engineer, BS (Mining Engineering): Mr. Hilty has 15 years experience in the coal industry focused on transport infrastructure.

Mr. Paul D. Anderson — Associate Director of Geological Services, BS (Geology): Mr. Anderson is a Certified Professional Geologist (AIPG) with 30 years of professional experience in exploration, evaluation and development of coal and mineral deposits. Mr. Anderson is a JORC Competent Person.

Mr. Rade Vignovic — Executive Consultant — Railways, BS (Civil Engineering): Mr. Vignovic has over 46 years experience in coal and coke transportation.

Mr. Zhao Liang — Mining Engineer, BS (Coal Mine Technology): Mr. Zhao has 5 years of mining industry experience with a broad base of knowledge of coal mine design and feasibility gained at the Beijing Huayu Engineering Co. Ltd.

2.0 Future Operations

2.1 Conclusion

China Shenhua is one of the largest coal-producing conglomerate business enterprises in China and includes substantial holdings in coal (reserves and mining), railways, ocean ports and electricity generation. The China Shenhua Shendong LW Mine assets compare well to peer operations in their size, design and technology employed. The coal group overall has significant future growth potential. Based on past performance and expansion plans already underway, we believe that China Shenhua's 3-year plan, as discussed in this report for mines, railways and ports, is achievable.

2.2 Coal Output Projections

China Shenhua's output projections for its coal mining operations are summarized below:

Mine	Mine Type	Commercial Output 2005	2006	2007
		(million tonnes)		
Shendong				
Bulianta	UG	17.0	18.0	18.0
Daliuta[(a)]				
Daliuta	UG	10.0	10.0	10.0
Huojitu	UG	8.0	9.0	10.0
Halagou	UG	10.0	11.0	11.0
Kangjiatan[(b)]	UG	10.5	11.4	11.4
Majiata (Houbulian)[(c)]	OC	1.5	1.5	1.5
Shangwan	UG	11.0	11.0	12.1
Wulanmulun	UG	3.0	3.4	5.0
Yujialiang[(b)]	UG	14.0	15.4	15.4
Other Shendong[(d)]		7.5	9.8	12.8
Total — Shendong		92.5	100.5	107.2
Zhunge'er				
Heidaigou	OC	18.0	20.0	20.0
Total — Zhunge'er		18.0	20.0	20.0
Wanli[(e)]				
Liuta/Ahuigou	UG	1.5	1.5	1.5
Wanli No. 1	UG	1.5	4.0	4.5
Wanli Project[(h)]	UG	—	3.0	8.0
Other Wanli[(f)]		2.6	2.5	2.5
Total — Wanli		5.6	11.0	16.5
Shengli				
Shengli No. 1[(g)]	OC	0.9	1.0	5.0
Total — China Shenhua[(i)]		117.0	132.5	148.7

Note: Figures may not add due to rounding.

(a) Operate a common management group.

(b) China Shenhua has recently acquired the mining rights for these operations from the mining right holders pursuant to transfer agreements.

(c) China Shenhua has merged Majiata and Houbulian mining operations.

(d) Includes Dahaize, Huoluowan, Shigetai, Wujiata (Tianlong provides mining and labor services for these mines on a contract basis).

(e) Jinfeng mining operations have been merged into the Wanli structure, although the mining operations will maintain their separate local management groups.

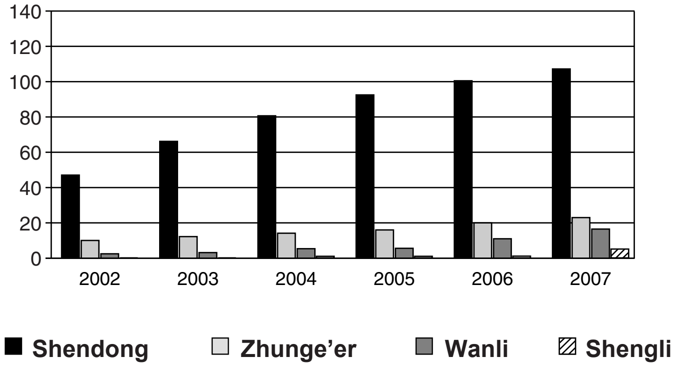
(f) Includes Chaonaogou, Chengpo, Cuncaota, Dongsheng, Shenshan and Tanggonggou.

(g) Mine under development.

(h) China Shenhua has several mining projects in the planning stages, at Wanli, which when implemented could significantly increase total commercial output. BOYD has not reviewed those projects in this report.

(i) Figures exclude third party coal purchases at the mine and coal producer level.

Commercial Tonnes (million)



2.3 Capital Investment Projections

China Shenhua's capital investment projections with regard to mine, rail transportation and port facilities for 2005-2007 are summarized as follows:

	2005	2006	2007
		(RMB million)	
Mining Group			
Shendong	2,891	2,815	2,042
Zhunge'er	702	422	3,203
Wanli	963	980	680
Shengli	700	700	—
Subtotal — Mining Group	5,256	4,917	5,925
Railways	3,493	1,675	1,638
Ports	2,675	1,900	931
Total	11,424	8,492	8,494

3.0 Geology

On a global basis the geology of the coal deposits controlled by China Shenhua is relatively simple (i.e., not geologically complex) and is dominated by thick coal occurrences.

3.1 Shenfu Dongsheng Coalfield

The Shenfu Dongsheng Coalfield, one of the largest coal-producing fields in the world and the largest coalfield in China, is located on the Shaanbei slope of the east flank of the Erdos syncline on the North-China platform. Shendong Mines (other than Kangjiatan) and Wanli Mines (other than Chengpo) are located in this coalfield. The coalfield is situated on the boundary of Yulin Prefecture, Shaanxi Province and southern part of Erdos City administrative area in Inner Mongolia. The area is part of the Early and Middle Jurassic coal-bearing Erdos Basin and formed as a successive basin on the platform. Generally, the strata have a gentle south/southwest dip ranging from 1° to 3°. BOYD rates the geology and related mining conditions associated with the coalfield, on average, to be comparable to or superior to similar geologic conditions associated with the major coal deposits now being mined in the US, Australia, RSA and elsewhere in the world.

Most of the coalfield is covered by unconsolidated and poorly consolidated Quaternary and Tertiary deposits. Exposures of the underlying stratigraphy are primarily limited to the banks of the Wulanmulun River and some of its tributaries. The most productive stratigraphic sequence in terms of Shendong coal reserves is the Middle and Lower Jurassic Age Yan'an Fm. The principal coal seams (accounting for a majority of reserves) are generally 3 m to 6 m thick under overburden cover ranging from 50 m to 200 m. The seams have low methane content and are subject to spontaneous combustion.

The coals in the Yan'an Fm are high volatile C bituminous rank, with low sulfur content. Calorific value varies with moisture and ash content but is typically 5,500 to 6,000 Kcal/kg as-received basis.

3.2 Zhunge'er Coalfield

The Zhunge'er Coalfield is located in the Inner Mongolia Autonomous Region, along the northeast portion of the Erdos Table Syncline. Basement rocks to the stratigraphic sequence are dolomites of Ordovician Age approximately 350 m deep.

Mineable coal lies in the Carboniferous Period's Taiyuan Fm. The Taiyuan is the lowermost coal-bearing formation in the coalfield containing coal seams Nos. 6 through 10. The formation averages 60 m in thickness and is divided into three distinct sections. The No. 6 Seam is the target seam of the Heidaigou Opencut Mine. Within Heidaigou's mining rights area, the No. 6 Seam is relatively consistent, ranging in thickness from 20 m to 30 m. Portions of the coal seam are extensively weathered (oxidized) along the southwestern boundary of the mining right area. The No. 6 Seam is relatively complex in composition and is further subdivided into six subseams. Structure is dominated by a northeast trending anticline; seam gradients generally range from 4° to 10° according to localized structural features. Depth of cover ranges from 40 m to 350 m in the coalfield and typically ranges from 100 to 150 m in the mine plan area. China Shenhua's Chengpo Mine of the Wanli Mines unit is proximate to the Heidaigou Mine in the No. 6 Seam.

Heidaigou Mine coal quality is high-volatile C bituminous rank with low sulfur content. Calorific value ranges from 4,700 to 5,100 Kcal/kg on an as-received basis.

3.3 Shengli Coalfield

The Shengli Coalfield, located approximately 3 km from the outskirts of Xilinhaote City in Inner Mongolia Autonomous Region, is approximately 680 km northeast of Baotou and 525 km north of Beijing. The coalfield occurs along the west slope of Daxinganling Mountain in a broad synclinal basin containing the Bayanhua coal-bearing formations.

The coal-bearing strata occurs in the Cretaceous Period's Shengli Fm and is defined by a faulted-bounded synclinal basin structure influenced by several large displacement normal faults. The mining license for China Shenhua's Shengli No. 1 Mine specifies opencut mining of six recoverable seams down to and including the No. 6 Seam. The focus seams show lateral continuity with cumulative recoverable thickness averaging 54 m (all splits of both Nos. 5 and 6 Seams). Overburden above the No. 5 Seam ranges from 20 m to 180 m, and averages 100 m. The seams dip northeast at 5° to 6°.

Shengli coals of commercial interest are lignitic in rank with low sulfur content. Calorific value ranges from 2,900 Kcal/kg to 3,450 Kcal/kg reflecting high moisture content.

3.4 Fugu Carboniferous Coalfield

The Fugu Carboniferous Coalfield, which contains Kangjiatan Mine, a mine controlled by Shendong Mine's unit, is located in western Shanxi Province approximately 80 km southeast of Daliuta (in the Shenfu Dongsheng coalfield). The coalfield occurs along, and is bisected in, areas by the Yellow River.

Coal-bearing strata are found in the Carboniferous Age Shanxi and Taiyuan Formations. The Shanxi Fm contains the No. 8 Seam and the Taiyuan Fm includes the No. 13 Seam. Both of these seams show lateral continuity and seam thickness ranging from 2 m to 10 m. Vertical separation of the seams is 45 m. Overburden above the No. 8 Seam is approximately 250 m. Seam bedding dips 4° to 9° to the west. Seam structures are relatively simple; faulting in China Shenhua's mining rights areas is limited. The seams have significant gas content and the potential for spontaneous combustion. China Shenhua's Kangjiatan Mine is situated in the southern portion of the coalfield.

Coals in the Shanxi and Taiyuan Fms are high volatile B bituminous rank coals with low sulfur and relatively high calorific value ranging from 5,000 to 5,600 Kcal/kg. Ash fusion characteristics are typical of Carboniferous Age coals with high ash melting temperatures, which are in demand for power generation fuel.

4.0 Resources

4.1 Introduction

In late April, May, and June 2004, BOYD geologists and engineers met with Shenhua Group's technical personnel. During these meetings Shenhua Group made presentations of the geology, coal resources, and mine plans for each China Shenhua mine. Shenhua Group provided BOYD with data presented in these meetings and follow-up data at our request. In addition, BOYD mining engineers visited all active Shendong mines, Zhunge'er's Heidaigou Mine and selected Wanli mines. During the mine site visits detailed discussions with mine managers and personnel were conducted concerning coal resources.

4.2 Resource Evaluation Data

In order to prepare an evaluation of Shenhua Group coal resources, BOYD was provided with detailed data for each controlled mining right area. Typical data provided included:

1. Property report
2. Geologic data, including tables containing drill hole data and coal quality
3. Resource tables and maps for each seam
4. Mine plan maps
5. Other data

The property report contained information for the following items:

1. Location and Geography
2. Regional Geologic, Mine Geology, Coal Seam Geology
3. Coal Quality
4. Hydrology

5. Engineering Geology
6. Environmental Geology
7. Exploration Status
8. Resource Assessment
9. Resource Calculations

The reports also contained various supporting maps sections and figures.

Shenhua Group resources are mainly defined by exploration drilling. The exploration drilling data is mainly obtained from core holes drilled by the Shenhua Group. Typical drill hole data includes:

1. Drillhole logs
2. Geophysical logs
3. Detailed coal analyses
4. Geotechnical data

Shenhua Group provided a database of 2,810 drill holes for the coal resource evaluation of all the China Shenhua mining right areas. Selected drillhole and geophysical logs were reviewed. Detailed tables of coal quality data from each drillhole were provided. Shenhua Group also provided generalized geologic sections for each mine area.

BOYD received resource tables and maps for each seam in the 31 mining right areas. A total of 160 seam maps define the resources in the properties. The resource maps showed hole locations, seam thickness and structure, geologic and hydrologic features, mining rights limits, buffer areas, local mine areas, current mining, and surface features. Resource polygons were shown with polygon identification number, area, seam thickness, density, and in-place tonnage data.

Polygon tables were also provided that corresponded to the maps. These tables showed the polygon identification, area, thickness, in-place tonnes, and holes used to determine seam thickness for the polygon. The table also shows the classification of, currently mineable, temporarily unmineable, and unmineable categories using the resource classification system used by Shenhua Group, and lists factors that may impact the mineability of the polygon.

Shenhua Group provided mine plan maps for all active operations. Mine plans were also provided for resources that were scheduled to be developed in the near term. These plans were reviewed by BOYD engineers with Shenhua Group's technical personnel and mine management.

During our review of this data BOYD personnel meet several times with Shenhua Group to clarify and verify our understanding of the data provided. Additional information including and maps and tables were provided as needed. This interaction with Shenhua Group's technical personnel was important source of information during our evaluation.

Shenhua Group prepared in-place resource tonnage estimates for each seam horizon in the China Shenhua mining right areas according to standards established by the PRC Government. According to these standards, all underground mineable seams greater than 0.8 m in thickness are included in the resource estimates, and shallow depth seams greater than 0.5 m are mapped for potential opencut mines. Shenhua Group geologists use a polygon approach to in-place resource estimation. The PRC Government requires detailed accounting of all in-place coal tonnage to track exploitation of a strategic national asset.

BOYD conducted a detailed and thorough evaluation of over 7,000 polygons for 160 seams at the 20 mine operations, related mining operations, extensions and the Shengli No. 1 Mine under development. As a result of this detailed review, we have a high degree of confidence in the results of our evaluation.

Our review of the coal resource data prepared by Shenhua Group shows that the consistent, thorough, detailed approach used to define the resources meets or exceeds international standards. The methodology employed for the resource estimates and adequacy of data conforms with generally accepted industry practice. On the basis of our review of Shenhua Group practices and procedures, BOYD accepted Shenhua Group's in-place coal resource estimates. These in-place resource estimates, prepared as required by the PRC Government, became the basis for determining economically recoverable reserves in accordance with international standards.

4.3 Reserve Classification

When reporting resources for evaluating mining properties, the main goal is to identify resources

- that are well-defined by exploration.
- that can be economically and legally extracted.

When a resource meets both of these criteria, it qualifies as a reserve. Therefore, a reserve is that part of a resource that is well-defined by exploration and economically and legally mineable.

Internationally recognized systems for reserve classification use different terminology; however, all are designed to separate resources into categories based on two factors:

- Degree of geological assurance of existence.
- Economic viability.

BOYD reclassified China Shenhua's resource estimates according to the Australasian Code for Reporting of Mineral Resources and Ore Reserves known as the JORC Code:

"Coal Resource is that portion of a deposit in such form and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics and continuity of a Coal Resource are known, estimated or interpreted from specific geological evidence and knowledge. Coal Resources are subdivided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories."

"Inferred Coal Resource is that part of the total Coal Resource estimate for which quantity and quality can only be estimated with low levels of confidence. The quantity and quality are inferred using Points of Observation that may be supported by Interpretive Data. Estimates for this confidence category are likely to change significantly with further exploration."

"Indicated Coal Resource is that part of the total Coal Resource for which quantity and quality can be estimated with reasonable levels of confidence, based on information gathered from Points of Observation that may be supported by Interpretive Data. The Points of Observation are sufficient for continuity to be assumed; but are too widely or inappropriately spaced to confirm geological and/or quality continuity."

"Measured Coal Resource is that part of the total Coal Resource for which quantity and quality can be estimated with a high level of confidence, based on information gathered from Points of

Observation that may be supported by Interpretive Data. The Points of Observation are spaced closely enough to confirm geological and/or quality continuity.''

''Coal Reserve is the economically mineable part of a Measured or Indicated coal resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of the modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Coal Reserves are sub-divided in order of increasing confidence into Probable Coal Reserves and Proved Coal Reserves.''

''Proved Coal Reserve is the economically mineable part of a Measured Coal Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.''

''Probable Reserve is the economically mineable part of an Indicated and in some circumstances Measured Coal Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.''

''Marketable Coal Reserves are the tonnages of coal, at specified moisture and quality, available for sale after beneficiation of Coal Reserves. Marketable Coal Reserves should be reported in terms of Probable Marketable Coal Reserves or Proved Marketable Coal Reserves.''

Proved reserves are typically defined by points of observation on a 750-meter spacing or less. It is our opinion that in uniform seam conditions this spacing is conservative and could be extended to over 1,000 m.

Probable reserves are typically defined by points of observation on 1,500-m spacing, but this definition has been extended to 2,500 m in certain areas when seam continuity has been demonstrated. Because of the uniform seam conditions, we have a high degree of confidence in the probable reserve category.

Reporting standards used by BOYD in this study for the JORC Code comply with standards for resource (reserve) classification systems that are also internationally recognized and in common use, including:

- Securities & Exchange Commission (SEC) Guide 7
- London Stock Exchange (LSE) Chapter 19.
- United States Geological Survey (USGS).

These standards also apply to the UN classification system, United Nations International Framework Classification — for Reserves/Resources — Solid Fuels and Mineral Commodities, which is utilized to a lesser extent for evaluation studies. The following shows the terminology according to system:

System	Decreasing Geologic Reliability →		
JORC	Proved	Probable	-
SEC	Proved or Measured	Probable or Indicated	-
USGS	Measured	Indicated	Inferred
LSE	Measured	Indicated	-
UN	Detailed	General	Prospecting

The terminology used for economic viability is as follows:

System	Decreasing Economic Viability →		
JORC	Coal Reserves	Coal Resources	Coal Resources
SEC	Economic	-	-
USGS	Economic	Marginal Economic	Subeconomic
LSE	Proved	Probable	-
UN	Economic	Marginal Economic	Submarginal Economic

A chart comparing these systems is shown in Figure 2.

The UN classification system uses a third criterion based on the degree of study as follows:

System	Decreasing Degree of Study →		
UN	Feasibility Study and Mining Report	Prefeasibility	Geological Study

This criterion requires that the economic mineability of a reserve be demonstrated by either a feasibility study and mining report or a prefeasibility study. Resources that have only a geological study cannot be classified as reserve.

Using JORC determinations for Proved and Probable, BOYD reclassified China Shenhua's resources according to UN system criteria for "Feasibility Study and Mining Report" and "Prefeasibility." This system was used because: (1) the PRC Government has adopted its use, and (2) it contains a more detailed breakdown of the resources, utilizing three primary criteria instead of two.

4.4 Economic Criteria

4.4.1 BOYD Criteria

While China Shenhua's internal practices of reporting in-place tonnage provide information on geological reliability, they do not provide saleable or product tonnage (reflecting mining and coal preparation losses) necessary to determine economic viability. Therefore, we further evaluated the reported in-place resources to determine the associated recoverable product-tonnes (economic viability).

BOYD's criteria for determining economically recoverable reserves, primarily based on seam thickness, are as follows:

Mining Method	Seam (Coal) Thickness Requirement (m) by Resource Category[a] Economic	Marginal Economic	Sub-marginal Economic
Continuous Miner or Conventional Mining			
Thick Seam	$\geq$2.50[b]	>1.75-2.50	0.80-1.75
Thin Seam	$\geq$2.00	>1.50-2.00	0.80-1.50
Longwall			
Thick Seam	$\geq$3.00	NA[c]	
Thin Seam	$\geq$2.00	NA[c]	
Opencut Mining[d]	$\geq$1.00	0.75-1.00	0.50-0.75

(a) Conforms to JORC Code.

(b) The 2.5-m minimum is based on required clearance for thick seam underground mining equipment.

(c) NA — not applicable; below the specified minimum economic seam thickness, deposits are assigned to "Continuous Miner or Conventional Mining."

(d) For opencut mining an economic limit of maximum mining ratio of 6:1 (in-place or bank m^3 of overburden waste per tonne of in-place coal) is also applied.

Marketable Reserves tonnes were calculated from in-place resources using three factors:

- Vertical seam thickness recovery (mining height restrictions, etc.)
- Mining recovery
- Preparation plant yield

4.4.2 Vertical Seam Recovery

The vertical seam thickness recoveries used are:

Underground Mines		
Existing LW Height	(metres)	4.5
New LW Height	(metres)	5.5
CM Height	(metres)	4.0
Maximum Vertical Seam Recovery	(%)	95
Sublevel Caving Recovery	(%)	80

China Shenhua has many underground mining operations with seams that are from 5 m to 10 m thick. Most existing LW faces operating in thick seam conditions can recover a mining height of 4.5 m. In these operations, only 4.5 m of the seam were included in the reserves. The remaining seam thickness is considered lost in mining and excluded from the reserves. China Shenhua has installed one new LW face that can recover 5.5 m and plans to use these higher profile units in all new thick seam mines. Therefore, we have considered 5.5 m recoverable in all new thick seam reserves. The remaining seam thickness (i.e., in excess of 5.5 m) is lost in mining and not included in the reserves.

For areas designated as CM or conventional mining, a maximum mining height of 4.0 m can be recovered with existing equipment. Remaining seam height has been excluded from the reserves.

The Wanli Chengpo Mine is a special case for vertical seam recovery. The No. 6 Seam that Chengpo is currently mining by using a combination of drill and blast techniques with top-level caving has an average seam thickness of 19.2 m. The maximum vertical seam recovery Chengpo achieves with this method is 8 m.

In thinner seams, we have used a 95% vertical seam recovery factor, since it is common to leave roof or floor coal to stabilize the roof or floor and avoid out-of-seam rock dilution.

In potential top-level caving areas at Kangjiatan Mine (13 Seam), we assigned an 80% seam recovery. This mining method is commonly utilized in China where thick seam conditions prevail.

For opencut mines, a 95% vertical seam recovery factor was typically used. This factor allows for typical mining losses during loading which occur at the top and base of the seam. Lower vertical seam recoveries were applied for the Shengli No. 1 Mine. The coal seams at Shengli No. 1 contain numerous splits of inseparable partings that lower the in-seam recovery. A vertical seam factor of 60% was applied to the No. 5 Seam and a 90% factor applied to the Nos. $5^{\text{-lower}}$, $6^{\text{-upper}}$, 6^{-1} and 6 Seams.

4.4.3 Mining Recovery

The second general recovery factor used relates to the average area of the seam that can be recovered for a typical mine plan layout. The following mining recovery factors, after deducting mine boundary barriers and surface property aquifer protection barriers, were used for underground operations:

LW	=	75%
CM or Conventional	=	60%

It should be understood that these values represent the average results a typical mine can achieve. In China Shenhua's active mines, these mining recoveries have been exceeded in certain small site-specific areas and have also been lower in other areas. We are confident these average values fairly represent the average recovery that is achievable.

For opencut mines, a 95% mining recovery factor is typically used. This recovery has been applied within the mine plan areas which include only the areas to be mined after highwall slope areas have been excluded. At the Heidaigou Mine, the mining recovery was lowered to 80% for the No. 6^{-1} Seam, which is erratic in occurrence. At Shengli No. 1 Mine, the mining recovery was lowered to 90% due to two significant want (no coal) areas within the mining right boundary, a significant fault in the western portion of the mining right area, and uncertainty for additional want areas or other geologic anomalies.

4.4.4 Preparation Plant Yield

The third recovery factor applied is a preparation plant yield. A 95% factor was applied to all underground mines except Wulanmulun (86%) and Kangjiatan (83%) mines and certain opencut mines. For most underground mines, approximately 50% of the coal is processed and the remaining is marketed as a raw product. This factor accounts for misplaced coal and plant operating efficiencies and dilution from mining operations. Generally minimal dilution is taken during mining as evidenced by the high preparation plant yields attained historically.

The current plan for the Shengli No. 1 Mine is to use a simple screening process to separate dilution material from their commercial product. BOYD assumed a greater loss in the No. 5 Seam due to partings (10% loss) and a lower loss in the No. 6 Seam due to its substantially greater seam thickness (2% loss). Overall yield recovery for the Shengli No. 1 Mine is 96% (4% loss).

4.4.5 Exclusions

Polygons in barrier and remnant pillars, mining right barriers, undermined areas, mined out areas, isolated or inaccessible areas, low cover areas, highly faulted areas, and areas where seam occurrences are too close to permit extraction were excluded from the reserve base.

4.5 Reserve Summary

4.5.1 Background

China Shenhua controls the mining rights for its coal resources either through mining right permits transferred to China Shenhua with PRC Government approval from Shenhua Group or through mining rights obtained directly from local owners in transfer agreements approved by the PRC Government. "Mining Rights" are discussed in Section 4.6.

General characteristics of the China Shenhua resource holdings are shown below:

Mine	Mine Method	No. of Seams With Reserves	Range of Seam Average Thk
			(m)
Shendong			
Bulianta	UG	3	3.3-6.7
Dahaize	UG	1	2.5
Daliuta			
Daliuta	UG	3	4.3-6.5
Huojitu	UG	4	3.2-8.7
Halagou	UG	2	2.5-6.0
Huoluowan	UG	3	2.5-5.5
Kangjiatan[c]	UG	2	5.6-7.5
Majiata (Houbulian)[a]	OC	1	6.4
Shangwan	UG	3	2.6-6.2
Shigetai	UG	4	2.0-4.6
Wujiata	UG & OC	3	1.5-9.2
Wulanmulun	UG	3	2.8-5.6
Yujialiang[c]	UG	2	4.0-4.3
Zhunge'er			
Heidaigou	OC	2	1.6-21.7

Mine	Mine Method	No. of Seams With Reserves	Range of Seam Average Thk
			(m)
Wanli			
Ahuigou	UG	—	NA
Chaonaogou	UG	1	4.4
Chengpo	UG	2	19.7
Cuncaota	UG	6	2.2-3.2
Cuncaota No. 1	UG	4	2.5-5.7
Dongsheng	UG	1	5.8
Liuta	UG	5	2.2-4.3
Shenshan	UG	3	2.2-4.7
Tanggonggou(b)	UG	4	2.3-4.1
Wanli No. 1/2	UG	8	2.2-4.7
Shengli			
Shengli No. 1	OC	5	6.4-38.7
Shendong Extension			
Batuta	UG	2	2.9-4.1
Daliuta Extension	UG	3	2.0-5.3
Huhewusu-Erlintu	UG	5	2.5-6.2

(a) China Shenhua has merged Majiata and Houbulian mining operations.

(b) Includes Main Incline, No. 2 and No. 3.

(c) China Shenhua has recently acquired the mining rights for these operations from the mining right holders pursuant to transfer agreements.

4.5.2 China Shenhua Reserves

BOYD developed coal resource estimates as of 31 December 2003 for the mining right areas controlled and leased by China Shenhua. These estimates were subsequently adjusted for coal production in 2004. Based on our analysis China Shenhua mining right areas contain a total of 11,647 million Measured and Indicated Resource tonnes as of 31 December 2004. Recoverable reserves defined as proved and probable reserves prior to adjustment for preparation plant yield are estimated at 6,224 million tonnes. Applying BOYD's criteria for determination of Economic Reserves results in reportable JORC Code coal reserves of 5,866 million Marketable reserve tonnes as of 31 December 2004. BOYD's JORC Code economic reserve estimates are summarized below by mine:

	31 December 2004										
	JORC Code										
	Resources (Mt)[a]			Recoverable Reserves (Mt)			Processing	Marketable Reserves (Mt)			% of
Mine	Measured	Indicated	Total	Proved	Probable	Total	Yield (%)	Proved	Probable	Total	Reserves
Shendong											
Bulianta	241.76	318.00	559.76	130.47	195.76	326.23	95	123.95	185.97	309.92	5
Daliuta											
Daliuta	188.35	642.58	830.93	111.18	310.37	421.55	95	105.62	294.85	400.47	7
Huojitu	358.72	403.38	762.10	175.13	167.42	342.55	95	166.37	159.05	325.42	6
Halagou	22.45	96.45	118.90	1.97	15.66	17.63	95	1.87	14.88	16.75	—
Kangjiatan[b]	213.01	718.41	931.42	144.37	337.24	481.61	83	119.83	279.91	399.74	7
Majiata											
(Houbulian)[c]	1.88	5.42	7.30	1.54	4.89	6.43	100	1.54	4.89	6.43	—
Shangwan	268.79	175.46	444.25	154.23	103.47	257.70	95	146.52	98.30	244.82	4
Wulanmulun	64.47	13.94	78.41	33.17	6.78	39.95	90	29.85	6.10	35.95	1
Yujialiang	68.99	233.45	302.44	43.29	161.87	205.16	95	41.13	153.78	194.91	3
Other Shendong[d]	310.10	748.17	1,058.27	142.45	182.86	325.31	95	136.30	174.09	310.39	5
Subtotal — Shendong	1,738.52	3,355.26	5,093.78	937.80	1,486.32	2,424.12		872.98	1,371.82	2,244.80	38
Zhunge'er[e]											
Heidaigou	163.99	976.46	1,140.45	145.53	878.27	1,023.80	95	138.25	834.36	972.61	17
Wanli											
Liuta/Ahuigou	192.63	—	192.63	63.00	—		95	59.85	—	59.85	1
Wanli No. 1/2	304.13	—	304.13	120.99	—	120.99	95	114.94	—	114.94	2
Other Wanli[f]	365.44	95.82	461.26	154.32	53.02	207.34	95	148.80	50.36	199.16	3
Subtotal — Wanli	862.20	95.82	958.02	338.31	53.02	391.33		323.59	50.36	373.95	6
Shengli[g]											
Shengli No. 1	943.29	699.97	1,643.26	667.70	242.44	910.14	96	640.99	232.74	873.73	15
Shendong Extension											
Batuta	90.20	201.29	291.49	55.39	57.37	112.76	95	52.62	54.50	107.12	2
Daliuta Extension	69.79	188.01	257.80	42.96	35.16	78.12	95	40.81	33.40	74.21	1
Huhewusu — Erlintu	163.04	2,099.13	2,262.17	91.84	1,191.80	1,283.64	95	87.25	1,132.21	1,219.46	21
Subtotal — Shendong Ext.	323.03	2,488.43	2,811.46	190.19	1,284.33	1,474.52		180.68	1,220.11	1,400.79	24
Total											
Underground	2,899.29	5,924.21	8,823.50	1,445.46	2,811.33	4,256.79		1,356.41	2,629.95	3,986.36	68
Opencut	1,131.74	1,691.73	2,823.47	834.07	1,133.05	1,967.12		800.08	1,079.44	1,879.52	32
Total	4,031.03	7,615.94	11,646.97	2,279.53	3,944.38	6,223.91		2,156.49	3,709.39	5,865.88	100

(a) In-place basis.

(b) Includes Sunjiagou mining right area.

(c) China Shenhua has merged Majiata and Houbulian mining operations.

(d) Includes Dahaize, Huoluowan, Shigetai, Wujiata.

(e) At 31 December 2004 China Shenhua held 55% interest in Zhunge'er Energy which owns 100% of Heidaigou Mine. In 2005, China Shenhua increased its interest in Zhunge'er Energy to 57.8%.

(f) Includes Chaonaogou/Shenshan, Chengpo, Cuncaota, Cuncaota No. 1, Dongsheng and Tanggonggou.

(g) China Shenhua holds 62.5% interest in Shengli Energy which owns 100% of Shengli No. 1 Mine.

Note: China Shenhua's Recoverable and Marketable Reserves estimates have been prepared by Mr. Paul Anderson, a competent person under the JORC Code, a member of the BOYD team.

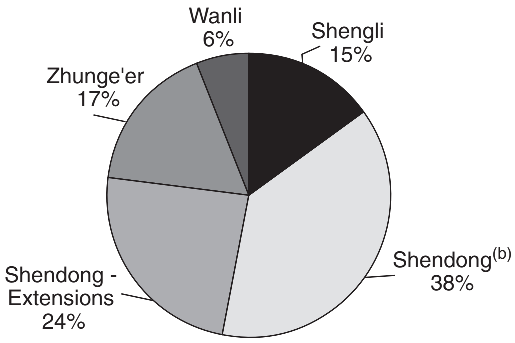
A summary of Recoverable and Marketable coal reserves as of 31 December 2004 by mining operation is as follows:

Mining Group	Measured and Indicated Resources	Proved and Probable Recoverable Reserves	Proved and Probable Marketable Reserves
		(Million Tonnes)	
Shendong[(a)(b)]	7,905.2	3,898.7	3,645.6
Zhunge'er	1,140.5	1,023.8	972.6
Wanli	958.0	391.3	374.0
Shengli	1,643.3	910.1	873.7
Total	11,647.0	6,223.9	5,865.9

(a) Includes Shendong Extension reserves.

(b) Includes reserves of the Yujialiang and Kangjiatan Mines; China Shenhua has recently acquired the mining rights for these operations from the mining right holders pursuant to transfer agreements.

China Shenhua Marketable Coal Reserves[(a)]



(a) As of 31 December 2004.

(b) Including reserves of the Yujialiang and Kangjiatan Mines; China Shenhua has recently acquired the mining rights for these operations from the mining right holders pursuant to transfer agreements.

According to BOYD's review of reserve holdings, China Shenhua ranks second among major international mining firms. Approximately 37% of China Shenhua's reserves are in the proved classification.

An additional 733 Mt recoverable or 680 Mt marketable of China Shenhua controlled Resources have been classified as marginal economic and have not been included in the estimated Recoverable Reserves. Though not currently economic, it is likely that a portion of these resources will be upgraded to reserve status in the future if conditions improve and certain mining restrictions are removed. Factors resulting in the marginal economic resource classification include unmined areas left under local mines, areas left unmined to protect surface drainages and underground aquifers, and areas where seam thickness did not meet the economic thickness criteria. Local mines cannot be undermined until their operations have been completed. Shendong has undermined surface drainages and aquifers using LW techniques in the past and anticipates being able to do so in the future. However, some areas under drainages and aquifers are presently off limits to mining activity.

China Shenhua's reserves are deemed to be ''assigned'' reserves; that is designated or assigned to specific currently producing or projected mines (Shengli No. 1 for example). The Shendong Extension areas are assigned to the following mines:

Shendong Extension Mining Right Area	Active Mine
Batuta	Wulanmulun
Daliuta Extension	Daliuta
Huhewusu-Erlintu	Bulianta/Shangwan

Mining operations have not begun in the Shendong Extension areas; development of Daliuta Extension is projected for 2005.

4.6 Mining Rights

4.6.1 Overview

Coal resources in China are owned by the state as established in the PRC Mineral Resources Law. The law and related Administrative Measures on the Mineral Resources Production Registration, which governs certain aspects of mineral and coal resources control for exploitation (including the granting of new and the renewal of existing mining right permits), are administered by the Ministry of Land and Resources (MLR). Exploration right permits, mining right permits and land use rights are granted by the MLR or relevant local mineral resource bureau before exploration or mining operations can be undertaken in defined mining right areas. Mining right permits are granted for specified periods of time, after which the rights may be extended upon application.

Mining right permit status for China Shenhua's present operating mines follows:

Coal Producer/Mining Right Area	Certificate Number	Mining Method	Area	Mining Right Permit Grant Date	Mining Right Validity	Mining Right Permit Renewal Date
			(km^2)	(yr/month)	(years)	(yr/month)
Shendong						
Bulianta	1000000520011	UG	34.4475	2000/07	30	2030/07
Dahaize	1000000520010	UG	37.5246	2002/09	15	2017/09
Daliuta						
Daliuta[a]	1000000520039	UG	91.1763	2005/04	30	2035/04
Huojitu	1000000520008	UG	63.7814	2000/07	30	2030/07
Halagou	6100000520079	UG	17.4217	2005/03	5	2010/10
Houbulian[b]	1500000520108	OC	1.8240	2005/03	5	2010/03
Huoluowan	1500000520028	UG	13.2019	2005/03	2	2006/09
Kangjiatan	1400000520401/02	UG	55.9261	2005/05	10	2015/05
Shangwan	1000000520026	UG	25.8682	2005/03	25	2030/07
Shigetai	1000000520007	UG	65.2799	2000/07	30	2030/07
Wujiata	1000000520006	OC/UG	9.1842	2003/04	3	2006/04
Wulanmulun	1500000520027	UG	6.5039	2005/03	15	2020/12
Yujialiang	1000000520047	UG	56.3339	2005/04	30	2035/04
Zhunge'er[c]						
Heidaigou	1000000140152	OC	50.3339	2001/12	30	2031/12
Wanli						
Chaonaogou						
Chaonaogou	1500000520079	UG	0.8657	2005/01	5	2010/01
Dongsheng	1500000520095	UG	1.3953	2005/03	5	2010/03
Chengpo	1500000520094	UG	2.4427	2005/03	5	2010/03
Cuncaota	1000000520032	UG	16.4971	2005/03	1	2005/12
Cuncaota No. 1	1500000520114	UG	8.7797	2005/03	5	2010/03
Liuta						
Ahuigou	1500000520117	UG	1.4885	2005/03	5	2010/03
Liuta	1000000520031	UG	13.6178	2000/12	15	2015/12
Shenshan	1500000420606	UG	2.1734	2004/12	5	2009/12
Tanggonggou						
Tanggonggou Main Incline	1500000520116	UG	3.6564	2005/03	5	2010/03
Tanggonggou No. 2	1500000520115	UG	1.0658	2005/03	5	2010/03
Tanggonggou No. 3	1500000520118	UG	0.4045	2005/03	3	2008/03
Wanli No. 1	1000000520029	UG	11.7413	2005/03	10	2015/12
Wanli No. 2	1000000520030	UG	9.5299	2005/03	13	2018/03
Shengli						
Shengli No. 1	1000000510013	OC	34.3607	2005/02	30	2035/02
Shendong Extension						
Batuta	1000000510012	UG	37.5881	2005/02	30	2035/02
Huhewusu-Erlintu	1000000510014	UG	110.2430	2005/02	30	2035/02

(a) includes Daliuta Extension

(b) China Shenhua has merged Majiata and Houbulian mining operations.

(c) China Shenhua has 57.8% interest in Zhunge'er Energy which owns 100% of Heidaigou Mine.

4.6.2 Mining Rights Review

Review and evaluation of mining rights was completed by an independent advisor of Shenhua Group. BOYD has not completed an independent legal evaluation of the status of China Shenhua's mining rights but has reviewed the documentation for the mining right certificates related to its current mining operations, extension areas and Shengli. It is our understanding that China Shenhua holds the mining rights (direct control as authorized by the MLR) on its own behalf or through controlling interests for all its mines. China Shenhua has recently acquired the mining rights for Yujialiang and Kangjiatan from the mining right holders pursuant to transfer agreements.

4.6.3 Mining Right Permit Reserves

On the basis of documentation provided by China Shenhua, Shenhua Group has valid mining right permits for the present operating mines for the specified periods. By PRC law the maximum holding period (term) for mining right permits is 30 years. The MLR has the legal authority to renew an existing mining right permit that is expiring. It is typical practice in other major coal producing nations for governments to extend the term of the mining rights for the economic life of the reserves. It is BOYD's understanding that the MLR has granted Shenhua Group special provisions that would assure renewal of the mining right permits upon request for specific properties for a successive period(s) equivalent to the remaining life of the economic reserves. This is significant since reserves projected to be remaining after the expiration of the mining right permit could not be included in China Shenhua's reserve holdings without this provision.

For this report, BOYD developed estimates of reserves that may be subject to renewal after the expiration of current mining right periods. Our estimates reflect the following inputs:

- Present mining right permit expiration dates.
- BOYD reserve estimates as of December 31, 2004.
- Projected coal production for 2005 to 2007 period according to China Shenhua's commercial output forecast, adjusted for depletion or expiration of mining rights prior to January 2008.
- Projected annual commercial coal production rates after 2007 until depletion of reserves.

Remaining mine life projections are indicative estimates based on commercial coal production rates. China Shenhua's 2007 annual commercial output rates were utilized to develop estimates of remaining mine life, which were compared with current mining right validity periods. Where the estimated remaining mine life exceeds current mining right validity period, the projected un-mined reserves are considered subject to renewal of mining rights. BOYD's approach is conservative in that the production rates actually achieved may be greater than those forecast for 2007 by some or all of the China Shenhua mines. There are many factors that could affect post-2007 production rates and the intent of this estimation process is to approximate the reserves that may be subject to renewal at the expiration of the mining rights according to present mine plans. Future mine plans may have production rates that are significantly different than those used for this indicative projection. BOYD's analysis is for illustrative purposes only and should not be construed as a long-term forecast of China Shenhua coal production.

BOYD's mining right permit reserve estimates are:

Mining Right Area	31 Dec. 2004 Estimated Reserves (Million Tonnes)	Expiration Date (Yr/Month)	Current[(a)] Mining Right Validity Period (Years)	Remaining[(b)] Mine Life (Years)	Estimated Mining Right Reserves (Million Tonnes) Existing Permit	Subject To Renewal
Shendong						
Bulianta[(c)]	309.92	2030/07	25.50	28.9	276.00	33.92
Dahaize	13.15	2017/09	12.67	17.5	9.49	3.66
Daliuta						
Daliuta	400.47	2035/04	30.00	49.7	243.00	157.47
Huojitu	325.42	2030/07	25.50	32.8	252.00	73.42
Halagou	16.75	2010/10	5.75	1.6	16.75	—
Houbulian[(d)]	6.43	2010/03	5.17	4.3	6.43	—
Huoluowan	73.55	2006/09	1.67	36.8	3.34	70.21
Kangjiatan	399.74	2015/05	10.00	35.1	117.80	281.94
Shangwan[(e)]	244.82	2030/07	25.50	35.6	244.82	—
Shigetai	138.37	2030/07	25.50	15.3	138.37	—
Wujiata	85.32	2006/04	1.25	42.7	2.50	82.82
Wulanmulun[(f)]	35.95	2020/12	15.92	7.9	35.95	—
Yujialiang	194.91	2035/04	30.00	12.7	194.91	—
Shendong Extension						
Batuta	107.12	2035/02	30.00	10.7	107.12	—
Daliuta Extension[(g)]	74.21	2035/04	30.00	38.6	57.00	17.21
Huhewusu-Erlintu	1,219.46	2035/02	30.00	76.7	613.64	605.82
Zhunge'er						
Heidaigou	972.61	2031/12	26.92	48.7	536.40	436.21
Wanli						
Chaolaogou						
Chaonaogou	0.99	2010/01	5.00	3.3	0.99	—
Dongsheng	1.09	2010/03	5.17	5.5	1.03	0.06
Chengpo	10.99	2010/03	5.17	19.0	2.59	8.41
Cuncaota	118.46	2005/12	0.92	148.1	0.73	117.73
Cuncaota No. 1	31.88	2010/03	5.17	6.4	—	31.88
Liuta						
Ahuigou	—	2010/03	5.17	—	—	—
Liuta	59.85	2015/12	11.92	23.8	27.68	32.17
Shenshan	12.94	2009/12	4.92	61.7	0.98	11.96
Tanggonggou						
Tanggonggou Incline	20.52	2010/03	5.17	42.2	1.99	18.54
Tanggonggou No. 2	1.50	2010/03	5.17	15.0	0.52	0.98
Tanggonggou No. 3	0.79	2008/03	3.17	7.9	0.32	0.47
Wanli No. 1	53.50	2015/12	10.92	11.7	49.60	3.90
Wanli No. 2	61.44	2018/03	13.17	12.3	—	61.44
Shengli						
Shengli No. 1[(h)]	873.73	2035/02	30.00	90.1	272.90	600.83

(a) Mining rights from January 2005.

(b) From end of 2004.

(c) Huhewusu is mined from the existing Bulianta Mine.

(d) China Shenhua has merged Majiata and Houbulian mining operations.

(e) Erlintu is mined from the existing Shangwan Mine.

(f) Batuta is mined from the existing Wulanmulun Mine.

(g) Daliuta Extension is mined from the existing Daliuta Mine.

(h) Mine under development.

4.6.4 Land Use Rights

Generally the surface lands in the China Shenhua mining right areas belong to the PRC government. In mining right areas where opencut mining methods are used, China Shenhua has acquired surface land use rights. For mining right areas where underground mining methods are applied, land use rights are not needed.

4.6.5 Resource Recovery

PRC laws and regulations governing the mining of coal resources require coal mine operators to attain overall resource recovery rates that may be uneconomical to achieve in practice. Failure to achieve applicable recovery rates as set by the responsible central government ministry in a timely manner can expose a coal producer to penalties such as revocation of the coal mine's production permit. A responsible person, typically the highest ranking geologist/engineer, prepares an annual report to the MLR detailing changes in resources over the year. Based on our discussions with China Shenhua officials, the coal production units take resource recovery seriously and employ measures to comply with mandated recovery rates including secondary recovery mining activity in some instances. China Shenhua's mine plans demonstrate a concern for maximizing resource recovery.

4.7 Conclusion

Shenhua Group technical staff's geological and geotechnical knowledge of the reserve base and associated geologic settings is adequate to support projected long-term mining operations.

Based on our review of the coal resource data and the methodology used to define the resources, visits to the active mining operations, and interaction with Shenhua Group personnel, we have a high degree of confidence that the resource estimates shown in this report accurately represent the specified mine properties. Our review of China Shenhua's exploration data, geologic mapping, and evaluation of the methods Shenhua Group used to calculate coal resources indicates that this information is developed according to international industry standards and can be used with confidence.

Based on review of exploration practices and resource estimation procedures employed by Shenhua Group technical staff, with independent assessment and calculation of Economic Reserves by BOYD using Shenhua Group coal resource mapping and tonnage estimates, we have a high degree of confidence that reported Economic Reserve tonnages are properly prepared in accordance with international standards and accurately represent the specific mine properties.

BOYD has reviewed the mining right documentation presented by Shenhua Group with regard to China Shenhua's reserve holdings. To the extent supported by the documentation, we accept that China Shenhua holds the mining right permits for the areas evaluated in this report for the documented periods with the exception of the leased mines discussed in Section 4.6.2. We understand that these rights extend to both opencut and underground extraction methods. It is also our understanding that China Shenhua has been granted special provisions by the MLR that would entitle it to assured renewal of specific mining right permits prior to their expiration upon request.

5.0 Shendong

5.1 Introduction

Shendong is a unit in China Shenhua's mining group with coal mining operations primarily centered in the Shenfu Dongsheng Coalfield. General locations of Shendong mining operations are shown in Figure 4.

Shendong is comprised of large longwall (LW) mines, two medium-size opencut mines, and several medium-size underground mines using drill and blast techniques. The LW mines are well-capitalized operations using one to three LW mining systems supported by one or two continuous miner (CM) units. The large mines operate in laterally consistent coal seams with sufficient reserves and mining thickness to facilitate large-scale production over 5- to 20-year mine lives depending on mine. One opencut mine (Wujiata) and three drill and blast underground mines (Dahaize, Huoluowan and Shigetai) are operated with mining and labor services provided by Tianlong Corporation on a contract basis. Shenhua Group holds a minority interest in Tianlong.

In terms of output, the Shendong underground mines are the largest underground mines in China and several of the LW mines rank among the world's largest underground mines in terms of 2004 commercial output. Shendong's production accounted for approximately 80% of China Shenhua's total output in 2004.

Shendong's mines are summarized as of the end of 2004 below:

Mine	Mine Type	Mining Techniques	Status	No. of LW Faces	Type of LW Face	Coal Transportation
Bulianta	UG	LW/CM	A	1	IM	C/R
Dahaize[(a)]	UG	DB	I	-	-	T
Daliuta[(b)]						
Daliuta	UG	LW/CM	A	1	IM	C/R
Huojitu	UG	LW/CM	A	1	IM	C/R
Halagou	UG	LW/CM	A	1	IM	C/R
Huoluowan[(a)]	UG	DB	A	-	-	T
Kangjiatan[(d)]	UG	LW/CM	A	3	IM	C/R
Majiata (Houbulian)[(c)]	OC	Truck/Shovel	A	-	-	T
Shangwan	UG	LW/CM	A	1	IM	C/R
Shigetai[(a)]	UG	DB	A	-	-	C/R
Wujiata[(a)]	OC	Truck/Shovel	A	-	-	T
Wulanmulun	UG	LW/CM	A	1	D	C/R
Yujialiang[(d)]	UG	LW/CM	A	2	IM	C/R

(a) Tianlong Corporation provides mining and labor services on a contract basis.

(b) The mines operate under a common management group.

(c) China Shenhua has merged Majiata and Houbulian mining operations.

(d) China Shenhua has recently acquired the mining rights for those operations from the mining right holders pursuant to transfer agreements.

Note:

UG = Underground	CM = Continuous Miner	R = Rail
OC = Opencut	I = Inactive	IM = Imported
A = Active	C = Surface Conveyor	D = Domestic
LW = Longwall	DB = Drill & Blast	T = Truck

5.2 Historical Production

Shendong's recent historical production figures are shown below:

Mine/Source	Mine Type	Commercial Coal Tonnes (000) 2002	2003	2004
Bulianta	UG	7,060	9,632	11,142
Daliuta/Huojitu	UG	15,268	19,472	19,896
Halagou	UG	2,005	2,868	2,514
Kangjiatan[(a)]	UG	2,322	7,460	7,274
Majiata (Houbulian)[(b)]	OC	1,213	1,688	1,661
Shangwan	UG	3,179	3,987	12,519
Wulanmulun	UG	943	1,960	3,205
Yujialiang[(a)]	UG	10,013	11,620	14,077
Other Shendong[(c)]		5,081	7,484	8,373
Total — Shendong[(d)]		47,084	66,171	80,661

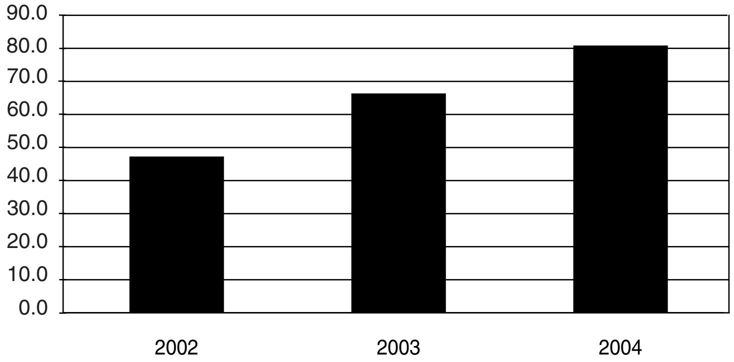
(a) China Shenhua has recently acquired the mining rights for these operations from the mining right holders pursuant to transfer agreements.

(b) China Shenhua has merged Majiata and Houbulian mining operations.

(c) Includes Dahaize, Huoluowan, Shigetai and Wujiata (Tianlong provides mining and labour services for these mines on a contract basis). Also includes unattributed production.

(d) Figures exclude third party coal purchases at the mine and producer level.

Shendong Commercial Tonnes (million)



Shendong's underground production has increased sharply over the last four years corresponding to the number of new imported LW face installations. The growth in LW installations is shown in the following table:

Mine	LW Faces in Service at Year-End[(a)]		
	2002	2003	2004
Bulianta	1	1	1
Dahaize	-	-	-
Daliuta/Huojitu	2	2	2
Halagou	-	-	1
Huoluowan	-	-	-
Kangjiatan	1	2	3
Shangwan	-	-	1
Shigetai	-	-	-
Wulanmulun	1[(b)]	1[(b)]	1[(b)]
Yujialiang	1	1	2
Total — LW Faces	6	7	11

(a) Imported manufacture unless noted.

(b) Domestic manufactured.

LW mine production increased from 38.8 million commercial tonnes in 2002 to 68.1 million commercial tonnes in 2004.

5.3 Employment and Labor Practices

As of 31 December 2004 Shendong had 6,147 mining-related registered employees with the following breakdown:

Segment	Employees
Underground Mines[(a)]	2,502
Opencut Mines[(b)]	248
Coal Preparation/Screening Plants	331
Headquarters	182
Auxiliary Production Support[(c)]	2,884
Total	6,147

(a) Excluded 356 personnel in the Dahaize, Huoluowan, and Shigetai underground mines where Tianlong provides labor services on a contract basis.

(b) Excludes 104 personnel in the Wujiata opencut mine where Tianlong provides labor services on a contract basis.

(c) Includes production service, equipment maintenance, material management and supply, production preparation, in-company transportation and sales, geology and mine survey personnel.

The facility and service center employees are distributed among the following centers:

- Production Service
- Equipment Maintenance
- Material Management/Supply
- Production Preparation
- Transportation and Sales
- Geology and Survey
- Other

Except for the wash plants, which are directly tied to the mines, the centers contract with the mines for specific services, such as the Production Service Center, which performs LW face transfers. Shendong in-turn charges the mines for the services provided by the center.

Shendong provides basic mandatory retirement pension, medical, industrial accident, unemployment, and maternity insurance and supplementary retirement pension and medical insurance amounting to 52% of basic salaries. Other benefits provided by Shendong include medical insurance premiums (6% of compensation) and allowances for festivals and holidays (8% of compensation). Annual leave provisions (vacation, etc.) are between 7 and 15 days depending on a particular employee's seniority. The average age of Shendong personnel is reported to be 39 with 46% of the workforce falling into the 25- to 35-year-old category. PRC Government regulations mandate retirement age at 60 for male staff and 55 for female staff.

Shendong's labor costs on a unit of output basis and as a component of overall production costs (4% to 6% of overall cash costs) are quite low in comparison to the major international coal industries. While the wage levels are high for the Chinese coal industry generally, Shendong's high labor productivity more than compensates for the higher wages. Shendong's high compensation structure assures the coal producer of a steady stream of highly qualified applicants.

Based on discussions with mine management groups and data submitted by China Shenhua, it is our opinion that Shendong's approach to staffing its mines follows practices found in the international modern mining industry. Mine staffing levels approach those found in the US and Australian underground mines and are lower than comparable RSA mines. Contract services (or central mine services) manning is not readily comparable due to varying personnel numbers and lack of documentation both internationally and at Shendong. It is generally accepted that many mines, both underground and opencut, in the international coal mine industry rely on workers who are not full-time regular employees. This reliance can be significant in some instances.

Shendong's labor efficiency (commercial tonnes divided by payroll personnel count) is high by international standards. Only a small number (ten or less) of US and Australian mines attain annual labor productivities of 20,000 commercial tonnes or more. Shendong's average labor efficiency for 2004 detailed by mine and by mine type is as follows:

	2004[a] Commercial Output Tonnes (000)	31 December[a] 2004 Employees	Productivity Commercial Tonnes/Employee-Yr
Underground			
Bulianta	11,142	368	30,277
Daliuta/Huojitu	19,896	579	34,363
Halagou	2,514	106	23,712
Kangjiatan	7,274	398	18,277
Shangwan	12,519	307	40,779
Wulanmulun	3,205	275	11,653
Yujialiang	14,077	469	30,015
Composite — Underground	70,627	2,502	28,228
Opencut			
Majiata (Houbulian)[b]	1,661	248	6,696
Composite — Shendong	72,288	2,750	26,287

(a) These figures exclude the Huoluowan, Shigetai and Dahaize underground mines and the Wujiata opencut mine where labor services are provided by Tianlong on a contract basis.

(b) China Shenhua has merged Majiata and Houbulian mining operations.

BOYD's labor efficiency calculations include only direct regular payroll employees in order to be readily comparable to mine labor data from other countries. As discussed above, data on contract or temporary support personnel not directly assigned to mine activities are not readily available.

Factors contributing to Shendong's high labor productivity in its LW mines are as follows:

1. Shendong is mining thick seams ranging from 3 to 6 metres in coal thickness.
2. Physical mining conditions are generally good and highly favourable for coal production.
3. Shendong (with the exception of Wulanmulun Mine) employs the most advanced mining equipment supported by relatively new and high capacity infrastructure.
4. Shendong has embraced staffing practices common to US and Australian mines.
5. Shendong's mines are relatively new with limited extent of workings between the production faces and the surface access points and low labor support requirements.
6. Shendong's run-of-mine coal generally requires minimal processing, and reject levels are low.
7. Shendong's use of rubber-tired diesel vehicles is a highly effective means of transporting materials and personnel underground.
8. Shendong's centralized service model and management systems permit efficient dispatching of support personnel.

The impact of these factors can be seen in Shangwan Mine's 2004 labor productivity of 40,779 tonnes/employee-year. Notably, Shangwan has one of the highest capacity belt conveyor infrastructures.

Shendong's labor costs on a unit of output basis and as a component of overall production costs are quite low in comparison to the major international coal industries with the exception of RSA. Shendong's average annual direct worker compensation (including bonuses) ranges from RMB45,000 to RMB60,000, equating to RMB1.6 to RMB2.2 per tonne of commercial output at the mine level. In terms of Shendong's production costs, labor comprises approximately 4% to 6% of overall cash costs, which is significantly lower than that for the major coal-producing countries where direct labor is 20% to 35% of cash costs. Shendong's comparative labor advantage using productivity data as noted can be summarized as follows:

Underground Mines By Region	Average Annual Direct Employee Compensation	Average Productivity Commercial tonnes/ Employee-Yr	Commercial Cost
	(RMB)		(RMB/Tonne)
Shendong Underground[d]	50,000	28,230	1.8
RSA[e]	115,000[a]	9,000	12.8
US LW Mines[f][g]	495,000[b]	11,770	42.1
US All Mines[f][g]	400,000[b]	10,280	38.9
Australian[e]	745,000[c]	11,500	64.8

(a) RMB1.09 = 1 Rand
(b) RMB8.25 = 1 USD
(c) RMB6.05 = 1 AUD
(d) 2004 data
(e) 2003 data
(f) 2004 preliminary data
(g) Mines with commercial output greater than 250,000 tpy.

Considering the impact of other labor-related costs (such as medical care, retirement, workers' compensation, insurance, etc.), Shendong's comparative advantage is even more favourable.

5.4 Historical Coal Production Cost

Since 2002 mine cash costs have increased somewhat as Shendong's commercial output has increased by approximately 75%. Despite the increase, Shendong's costs remain the lowest among China Shenhua's coal production units. According to information provided by China Shenhua, average mine cash costs by year are as follows:

	RMB/Tonne (Commercial Basis)		
	2002	2003	2004
Shendong	27	32	38

Shendong's low-cost structure, from a world industry perspective, is driven by highly efficient commercial coal output and Chinese coal industry economic conditions.

5.5 Safety

The standard measure of safety performance used by the Chinese coal industry to compare safety performance is the fatality rate per 1.0 Mt of coal production. Historical safety performance as reported by China Shenhua is summarized for the Shendong mines as follows:

Year	Raw Coal Production	Fatalities	Fatality Rate per Mt
	(tonnes million)		
2001	37.9	1	0.026
2002	51.7	4	0.077
2003	70.0	7	0.100
2004	83.3	1	0.012
Composite 2001-2004	242.9	13	0.054
2001-2003	159.6	12	0.075

The figures shown above include the Shendong's opencut mines, Majiata (Houbulian) and Wujiata. The fatalities occurred at the Shendong's underground mines; hence, the fatality rate for underground mines is slightly higher than for the coal producer as a whole. Since opencut mines contribute only a small percentage of Shendong's output, the reported fatality rates reasonably represent Shendong's fatality experience.

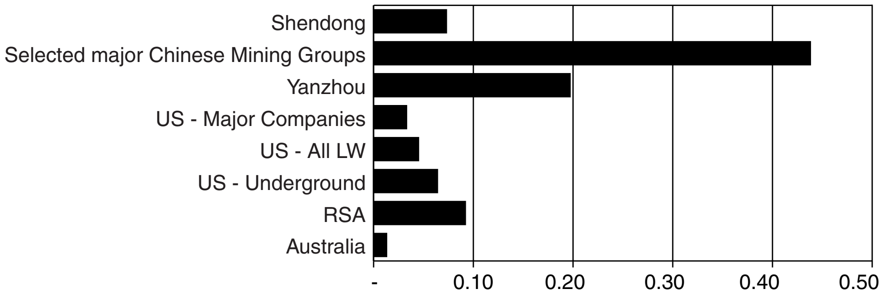
Shendong's fatality rate increased in the 2002-2003 period primarily due to incidents related to falls of roof and rib in LW development mining. Falls of roof and rib are typically a leading cause of fatalities in underground coal mines in the major coal-producing countries. China Shenhua has instituted new safety and operational policies and guidelines to minimize injuries and fatalities in CM mining activity including limiting cut lengths, greater use of supplemental roof and cable bolts, etc.

Shendong's fatality experience is generally higher than the comparative Australian and US industries (except for 2001 when Shendong's fatality rate was very low, the US suffered a major multi-fatality explosion incident and Australia had two fatalities). Shendong's fatality experience, compared to the other major underground coal mining countries and the Chinese coal industry, is summarized below:

Underground Mining Group	Fatality Rate per Mt 2001-2003
Australia	0.013
Republic of South Africa	0.092
US — All Mines	0.064
US — All LW Mines	0.045
US — Major Companies	0.033
China — All Mines	4.480
Yanzhou Coal Mining Company Ltd.	0.197
Selected Major Chinese Mining Groups	0.438
Shendong	0.075

Sources: U.S. Mine Safety and Health Administration (MSHA)
PRC State Administration of Coal Mine Safety (SACMS)
Chamber of Mines of South Africa
Coal Services Pty Limited
Queensland Government Natural Resources and Mines

UG Fatality Rate Per Million Tonnes (2001-2003)



Note:

PRC all mines fatality experience is not shown due to scale.

Selected major Chinese mining groups (excluding Yanzhou) include Pingdingshan, Datong, Yangquan and Kailuan.

Shendong's fatality rate experience is significantly better than the Chinese coal industry (60 times) as a whole and is approximately 80% lower than peer mining groups' experience and 60% lower than Yanzhou. It is BOYD's opinion that Shendong operates the safest mines in China.

Coal mine safety is administered by SACMS, which maintains bureau offices in northern Shaanxi Province and has representatives posted at the mine sites.

5.6 Training

Shendong has implemented safety training programs, procedures and work practices to provide for worker safety. Based on BOYD site visits, observed Shendong's mine work practices are of a high order and appear to be consistent with reasonable safety practices followed in other advanced coal industries.

Shendong's extensive provisions for safety training are largely guided by the State Administration of Worker Safety (SAWS). SAWS is in ultimate charge of worker safety at the national level and oversees officials at the provincial, coal mine bureau and coal producer levels.

A safety training center is maintained at the coal producer level for training lower level personnel. A new Shendong employee must take a series of classes amounting to a minimum of 48 hours of instruction. Annual retraining consists of 16 hours. Shendong conducts monthly safety inspections, provides additional training in safe work practices, and maintains detailed safety procedures designed to ensure worker safety. A safety management system is in place that defines goals and measures progress towards those goals. Shendong also conducts classes and programs to upgrade the practical skills of its workforce, including management training, mechanical and electrical schools.

From the regulatory perspective, the SACMS supervises the mine site safety inspector offices on-site on a continual basis. The safety inspectors act independently of coal mine management.

5.7 Coal Quality and Processing

Shendong's principal area of mining operations in northern Shaanxi Province and Inner Mongolia Autonomous Region produce low sulfur coals, classified as principally long-flame and "non-sticky." In situ ash content generally ranges from 5% to 10%; sulfur typically ranges from 0.3% to 0.5%. Typical coal quality (as-received basis) is shown below, although for individual mining right areas and seams, certain coal quality parameters can fall outside of this range:

Characteristic		Typical Coal Quality Parameter (as-received basis)
Moisture	(%)	14-16
Ash	(%)	5-10
Sulfur	(%)	0.4-0.6
Volatile Matter	(%)	26-37
Calorific Value	(Kcal/kg)	5,500-6,000
Phosphorus	(%)	<0.03
Ash Melting Point	(°C)	1,150-1,200

The extent and degree of coal processing varies according to the presence of in-seam partings; typically coal processing is only required to remove partings and extraneous rock. Upgrading the in situ coal quality is typically not necessary; thus the product ash varies with seam variations but is generally suitable for Shendong's primary market (steam coal for power generation). China Shenhua has extensive capacity for selectively blending coals for various markets and customers. Its large production base and transportation options give Shendong the flexibility to respond to market opportunities in a timely fashion.

Blending of Carboniferous coals from Shendong's Kangjiatan mining operation is needed to increase ash fusion temperatures for certain customers. Blending is typically accomplished at China Shenhua's Huanghua Port. Kangjiatan's typical coal quality (as-received basis) is as follows:

Characteristic		Typical Coal Quality Parameter (as-received basis)
Moisture	(%)	9-10
Ash	(%)	22-28
Sulfur	(%)	0.6-1.0
Volatile Matter	(%)	27-34
Calorific Value	(Kcal/kg)	5,100-5,600
Phosphorus	(%)	<0.03
Ash Melting Point	(°C)	1,450

Shendong's Coal Processing Center is responsible for the operation of six plant facilities located in Shanxi and Shaanxi Provinces, and Inner Mongolia. Total screening and crushing capacity for the six existing plants is 15,350 tph, and coal cleaning capacity is 8,575 tph.

	Screening and Crushing		Coal Cleaning		2004	
Plant	Process Capacity	Annual[(a)] Capacity	Processing Capacity	Annual[(a)] Capacity	Operating Days	Yield
	(Tph)	(Mtpa)	(Tph)	(Mtpa)		(%)
Bulianta	2,000	13.1	-[(b)]	-	362	94
Daliuta[(c)]	5,700	37.4	2,800	18.4	365	96
Kangjiatan	1,500	9.9	2,450[(d)]	16.1	344	84
Shangwan	1,600	10.5	1,000	6.6	360[(e)]	95
Wulanmulun	800	5.3	450	3.0	318[(f)]	86
Yujialiang	3,750	24.6	1,875	12.3	361	95
	15,350	100.8	8,575	56.4		

(a) Based on BOYD's projection of 6,570 operating-hours on an annual basis assuming 18 hours per operating-day and 365 operating days per year for maximum facility operations, and stated processing capacity (tph).

(b) Contract for new facility awarded in May 2004.

(c) Processes Daliuta, Huojitu and Dahaize raw coal.

(d) Includes new facility to come on-line in 2004.

(e) Shangwan facility came on-line in June 2003.

(f) Wulanmulun facility came on-line in October 2003.

Shendong operates some of the most modern coal processing facilities in China and has invested substantial funds in building modern plants designed and engineered principally by Sedgman with proved international technology. Shendong has evolved from screening and crushing facilities producing raw sized products to complementary coal cleaning plants designed to process the higher-ash portions of raw coal streams.

Processing plant operations are scheduled 18 hours per day and up to 365 days per year. Shendong's processing plants generally maintain acceptable international standards of plant maintenance and housekeeping; the mechanical and structural conditions of the plant were observed to be in good order. Plant management personnel demonstrate an awareness of the need for quality control of the saleable products, which are closely monitored. Shendong's processing plant manning follows practices similar to those at the underground mines; staffing numbers are much lower than are typically found at other Chinese plant operations. Staffing is slightly higher than found in similar US and Australian plants but is reflective of the full-time operation and is not considered excessive.

5.8 Operating Practices

The Shendong mines operate according to standard practices, which are generally imposed throughout the operating unit, although there may be differences in actual application at specific mines. The standard Shendong mine operating schedule is 300 production days per year on a 7-day-per-week basis (18-20 production hours per day). The typical employee works 5 or 6 days per week as required, but the mines are staffed 24 hours per day, 7 days a week. Shendong's mine scheduling practices tend toward a fuller operating schedule than is typical for the international coal industry. However, there are examples of 7-day operations throughout the industry. BOYD does not consider that 7-day scheduling is in any way inherently unsafe.

Mine surface facilities at the major underground mines are well-established complexes and provide accommodations for all aspects of the mining operation including administration and mine manager offices, materials and parts storage, shower rooms, locker rooms, bathhouse areas, conference rooms, engineering facilities, mine monitoring and communications station, etc. Living quarters for single men are often provided nearby the mine site. Generally the principal mines are near or in population centers. Several major mines are remote from population centers, and workers are usually transported by buses to the site.

Shendong underground mines typically use shallow angle slopes or horizontals to access the seams for mining activities using rubber-tired vehicles. Air shafts (intake or return) are utilized in mines where the workings have extended a sufficient distance from the initial access slopes to warrant their construction.

LW technology (semi- and fully-mechanized) is the preferred Chinese method of coal production deriving from a long institutional central government emphasis on maximizing reserve recovery. LW methods generally (but not always) are higher in recovery than any other method found in the coal industry. The emphasis on LW techniques for maximizing resource recovery applies generally to larger mining companies. Smaller mines and smaller, less well-capitalized companies typically use drill/blast methods applied to room and pillar mining; resource recovery is typically lower in these mines.

Shendong LW mines utilize single-pass cutting techniques; sub-level or top-caving and slice mining techniques found commonly in thick seam Chinese mines are not utilized. High resource recovery and favourable mining economics associated with single-pass mining have dictated continued use of this technique. Top-caving and slicing techniques may be utilized in future Shendong mining operations to enhance resource recovery.

Of the ten operating underground mines (considering Daliuta and Huojitu as a single mining operation), six use fully-mechanized imported LW face technology procured from Joy and DBT. At year-end 2004 Shendong had eleven sets of imported LW equipment and one set of domestic-made LW equipment available for use. LW panels range in width from 240 m to 300 m. Shendong is gradually lengthening its faces as the geotechnical characteristics of operating in shallow cover reserves are better understood and it is more comfortable with capabilities of imported LW face technology. Panels vary in length according to the configuration of the mining right areas or other features defining the mineable reserve. Typical panel lengths are 3,000 m to 4,000 m (with more than 6,000 m in Daliuta and Yujialiang Mines). Panel lengths and utilization of some of the most advanced technology have enabled Shendong to achieve highly favourable economics. The 6,000 m panels are among the longest in the world LW industry.

The Shendong LW mines are among the most efficient, highest output mines in the world coal industry. LW face commercial output rates at the mines with imported LW faces approach or exceed 9 Mtpa, with single face installations making them the most productive LW faces in the world. Based on our review of comparable mines the Shendong LW mines are among the world's most productive mines in terms of labor efficiency for generating commercial output. Commercial output per mine employee for the LW mines was 28,230 tonnes per employee-year in 2004. According to a BOYD survey of the largest underground coal mines in the world, as measured by commercial output in 2003, Shendong had 5 mines in the top 20 and 4 mines in the top 10.

2003 LARGEST COAL PRODUCING UNDERGROUND MINES

Rank	Company	Mine	Country	Production (MM tonne)	LW (Y/N)	No. of LW Faces
1	Ingwe Collieries Limited	Khutala	RSA	13.00	N	—
2	**China Shenhua (Shendong)**	Yujialiang	PRC	11.60	Y	1
3	**China Shenhua (Shendong)**	Daliuta	PRC	10.91	Y	1
4	Yanzhou Coal Mining Co. Ltd	Jining III	PRC	10.08	Y	2
5	**China Shenhua (Shendong)**	Bulianta	PRC	9.63	Y	1
6	CONSOL Energy Inc.	Enlow Fork	USA	8.97	Y	2
7	**China Shenhua (Shendong)**	Huojitu	PRC	8.56	Y	1
8	CONSOL Energy Inc.	Bailey	USA	8.52	Y	2
9	SASOL Mining (Pty) Ltd	Brandspruit	RSA	8.40	N	—
10	Eyesizwe Coal (Pty) Ltd	Matla No. 2	RSA	8.23	Y	1
11	Yanzhou Coal Mining Co. Ltd	Dontang	PRC	8.18	Y	2
12	SASOL Mining (Pty) Ltd	Twistdraai Export	RSA	7.80	N	—
13	SASOL Mining (Pty) Ltd	Bosjesspruit	RSA	7.80	N	—
14	SASOL Mining (Pty) Ltd	Middelbuit	RSA	7.70	N	—
15	SASOL Mining (Pty) Ltd	Syferfontein	RSA	7.50	N	—
16	**China Shenhua (Shendong)**	Kangjiatan	PRC	7.46	Y	1
17	Eyesizwe Coal (Pty) Ltd	Matla No. 3	RSA	7.37	Y	1
18	Foundation Coal Corp.	Foidel Creek	USA	7.28	Y	1
19	Yanzhou Coal Mining Co. Ltd	Baodian	PRC	7.26	Y	2
20	Yanzhou Coal Mining Co. Ltd	Xinglongzhuang	PRC	7.02	Y	2

Source: publically available data and China Shenhua

In 2004, based on Shendong mine output figures and preliminary US mine data, we anticipate that 6 Shendong mines rank in the top 20 underground mines and 4 Shendong mines rank in the top 10 mines in terms of commercial output.

LW face retreat rates for a 240-meter face (imported equipment) range from 450 m to 600 m per month depending on conditions. Following international LW practices, a spare AFC and other LW face equipment are established in the next successive LW panel setup in advance of the completion of mining in the current panel which allows rapid LW restart. Face transfers have been accomplished in less than 7 calendar days, comparable to some of the best performances at US and Australian mines.

Shendong LW mines utilize imported CM technology for development of mains and LW gates. The imported CM equipment provided principally by Joy and DBT consists of 36 CM's supported by domestic continuous haulage systems and imported rubber-tired, cable-powered haulage vehicles. CM techniques (Wongawilli) are also highly flexible permitting recovery of small or irregular areas in the coal reserve unsuitable for LW mining in order to satisfy MLR recovery mandates.

Shendong typically manages its face and auxiliary support equipment from the Equipment Maintenance service center. The center manages and coordinates equipment specification, selection and purchase, usage, major maintenance, equipment rebuilding, repair parts administration and distribution, and leasing of major underground equipment. This approach makes it possible to maximize the use of equipment and avoid redundancy and low utilization. It also ensures equipment maintenance practices are consistent throughout the Shendong mines and that the equipment is repaired to the same standard.

BOYD visited the repair shops and associated facilities. The facilities are first class and rival the capabilities of the OEM's fabricating facilities in the US, UK and Germany. A number of OEM equipment technical representatives are present on a continuous basis to ensure quality control and assist with trouble-shooting the more difficult maintenance and repair issues. These technicians can also be retained to perform service, repair or rebuild work. Also in this regard, Joy Global Inc. recently established a service center in Baotou to provide closer assistance and support to a major customer. Generally BOYD's opinion is that, although the Shendong mine locations are remote from world OEM equipment providers, the commitment to Shendong appears high and the coal producer's operating experience makes it evident that it is receiving adequate vendor support.

Shendong rotates faces among its mines as conditions, equipment applications and timing permit. Shendong maintains sufficient sets of LW equipment so that as one LW panel extraction is nearing completion, components for the next LW face can be installed as needed and unneeded components of the face finishing up can be sent out for repairs and maintenance. There is no need to maintain spares on an individual mine basis among the Shaanxi and Inner Mongolian mines due to the close proximity of the mine sites to the Shendong Equipment Maintenance Center and related shops. Faces can be removed easily from the mines and transported to the shops for refurbishing and rebuilding.

Shendong's development methods follow US and Australian practices. Two-entry gate layouts are typical with 50 m crosscut centers; entry centers vary from 30 to 50 m. LW gates are developed in the seam level typically on the floor rock horizon. Main and gate entries are typically 5.4 m in width, with entry height up to 4.0 m. Main entries range from three to five depending on haulage and ventilation requirements. Gate development rates vary with conditions; generally gate development rates are comparable to LW retreat rates. Roof bolting is routinely used to reinforce mine openings in the LW mines. Supplemental roof supports including cable bolts are installed as needed. In general, LW gate and mainline development support practices and requirements are among the least intensive in the world LW industry.

Shendong's approach to underground transport is comparable to those employed in the world's most advanced mines. Rubber-tired diesel vehicles (buses, vans, small trucks, tractors, front-end loaders, etc.) are used throughout Shendong mines for transporting personnel, supplies, parts, materials, equipment, infrastructure components, etc. Due to the high standard of care for roadways, the rubber-tired vehicles are a highly effective means of transport. Due to the generally shallow nature of the mines, access to the mines is by way of horizontals or shallow angle slopes suitable for rubber-tired vehicles.

Shendong's belt conveyor installations in terms of size, capacity and standards of care are comparable to those employed in the international coal industry. All of the LW mines, as well as the Dahaize and Halagou CM mines, utilize belt conveyor systems of varying capacity to transport the coal from mining faces to the surface. Shendong's belt systems have evolved in terms of capacity since Daliuta received the first high production imported LW system. The highest capacity mainline conveyor systems (1.6 m width) are installed in the Bulianta and Shangwan Mines with an estimated capacity of 4,000 to 4,500 tph.

Water inflows experienced by Shendong mines tend to be above-average for shallow mines, but are well within the capabilities of well-designed pumping systems. The underground mines typically have sufficient water inflows that maintaining adequate water-handling systems is a priority. All mines have effective pumping systems with redundant primary sump pumps that control water inflows from the coal seam and overlying/underlying strata. Water control in the roadways and faces was observed to be well organized and effective. Typical practice is to harden roadway surfaces with concrete and construct ditches to move water flows to transfer sumps. Pipelines carry the bulk of the water to the main sump, where it is pumped to the surface then discharged to settling basins. Typically the discharged water is used in mine and processing plant applications or for surface greening irrigation. Water for fire fighting and dust suppression sprays is distributed underground using gravity flow by a system of steel pipes.

Shendong mines use exhausting type main fans with auxiliary backups as required by regulation. Main fans are generally installed at the terminus of a return horizontal or slope although shafts are employed at some mines. Mine ventilation quantities vary according to mine size but generally range from 11,000 to 15,000 cu m/min. Air velocities are acceptable in the large openings typically found underground.

Recognizing the low methane generation of the seams and the relatively small few entries utilized underground, air quantities, while somewhat lower than typical for similar international mines, are adequate and do not present an issue for endangering the mine workforce or preservation of the mine. CM sections (both Wongawilli and development) use flat duct tubing and standard auxiliary fans for face ventilation. These arrangements follow international standards for face ventilation.

The Shendong LW mines in Inner Mongolia and Shaanxi Province do not utilize bleeder systems, gob degas holes or remote bleeder shaft fan (using high-pressure centrifugal fans) techniques. As the mines are relatively shallow by world coal mining experience, the gas content of the seams is relatively small. Consequently, eliminating gob ventilation also helps to minimize the potential for gob fires due to spontaneous combustion. Methane control is not a significant operating concern due to the lower rate of gas liberation. The seams mined by the Shendong mines in Inner Mongolia and Shaanxi Province are prone to spontaneous combustion. To the extent possible the LW panels are designed to minimize the potential for spontaneous combustion by minimizing gob ventilation. LW panels are sealed after extraction is complete.

Kangjiatan Mine experiences higher methane liberation rates and must take steps to control methane content in the mine.

5.9 Information Technology

China Shenhua is progressive in its use of modern information technology for operating its coal mines. Shendong's large underground mines are connected to China Shenhua's WAN information system. Information monitoring includes ventilation, power supply, drainage, and belt conveyor systems. Mine atmospheric monitoring is a part of the information system. These systems can enhance production efficiency and mine safety.

China Shenhua also uses its information system for ensuring coal quality at its coal washing and rapid loading stations with automatic controls and measuring. Real-time tracking of China Shenhua's railway train movements, while critical for efficient railway operation, is also essential for maximizing the efficiency of the underground mines, which are dependent upon having adequate surface commercial coal storage. The Baoshen Railway is presently in the system; the Shenshuo and Shuohuang railways are scheduled for inclusion in 2005.

Shendong (as well as Zhunge'er, and Huanghua Port) uses an information management system (Enterprise Asset Management EAM) for basic operation data management tasks such as equipment management, spare parts storage/procurement, repairs and maintenance management. It is anticipated that the EAM systems will enhance operational efficiency in the future.

5.10 Risk Profile

Coal mining operations are unlike other industrial facilities in that mines are not "assembly lines" or "factories" that are engineered to an exact design capacity or specific cost structure. Mining operations are conducted in the earth's strata, rather than within a homogeneous environment. There is inherent geologic risk, and mine operators must therefore contend with periodic adverse or variable geological conditions that cannot be fully anticipated in advance of actual mining activity. While the occurrences of these physical conditions are beyond the control of site management, it should not be interpreted that coal mining is inherently extraordinarily risky.

LW mines face two primary types of operational risks. The first category of risk includes those daily variations in physical mining conditions, mechanical failures, and operational activities that can temporarily disrupt production activities. Daily operational variations can adversely affect production on any given day, but are not regarded as "risk issues" relative to the long-term operation of a mining operation. BOYD does not regard the first category of risk issues as material to Shendong's mining operations or otherwise compromising projected financial performance.

The second type of risk is categorized as "event risk." Items in this category are rare but significant occurrences that are confined to an individual mine, and ultimately have a pronounced impact on production activities and corresponding financial outcomes. These occurrences include events such as underground fires, explosions, floods, earthquakes, geological anomalies, longwall subsidence constraints, etc. Such events can result in the cessation of production activities for an undefined but extended period of time (measured in months, and perhaps years) and a corresponding drop in revenue.

BOYD does not regard Shendong's mining operations as being particularly risky, inadequately managed or otherwise unduly susceptible to major events. There is no basis to predict or otherwise anticipate major operational shortfalls at any of Shendong's mining operations. The potential for major risk events has served to heighten the awareness within Shendong's management team that sustained proactive safety and engineering controls are an essential component of operations management.

Within the context of event risks, it must be recognized that while such events are rare, there is no allowance in the plans and projections for major shortfalls. Shendong's major LW mines are planned to operate at capacity, and in the unlikely case that a material failure occurs at one of Shendong's major LW mines, there is no excess production capacity to offset the loss of production and associated revenue stream from the affected mine.

5.11 Future Operations

BOYD's review of Shendong's future mine plans is founded on mine plans and business projection data submittals by China Shenhua and discussions with China Shenhua and Shendong mine management, financial and engineering staff. Mine plan forecasts are evaluated for reasonableness according to recent operating history, recognizing that the Shendong mines are in an expansion mode. Track history for these mines at their design capabilities is limited at this time.

5.11.1 Output Projections

Based on nominal output rates, Shendong mine reserve base life is adequate for the 2005-2007 period for all mines except the Majiata (Houbulian) reserves, which are expected to deplete by the end of 2007. Halagou's reserve base is expected to be supplemented by the adjacent mining area containing 51 million economically recoverable tonnes, and China Shenhua is in the process of obtaining the mining rights.

China Shenhua's three-year output projections for Shendong reflect the completion of the present phase of significant mine capitalization for the present set of operating opencut and underground mines.

The China Shenhua 2005-2007 production forecasts for current Shendong operations are summarized below:

Mine	Mine Type	Commercial Tonnes 2005	2006	2007
			(million)	
Bulianta	UG	17.0	18.0	18.0
Daliuta				
Daliuta	UG	10.0	10.0	10.0
Huojitu	UG	8.0	9.0	10.0
Halagou	UG	10.0	11.0	11.0
Kangjiatan[(a)]	UG	10.5	11.4	11.4
Majiata (Houbulian)[(b)]	OC	1.5	1.5	1.5
Shangwan	UG	11.0	11.0	12.1
Wulanmulun	UG	3.0	3.4	5.0
Yujialiang[(a)]	UG	14.0	15.4	15.4
Other Shendong[(c)]		7.5	9.8	12.8
Total — Shendong[(d)]		92.5	100.5	107.2

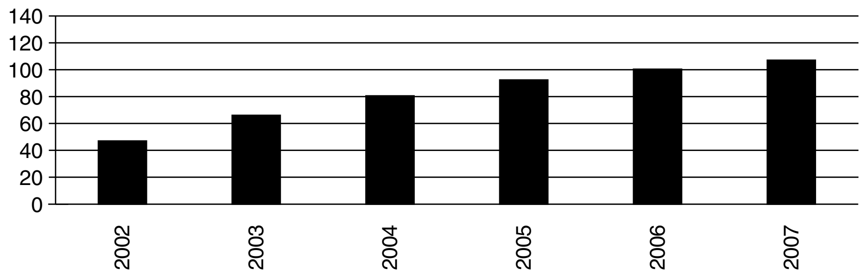
(a) China Shenhua has recently acquired the mining rights for these operations from the mining right holders pursuant to transfer agreements.

(b) China Shenhua has merged Majiata and Houbulian mining operations.

(c) Includes Dahaize, Huoluowan, Shigetai, Wujiata. Tianlong Corporation provides mining and labor services for these mines on a contract basis.

(d) Figures exclude third party coal purchases at the mine and coal producer level.

Commercial Tonnes (million)



China Shenhua has forecast continuing growth in output. For the three-year period, forecast production volumes increase further in 2005 with the start-up of the Halagou LW, the second LW in Bulianta, and additional output from Kangjiatan. Production during the 2006-2007 time frame shows additional growth from LW installations at Shigetai/Huoluowan and additional growth in Wulanmulun output.

BOYD has reviewed the China Shenhua plans for 2005-2007 from the perspective of historical performance and site visits and finds them on the whole to be achievable. Potential shortfalls at certain mines could be offset by higher than projected output at other mines such as Daliuta, Halagou and Shangwan. On this basis Shendong's production forecast is reasonable and attainable in our opinion.

Extension of certain mines into adjacent mining right areas could permit Shendong to lengthen panels. Shendong is also gradually moving to 300 m face lengths to further increase its operating efficiency. Longer face and panel lengths could also potentially increase overall resource recovery due to fewer gate developments in a defined block of coal.

Factors that may favorably impact Shendong operations in the future include:

- Acquisition of LW face equipment with improved capabilities and higher reliability.
- Improvements in operator performance through training and experience.
- Less delay time related to repairs and maintenance through improved labor force maintenance skills.
- Installation of higher capacity infrastructure especially in new mining operations.

The Shendong Extension mining right areas provide opportunities to extend operating lives of several existing mines and potential for significantly enhancing Shendong operations and increasing output over time. As extensions to the current operating mines, Shendong's planning process can incorporate efficient LW designs supported by higher capacity infrastructure. Certain portions of the extension mining right areas may be accessed from the following mines during the 2005-2007 period:

Mine	Mine Type	Extension Mining Right Area
Bulianta	UG	Huhewusu
Daliuta	UG	Daliuta Extension
Shangwan	UG	Erlintu
Wulanmulun	UG	Batuta

China Shenhua is evaluating additional mine projects, which are located in the southern extension of the principal mining right area. The expansion mining right areas have been evaluated by Shenhua Group, and general exploration geological reports are available. China Shenhua does not yet control the mining rights for these areas. These mines would require new openings utilizing Shendong's established mine support centers and China Shenhua's rail infrastructure. BOYD has not evaluated the reserve base or reviewed mining plans for these projects.

5.11.2 Labor Force

Our understanding of present 2004 manning is that the 31 December 2004 figures provided generally reflect current China Shenhua manning requirements. Shendong's mine level labor productivity is expected to remain high on a composite basis compared to similar mining operations worldwide.

In the 2005-2007 time frame, the major LW mines are expected to show minor increases in manning as the active workings expand over time and/or operations in a second seam horizon are conducted simultaneously.

Other factors that could impact the mine level labor force are the number of CM Wongawilli or room and pillar sections. Additional CM production sections could be deployed during the mine plan period than presently projected by China Shenhua. The existing specialized central mine services system is expected to remain in place for the mines located in the principal mining area. Mine services include LW face transfers, equipment maintenance and rebuilding, mine construction, and mine services for belt conveyor installations, etc. This system is a highly effective use of the labor force's skills and availability. The strength of the central mine service groups may increase somewhat in response to the output growth expected in 2005.

China Shenhua is considering expanding the central mine services to include CM mining units by consolidating the units used for LW development as well as the production units (Wongawilli) into a separate center, where units can be dispatched and assigned as needed (this move would be offset by corresponding staff reductions at the mine level).

The present personnel complement for the headquarters, management support staff and auxiliary management production support staff is adequate for the planned scale of operations and is expected to remain relatively constant over the plan period.

5.11.3 Capital Expenditures

Shendong's capital spending for mine development is projected to decline from recent historical levels for the existing mines during the mine plan period. Shendong's operating mines generally have adequate equipment and necessary infrastructure to support projected output levels over the next 3 years, although China Shenhua is planning two major projects that are intended to enhance operational efficiency. Significant capital spending is planned to upgrade the infrastructure for Bulianta and Shangwan Mines as mining operations extend into the Huhewusu-Erlintu mining right areas.

Additional openings (shafts, horizontals) or extension of openings may be required for ventilation or to access seams lower in the geologic sequence. However, civil construction work at the Shendong mines is a small fraction (10% to 15%) of the cost experienced in typical international mechanized mine settings. Additionally the operating depths are relatively shallow and, therefore, require relatively less excavation work. Thus, the impact of an access project on capital spending is relatively small. Several mines (Bulianta, Halagou, Kangjiatan, and Yujialiang) are scheduled to substantially increase their output capacity in 2005, bringing to a close the capitalization of the present set of mines.

Excluding new mine projects, Shendong anticipates minimal spending for processing plant construction projects. Except for the Halagou processing plant, BOYD is not aware of any near-term major capital expenditure requirements for Shendong's coal processing plants.

The most significant item for future capital expenditures is replacement equipment for Shendong's LW mines. With the exception of Daliuta, Shendong's LW mines have recent start-up dates, typically within the last three years. Thus the mining equipment presently engaged in coal production is of relatively recent vintage and long-term replacement experience is as yet unknown. Shendong presently has 12 sets of LW faces and 36 sets of CM equipment deployed among the various underground mines. Replacement of this equipment will be required during the 2005-2007 plan period.

BOYD is in general agreement with China Shenhua's capital replacement guidelines for future capital investment needs. The guidelines generally follow international mining practices and OEM recommendations. In practice, these guidelines are weighed against equipment condition, performance, repair parts cost and obsolescence. Budgetary unit costs shown for CM and LW face equipment are comparable to current world prices as understood by BOYD. China Shenhua's capital spending projections for Shendong are RMB2,891 million, RMB2,815 million and RMB2,042 million for 2005, 2006 and 2007 respectively.

BOYD is in general agreement with China Shenhua capital spending projections for Shendong. The proposed underground expansion of the Shigetai Mine is logical and reasonable: capital spending projections appear adequate based on the recent upgrade of the Halagou Mine. Capital spending for the

Shangwan and Bulianta infrastructure is sufficient to provide a significant upgrading of systems. Equipment updating and rebuilding projections appear adequate to maintain the Shendong underground equipment complement.

5.11.4 Longwall Mining Systems

Among Chinese coal producers Shendong is a leader in its utilization of high production, imported equipment. We believe Shendong will continue to use a preponderance of imported LW technology in its future mining operations especially where this technology can be deployed to great advantage in coal seams between 3 m and 6 m in thickness. However, Shendong is also considering expansion of its domestically manufactured LW face equipment complement for mining in the Huoluowan and Shigetai Mines. At present, the productive capability of a domestic face system is represented as half that of an imported face system. However, the capital cost of a domestic face is approximately one-third of a comparable imported face. Domestic manufacturing capabilities are expanding into building faces for higher cutting height and face (5.0- to 5.5-m operating range).

Imported equipment is directly responsible for making Shendong among the world's productivity leaders, and Shendong's future performance is heavily dependent upon continued high production output from the imported LW faces. Imported equipment, while more costly than domestic-made equipment, is generally more robust, more reliable, capable of achieving higher sustained output rates and, in Shendong's case, happens to have nearly the maximum cutting height needed to satisfy coal recovery requirements with single-pass cutting practices. Shendong's current practice of designing longer, wider panels can only be supported by imported equipment. BOYD believes that domestic equipment will continue to improve relative to imported equipment, but presently imported equipment is much more productive; that is, it delivers more tonnes in a unit time period than domestic equipment. Domestic equipment is understood to be inferior to imported equipment in the areas of AFC drive systems, control systems, shearer, etc. Use of imported LW equipment is one of the principal reasons for the low cash production costs at the Shendong LW mines. China Shenhua's use of imported equipment and its mine-related capital investments have been prudent and appropriate. In our opinion, domestic equipment cannot satisfy production requirements; therefore, imported equipment procurement remains an operational necessity.

There is additional potential for future increases in productivity in our opinion. LW equipment performance and reliability continues to improve, and Shendong is taking measures to improve and upgrade its infrastructure, in particular, the critical belt conveyor systems. Higher capacity belt conveyor systems are essential for capturing the productivity of modern LW systems.

Shendong is also considering use of standard slicing and top-level caving LW techniques at two of its present mines to improve overall resource recovery. These techniques have proved themselves in China, although they are not used in the major international underground mining industries. Implementation of these plans is conceptual at present; output projections for LW mines in 2005-2007 are based on single slice mining with domestic or imported faces. To improve mining recoveries in its thinner coal resources, (1.0-2.5 m) Shendong is planning to implement LW plow faces provided by DBT in Yujialiang Mine.

5.11.5 Coal Processing

The capacities of the Shendong preparation plants are adequate for the current output and planned future output. The plants are primarily rail-served with silo storage only; open-air stockpiles are not permitted within the limits of the various local towns where the mines are located. When the clean coal silos are full, coal processing must stop until storage space is available. Thus timely efficient rail service is necessary to avoid production shutdowns on the mining side. BOYD has not reviewed the potential for ‘‘full silo’’ bottleneck delays. Since China Shenhua subsidiaries provide rail service, it is assumed that rail service can be arranged to support the mines' projected output capacity. The plants' 350- to 365-day operating schedule also tends to flatten out the potential for peak loading periods. BOYD assumes that the plants could be maintained at a standard to achieve a level of processing capacity, typical of similar plants in the US and Australia.

5.12 Conclusion

Shendong is a modern, large scale coal producer with significant elements of value. Physical mining conditions in the Shendong LW mines are among the best observed by BOYD in the world coal mining industry and are highly favourable for fully-mechanized mining operations using LW and CM equipment. Shendong's LW mines are among the largest, most productive mines in the world. Shendong's large reserve base affords the potential for highly efficient LW mine designs comparable to those employed at similar highly mechanized mines in the US, Australia and RSA. High levels of output can be anticipated from the existing and planned LW installations. Shendong's mine plans are appropriate for the geologic and geotechnical settings observed in the current mines and reflect present understanding of potential mining hazards. Shendong is the leading user of imported LW equipment in China and is one of only a few coal producers using CM technology. Shendong's coal quality, which is highly favourable for domestic and export markets, typically has low sulfur and ash contents with marketable calorific values.

Shendong manning policies follow US and other advanced industries in the emphasis on efficiency and minimizing staffing. Shendong's labor costs, exclusive of the mines where the labor force is provided by Tianlong on a contract basis, are among the lowest in the world coal industry and are highly competitive with mines in the major coal-producing countries.

Shendong has implemented safety training programs, procedures and work practices to provide for worker safety. Based on BOYD site visits, observed Shendong's mine work practices are of a high order and appear to be consistent with reasonable safety practices followed in other advanced coal industries.

Shendong's mines are for the most part at an advanced stage of capitalization, especially the LW equipped mines, with underground output expected to exceed 90 Mtpa (commercial coal basis) in 2005. China Shenhua's three-year capital investment projections are reasonable and appropriate for the projected level of mine performance. It is anticipated that Shendong's management group will continue the levels of mine performance achieved in present operations. Several mines have the potential to attain higher levels of performance. There are no evident constraints preventing Shendong from attaining China Shenhua's output projections for the 2005-2007 period.

Shendong is supported by centralized service departments, whose personnel can be dispatched as needed to the mine sites. Equipment rebuild and repair facilities are extensive, highly advanced and incorporate all necessary tools and machines to keep the fleet in good mechanical condition. Shendong has invested heavily in modern coal processing technology and presently operates six plants to improve product quality and meet customer requirements; a seventh plant is planned for construction in 2005. Coal handling and preparation facilities have sufficient capability to meet projected coal processing requirements. Shendong has been increasingly applying information systems technology to its operational processes.

6.0 Zhunge'er

Zhunge'er is an integrated energy producer with coal, rail, electric power, sales and distribution systems. Zhunge'er owns and operates the Heidaigou Mine (Heidaigou), a large opencut mining operation located in the Inner Mongolia Autonomous Region. Zhunge'er was established in June 1986 and is currently owned by two shareholders:

- China Shenhua — 57.8%
- China Cinda Assets Management Company — 42.2%

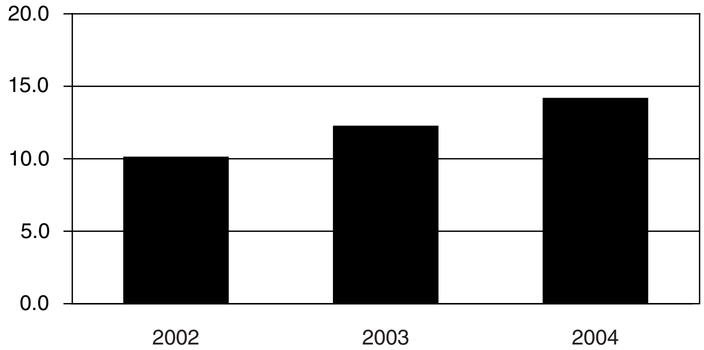
Heidaigou output is consumed by the Zhunge'er Power generating station and other domestic power stations. The estimated Reserves for Heidaigou total 973 Mt as of 31 December 2004 and provide approximately 48 years of production at full planned capacity of 20.0 Mtpa. A general location map of Zhunge'er's Heidaigou Mine is shown in Figure 5.

6.1 Production

Heidaigou is the largest China Shenhua opencut coal mine and the second largest opencut coal mine in China. Production output (raw coal) from Heidaigou has substantially increased from 11.2 Mt in 2002 to 14.7 Mt in 2004; on a washed basis annual coal production has increased from 10.0 Mt in 2002 to 14.2 Mt in 2004. In 2004, Heidaigou accounted for 14% of China Shenhua's total commercial coal production.

The following graph shows the historic growth of the Heidaigou operations:

Commercial Tonnes (million)



The primary seam for coal production at the Heidaigou Mine is the No. 6 Coal Seam. Seams 6^{-1} and 6^{-2} are lower in calorific value, and only a portion of these layers is recovered and blended into the saleable product. The remainder of this coal is currently being stockpiled for future use at a mine-mouth power plant being constructed by China Shenhua.

The remainder of the coal layers 6^{-3} through 6^{-6} is recovered as a single unit, and 100% of this raw coal is transported to the coal wash plant for processing. Average plant yield ranges from 86% to 97%.

Typical range of processed product coal quality on an as-received basis over the last three years is summarized as follows:

Characteristic		Typical Coal Quality Parameter (as-received basis)
Moisture	(%)	9.0-10.0
Ash	(%)	21-22
Sulfur	(%)	0.4-0.6
Volatile Matter	(%)	36-38
Calorific Value	(Kcal/kg)	5,000-5,200
Phosphorus	(%)	<0.02
Ash Melting Point	°C	1,500

6.2 Mining Technology and Operations

Heidaigou currently employs nearly 300 major pieces of mining equipment to remove the overburden and recover the coal seams. Based on the geologic conditions present at the Heidaigou operations, bucket wheel excavators (BWE), with their integrated overburden conveyance systems and radial stackers, provide the most economic method of removing the unconsolidated zone of overburden. This zone averages approximately 49 m in total thickness (depth) and is removed in four (10 m to 15 m) lifts. Overburden depth varies from 100 m to 150 m across the mining right area.

The rock strata underlying the loess requires drilling and blasting in order to be excavated. Drill and blast procedures are completed utilizing traditional blasthole drills and loading holes with blasting agents. Blasted material is currently excavated using shovel/truck methods. Wire-rope shovels excavate and load the broken rock into electric drive trucks or mechanical rear dump trucks. Mining operations are conducted on a 24-hour, 7-day-per-week basis, with 16 hours for production activities and 8 hours for maintenance activities.

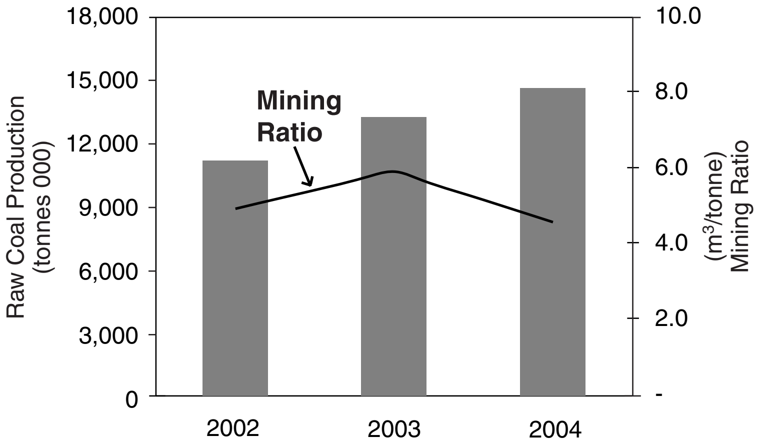
The following summarizes Heidaigou coal production and mining ratio for 2002 through 2004:

Year	Raw Coal[(a)] Production	Commercial[(b)] Coal Production	Mining[(c)] Ratio
	Tonnes (000)		
2002	11,204	10,046	4.96
2003	13,273	12,237	5.95
2004	14,658	14,157	4.60

(a) As-mined tonnage, before washing.

(b) Figures exclude third party coal purchases at the mine level.

(c) Average number of in situ cubic meters of waste removal per tonne of raw coal.



Mining ratio is a function of overburden depth and recoverable coal tonnes, which are affected by coal thickness and parting content.

6.3 Employment

As of 31 December 2004 Zhunge'er employed 2,334 personnel related to the mining operation with the following breakdown:

Segment	Employees[(a)]
Production	906
Coal Preparation/Screening Plant	394
Administration	155
Equipment Service Center	563
Heidaigou Industry Company	316
Total	2,334

(a) Zhunge'er has 89 and 18 contract workers at Heidaigou Mine and coal preparation plant, respectively.

Mine labor productivity in 2004 based on year-end personnel figures of 906 was 15,630 commercial tonnes/employee-year. This compares to international mine productivity for large opencut mines as follows:

Opencut Mines By Region	Average Productivity Commercial Tonnes/ Employee-Year
RSA[(a)]	13,680
Australia Queensland[(b)]	15,550
Heidaigou	15,630
US Lignite[(c)]	20,620
US Western[(d)]	24,300
US Western[(e)]	54,000
US PRB[(c)]	74,830

(a) 2003 data.

(b) Annualized based on three quarters 2004 data.

(c) 2004 preliminary data.

(d) 2004 preliminary data, excluding PRB Wyoming Mines.

(e) 2004 preliminary data, including PRB Wyoming Mines.

6.4 Safety

The mine has established safety training programs for all staff including top management through the general workforce. These safety training programs and personnel at Heidaigou are continually reviewed to ensure an effective program.

In addition to personnel training, Heidaigou has an ongoing program to:

- Upgrade safety features on older equipment.
- Require new equipment to be equipped with up-to-date safety features.

Based on our review of safety records for 1999 through 2004, Heidaigou has not experienced any fatalities during this period.

6.5 Coal Processing Plant Facility

The Heidaigou plant raw coal processing capacity is reported to be 15.0 Mtpa based on 5,620 operating-hours. Raw coal is received from the mine and selectively stored in nine (9) concrete silos having an aggregate (total) capacity of 135,000 tonnes. Higher quality raw coal is processed in the Batac jig washer plant, and lower quality-high ash (+30% ash) raw coal is processed in a separate heavy media cyclone plant. The plant has a staff of 394 personnel, of which 30 are assigned to maintenance based on a 365-day operating schedule. Maintenance performed on an as-needed basis or during idle times is reported to average 16 hours per month. Coal processing yield in 2004 was 97.1%.

Based on general field observations, the Heidaigou washing facility will require capital investment to place the operation (with attention on the heavy media plant) in operating condition comparable to the Shendong plants. Improvement in housekeeping practices and basic infrastructure can be addressed by establishing a scheduled maintenance program.

A new heavy media vessel plant designed for 8.0 Mtpa capacity is out for bid solicitation this year and will be constructed adjacent to the existing facility. It will be independent of the existing plant with its own raw coal, clean coal and refuse handling systems. With the addition of the proposed heavy media vessel plant, Heidaigou's coal processing capacity will increase to 23 Mtpa.

6.6 Historical Coal Production Costs

In the period extending from 2002 through 2004, the Heidaigou operations have been continually expanding to higher output levels and transitioning to more efficient mining operations. Heidaigou's cash costs have benefited from lower mining ratios and economies of scale related to higher commercial output although mining costs increased somewhat from 2003 to 2004 due primarily to higher repair costs. According to information provided by China Shenhua, the average cash costs by year are as follows:

	RMB/Tonne (Commercial Basis)		
Coal Producing Unit	**2002**	**2003**	**2004**
Zhunge'er	42	43	45

6.7 Future Operations

The Heidaigou mining operation will continue its major expansion over the next several years. Key elements of the expansion program are the planned modification of the coal preparation facilities (capacity increase) and the purchase of the first large walking dragline in China with various mobile support equipment. Draglines are highly specialized machines that are restricted by key operating parameters such as digging depth, dump radius and dump height. Used in the proper manner and under appropriate conditions, a large dragline will provide the lowest cost of overburden removal. Zhunge'er commenced assembly of a BE-2570W dragline in January 2005 with initial start-up anticipated for September 2006 and full commissioning completed in 2007. The Bucyrus-Erie 2570W (BE-2570W) walking dragline will be equipped with a 90- to 100-m^3 bucket.

6.7.1 Production

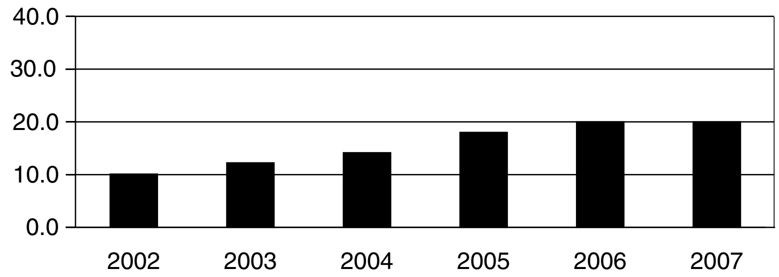
The 3-year plan projects that Heidaigou will have the capacity to produce up to 20 Mtpa. Mining ratio is expected to approximate 4.5 on a raw tonne basis from 2005 through 2007. Planned Zhunge'er commercial output as projected by China Shenhua is as follows:

	Mine Type	Commercial Tonnes 2005	2006	2007
			(million)	
Heidaigou[a]	OC	18.0	20.0	20.0

(a) Figures exclude third party coal purchases at the mine and coal producer level.

BOYD is in agreement with China Shenhua production projections for Heidaigou. The 20-Mtpa level may not be achieved until 2006 after installation and commissioning of the BE-2570W dragline is complete. The planned upgrading of equipment is vital for improving the efficiency and production capacity of the opencut mine. BWEs will remain the primary excavating equipment for the loess material.

Commercial Tonnes (million)



Projections for overburden removal and other mining processes are consistent with international standards for expected equipment performance. When fully operational, the BE-2570W walking dragline will move 24 million bank cubic metres (Mbcm) to 30 Mbcm per year. In addition, the use of cast blasting and dozer pushing will assist and supplement dragline overburden removal, which is the most economical method of overburden removal. The operating cost of dragline, cast blast and dozer push is approximately 45% to 50% of the comparable shovel/truck operating cost for overburden removal.

China Shenhua is planning to acquire mining rights to an adjacent undeveloped opencut mining right area. The new mine is projected to begin production in 2009 and will be operated by China Shenhua. BOYD did not review the project for this report.

6.7.2 Capital Requirements

The largest single capital acquisition is the purchase of the BE-2570W. Additional near-term capital expenses include expansion of the coal handling facilities, additional 38 m^3 single bucket shovels and various support equipment.

China Shenhua capital spending projections for Heidaigou are RMB702 million, RMB422 million, RMB3,203 million for 2005, 2006 and 2007, respectively.

Projections for the Heidaigou expansion and equipment rebuilding/updating are adequate in our opinion. These capital spending projections include RMB3,000 million in 2007 for construction of the proposed new mine.

6.8 Risk Profile

The risk profile of the Heidaigou operation is minimal. Heidaigou has committed to acquire a large walking dragline and to spend substantial capital investment for expansion and improved efficiency. Although this is the first large walking dragline installed in China, these machines have been used for decades in the United States, Canada and Australia. A learning curve period for the operation and maintenance should be anticipated; however, this machine will serve to reduce overall operational costs and increase productivity and efficiency of the mining operation.

6.9 Conclusion

Based on discussions with mine management, it is our opinion that the Heidaigou mine plan is sound and well engineered. We believe the overall mining costs can be significantly reduced with increased operating efficiency as the mine approaches and achieves targeted production of 20.0 Mtpa. In addition, the acquisition of a large walking dragline will also decrease mining cost by improving the efficiency and productivity of the opencut operation.

A longer learning curve and transition of the dragline to expected full productivity may delay attaining full output capacity until 2006. Typically, equipment shakedown and learning curves require a three- to six-month period.

BOYD found the technology employed in the Heidaigou wash plants to be acceptable, but agree with Zhunge'er's plan to increase use of heavy media technology. Improvement in the operating conditions of the Heidaigou wash plants, particularly the heavy media plant, can be addressed by establishing a scheduled maintenance program to enhance mechanical operation, housekeeping, lighting and other safety-related aspects of the work environment.

7.0 Wanli

7.1 Introduction

Wanli is a China Shenhua-owned coal-producing unit comprised of the Wanli and the former Jinfeng coal mining operations, located in the Inner Mongolia Autonomous Region centered around the Erdos City administrative area. China Shenhua is integrating the former Jinfeng mines into the Wanli organization; it is our understanding that each mining group will retain its management organization.

Nearly all of the mines are in the Shenfu Dongsheng Coalfield and are generally proximate to the Shendong mines. One of the mines is located in the Zhunge'er Coalfield, near the Heidaigou Mine. General locations of the Wanli coal operations are shown in Figure 6. Wanli mines are exclusively underground mines varying in annual output from 60,000 tpa to 1.0 Mtpa. All of the mines are currently using drill and blast mining techniques. The present mines are typical of other local mines in the region and tend to have lower levels of capitalization than are characteristic of the Shendong LW underground mines. These methods are less productive than those employed at the Shendong fully-mechanized LW underground mines. Two mines presently developing LW projects include: Wanli No. 1 and Liuta. Roadheaders and Chinese CM equipment are employed for LW development in these mines.

7.2 Historical Production

Wanli's recent historical production by mine including the former Jinfeng mines is shown below:

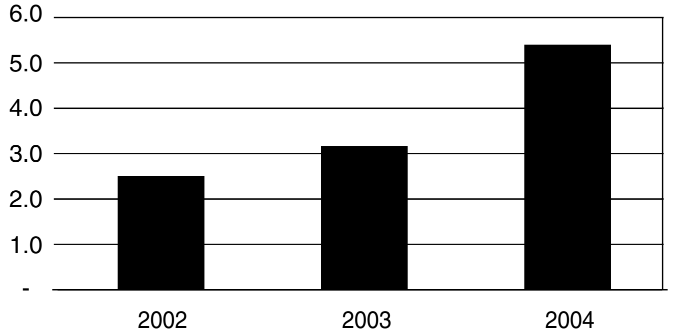
	Commercial Coal Tonnes (000)		
Mine	**2002**	**2003**	**2004**
Liuta/Ahuigou	787	986	1,421
Wanli No. 1	377	318	340
Other Wanli[(a)]	1,323	1,852	3,625
Total[(b)]	2,487	3,156	5,386

(a) Includes Chaonaogou, Chengpo, Cuncaota, Dongsheng, Shenshan and Tanggonggou.

(b) Figures exclude third party coal purchases at the mine and coal producer level.

Commercial coal output from the Wanli mines has steadily and significantly increased over the 2002-2004 period.

Commercial Tonnes (million)



7.3 Employment

Combined Jinfeng and Wanli personnel totaled 1,625 as of 31 December 2004; a breakdown by coal-producer and segment is as follows:

	31 December 2004 Number of Employees		
Segment	**Jinfeng**	**Wanli**	**Total**
Production (mines)	723	578	1,301
Headquarters	149	-	149
Related Companies	-	175	175
Total	872	753	1,625

Labor productivity for the Wanli mines in 2004 based on year-end figures was as follows:

	31 December 2004	2004 Commercial Tonnes	
Mine	**Employees**	**(000)**	**Employee-Year**
Liuta/Ahuigou	333	1,421	4,267
Wanli No. 1	122	340	2,787
Other Wanli[(a)]	846	3,625	4,286
Total/Composite	1,301	5,386	4,140

(a) Includes Chaonaogou Chengpo, Cuncaota, Dongsheng, Shenshan, and Tanggonggou.

Jinfeng and Wanli composite productivity in 2004 was approximately 15% of Shendong's average 2004 underground productivity of 28,230 commercial tonnes/employee-year.

7.4 Safety, Training and Regulation

As with Shendong, Wanli has provisions for safety training, largely guided by the State Administration of Work Safety of PRC (SAWS). The SAWS is in ultimate charge of working safety at the national level. This body in turn oversees officials at the provincial, coal mine bureau and coal-producer levels. The coal mine's safety bureau and safety supervision staff are responsible for establishing training plans, implementing the plans and instructing mine staff and workers.

Due to close proximity of the Shendong mines, Wanli benefits to the extent that its personnel receive training and support from Shendong's more advanced safety organization.

Fatality experience for Wanli (including former Jinfeng mines) is summarized below:

Year	**Fatalities**
2001	1
2002	1
2003	2
2004	-

7.5 Operating Practices

The Wanli mines operate with many practices that are similar to those employed at the Shendong mines including mine operating schedules. Due in part to the mines' development histories, the present technology level, and the current focus on drill and blast methods, belt conveyor systems are generally limited in capacity. As the level of mine technology increases, increasing sophistication of conveying systems is anticipated. Roof bolting is utilized in the mines but typically not on a full plan as is the case for all of the Shendong LW mines. Roof support practices are similar to those employed at the Shendong mines for adverse roof conditions. The mines typically operate one production shift per day with 8 hours of support and 8 hours maintenance activities. Some mines split the production and maintenance activities for better use of personnel during a 24-hour period.

7.6 Historical Coal Production Costs

Over the period extending from 2002 through 2004, combined Jinfeng and Wanli mine cash costs declined as commercial output increased. According to cost information provided by China Shenhua, average mine cash costs by year are as follows:

	RMB/Tonne (Commercial Basis)		
	2002	2003	2004
Wanli	40	38	35

7.7 Coal Quality

Wanli coal is currently and will generally continue to be sold as a raw, screened product. Wanli coal quality characteristics vary by mine but are generally high volatile, low to mid-sulfur thermal products. Typical product coal quality for the Wanli and former Jinfeng mines on an as-received basis follows:

Jinfeng Mines		Typical Coal Quality Parameter (as-received basis)	
Characteristic		Shenfu Dongsheng Coalfield	Zhunge'er Coalfield
Moisture	(%)	8-16	10
Ash	(%)	10-14	6-16
Sulfur	(%)	0.3-0.9	0.6-0.7
Volatile Matter	(%)	33-36	36
Calorific Value	(Kcal/kg)	4,900-6,100	5,000-5,800
Phosphorus	(%)	<0.05	<0.05
Ash Melting Point	(°C)	1,090-1,250	1,500

Wanli Mines		Typical Coal Quality Parameters (as-received basis)
Characteristic		Shenfu Dongsheng Coalfield
Moisture	(%)	5-16
Ash	(%)	6-15
Sulfur	(%)	0.2-1.2
Volatile Matter	(%)	28-32
Calorific Value	(Kcal/kg)	4,500-5,800
Phosphorus	(%)	<0.05
Ash Melting Point	(°C)	1,090-1,250

7.8 Risk Profile

The Wanli underground mines generally have risk profiles similar to the Shendong underground mines. Operational risks and event risks should be similar, in our opinion, since the mining operations are operating in the same broadly categorized coal measures and are employing similar mining methods and equipment.

7.9 Future Operations

7.9.1 Output

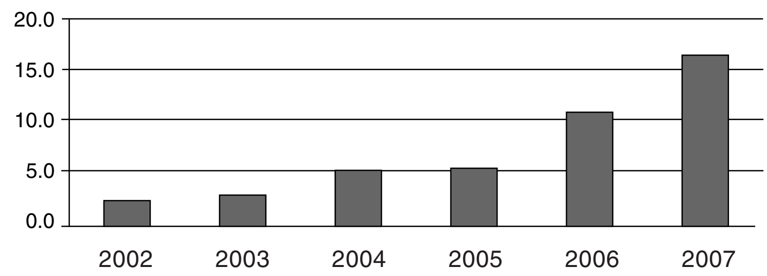
China Shenhua projects significantly higher output levels for Wanli mines in the 2005-2007 forecast period:

	Commercial Tonnes		
Mine	2005	2006	2007
		(million)	
Liuta/Ahuigou	1.5	1.5	1.5
Wanli No. 1	1.5	4.0	4.5
Wanli Project	—	3.0	8.0
Other Wanli[(a)]	2.6	2.5	2.5
Total — Wanli[(b)]	5.6	11.0	16.5

(a) Includes Chaonaogou, Chengpo, Cuncaota, Dongsheng, Shenshan and Tanggonggou

(b) Figures exclude third party coal purchases at the mine and coal producer level.

Commercial Tonnes (million)



The large increase in output in the forecast period is driven by the introduction of LW mining at Wanli No. 1 and the development of the Wanli Project. The Wanli Project is in the early planning stages which when implemented could significantly increase total Wanli commercial output. BOYD has not reviewed this project for this report. The mining right area(s) projected for development in the Wanli Project are not yet controlled by China Shenhua and are not included in the coal resources.

LW installations using domestic equipment are anticipated to produce at a rate comparable to one-third to one-half of the Shendong LW faces. By 2009, China Shenhua anticipates having 3-5 domestic LW faces operating in the Wanli mines. China Shenhua's LW output projections are reasonable in our opinion based on our site visit and the performance of Shendong's Wulanmulun Mine, which is capable of producing 4 to 5 Mtpa.

7.9.2 Capital Investment

In order to support the projected growth in production, China Shenhua plans significant near-term capital investment in the Wanli mining operations to support production increases. According to our review, the projected levels of capital investment assume significant expenditures for domestic-made equipment. Projected mine performance is consistent with domestic equipment.

China Shenhua's capital spending projections for Wanli are RMB963 million, RMB980 million and RMB680 million for 2005, 2006 and 2007, respectively. These figures include a total of RMB2,150 million for the proposed Wanli Project in 2005, 2006 and 2007.

Capital spending for the 2005-2007 phase of Wanli expansion is appropriate. With the focus on installing domestic LW equipment, Wanli's capital spending is expected to be lower than projected for Shendong to achieve the same production output results, although Wanli's operational efficiency is unlikely to match that attained by the Shendong LW mining group. China Shenhua's projected capital expenditure for sustaining the LW equipment at Wanli, approximately RMB30 million per year, are low based on Shendong's experience and projections. BOYD anticipates spending for this item could be 50% to 100% higher than projected by China Shenhua.

7.10 Conclusion

Based on BOYD's site visits, mining conditions in the proposed LW mines are consistent with those observed in the Shendong mines. High levels of output can be anticipated from the planned LW installations, judging from observed conditions and recognizing the proximity of the Shendong LW expertise. Capital investment projections appear to be lower than we would anticipate for the overall expansion program and associated updating and building. With adequate capital investment Wanli operations can become significant contributors to China Shenhua's economic performance.

8.0 Shengli

8.1 Introduction

The Shengli No. 1 Opencut Mine is a project of the Shenhua Beidian Shengli Energy Co. Ltd. (Shengli), a joint venture owned by China Shenhua (62.5%), Northern Electric Power (35.0%), and Xilingele League State Assets Management Company (2.5%). The Shengli No. 1 project area, located 6 km north of Xilinhaote City in Inner Mongolia, is shown in Figure 7. Existing roads provide vehicular access to the Shengli No. 1 mining right area, and existing rail infrastructure extends to Xilinhaote City. A small opencut mine (Wulantuga) owned by China Shenhua was active on the mine site in 2003.

8.2 Current Operations

The current mining operation is a small opencut mine, Wulantuga, managed by Shengli which has an annual production capacity of approximately 1.0 Mtpa. Wulantuga produced 0.5 Mt in 2003 and 1.1 Mt in 2004 with all sales to local residential customers. The mine is expected to close in 2005 as Shengli No. 1 production buildup begins. China Shenhua had 418 employees at Shengli as of year end 2004, for mine operation, mine construction and other tasks.

8.3 Coal Quality and Preparation

The coal is lignitic in rank which is generally characterized as low quality coal typically high in ash and moisture content and low in calorific value. Based on in-place (raw) quality data provided by China Shenhua, the Shengli coal quality is typical of lignite. Average raw coal quality follows:

Shengli Mines		Typical Coal Quality Parameters	
Characteristic		No. 5 Seam	No. 6 Seam
Total Moisture	(%)	33.0	33.0
Inherent Moisture	(% ad)	13.1	11.6
Ash	(% d)	18.8	14.5
Volatile Matter	(% daf)	45.4	43.1
Sulfur	(% d)	1.37	0.52
Calorific Value	(Kcal/kg ar)	2,940	3,540
Phosphorus	(% d)	0.06	NA
Ash Melting Point	(℃)	1,240	NA

ad = air dried

d = dry

daf = dry ash free

ar = as received

Currently coal from the active small opencut mine is sold on a raw basis. However, three options to improve coal quality are under consideration for the Shengli No. 1 project as follows: (1) selective mining, (2) air separation, and (3) jig washing. Design of the mine's coal handling system should include a site reserved for an air separation system for improving coal quality, if required. The mine can determine if air separation is required based on actual experience during initial production of the planned operation.

8.4 Future Production

Plans to develop the proposed Shengli No. 1 Opencut Mine were provided to BOYD in a multivolume feasibility study completed in December 2003 and a supplementary report prepared March 2004. Shengli No. 1 Opencut operation mines two primary coal seams, namely:

- No. 5 Seam (averages 18 m in thickness)
- No. 6 Seam (averages 36 m in thickness)

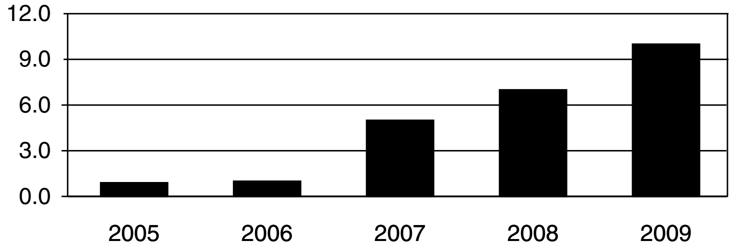
Several thinner coal splits or rider seams occur above and below these two primary seams. There are numerous interbedded rock partings over the No. 5 Seam within the two main seams, particularly the No. 5 Seam. Overburden cover ranges from 20 m to 180 m and averages 100 m.

Average strip or mining ratio for the defined reserve area is 2.7 on a raw tonne basis. The range of mining ratios varies over the mining right area from less than 2.0 to 4.0 on a raw tonne basis. Overburden and interburden material consist mainly of soft rock.

Shengli No. 1 will begin construction in 2005 and the initial year of commercial operation is projected to be 2009, at which time the PRC Government will perform checking and acceptance reviews. Chinese coal mines often use the government's checking and acceptance date as the initial production date. Commercial coal production from the Shengli No. 1 Mine is ramped-up in stages as follows according to China Shenhua projections:

Year	Commercial Tonnes
	(million)
2005	0.9
2006	1.0
2007	5.0
2008	7.0
2009	10.0

Commercial Tonnes (million)



There is potential to expand commercial output in the post-2009 period depending on market demand.

8.5 Future Mining Plan

Selection of the production system (technology) is critical to the future success of the opencut mine and is especially important when considering the planned production rate of 10.0 Mtpa by 2009. To achieve projected output levels, highly productive imported equipment, consisting of a 66 m^3 capacity dragline and four large shovels (ranging in capacity from 39 m^3 to 44 m^3), are planned, supported by trucks, excavators, and other equipment. The equipment selected by China Shenhua is commercially proved and well-suited for the Shengli No. 1 deposit.

China Shenhua has reviewed several options for equipment utilization for Shengli No. 1. The 2003 feasibility study and the March 2004 supplement indicated three (3) options for mine optimization as follows:

1. Scheme I: Shovel-Truck with Dragline combined process.
2. Scheme II: Shovel-Truck with auto-movable crusher and dragline semicontinuous combined process.

3. Scheme II Optimized: Based on Scheme II, but with outsourcing part of overburden removal for Phase I and eliminating an auto-movable crusher and belt conveyor system.

Projected overburden removal rates and other mining processes used in the mine planning evaluations are in accordance with international standards and practices for the equipment employed. The planned dragline will be comparable to that planned for installation at the Heidaigou Mine.

Of the three options evaluated, Scheme II Optimized provides the highest NPV and Internal Rate of Return (IRR) and the lowest production cost.

Labor force requirements to operate the mine at full production capacity are projected at 380 personnel (336 production workers). This staffing level is comparable to those employed at similar international mining operations. Labor productivity at full output of 10.0 Mtpa (planned for 2009) is projected at 26,300 tonnes/employee-year (121 tonnes/employee-day) which compares favourably with current productivity performance in major coal producing regions.

Opencut Mines By Region	Average Productivity Commercial Tonnes/Employee-Year
RSA[(a)]	13,680
Australia Queensland[(b)]	15,550
Heidaigou	15,630
US Lignite[(c)]	20,620
US Western[(d)]	24,300
Shengli No. 1 (projected)	26,300
US Western[(e)]	54,000
US PRB[(c)]	74,830

(a) 2003 data

(b) Annualized based on three quarters 2004 data.

(c) 2004 preliminary data.

(d) 2004 preliminary data, excluding PRB Wyoming Mines.

(e) 2004 preliminary data, including PRB Wyoming Mines.

China Shenhua projected capital expenses by year are RMB700 million, RMB700 million and RMB0 million for 2005, 2006 and 2007, respectively.

BOYD has reviewed capital investment and operating cost projections for the proposed Shengli No. 1 Mine plan and finds them to be reasonable and in accordance with international mining experience for similar mining operations. We would anticipate capital spending on the order of RMB100 million in 2007 to complete the mine capitalization.

8.6 Safety

China Shenhua has one of the best safety records for coal mining producers in China, and the proposed Shengli No. 1 Mine will provide education and training on safety, accident prevention and operational skills for all staff.

8.7 Risk Profile

The known design and technical risks associated with the proposed Shengli No. 1 operations are minimal. The optimized plans and technology use proved international mining equipment and practices that are presently utilized or planned to be utilized at existing China Shenhua opencut operations (Heidaigou Mine, for example).

8.8 Conclusion

The feasibility studies provided to BOYD as part of the Shengli No. 1 future mining operations were comprehensive and prepared in accordance with general international mining feasibility standards. We have assumed that the analyses have been completed by competent engineers, technicians and financial personnel. On the basis of studies reviewed by BOYD, Shengli No. 1 Mine has favourable economic characteristics including low mining ratios and few opencut mining constraints and could be a low cost source of lower sulfur coal.

9.0 Environmental Overview

9.1 Introduction

Mining is inherently deleterious to the environment. Opencut mining requires the removal of all soil and substrata overlying the target mineral. Underground mining also disrupts the overlying strata and soil (collectively termed ‘‘overburden’’) by removal of the mineral stratum, thereby removing the support for the overburden and causing its collapse into the void created. Often this is reflected in a distortion or depression of the topographic surface (subsidence), which can cause house or structure damage and deformation of natural water courses or water resources. Therefore, mitigation of these disturbances is necessary to reduce the effects of mining.

Other environmental issues commonly associated with mining include:

- Heavy equipment used in mining operations must be repaired and maintained, generally resulting in concerns for disposal and spills of lubricants, parts-cleaning solutions, and fuel.
- Mines commonly intercept groundwater and accumulate water in the underground workings, which must be pumped out of the mine to facilitate mineral recovery. The water typically requires treatment to improve quality before being discharged to the environment.
- Waste by-product is generated during the processing, enrichment or ‘‘washing’’ of the run-of-mine coal. This waste should be properly handled to prevent damage to the environment.

9.2 World Bank Guidelines

Although the World Bank does not set standards regarding environmental protection, its guidelines recognize the environmental impacts of extractive industries. It is in the mitigation of environmental impacts that a mining operation is judged regarding environmental stewardship. The World Bank relies on experts in the field to appreciate its concerns and consider them when conducting site reconnaissance. In the case of China Shenhua, BOYD has reviewed its facilities and found them to compare well with other international operations. While there are areas for improvement, the level of effort to restore/remediate the environmental impacts of mining and improve the social condition is highly significant.

9.3 Environmental Law

PRC laws governing the mining industry include:

- Environmental Protection Law
- Air Pollution and Treatment Law
- Water Pollution Prevention and Control Law
- Solid Waste Pollution Prevention and Treatment Law
- Environmental Protection Against Noise Pollution Law
- Water Law
- Water and Soil Conservation Law

Compliance monitoring is conducted by the SAEP, which has a local office in the general mining area. Officials may sample for water pollution, excessive dust, noise and waste coal compaction. General compliance is evaluated by visual inspection. China Shenhua reports that its activities are in compliance with these laws, and BOYD's site visits did not reveal evidence to the contrary. Our observations support their compliance with generally accepted environmental protection practices. China Shenhua's activities with regard to major environmental issues are reviewed in the following sections.

9.4 Mine Area Land Subsidence

A major concern for underground mining activity is surface subsidence. Mining is prohibited under certain features by law such as major surface structures (bridges), municipalities, essential buildings, main rail corridors and major water resources. China Shenhua, which operates many underground mines, is required to pay a fee based on tonnes of coal mined via underground method into a trust held by the government to fund subsidence repairs or relocation costs, as well as compensation for inconvenience.

BOYD finds this subsidence protection and mitigation program to be well-conceived with a reasonable finding basis. It parallels and, in many cases, exceeds similar programs in developed countries.

9.5 Watershed Protection & Control

The PRC SAEP created a set of rules for performing mining and environmental protection activities, which became the Water and Soil Protection Plan. The plan also provides a mechanism for self-financing. Three areas that must be addressed in the plan by the mine operator are:

1. A soil protection plan must be developed and submitted to the central government for approval.
2. A construction fund must be established for water and soil protection with a funding basis of RMB0.45 per tonne of coal mined.
3. An enterprise fund must be established — a "self-owned fund" — for the operation of the environmental protection facilities.

9.6 Waste Coal By-Product

Waste coal resulting from the coal cleaning process is either disposed of in landfills, redeposited in the open mine pits, or utilized as a fuel in waste-to-energy power generating plants. Waste coal not utilized for fuel is subject to a RMB6.0 per tonne fee paid to the central government.

Judging from BOYD's site visits, China Shenhua's coal wastes are disposed of in a proper and orderly fashion and follow accepted international practices for disposal. China Shenhua's program for utilizing waste coal (residual stone) as fuel in waste-to-energy stations is remarkable in maximizing the use of its assets while producing environmental benefits. An example of this practice is the Daliuta coal processing plant which processes about 16.8 Mtpa. Approximately 5% of the raw coal feed is rejected by the plant as waste. The waste is shipped by conveyor to a nearby power plant where it is used to fuel the boilers. Approximately 40% of the reject cannot currently be consumed in the power plant and is disposed of in a landfill.

9.7 Waste Oil Management

China Shenhua has a considerable amount of heavy mining equipment including mobile equipment. These units require routine maintenance, such as lubricant draining and replenishment, which is performed by contract services in specified structures, by law, to prevent oil contamination of the soil. Waste oil derived from the equipment is collected, tested and recycled off-site. Waste lubricant and fluids drained from equipment to be repaired/rebuilt are collected, placed in emptied lubricant drums, and moved to a special waste oil pen until a recycling contractor takes the drums.

9.8 Water

The arid climate of Inner Mongolia Autonomous Region and Shaanxi and Shanxi Provinces puts a premium on water resources. Annual rainfall averages 300-400 mm. China Shenhua has instituted practices to conserve water as much as possible in its mining operations and to recover as much water as is practical from the underground mines. The underground mines typically generate water in the normal course of their operations, which must be controlled and can be removed from the mine for recycling or other uses. Water uses include irrigation water for reclamation plantings, bank stabilization plantings, greenhouses, fire fighting reserve, and irrigation. For example, at Kangjiatan, mine water is pumped to a modern treatment plant located near the preparation plant and offices. Water is treated with coagulant/settling agent to remove solids and clays, and clarified water is discharged to a large buried cistern in the plant yard area. China Shenhua's efforts have had visible beneficial impacts on the main living areas near the major mine.

9.9 Opencut Mine Reclamation

China Shenhua is responsible for and is pursuing reclamation of opencut disturbance areas. BOYD visited Shendong's Majiata (Houbulian) and Zhunge'er Heidaigou Mine to review reclamation efforts. At the Majiata Mine reclamation of the mined land has been part of the mining plan since inception. Overburden removed from the advancing highwall area is hauled to the previously excavated mine void after coal removal. Topsoils are segregated from substrata during mining and placed as the top cover over the replaced and graded substrata overburden. The topsoil is then graded to a final profile mimicking pre-mining conditions and revegetated with grasses and trees. Success to date is good, due to effective irrigation efforts.

Heidaigou Mine is in the early stages of land restoration due to the size of the pit. Initial overburden removed during pit development was deposited on large landfill areas near the pit. These landfills were later graded and vegetated. Outslopes were sloped to a stable profile with mid-slope benches to intercept and divert precipitation runoff, thus limiting erosions during vegetation establishment. BOYD judges the reclamation of these landfills to be a success. Current mining shows substrata overburden being hauled by truck to previously mined pit areas where the original land surface elevation is re-established. Topsoil and subsoil are mined and conveyed from the advancing highwall using modern BWEs with lateral pit conveyors to the refilled areas. Final profiles have yet to be attained. This method of ‘‘back-stacking’’ overburden and soil follows industry standards and has good potential for successful reclamation.

9.10 Railways

BOYD has not performed a detailed environmental assessment relative to China Shenhua’s rail operations. China Shenhua’s utilization of electric-powered locomotives significantly reduces the potential atmospheric emissions from mobile point sources (trains). BOYD representatives did not observe any significant environmental concerns at the rail facilities (stations, maintenance shops and administrative) during their site visit in May 2004.

9.11 Ports

BOYD has not performed a detailed environmental assessment relative to China Shenhua’s port operations. The Huanghua port, which is equipped with water sprays to suppress dust at belt transfer points and in the stockpile area, has constructed water treatment plants, and has installed automatic fire control systems. Currently, individual coal stockpile height is limited to a maximum 17 m. Construction of a wind wall is planned to minimize airborne particulate pollution in the port area.

9.12 Conclusion

BOYD has found China Shenhua to be one of the better performing operations regarding environmental stewardship in China and to compare well with similar international operations. China Shenhua reports compliance with applicable PRC environmental laws governing mining operations. BOYD’s site review did not reveal evidence to the contrary. Our observations support China Shenhua’s reported compliance with generally accepted environmental protection practices and its commitment to environmental stewardship. In our opinion, China Shenhua’s environmental practices meet or exceed World Bank guidelines for remediation of mining impacts. BOYD is not aware of any environmental issues that could significantly constrain or adversely impact China Shenhua’s mining, rail, or port operations.

10.0 Rail Transportation

10.1 Introduction

China Shenhua has extensive holdings in rail transportation including 1,300 km of mainline railroad and associated rolling stock and facilities. For general location of China Shenhua’s coal transportation assets, see Figure 1.

Growth in China Shenhua coal production and shipments has been limited to a significant extent by the capacity of its transport system and port infrastructure. As the capacity of the railway system and port facilities has increased, so has the volume of China Shenhua coal shipments. As with all other coal mining concerns in China, transporting coal over any distance requires reliable rail service, which the overtaxed national railway system is unable to deliver to the extent demanded by shippers. Available national rail service is rationed among coal producers, thus it is difficult to expand mine output. As such, China Shenhua's railway system is a highly significant asset and strategically important to its growth. Another major advantage of China Shenhua's railways is the flexibility afforded in scheduling train loadings for its coal mines. Close coordination of production, coal processing, and loading is essential for maintaining efficient operations. These are significant competitive advantages, not available to other PRC coal producers and typically not available to other international coal companies, which are critically important for Shendong where storage capacity for commercial coal prior to rail loading is limited.

10.2 Railway Assets

China Shenhua rail operations are organized under three operating subsidiaries: Baoshen Railway Co., Ltd., (Baoshen), Shuohuang Railway Company (Shuohuang), and Dazhun Railway Company (Dazhun). The Shenshuo Railway Branch Company (Shenshuo) is operated and owned by China Shenhua. China Shenhua also has a unit, Rolling Stock Co., Ltd., that manages its railcar fleet. The railways perform a vital function moving China Shenhua coal from the mines to market either directly or through National Railway of China (NRC) connections. Following is a summary of the China Shenhua rail network:

Railway/Branch	Length (km)	Origin	Terminus	Rate (RMB/ tonne-km)	China Shenhua Ownership (%)
Baoshen	172	Bao Tou	Daliuta	0.15	88.2
Shenshuo	270	Daliuta	Shuozhou West	0.18	100.0
Shuohuang	594	Shenchi South	Huanghua Port	0.12	52.7
Dazhun	264	Xuejiawan	Datong East	0.15	55.0

The Shenshuo, Shuohuang and Dazhun are electrified, while Baoshen relies on diesel-powered locomotives. The following shows the locomotive power and rolling stock controlled (includes leased equipment) by each China Shenhua railway as of 31 December 2004:

	Locomotives[a]		Freight Cars[b] by Ownership		
Railway	Electric	Diesel	RSC[c]	Railway	Total
Baoshen	-	32	2,722	45	2,767
Shenshuo	93	15	1,132	-	1,132
Shuohuang	76	11	12,696	-	12,696
Dazhun	26	11	-	268	268
Total	195	69	16,550	313	16,863

(a) Includes leased equipment.

(b) All freight cars are owned either by the railways or Rolling Stock Co.

(c) Rolling Stock Co.

All railways, except for the Dazhun, are interconnected and form the primary corridor for China Shenhua coal transportation for both waterborne and local deliveries. From Baotou (Inner Mongolia) to

Huanghua Port (Hebei), China Shenhua operates over 1,000 km of mainline railway. All electric power required by China Shenhua railways is provided from the national grid system.

China Shenhua's primary coal sources are located near the junction of the southern end of the Baoshen Railway and the western end of the Shenshuo Railway. The Shenshuo also consists of an eastern segment connecting with the NRC (Beitongpu Line) at Shuozhou. Planned rail extensions to Shuohuang Railway include trunk lines to the planned expansion of Tianjin Port (67 km) and to Dajiawa (209 km), with further connections to Longkou Port.

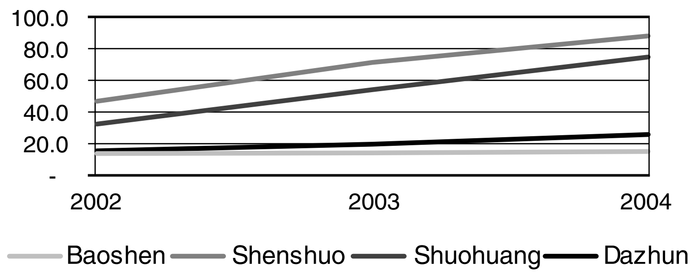
The Dazhun Railway runs from the Zhunge'er coalfields northeast for 264 km to its connection with the NRC at Datong. Currently, there are no connections between the Dazhun Railway and the other three China Shenhua railways. The Dazhun has connections with NRC, allowing coal transportation to ports for waterborne deliveries.

Future expansions of the Dazhun include double-tracking projects and construction of a connecting railway (single-line) to the Baoshen Railway.

Total coal volumes transported over the China Shenhua railways have increased significantly over the past four years, as shown below:

Railway	2002	2003	2004	% Change Between 2002 & 2004
Total Throughput (million tonnes)				
Baoshen	14.1	13.9	15.1	7
Shenshuo	47.0	71.0	88.0	87
Shuohuang	32.4	54.1	74.7	130
Dazhun	15.5	19.6	25.8	66
China Shenhua's Portion of Throughput (%)				
Baoshen	26	12	13	
Shenshuo	97	96	97	
Shuohuang	100	100	98	
Dazhun	76	71	59	
China Shenhua's Portion of Throughput (million tonnes)				
Baoshen	3.7	1.7	1.9	(49)
Shenshuo	45.6	68.2	85.0	86
Shuohuang	32.4	54.1	73.5	127
Dazhun	11.8	13.9	15.3	29

Tonnes Moved By Railway (million)



Tonnages for the individual railways are not additive since common tonnages move over multiple lines. Total coal movements along the Shenshuo and Shuohuang grew significantly (87% and 130%, respectively) between 2002 and 2004.

Generally, China Shenhua's railways are considered first-grade, heavy-load type constructed primarily with 60 kilogramme per meter weight mainline rail (50 kilogramme per meter on sidings). Track gage is standard US gage (1,435 mm) utilizing concrete ties except on sidings, switches and some bridges. The track bed is reportedly designed and constructed to support a maximum loaded car weight of 92 tonnes. Currently, typical car loadings are 85 tonnes per car (63 tonnes lading and 22 tonnes car weight); therefore, it would appear there is an opportunity to use larger cars.

Due to regional topography significant numbers of bridges and tunnels have been constructed to keep grade to a minimum. It is our understanding that efforts to install double-track along the Primary Road will be completed by 2005 to facilitate efficient two-way operation of the railway. China Shenhua has essentially eliminated graded crossings by installing more than 1,000 culverts along the railways, allowing for pedestrian and vehicular traffic without interrupting rail operations.

The Rolling Stock Co. was formed in 2001 to operate and to manage the car fleet. Cars are constructed from steel and are capable of carrying 63 tonnes of coal. Total size of the coal car fleet managed by Rolling Stock Co. is over 16,800 cars. The Rolling Stock Co. owns 16,550 cars and manages an additional 313 cars owned by the Baoshen and Dazhun railways. The car fleet is interchangeable between the three contiguous carriers and can operate over the NRC on joint-line movements.

Total railway employment (including Rolling Stock Co.) as of 31 December 2004 was 15,947 personnel (includes approximately 8,800 contract workers). More than 95% of these workers are associated with the "Primary Road" railways (Baoshen, Shenshuo, and Shuohuang).

The NDRC sets rail rates on the China Shenhua Railways. Transportation rates have remained unchanged for at least the past 5 years.

10.3 Rail Capacity

China Shenhua has numerous railway improvement projects in progress and planning stages, which will significantly increase rail capacity in the near term, as follows:

	Coal	
Railway	2004 Transported[a]	Annual Planned Capacity 2007
	(million)	
Baoshen	15	20
Shenshuo	88	140
Shuohuang	75	150
Dazhun[b]	26	47

(a) Total throughput — China Shenhua and others.

(b) Owned by Zhunge'er Energy.

BOYD has not analyzed the actual or future capacity of each railway. However, based on our limited review, we believe China Shenhua's rail infrastructure will be able to meet the coal transportation demands required by Shendong's planned output expansion to 100-105 Mtpa from existing mines. BOYD has not not confirmed planned 2007 capacities for Shenshuo and Shuohuang railways.

10.4 Planned Railway Projects

China Shenhua has numerous railway improvement projects either currently under construction or planned to begin construction in the near-term. Following are summaries of the proposed major railway improvements:

- Baoshen
  - A double-track project is planned for the segment from Daliuta to Batuta. The project allows for the future linking of the coalfields in Zhunge'er and Shendong via the Baoshen/Dazhun connector. It will also provide options for the future connection of Baoshen railway and Dazhun railway. For this project, the Daliuta to Shendong section has been finished. The Shendong to Ciyaowan section was completed and put in service during December 2004, and the Ciyaowan to Batuta section is expected to commence in 2005, with completion expected in 2006.
- Shenshuo
  - Automated blocking system is under construction, which will allow for more efficient railway operation.
  - Purchase of additional locomotives for improving system capacity to meet future coal transportation requirements.

- Shuohuang
  - Automated blocking system is under construction. which will significantly improve the transportation capacity of the line.
  - Rail line improvements for 241 km from Shenchinan to Xibaipo.
- Dazhun
  - Currently upgrading approximately 60 km (half in 2004 and half in 2005) of railbed from 50 kilogrammes per meter to 60 kilogrammes per meter seamless rail.
  - Station improvements include four new stations and extending the spur lines by 1,700 m at nine stations.
- Huangwan Line
  - Connection between Shuohuang to Tianjin port. BOYD has reviewed the March 2004 Feasibility Study for the project.
  - The project is a 67-km line from Huanghua South Station on the Shuohuang line to the Tianjin local railroad connection at Wanjia Dock.
  - The single-line track construction will be considered heavy-duty meeting Class I National Railway standards utilizing 60 kg/m rail in 25-meter segments.
  - The Huangwan line will have six stations excluding Huanghua South and Wanjia Dock.
  - Study recommends a routing plan that requires the construction of 13 bridges (includes bridge over Jingshan Highway) at a combined length of more than 15 km and 152 smaller bridges/culverts.
  - China Shenhua projects volumes will exceed 37.7 Mtpa by 2010. BOYD has not independently verified China Shenhua's volume projection.
  - Plan recommends use of diesel locomotives initially until electrification of the Ligang line of the Tianjin Hub. Locomotives will pull unit trains of approximately 5,000 tonnes.
- Huangda Line
  - Connection between Shuohuang and Longhou via Dajiawa. BOYD has reviewed the April 2003 Predicted Feasibility Study for the project.
  - Construction of a 209-km line from Huanghua South Station to Dajiawa via Binghou, Dongying and Liuhu.
  - The single-line track construction will be considered Grade II utilizing 50 kg/m rail in 25-meter segments. The project reserves the right to install a second line.
  - The line will have 19 stations, 16 of which will be new. Stations at Huanghua South, Yangjiaogou and Dajiawa are the only three stations along the Huangda that currently exist.
  - The actual number of bridges and culverts required are dependent on the construction option utilized. Regardless of the option selected, an extremely large bridge (approximately 7 km) is required to span the Yellow River.

— China Shenhua has indicated that, after expected completion in 2007, the project will have a coal transport volume of approximately 10 million tonnes.

— The line will operate diesel locomotives pulling coal unit trains of approximately 4,000 tonnes.

10.5 Capital Expenditure Projections

China Shenhua's capital spending projections for railway projects described above are RMB3,493 million, RMB1,675 million and RMB1,638 million for 2005, 2006 and 2007, respectively.

10.6 Potential Cost Reduction and Efficiency Improvement

The four China Shenhua affiliated railways and RSC include a rail network totaling approximately 1,300 km in overall length with a total employment of 15,947 personnel (registered and contract) as of 31 December 2004. The four railways handled approximately 130 Mt during 2004.

By assignment, BOYD has performed an overview of the China Shenhua rail operations. Potential cost saving measures identified are based primarily on our knowledge of railways in the US and abroad and our cursory review of China Shenhua operations. BOYD has compared China Shenhua railway companies' operating statistics to that of various railways in other countries. Employment levels at the China Shenhua affiliated railways are substantially higher than levels in other industrialized countries. While we believe there will be future upward pressure on labor rates, the present comparatively low labor cost structure will likely keep China Shenhua's labor costs competitive relative to other industrialized nations. As more commercial employment practices are transitioned into China Shenhua's railway operations, it is reasonable to assume staff reductions could be accomplished without affecting the level of service. Each potential efficiency improvement measure (including staffing) would require detailed study to determine if it or any measure would result in significant cost savings to China Shenhua.

The China Shenhua roads, which are well constructed, relatively new (built during the last 10 years), and in very good condition, form a critical asset to the future success of China Shenhua. That said, BOYD believes there are several improvements that could result in future operational savings, including the following:

- Railway Consolidation : By consolidating the three contiguous railways, China Shenhua could eliminate two administrative headquarters.
- Train Size : Increased train lengths would allow increased overall throughput. Current unit trains are approximately 4,000 tonnes (66 cars, 61 tonnes per car). It is our understanding the railway construction (60 kilogrammes per meter rail, concrete ties, etc.) should be capable of handling allowable rail loading of 92 tonnes (loading and car combined). The basis for the 92-tonne maximum rail loading should be confirmed. Future railcar and locomotive purchases should take full advantage of the maximum rail loading allowable.
- Electronic Tracking : An integrated dispatching and tracking system would allow more efficient real-time control over rail operations. An automatic railcar identification system would eliminate manual processing, and the integrated dispatching will reduce the potential for error.

- Rail Replacement : As rail is replaced under normal railway maintenance programs, the current 25-m rail lengths should be replaced with longer (500 m, 1,000 m, etc.) rail segments.
- Locomotive Operation : Currently each locomotive has a crew of two (engineer and engineer's assistant). Typical unit trains (66 cars, 4,000 tonnes) have two to three locomotives; therefore, a crew of approximately 4 to 6 are used to move unit trains (except Shuohuang which utilizes one locomotive). We believe multiple locomotive unit trains could reduce staff.
- Passenger Service : Passenger trains (Baoshen) have a locomotive located at each end with a crew of two in each unit. Since only one locomotive is necessary to move the passenger train, it is unclear if it is necessary to have two locomotives on each train.

10.7 Conclusion

With the present state of the overtaxed and rationed national railway system, China Shenhua's railway system is a highly significant asset that is strategically important to its growth.

BOYD's opinion is the China Shenhua rail operations are well designed and well managed to provide efficient train service. China Shenhua railways are well constructed and comparable to many railways in other industrialized countries including some in the US. We view these operations as world-class with the ability for further expansion and future cost reductions.

Based on our review, we believe China Shenhua's rail infrastructure will be able to meet the coal transportation requirements of Shendong's planned production of 100 to 105 Mtpa from its existing mines. BOYD has not verified China Shenhua's plan to reach capacity levels planned by 2007.

11.0 Ports

11.1 Introduction

China Shenhua operates Huanghua port and is constructing new port facilities at Tianjin, both on the Bohai Bay. General locations of China Shenhua's port assets are shown in Figure 1. China Shenhua is the only coal producer in the PRC with its own dedicated ocean port facilities for the shipment of coal to domestic and foreign customers. This gives China Shenhua flexibility in addressing customer needs and permits greater quality assurance than with a third party port facility. This position is unmatched except by a few large coal companies worldwide.

Huanghua 2004 total shipments were 45 Mt. Capacity will increase to approximately 65 Mtpa after the Phase II expansion is fully operational (primary construction has been completed). Huanghua (Phases I & II) are expected to achieve full commercial operation by mid-2005. An additional expansion at Huanghua of 20 Mtpa is planned for completion in 2007. China Shenhua is also constructing a port facility at Tianjin, expected to begin operation during 2007. When complete, China Shenhua's new port facilities at Tianjin will have an annual throughput capacity of 35 Mt, increasing China Shenhua's total port throughput capacity to 120 Mtpa.

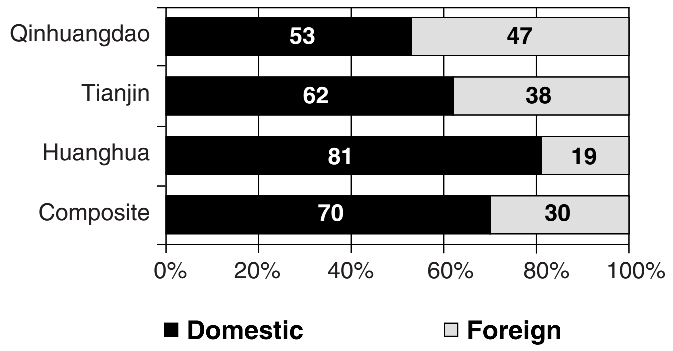
11.2 Present Port Activity

China Shenhua transports coal produced by Shendong via rail to one of three ports — Huanghua, Tianjin (current facility), and Qinhuangdao, all located on Bohai Bay east of Beijing. Historic coal volumes delivered to the three ports are:

Port	Tonnes Shipped		
	2002	2003	2004
		(million)	
Huanghua	16.5	31.2	45.4
Tianjin	13.8	19.1	21.7
Qinhuangdao	13.6	19.4	20.1
Total	43.9	69.7	87.2

Nearly 70% of all China Shenhua coal moved through the above ports is intercoastal transfers delivered to Chinese domestic markets.

2004 Destination of China Shenhua Exports by Port



Approximately 67% of China Shenhua's 2004 coal exports were dispatched from the Tianjin and Qinhuangdao facilities.

Coal handling costs of the three ports for 2003 and 2004 are shown below:

Port	Port Charges	
	2003	2004
	(RMB/Tonne)	
Huanghua	21.6	21.1
Qinhuangdao	24.4	28.5
Tianjin	34.2	35.5

Beginning 1 May 2004, the PRC Government reduced exemptions for coal exports from China Shenhua (and other producers) and exporting companies were required to pay additional rail and port (infrastructure improvement) fees, thereby increasing the cost of transporting and exporting coal. Payments to the railway construction fund increased by RMB0.033 per tonne-km for coal shipped along selected NRC rail lines. Increased government port taxes for coal exported from seven strategic ports, including Qinhuangdao and Tianjin (excludes Huanghua), include:

- RMB7.0 per tonne for each tonne shipped from the specified ports.

- An additional RMB5.7 per tonne for each tonne loaded on a vessel (increasing the total loading charge to RMB18.7 per tonne).

Throughput costs at the selected ports increased by RMB12.7 per tonne to RMB25.7 per tonne (excluding additional rail costs). It has been estimated the new fees increased the export costs of a tonne of coal handled through the selected ports by more than RMB40 per tonne. China Shenhua has a competitive advantage in this regard. To the extent China Shenhua can utilize dedicated railway and port facilities, it has a pricing advantage over its competitors. It is BOYD's understanding that coal moved along China Shenhua's railway system and through Huanghua is exempt from the new taxes.

11.3 Huanghua Phase I

China Shenhua's primary coal port is Huanghua Port (Huanghua) located in Hebei Province approximately 90 km east of Cangzhou and 230 km southeast of Beijing. Huanghua is owned and operated by Huanghua Port Company, a joint venture established in March 1998 and currently owned by China Shenhua (70%) and a third party (30%). Total invested capital (Phase I and II) as of 31 December 2004 was RMB4,570 million. Phase I was completed in 2001. Based on the BOYD site visit, the facility is well-maintained and has high operating standards. As of 31 December 2004, total employment at Huanghua (Phase I and II) was at 558 personnel (registered and contract).

11.3.1 Coal Receipts

Coal is delivered by rail on the Shuohuang and positioned for unloading by diesel locomotives. Coal is unloaded by one of three rotary railcar dumpers. Each dumping station simultaneously empties two cars and has a capacity of 4,000 tph. A typical unit train is unloaded in just over one hour.

11.3.2 Coal Storage/Reclaim

Coal can either be direct loaded to vessels from the dumping station or placed in one or more stockpiles. The coal storage area is approximately 380,000 m^2 in size with a coal storage capacity of up to 2.4 Mt. Coal is selectively handled and stockpiled by individual customer by quality. Based on discussions with port personnel, coal is reclaimed on a first-in, first-out basis.

11.3.3 Shiploading

There are two coal-loading docks located at Phase I of Huanghua. The main dock is 879 m long and capable of loading two 50,000-tonne vessels and one 35,000-tonne vessel simultaneously. The second, perpendicular dock is much smaller and capable of loading one 15,000-tonne vessel. Huanghua owns and operates six positioning tugboats to escort vessels in and out of the port. Phase I of Huanghua is equipped with three 6,000-tonne-per-hour shiploaders. Loaders are fed from the storage area by 2.2-m conveyor belts.

11.4 Huanghua Phase II

Construction of the Phase II expansion began in September 2002 and was completed in September 2004. Phase II began trials during October 2004 and is expected to begin full operation by mid-2005. Phase II is a mirror image of the Phase I facility and essentially doubles the port's export capacity. When Phase II attains full operational status in 2005, China Shenhua projects the total port capacity to increase to approximately 65 Mtpa. The Phase II project includes a 955-m coal dock capable of loading one 100,000-tonne and two 50,000-tonne vessels simultaneously. Vessels are loaded using one or two 6,000-tph shiploaders. Phase II storage area has a capacity of approximately 2.1 Mt (covering an area of 333,000 m^2), increasing the total port storage capacity to 4.5 Mt. The increased port capacity from the Phase II expansion should be beneficial in lowering the facilities' overall operating cost due to economies of scale achievable at higher volumes. China Shenhua indicates total employment (registered employees) is not expected to exceed 600 for Phase II operation. China Shenhua has plans to further expand the capacity of Huanghua to 85 Mtpa by 2007.

11.5 Huanghua Port Dredging

Currently maximum vessel size is constrained due to draft limitations (maximum 11.5 m) caused by silting. Typically, ships are now restricted to a 50,000-tonne vessel. Minimum entry channel width is approximately 140 m. A sea wall is under construction (completion expected by 30 September 2005) that will increase allowable draft to 14.7 m and the maximum vessel size to approximately 100,000 tonnes.

China Shenhua incurred approximately RMB364 million in dredging expenses in 2003 and RMB418 million in 2004. China Shenhua allocated RMB800 million of the 2004 capital budget for construction of a sea wall to mitigate silting problems at the port, and another RMB845 million for sea wall construction is projected for 2005. China Shenhua projects that, once the sea wall is complete, expenses will decrease significantly and overall profitability of the port facility will improve.

The possibility that the sea wall will not mitigate silting issues has not been evaluated for this review, and the possibility remains a project risk.

11.6 Shenhua Tianjin Coal Dock Company Limited

In addition to Huanghua's Phase II expansion, China Shenhua's other committed port expansion project is a 30- to 40-Mtpa facility at Tianjin. This new facility is owned by China Shenhua's Shenhua Tianjin Coal Terminal Company, which is jointly held by China Shenhua (55% interest) and Tianjin Port Group Company (45% interest). Currently the Tianjin Port has an annual coal capacity of 50 Mtpa. In 2004, China Shenhua exported approximately 21.7 Mt, or 43% of the port's capacity.

China Shenhua corporate and port personnel provided the following description of the port and its projected operation. This information has been supplemented by the March 2004 prefeasibility study for the dock. BOYD personnel visited the site of the new dock, which is adjacent to the existing Tianjin Shenhua Coal Dock (Tianjin Dock). At the time of our visit, only initial site development work was in progress.

Port facilities construction began during the second half of 2004 with completion expected by the end of 2006. China Shenhua expects to commission and begin shipping out of the port beginning in 2007. Approximately two-thirds (20 million tonnes per year) of the port's capacity will ship to domestic destinations.

The Tianjin Dock project will consist of a 900-m coal dock able to load one 50,000-tonne and two 70,000-tonne vessels at the same time. Tianjin Dock will be a deepwater port with a maximum draft of 19.5 m and capable of loading Capesize vessels (approximately 150,000 to 200,000 tonnes).

Port design will be similar to Huanghua. Unloading of coal from incoming railcars will be performed by one of three 10-Mtpa rotary dumpers. The planned facility could be expanded by the addition of a fourth car dumper. After construction (completion expected in late 2005) of a 69-km branch from the Shuohuang, China Shenhua will have direct rail access to Tianjin Dock without utilizing segments of the NRC. Tianjin Dock will have 1.3 to 1.8 Mt of storage capacity (covering an area of 400,000 square metres). Port operations will require approximately 300 employees.

11.7 Capital Expenditure Projections

China Shenhua's capital spending projections for ports are RMB2,675 million, RMB1,900 million and RMB931 million for 2005, 2006 and 2007, respectively.

11.8 Potential Cost Reduction and Efficiency Improvement at Huanghua

11.8.1 Labor Productivity

BOYD compared China Shenhua's Huanghua port with other coal ports around the world. Huanghua's employee productivity (tonnes/employee) is lower in comparison to other international exporting ports due to employment levels. With completion of Phase II, Huanghua will have a throughput capacity of approximately 65 Mtpa. At full capacity Huanghua will rank fifth among international exporting ports (excluding China) and ninth in productivity (tonnes/employee-year) based on 2003 data. Since the labor force is projected at 600 (registered employees) after Phase II construction is completed thereby doubling Huanghua port capacity, overall productivity will increase. It should also be recognized that China Shenhua's labor compensation rates are much lower than in comparable port facilities in other major coal exporting countries such as Australia, for example. Thus China Shenhua has significant comparative labor advantages.

11.8.2 Potential Improvement

BOYD believes there are several potential improvements that could result in operational savings including the following:

- Railcar Unloading : The ability to use rotary couplings between cars would allow a more efficient operation of the railcar dumping station.
- Maximum Car Capacity : Utilization of railcars with increased capacity would directly result in increased unloading capacity.
- Increased Loading Efficiency : Average service time for a vessel could be reduced from the present 40 hours.

11.9 Conclusion

China Shenhua is the only coal producer in the PRC with its own dedicated ocean port facilities for shipment of coal to domestic and foreign customers. This gives China Shenhua flexibility in addressing customer needs and permits greater quality assurance than with a third party port facility. This position is unmatched except by a few large coal producers worldwide.

The existing Huanghua port operation (Phase I and II) maintains high operating standards. Based on our review, BOYD believes once Huanghua Port expansion (Phase II) trials are complete, the facility will have a total throughput capacity of 65 Mtpa. An additional expansion at Huanghua of 20 Mtpa is planned for completion in 2007, bringing total planned capacity to 85 Mtpa.

Higher port output capacity should lead to lower costs due to economies of scale. The 30 Mtpa increase in port capacity at Huanghua (result of Phase II expansion) should be adequate to service China Shenhua's future production in the medium term.

The possibility that the sea wall will not mitigate silting problems has not been evaluated for this review, and it remains a project risk.

Potential identified cost-saving measures are based primarily on our knowledge of coal ports in the US and abroad and our cursory review of China Shenhua operations.

12.0 BOYD Qualifications

BOYD is one of the largest independent consulting firms in the world exclusively serving the coal, financial, utility, power and mineral-related industries. We have provided consultancy services on a continuous basis since 1943 and have worked in over 50 countries. Our full-time staff includes specialists in the analysis of geology, reserves, mine planning and costs, material handling, markets, business planning, transport, and environmental issues.

We have over 60 years of expertise in completing reserve audits, coal company valuations, and stock listing requirements as well as extensive knowledge of coal operations in the US and internationally, with recognized experts having qualifications in all the technical disciplines related to mine and rail transportation operations. We have completed over 2,000 reserve audits including some of the largest US coal producers.

BOYD has experience preparing Competent Persons Reports for stock exchange filings. We were selected by a Chinese coal and coke company (China Energy) to prepare such a report for inclusion in their submittal to the United States Securities and Exchange Commission (SEC) for listing on the American Stock Exchange (ASE). BOYD's staff assessed the operation, including a full review of reserves, quality and overall mining issues.

We were also retained by Her Majesty's Government, Department of Trade and Industry regarding the privatization of British Coal Corporation and were actively involved with N M Rothschild, the lead financial advisor, during the course of this project. Our work assisted in the successful sale and subsequent restructuring of the industry.

BOYD has worked with and/or for virtually all of the major international banks. Numerous financial agencies have used our services to opine on major property/mine operations. BOYD prepares bankable documents that are accepted and used with confidence by major financial institutions and other investors around the world.

13.0 Statement of Interests

BOYD is a privately owned consultancy with headquarters in the US. We were selected for this assignment based on company and staff expertise in competing on an international basis. BOYD has no economic interest in Shenhua Group or China Shenhua. Our payment for services is not contingent on Shenhua Group's approval of our work. In preparing this report, BOYD has completed its work in accordance with US and international ethical standards for professional engineering.

14.0 Report Qualifications

In preparing this report, we have relied on reserve, operating and other data as provided by Shenhua Group and China Shenhua. We have exercised due care in reviewing the information provided herein and believe it is both reasonable and representative. We have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional material information. Our ITR has been completed in accordance with generally accepted standards and practices employed in the international mining industry. Although we have compared key information provided by Shenhua Group and China Shenhua with expected values, the accuracy of the results and conclusions of this report are reliant on the accuracy of the information provided. We are not responsible for any material errors or omissions in the information provided.

GLOSSARY AND DEFINITIONS

AD	Air dried as in coal quality reporting
AFC	Armored Face Conveyor
Bleeder	Underground mine entries located perpendicular and behind a longwall panel to maintain ventilation while the panel is extracted and after
Bord and pillar	Method of underground mine extraction characterized by coal removal around non-mined pillars. Also known as room and pillar
BOYD	John T. Boyd Company
BWE	Bucket wheel excavator
Cash (Production) Cost	All cash costs directly associated with coal production including, but not limited to, raw materials consumed, salary and wages, labor benefits, power, transportation expenses for transport of coal from mines to loading points, sales taxes and surcharges, general administrative expense and selling expenses
China Shenhua	China Shenhua Energy Company Limited
CM	Continuous Mining — underground mining technique
Coal Resource	A Coal Resource is a concentration or occurrence of coal of intrinsic economic interest in or on the Earth's crust in such form and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a coal resource are known, estimated or interpreted from specific geological evidence and knowledge. Coal resources are subdivided, in order of increasing geological confidence, into Inferred, Indicated, and Measured categories
Coal Reserve	A Coal Reserve is the economically mineable part of a Measured or Indicated coal resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of the modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Coal reserves are subdivided in order of increasing confidence into Probable coal reserves and Proved coal reserves
Coal Seam	Portion of the strata that contains solid fossil fuel
Commercial Output	Saleable product from a particular mine. May include varying proportions of raw and cleaned coals
Contract Services Personnel	Personnel typically employed full-time by the mining company who are assigned to operating mines in order to perform specific routine tasks (e.g., LW face transfers)

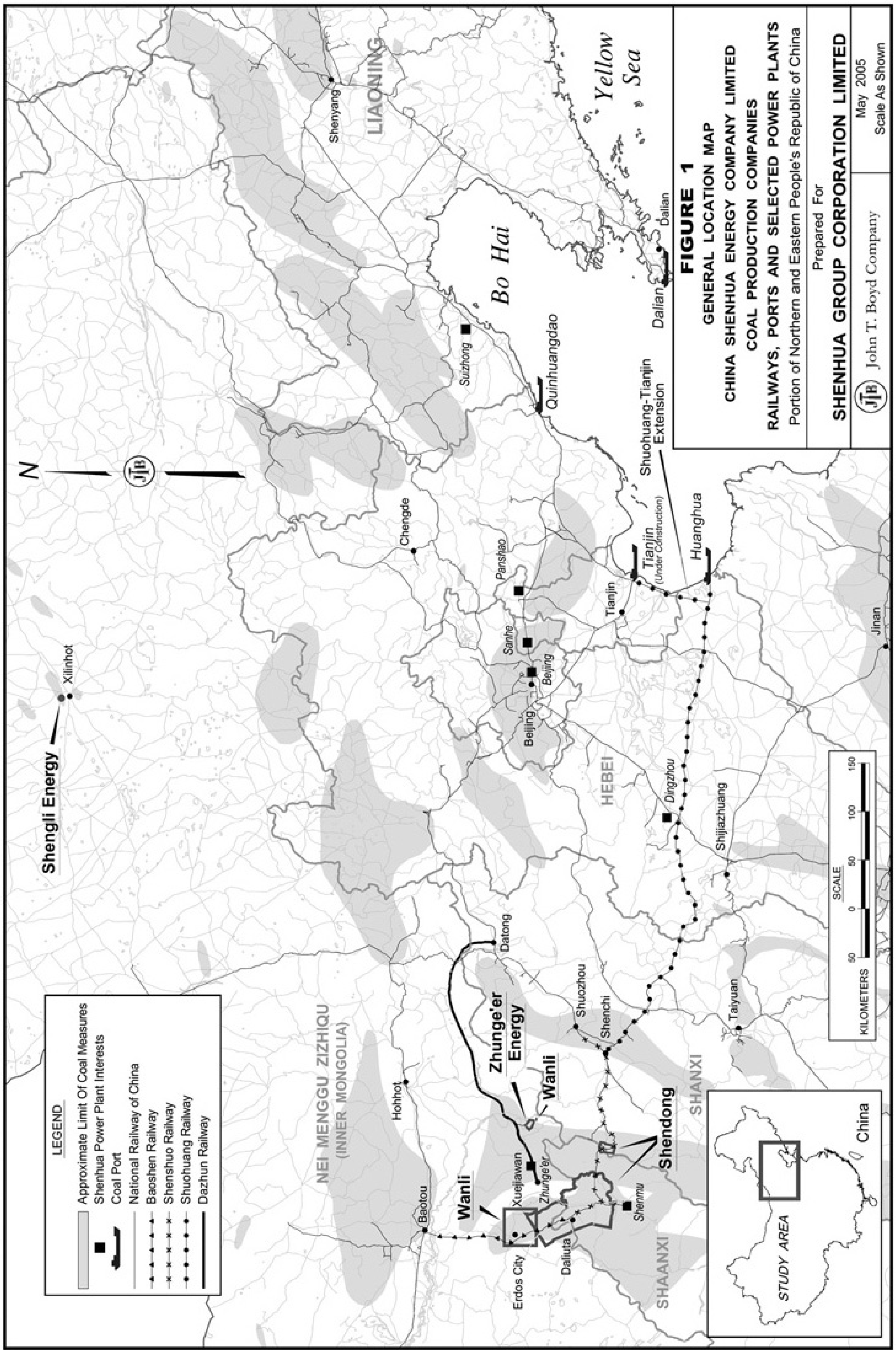
cu m/min	Cubic metres per minute
DBT	DBT GmbH
Dip	Angle which strata makes with the horizontal
Draft	Vertical distance between a vessel's waterline to the keel
Dragline	High efficiency earth-moving equipment used in opencut mines
Economic Reserves	Quantities, reported in tonnes/volume with grade/quality, demonstrated by means of a prefeasibility study, feasibility study or a mining report, in order of increasing accuracy, that justify extraction under the technological, economic, environmental and/or other relevant conditions, realistically assumed at the time of the determination
Face	Mine location where active coal extraction is taking place
Feasibility Study	A Feasibility Study assesses in detail the technical soundness and Economic Viability of an undeveloped mining project, and serves as the basis for the investment decision and as a bankable document for project financing. The study constitutes an audit of all geological, engineering, environmental, legal and economic information accumulated on the project. Generally, a separate environmental impact study is required
Fm	Formation
Gate	Bord and pillar development around a longwall panel supporting its operation
Geological Study	An initial evaluation of the Economic Viability. This is obtained by applying meaningful cutoff values for grade, thickness, depth and cost estimates from comparable mining operations
gob	Spoil material allowed to subside behind the advancement of a longwall
Indicated Coal Resource	An Indicated Coal Resource is that part of a coal resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed
Inferred Coal Resource	An Inferred Coal Resource is that part of a coal resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes which may be limited or of uncertain quality and reliability

ITR	Independent Technical Report
JORC	Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
JORC Code	Australian Code for Reporting of Mineral Resources and Ore Reserves
Joy	Joy Global Inc.
Kcal/kg	Kilocalorie per kilogramme — measure of coal heat content
km	Kilometre
LSE	London Stock Exchange
LW	Longwall — underground mining technique
m	Meter
m^2	Square meter (also sq. m)
m^3	Cubic meter (also cu m)
Marginal Economic	Classification of coal/mineral resources which, at the time of determination, are not economic but could be in the future given changes in the technological, economic, environmental and/or other relevant condition
Marketable Reserves	Saleable coal from Recoverable Reserves after accounting for preparation plant yield where applicable
Mbcm	Million bank cubic metres
Measured Coal Resource	A Measured Coal Resource is that part of a coal resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes
Methane	A colorless, odorless, explosive gas (CH_4) typically associated with coal seams
Mine Plan	A Mining Plan Report is understood as the current documentation of the state of development and exploitation of a deposit during its economic life including current mining plans. It is generally made by the operator of the mine. The study takes into consideration the quantity and quality of the minerals extracted during the reporting time, changes in Economic Viability categories due to changes in prices and costs, development of relevant technology, newly imposed environmental or other regulations, and data on exploration conducted concurrently with mining
Mining Ratio	Ratio of bank cubic metres of overburden and coal wasted which must be removed per tonne of in-place mined or per product tonne (basis of tonnage needs to be specified)

MLR	Ministry of Land and Resources of PRC
mm	Millimeter
Mt	Million tonnes
Mtpa	Million tonnes per annum
NDRC	National Development and Reform Commission of PRC
Normal Fault	A fault where the hanging wall has dropped along the fault plane (fault angle between 45 and 90 degrees) relative to the footwall
NRC	National Railway of China
OC	Opencut: method of mining also known as openpit or surface
OEM	Original Equipment Manufacturer
Outcrop	The part of the coal formation exposed to the surface
Out-of-Seam	Non-coal material above and below the coal seam recovered during mining
Overburden	Waste material overlying a coal seam
Panel	A block of coal designated for extraction utilizing longwall mining
Partings	Rock material within mineable coal seams usually extracted with the coal
Pillar	Column of coal left behind for support in a bord and pillar mine
PRB	Powder River Basin — coal-producing region in Wyoming, United States of America
PRC	The People's Republic of China
Prefeasibility Study	Provides a preliminary assessment of the Economic Viability of a deposit and forms the basis for justifying further investigations (detailed exploration and feasibility). It usually follows a successful exploration campaign and summarizes all geological, engineering, environmental, legal and economic information accumulated to date
Preparation Plant	Facility used to selectively remove an undesirable portion (waste) from the ROM/raw coal using chemical or mechanical methods. Also known as a Wash Plant
Primary Road	That portion of China Shenhua's railways that connects Shendong to Huanghua. Includes the Baoshen (east), Shenshuo and Shuohuang railways
Probable Coal Reserve	A Probable Coal Reserve is the economically mineable part of an Indicated, and in some circumstances Measured, coal resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These

	assessments demonstrate at the time of reporting that extraction could reasonably be justified. Also referred to as Recoverable Probable Coal Reserve
Productivity	Measurements of workers'/equipment efficiency usually expressed in terms of tonnes per unit of time
Proved Coal Reserve	A Proved Coal Reserve is the economically mineable part of a Measured coal resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Also referred to as Recoverable Proved Coal Reserve
Railcar	Open-top hopper (side doors) used to haul coal from China Shenhua's mines to the customers/ports. A typical China Shenhua (and PRC) coal railcar has a capacity of approximately 61 tonnes
Raw Coal	Coal on an as-mined basis. May be sold directly or cleaned if necessary
Recoverable Coal	Portion of coal reserve available for mining exclusive of coal losses due to mining
Recoverable Reserves	Proved and probable reserves prior to adjustment for preparation plant yield
Residual Stone	Low heat content material remaining after commercial coal has been produced from raw coal using crushing, screening and processing methods. Heat content typically is sufficient for utilization in specially designed boilers for power generation
RMB	Renminbi — Chinese currency
ROM	Run-of-mine — the as-mined material as it leaves the mine site
RSA	Republic of South Africa
SACMS	State Administration of Coal Mine Safety of PRC
SAEP	State Administration for Environmental Protection of PRC
SAWS	State Administration of Worker Safety of PRC
SEC	Securities and Exchange Commission (United States)
Sedgman	Sedgman Company
Shearer	Tool utilized to extract coal from a face in a longwall mine
Shendong	Shendong Mines, a China Shenhua coal production unit
Shenfu Dongsheng Coalfield	Largest coal-producing fields in China and the center of China Shenhua's Shendong mining operations
Shengli	Shengli Mine, a China Shenhua mine under development

Shenhua Group	Shenhua Group Corporation
Submarginal Economic	Resources that would require a substantially higher commodity price or a major cost-reducing advance in technology to render them economic
Temporary Personnel	Workers employed on a temporary basis at a mining operation to perform specific construction or maintenance tasks. These workers are not reflected in mine employment figures
Tianlong	Tianlong Corporation provides contract mining services to Shendong for the operation of three underground mines and one opencut mine. Shenhua Group has a minority interest in Tianlong
Tonne	Metric ton equal to 1,000 kilogrammes
tph	Tonnes-Per-Hour
UG	Underground
UN	United Nations
Unit trains	Several railcars pulled by a common locomotive. Typical China Shenhua unit train has 66 railcars
US	United States
USGS	United States Geological Survey
Wanli	Wanli Mines, a China Shenhua coal production unit
Wash Plant	Facility used to selectively remove an undesirable portion (waste) from the ROM/Raw coal using chemical or mechanical methods. Also known as a Preparation Plant
Wongawilli	Australian continuous mining technique utilizing continuous haulage. Primarily used to recover coal from areas not in the longwall mine plan
Yanzhou	Yanzhou Coal Mining Company Ltd.
Yield	Saleable portion of coal cleaned in a preparation plant relative to the total tonnes cleaned
Zhunge'er	Zhunge'er Energy, a subsidiary of China Shenhua


LEGEND
Approximate Limit Of Coal Measures
Shenhua Power Plant Interests
Coal Port
National Railway of China
Baoshen Railway
Shenshuo Railway
Shuohuang Railway
Dazhun Railway
N
Shengli Energy
Xilinhot
Chengde
Shenyang
LIAONING
Yellow Sea
Bo Hai
Dalian
Dalian
Suizhong
Quinhuangdao
Shuohuang-Tianjin Extension
Tianjin (Under Construction)
Huanghua
Panshan
Sanhe
Beijing
Beijing
Tianjin
Jinan
HEBEI
Dingzhou
Shijiazhuang
Datong
Zhunge'er Energy
Wanli
Wanli
Shuozhou
Shenchi
Taiyuan
SHANXI
Shendong
NEI MENGGU ZIZHIQU (INNER MONGOLIA)
Hohhot
Baotou
Xuejiawan
Zhunge'er
Erdos City
Daliuta
Shenmu
SHAANXI
STUDY AREA
China
SCALE
KILOMETERS 50 0 50 100 150
FIGURE 1
GENERAL LOCATION MAP
CHINA SHENHUA ENERGY COMPANY LIMITED
COAL PRODUCTION COMPANIES
RAILWAYS, PORTS AND SELECTED POWER PLANTS
Portion of Northern and Eastern People's Republic of China
Prepared For
SHENHUA GROUP CORPORATION LIMITED
John T. Boyd Company
May 2005
Scale As Shown

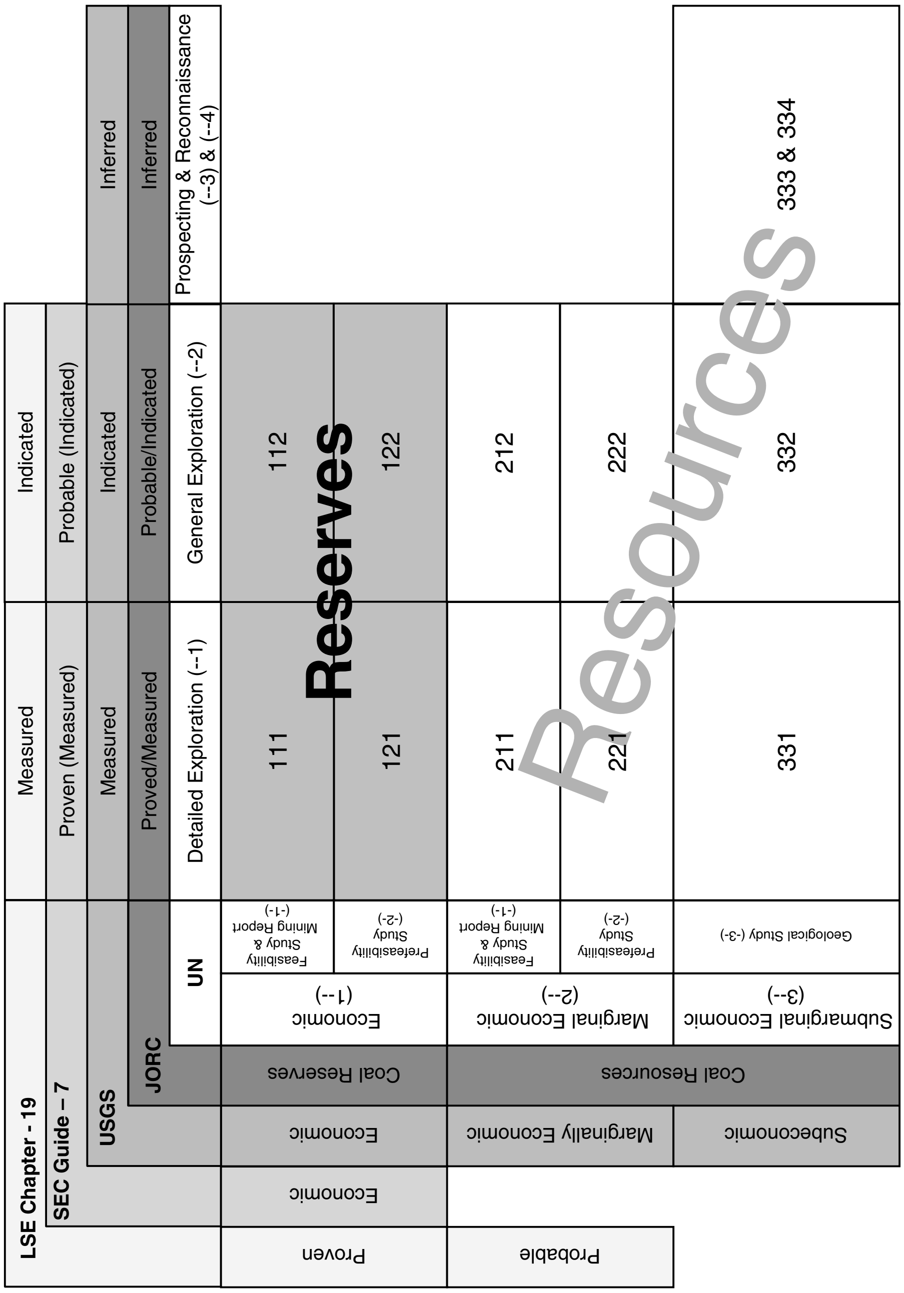


FIGURE 2

CHART COMPARING PRIMARY INTERNATIONAL COAL RESOURCE CLASSIFICATION SYSTEMS

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John T. Boyd Company | March 2005

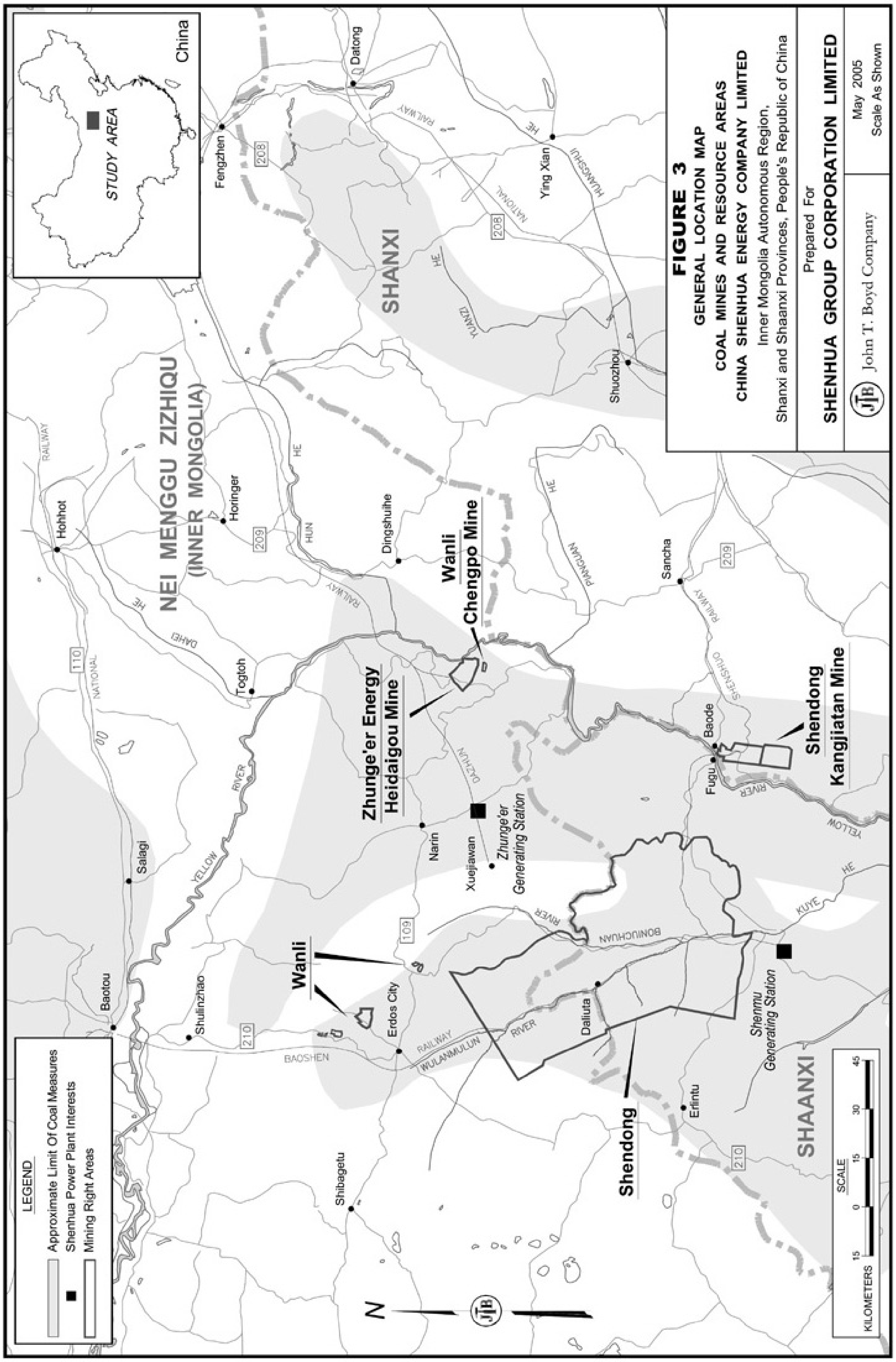
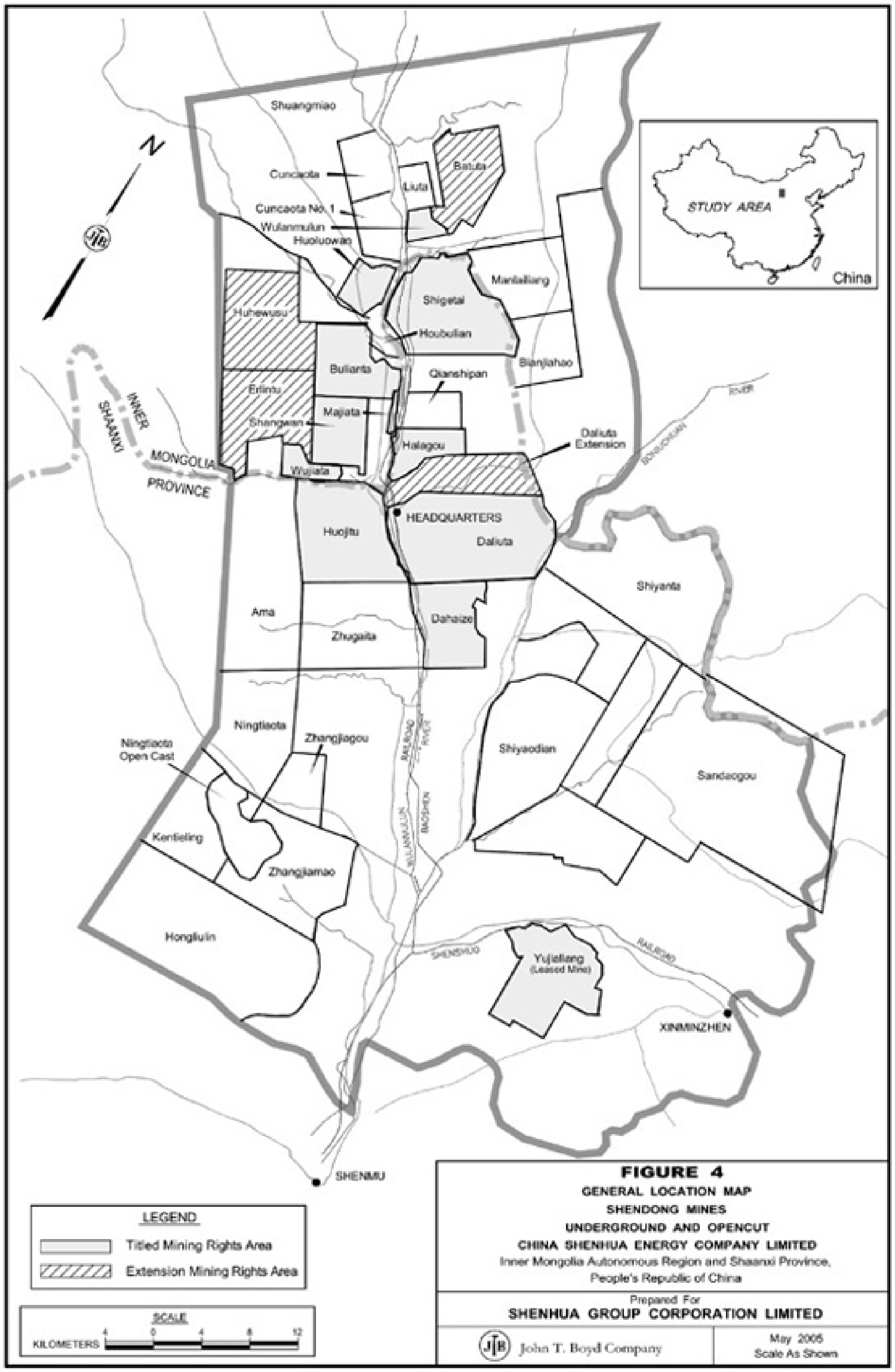
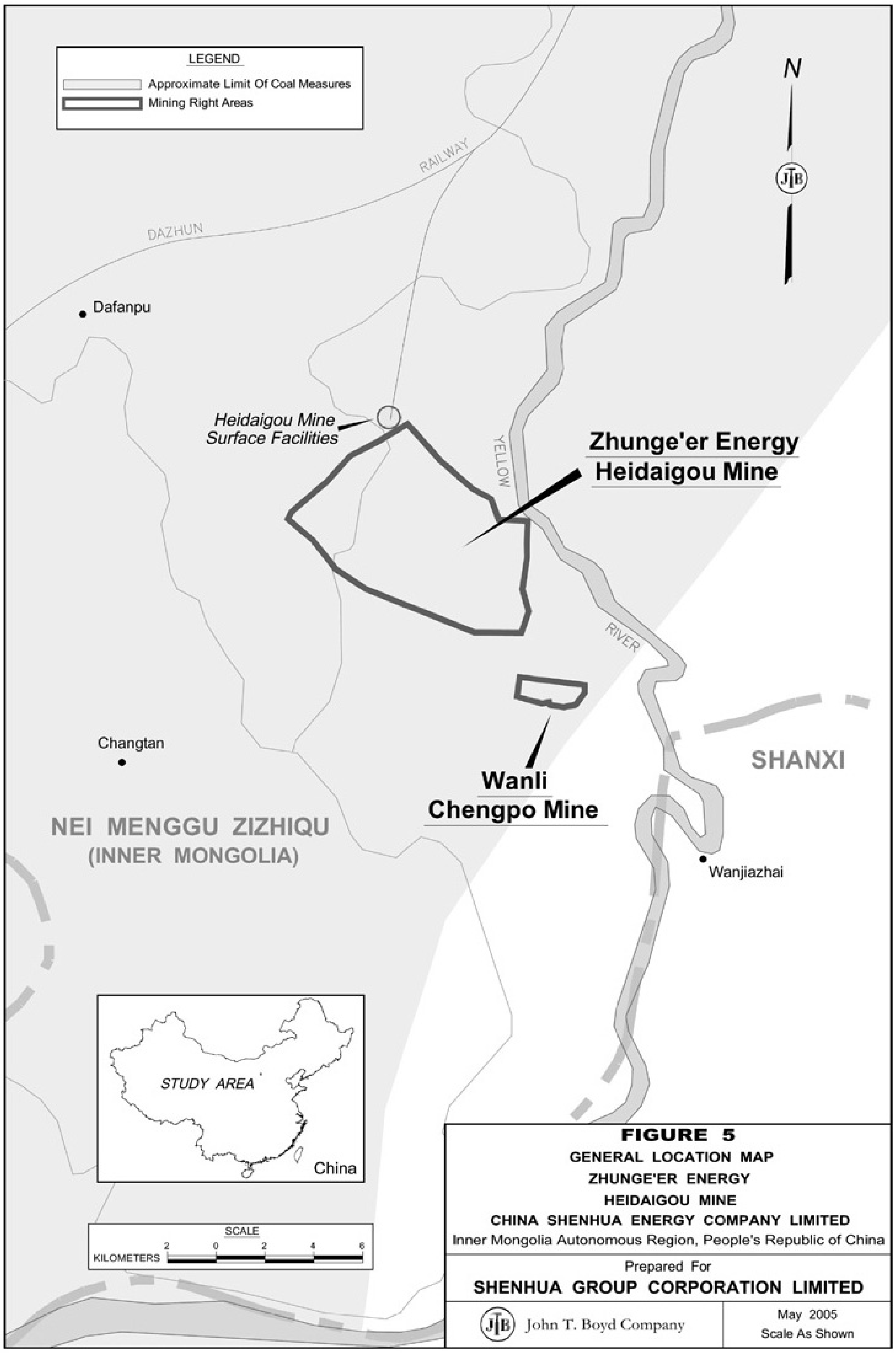
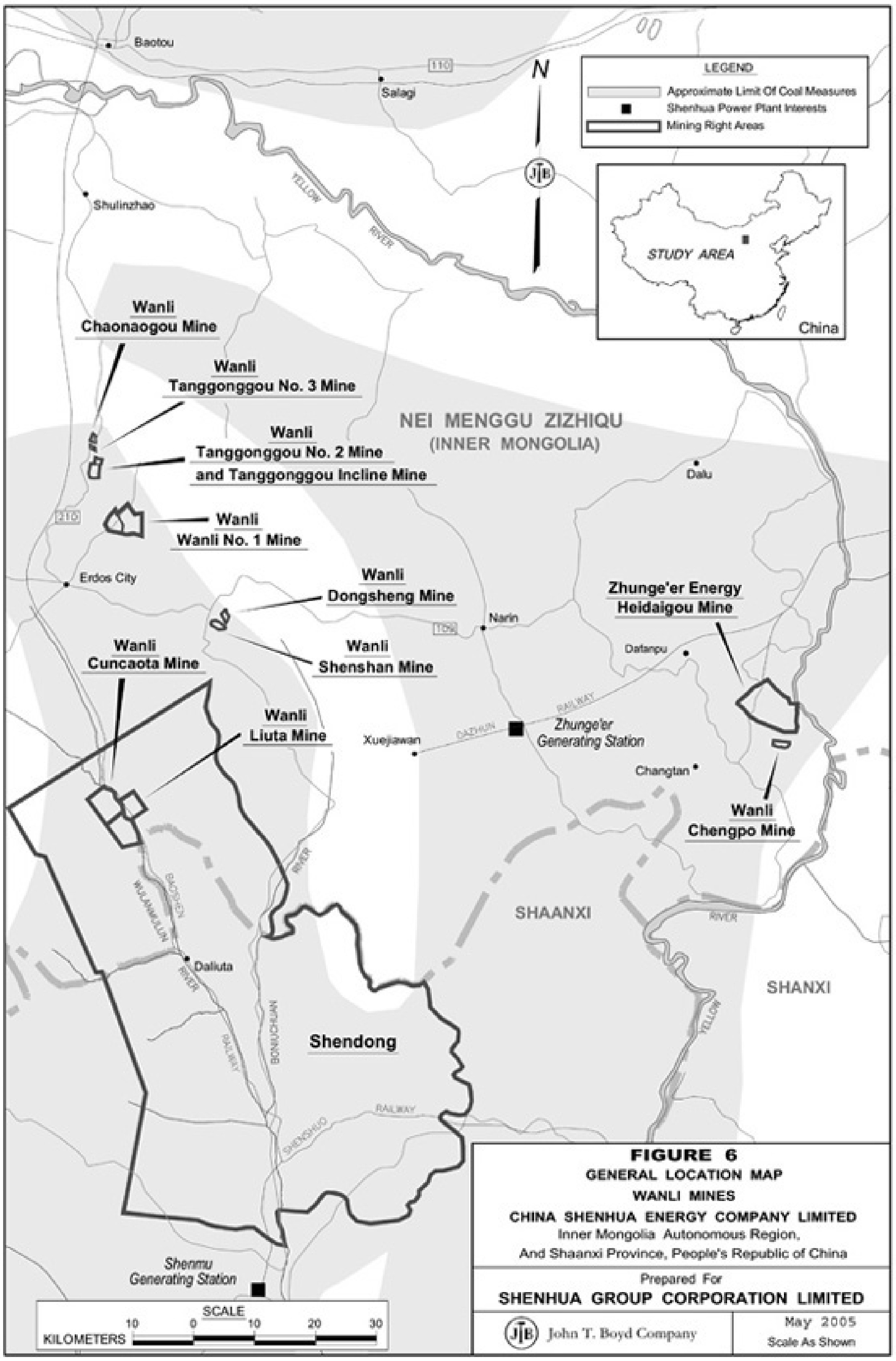
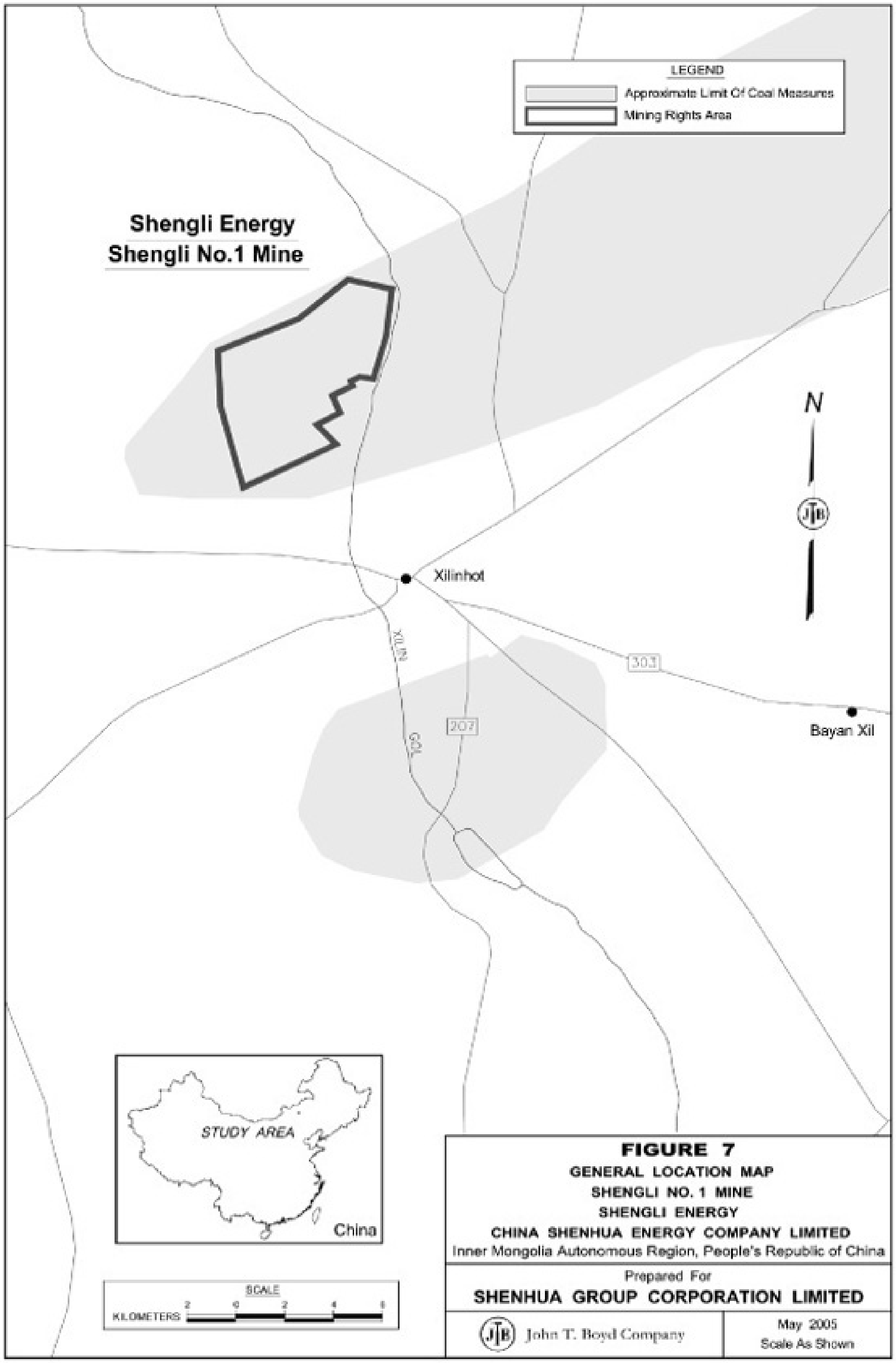


FIGURE 3
GENERAL LOCATION MAP
COAL MINES AND RESOURCE AREAS
CHINA SHENHUA ENERGY COMPANY LIMITED
Inner Mongolia Autonomous Region,
Shanxi and Shaanxi Provinces, People's Republic of China
Prepared For
SHENHUA GROUP CORPORATION LIMITED
John T. Boyd Company
May 2005
Scale As Shown
LEGEND
Approximate Limit Of Coal Measures
Shenhua Power Plant Interests
Mining Right Areas
KILOMETERS
SCALE
15 0 15 30 45
China
STUDY AREA
NEI MENGGU ZIZHIQU
(INNER MONGOLIA)
SHANXI
SHAANXI
Wanli
Chengpo Mine
Zhunge'er Energy
Heidaigou Mine
Shendong
Kangjiatan Mine
Wanli
Shendong
Zhunge'er
Generating Station
Shenmu
Generating Station
Hohhot
Horinger
Dingshuihe
Togtoh
Salagi
Baotou
Shulinzhao
Erdos City
Narin
Xuejiawan
Daliuta
Erlintu
Shibagetu
Fugu
Baode
Sancha
Shuozhou
Ying Xian
Fengzhen
Datong
YELLOW RIVER
HUN HE
DAHEI HE
WULANMULUN RIVER
BAOSHEN RAILWAY
KUYE HE
BONIUCHUAN RIVER
SHENSHUO RAILWAY
PIANGUAN HE
YANGZI HE
HUANGSHUI HE
NATIONAL
110
208
209
210
109


N
Shuangmiao
Cuncaota
Liuta
Batuta
Cuncaota No. 1
Wulanmulun
Huoluowan
Manlailiang
Shigetai
Houbulian
Huhewusu
Bulianta
Qianshipan
Bianjiahao
Erlintu
Majiata
Shangwan
Halagou
Daliuta Extension
Wujiata
INNER MONGOLIA PROVINCE
SHAANXI
HEADQUARTERS
Huojitu
Daliuta
Shiyanta
Ama
Zhugaita
Dahaize
Ningtiaota
Zhangjiagou
Ningtiaota Open Cast
RAILROAD
RIVER
WULANMULUN
BAOSHEN
Shiyaodian
Sandaogou
Kentieling
Zhangjiamao
Hongliulin
Yujialiang (Leased Mine)
SHENSHUO
RAILROAD
XINMINZHEN
SHENMU
STUDY AREA
China
LEGEND
Titled Mining Rights Area
Extension Mining Rights Area
SCALE
KILOMETERS 4 0 4 8 12
FIGURE 4
GENERAL LOCATION MAP
SHENDONG MINES
UNDERGROUND AND OPENCUT
CHINA SHENHUA ENERGY COMPANY LIMITED
Inner Mongolia Autonomous Region and Shaanxi Province, People's Republic of China
Prepared For
SHENHUA GROUP CORPORATION LIMITED
John T. Boyd Company
May 2005
Scale As Shown


LEGEND
Approximate Limit Of Coal Measures
Mining Right Areas
N
RAILWAY
DAZHUN
Dafanpu
Heidaigou Mine
Surface Facilities
YELLOW
RIVER
Zhunge'er Energy
Heidaigou Mine
Wanli
Chengpo Mine
Changtan
SHANXI
NEI MENGGU ZIZHIQU
(INNER MONGOLIA)
Wanjiazhai
STUDY AREA
China
SCALE
KILOMETERS
2 0 2 4 6
FIGURE 5
GENERAL LOCATION MAP
ZHUNGE'ER ENERGY
HEIDAIGOU MINE
CHINA SHENHUA ENERGY COMPANY LIMITED
Inner Mongolia Autonomous Region, People's Republic of China
Prepared For
SHENHUA GROUP CORPORATION LIMITED
John T. Boyd Company
May 2005
Scale As Shown


Baotou
Salagi
110
N
LEGEND
Approximate Limit Of Coal Measures
Shenhua Power Plant Interests
Mining Right Areas
STUDY AREA
China
Shulinzhao
YELLOW RIVER
Wanli
Chaonaogou Mine
Wanli
Tanggonggou No. 3 Mine
Wanli
Tanggonggou No. 2 Mine
and Tanggonggou Incline Mine
NEI MENGGU ZIZHIQU
(INNER MONGOLIA)
Dalu
210
Wanli
Wanli No. 1 Mine
Erdos City
Wanli
Dongsheng Mine
Narin
Zhunge'er Energy
Heidaigou Mine
Wanli
Shenshan Mine
Datanpu
Wanli
Cuncaota Mine
Wanli
Liuta Mine
Xuejiawan
DAZHUN RAILWAY
Zhunge'er
Generating Station
Changtan
Wanli
Chengpo Mine
SHAANXI
RIVER
Daliuta
SHANXI
Shendong
BAOSHEN RAILWAY
SHENSHUO RAILWAY
FIGURE 6
GENERAL LOCATION MAP
WANLI MINES
CHINA SHENHUA ENERGY COMPANY LIMITED
Inner Mongolia Autonomous Region,
And Shaanxi Province, People's Republic of China
Prepared For
SHENHUA GROUP CORPORATION LIMITED
John T. Boyd Company
May 2005
Scale As Shown
Shenmu
Generating Station
SCALE
KILOMETERS 10 0 10 20 30


LEGEND
Approximate Limit Of Coal Measures
Mining Rights Area
Shengli Energy
Shengli No.1 Mine
N
Xilinhot
303
207
Bayan Xil
STUDY AREA
China
SCALE
KILOMETERS 2 0 2 4 6
FIGURE 7
GENERAL LOCATION MAP
SHENGLI NO. 1 MINE
SHENGLI ENERGY
CHINA SHENHUA ENERGY COMPANY LIMITED
Inner Mongolia Autonomous Region, People's Republic of China
Prepared For
SHENHUA GROUP CORPORATION LIMITED
John T. Boyd Company
May 2005
Scale As Shown

TAXATION OF SECURITY HOLDERS

The following is a summary of certain PRC and Hong Kong tax consequences of the ownership of H Shares by an investor that purchases such H Shares in connection with the Global Offering and holds the H Shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investors. This summary is based on the tax laws of the PRC and Hong Kong as in effect on the date hereof which are subject to change (or changes in interpretation), possibly with retroactive effect.

The discussion does not address any aspects of Hong Kong or PRC taxation other than income taxation, capital taxation, stamp duty and estate taxation. Prospective investors are urged to consult their tax advisors regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

Taxation of Dividends

PRC Taxation

Individual Investors. According to the Individual Income Tax Law of the PRC of 1980 as amended on October 31, 1993 and August 30, 1999, dividends paid by PRC companies are subject to a PRC withholding tax levied at a flat rate of 20%. For a foreign individual who is not resident of the PRC, the receipt of dividends from a company in the PRC is subject to a withholding tax of 20% unless reduced by an applicable tax treaty or specifically exempted by the tax authority of the State Council. However, the PRC State Administration of Taxation (''SAT'') issued, on July 21, 1993, a Notice of the PRC State Administration of Taxation Concerning the Taxation of Gains on Transfer and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals (''Tax Notice'') which states that dividends paid by a PRC company to individuals with respect to shares listed on an overseas stock exchange (''Overseas Shares''), such as H Shares, are temporarily not subject to PRC withholding tax.

The Standing Committee of the National People's Congress' Decision on the Amendments to the Individual Income Tax Law of the PRC (the ''Amendments'') were promulgated on October 31, 1993 and took effect on January 1, 1994. The Amendments state that all provisions of any contradictory prior regulations concerning individual income tax which are contradictory to the Amendments shall become invalid upon the entering into effect of the same. Pursuant to the requirements of the Amendments and the amended Individual Income Tax Law and the Implementation Rules of the Individual Income Tax Law, foreign individuals are subject to a withholding tax on dividends paid by a PRC company at a rate of 20%, unless specifically exempted by the tax authority of the State Council or reduced by an applicable tax treaty. However, in a letter dated July 26, 1994 to the State Commission for Restructuring the Economic Systems of the PRC, the Securities Commission and CSRC, the SAT reiterated that the temporary tax exemption as specified in the Tax Notice for dividends received from a PRC company listed overseas should remain effective. In the event that this temporary tax exemption is revoked, a 20% tax may be withheld on dividends in accordance with the Individual Income Tax Law (as amended) and its Implementation Rules. Such withholding tax may be reduced pursuant to an applicable double taxation treaty. To date, the relevant tax authority has not been collecting any withholding tax on dividend payments on Overseas Shares.

Non-individual Investors. According to the Income Tax Law of the PRC Concerning Foreign Investment Enterprises and Foreign Enterprises, dividends paid by PRC companies other than foreign investment enterprises to foreign enterprises (including foreign companies and other economic entities) are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. However, according to the Tax Notice, a foreign enterprise (including foreign companies and other economic entities) receiving dividends paid with respect to a PRC company's Overseas Shares will temporarily not be subject to the 20% withholding tax. If such withholding tax becomes applicable in the future, the rate could be reduced pursuant to an applicable double taxation treaty.

Tax Treaties. Investors who are not PRC residents and reside in countries which have entered into double-taxation treaties with the PRC, may be entitled to a reduction of the withholding tax imposed on the dividends paid to such investors by a PRC company. The PRC currently has double-taxation treaties with a number of other countries, which include Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. Under each of such double taxation treaties, the rate of withholding tax imposed by PRC's taxation authorities is generally reduced.

Hong Kong Taxation

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by our Company.

Taxation of Capital Gains

PRC Taxation

Individual Investors. According to the Individual Income Tax Law of the PRC (as amended), and the Implementation Rules of the Individual Income Tax Law of the PRC, gains realized on the sale of equity interests would be subject to income tax at a rate of 20%. The Ministry of Finance has been empowered by the Implementation Rules of the Individual Income Tax Law of the PRC to formulate the detailed implementing measures for levying the individual income tax on the gains realised on the sale of shares in PRC companies. However, to date, no such implementing measures have been promulgated by the Ministry of Finance, and no individual income tax on gains realized on sales of shares has been levied. Pursuant to the notice jointly issued by the Ministry of Finance and the SAT dated March 30, 1998, in respect of suspending the enforcement of the collection of the individual Income tax on gains realised in connection with sales of shares, gains on sales of shares by individuals are temporarily exempted from individual income tax. In addition, the Tax Notice provides that gains realized by foreign individuals on the sale of overseas shares, such as H Shares, are temporarily not subject to PRC income tax. In the event that such temporary exemption ceases to be effective, individual holders of H Shares may be subject to income tax at a rate of 20% on capital gains, unless such tax is reduced or eliminated by an applicable double taxation treaty.

Non-individual Investors. The Tax Notice provides that gains realized by foreign enterprises, not including their entities or establishment in the PRC, that are holders of H Shares would, temporarily, not be subject to PRC income taxes.

Hong Kong Taxation

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as H shares. Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 17.5%

on corporations and at a maximum effective rate of 16% on individuals. Gains from sales of H shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H shares realized by persons carrying on such trade, profession or business in Hong Kong.

Stamp Duty

PRC Stamp Duty

PRC stamp duty imposed on the transfer of shares of PRC publicly traded companies should not apply to the acquisition and disposal by non-PRC investors of H shares outside of the PRC by virtue of the Provisional Regulations of China Concerning Stamp Duty, which became effective on October 1, 1988 and which provide that PRC stamp duty is imposed only on documents, executed or received within the PRC that are legally binding in the PRC and are protected under PRC law.

Hong Kong Stamp Duty

Hong Kong stamp duty currently charged at the ad valorem rate of HK$1.00 per HK$1,000 or part thereof on the higher of the consideration for, or the value of, the H Shares, is payable by the purchaser on every purchase and by the seller on every sale of H Shares (that is, a total of HK$2.00 per HK$1,000 or part thereof is payable on a typical sale and purchase transaction involving H Shares). In addition, a fixed duty of HK$5.00 is currently payable on any instrument of transfer of shares.

If one of the parties to the sale is a non-resident of Hong Kong and does not pay the required stamp duty, the duty not paid will be assessed on the instrument of transfer (if any), and the transferee will be liable for payment of such duty.

Estate Duty

PRC Estate Duty

The PRC does not currently have estate duty law.

Hong Kong Estate Duty

Estate duty is imposed upon the principal value of property situated in Hong Kong passing on the death of a person. H Shares are regarded as property situated in Hong Kong for estate duty purposes. Hong Kong estate duty is imposed on the principal value of a deceased's estate at a progressive scale from 5% to 15%. At current rates, no estate duty is payable where the aggregate value of the dutiable estate does not exceed HK$7.5 million. The maximum rate of 15% applies where the aggregate value exceeds HK$10.5 million. On March 16, 2005, the Financial Secretary of Hong Kong announced the proposed abolition of the estate duty; however, legislation has not been enacted to effect such abolition.

TAXATION OF THE COMPANY BY THE PRC

Corporate Income Tax

On the Company. The PRC Provisional Regulations on Enterprise Income Tax stipulate that enterprises (including joint stock limited companies) incorporated in the PRC (except for foreign investment enterprises) will pay enterprise income tax at a rate of 33% on income earned from production and operations, and on other income, with tax concessions available where laws and regulations have provided for tax exemption or reduction.

Value-add Tax

The PRC Provisional Regulations on Value-added Tax ("the VAT Regulations") were promulgated on December 13, 1993 and became effective on January 1 1994. The VAT Regulations apply to domestic and foreign investment enterprises that sell goods, provide processing or repair and replacement services or import goods in the PRC. Except for certain specified categories of goods sold or imported the value-added tax rate for the sale or import of which is 13%, the tax rate for sales or import of goods and provision of processing and repair and replacement services is 17%. The amount of tax payable on the sale of goods or the provision of taxable services is the balance of the amount of tax on sales for the current period after deducting or setting off the amount of tax on purchases for the current period.

Business Tax

Pursuant to the PRC Provisional Regulations on Business Tax, which became effective on January 1 1994, the enterprises (including foreign investment enterprises) and individuals that provide various labour services and that assign intangible assets or sell immovable property in the PRC shall be subject to the business tax either at the rate of three percent or at five percent of the amount of taxable services or other transactions, except for entertainment business the turnover of which is subject to the business tax at a rate of 5%-20%.

TAXATION OF THE COMPANY BY HONG KONG

The Directors do not consider that any of the Company's income or the income of its subsidiaries is derived from or arises in Hong Kong for the purpose of Hong Kong taxation. The Company will therefore not be subject to Hong Kong taxation.

FOREIGN EXCHANGE

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign exchange. SAFE, under the authority of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

Prior to December 31, 1993, a quota system was used for the management of foreign currency. Any enterprise requiring foreign currency was required to obtain a quota from the local SAFE office before it could convert Renminbi into foreign currency through the PBOC or other designated banks. Such conversion had to be effected at the official rate prescribed by the SAFE on a daily basis. Renminbi could also be converted into foreign currency at swap centers. The exchange rates used by swap centers were largely determined by the demand for, and supply of, foreign currencies and the Renminbi requirements of enterprises in the PRC. Any enterprise that wished to buy or sell foreign currency at a swap center first had to obtain the approval from the SAFE.

On December 28, 1993, the PBOC, under the authority of the State Council, promulgated the Notice of the People's Bank of China Concerning Further Reform of the Foreign Currency Control System (the "Notice"), effective from January 1, 1994. The Notice announces the abolition of the system of foreign exchange quotas, the implementation of conditional convertibility of Renminbi in current account items, the establishment of the system of settlement and payment of foreign exchange by banks, and the unification of the official Renminbi exchange rate and the market rate for Renminbi established at swap centers. On March 26, 1994, the PBOC promulgated the "Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange'' (the ''Provisional Regulations''). The Provisional Regulations set out detailed provisions regulating the sale and purchase of foreign exchange by enterprises, economic organizations and social organizations in the PRC.

On January 1, 1994, the former dual exchange rate system for Renminbi was abolished and replaced by a controlled floating exchange rate system, which is determined by demand and supply. The PBOC sets and publishes daily the Renminbi-US dollar base exchange rate. This exchange rate is determined with reference to the transaction price for Renminbi-US dollar in the inter-bank foreign exchange market on the previous day. The PBOC will also, with reference to exchange rates in the international foreign exchange market, announce the exchange rates of Renminbi against other major currencies. In foreign exchange transactions, designated foreign exchange banks may, within a specified range, freely determine the applicable exchange rate in accordance with the exchange rate announced by the PBOC.

On January 29, 1996, the State Council promulgated new Regulations of the People's Republic of China for the Control of Foreign Exchange (''Control of Foreign Exchange Regulations'') which became effective from April 1, 1996. The Control of Foreign Exchange Regulations classify all international payments and transfers into current account items and capital account items. Most of the current account items are no longer subject to SAFE approval while capital account items still are. The Control of Foreign Exchange Regulations were subsequently amended on January 14, 1997. This latest amendment affirmatively states that the State shall not restrict international current account payments and transfers.

On June 20, 1996, the PBOC promulgated the ''Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange'' (the ''Settlement Regulations'') which became effective on July 1, 1996. The Settlement Regulations supersede the Provisional Regulations and abolish the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items. On the basis of the Settlement Regulations, the PBOC also published the Announcement on the Implementation of Foreign Exchange Settlement and Sale at Banks by Foreign-invested Enterprises (the ''Announcement''). The Announcement permits foreign-invested enterprises to open, on the basis of their needs, foreign exchange settlement accounts for current account receipts and payments of foreign exchange along with specialized accounts for capital account receipts and payments at designated foreign exchange banks.

On October 25, 1998, the PBOC and the SAFE promulgated the Notice Concerning the Discontinuance of Foreign Exchange Swapping Business with effect from December 1, 1998. According to the Notice, all foreign exchange swapping business in the PRC targeted on the foreign-invested enterprises shall be discontinued, while the trading of foreign exchanges by foreign-invested enterprises shall be carried out under the banking system for the settlement and sale of foreign exchange.

Save for the foreign-invested enterprises or other enterprises which are specially exempted by relevant regulations, all entities in China (except for some foreign trading companies and production enterprises having import and export rights, which are entitled to retain part of foreign exchange income generated from their current account transactions and to make payments using such retained foreign exchanges in their current account transactions or approved capital account transactions) must sell their foreign exchange income to designated foreign exchange banks. Foreign exchange income from loans issued by organizations outside the territory or from the issuance of bonds and shares (for example foreign exchange income received by our Company from the sale of shares overseas) is not required to be sold to designated foreign exchange banks, but may be deposited in foreign exchange accounts at the designated foreign exchange banks.

PRC enterprises (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of SAFE, effect payment from their foreign exchange account or at the designated foreign exchange banks, on the strength of valid receipts and proof. Foreign-invested enterprises which need foreign exchange for the distribution of profits to their shareholders, and PRC enterprises which in accordance with regulations are required to pay dividends to shareholders in foreign exchange (like our Company), may on the strength of board resolutions on the distribution of profits, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks.

Convertibility of foreign exchange in respect of capital account items, like direct investment and capital contribution, is still subject to restriction, and prior approval from SAFE and/or the relevant branch must be sought.

Dividends to holders of H Shares are declared in Renminbi but must be paid in Hong Kong dollars.

This appendix sets out summaries of certain aspects of PRC law and regulations, which are relevant to Group's operations and business. Laws and regulations relating to taxation and foreign exchange in the PRC are discussed separately in Appendix V of this prospectus. This appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain material differences between the PRC and Hong Kong company law, certain requirements of the Hong Kong Listing Rules and additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of the PRC issuers.

THE PRC COMPANY LAW

On December 29, 1993, the Standing Committee of the Eighth National People's Congress of the PRC ("NPC") adopted the PRC Company Law, which came into effect on July 1, 1994 and was amended on December 25, 1999 and August 28, 2004.

Set out below is a summary of the major provisions of the PRC Company Law, the Special Regulations and the Mandatory Provisions. On July 4, 1994, the Special Regulations were passed by the State Council, and they were promulgated and implemented on August 4, 1994. The Special Regulations are formulated according to the provisions of Sections 85 and 155 of the PRC Company Law in respect of the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions were issued jointly by the Securities Commission and the State Restructuring Commission on August 27, 1994, prescribing provisions which must be incorporated in the articles of association of joint stock limited companies to be listed overseas. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association. References to a "company" are to a joint stock limited company established under the PRC Company Law with overseas listed foreign invested shares.

General

A "joint stock limited company" is a corporate legal person incorporated under the PRC Company Law, whose registered capital is divided into shares of equal par value. The liability of its shareholders is limited to the extent of the shares they hold, and the liability of the company is limited to the full amount of all the assets it owns.

A State-owned enterprise that is restructured into a company must comply with the conditions and requirements specified by the law and administrative regulations to transform its operation mechanisms, systematically handle and value its assets and liabilities and establish its internal management organs.

A company must conduct its business in accordance with the laws and professional ethics. A company may invest in other limited liability companies and joint stock companies. However, apart from investment companies and holding companies specified by the State Council, the amount of a company's aggregate investment in other companies shall not exceed 50% of its net assets and the company's liabilities to such invested companies are limited to the amount invested.

Incorporation

A company may be incorporated by promotion or public subscription.

A company may be incorporated by a minimum of five (5) promoters, but at least half of the promoters must reside in the territory of the PRC. According to the Special Regulations, the joint stock limited companies which are restructured from State-owned enterprises or enterprises with the majority of their assets owned by the PRC Government and may issue shares to overseas investors in accordance with the relevant regulations, if incorporated by public subscription, may have less than five (5) promoters and can issue new shares once incorporated.

Companies incorporated by promotion are companies the entire registered capital of which is subscribed for by the promoters. Where companies are incorporated by public subscription, not less than 35% of their total shares must be subscribed for by the promoters and the remainder of their shares shall be offered to the public.

The registered capital of a company is the amount of its total paid up capital as registered with the relevant administration bureau for industry and commerce. The minimum registered capital of a company is RMB 10 million. The total share capital of a company which proposes to apply for its shares to be listed on a stock exchange must not be less than RMB 50 million.

The incorporation of a company must be approved by the department authorized by the State Council or by the provincial level people's government.

The promoters shall convene an inaugural meeting within thirty (30) days after the issued shares have been fully paid up, and shall give notice to all subscribers or make a public announcement of the date of the inaugural meeting fifteen (15) days before the meeting. The inaugural meeting may be convened only with the presence of subscribers holding shares representing more than 50% of the voting rights in the company. At the inaugural meeting, matters including the adoption of draft articles of association proposed by the promoter(s) and the election of the board of directors and the supervisory committee of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with at least half of the voting rights present at the meeting.

Within thirty (30) days after the conclusion of the inaugural meeting, the board of directors shall apply to the company registration authority for registration of the incorporation of the company. A company is formally established and has the status of a legal person after the approval of registration has been given by the relevant administration bureau for industry and commerce and a business license has been issued. Companies established by the public subscription method shall file a report on the offer of shares with the securities administration department of the State Council for record.

A company's promoters shall individually and collectively be liable for (i) the payment of all expenses and liabilities incurred in the incorporation process if the company cannot be incorporated; (ii) the repayment of subscription moneys to the subscribers together with interests at bank rates for a deposit for the same term if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company. According to the Provisional Regulations Concerning the Issue and Trading of Shares promulgated by the State Council on April 22, 1993 (which is only applicable to issue and trading of shares in the PRC and their related activities), if a company is established by means of subscription, the promoters of such company are required to assume joint responsibility for the accuracy of the contents of the prospectus and to ensure that the prospectus does not contain any misleading statement or omit any material information.

Share Capital

The promoters may make capital contribution in cash, or in kind or by way of injection of assets, industrial property rights, non-patented technology or land use rights based on their appraised value.

The amount of investment made in the form of industrial property rights and non-patented technology shall not exceed 20% of the registered capital of the company except for a joint stock limited company that belongs to the high and new technology industry.

If a capital contribution is made other than in cash, a valuation and verification of the property contributed must be carried out and converted into shares.

A company may issue registered or bearer share certificates. However, shares issued to promoters, state-authorized investment organizations and PRC legal persons shall be in the form of registered share certificates, and may not be registered under a different name or in the name of an agent.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and investors from the territories of China Hong Kong, China Macau and China Taiwan and listed overseas are known as overseas listed foreign invested shares, and those shares issued to investors within the PRC other than the territories specified above are known as domestic invested shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Special measures shall be specifically formulated by the State Council. Under the Special Regulations, upon approval of CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

The share offering price may be equal to or greater than the par value, but may not be less than the par value.

The transfer by a shareholder of its shares must be carried out through a lawfully established stock exchange. Transfer of registered shares by a shareholder must be made by means of an endorsement or by other means stipulated by a law or by administrative regulations. Bearer share certificates are transferred by delivery of the certificates to the transferee.

Shares held by a promoter of a company may not be transferred within three (3) years after the company's establishment. Directors, supervisors and the managers of the company shall not transfer the shares they hold in the company during their term of office. There is no restriction under the PRC Company Law as to the percentage of shareholding a single shareholder may hold in a company. However, according to the Provisional Regulations Concerning the Issue and Trading of Shares, a PRC individual shareholder cannot own more than 0.5% of the outstanding domestically issued common shares of a listed company.

No change in the registration of shareholders shall be made within thirty (30) days before the date of a shareholders' meeting or within five (5) days before the base date on which the company decides to distribute dividends.

Increase in Capital

Under the PRC Company Law, an increase in the capital of a company by means of an issue of new shares must be approved by the shareholders in a shareholders' general meeting and meet the following conditions:

- the previous issue of shares has been fully subscribed for and at least one (1) year has elapsed since that issue, but under the Special Regulations, if a company increases its capital for the issue of overseas listed foreign invested shares, the time period elapsed since the last issue of shares may be less than twelve (12) months;
- the company has been profitable for the last three (3) consecutive years and is able to make dividend payments to its shareholders;
- there has been no false reporting in the company's financial and accounting documents during the last three (3) years; and
- the company's forecasted profit margin is comparable to the bank deposit rate for the same term.

Once the shareholders have passed a resolution to issue new shares at the shareholders' general meeting, the board of directors must apply to the authorized department of the State Council or to the provincial level people's government for approval. Public offers require the approval of the securities administration department of the State Council.

After the new shares issued have been subscribed for, the company must change its registration with the relevant administration for industry and commerce and issue a public notice accordingly.

Reduction of Share Capital

Subject to the minimum registered capital requirements, a company may reduce its share capital in accordance with the following procedures prescribed by the PRC Company Law:

- the company shall prepare a balance sheet and other financial statements;
- the reduction of registered capital must be approved by shareholders at a shareholders' general meeting;
- the company shall inform its creditors of the capital reduction within ten (10) days and publish a public announcement of the reduction in a newspaper at least three (3) times within thirty (30) days after the resolution approving the reduction has been passed;
- the creditors of the company may within the statutory time limit require the company to repay its debts or provide guarantees for the debts; and
- the company must apply to the relevant administration bureau for industry and commence for registration of the reduction in registered capital.

Repurchase of Shares

A company may not purchase its own shares other than for the purpose of reducing its capital by canceling its shares or merging with another company holding its shares or such other purpose permitted by law and administrative regulations. The Mandatory Provisions provide that upon obtaining approvals in accordance with the articles of association of the company and from the relevant supervisory authorities, the company may repurchase its issued shares for the foregoing purposes by way of making a general offer to the shareholders of the company or purchase on the stock exchange or by an off-market agreement.

Under the Company Law, within ten (10) days following the purchase of the company's own shares, a company must in accordance with applicable law and administrative regulations cancel the repurchased portion of its shares, change its registration and issue a public notice.

Transfer of shares

Shares may be transferred in accordance with the relevant laws and regulations.

A shareholder may only effect a transfer of its shares on a stock exchange established in accordance with law. Registered shares may be transferred after the shareholders endorse the share certificates or in any other manner specified by applicable laws and regulations.

Shares issued to promoters may not be transferred within three (3) years after the establishment of the company. Shares held by directors, supervisors and the manager of a company may not be transferred during their term of office with the company.

There is no restriction under the PRC Company Law on the percentage of shareholding by a single shareholder in a company.

Shareholders

Shareholders have such rights and obligations as set forth in the articles of association of the company. The articles of association of a company are binding on each shareholder.

Under the PRC Company Law, the rights of a shareholder include:

- to attend in person or by proxy the shareholders' general meetings, and to vote in accordance with the number of shares held;
- to transfer his or her shares at a legally established stock exchange in accordance with the PRC Company Law and the articles of association of the company;
- to inspect the company's articles of association, minutes of shareholders' general meetings and financial and accounting reports and to make proposals or enquiries in respect of the company's operations;
- if a resolution to be adopted at a shareholders' general meeting or by the board of directors violates any law or administrative regulation or infringes the lawful rights and interests of shareholders, to initiate legal proceedings in the People's Court to stop the passing of such resolution;
- to receive dividends in accordance with the number of shares held;
- to obtain surplus assets of the company upon its termination in proportion to his or her shareholding; and
- any other shareholders' rights specified in the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription moneys in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription moneys agreed to be paid in respect of the shares taken up by him and any other shareholders' obligation specified in the company's articles of association.

Shareholders' General Meetings

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law.

The shareholders' general meeting exercises the following powers:

- to decide on the company's business policies and investment plans;
- to elect and replace the directors and decide on matters relating to the remuneration of directors;
- to elect and replace the supervisors who are representatives of shareholders and decide on matters relating to the remuneration of supervisors;
- to examine and approve reports of the board of directors;
- to examine and approve reports of the supervisory committee;
- to examine and approve the company's proposed annual budget and final accounts;
- to examine and approve the company's profit distribution plans and plans for recovery of losses;
- to decide on any increase or reduction of the company's registered capital;
- to decide on the issue of bonds by the company;
- to decide on issues such as merger, division, dissolution and liquidation of the company and other matters; and
- to amend the company's articles of association.

The shareholders' annual general meeting shall be held once a year. An extraordinary shareholders' general meeting shall be held within two (2) months after the occurrence of any of the following circumstances:

- the number of directors is less than the number provided for in the PRC Company Law or less than two-thirds of the number specified in the company's articles of association;
- the losses of the company which are not made up reach one-third of the company's total share capital;
- when shareholders holding 10% or more of the company's issued and outstanding shares carrying voting rights request the convening of an extraordinary shareholders' general meeting;
- whenever the board of directors deems necessary; or
- the supervisory committee so requests.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors.

Notice of the meeting shall be given to all shareholders 30 days before the meeting under the PRC Company Law and forty-five (45) days under the Special Regulations and the Mandatory Provisions, stating the matters to be considered at the meeting. Under the Special Regulations and the Mandatory Provisions, shareholders wishing to attend are required to give to the company written confirmations of their attendance twenty (20) days prior to the meeting. Under the Special Regulations, at an annual general meeting of a company, shareholders holding 5% or more of the voting rights in the company are entitled to propose to the company in writing new resolutions to be considered at that meeting, which if within the powers of a shareholders' general meeting, are required to be added to the agenda of that meeting.

Shareholders present at a shareholders' general meeting have one (1) vote for each share they hold.

Resolutions proposed at the shareholders' general meeting must be adopted by more than half of the voting rights held by shareholders present in person (including those represented by proxies) at the meeting, with the exception of matters relating to merger, division, dissolution of a company or amendments to the articles of association, which must be adopted by more than two-thirds of the voting rights held by shareholders present, including those represented by proxies at the meeting.

According to the Mandatory Provisions, the increase or reduction of share capital, the issue of bonds or debentures, and any other matters in respect of which the shareholders by ordinary resolution so decide, must be approved through special resolutions by more than two-thirds of the voting rights held by shareholders present at the shareholders' general meeting.

A shareholder may commission a proxy to attend a shareholders' general meeting on his or her behalf by a power of attorney stating the scope of the exercise of the voting rights.

There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. However, the Special Regulations and the Mandatory Provisions provide that a company's shareholders' general meeting may be convened when written replies to the notice of that meeting from shareholders holding shares representing 50% of the voting rights in the company have been received twenty (20) days before the proposed date. If that 50% level is not achieved, the company shall within five (5) days of the last day of receiving written replies notify shareholders by public announcement of the matters to be considered at the meeting and the date and place of the meeting and the shareholders' general meeting may be held thereafter. The Mandatory Provisions require class shareholders' meetings to be held in the event of a variation or revocation of the rights of class shareholders. Holders of domestic invested shares and holder of overseas listed foreign invested shares are deemed to be different classes of shareholders for this purpose.

Directors

A company shall have a board of directors, which shall consist of five (5) to nineteen (19) members. Under the PRC Company Law, each term of office of a director shall not exceed three (3) years. A director may serve consecutive terms if re-elected.

A meeting of the board of directors shall be convened at least twice a year. A notice of the meeting shall be given to all directors ten (10) days before the meeting. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors.

Under the PRC Company Law, the board of directors exercises the following powers:

- to convene the shareholders' general meetings and report on its work to the shareholders' general meetings;
- to implement the resolutions passed by the shareholders at shareholders' general meetings;
- to decide on the company's business plans and investment proposals;
- to formulate the company's proposed annual budget and final accounts;
- to formulate the company's profit distribution plans and plans for recovering losses;
- to formulate proposals for the increase or reduction of the company's registered capital and the issuance of corporate bonds;
- to prepare plans for the merger, division or dissolution of the company;
- to decide on the company's internal management structure;
- to appoint or dismiss the company's general manager and, on the general manager's recommendation, to appoint or dismiss the deputy general manager and financial officers of the company and to decide on their remunerations; and
- to formulate the company's basic management system.

In addition, the Mandatory Provisions provide that the board is also responsible for formulating the proposals of amending the articles of association of a company.

Meetings of the board of directors shall be held only if half or more of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors.

If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf.

If a resolution of the board of directors violates the law, administrative regulations or the company's articles of association as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved from that liability.

Under the PRC Company Law, the following persons may not serve as a director of a company:

(i) persons without civil capacity or with restricted civil capacity;

(ii) persons who have committed the offence of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five (5) years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offence, where less than five (5) years have elapsed since the date of the completion of implementation of this deprivation;

(iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated due to a mismanagement and who are personally liable for the bankruptcy of such company or enterprise, where less than 3 years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;

(iv) persons who were legal representatives of a company or enterprise which had its business license revoked due to violation of the law and who are personally liable, where less than three (3) years have elapsed since the date of the revocation of the business license;

(v) persons who have a relatively large amount of debts due and outstanding; or

(vi) persons who are State civil servants.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions which have been incorporated in the Articles of Association, a summary of which is set out in Appendix VIII.

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors is the legal representative of the company and exercises, amongst others, the following powers:

- to preside over shareholders' general meetings and convene and preside over meetings of the board of directors;
- to check on the implementation of the resolutions of the board of directors; and
- to sign the company's share certificates and bonds.

The Special Regulations provide that a company's directors, supervisors, managers and other officers bear fiduciary duties and the duty to act diligently. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions (which have been incorporated into the Articles of Association, a summary of which is set out in Appendix VIII) contain further elaborations of such duties.

Supervisors

A company shall have a supervisory committee composed of not less than three (3) members. Each term of office of a supervisor is three (3) years and he or she may serve consecutive terms if re-elected.

The supervisory committee is made up of representatives of the shareholders and an appropriate proportion of representatives of the company's staff and workers. Directors, managers and financial officers shall not act concurrently as supervisors.

The supervisory committee exercises the following powers:

(i) to examine the company's financial affairs;

(ii) to supervise the directors and managers in their performance of their duties and to ascertain whether or not they have violated laws, regulations or the articles of association of the company;

(iii) when an act of a director or manager are harmful to the company's interests, to require him or her to rectify such act;

(iv) to propose to convene the extraordinary shareholders' general meetings; and

(v) other powers specified in the company's articles of association.

The circumstances under which a person is disqualified from being a director of a company as described above apply mutatis mutandis to supervisors of a company.

The Special Regulations provide that a company's directors and supervisors shall have fiduciary duties. They are required to faithfully perform their duties, protect the interests of the company and not use their positions for their own benefit.

Managers and officers

A company shall have a manager who shall be appointed or removed by the board of directors. The manager is accountable to the board of directors and may exercise the following powers:

- supervise the production, business and administration of the company and arrange for the implementation of resolutions of the board of directors;
- arrange for the implementation of the company's annual business and investment plans;
- formulate plans for the establishment of the company's internal management structure;
- formulate the basic administration system of the company;
- formulate the company's internal rules;
- recommend the appointment and dismissal of deputy managers and any financial controller and appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors);
- attend board meetings; and
- other powers conferred by the board of directors or the company's articles of association.

The Special Regulations and Mandatory Provisions provide that the senior management of a company includes the financial controller, the secretary of the board of directors and other executives as specified in the articles of association of the company.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to managers and officers of the company.

The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, managers and other executives of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company. The provisions of the Mandatory Provisions regarding the senior management of a company have been incorporated in the Articles of Association (a summary of which is set out in Appendix VIII).

Duties of Directors, Supervisors, Managers and Officers

Directors, supervisors, managers and officers of a company are required under the PRC Company Law to comply with the relevant laws, regulations and the company's articles of association, carry out their duties honestly and protect the interests of the company. Directors, supervisors, managers and officers of a company are also under a duty of confidentiality to the company and are prohibited from divulging the secret information of the company save as permitted by the relevant laws and regulations or by the shareholders.

A director, supervisor, manager or an officer who contravenes any law, regulation or the company's articles of association in the performance of his duties which results in any loss to the company shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that directors, supervisors, managers and officers of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to make use of their positions in the company for their own benefit.

Finance and Accounting

A company shall establish its financial and accounting systems according to laws, administrative regulations and the regulations of the responsible financial department of the State Council and at the end of each financial year prepare a financial report which shall be audited and verified in accordance with law.

A company shall deposit its financial statements at the company for the inspection by the shareholders at least twenty (20) days before the convening of an annual general meeting of shareholders. A company established by way of public subscription must publish its financial statements.

When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory common reserve fund (except where the fund has reached 50% of the company's registered capital) and 5% to 10% of its after-tax profits for the company's statutory public welfare fund.

When the company's statutory common reserve fund is not sufficient to make up for the company's losses of the previous year, current year profits shall be used to make good the losses before allocations are set aside for the statutory common reserve fund or the statutory common welfare fund.

The company's statutory common welfare fund is used for the collective welfare of the company's staff and workers.

After the company has made good its losses and made allocations to its statutory common reserve fund and statutory common welfare fund, the remaining profits are distributed in proportion to the number of shares held by the shareholders.

The common reserve of a company comprises the statutory common reserve, discretionary common reserve and the capital common reserve.

The capital common reserve of a company is made up of the premium over the nominal value of the shares of the company on issue and other amounts required by the relevant governmental authority to be treated as the capital common reserve.

The common reserve of a company may be used for the following purposes:

- to make up the company's losses;
- to expand the business operations of the company; and

- to pay up the registered capital of the company by the issue of new shares to shareholders in proportion to their existing shareholdings in the company or by increasing the par value of the shares currently held by the shareholders provided that if the statutory common reserve is converted into registered capital, the balance of the statutory common reserve after such conversion shall not be less than 25% of the registered capital of the company.

Appointment and Retirement of Auditors

The Special Regulations require a company to employ an independent PRC qualified firm of accountants to audit the company's annual report and review and check other financial reports.

The auditors are to be appointed for a term commencing from the close of an annual general meeting and ending at the close of the following annual general meeting.

If a company removes or ceases to engage the auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations at shareholders' general meetings. The appointment, removal or engagement of auditors shall be decided by the shareholders at shareholders' general meetings and shall be filed with the CSRC for record.

Distribution of Profits

The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas listed foreign invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

Amendment of Articles of Association

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. Any amendment to the provisions incorporated in the articles of association in accordance with the Mandatory Provisions will only be effective upon approval by the companies approval department authorized by the State Council and the CSRC. In relation to matters involving the company's registration, its registration with the companies registration authority must also be changed.

Termination and Liquidation

A company may apply for the declaration of insolvency by reason of its inability to pay debts as they fall due. After the People's Court has made a declaration of the company's insolvency, the shareholders, the relevant authorities and the relevant professionals shall form a liquidation committee to conduct the liquidation of the company.

Under the PRC Company Law, a company shall be dissolved in any of the following events:

- the term of its operation is stipulated in the company's articles of association has expired or events of dissolution specified in the company's articles of association have occurred;
- a resolution is passed at a shareholders' general meeting to dissolve the company; or
- the company need be dissolved due to its merger or demerger.

Where the company is dissolved in the circumstances described in (i) or (ii) above, a liquidation committee must be formed within fifteen (15) days. Members of the liquidation committee shall be appointed by the shareholders at a shareholders' general meeting.

If a liquidation committee is not in place within the stipulated period, the company's creditors can apply to the People's Court for its formation.

The liquidation committee shall notify the company's creditors within ten (10) days after its formation, and issue at least three (3) public notices in the newspapers within sixty (60) days. A creditor shall lodge his claim with the liquidation committee within thirty (30) days after receiving the notice, or within ninety (90) days of the first public notice if he did not receive any notice.

The liquidation committee shall exercise the following powers during the liquidation period:

- to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- to notify creditors or issue public notices;
- to deal with and settle any outstanding businesses of the company;
- to pay any tax overdue;
- to settle the company's financial claims and liabilities;
- to handle the surplus assets of the company after its debts have been paid off; and
- to represent the company in civil proceedings.

If the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and labor insurance expenses, tax overdue and debts of the company. Any surplus assets shall be distributed to the shareholders of the company in proportion to the number of shares they hold.

A company shall not engage in new business operations during the liquidation period.

If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the People's Court for a declaration of bankruptcy. Following such declaration, the liquidation committee shall hand over all matters relating to the liquidation to the People's Court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the relevant competent authority for verification. Thereafter, the liquidation committee shall submit the report to the company registration authority to cancel the company's registration and issue a public notice of the termination of the company's business.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with the relevant laws. A member of the liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his intended fault or gross negligence.

Overseas Listing

The shares of a company shall only be listed overseas after obtaining approval from the securities regulatory authority of the State Council and the listing must be arranged in accordance with procedures specified by the State Council.

According to the Special Regulations, a company's plan to issue overseas listed foreign invested shares and domestic invested shares which has been approved by the Securities Commission may be implemented by the board of directors of the company by way of separate issues, within fifteen (15) months after approval is obtained from the CSRC.

Loss of share certificates

A shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a People's Court in the event that registered share certificates are either stolen or lost, for a declaration that such certificates are revoked. Upon such a declaration, the shareholder may apply to the company for the issuance of replacement certificates.

The Mandatory Provisions provide for a separate procedure regarding the loss of H share certificates (which has been incorporated in the Articles of Association, a summary of which is set out in Appendix VIII).

Suspension and termination of listing

The trading of shares of a company on a stock exchange may be suspended if so decided by the securities administration department of the State Council under one of the following circumstances:

- the registered capital or share holding distribution no longer comply with the necessary requirements for a listed company;
- the company failed to make public its financial position in accordance with the requirements or there is false information in the company's financial report;
- the company has committed a major breach of the law; or
- the company incurred losses in each of the preceding three (3) years.

Under the circumstances referred to in (ii) and (iii) above, where an investigation has revealed that the consequences are serious, or under the circumstances referred to in (i) and (iv) above, where the situation has not been rectified within the time stipulated, the securities administration department of the State Council may decide to terminate the listing of a company's shares.

The securities administration department of the State Council may also terminate the listing of a company's shares in the event that the company resolves to dissolve itself or is lawfully ordered by the its competent authority to close down, or the company is declared bankrupt.

Merger and Demerger

The merger or demerger of a company is to be decided at the shareholders general meetings subject to the approval of the departments authorized by the State Council or the approval of provincial government.

Companies may merge through merger by absorption or through the establishment of a newly merged entity. In the case of merger by absorption, the company which is absorbed shall be dissolved. In the case of merger by forming a new corporation, both companies will be dissolved.

A merger agreement must be signed in the case of a merging of companies and the relevant companies shall draw up their respective balance sheets and inventory of property. The companies should within ten (10) days of the resolution of the merger notify their respective creditors and issue a public notice to the creditors in newspapers at least three (3) times within thirty (30) days of the resolution to merge. Those creditors who had not received a written notice may within ninety (90) days after the first public notice is given, or within thirty (30) days after receiving a written notice, request the company to repay any outstanding debts or provide guarantees. Companies unable to repay such debts or provide guarantees will not be allowed to merge. The new amalgamated entity shall be responsible for the debts and obligations of the companies merged.

When a company demerges into two (2) companies, their respective assets must be separated and separate financial accounts must be drawn up.

When a company's shareholders approve the demerger of the company, the company should notify all its creditors within ten (10) days of such resolution being passed and issue a public notice at least three (3) times in newspapers within thirty (30) days. A creditor may within 30 days after receiving a written notice or, a creditor who has not received such notice may within ninety (90) after the first public notice is given request that the company repay any outstanding debts or provide an appropriate guarantee.

Changes in registrable particulars of the companies caused by merger or demerger must be registered in accordance with applicable laws.

SECURITIES LAW AND SUPERVISION

Since 1992, the PRC has promulgated a number of regulations in relation to the issue and trading of securities and the disclosure of information.

In early 1993, the State Council established the Securities Commission and the CSRC. The Securities Commission is responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC is the regulatory arm of the Securities Commission and is responsible for the drafting of regulatory provisions governing securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking research and analysis. In early 1998, the State Council dissolved the Securities Commission and the former functions of the Securities Commission were assumed by the CSRC.

On April 22, 1993, the State Council promulgated the Provisional Regulations Concerning the Issue and Trading of Shares. These regulations deal with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, settlement, and transfer of listed equity securities, the disclosure of information with respect to a listed company, enforcement and penalties and dispute settlement. These regulations specifically provide that separate provisions will be promulgated in relation to the issue of and trading in special Renminbi-denominated shares. However, (i) if a PRC joint stock limited company proposes to issue Renminbi-denominated ordinary shares as well as special Renminbi-denominated shares, it has to comply with these regulations in respect of regulations governing Renminbi-denominated ordinary shares; (ii) if a PRC company proposes to offer shares directly or indirectly outside the PRC, it will require the approval of the Securities Commission; and (iii) provisions of these regulations in relation to acquisitions of listed companies and disclosure of information are expressed to apply to listed companies in general without being confined to listed companies on any particular stock exchange.

Hence it is possible that such provisions may be applicable to joint stock limited companies with shares listed on a stock exchange outside the PRC including, for instance, joint stock limited companies with shares listed on the Hong Kong Stock Exchange, such as the Company.

On June 12, 1993, pursuant to the Provisional Regulations Concerning the Issue and Trading of Shares, the CSRC promulgated the Implementation Measures (Provisional) on Disclosure of Information of the Public Offering Companies. Pursuant to these measures, the CSRC is responsible for supervising the disclosure of information by companies which have offered shares to the public both in the PRC and overseas. These measures contain provisions regarding prospectuses and listing reports to be issued in connection with a public offering of shares in the PRC, publication of interim and annual reports and announcement of material transactions or matters by companies which have offered shares to the public. Material transactions or matters are those the occurrence of which may have a material effect on the share price of a company. They include the changes to a company's articles of association or registered capital, removal of auditors, mortgage or disposal of major operating assets or writing down the value of such assets where the amount being written down exceeds 30% of the total value of such assets, revocation by a court of any resolution passed by the shareholders or the supervisors of a company and the merger or demerger of a company. These measures also contain disclosure provisions in relation to the acquisition of listed companies which supplement the requirements contained in the Provisional Regulations Concerning the Issue and Trading of Shares.

On September 2, 1993, the Securities Commission promulgated the Provisional Measures Prohibiting Fraudulent Conduct relating to Securities. The prohibitions imposed by these measures include the use of insider information in connection with the issue of or trading in securities (insider information being defined to include undisclosed material information known to any insider, which may affect the market price of securities); the use of funds or information or the abuse of power in creating a false or disorderly market or influencing the market price of securities or inducing investors to make investment decisions without knowledge of actual circumstances; and the making of any statement in connection with the issue of and trading in securities which is false or materially misleading and in respect of which there is any material omission. Penalties imposed for contravening any of the provisions of the measures include fines, confiscation of profits and suspension of trading. In serious cases, criminal liability may be imposed.

On December 25, 1995, the State Council promulgated the Regulations of the State Council Concerning the Domestic Listed Foreign Shares of Joint Stock Limited Companies.

These regulations deal mainly with the issue, subscription and trading of, and declaration of dividends and other distributions or domestic listed foreign shares and disclosure of information of joint stock limited companies having domestic listed foreign shares.

On December 29, 1998, the Securities Law of the PRC was passed by the Standing Committee of the National People's Congress. This is the first national securities law in the PRC and is the fundamental law comprehensively regulating the activities such as the issue and trading of securities in the PRC securities market. The Securities Law became effective on July 1, 1999. The Securities Law is applicable to the issue and trading in the PRC of shares, corporate bonds and other securities designated by the State Council according to law. Where the Securities Law does not regulate, the Company Law and other applicable laws and administrative regulations regarding securities will apply.

On March 29, 1999, the State Economic and Trade Commission and the CSRC promulgated the Opinion on the Further Promotion of the Standardized Operation and In-Depth Reform of Companies

Listed Overseas which is aimed at regulating the internal operation and management of the PRC companies listed overseas. Our Company will be subject to the Opinion upon its H Shares being listed on the Hong Kong Stock Exchange. The Opinion regulates, amongst others, the appointments and functions of external directors and independent directors in the board of directors and the appointment and functions of external supervisors and independent supervisors in the supervisory committee.

On July 14, 1999, the CSRC promulgated the Notice on Issues regarding the for Overseas Listing by Enterprises which sets out the requirements to be satisfied by PRC enterprises seeking overseas mainboard listing, and matters including the approval procedure and the submission of documents.

THE ARBITRATION LAW

The Arbitration Law of the PRC (the ''Arbitration Law'') was promulgated by the Standing Committee of the NPC on August 31, 1994 and came into effect on September 1, 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as a method of for dispute resolution, the parties are not permitted to institute legal proceedings in a People's Court except when the arbitration agreement is void.

The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and in the case of the Listing Rules, also in a contract between the company and each director and supervisor, to the effect that whenever any dispute or claim arises from any rights or obligations provided in the Articles of Association, the PRC Company Law and other relevant laws and administrative regulations concerning the affairs of a company between (i) a holder of overseas listed foreign shares and the company; (ii) a holder of overseas listed foreign shares and a holder of domestic shares, unless otherwise specified in the articles of association, such parties shall submit that dispute or claim to arbitration before either the China International Economic and Trade Arbitration Commission (''CIETAC'') or the Hong Kong International Arbitration Centre (''HKIAC'') for arbitration. If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the HKIAC. CIETAC is an economic and trade affairs arbitration organ in the PRC. Pursuant to the China International Economic and Trade Arbitration Commission Arbitration Rules, effective as of October 1, 2000, CIETAC's jurisdiction covers disputes relating to the Hong Kong Special Administrative Region. CIETAC is located in Beijing with branches in Shenzhen and Shanghai.

Under the Arbitration Law, an arbitral award is final and binding on the parties and if a party fails to comply with an award, the other party may apply to the People's Court to enforce it. A People's Court may refuse to enforce an arbitral award made by an arbitration body if there are certain violations of the normal rules concerning the arbitration procedures or the composition of the arbitrations or if the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not in the territory of the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or accede to by the PRC. The PRC acceded to the New York Convention adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on December 2, 1986. The New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (i) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity and (ii) the PRC will apply the New York Convention in disputes considered under PRC laws to be arising from contractual or non-contractual commercial legal relations. Following the resumption of sovereignty over Hong Kong by the PRC on July 1, 1997, the New York Convention no longer applies to the enforcement of Hong Kong arbitration awards in other parts of the PRC. A Memorandum of Understanding on the Agreement for Reciprocal Enforcement of Arbitral Awards between Hong Kong and China was signed on June 21, 1999. The arrangement was made in accordance with the spirit of the New York Convention. To meet current needs, the new arrangement will allow awards made by over 100 PRC arbitral authorities with relevant experience to be enforced in Hong Kong. Under the agreed arrangement, Hong Kong arbitration awards will also be enforceable in China. This new arrangement has been approved by the Hong Kong legislative council and the Supreme People's Court of the PRC and became effective on February 1, 2000.

HONG KONG LAWS AND REGULATIONS

(a) Company Law

The Hong Kong law applicable to a company having share capital incorporated in Hong Kong is based on the Companies Ordinance and is supplemented by the common law. The Company, which is a joint stock limited company established in the PRC seeking a listing of H Shares on the Hong Kong Stock Exchange, is governed by the PRC Company Law which came into effect on July 1, 1994 all other rules and regulations promulgated pursuant to the PRC Company Law applicable to a joint stock limited company established in the PRC issuing overseas listed foreign shares to be listed on the Hong Kong Stock Exchange.

Set out below is a summary of the material differences between the Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison:

(i) Corporate existence

Under Hong Kong company law, a company having share capital is incorporated by the Registrar of Companies in Hong Kong issuing a certificate of incorporation and upon its incorporation, a company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company.

Under the PRC Company Law, a company may be incorporated by either promotion or public subscription. A company established by public subscription will only acquire its corporate existence after it has completed its initial share offering to the public and such a company may only issue further shares after a year has elapsed since its last share offer. The PRC Company Law requires a state-owned enterprise to be converted into a joint stock limited company through public subscription in the event that there are less than five (5) promoters. Under the PRC Company Law, a company which is authorized by the relevant securities administration authority to list its shares on a stock exchange must have a registered capital of not less than RMB50,000,000. Hong Kong law does not prescribe any minimum capital requirements for a Hong Kong company. Under the PRC Company Law, the shares allotted by a joint stock limited company in return for injection of industrial property rights and non-patented technology shall not generally exceed 20% of the registered capital of a company. There is no such restriction on a Hong Kong company under Hong Kong law.

(ii) Share capital

Under Hong Kong law, the authorized share capital of a Hong Kong company is the amount of share capital which the company is authorized to issue and a company is not bound to issue the entire amount of its authorized share capital. For a Hong Kong company, the authorized share capital may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares. The PRC Company Law does not recognize the concept of authorized share capital. The registered capital of a joint stock limited company is the amount of the issued share capital. Any increase in the registered capital must be approved by the shareholders at a shareholder's general meeting and by the relevant PRC governmental and regulatory authorities.

(iii) Restrictions on shareholding and transfer of shares

Under the PRC law, the domestic shares (''domestic shares'') in the share capital of a joint stock limited company which are denominated and subscribed for in Renminbi may only be subscribed or traded by the State, PRC legal and natural persons. The overseas listed foreign shares (''foreign shares'') issued by a joint stock limited company which are denominated in Renminbi and subscribed for in a currency other than Renminbi may only be subscribed and traded by investors from Hong Kong, the Macau Special Administrative Region of the PRC and China Taiwan or any country and territory outside the PRC. Under the PRC Company Law, shares in a joint stock limited company held by its promoters cannot be transferred within 3 years after the date of establishment of the company. Shares in a joint stock limited company held by its directors, supervisors and manager cannot be transferred during their respective terms of office. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law.

(iv) Financial assistance for acquisition of shares

The PRC Company Law does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. The Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Hong Kong company law.

(v) Variation of class rights

Under Hong Kong company law, if the share capital of a company is divided into different classes of shares, special rights attaching to any class of shares may only be varied if approved by a specified proportion of the holders of the relevant class. The PRC Company Law does not contain any specific provision relating to variation of class rights. Under the Mandatory Provisions, class rights may not be varied or abrogated unless approved by a special resolution of shareholders in general meeting and by two-thirds or more of the votes cast by shareholders of the affected class present in person or by proxy at a separate class meeting. For the purpose of a variation of class rights, domestic shares and foreign shares are treated as separate classes of shares except in the case of (i) an issue of shares by the joint stock limited company in any twelve (12) month period either separately or concurrently following the approval by a special resolution of shareholders in general meeting not exceeding 20% of each of the issued domestic shares and foreign shares existing as at the date of such special resolution; and (ii) an issue of domestic shares and foreign shares in accordance with the plan of the company approved by the securities authority and which are completed within fifteen (15) months following the establishment of the company. The Mandatory Provisions contain detailed provisions relating to circumstances which are deemed to constitute a variation of class rights.

(vi) Directors

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of interests in material contracts, restrictions on interested directors being counted towards the quorum of and voting at a meeting of the board of directors at which a transaction in which a director is interested is being considered, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits such as loans to directors and guarantees in respect of directors' liability and prohibition against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain requirements and restrictions in relation to the foregoing matters similar to those applicable under Hong Kong law.

(vii) Supervisory committee

Under the PRC Company Law, the board of directors of a joint stock limited company is subject to the supervision of a supervisory committee but there is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise under comparable circumstances.

(viii) Derivative action by minority shareholders

Hong Kong law permits minority shareholders to start a derivative action on behalf of all shareholders against directors who have committed a breach of their fiduciary duties to the company, if they control a majority of votes at a general meeting thereby effectively preventing a company from suing the directors in breach of their duties in its own name. Although the PRC Company Law gives a shareholder of a joint stock limited company the right to initiate proceedings in the people's court to restrain the implementation of any resolution passed by shareholders in general meeting or by the board of directors which violates any law or infringes the lawful rights and interests of shareholders, the PRC law does not have a form of proceedings which is the same as a derivative action. The

Mandatory Provisions, however, provide remedies to the company against directors, supervisors and officers in breach of their duties to the company. In addition, every director and supervisor of a joint stock limited company applying for a listing of its foreign shares on the Hong Kong Stock Exchange is required to give an undertaking in favor of the company to comply with the company's articles of association. This allows minority shareholders to act against directors and supervisors in default.

(ix) Protection of minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC law does not contain similar safeguards. The Mandatory Provisions, however, contain provisions to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

(x) Notice of shareholders' meetings

Under the PRC Company Law, notice of a shareholders' general meeting must be given not less than 30 days before the meeting or, in the case of a company having bearer shares, a public announcement of a shareholders' general meeting must be made at least 45 days prior to it being held. Under the Special Regulations and the Mandatory Provisions, forty-five (45) days' written notice must be given to all shareholders and shareholders who wish to attend the meeting must reply in writing twenty (20) days before the date of the meeting. For a company incorporated in Hong Kong, the minimum notice periods of a general meeting convened for passing an ordinary resolution and a special resolution are fourteen (14) days and twenty-one (21) days, respectively; and the notice period for an annual general meeting is twenty-one (21) days.

(xi) Quorum for shareholders' meetings

Under Hong Kong law, the quorum for a general meeting is provided for in the articles of association of the company, which shall not in any event be less than two (2) members, except that if the company has only one member, one member present in person or by proxy shall be a quorum of a meeting of the company. The PRC Company Law does not specify any quorum requirement for shareholders' general meeting but the Special Regulations and the Mandatory Provisions provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least twenty (20) days before the proposed date of the meeting. If that 50% level is not achieved, the company shall within five (5) days notify shareholders by public announcement and the shareholders' general meeting may be held thereafter.

(xii) Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution requires one half or more of the votes cast by shareholders present in person or by proxy at a shareholders' general meeting except in cases of proposed amendment to the articles of association, merger, demerger or dissolution of a joint stock limited company which requires two-thirds or more of votes cast by shareholders present in person or by proxy at a shareholders' general meeting.

(xiii) Financial disclosure

A joint stock limited company is required under the PRC Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, changes in financial position and other relevant annexures twenty (20) days before the annual general meeting of shareholders. In addition, a company established by the public subscription method under the PRC Company Law must publish its financial statements. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report which are to be laid before the company in its annual general meeting not less than twenty-one (21) days before such meeting.

A joint stock limited company is required under the PRC law to prepare its financial statements in accordance with the PRC accounting standards. The Mandatory Provisions require that the company must, in addition to preparing accounts according to the PRC standards, have its accounts prepared and audited in accordance with International Accounting Standards or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards.

The Special Regulations require that there shall not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences shall also be disclosed simultaneously.

(xiv) Information on directors and shareholders

Under the PRC Company Law, neither the public nor the shareholders of a joint stock limited company have access to information on its directors and shareholders. Under the Mandatory Provisions, shareholders have the right to inspect and copy (at reasonable charges) certain information about shareholders and directors similar to that available under Hong Kong law to shareholders of a company incorporated in Hong Kong.

(xv) Receiving agent

Under both the PRC and Hong Kong law, dividends once declared become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six (6) years while that under the PRC law is two (2) years. The Mandatory Provisions require the appointment of a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong

Kong) as receiving agent to receive on behalf of holders of foreign shares dividends declared and all other monies owed by a joint stock limited company in respect of such foreign shares.

(xvi) Corporate reorganisation

Corporate reorganisation involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another company pursuant to section 237 of the Companies Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to section 166 of the Companies Ordinance which requires the sanction of the court. Under the PRC law, the merger or demerger of a joint stock limited company has to be approved by shareholders in general meeting and by the relevant governmental authorities.

(xvii) Arbitration of disputes

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's discretion.

(xviii) Mandatory transfers

Under the PRC Company Law, a joint stock limited company is required to make transfers equivalent to certain prescribed percentages of its after-tax profit to the statutory common reserve and statutory public welfare fund. There are no such requirements under Hong Kong law.

(b) Listing Rules

The Hong Kong Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited company and seeks a primary listing or whose primary listing is on the Hong Kong Stock Exchange. Set out below is a summary of such principal additional requirements which apply to the Company:

(i) Compliance adviser

The Company is required to retain for at least one year following its listing or such shorter period as the Hong Kong Stock Exchange may in its absolute discretion permit, the services of a compliance adviser which is acceptable to the Hong Kong Stock Exchange, to provide the Company with professional advice on continuous compliance with the Hong Kong Listing Rules and to act at all times, in addition to the two (2) authorized representatives of the Company, as the Company's principal channel of communication with the Hong Kong Stock Exchange. The appointment of the compliance adviser may not be terminated until a replacement acceptable to the Hong Kong Stock Exchange has been appointed. If the Hong Kong Stock Exchange is not satisfied that the compliance adviser is fulfilling its responsibilities adequately, it may require the Company to terminate the compliance adviser's appointment and appoint a replacement.

(ii) Accountants' report

An accountants' report for a PRC issuer will not normally be regarded as acceptable unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong. Such report will normally be required to conform to either Hong Kong or international financial reporting standards.

(iii) Process agent

The Company is required to appoint and maintain a person authorized to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Hong Kong Stock Exchange and must notify the Hong Kong Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

(iv) Public shareholdings

If at any time there are existing issued securities of a PRC issuer other than foreign shares (''H shares'') which are listed on the Hong Kong Stock Exchange, the Hong Kong Listing Rules require that all H shares must be held by the public, the H shares must represent not less than 10% of the PRC issuer's issued share capital and the aggregate amount of H shares and other securities held by the public must constitute not less than 25% of the PRC issuer's issued share capital. If the PRC issuers do not have existing issued securities other than H shares, the H shares must constitute not less than 25% of the issuer's issued share capital unless the expected market value of the H shares at the time of listing is over HK$10,000 million in which case, the Hong Kong Stock Exchange will normally accept a prescribed percentage of between 15% and 25%.

(v) Independent non-executive directors and supervisors

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

(vi) Restrictions on purchase and subscription of its own securities

Subject to governmental approvals and the provisions of the Articles of Association, the Company may repurchase its own H Shares on the Hong Kong Stock Exchange in accordance with the provisions of the Hong Kong Listing Rules. Approval by way of special resolution of the holders of Domestic Shares and the holders of H Shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, the Company is required to provide information on any proposed or actual purchases of all or any of its equity securities, whether or not listed or traded on the Hong Kong Stock Exchange. The Directors must also state the consequences of any purchases which will arise under either or both of the Code on Takeovers and Mergers and Share Repurchase and any similar PRC law of which the Directors are aware, if any. Any general mandate given to the Directors to repurchase H Shares must not exceed 10% of the total amount of existing issued H Shares of the Company.

(vii) Mandatory Provisions

With a view to increasing the level of protection afforded to investors, the Hong Kong Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Hong Kong Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the supervisory committee of the Company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in Appendix VII to this prospectus.

(c) Other Legal and Regulatory Provisions

Upon listing, the provisions of the Securities and Futures Ordinance, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on the Hong Kong Stock Exchange will apply to the Company.

(d) Securities Arbitration Rules

The Articles of Association provide that certain claims arising from the Articles of Association or the PRC Company Law shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules. The Securities Arbitration Rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Hong Kong Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of China Hong Kong, China Macau and China Taiwan.

This Appendix contains a summary of our Articles of Association. The principal objective is to provide potential investors with an overview of our Articles of Association. As the information contained below is a summary form, it does not contain all the information that may be important to potential investors. As stated in the paragraph headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix X, a copy of the Articles of Association is available for inspection.

Our Articles of Associations and relevant amendments thereto were adopted by our shareholders in general shareholders' meetings in accordance with applicable laws and regulations, including the PRC Company Law, the Securities Law of the PRC, the Notice on Issues Regarding Shareholders' Annual Meeting in 1995 and Amendments to Articles of Association of Offshore Listing Companies, the Opinion Letter Regarding Supplementary Amendments to Articles of Association of Companies Limited by Shares Seeking Listing in Hong Kong, the Special Regulations, the Mandatory Provisions and the Hong Kong Listing Rules.

Directors and Other Officers

Power to Allot and Issue Shares

There is no provision in the Articles of Association empowering the Directors to allot and issue Shares.

To increase the capital of our Company, the Board is responsible for formulating proposals for approval at a shareholders' general meeting by way of special resolution. Any such increase must be conducted in accordance with the procedures stipulated by the relevant laws and administrative regulations.

Power to Dispose of the Assets of our Company or any Subsidiary

The Board is accountable to the shareholders' general meeting.

The Board shall not, without the prior approval or consent of shareholders in a general meeting, dispose or agree to dispose of, any fixed assets of our Company where the anticipated value of the assets to be disposed, together with the value of any fixed assets of our Company that has been disposed in the period of four (4) months immediately preceding the proposed disposition, exceeds 33% of the value of our Company's fixed assets as shown in the last balance sheet placed before the shareholders in a general meeting.

The validity of a disposition by our Company of fixed assets shall not be affected by the breach of the above paragraph.

For the purposes of the Articles of Association, a disposition of fixed assets includes an act involving the transfer of an interest in assets but does not include the provision of fixed assets by way of security.

The Board shall carry its duties in compliance with the laws, regulations, the Articles of Association and resolutions passed by the shareholders in general meetings.

Emoluments and Compensation or Payments for Loss of Office

Our Company shall, with the prior approval of shareholders in a general meeting, enter into a contract in writing with each of the Directors or Supervisors wherein his or her emoluments are stipulated. The aforesaid emoluments include:

(1) emoluments in respect of his or her service as a Director, Supervisor or senior administrative officer of our Company;

(2) emoluments in respect of his service as a Director, Supervisor or senior executive officer of any subsidiary of our Company;

(3) emoluments in respect of the provision of other services in connection with the management of the affairs of our Company and any of its subsidiaries; and

(4) payment by way of compensation for loss of office, or as consideration for or in connection with his retirement from office.

Except under the contract entered into in accordance with the foregoing, no proceedings may be brought by a Director or Supervisor against our Company for any benefit due to him in respect of the above matters.

The contracts concerning the emoluments between our Company and its Directors or Supervisors should provide that, in the event of a takeover of our Company, the Directors and Supervisors shall, subject to the prior approval of the shareholders in general meeting, have the right to receive compensation or other payment in respect of his loss of office or retirement. A "takeover of our Company" referred to in this paragraph means either:

(1) an offer made by any person to all shareholders; or

(2) an offer made by any person with a view to the offeror becoming a "controlling shareholder" within the meaning set out in the Articles of Association (see the section headed "Rights of the Minorities in Relation to Fraud or Oppression" below).

If the relevant Director or Supervisor does not comply with the above, any sum so received by him shall belong to those persons who have sold their Shares as a result of the offer made. The expenses incurred in distributing such sum pro rata amongst those persons shall be borne by the relevant Director or Supervisor and not paid out of that sum.

Loans to Directors, Supervisors and Other Officers

Our Company shall not directly or indirectly make a loan to, or provide any guarantee in connection with the making of a loan to a Director, Supervisor, our President or other senior officer of our Company or of our Company's holding company or any of their respective associates. However, the following transactions are not subject to such prohibition:

- the provision by our Company of a loan or a guarantee of a loan to a company which is a subsidiary of our Company;
- the provision by our Company of a loan or a guarantee in connection with the making of a loan or any other funds to any of its Directors, Supervisors, our President and other senior executive officers for them to pay for expenditure incurred or to be incurred by him for the purposes of our Company or for the purpose of enabling him to perform his duties properly,

in accordance with the terms of a service contract approved by the shareholders in general meeting; and

- Our Company may make a loan to or provide a guarantee in connection with the making of a loan to any of the relevant Directors, Supervisors, our President and other senior executive officers or their respective associates in the ordinary course of its business on normal commercial terms, provided that the ordinary course of business of our Company includes the lending of money or the giving of guarantees.

A loan made by our Company in breach of the above provisions shall be forthwith repayable by the recipient of the loan regardless of the terms of the loan.

A guarantee provided by our Company in breach of the above provisions shall be unenforceable against our Company, unless:

1. the guarantee was provided in connection with a loan to an associate of any of the Directors, Supervisors, our President and other senior executive officers of our Company or of our Company's holding company and at the time the loan was advanced the lender did not know the relevant circumstances; or
2. the collateral provided by our Company has been lawfully disposed of by the lender to a bona fide purchaser.

For these purposes:

(a) a guarantee includes an undertaking or property provided to secure the performance of obligations by the obligor; and

(b) a definition of an associate as referred to in sub-section headed ''Duties'' below applies, mutatis mutandis, to this provision.

Financial Assistance for the Acquisition of Shares in our Company or any Subsidiary

Subject to the exceptions in the Articles of Association, our Company and our subsidiaries shall not, by any means at any time, provide any kind of financial assistance (as defined below) to a person who is acquiring or is proposing to acquire shares of our Company. The said acquirer of shares of our Company includes a person who directly or indirectly incurs any obligations (as defined below) due to the acquisition of the shares. Our Company and our subsidiaries shall not, by any means at any time, provide financial assistance to the said acquirer as referred to above for the purpose of reducing or discharging the obligations assumed by that person.

The following activities shall not be deemed to be prohibited activities:

- the provision of financial assistance by our Company where the financial assistance is given in good faith in the interest of our Company, and the principal purpose in giving the financial assistance is not for the acquisition of shares in our Company, or the giving of the financial assistance is an incidental part of some larger purpose of our Company;
- the lawful distribution of our Company's assets by way of dividend in accordance with law;
- the allotment of bonus shares as dividends;
- a reduction of registered capital, a repurchase of shares of our Company or a reorganization of the share capital structure of our Company effected in accordance with these Articles of Association;

- the lending of money by our Company within its scope of business and in the ordinary course of its business, where the lending of money is part of the scope of business of our Company (provided that the net assets of our Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of distributable profits);
- the provision of money by our Company for contributions to staff and workers' shares schemes (provided that the net assets of our Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of distributable profits).

For these purposes:

(a) "financial assistance" includes (without limitation) the following meanings:

(1) gift;

(2) guarantee (including the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the obligor), or compensation (other than compensation in respect of our Company's own default) or release or waiver of any rights;

(3) provision of loan or any other agreement under which the obligations of our Company are to be fulfilled before the obligations of another party, or a change in the parties to, or the novation of, or the assignment of rights arising under, such loan or agreement; or

(4) any other form of financial assistance given by our Company when our Company is unable to pay its debts or has no net assets or when its net assets would thereby be reduced to a material extent.

(b) "incurring an obligation" includes the incurring of obligations by the changing of the obligor's financial position by way of contract or the making of an arrangement (whether enforceable or not, and whether made on its own account or with any other persons), or by any other means.

Disclosure of Interests in Contracts with our Company or any of its Subsidiaries

Where a Director, Supervisor, our President or other senior officer of our Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with our Company, (other than his contract of service with our Company), he shall declare the nature and extent of his interests to the Board at the earliest opportunity, whether or not the contract, transaction or arrangement or proposal therefor is otherwise subject to the approval of the Board.

Unless the interested Director, Supervisor, President or other senior officer discloses his interests in accordance with the Articles of Association and the contract, transaction or arrangement is approved by the Board at a meeting in which the interested Director, Supervisor, President or other senior officer is not counted in the quorum and refrains from voting, a contract, transaction or arrangement in which that Director, Supervisor, our President or other senior executive officer is materially interested is voidable at the instance of our Company except as against a bona fide party thereto acting without notice of the breach of duty by the interested Director, Supervisor, our President or other senior officer.

For these purposes, a Director, Supervisor, our President or other senior executive officer of our Company is deemed to be interested in a contract, transaction or arrangement in which an associate of him is interested.

Where a Director, Supervisor, our President or other senior executive officer of our Company gives to the Board a general notice in writing stating that, by reason of the facts specified in the notice, he is interested in contracts, transactions or arrangements of any description, which may subsequently be made by our Company, such notice shall be deemed for the purposes of this paragraph to be a sufficient declaration of his interests, so far as the content stated in such notice is concerned, provided that such general notice shall have been given before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration on behalf of our Company.

Remuneration

The remuneration of Directors must be approved by shareholders in general meeting, as referred to under the section headed "Emoluments, Compensation or Payments for Loss of Office" above.

Appointment, Removal and Retirement

The term of office of the chairman of the Board and the other Board members shall be three years. If the term of appointment of a Director expires and he is re-elected, the Director may be reappointed for consecutive terms.

Directors shall be elected and removed by the shareholders in general meeting. A written notice of the intention to propose a person for election as director and a notice in writing by that person indicating his acceptance of such election is required to be given to our Company not earlier than the date the notice of meeting is given and seven days before the date of such shareholders' general meeting.

The Board shall consist of nine Directors, of which three shall be independent non-executive Directors. The Board shall have one chairman. The chairman shall be elected and removed by a majority of all of the Directors. A Director is not required to hold shares of our Company.

A person may not serve as a Director, Supervisor, our President and any other senior executive officer of our Company if any of the following circumstances apply:

- a person without legal or with restricted legal capacity;
- a person who has committed an offence of corruption, bribery, infringement of property, misappropriation of property or sabotaging the social economic order and has been punished because of committing such offence; or who has been deprived of his political rights, in each case where less than five (5) years have elapsed since the date of the completion of implementation of such punishment or deprivation;
- a person who is a former director, factory manager or manager of a company or enterprise which has entered into insolvent liquidation because of mismanagement and he is personally liable for the insolvency of such company or enterprise, where less than three (3) years have elapsed since the date of the completion of the insolvency and liquidation of our Company or enterprise;

- a person who is a former legal representative of a company or enterprise which had its business license revoked due to a violation of the law and who incurred personal liability, where less than three (3) years has elapsed since the date of the revocation of the business license;
- a person who has a relatively large amount of debts due and outstanding;
- a person who is under criminal investigation or prosecution by judicial organisation for violation of the criminal law which investigation or prosecution is not yet concluded;
- a person who is not eligible for enterprise leadership according to laws and administrative regulations;
- a non-natural person;
- a person convicted of the contravention of provisions of relevant securities regulations by a relevant government authority, and such conviction involves a finding that he has acted fraudulently or dishonestly, where less than five (5) years has elapsed since the date of the conviction;
- a person who is prohibited by the CSRC to participate in securities market and such prohibition has not yet been released; or
- upon the occurrence of any circumstances specified in the laws and regulations of the place of jurisdiction where the Shares of our Company are listed.

There is no provision in our Articles of Association which imposes any age limit for Directors beyond which retirement as a Director is mandatory.

The validity of an act of a Director, Supervisor, our President or other senior officer on behalf of our Company is not, vis-à-vis a bona fide third party, affected by any irregularity in his office, election or any defect in his qualification.

Borrowing Powers

Subject to compliance with applicable laws and regulations of the PRC, our Company has the power to raise and borrow money, which power includes, without limitation, the issue of debentures, the charging or mortgaging of part or whole of our Company's business or properties and other rights permitted by PRC laws and administrative regulations. The Articles of Association do not contain any specific provision in respect of the manner in which borrowing powers may be exercised by the Directors nor do they contain any specific provision in respect of the manner in which such powers may be varied, other than: (a) provisions which give the Directors the power to formulate proposals for the issuance of debentures by our Company; and (b) provisions which provide that the issuance of debentures must be approved by the shareholders in a general meeting by way of a special resolution.

Duties

In addition to obligations imposed by laws, administrative regulations or required by the stock exchanges on which Shares are listed, each of our Company's Directors, Supervisors, our President and other senior executive officers owes a duty to each shareholder, in the exercise of the functions and powers of our Company entrusted to him:

- not to cause our Company to exceed the scope of the business stipulated in its business license;

- to act honestly in the best interest of our Company;
- not to expropriate in any guise our Company's property, including (without limitation) usurpation of opportunities advantageous to our Company;
- not to expropriate the individual rights of shareholders, including (without limitation) rights to distribution and voting rights, save pursuant to a restructuring of our Company submitted to shareholders for approval in accordance with the Articles of Association.

Each of our Company's Directors, Supervisors, our President and other senior executive officers owes a duty, in the exercise of his powers and discharge of his duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Each of our Company's Directors, Supervisors, our President and other senior executive officers shall exercise his powers or carry on his duties in accordance with the principle of fiduciary and shall not put himself in a position where his duty and his interest may conflict. This principle includes (without limitation) discharging the following obligations:

- to act honestly in the best interests of our Company;
- to exercise powers within the scope of his powers and not to exceed those powers;
- to exercise the discretion vested in him personally and not to allow himself to act under the control of another and, unless and to the extent permitted by laws, administrative regulations or with the informed consent of shareholders given in general meeting, not to delegate the exercise of his discretion;
- to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- except in accordance with the Articles of Association or with the informed consent of shareholders given in general meeting, not to enter into any contract, transaction or arrangement with our Company;
- without the informed consent of shareholders given in general meeting, not to use our Company's property for his own benefit;
- not to exploit his position to accept bribes or other illegal income or expropriate our Company's property by any means, including (without limitation) opportunities advantageous to our Company;
- without the informed consent of shareholders given in general meeting, not to accept commissions in connection with our Company's transactions;
- to abide by the Articles of Association, faithfully execute his official duties and protect our Company's interests, and not to exploit his position and power in our Company to advance his own private interests;
- not to compete with our Company in any form unless with the informed consent of shareholders given in general meeting;
- not to misappropriate our Company's funds or lend such funds to others, not to open accounts in his own name or other names for the deposit of our Company's assets and not to provide a guarantee for debts of a shareholder of our Company or other individual(s) with our Company's assets; and

- unless otherwise permitted by informed shareholders in general meeting, to keep in confidence information acquired by him in the course of and during his tenure and not to use the information other than in furtherance of the interests of our Company, save that disclosure of such information to the court or other governmental authorities is permitted if: (i) disclosure is made under compulsion of law; (ii) the interests of the public require disclosure; (iii) the interests of the relevant Director, Supervisor, our President or other senior executive officer require disclosure.

Each Director, Supervisor, our President or other senior executive officer of our Company shall not cause the following persons or institutions (''associates'') to do what he is prohibited from doing:

(1) the spouse or minor child of that Director, Supervisor, our President or other senior executive officer;

(2) a person acting in the capacity of trustee of that Director, Supervisor, our President or other senior executive officer or any person referred to in the preceding paragraph;

(3) a person acting in the capacity of partner of that Director, Supervisor, our President or other senior executive officer or any person referred to in paragraphs (1) and (2) above;

(4) a company in which that Director, Supervisor, our President or other senior executive officer, alone or jointly with one or more persons referred to in paragraphs (1), (2) and (3) above and other Directors, Supervisors, our President and other senior executive officers have a de facto controlling interest; and

(5) the Directors, Supervisors, our President and other senior executive officers of the controlled company referred to in the preceding paragraph.

The fiduciary duties of the Directors, Supervisors, our President and other senior executive officers of our Company do not necessarily cease with the termination of their tenure. The duty of confidence in relation to trade secrets of our Company survives the termination of their tenure. Other duties may continue for such period as fairness may require depending on the time lapse between the termination and the act concerned and the circumstances under which the relationships between them and our Company are terminated.

In addition to any rights and remedies provided by the laws and administrative regulations, where a Director, Supervisor, President or other senior administrative officer of our Company is in breach of his duties to our Company, our Company has a right to:

- claim damages from the Director, Supervisor, our President or other senior executive officer in compensation for losses sustained by our Company as a result of such breach;

- rescind any contract or transaction entered into by our Company with the Director, Supervisor, our President or other senior executive officer or with a third party (where such third party knows or should know that there is such a breach of duties by such Director, Supervisor, our President or other senior executive officer);

- demand an account of the profits made by the Director, Supervisor, our President or other senior executive officer in breach of his duties;

- recover any funds received by the Director, Supervisor, our President or other senior executive officer to the use of our Company, including (without limitation) commissions; and

- demand payment of the interest earned or which may have been earned by the Director, Supervisor, our President or other senior executive officer on the funds that should have been paid to our Company

Subject to the Articles of Association, a Director, Supervisor, our President or other senior executive officer of our Company may be relieved of liability for specific breaches of his duty by the informed consent of shareholders given at a general meeting.

Alterations to Constitutional Documents

Our Company may amend its Articles of Association in accordance with the requirements of law, administrative regulation and the Articles of Association.

Amendments to the Articles of Association involving the contents of the Mandatory Provisions shall become effective upon approvals by the companies approving department authorised by the State Council and Securities Authority of the State Council. If there is any change relating to the registered particulars of our Company, application shall be made for registration of the changes in accordance with law.

Variation of Rights of Existing Shares or Classes of Shares

Rights conferred on any class of shareholders in the capacity of shareholders (''class rights'') may not be varied or abrogated unless approved by a special resolution of shareholders in general meeting and by holders of Shares of that class at a separate meeting conducted in accordance with the Articles of Association.

The following circumstances shall be deemed to be variation or abrogation of the class rights of a class:

(1) to increase or decrease the number of Shares of such class, or increase decrease the number of Shares of class having voting or equity rights or privilege equal or superior to those of the Shares of such class;

(2) to effect an exchange of all or part of the Shares of such class into Shares of another class or to effect an exchange or create a right of exchange of all or part of the Shares of another class into the Shares of such class;

(3) to remove or reduce rights to accrued dividends or rights to cumulative dividends attached to Shares of such class;

(4) to reduce or remove a dividend preference or a liquidation preference attached to Shares of such class;

(5) to add, remove or reduce conversion privileges, options, voting rights, transfer or preemptive rights, or rights to acquire securities of our Company attached to Shares of such class;

(6) to remove or reduce rights to receive payment payable by our Company in particular currencies attached to Shares of such class;

(7) to create a new class of Shares having voting or equity right or privileges equal or superior to those of the Shares of such class;

(8) to restrict the transfer or ownership of the Shares of such class or add to such restriction;

(9) to allot and issue rights to subscribe for, or convert into, shares in our Company of such class or another class;

(10) to increase the rights or privileges of Shares of another class;

(11) to restructure our Company where the proposed restructuring will result in different classes of shareholders bearing a disproportionate burden of such proposed restructuring; and

(12) to vary or abrogate provisions in chapter 9 of the Articles of Association.

Shareholders of the affected class, whether or not otherwise having the right to vote at shareholders' general meetings, shall nevertheless have the right to vote at class meetings in respect of matters concerning paragraphs (2) to (8), (11) and (12) above, but interested shareholder(s) (as defined below) shall not be entitled to vote at class meetings.

Resolutions of a class of shareholders shall be passed by votes representing two-thirds or more of the voting rights of shareholders of that class represented at the relevant meeting who are entitled to vote at class meetings.

Written notice of a class meeting shall be given forty-five (45) days before the date of the class meeting to notify all of the shareholders in the share register of the class of the matters to be considered, the date and the place of the class meeting. A shareholder who intends to attend the class meeting shall deliver his written reply concerning attendance at the class meeting to our Company twenty (20) days before the date of the class meeting.

If the number of Shares carrying voting rights at the meeting represented by the shareholders who intend to attend the class meeting reaches one half or more of the voting Shares at the class meeting, our Company may hold the class meeting; if not, our Company shall within five (5) days notify the shareholders of the class, again by public notice, of the matters to be considered, the date and the place for the class meeting. Our Company may then hold the class meeting after such publication of such notice.

Notice of class meetings need only be served on shareholders entitled to vote thereat.

Meetings of any class of shareholders shall be conducted in a manner as similar as possible to that of general meetings of shareholders. The provisions of the Articles of Association relating to the manner of conducting any shareholders' general meeting shall apply to any meeting of a class of shareholders. Holders of domestic-invested Shares and foreign-invested Shares are deemed to be shareholders of different classes.

The special procedures for voting at a class of shareholders shall not apply in the following circumstances:

(1) where our Company issues, upon the approval by a special resolution of its shareholders in general meeting, either separately or concurrently once every twelve months, not more than 20% of each of its existing issued domestic-invested Shares and overseas-listed foreign-invested Shares; or

(2) where our Company's plan to issue domestic-invested Shares and overseas-listed foreign-invested Shares at the time of its establishment is carried out within fifteen (15) months from the date of approval of the Securities Authority of the State Council.

For the purposes of the class rights provisions of the Articles of Association, the meaning of "interested shareholder(s)" is:

(1) in the case of a repurchase of Shares by offers to all shareholders or public dealing on a stock exchange, a "controlling shareholder" within the meaning of the Articles of Association;

(2) in the case of a repurchase of Shares by an off-market contract, a holder of the Shares to which the proposed contract relates; and

(3) in the case of a restructuring of our Company, a shareholder within a class who bears less than a proportionate burden imposed on that class under the proposed restructuring or who has an interest in the proposed restructuring different from the interest of shareholders of that class.

Resolutions — Majority Required

Resolutions of shareholders' general meetings shall be divided into ordinary resolutions and special resolutions.

To adopt an ordinary resolution, votes representing one half or more of the voting rights represented by the shareholders (including proxies) present at the meeting must be exercised in favor of the resolution in order for it to be passed.

To adopt a special resolution, votes representing two-thirds or more of the voting rights represented by the shareholders (including proxies) present at the meeting must be exercised in favor of the resolution in order for it to be passed.

Voting Rights (generally, on a poll and right to demand a poll)

The ordinary shareholders of our Company have the right to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat. A shareholder (including proxy when voting at a shareholders' general meeting may exercise voting rights in accordance with the number of shares carrying the right to vote and each share shall have one vote.

A poll is specifically required according to the provisions of the listing rules of the stock exchange where our Company's Shares are listed. At any general meeting of shareholders a resolution shall be decided on a show of hands unless a poll is (before or after any vote by show of hands) demanded:

- by the chairman of the meeting;
- by at least two shareholders entitled to vote present in person or by proxy; or
- by one or more shareholders present in person or by proxy and representing 10% or more of all shares carrying the right to vote at the meeting.

Unless a poll be so demanded, a declaration by the chairman that a resolution has on a show of hands been carried, unanimously, or carried by, a particular majority, or lost, and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution. The demand for a poll may be withdrawn by the person who makes such demand.

A poll demanded on the election of the chairman of the meeting, or on a question of adjournment of the meeting, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs, and any business, other than that upon which a poll has been demanded may be proceeded with, pending the taking of the poll. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded.

On a poll taken at a meeting, a shareholder (including proxy) entitled to two or more votes need not cast all his votes in the same way.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to one additional vote.

Requirements for Annual General Meetings

The Board shall convene an annual shareholders' meeting once each year and within six (6) months from the close of the preceding financial year.

Accounts and Audit

Our Company shall establish its financial and accounting system and internal audit system in accordance with the laws, administrative regulations and PRC accounting standards formulated by the finance regulatory department of the State Council.

The Board shall place before the shareholders at every annual general meeting such financial reports as are required by any laws, administrative regulations or directives promulgated by competent regional and central governmental authorities to be prepared by our Company.

Our Company's financial reports shall be made available for shareholders' inspection at our Company twenty (20) days before the date of every shareholders' annual general meeting. Each shareholder shall be entitled to obtain a copy of the financial reports.

The financial statements of our Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either International Financial Reporting Standards, or that of the overseas place where our Company's shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in an appendix to the financial statements. When our Company is to distribute its profits, it is required to distribute dividends based on the lower of the Group's distributable reserves determined under PRC GAAP and IFRS.

Any interim results or financial information published or disclosed by our Company must also be prepared and presented in accordance with PRC accounting standards and regulations, and also in accordance with either International Financial Reporting Standards or that of the overseas place where our Company's shares are listed.

Our Company shall publish its financial reports twice every fiscal year, that is, the interim financial report shall be published within sixty (60) days after the expiration of the first six (6) months of each fiscal year and the annual financial report shall be published within one hundred and twenty (120) days after the expiration of each fiscal year.

Notice of Meetings and Business to be Conducted thereat

The shareholders' general meeting is the organ of authority of our Company and shall exercise its functions and powers in accordance with law.

Our Company shall not, without the prior approval of shareholders in general meeting, enter into any contract with any person other than a Director, Supervisor, our President or other senior executive officer whereby the management and administration of the whole or any substantial part of the business of our Company is to be handed over to such person.

Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Shareholders' general meeting shall be convened by the Board.

Under any of the following circumstances, the Board shall convene an extraordinary general meeting within two (2) months:

- when the number of Directors is less than the number of Directors required by the PRC Company Law or two-thirds of the number of Directors specified in the Articles of Association;
- when the unrecovered losses of our Company amount to one-third of the total amount of its share capital;
- when shareholder(s) holding 10% or more of our Company's issued and outstanding shares carrying voting rights request(s) in writing the convening of an extraordinary general meeting;
- when deemed necessary by the Board or as requested by the supervisory committee; or
- when at least 2 independent Directors or one half or more of the independent Directors request convening of an extraordinary general meeting.

When our Company convenes a shareholders' general meeting, written notice of the meeting shall be given forty-five (45) days before the date of the meeting to notify all of the shareholders in the share register of the matters to be considered and the date and the place of the meeting. A shareholder who intends to attend the meeting shall deliver his written reply concerning the attendance of the meeting to our Company twenty (20) days before the date of the meeting.

When our Company convenes a shareholders' annual general meeting, shareholders holding 5% or more of the total voting shares of our Company shall have the right to propose new motions in writing, and Our Company shall place matters in the proposed motions within the scope of functions and powers of the shareholders' general meeting on the agenda.

A shareholders' extraordinary general meeting shall not decide on those matters not stated in the notice of meeting.

Our Company shall, based on the written replies received twenty (20) days before the date of the shareholders' general meeting from the shareholders, calculate the number of voting shares represented by shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend the meeting reaches one half or more of our Company's total voting shares, our Company may hold the meeting. If not, then our Company shall within five (5) days notify the shareholders again by public notice of the matters to be considered, the place and the date for the meeting. Our Company may hold the meeting after the publication of such notice.

A notice of meeting of shareholders shall be required to:

- be in writing;
- specify the place, the day and the hour of the meeting;
- list out the share registration date of shareholders who are entitled to attend the meeting;
- state the name and telephone number of the regular contact person of the meeting;
- state the matters to be discussed at the meeting;
- provide such information and explanations as are necessary for the shareholders to exercise an informed judgment on the proposals before them. Without limiting the generality of the foregoing, where a proposal is made to amalgamate our Company with another, to repurchase shares, to reorganize the share capital; or to restructure our Company in any other way, the terms of the proposed transaction must be provided in detail together with copies of the proposed agreement, if any, and the cause and effect of such proposal must be properly explained;
- contain a disclosure of the nature and extent, if any, of the material interests of any Director, Supervisor, our President or other senior executive officer in the transaction proposed and the effect of the proposed transaction on them in their capacity as shareholders in so far as it is different from the effect on the interests of the shareholders of the same class;
- contain the full text of any special resolution proposed to be moved at the meeting;
- contain conspicuously a statement that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy need not be a shareholder; and
- specify the time and place for lodging proxy forms for the relevant meeting.

Notice of shareholders' general meeting shall be served on the shareholders (whether or not entitled to vote at the meeting), by delivery or prepaid airmail to their addresses as shown in the register of shareholders. For the holders of Domestic Shares, notice of the meetings may be issued by way of public notice.

The public notice shall be published in one or more newspapers designated by the securities governing authority of the State Council within the interval between forty-five (45) days and fifty (50) days before the date of the meeting. After the publication of such notice, the holders of domestic-invested Shares shall be deemed to have received the notice of the relevant shareholders' general meeting. The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate the proceedings at that meeting.

The following matters shall be resolved by an ordinary resolution at a shareholders' general meeting:

- work reports of the Board and the supervisory committee;
- plans formulated by the Board for the distribution of profits and for making up losses;
- appointment and removal of the members of the Board and members of the supervisory committee, their remuneration and method of payment;

- annual preliminary and final budgets, balance sheets and profit and loss accounts and other financial statements of our Company;
- annual report of our Company; and
- matters other than those required by the laws and administrative regulations or by the Articles of Association to be adopted by special resolution.

The following matters shall be resolved by a special resolution at a shareholders' general meeting:

- the increase or decrease of share capital and the issue of shares of any class, warrants and other similar securities;
- the purchase of the Company's own Shares;
- the issue of debentures of our Company;
- the division, merger, dissolution and liquidation of our Company;
- amendments to the Articles of Association, and
- any other matters considered by the shareholders' general meeting, by way of an ordinary resolution, to be of a nature which may have a material impact on our Company and should be adopted by a special resolution.

Transfer of Shares

All the fully paid-up H Shares can be freely transferred in accordance with the Articles of Association. For H Shares listed on the Hong Kong Stock Exchange, unless the requirements stipulated in the Articles of Association are met, the Board may refuse to accept any transfer documents without giving any explanation for such refusal.

The alteration and rectification of each part of the share register shall be carried out in accordance with the laws of the place where the register is maintained.

No changes in the shareholders' register due to the transfer of shares may be made within thirty (30) days before the date of a shareholders' general meeting or within five (5) days before the record date for our Company's distribution of dividends. The record date of a shareholders' meeting shall be at least four (4) business days before such shareholders' meeting.

Power of our Company to Purchase its Own Shares

In accordance with the provisions of the Articles of Association, our Company may reduce its registered share capital.

Our Company may, with approval according to the procedures provided in the Articles of Association and subject to the approval of the relevant governing authority of the State, repurchase its issued shares under the following circumstances:

- cancellation of shares for the reduction of its capital;
- merging with another company that holds shares in our Company; and
- other circumstances permitted by laws and administrative regulations.

Our Company may, with the approval of the relevant State governing authority repurchasing its shares, conduct the repurchase in one of the following ways:

- making a pro rata general offer of repurchase to all of its shareholders;
- repurchase shares through public dealing on a stock exchange; or
- repurchase by an off-market agreement.

Where our Company repurchases its shares by an off-market agreement the prior sanction of shareholders shall be obtained in accordance with the Articles of Association. Our Company may release, vary or waive its rights under a contract so entered into by our Company with the prior approval of shareholders obtained in the same manner.

A contract to repurchase shares includes (without limitation) an agreement to become obliged to repurchase or an acquisition of the right to repurchase shares, of our Company Rights of our Company under a contract to repurchase its shares are not capable of being assigned.

Shares repurchased in accordance with law by our Company shall be cancelled within the period prescribed by laws and administrative regulations, and our Company shall apply to the original companies registration authority for registration of the change of its registered shares capital. The amount of our Company's registered shares capital shall be reduced by the aggregate par value of those cancelled shares.

Unless our Company is in the course of liquidation, it must comply with the following provisions in relation to repurchase of its issued Shares:

- where our Company repurchases Shares of our Company at par value payment shall be made out of book surplus distributable profits of our Company or out of proceeds of a fresh issue of Shares made for that purpose;
- where our Company repurchases Shares of our Company at a premium to its par value, payment up to the par value shall be made out of the book surplus distributable profits of our Company or out of the proceeds of a fresh issue of Shares made for that purpose. Payment of the portion in excess of the par value shall be effected as follows: (i) if the Shares being repurchased were issued at par value, payment shall be made out of the book surplus distributable profits of our Company; or (ii) if the Shares being repurchased were issued at a premium to its par value, payment shall be made out of the book surplus distributable profits of our Company or out of the proceeds of a fresh issue of Shares made for that purpose, provided that the amount paid out of the proceed of the fresh issue shall not exceed the aggregate of premiums received by our Company on the issue of the Shares repurchased nor the current amount of our Company's share premium account (including the premiums on the fresh issue);
- payment by our Company in consideration of the following shall be made out of our Company's distributable profits: (i) acquisition of rights to repurchase Shares of our Company; (ii) variation of any contract to repurchase Shares of our Company; and (iii) release of any of our Company's obligation under any contract to repurchase Shares of our Company; and
- after our Company's registered share capital has been reduced by the total par value of the cancelled Shares in accordance with the relevant provisions, the amount deducted from the

distributable profits of our Company for payment of the par value portion of the Shares repurchased shall be transferred to our Company's share premium account.

Power for Any Subsidiary of Our Company to Own Shares in our Company

There are no provisions in the Articles of Association preventing ownership of Shares in our Company by a subsidiary.

Dividends and Other Methods of Profit Distribution

Our Company may distribute dividends in the following manner:

- cash; or
- Shares.

Dividends or other payments declared by our Company to be payable to holders of domestic-invested shares shall be declared and calculated in Renminbi, and paid in Renminbi. Those payable to holders of foreign-invested Shares shall be declared and calculated in Renminbi, and paid in the local currency at the place where such foreign-invested Shares are listed (if there is more than one place of listing, then the principal place of listing as determined by the Board).

Our Company shall appoint receiving agents on behalf of the H Shares to receive on behalf of such shareholders dividends declared and all other monies owing by our Company in respect of their H Shares. The receiving agents appointed on behalf of holders of the H Shares shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

Any dividend declared and payable to holders of H Shares but unclaimed after a period of six years from the date it became due for payment shall be forfeited and shall revert to our Company.

Proxies

Any shareholder entitled to attend and vote at a meeting of our Company shall be entitled to appoint one or more other persons (whether a shareholder or not) as his proxy to attend and vote on his behalf, and a proxy so appointed shall:

- have the same right as the shareholder to speak at the meeting;
- have authority to demand or join in demanding a poll; and
- have the right to vote by hand or on a poll, but a proxy of a shareholder who has appointed more than one proxy may only vote on a poll.

The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorized in writing, or if the appointer is a legal entity either under seal or under the hand of a director or attorney duly authorized. The instrument appointing a voting proxy and, if such instrument is signed by a person under a power of attorney or other authority on behalf of the appointer, a notary certified copy of that power of attorney or other authority, shall be deposited at the residence of our Company or at such other place as is specified for that purpose in the notice convening the meeting, not less than twenty-four (24) hours before the time for holding the meeting at which the proxy proposes to vote or the time appointed for the passing of the resolution.

If the appointer is a legal entity, its legal representative or such person as is authorized by resolution of its board of directors or other governing body to act as its representative may attend at any meeting of shareholders of our Company as a representative of the appointer.

Any form issued to a shareholder by the Directors for use by him for appointing a proxy to attend and vote at a meeting of our Company shall be such as to enable the shareholder according to his intention, to instruct the proxy to vote in favor of or against each resolution dealing with business to be transacted at the meeting. Such a form shall contain a statement that in the absence of instructions by the shareholder the proxy may vote as he thinks fit.

A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or loss of capacity of the appointer or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the shares in respect of which the proxy is given, provided that no notice in writing of such death, insanity, revocation or transfer as aforesaid shall have been received by our Company at its residence before the commencement of the meeting at which proxy is used.

Calls on Shares and Forfeiture of Shares

There are no provisions in the Articles of Association relating to the making of calls on Shares or for the forfeiture of Shares.

Rights of Shareholders (including inspection of register)

The ordinary shareholders of our Company shall enjoy the following rights:

- the right to dividends and other distributions in proportion to the number of Shares held;
- the right to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat;
- the right of supervisory management over our Company's business operations, and the rights to present proposals or to raise enquires;
- the right to transfer, donate and/or pledge shares in accordance with laws, administrative regulations and provisions of the Articles of Association;
- the right to obtain relevant information in accordance with the provisions of the Articles of Association, including: (i) the right to obtain a copy of the Articles of Association, subject to payment of the cost of such copy; (ii) the right to inspect and copy, subject to payment of a reasonable charge: (a) all parts of the register of shareholders; (b) personal particulars of each of our Directors, Supervisors, President, and other senior executive officers as follows: (1) present name and alias and any former name and alias; (2) principal address (residence); (3) nationality; (4) primary and all other part-time occupations; and (5) identification document and its number; (c) report on the state of our Company's share capital; (d) reports showing the number, aggregate par value, quantity, maximum and minimum price paid in respect of each class of Shares repurchased by our Company since the end of the last accounting year and the aggregate amount incurred by our Company for this purpose; (e) minutes of shareholders' general meetings; (f) interim report and annual report; (g) copy of the latest annual application form already submitted to the relevant administrative for Industry and Commerce or other competent authorities; and (h) special resolutions.

- in the event of the termination or liquidation of our Company, to participate in the distribution of remaining assets of our Company in accordance with the number of Shares held; and
- other rights conferred by laws, administrative regulations and the Articles of Association.

Quorum for Meetings and Separate Class Meetings

Our Company may convene a shareholders' general meeting where the number of voting Shares represented by those shareholders from whom our Company has received, twenty (20) days before the meeting, notices of intention to attend the meeting reaches one half or more of our Company's voting Shares; or, if not, where our Company has between fifteen (15) and twenty (20) days before the meeting publicly announced the particulars of the meeting.

Our Company may convene a class meeting where the number of voting Shares represented by those shareholders from whom our Company has received, twenty (20) days before the meeting, notices of intention to attend the meeting reaches one half or more of the total number of voting Shares of that class; or, if not, where our Company has between fifteen (15) and twenty (20) days before the meeting publicly announced the particulars of the meeting.

Rights of the Minorities in Relation to Fraud or Oppression

In addition to obligations imposed by laws, administrative regulations or required by the stock exchange on which Shares of our Company are listed, a controlling shareholder shall not exercise his voting rights in respect of the following matters in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders of our Company:

- to relieve a Director or Supervisor of his duty to act honestly in the best interests of our Company;
- to approve the expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person), in any guise, of our Company's assets, including (without limitation) opportunities beneficial to our Company; or
- to approve the expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person) of the individual rights of other shareholders, including (without limitation) rights to a distributions and voting rights save pursuant to a restructuring submitted to shareholders for approval in accordance with the Articles of Association.

For these purposes, a ''controlling shareholder'' means a person who satisfies any one of the following conditions:

- he alone, or acting in concert with others, has the power to elect more than half of the Board;
- he alone, or acting in concert with others, has the power to exercise or to control the exercise of 30% or more of the voting rights in our Company;
- he alone, or acting in concert with others, holds 30% or more of the issued and outstanding shares of our Company; or
- he alone, or acting in concert with others, in any other manner controls our Company in fact.

See also the Section headed ''Variation of Rights of Existing Shares or Classes of Shares'' above.

Procedures on Liquidation

Our Company shall be dissolved and liquidated upon the occurrence of any of the following events:

- a resolution for dissolution is passed by shareholders at a general meeting;
- dissolution is necessary due to a merger or division of our Company;
- our Company is legally declared bankrupt due to its failure to repay debts due; or
- our Company is ordered to close down because of its violation of laws and administrative regulations.

Where the Board proposes to liquidate our Company due to causes other than where our Company has declared that it is insolvent, the Board shall include a statement in its notice convening a shareholders' general meeting to consider the proposal to the effect that, after making full inquiry into the affairs of our Company, the Board is of the opinion that our Company will be able to pay its debts in full within twelve (12) months from the commencement of the liquidation.

Upon the passing of the resolution by the shareholders in general meeting for the liquidation of our Company, all functions and powers of the Board shall cease.

The liquidation committee shall act in accordance with the instructions of the shareholders' general meeting to make a report at least once every year to the shareholders' general meeting on the committee's receipts and payments, the business of our Company and the progress of the liquidation and to present a final report to the shareholders' general meeting on completion of the liquidation.

Other Provisions Material to our Company and our Shareholders

General Provisions

Our Company is a joint stock limited company in perpetual existence.

The Articles of Association constitute a legally binding document regulating our Company's organization and activities, and the rights and obligations between our Company and each shareholder and among the shareholders inter se.

Our Company may invest in other limited liability companies or joint stock limited companies. Our Company's liabilities to an investee company shall be limited to the amount of its capital contribution to such investee company.

Upon approval of the companies approving department authorized by the State Council, our Company may, according to its need of operation and management, operate as a holding company.

Our Company may, based on its requirements for operation and development and in accordance with the relevant provisions of the Articles of Association, approve an increase of capital.

Our Company may increase its capital in the following ways:

- offering new shares to non-specialty-designated investors for subscription;
- placing new shares to its existing shareholders and/or other specific investors;
- distributing new shares to its existing shareholders by way of bonus issues;
- offering new shares through capitalization of our Company's capital reserve; and

- any other way permitted by law and administrative regulations and approved by securities authority at the State Council.

Our Company's increase of capital by issuing new shares shall, after being approved in accordance with the provisions of the Articles of Association, be conducted in accordance with the procedures stipulated by relevant laws and administrative regulations.

Unless otherwise provided by law or administrative regulation, shares in our Company are freely transferable and are not subject to any lien.

When our Company reduces its registered share capital, it must draw up a balance sheet and an inventory of assets. Our Company shall notify its creditors within ten (10) days of the date of our Company's resolution for reduction of share capital and shall publish a notice in a newspaper at least three times within thirty (30) days of the date of such resolution. A creditor has the right within thirty (30) days of receiving the notice from our Company or, in the case of a creditor who does not receive the notice, within ninety (90) days of the date of the first public notice, to demand our Company to repay its debts or provide a corresponding guarantee for such debt. Our Company's registered capital after reduction shall not be less than the statutory minimum amount.

The ordinary shareholders of our Company shall assume the following obligations:

- to abide by the Articles of Association;
- to pay subscription funds according to the number of shares subscribed and the method of subscription;
- not to return their shares to our Company unless otherwise provided by laws and regulations;
- other obligations imposed by laws, administrative regulations and the Articles of Association.

Shareholders are not liable to make any further contribution to the share capital other than as agreed by the subscriber of the relevant shares on subscription.

Secretary of the Board

The secretary of the Board shall be a natural person who has the requisite professional knowledge and experience, and shall be appointed by the Board. His primary responsibilities include, without limitation:

- to ensure that our Company's documents and records are complete;
- to be responsible for the organization and preparation of the documents for the Board and shareholders' general meeting, to take minutes of meetings and to ensure that the meeting policies are in conformity with the legal procedures;
- to ensure that the register of shareholders is properly maintained, to ensure that persons who are entitled to obtain our Company's records and documents can timely obtain the relevant records and documents;
- to be responsible for the organization and coordination of information disclosure, ensuring that our Company's disclosure is timely, accurate, lawful, truthful and complete; coordinate the relationship with the investors, and enhance the transparency of our Company; and

- to assist our Company in complying with relevant laws and the listing rules of the stock exchanges on which our Shares are listed.

Supervisory Committee

Our Company shall have a supervisory committee. The Directors, our President and our Chief Financial Officer shall not act concurrently as Supervisors. The supervisory committee shall be composed of three (3) Supervisors. One of the members of the supervisory committee shall act as the chairman. The term of office of Supervisors shall be three years, renewable upon re-election and reappointment. The election or removal of the chairman of the supervisory committee shall be determined by two-thirds or more of the members of the supervisory committee. Decisions of the supervisory committee shall be made by the affirmative vote of two-thirds or more of the Supervisors. The chairman of the supervisory committee shall organize and exercise the functions and powers of the supervisory committee.

The supervisory committee shall comprise two (2) representatives of shareholders, and one (1) representative of staff and workers of our Company. The representatives of shareholders shall be elected and removed by shareholders' general meeting; the representative of workers and staff of our Company shall be elected and removed by the workers and staff of our Company democratically thereby.

The supervisory committee shall be accountable to the shareholders' general meeting and exercise the following powers in accordance with law:

- to examine our Company's financial situation;
- to examine whether the Directors, our President and other senior executive officers act in contradiction with the laws, administrative regulations and the Articles of Association;
- to demand rectification from a Director, President or any other senior executive officer when the acts of such persons are harmful to our Company's interest if necessary, report to the Shareholders' General Meeting or relevant governmental authorities in charge;
- to verify the financial information such as the financial report, business report and plans for distribution of profits to be submitted by the Board to the shareholders' general meetings and, should any queries arise, to authorize, in the name of our Company, a re-examination by the accounting and practicing auditors of our Company for the time being;
- to propose to convene a shareholders' extraordinary general meeting;
- to represent our Company in negotiation with or bringing an action-against a Director; and
- to exercise other powers specified in the Articles of Association.

Members of the supervisory committee shall be present at meetings of the Board.

President of our Company

Our Company shall have one President, who shall be appointed and dismissed by the Board. Each term of appointment of President shall be three years and may be reappointed for consecutive terms if re-elected.

Our President shall be accountable to the Board and exercise the following powers:

- to be in charge of our Company's operation and management and to organize the implementation of the resolutions of the Board;
- to organize the implementation of our Company's annual business plan and investment plan;
- to draft plans for the establishment of the internal organizational structure of our Company;
- to draft our Company's basic management system;
- to formulate basic rules and regulations for our Company;
- to propose the appointment or dismissal of our assistant President and CFO;
- appoint or dismiss management personnel other than those required to be appointed or dismissed by the Board;
- to draft schemes in relation to salary, welfare, incentive and penalty affairs of employees of our Company;
- to decide on engagement and dismissal of employees of our Company;
- to propose to convene an extraordinary meeting of the Board;
- to make decisions in relation to contracts, transactions and arrangements with values not exceeding 5% of the audited net asset value of the Company in the preceding year; and
- to exercise other powers conferred by the Articles of Association and the Board.

Our President shall be present at meetings of the Board. However, the President shall have no voting rights at the meetings unless he is also a director.

Our President, in performing their functions and powers, shall act honestly and diligently and in accordance with laws, regulations and the Articles of Association.

Board

The Board is responsible to the shareholders' general meeting and exercises the following powers:

(1) to be responsible for convening shareholders' general meetings and to report on its work to the shareholders' general meeting;

(2) to implement the resolutions of the shareholders' general meetings;

(3) to decide on our Company's business plans and investment plans;

(4) to make decisions in relation to contracts, transactions and arrangements with values not exceeding 30% of the audited net asset value of the Company in the preceding year;

(5) to formulate our Company's annual financial budget and final report;

(6) to formulate our Company's profit distribution plan and loss recovery plan;

(7) to formulate proposals for the increases or decrease of our Company's registered capital and the issue of corporate debentures;

(8) to formulate the major acquisition and share repurchase plans and plans for merger, division or dissolution of our Company;

(9) to decide on the establishment of our Company's internal management structure;

(10) to appoint or remove our Company's President and, based on the recommendations of the President, to appoint or remove other senior executive officers and, to decide on their remuneration, award and discipline matters;

(11) to formulate our Company's basic management system;

(12) to formulate proposals for any amendment to the Articles of Association;

(13) to manage information disclosure of our Company;

(14) to propose to the shareholders' general meetings the appointment or change of the accounting firm to conduct auditing of our Company;

(15) to listen to our President's work report and supervise the relevant works;

(16) to handle assets disposal (including purchase, sales and exchange) or connected transactions in accordance with the listing rules of securities supervisory authority and the stock exchanges where our Company's shares are listed; and

(17) to exercise any other powers conferred by laws, regulations and the listing rules of the stock exchanges where our shares are listed and the general shareholders meetings.

Except for the Board's resolutions in respect of the matters specified in the above paragraphs (7), (8) and (12), which shall be passed by two-thirds or more of the Directors, the Board resolutions in respect of all other matters may be passed by more than one-half of the Directors.

Meetings of the Board shall be held at least four times every year and convened by the chairman of the Board. Notice of the meeting shall be served on all of the Directors ten (10) days before the date of the meeting. In case of any matters, upon requisition by the chairman, more than one-third of the members of the Board, more than an half of our independent non-executive Directors, the Supervisory Committee or the President, an extraordinary meeting of the Board may be held.

Meetings of the Board shall be held only if one half or more of the Directors are present. Each Director shall have one vote. Where the number of votes cast for and against a resolution are equal, the chairman of the Board shall have the deciding vote.

Chairman of the Board

The Chairman of the Board has the power to make decisions in relation to contracts, transactions and arrangements with values not exceeding 10% of the audited net asset value of the Company in the preceding year.

Accounts and Audit

- Appointment of auditors.

Our Company shall appoint an independent auditors which is qualified under the relevant regulations of the PRC to audit our Company's annual financial statements and review our Company's other financial reports. The first auditors of our Company may be appointed by the inaugural meeting of our Company before the first annual general meeting and the auditors so appointed shall hold office until the conclusion of the first annual general meeting. If the inaugural meeting fails to exercise its powers under the preceding paragraph, those powers shall be exercised by the Board.

The auditors appointed by our Company shall hold office from the conclusion of the annual general meeting of shareholders at which the appointment is made until the conclusion of the next annual meeting of shareholders.

Before the convening of the shareholders' general meeting, the Board may fill any casual vacancy in the office of the auditors, but while any such vacancy continues, the surviving or continuing firm, if any, may act.

The shareholders in general meeting may, by ordinary resolution, remove an accounting firm before the expiration of its office, notwithstanding the stipulations in the contract between our Company and the firm, but without prejudice to the firm's right to claim, if any, for damages in respect of such removal.

The remuneration of certified public accounting firm or the manner in which such firm is to be remunerated shall be determined by the shareholders in general meeting. The remuneration of a certified public accounting firm appointed by the Board shall be determined by the Board.

- Change and removal of accounting firm.

Our Company's appointment of, removal of and non-reappointment of a certified public accounting firm shall be resolved by shareholders in general meetings.

Where it is proposed that any resolution be passed at a shareholders' general meeting concerning the appointment of a certified public accounting firm, which is not an incumbent firm, to fill a casual vacancy in the office of the certified public accounting firm, reappointment of a retiring accounting firm which was appointed by the Board to fill a casual vacancy, or removal of the accounting firm before the expiration of its term of office, the following provisions shall apply:

- A copy of the proposal shall be sent to the firm proposed to be appointed or proposing to leave its post or the firm which has left its post (leaving includes leaving by removal, resignation and retirement) before notice of meeting is given to the shareholders.

- If the firm leaving its post makes representations in writing and requests our Company to notify such representations to the shareholders, our Company shall (unless the representations are received too late): (i) in any notice of the resolution given to shareholders, state the fact of the representations having been made; and (ii) attach a copy of the representations to the notice and deliver it to the shareholders in the manner stipulated in the Articles of Association.

- If the firm's representations are not sent in accordance with the preceding paragraph, the relevant firm may require that the representations be read out at the shareholders' general meeting and may lodge further complaints.

- A certified public accounting firm which is leaving its post shall be entitled to attend: (i) the shareholders' general meeting at which its term of office would otherwise have expired; (ii) any shareholders' general meeting at which it is proposed to fill the vacancy caused by its removal; and (iii) any shareholders' general meeting convened on its resignation; and to receive all notices of, and other communications relating to, any such meetings, and to speak at any such meeting in relation to matters concerning its role as the former accounting firm of our Company.

- Resignation of accounting firm.

Where the certified public accounting firm resigns its post, it shall make clear to the shareholders' general meeting whether there has been any impropriety on the part of our Company.

Any certified public accounting firm may resign its office by depositing at our Company's legal residence a resignation notice which shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall include the following:

(1) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of our Company; or

(2) a statement of any such circumstances.

Where a notice is deposited under the preceding paragraph, our Company shall within fourteen (14) days after receiving of such notice send a copy of the notice to the relevant governing authority. If the notice contains a statement under subparagraph (2) of the preceding paragraph, a copy of such statement shall be placed at our Company's registered office for shareholders' inspection. Our Company shall also send a copy of such statement by prepaid mail to every holder of H Shares at the address registered in the register of shareholders.

Where the accounting firm's notice of resignation contains a statement of any circumstances which should be brought to the notice of the shareholders or creditors of our Company, the certified public accounting firm may require the Board to convene a shareholders' extraordinary general meeting for the purpose of giving an explanation of the circumstances connected with its resignation.

Dispute Resolution

Whenever any disputes or claims arise between holders of the H Shares and our Company, holders of the H Shares and our Company's Directors, Supervisors, President or other senior executive officers, or holders of the H Shares and holders of Domestic Shares, based on the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or any other relevant laws and administrative regulations concerning the affairs of our Company, such disputes or claims shall be referred by the relevant parties to arbitration.

A claimant may elect arbitration at either the China International Economic and Trade Arbitration Commission in accordance with its rules or the Hong Kong International Arbitration Centre in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

If a claimant elects arbitration at Hong Kong International Arbitration Centre, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Centre.

If any disputes or claims of rights are referred to arbitration, the laws of the People's Republic of China shall apply, save as otherwise provided in laws and administrative regulations.

Where a dispute or claim of rights is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall abide by the arbitration provided that such person is our Company or our Company's shareholder, Director, Supervisor, President or other senior executive officer. Disputes in relation to the identification of shareholders and disputes in relation to the share register need not be referred to arbitration.

The award of an arbitration body shall be final and conclusive and binding on all parties.

1. FURTHER INFORMATION ABOUT OUR COMPANY

A. Incorporation of our Company

Our Company was established in the PRC under the Company Law as a joint stock limited company on 8 November 2004. Our Company has established a place of business in Hong Kong at Unit B, 60th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong and was registered on 22 March 2005 as an overseas company in Hong Kong under Part XI of the Companies Ordinance, with Mr. Tang Ning and Mr. Xu Jianting, both of Flat E, 31st Floor, One Island Place, No. 51 Tanner Road, Hong Kong appointed as the agents of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was established in the PRC, it operates subject to the relevant laws and regulations of the PRC and to its constitution which comprises the Articles of Association. Certain relevant aspects of the relevant laws and regulations of the PRC and a summary of certain relevant parts of the Articles of Association are set out in Appendices VII and VIII to this prospectus respectively.

B. Changes in the share capital of our Company

As at the date of establishment of our Company, our initial nominal value of share capital was RMB 15,000,000,000 divided into 15,000,000,000 Domestic Shares of RMB 1.00 each, all of which were credited as fully paid and were held by the Promoter as follows:

Name of Promoter	Number of Domestic Shares	Percentage of Shareholding in the Share Capital of our Company
Shenhua Group	15,000,000,000	100%
Total	15,000,000,000	100%

Assuming the Global Offering becomes unconditional, immediately following completion of the Global Offering, but without taking into account any H Shares which may be issued on exercise of the Over-allotment Option, the share capital of our Company will be RMB 17,785,000,000, comprising 14,721,500,000 Domestic Shares held by Shenhua Group and 3,063,500,000 H Shares, fully paid or credited as fully paid, representing approximately 82.77%, and 17.23% of the enlarged share capital of our Company, respectively, as follows:

Shareholders	Number of Shares in issue post Global Offering (without exercise of Over-allotment Option)	Percentage of Shareholding in the Share Capital of our Company	Number of Shares (after exercise of Over-allotment Option)	Percentage of Shareholding in the Share Capital of our Company after exercise of the Over-allotment Option
Domestic Shares				
Shenhua Group	14,721,500,000	82.77%	14,679,725,000	80.65%
H Shares				
Holders of H Shares	3,063,500,000	17.23%	3,523,025,000	19.35%
Total	17,785,000,000	100.00%	18,202,750,000	100.00%

Save as disclosed in this prospectus, there has been no alteration in the share capital of our Company since its establishment.

C. Resolutions of the sole shareholder passed at our Company's general meeting on 28 December 2004, 27 March 2005 and 14 May 2005

At an extraordinary general meeting of our Company held on 28 December 2004, resolutions of the sole shareholder of our Company were passed pursuant to which, among other things:

(a) conditional upon approval by the relevant PRC authorities, the conversion of our Company into an "overseas subscription company" was approved;

(b) conditional upon, among others, (i) the Listing Committee of the Hong Kong Stock Exchange granting approval for the listing of, and permission to deal in, the H Shares to be issued as mentioned herein; and (ii) the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of such agreements or otherwise, the following matters were approved:

(i) the issue by the Company and offer for sale by Shenhua Group of H Shares;

(ii) the granting of the Over-allotment Option;

(iii) the corresponding increase in the share capital of our Company upon completion of the Global Offering; and

(iv) the listing of the H Shares on the Hong Kong Stock Exchange;

(c) the Articles of Association were approved and adopted and a committee of our Directors was authorised to amend the Articles of Association in accordance with the amendments required by the relevant PRC authorities, the Hong Kong Stock Exchange and the SFC; and

(d) a committee of our Directors was authorised, among other things, to do any acts and things relating to the conversion of our Company into an overseas public subscription company and the listing of our H Shares on the Hong Kong Stock Exchange.

At an extraordinary general meeting of our Company held on 27 March 2005, resolutions of the sole shareholder of our Company were passed pursuant to which, among other things:

(a) certain amendments to the Articles of Association were approved;

(b) the dividend appropriation for the year 2004 was approved, confirming that (i) all dividend derived from our profits from 1 January 2004 to 31 December 2004 amounting to RMB7,548,657,000 will be appropriated to Shenhua Group and (ii) all dividend derived from the profits accrued from 1 January 2005 to the day before the Listing Date will be attributed to Shenhua Group; and

(c) our Directors were authorised to decide, within 12 months after the date of the extraordinary general meeting, whether to issue additional H Shares after the completion of the Hong Kong Public Offering by not more than 20 per cent of the number of H Shares already offered.

At an extraordinary general meeting of our Company held on 14 May 2005, resolutions of the sole shareholder of our Company were passed pursuant to which, among other things, certain amendments to the Articles of Association were approved.

D. Restructuring

The Restructuring involved principally Shenhua Group injecting into our Company its principal coal production, transportation and sales operations and power generation operations, as well as mining rights related to our coal operations and other related assets, liabilities and interests in exchange for shares in our Company.

The Restructuring involved the following procedures and approvals:

(a) On 5 November 2004, the SASAC issued an approval document (Guo Zi Gai Ge [2004] No. 1005) to Shenhua Group to approve the incorporation of our Company;

(b) On 6 November 2004, the SASAC issued an approval document (Guo Zi Chan Quan [2004] No. 1010) to Shenhua Group to approve the appraisal of our assets;

(c) On 6 November 2004, the SASAC issued an approval document (Guo Zi Chan Quan No. 1011) to Shenhua Group in relation to the management of State-owned equity interests in us;

(d) On 6 November 2004, Shenhua Group convened an inaugural meeting of our Company at which, among other things, the following resolutions were passed:

- our establishment was approved; and
- our initial Articles of Association were adopted;

(e) On 8 November 2004, a business licence (No. 1000001003928) was issued by the State Administration for Industry and Commerce, whereupon our Company was established as a joint stock limited company;

(f) On 28 December 2004, we convened a shareholder's extraordinary general meeting at which, among other things, the following resolutions were passed:

(i) the application to the SASAC for the conversion of our Company into an "overseas subscription company";

(ii) the offering and issue of H Shares;

(iii) the listing of our H Shares on the Hong Kong Stock Exchange; and

(iv) the submitting of the Articles of Association (as amended) to the SASAC for examination and approval;

(g) On 14 January 2005, Shenhua Group entered into the Restructuring Agreement with our Company;

(h) On 3 February 2005, the SASAC issued an approval document (Guo Zi Gai Ge [2005] No. 138) to our Company approving our Company's conversion into an "overseas subscription company" and approving our amended Articles of Association; and

(i) On 2 May 2005, the CSRC issued an approval document (Zheng Jian Guo He Zi [2005] No. 14) approving the offering of H Shares and its listing on the Hong Kong Stock Exchange.

E. Subsidiaries

Our principal subsidiaries are referred to in the Accountants' Report for the Company, the text of which is set out in Appendix I to this prospectus.

The following alterations in the registered share capital of our subsidiaries have taken place within the two years preceding the date of this prospectus:

(a) On 5 September 2003, Shenhua Zhunge'er Energy Company Limited changed its registered share capital from RMB 7,854,000,000 to RMB 7,705,639,500. Its registered share capital was further changed to RMB 7,102,343,285 on 22 March 2005;

(b) On 27 April 2004, Shuohuang Railway Development Company Limited increased its registered share capital from RMB 10,000,000 to RMB 5,880,000,000;

(c) On 27 August 2004, Shenhua Huanghua Harbor Administration Company Limited increased its registered share capital from RMB 10,000,000 to RMB 1,820,000,000;

(d) On 11 February 2003, Guangdong Guohua Yuedian Taishan Power Company Limited increased its registered share capital from RMB5,000,000 to RMB317,500,000. Its registered share capital was further changed to RMB1,242,500,000 on May 20, 2004;

(e) On 2 September 2004, Shenhua Beidian Shengli Energy Co., Ltd increased its registered capital from RMB80,000,000 to RMB300,000,000;

(f) On 27 August 2003, Shenhua Shanghai Coal Trading Company Ltd increased its registered capital from RMB10,000,000 to RMB50,000,000;

(g) On 30 May 2003, Shenhua Changyun High Technology Coal Blending Co., Ltd increased its registered capital from RMB5,000,000 to RMB200,000,000;

(h) On 21 April 2004, Inner Mongolia Guohua Zhunge'er Power Generation Company Limited increased its registered capital from RMB376,400,000 to RMB460,000,000;

(i) On 30 December 2003 and 28 November 2004, Hebei Guohua Cangdong Power Company Limited increased its registered capital from RMB10,000,000 to RMB97,450,000, and then to RMB295,450,000; and

(j) On 15 March 2005, Shenhua Baoshen Railway Company Limited increased its registered capital from RMB506,550,000 to RMB602,400,000.

Save as disclosed in this prospectus, there has been no alteration in the share capital of any of our subsidiaries within the two years preceding the date of this prospectus.

2. FURTHER INFORMATION ABOUT THE BUSINESS

A. Summary of material contracts

The following contracts, considered material and not being contracts entered into in the ordinary course of business, have been entered into by us and/or our subsidiaries within the two years preceding the date of this prospectus:

(a) a restructuring agreement dated 14 January 2005 entered into between our Company and Shenhua Group relating to the Restructuring as further amended by a supplemental agreement dated 24 May 2005 entered into by the same parties, further details of which are set out in "Connected Transactions — Restructuring Agreement";

(b) a trademark licence agreement dated 14 January 2005 entered into between our Company and Shenhua Group, as amended by a supplemental agreement dated 24 May 2005 between the same parties, regarding the licensing of the trademarks owned by Shenhua Group to our Company, further details of which are set out in "Connected Transactions — Trademark Licence Agreement";

(c) a mining right transfer agreement dated 5 March 2005 entered into between our Company and Shenmu County Yujialiang Mine regarding the transfer of mining right from Shenmu County Yujialiang Mine to our Company;

(d) a mining right transfer agreement dated 11 March 2005 entered into between our Company and Baode County Qiaotou Coal Mine regarding the transfer of mining right from Baode County Qiaotou Coal Mine to our Company;

(e) a mining right transfer agreement dated 11 March 2005 entered into between our Company and Baode County Dongguan Township Coal Mine regarding the transfer of mining right from Baode County Dongguan Township Coal Mine to our Company;

(f) a strategic placing agreement dated 27 April 2005 entered into between our Company, Shenhua Group, the Joint Global Coordinators and Anglo American, further details of which are set out in "The Strategic and Corporate Placings";

(g) a corporate placing agreement dated 10 May 2005 entered into between our Company, Shenhua Group, the Joint Global Coordinators and Bank of China Group Investment Limited, further details of which are set out in"The Strategic and Corporate Placings";

(h) a corporate placing agreement dated 12 May 2005 entered into between our Company, Shenhua Group, the Joint Global Coordinators, Maniton and Mr. Yung Chi Kin, further details of which are set out in "The Strategic and Corporate Placings";

(i) a corporate placing agreement dated 12 May 2005 entered into between our Company, Shenhua Group, the Joint Global Coordinators, Hillwin and Dr. Lee Shau Kee, further details of which are set out in "The Strategic and Corporate Placings";

(j) a corporate placing agreement dated 12 May 2005 entered into between our Company, Shenhua Group, the Joint Global Coordinators, Bejoy Holdings and CITIC Pacific Limited, further details of which are set out in "The Strategic and Corporate Placings";

(k) a corporate placing agreement dated 15 May 2005 entered into between our Company, Shenhua Group, the Joint Global Coordinators, Chow Tai Fook Nominee and Dato Dr. Cheng Yu-Tung, further details of which are set out in "The Strategic and Corporate Placings";

(l) a corporate placing agreement dated 23 May 2005 entered into between our Company, Shenhua Group, the Joint Global Coordinators and Kerry Holdings, further details of which are set out in "The Strategic and Corporate Placings";

(m) a non-competition agreement dated 24 May 2005 entered into between our Company and Shenhua Group pursuant to which Shenhua Group agreed not to compete with us in our core business and granted us options and pre-emptive rights to acquire the Retained Businesses and certain future businesses from Shenhua Group, further details of which are set out in "Relationship With Shenhua Group — Competition — Non-competition Agreement";

(n) an export agency agreement dated 24 May 2005 entered into between our Company and Shenhua Group, regarding the appointment of Shenhua Trading as the non-exclusive agent of our Company for the export of our coal products, further details of which are set out in "Connected Transactions — Export Agency Agreement";

(o) an agency sales agreement dated 24 May 2005 entered into between our Company, Inner Mongolia Transportation and Sales and Shenhua Group regarding our appointment as the exclusive agent in the PRC for the sale of all the thermal coal produced by the Xisanju Companies and non-exclusive agent for all the coking coal produced by the Xisanju Companies, further details of which are set out in "Connected Transactions — Agency Sales Agreement for the Xisanju Companies";

(p) a mutual provision of production supplies and ancillary services agreement dated 24 May 2005 entered into between our Company and Shenhua Group, regarding the mutual provision of production supplies and ancillary services between Shenhua Group and us, further details of which are set out in "Connected Transactions — Mutual Provision of Production Supplies and Ancillary Services Agreement";

(q) a mutual supply of coal agreement dated 24 May 2005 entered into between our Company and Shenhua Group regarding the mutual provision of coal by Shenhua Group to us and by us to Shenhua Group, further details of which are set out in "Connected Transactions — Mutual Supply of Coal Agreement";

(r) a mutual supply agreement for coal products and services dated 24 May 2005 entered into between our Company and Shenhua Zhonglian Energy Holdings Co., Ltd regarding the mutual provision of coal products and coal washing services, further details of which are set out in "Connected Transactions — Zhonglian Mutual Supply Agreement";

(s) a properties leasing agreement dated 24 May 2005 entered into between our Company and Shenhua Group for the leasing of certain buildings and properties by us, further details of which are set out in "Connected Transactions — Properties Leasing Agreement";

(t) a land leasing agreement dated 24 May 2005 entered into between our Company and Shenhua Group for the leasing of certain parcels of land by us, further details of which are set out in "Connected Transactions — Land Leasing Agreement";

(u) a coal products supply agreement dated 24 May 2005 entered into between our Company and Dingzhou Power regarding the provision of coal products by our Company to Dingzhou Power, further details of which are set out in "Connected Transactions — Dingzhou Coal Supply Agreements";

(v) two entrustment loan agreements dated 24 May 2005 entered into between our Company, Shenhua Group and Dongcheng District Branch, Beijing, Industrial and Commercial Bank of China regarding the transfer of proceeds of two debenture issues by Shenhua Group from Shenhua Group to us by way of entrustment loan; and

(w) a Hong Kong Underwriting Agreement dated 1 June 2005 relating to the Hong Kong Public Offering entered into among our Company, the Hong Kong Underwriters and the Joint Global Coordinators.

B. Intellectual property

As at the Latest Practicable Date, we have obtained a licence to use the following trademarks pursuant to material contract (b) referred to in 2A of this section:

	Trademark[1]	Place of Registration	Class[2]	Registration Number	Valid Period
1	神華	PRC	1	1074245	14/08/1997-13/08/2007
2		PRC	1	1074247	14/08/1997-13/08/2007
3	神華	PRC	1	1074150	14/08/1997-13/08/2007
4		PRC	1	1074052	14/08/1997-13/08/2007
5	神華	PRC	4	1080718	21/08/1997-20/08/2007
6		PRC	4	1080715	21/08/1997-20/08/2007
7	神 華	PRC	6	1078684	14/08/1997-13/08/2007
8		PRC	6	1049500	07/07/1997-06/07/2007
9	神華	PRC	7	1041418	28/06/1997-27/06/2007
10		PRC	7	1041450	28/06/1997-27/06/2007
11	神華	PRC	13	1054899	14/07/1997-13/07/2007
12		PRC	13	1054850	14/07/1997-13/07/2007
13	神華	PRC	19	1074161	14/08/1997-13/08/2007
14		PRC	19	1074165	14/08/1997-13/08/2007

	Trademark[1]	Place of Registration	Class[2]	Registration Number	Valid Period
15	神華	PRC	35	1085571	21/08/1997-20/08/2007
16		PRC	35	1085570	21/08/1997-20/08/2007
17	神華	PRC	37	1079765	14/08/1997-13/08/2007
18		PRC	37	1079784	14/08/1997-13/08/2007
19	神華	PRC	39	1073815	07/08/1997-06/08/2007
20		PRC	39	1079709	14/08/1997-13/08/2007
21	神華	PRC	40	1079869	14/08/1997-13/08/2007
22		PRC	4-0	1079870	14/08/1997-13/08/2007
23	神華	PRC	42	1079579	14/08/1997-13/08/2007
24		PRC	42	1079580	14/08/1997-13/08/2007
25	神华	PRC	1	3223214	07/02/2004-06/02/2014
26	神华	PRC	4	3223208	21/09/2003-20/09/2013
27	SHENHUA	PRC	4	3223209	21/09/2003-20/09/2013
28	神华	PRC	6	3223207	07/04/2004-06/04/2014
29	神华 SHENHUA	PRC	6	3223206	07/04/2004-06/04/2014
30	神华	PRC	7	3223194	21/02/2004-20/02/2014

	Trademark[1]	Place of Registration	Class[2]	Registration Number	Valid Period
31	神华	PRC	13	3223195	14/12/2003-13/12/2013
32	SHENHUA	PRC	13	3223196	14/12/2003-13/12/2013
33	神华	PRC	19	3223211	21/10/2003-20/10/2013
34	神华 SHENHUA	PRC	19	3223210	21/02/2004-20/02/2014
35	神华	PRC	35	3223198	28/03/2004-27/03/2014
36	SHENHUA	PRC	35	3223199	28/03/2004-27/03/2014
37	神华	PRC	37	3223201	28/02/2004-27/02/2014
38	SHENHUA	PRC	37	3223200	28/02/2004-27/02/2014
39	神华	PRC	39	3223203	07/11/2003-06/11/2013
40	SHENHUA	PRC	39	3223202	07/11/2003-06/11/2013
41	神华	PRC	40	3223212	28/03/2004-27/02/2014
42	SHENHUA	PRC	40	3223213	28/03/2004-27/03/2014
43	神华	PRC	42	3223205	14/02/2004-13/02/2014
44	SHENHUA	PRC	42	3223204	14/02/2004-13/02/2014
45	国 华 **GUOHUA**	PRC	1	1616032	14/08/2001-13/08/2011
46	国 华 **GUOHUA**	PRC	2	1572115	21/05/2001-20/052011
47	国 华 **GUOHUA**	PRC	3	1600353	14/07/2001-13/07/2011

	Trademark[1]	Place of Registration	Class[2]	Registration Number	Valid Period
48	国 华 GUOHUA	PRC	4	1568173	14/05/2001-13/052011
49	国 华 GUOHUA	PRC	5	1560415	28/04/2001-27/04/2011
50	国 华 GUOHUA	PRC	6	1974732	28/11/2002-27/11/2012
51	国 华 GUOHUA	PRC	7	1978195	07/05/2003-06/05/2013
52	国 华 GUOHUA	PRC	8	1597874	07/07/2001-06/07/2011
53	国 华 GUOHUA	PRC	9	1991536	07/02/2003-06/02/2013
54	国 华 GUOHUA	PRC	10	1601516	14/07/2001-13/07/2011
55	国 华 GUOHUA	PRC	11	1634051	14/09/2001-13/09/2011
56	国 华 GUOHUA	PRC	12	1597937	07/07/2001-06/07/2011
57	国 华 GUOHUA	PRC	13	1586602	14/06/2001-13/06/2011
58	国 华 GUOHUA	PRC	14	1604671	21/07/2001-20/07/2011
59	国 华 GUOHUA	PRC	15	1564630	07/05/2001-06/05/2011
60	国 华 GUOHUA	PRC	16	1600648	14/07/2001-13/07/2011

	Trademark[(1)]	Place of Registration	Class[(2)]	Registration Number	Valid Period
61	国 华 GUOHUA	PRC	17	1640094	28/09/2001-27/09/2011
62	国 华 GUOHUA	PRC	18	1596737	07/07/2001-06/07/2011
63	国 华 GUOHUA	PRC	19	1593052	28/06/2001-27/06/2011
64	国 华 GUOHUA	PRC	20	1592925	28/06/2001-27/06/2011
65	国 华 GUOHUA	PRC	21	1620976	28/08/2001-27/08/2011
66	国 华 GUOHUA	PRC	22	1592899	28/06/2001-27/06/2011
67	国 华 GUOHUA	PRC	23	1544988	28/03/2001-27/03/2011
68	国 华 GUOHUA	PRC	24	1644992	07/10/2001-06/10/2011
69	国 华 GUOHUA	PRC	25	1660871	07/11/2001-06/11/2011
70	国 华 GUOHUA	PRC	26	1668680	21/11/2001-20/11/2011
71	国 华 GUOHUA	PRC	27	1673101	28/11/2001-27/11/2011
72	国 华 GUOHUA	PRC	28	1589044	21/06/2001-20/06/2011
73	国 华 GUOHUA	PRC	29	1607151	21/07/2001-20/07/2011

	Trademark(1)	Place of Registration	Class(2)	Registration Number	Valid Period
74	国 华 GUOHUA	PRC	30	1618810	14/08/2001-13/08/2011
75	国 华 GUOHUA	PRC	31	1578254	28/05/2001-27/05/2011
76	国 华 GUOHUA	PRC	32	1607460	21/07/2001-20/07/2011
77	国 华 GUOHUA	PRC	33	1579777	28/05/2001-27/05/2011
78	国 华 GUOHUA	PRC	34	1598673	07/07/2001-06/07/2011
79	国 华 GUOHUA	PRC	35	1703565	21/01/2002-20/01/2012
80	国 华 GUOHUA	PRC	36	1631704	07/09/2001-06/09/2011
81	国 华 GUOHUA	PRC	37	1551979	07/04/2001-06/04/2011
82	国 华 GUOHUA	PRC	38	1579835	28/05/2001-27/05/2011
83	国 华 GUOHUA	PRC	39	1583618	07/06/2001-06/06/2011
84	国 华 GUOHUA	PRC	40	1571945	14/05/2001-13/05/2011
85	国 华 GUOHUA	PRC	41	1603829	14/07/2001-13/07/2011
86	国 华 GUOHUA	PRC	42	1587987	14/06/2001-13/06/2011

	Trademark[1]	Place of Registration	Class[2]	Registration Number	Valid Period
87		PRC	1	1736094	28/03/2002-27/03/2012
88		PRC	2	1741329	07/04/2002-06/04/2012
89		PRC	3	1760055	07/05/2002-06/05/2012
90		PRC	4	1716343	21/02/2002-20/02/2012
91		PRC	5	1736431	28/03/2002-27/03/2012
92		PRC	6	1713576	14/02/2002-13/02/2012
93		PRC	7	1742550	07/04/2002-06/04/2012
94		PRC	8	1733675	21/03/2002-20/03/2012
95		PRC	9	1782860	07/06/2002-06/06/2012
96		PRC	10	1769020	14/05/2002-13/05/2012
97		PRC	11	1763073	07/05/2002-06/05/2012
98		PRC	12	1733793	21/03/2002-20/03/2012
99		PRC	13	1702406	21/01/2002-20/01/2012
100		PRC	14	1810718	21/07/2002-20/07/2012

	Trademark[1]	Place of Registration	Class[2]	Registration Number	Valid Period
101		PRC	15	1756360	28/04/2002-27/04/2012
102		PRC	16	1755630	28/04/2002-27/04/2012
103		PRC	17	1790038	21/06/2002-20/06/2012
104		PRC	18	1780950	07/06/2002-06/06/2012
105		PRC	19	1771023	21/05/2002-20/05/2012
106		PRC	20	1732882	21/03/2002-20/03/2012
107		PRC	21	1781037	07/06/2002-06/06/2012
108		PRC	22	1741238	07/04/2002-06/04/2012
109		PRC	23	1751079	21/04/2002-20/04/2012
110		PRC	24	1766290	14/05/2002-13/05/2012
111		PRC	25	1756780	28/04/2002-27/04/2012
112		PRC	26	1761425	07/05/2002-06/05/2012
113		PRC	27	1771386	21/05/2002-20/05/2012
114		PRC	28	1761356	07/05/2002-06/05/2012

	Trademark[1]	Place of Registration	Class[2]	Registration Number	Valid Period
115		PRC	29	1738512	28/03/2002-27/03/2012
116		PRC	30	1738923	28/03/2002-27/03/2012
117		PRC	31	1734916	21/03/2002-20/03/2012
118		PRC	32	1719368	21/02/2002-20/02/2012
119		PRC	33	1727176	07/03/2002-06/03/2012
120		PRC	34	1748696	14/04/2002-13/04/2012
121		PRC	35	1958612	21/09/2002-20/09/2012
122		PRC	36	1949199	28/08/2002-27/08/2012
123		PRC	37	1779433	28/05/2002-27/05/2012
124		PRC	38	1955991	28/08/2002-27/08/2012
125		PRC	39	1754158	21/04/2002-20/04/2012
126		PRC	40	1947862	28/09/2002-27/09/2012
127		PRC	41	1950085	21/07/2002-06/12/2012

	Trademark[(1)]	Place of Registration	Class[(2)]	Registration Number	Valid Period
128		PRC	42	1774728	21/05/2002-20/05/2012

(1) Of all the trademarks, the registry owner of the trademarks from No. 1 to No. 44 is Shenhua Group, the registry owner of the trademarks from No. 45 to No. 128 is Guohua Power Company Limited.

(2) Class 1 relates to silicon, sulphur, industrial chemicals and others. Class 2 relates to food colouring, dyes, paint and others. Class 3 relates to spices, cleaning agents and others. Class 4 relates to lubricants and fuels and others. Class 5 relates to medical and dental materials and bandages. Class 6 relates to railway materials, dyeing machines and other forms of machinery. Class 8 relates to agricultural tools, gardening equipment, hand tools and others. Class 9 relates to photocopiers, televisions, radiographic machines and others. Class 10 relates to surgical and dental equipment and others. Class 11 relates to air conditioners. Class 12 relates to cars and other vehicles. Class 13 relates to explosive materials, fireworks and others. Class 14 relates to gems, watches, jewellery and others. Class 15 relates to musical instruments. Class 16 relates to maps, books, painting materials and others. Class 17 relates to rubber and insulating materials, etc. Class 18 refers to bags, umbrellas, belts and others. Class 19 relates to clay, cement, construction glass. Class 20 relates to non-metallic goods. Class 21 relates to cosmetics and others. Class 22 relates to netting, fabric and others. Class 23 relates to rayon, textiles, etc. Class 24 relates to sanitation gloves and others. Class 25 relates to swimwear, hats, socks and others. Class 26 relates to fashion wear, lace and other fashion materials. Class 27 relates to wallpaper, non-textile ornaments, etc. Class 28 relates to chess, ice skating. Class 29 relates to milk-products, edible oils and certain other foodstuffs. Class 30 relates to coffee, tea and others. Class 31 relates to meat, fruit and vegetables and other foodstuffs. Class 32 relates to beverages. Class 33 relates to alcoholic beverages and others. Class 34 relates to smoking accessories and others. Class 35 relates to import and export agencies and others. Class 36 financial management, fund investment and others. Class 37 relates to construction and interior designing and others. Class 38 relates to telegraphic and satellite transmission. Class 39 relates to transportation, shipping agency and others. Class 40 relates to film development, water and air purifiers and others. Class 41 relates to education and sports equipment and others. Class 42 relates to geological exploration, safety consultation and others.

3. FURTHER INFORMATION ABOUT DIRECTORS, SENIOR MANAGEMENT AND STAFF

A. Directors' and Supervisors' interests and short positions in the share capital and debentures of our Company and its associated corporations

Immediately following the completion of the Global Offering, none of our Directors and Supervisors will have any interest or short position in the shares, underlying shares or debentures of us or any of our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to us and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to us and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, in each case once our H Shares are listed on the Hong Kong Stock Exchange. For this purpose, the relevant provisions of the SFO will be interpreted as if they applied to our Supervisors.

B. Substantial Shareholders and persons who have an interest or short position disclosable under Divisions 2 and 3 of Part XV of the SFO

Immediately following completion of the Global Offering, so far as our Directors are aware (and taking no account of H Shares which may be taken up pursuant to the Global Offering and H Shares which may be issued pursuant to the exercise of the Over-allotment Option), the persons who will have interests or short positions in our Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO once our H Shares are listed, or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group, are set out in the section headed "Substantial Shareholder" of this prospectus.

Save as disclosed herein, but not taking into account any H Shares which may be taken up under the Global Offering, our Directors are not aware of any legal person or individual (not being a Director or chief executive of our Company) who will, immediately following the completion of the Global Offering, have any interest or short position in our Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

C. Particulars of service agreements

Executive Directors and Supervisors

Each of our executive Directors and Supervisors has entered into a service agreement with our Company. Principal particulars of these agreements are summarised below.

(a) Each service agreement is for an initial term of three years commencing on 6 November 2004 (subject to termination in certain circumstances as stipulated in the relevant agreement). Under each agreement, either party may terminate the agreement at any time by giving to the other not less than one (1) month's prior written notice.

(b) Under the current arrangements, the aggregate remuneration payable to the Directors shall be approved by shareholders' meeting from time to time.

In addition, each of our executive Directors is entitled to social and welfare benefits provided under the relevant PRC laws and regulations (including, but not limited to, housing, food and childcare subsidy).

(c) Each of our executive Directors shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board regarding the amount of annual salary or management bonus payable to him.

D. Remuneration of Directors and Supervisors

(a) The aggregate amount of remuneration paid and benefits in kind granted to our Directors and our Supervisors in respect of the year ended 31 December 2004 was approximately RMB3.9 million and RMB1.2 million respectively.

(b) Under the existing arrangements currently in force, the aggregate remuneration payable to and benefits-in-kind received by our Directors and Supervisors in respect of the year ending 31 December 2005 are estimated to be approximately RMB3.4 million and RMB1.4 million, respectively.

E. Related party transactions

Our Group entered into the related party transactions within the two years immediately preceding the date of this prospectus as mentioned in Note 29 in Section V of the Accountants' Report in Appendix I to this prospectus, and "Connected Transactions".

F. Disclaimers

Save as disclosed in this prospectus as at the Latest Practicable Date:

(a) so far as the Directors are aware, none of the Directors, Supervisors or the President of our Company had, as at the Latest Practicable Date, any interest or short position in any shares, underlying shares or debentures of, our Company or any associated corporation (within the meaning of Part XV of the SFO) which would be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which would be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which would be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Hong Kong Listing Rules, in each case once our H Shares are listed on the Hong Kong Stock Exchange. (For this purpose, the relevant provisions of the SFO applicable to the Directors are interpreted as if they also applied to the Supervisors);

(b) none of the Directors or Supervisors nor any of the persons whose names are listed in the paragraph headed ''Consent of experts'' under the section headed ''Other Information'' in this Appendix:

   (i) is interested in the promotion of our Company, or in any assets which have within the two years immediately preceding the issue of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group; or

   (ii) is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group;

(c) none of the persons whose names are listed in the paragraph headed ''Consents of experts'' under the section headed ''Other Information'' in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;

(d) none of the Directors or Supervisors has entered or has proposed to enter into any service agreements with our Company or any members of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation); and

(e) no cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this prospectus to the Promoter of our Company nor is any such cash, securities or benefit intended to be paid, allotted or given on the basis of the Global Offering or related transaction as mentioned in this prospectus.

4. OTHER INFORMATION

A. Estate duty and tax

Our Directors have been advised that no material liability for estate duty under the laws of the PRC, or Hong Kong, would be likely to fall upon us.

B. Litigation

Our Group is a defendant in certain lawsuits and is a plaintiff in other proceedings which have arisen in the ordinary course of its business. While the outcome of such contingencies, lawsuits or proceedings cannot be determined at present, we believe that any resulting liabilities will not have a material adverse effect on the financial position or operating results of our Group.

No member of our Group is engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation/arbitration or claim of material importance or claim in relation to our extraction rights is known to the Directors to be pending or threatened against any member of our Group.

C. Sponsors

The Joint Sponsors have made an application on behalf of our Company to the Listing Committee of the Hong Kong Stock Exchange for listing of, and permission to deal in, our H Shares to be issued as mentioned herein, including any H Shares falling to be issued pursuant to the exercise of the Over-allotment Option. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

Even though no mandate letter has been signed, Deutsche Bank AG, Hong Kong Branch, one of the Joint Sponsors, has been assisting Shenhua Group on the proposed project in Mongolia referred to in pages 149 and 150 of the prospectus.

We have in accordance with Rule 3A.19 of the Hong Kong Listing Rules retained the Joint Sponsors as our joint compliance advisers.

D. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately RMB33 million and are payable by our Company.

E. Particulars of the Selling Shareholder

Shenhua Group, an enterprise legal person established in the PRC and located at 22 Andingmen Xibinhe Road, Dongcheng District, Beijing, China, is offering 278,500,000 H Shares in the Global Offering. Up to an additional 41,775,000 H Shares will be sold by Shenhua Group if the Over-allotment Option is exercised in full.

F. Promoter

Our Promoter is Shenhua Group. Save as disclosed in this prospectus, no cash, securities or other benefit had been paid, allotted or given within the two years preceding the date of this prospectus, or proposed to be paid, allotted or given, to the Promoter in connection with the Global Offering or the related transactions described in this prospectus.

G. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
China International Capital Corporation (Hong Kong) Limited	Deemed licensed under the SFO for type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) as defined under the SFO
Deutsche Bank AG, Hong Kong Branch	Deemed registered institution under the SFO registered for type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) as defined under the SFO and a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)
Merrill Lynch Far East Limited	Deemed licensed under the SFO for type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) as defined under the SFO
KPMG	Certified public accountants
American Appraisal China Limited	Property valuer
King & Wood	PRC lawyers
John T. Boyd Company	Mining and geological consultants

H. Consents of experts

The Joint Sponsors, KPMG, American Appraisal China Limited, King & Wood and John T. Boyd Company previously have given and have not withdrawn their written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or valuation certificates and/or the references to their names included herein in the form and context in which they are respectively included.

I. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance insofar as applicable.

J. Exceptions from Companies Ordinance provisions and parallel Rules under the Hong Kong Listing Rules

We have applied to SFC for an exemption from strict compliance with paragraph 34(2) of the Third Schedule to the Companies Ordinance and to the Hong Kong Stock Exchange for a waiver from strict compliance with Rules 5.01, 5.06(1) and 5.06(3) and paragraph 3(a) of Practice Note 16 of the Hong Kong Listing Rules, respectively, on the ground that it would not be practical and would be unduly burdensome for us to comply strictly with the relevant provisions of the Hong Kong Listing

Rules and the Companies Ordinance by stating all the particulars required in those provisions in the valuation report set out in Appendix IV to this prospectus, and the inclusion of such detailed information would not be useful to investors as we are not a property company.

The exemption is granted by the SFC under section 342A(1) of the Companies Ordinance and the waiver is granted by the Hong Kong Stock Exchange from Rules 5.01, 5.06(1) and 5.06(3) and paragraph 3(a) of Practice Note No. 16 of the Hong Kong Listing Rules, subject to the following conditions:

(a) the full valuation report in English complying with all applicable requirements under the Hong Kong Listing Rules and paragraph 34 of the Third Schedule to the Companies Ordinance be made available for inspection in accordance with paragraph (e) of Appendix X to this prospectus; and

(b) the valuer's letter and the valuer's certificate containing a summary valuation of all our property interests be included in this prospectus, such summary to be prepared based on the full valuation report and in the same form as that set out in Appendix IV to this prospectus.

K. Miscellaneous

(a) Save as disclosed in this prospectus:

(i) within the two years preceding the date of this prospectus, no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) no founders, management or deferred shares of our Company or any of its subsidiaries have been issued or agreed to be issued;

(iv) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of its subsidiaries; and

(v) there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2004 (being the date to which the latest audited financial statements of our Group were made up).

(b) None of the parties listed in paragraph 8 of this Appendix:

(i) is interested beneficially or non-beneficially in any shares in any member of our Group; or

(ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of our Group.

(c) No company within our Group is presently listed on any stock exchange or traded on any trading system.

(d) All necessary arrangements have been made to enable the H Shares to be admitted into CCASS for clearing and settlement.

(e) We do not intend to apply for the status of a Sino-foreign investment joint stock limited company.

(f) Our Company has no outstanding convertible debt securities.

L. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by Section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were copies of the WHITE and YELLOW Application Forms, the written consents referred to in the paragraph 4H of Appendix IX and copies of the material contracts referred to in paragraph 2A of Appendix IX.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Herbert Smith at 23rd Floor, Gloucester Tower, 11 Pedder Street, Hong Kong during normal business hours up to and including 16 June, 2005:

(a) the Articles of Association (both English and Chinese versions);

(b) the accountants' report prepared by KPMG, the text of which is set out in Appendix I, together with the related statement of adjustments;

(c) the report on unaudited pro forma financial information prepared by KPMG, the text of which is set out in Appendix II;

(d) the letters relating to the profit forecast of the Company, the texts of which are set out in Appendix III;

(e) the letter dated 2 June 2005 and valuation certificates relating to our property interests prepared by American Appraisal China Limited, the text of which are set out in Appendix IV and the full valuation report of American Appraisal China Limited referred to in ''Business — Properties'' in this prospectus;

(f) the report of the independent technical consultant, John T. Boyd Company, which is set out in Appendix V;

(g) the PRC Company Law, the Special Regulations, the Mandatory Provisions together with unofficial English translation thereof;

(h) the material contracts referred to in paragraph 2A of Appendix IX;

(i) the written consents referred to in paragraph 4H of Appendix IX;

(j) a list containing name, address and description of the Selling Shareholder;

(k) the PRC legal opinion issued by King & Wood, the legal advisers to our Company on PRC law dated 2 June 2005, confirming that in their opinion, the summary of relevant PRC laws and principal regulatory provisions set out in Appendix VII is a correct summary of the relevant PRC laws and regulatory provisions; and

(l) the service contracts between the Directors and the Company relating to the terms of appointment of the Directors referred to in paragraph 3C of Appendix IX.

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