

Capital Expenditure

(I) Status of Capital Expenditure in 2005

The table below sets out the status of capital expenditure of the Company for the year ended 31 December 2005:

	Planned <i>RMB million</i>	2005		
		%	Actual <i>RMB million</i>	%
Coal segment	11,424	56.1	13,609	61.7
Mines	5,256	25.8	8,562	38.8
Railways	3,493	17.2	2,669	12.1
Ports	2,675	13.1	2,378	10.8
Power segment	8,930	43.9	8,447	38.3
Corporate and others	–	–	4	<0.1
Capital expenditure in total	20,354	100.0	22,060	100.0

* Capital expenditure is the total cost incurred (including amounts paid and payable) during the year to acquire assets that are expected to be used for more than one period.

Total capital expenditure of the Company in 2005 was RMB22.060 billion of which RMB1.740 billion was used in maintenance capital expenditure. Out of the capital expenditure in 2005, RMB8.562 billion was used in the coal mining business, mainly for the purchase of mining rights, mine construction and purchase of coal mining equipment. RMB2.669 billion was used in the coal transportation business, mainly for the development of Huangwan Rail Line as well as the development of Tianjin Coal Dock, which accounted for RMB0.860 billion and RMB1.600 billion, respectively. The remaining expenditure was attributable to the capacity expansion and redevelopment of railways and ports. RMB8.447 billion was used in new construction projects of our power business, mainly including Phase I of Ninghai Power Plant (RMB3.470 billion), power generation units No. 3-5 of Taishan Power Plant (RMB2.140 billion) and the Phase I of Huanghua Power Plant (RMB1.710 billion). Currently, each of the new construction and technology upgrading projects is progressing smoothly and their construction progress and quality are under control. It is expected the construction will be completed according to the scheduled plan.

In 2005, the aggregate amount of the proceeds from the IPO used for capital expenditure was RMB5.779 billion. RMB3.369 billion was used in coal mining business, mainly for mine construction in the Shendong Mines as well as Wanli Mines and the purchase of coal mining equipment. RMB0.870 billion was used in coal transportation business mainly for the upgrade of capacity expansion technology in the Shenshuo Rail Line and the construction of Huanghua Port and Tianjin Coal Dock. RMB1.487 billion was used as capital for power business, mainly including Phase I of Ninghai Power Plant, power generation units No. 3-5 of Taishan Power Plants and Phase I of Huanghua Power Plant.

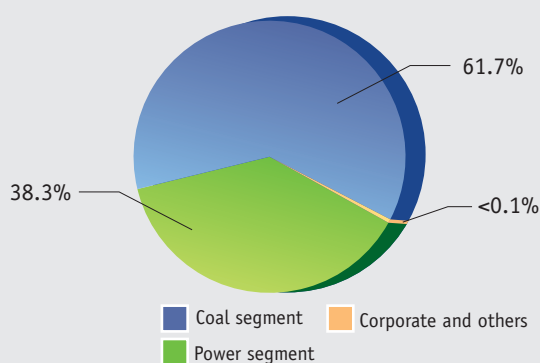
(II) Capital Expenditure Plan for 2006

The table below sets out the capital expenditure plan of the Company for 2006:

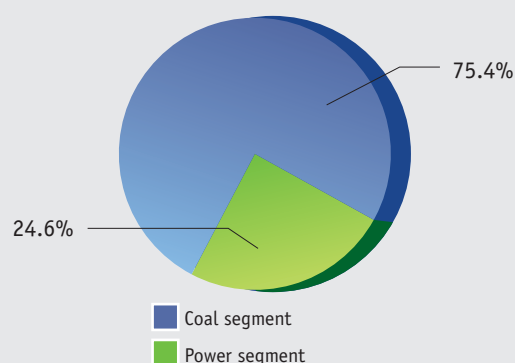
	2005		2006	
	Actual RMB million	%	Planned RMB million	%
Coal segment	13,609	61.7	15,055	75.4
Mines	8,562	38.8	10,462	52.4
Railways	2,669	12.1	3,058	15.3
Ports	2,378	10.8	1,535	7.7
Power segment	8,447	38.3	4,921	24.6
Corporate and others	4	<0.1	–	–
Capital expenditure in total	22,060	100.0	19,976	100.0

Total planned capital expenditure of the Company in 2006 is RMB19.976 billion, of which maintenance capital expenditure is expected to be RMB2.146 billion. Out of the capital expenditure for 2006, RMB15.055 billion is expected to be used in its coal business, while RMB4.921 billion is expected to be used in the power generation business.

2005 Actual Capital Expenditure



2006 Planned Capital Expenditure



Capital Expenditure



1. Major Projects of Coal Business

(1) Shendong Mines

Capital expenditure is planned to be RMB4.41 billion, which will be used mainly to maintain, expand and upgrade the production capacity of the Shendong Mines. The capital expenditure is principally to be used in the capacity expansion of Shigetai mine to reach an expected annual production capacity of 10 million tonnes per year in 2007; the restructuring and expansion of the mines in Shangwan, Bulianta and Huhewusu – Erlintu so that the total annual production capacity of these mines will be increased to 30 million tonnes per year in 2007; and the purchase of coal mining equipment.

(2) Wanli Mines

Capital expenditure is planned to be RMB3.18 billion which will be used mainly for constructing a new mine in the Wanli Mines. The mine is expected to be fully completed by 2008 with production capacity of 20 million tonnes per year. In the meantime, we will continue to enhance the production capacity and efficiency of all production mines of the Wanli Mines through technological upgrades.

(3) Zhunge'er Mines

Capital expenditure is planned to be RMB2.57 billion which will be used mainly for installing walking draglines in the Heidaigou Mine, upgrading facilities and purchasing of equipment. It is expected the walking draglines will be used for coal production in the first half of 2007, which will further enhance the production capacity of the Heidaigou Mines. Meanwhile, we will commence construction of Ha'erwusu open-cut mine with a production capacity of 20 million tonnes per year. The mine is expected to commence production in 2008.

(4) Shengli Mines

Capital expenditure is planned to be RMB300 million which will be used mainly for continuing the development and construction of open-cut mines.

(5) Railways

Capital expenditure is planned to be RMB3.06 billion to continue to strengthen the capability of our railway transportation network. We will continue the construction of roads, bridges and post construction projects as well as rail installation for the Huangwan Rail Line which is expected to be completed by the end of 2006. The rail line leading to the Tianjin Coal Dock, with a total length of 8 km, is an ancillary railway connecting Huangwan Rail Line and Tianjin Coal Dock and is expected to be completed together with Huangwan Rail Line and Tianjin Coal Dock by the end of 2006. A new coal transportation railway of Dazhun Rail Line of approximately 18 km, which will connect with Ha'erwusu open-cut mine, is expected to be completed in 2007. The project for installing an extra rail line will commence in order to increase the transportation capacity of certain lines of Dazhun Rail Line. This project will increase the transportation capacity of extension lines and certain lines of the Baoshen Rail Line. Technology upgrade and purchase of equipment will be made to increase the capacity of Shenshuo Rail Line. We will also construct railway vehicle maintenance centers and purchase new trucks and equipment to increase transportation capacity.

1. Development of Shendong Mines
2. Coal storage of Ninghai Power Plant
3. Exterior of Ninghai Power Plant



(6) Ports

Capital expenditure is planned to be RMB1.54 billion, which will be used to expand the capacity of the ports. The amount will mainly be used for the construction of Tianjin Coal Dock and to increase the throughput capacity of Huanghua Port. Tianjin Coal Dock will commence operations by the end of 2006, with an annual throughput capacity of 35 million tonnes.

2. Major Projects of Power Generation Business

Capital expenditure is planned to be RMB4.92 billion which will be used mainly for the completion of power plants under construction, including Phase I of Ninghai Power Plant (RMB1.77 billion), power generation units No. 3-5 of Taishan Power Plant (RMB1.26 billion), the Phase I of Huanghua Power Plant (RMB1.33 billion), and technology upgrades in operating power plants such as increased desulphurisation technology (RMB560 million).

The current plan of the Company for the future capital expenditure is subject to the development of the Company's business plans (including potential acquisition), progress of the Company's capital projects, market conditions, the Company's view of the future business conditions and the obtaining of necessary certificates and regulatory documents. Except as required by law, the Company does not assume any obligation for updating the information on its capital expenditure plan.

The Company plans to provide funds for capital expenditure through cash generated from operating activities, short-term and long-term borrowings, part of the proceeds from the IPO and other debt and equity financing.