*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, our business is located in China and we are governed by a legal and regulatory environment that may differ from that which prevails in other countries and jurisdictions. Our business, financial condition or results of operations could be materially and 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.*

There are certain risks involved in our operations and many of these risks are beyond our control. These risks can be characterized as: (i) risks relating to China's coal industry and our businesses; (ii) risks relating to the Peoples' Republic of China; and (iii) risks relating to the Global Offering.

## RISKS RELATING TO CHINA'S COAL INDUSTRY AND OUR BUSINESSES

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

As a significant percentage of our revenue is derived from coal and coal-related operations, our business and results of operations are substantially dependent on the domestic and international supply of and demand for coal. Historically, the domestic and international markets for coal and coal-related products have at times experienced alternating periods of increased demand and excess supply. The fluctuations in supply and demand are caused by numerous factors beyond our control, which include, but are not limited to:

- global and domestic economic and political conditions and competition from other energy sources;
- the rate of growth and expansion in industries with high coal demand, such as the power and steel industries; and
- the indirect influence on domestic coal prices by the PRC Government through its regulation of on-grid tariffs and the allocation of transportation capacity on the national rail system.

There can be no assurance that the domestic or international demand for coal and coal-related products will continue to grow, or that the domestic or international markets for coal and coal-related products will not experience excess supply. A significant decline in demand for, or an over-supply of, coal and coal-related products may have a material adverse effect on our business, results of operations and financial condition.

***Our business operations are extensively impacted by the policies and regulations of the PRC Government. Any policy or regulatory changes may cause us to incur significant compliance costs.***

We, like other coal producers in China, are subject to extensive national, provincial and local governmental regulations, policies and controls. The liabilities, costs, obligations and requirements associated with these laws and regulations may be significant and may delay the commencement of, or cause interruptions to, our operations. Failure to comply with the relevant laws and regulations in our mining operations may even result in the suspension of our operations and thus adversely and materially affect our business and results of operations. Additionally, there can be no assurance that the relevant government agencies will not change such laws or regulations or impose additional or more stringent laws or regulations. Compliance with such laws or regulations may require us to incur significant capital expenditures or other obligations or liabilities. Specific governmental policies and regulations that have a significant effect on our operations include:

**Mining safety regulations.** The SACMS is responsible for implementing and supervising the implementation of the relevant safety laws and regulations applicable to coal mines and coal mining operations, as well as conducting regular safety supervision and inspections of coal producers pursuant to the applicable production safety and mining safety laws and regulations. Coal producers that fail to comply with the relevant safety laws and regulations are subject to fines, penalties or even suspension of operations. We cannot predict the timing or the outcome of such safety inspections. If we fail to comply with the relevant safety laws and regulations or fail to pass the SACMS safety inspections, there could be material adverse effects on our corporate image, the reputation and credibility of our management, our financial condition and results of operations. Any remedial measures we are required to adopt may be costly and would adversely impact our financial condition.

**Environmental protection policies.** We are subject to extensive and increasingly stringent environmental protection laws and regulations that impose fees for the discharge of waste substances, require the establishment of reserves for reclamation and rehabilitation, and impose fines for serious environmental offences. The PRC Government, adopting a rigorous approach when enforcing the applicable laws and regulations and implementing increasingly stringent environmental standards, may shut down any facility that fails to comply with orders requiring it to correct or cease operations that raise environmental concerns. If we fail to comply with existing or future environmental laws and regulations, we may be required to pay penalties or fines or take remedial actions, any of which could have a material adverse effect on our business, operations, financial condition and results of operations.

**License and export quota system.** Our export of coal and coke is subject to an export permit and quota system. In both 2005 and 2006, the nationwide export quota for coal was set at approximately 80.0 million tonnes, of which the NDRC and MOFCOM have allocated 38.2 million tonnes to ChinaCoal Group. Furthermore, in both 2005 and 2006, the nationwide export quota for coke was set at approximately 14.0 million tonnes, of which the MOFCOM has allocated 650,000 tonnes in 2005 and 570,000 tonnes in 2006 to ChinaCoal Group. If the PRC Government were to reduce the national export quota as a whole and/or the export quota allocated to ChinaCoal Group, our overseas sales may decline, which could adversely affect our financial condition and results of operations if we cannot increase our domestic coal and coke sales to compensate for the reduction in overseas sales.

**Coal exploration and mining rights.** The exploration and exploitation of coal reserves in China are subject to the approval of, and registration with, the relevant PRC Government authorities. In seeking to obtain an exploration license, a coal producer may either apply directly to the MLR or participate in a public bidding process. Once the initial exploration reveals a deposit worthy of development, the exploration license holder must apply to the MLR in order to obtain a mining right permit. We cannot assure you that we will be successful in procuring the necessary exploration rights, that any initial exploration work will reveal a deposit worthy of development, or that we will be successful in procuring the necessary mining right permit. Failure to procure exploration or exploitation and mining rights could have a material adverse effect on our business and results of operations.

In addition, the NAO from time to time performs audits on state-owned enterprises, such as ChinaCoal Group, our parent company. ChinaCoal Group has not yet been audited by the NAO during the Track Record Period. We cannot predict whether ChinaCoal Group will be the subject of a future audit, nor can we predict whether material irregularities with respect to ChinaCoal Group's businesses will be found.

As substantially all of ChinaCoal Group's businesses are transferred to our Company, the discovery of such irregularities in these businesses may materially adversely affect our corporate image, the reputation and credibility of our management and our business and financial condition.

***Our continuing success depends on our ability to continue acquiring and developing coal resources and obtaining the relevant mining rights and land use rights.***

Our continuing success depends on our ability to conduct successful exploration and development activities at our existing mines and properties and to acquire valuable recoverable coal resources.

Recoverable reserves at our existing mines decline as we produce coal. According to the SRK Report, as of 30 June 2006, we had a total of 3,420.0 million tonnes of total recoverable reserves. Based on the recoverable reserves and our 2005 production levels, we expect to be able to achieve stable production for the next 68 years. Over time, we may not be able to mine our reserves as profitably as we do currently. In addition, our reserve estimates may change substantially if new information subsequently becomes available. Variations in recovery rates due to factors such as geological conditions and level of technology may ultimately result in revisions to our estimated reserves, and fluctuations in commodities prices and changes in production costs may impact the extent, degree and probability of success of our exploitation activities. If these factors were to result in a substantial reduction of our recoverable reserves at one or more of our major mines, it could materially and adversely affect our financial condition, results of operations and prospects. For more information on our reserves, including the qualifications to the SRK Report, see "Appendix VI — Independent Technical Report".

Our strategies also include acquiring additional mining rights to develop, explore and exploit new coal reserves. We intend to increase our reserve base through applications for new coal reserves, mergers and acquisitions of and joint venture investments in other mines and cooperation with other mine operators. However, we do not have specific timetables for these plans and we cannot assure you that our planned development and exploration projects and acquisition initiatives will result in significant additional reserves or that we will have continuing success developing additional mines. Most of our mining operations are conducted on properties to which we own or lease land use rights. In addition, in order to develop our reserves, we must receive various governmental permits. See "Regulations". We cannot predict whether we will continue to receive the permits or be granted the rights necessary for us to operate profitably in the future.

***Our business requires significant and continuous capital investment. Our capital investment projects are subject to governmental approval, may exceed our original budgets, may not generate the expected benefits or may not be completed.***

We are in the process of constructing new coal mines and ancillary facilities located at the Pingshuo Mining Area, the Liliu Mining Area, the Datun Mining Area, the Nanliang Mining Area and the Xiangning Mining Area. According to the SRK Report, we incurred RMB1,435.0 million, RMB1,503.0 million and RMB1,581.0 million, respectively, as capital expenditures for our coal operations in the years ended 31 December 2003, 2004 and 2005. We are also investing in construction and capacity expansion projects for coking facilities. Our plans to develop new mining and production projects and to upgrade and expand our facilities require significant capital expenditures. We estimate that the total capital expenditures required for our development and expansion projects until the end of 2008 may be as much as RMB20.6 billion. See "Business" and "Financial Information". Furthermore, like all large enterprises in China, our expansion and development projects are subject to the PRC Government's approval. We cannot assure you that the PRC

Government will grant us the necessary approvals for each of our projects. If we are not granted the required approvals in time or at all, we may not be able to execute our expansion and development projects as planned.

We have in the past funded our capital expenditures primarily by cash generated from our operations and through long-term bank loans. We cannot assure you that the cash generated from our operations will be sufficient to fund our development and expansion plans. We may also require further funding for debt servicing, working capital, investments, potential acquisitions, joint ventures and other corporate requirements. External funding is subject to various factors that are beyond our control, including market conditions, the PRC Government's approval, credit availability and interest rates. If we are unable to secure sufficient external funds to finance our capital investment projects, our business, financial condition and results of operations could be materially and adversely affected. Additionally, actual capital expenditures for our capital investment projects may significantly exceed our budgets because of various factors beyond our control. If our actual capital expenditures for investment projects significantly exceed our budgets, or even if our budgets were sufficient to cover these projects, we may not be able to achieve the intended economic benefits of these projects, which in turn may materially and adversely affect our financial condition, results of operations and prospects. Even if we complete the expansion, development and construction projects as planned, we cannot assure that such projects will be as profitable as expected.

***We may experience a shortage of reliable and adequate transportation capacity for our coal products and any increase in transportation costs could have a material adverse effect on our business and results of operations.***

Like other coal producers, we depend upon a combination of rail, sea and road transportation to deliver coal to our customers. Of the various means of coal transportation, railway transportation is the principal method we utilize. During the Track Record Period, a substantial amount of our coal was delivered via major railways to domestic customers or to seaports for trans-shipping. In addition to a 180-km rail line that Shanghai Datun Energy legally and validly owns and operates for transporting coal products produced in the Datun Mining Area, we also own and operate four other mine railways used for coal transportation. We cannot assure you that transportation capacity on the major rail lines we generally utilize for the transportation of our coal products, which is currently allocated by the PRC Government, will continue to be sufficient for our operations. If we cannot secure sufficient railway transportation capacity and are unable to secure economically feasible alternative transportation methods to transport our coal products during disruptions of transportation systems caused by weather-related or other problems beyond our control, such as accidents, capacity constraints or other events, our results of operations may be materially and adversely impacted.

The development of China's railway system has not fully kept pace with the coal industry's transportation requirements, and there have been instances in certain areas of China where railway transportation capacities could not meet demand. We have in the past experienced delays in securing transportation capacity or rail cars. The PRC Government is in the course of increasing rail capacity to relieve the pressure caused by the increasing demand for railway transportation. However, we cannot assure you that we will continue to be allocated sufficient rail transport capacity or that we will not experience any significant delay in transporting our products.

Like other coal producers in China, transportation costs represent a significant portion of our total cost of coal. Any significant increase in our transportation costs could have a negative effect on the competitiveness of our coal and coal-related products, which may in turn have an adverse effect on our business and results of operations.

***The coal reserve data in this Prospectus are estimates and may be inaccurate, and hence our projected future production volumes, revenue and capital expenditures, which are based on these estimates, may differ materially from actual figures.***

We base our production, revenue and expenditure plans on our coal reserve data. The coal reserve data were estimated by us based on the result of geographical exploration, and were reviewed and verified by SRK. The coal reserve data are only estimates and may differ materially from our actual mining results. There are many factors, assumptions and variables beyond our control that result in inherent uncertainties in estimating reserves. Our actual volume of reserves and rates of production may be different from these estimates.

Fluctuations in the price of coal, production costs and transportation costs of coal or a variation in recovery rates may render it necessary to revise the estimates of coal reserves. If such a revision results in a substantial reduction in recoverable reserves at one or more of our major mines, it could materially and adversely affect our results of operations, financial condition and growth prospects. For more information on our reserves, including the qualifications to the SRK Report, see "Appendix VI — Independent Technical Report".

***Accidents at our mines or other neighboring coal mines could materially and adversely affect our business and the safety of our coal operations.***

Underground mining activities are inherently dangerous if the mines have high concentrations of methane gas, as such activities may result in explosions caused by sparks. Some of the coal mines we currently operate are underground mines, and a small number of them such as the Shaqu Mine in the Liliu Mining Area operated by the Huajin Joint Venture have high concentrations of methane gas. Higher concentrations of methane gas increase the likelihood of accidents.

To prevent underground gas explosions at our coal mines, we control our coal mining operations and the amount of coal we produce based in part on the methane gas concentration and the proper functioning of the ventilation system in our underground coal mines in compliance with the PRC Government's safety requirements. We cannot assure you that the safety measures we currently implement in our mines and the ventilation and methane gas sensor systems we utilize are sufficient to prevent all possible accidents such as gas explosions. An accident at any of our underground mines may have a material adverse effect on our financial condition, results of operations and corporate image.

In addition, mining accidents or safety hazards occurring at neighboring mines operated by local, small mining companies could have a severe impact on our coal mining operations and even create safety hazards in our coal mines. With the involvement of local governments, we are currently negotiating with the mining companies that operate these adjacent mines regarding the possibility of consolidating their operations in order to achieve safer production and higher production efficiency. However, there can be no assurance that such integration can be achieved. The occurrence of any accident at these neighboring mines could interfere with and materially and adversely affect our business as well as the safety of our coal mining operations.

***We may not have sufficient insurance coverage against potential operational risks.***

Our business operations, particularly our coal mining operations, involve significant risks and occupational hazards that are inherent in such activities and may not be completely eliminated through the implementation of preventive measures. These risks and hazards could result in personal injury, damage to or destruction of properties or production facilities, environmental damage, business interruption, possible legal liability, damage to our business reputation and corporate image and, in severe cases, fatalities. The average fatality rate of all of our mines, measured by the number of fatalities that occurred in our operational mines for every million tonnes of raw coal we produced, was 0.12, 0.15 and 0.08 during the years ended 31 December 2003, 2004 and 2005, respectively. We cannot guarantee that safety-related accidents will not occur in the future due to adverse operating conditions. Adverse operating conditions that we may experience include:

- unexpected safety-related mining accidents, including fires;
- mining and processing equipment failures and unexpected maintenance problems;
- unfavorable weather conditions; and
- unorganized mining activities by local small mining companies conducted in the surrounding areas of our operational mines or mines under development.

Any of the foregoing could have an adverse effect on our operations and revenue, or increase our production costs, thereby reducing our profit derived from our operations.

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. None of our mining operating assets, including our longwall and continuous miner units, coal processing plants and coal loading equipment, are covered by any property insurance. See "Business — Insurance." Losses incurred or payments we may be required to make may have a material adverse effect on our financial condition and results of operations to the extent such losses or payments are not insured or the insured amount is not adequate. Moreover, consistent with what we believe is the industry standard, we do not carry any business interruption insurance or third party liability insurance.

***There may be significant reductions in purchases by our major customers and/or terminations of our long-term sales contracts.***

We sell coal produced by us and resell coal purchased from third parties on a trading basis. In 2005, a substantial amount of our coal sales were made under long-term sales contracts. These long-term sales contracts are therefore important to the stability and profitability of our operations. As of the Latest Practicable Date, our long-term coal sales contracts generally had remaining terms ranging from one to five years. If a substantial portion of our long-term sales contracts expires or is terminated and we are unable to either renew these contracts or to enter into new contracts with alternative buyers at comparable prices and on comparable terms, or at all, our financial condition and results of operations may be materially and adversely affected.

We rely on our major customers for a substantial portion of our revenue. For the years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2005 and 2006, we derived 25.0%, 25.2%, 22.9%, 24.9% and 37.9%, respectively, of our total revenue from sales to our five largest external customers, which include large power plants and steelmakers. If any one of these customers significantly reduces its purchases of coal from us or if we are unable to sell coal to them on similarly favorable terms or at all, our financial condition and results of operations may be materially and adversely affected.

***We may be unable to compete effectively against other coal producers and sellers.***

We operate in a competitive market. Competition in the coal industry is based on factors such as price, production capacity, coal type and quality, transportation capability and costs, blending capability and brand name recognition. We face competition in both the domestic and international markets from other large domestic and foreign coal mining companies and coal traders. Such domestic and foreign competitors may have greater access to financial resources, higher levels of integration, better operating efficiency, more advanced technologies, or longer operating histories. Some of the domestic coal mining companies compete for the rights to obtain and exploit coal reserves. These companies may have greater coal production capacities, lower transportation costs, and greater financial, marketing, distribution and other resources than we do. If we are unable to improve our product quality and price competitiveness, maintain our operating efficiency and control our costs in connection with our expansion, raw materials and energy usage, our growth opportunities may be limited and our revenue and profitability may be adversely affected.

We cannot guarantee that future increases in competition in both the domestic and foreign markets will not have a material adverse effect on our financial condition and results of operations.

***Our indebtedness may materially and adversely affect our financial performance and results of operations.***

Our substantial indebtedness could affect our financial performance. We have relied upon both short-term and long-term borrowings to fund a substantial portion of our capital expenditures and operations and expect to continue to do so in the future. As of 31 December 2005, we had total borrowings of approximately RMB10.7 billion. As of 30 June 2006, we had total borrowings of approximately RMB11.6 billion. Our ability to repay the principal and pay the interest on our debt depends substantially on the operating performance of our subsidiaries, which in turn depends on the general conditions of the domestic and global economy and the economic conditions of the particular market segments they serve, many of which are beyond our control. We cannot assure you that our business will generate sufficient cash flow from our operations or that future borrowings under our revolving credit facilities will continue to be available to enable us to service our debt or to fund our other liquidity needs. Moreover, we may incur additional debt to fund our planned capital expenditures and future projects. The level of our indebtedness could have important consequences to you, including, but not limited to: (i) limiting our ability to pay dividends and satisfy our debt obligations; (ii) increasing our exposure to general adverse economic and industry conditions; (iii) limiting our ability to obtain additional financing to fund future capital expenditures, working capital, research and development or other business development and expansion projects; (iv) requiring us to set aside a substantial portion of cash flow from our operations for the repayment of the principal of, and the interest on, our indebtedness, thereby reducing the availability of cash flow to fund capital expenditures, working capital, research and development or other business development expansion projects; and (v) limiting our ability to plan for, or react to, changes in our business.

We may be required to sell assets, seek additional capital or restructure or refinance our debt as a result of changes in our operating conditions. If we are unable to service our debt, such inability could result in an event of default which, if not cured or waived, could have a material adverse effect on our business, financial condition and results of operations.

***Our dividend distributions to our existing shareholders made prior to the completion of the Global Offering should not be treated as indicative of our Company's future dividend policy. These dividend distributions before the Global Offering may adversely impact the total value of our assets and your investment.***

In accordance with the *"Provisional Regulations Relating to Corporate Reorganization of Enterprises and Related Management of State-owned Capital and Financial Treatment"* (the *"Provisional Regulations"*) issued by the MOF, we are required to make a distribution to ChinaCoal Group, our sole shareholder prior to the Global Offering, in the amount equal to the difference in our Company's net asset value as at 1 October

2005, the date immediately following our last valuation date, and as at 21 August 2006, the date immediately prior to the date on which our Company was incorporated.

On 23 August 2006, we resolved, as a commercial decision, to make the Special Dividends distributable to ChinaCoal Group, which is equal to all of our distributable profits generated from 22 August 2006 to the date at the end of the month prior to the date of capital verification for the Global Offering.

Holders of our H Shares under the Global Offering will not be entitled to the Pre-establishment Distribution or the Special Dividends. ChinaCoal Group is the only shareholder entitled to the Pre-establishment Distribution and the Special Dividends. In addition, any distributable profits available for distribution to our shareholders after the Global Offering will exclude the Pre-establishment Distribution and the Special Dividends. The payment of the Pre-establishment Distribution and the Special Dividends may adversely impact the total value of our assets and your investment.

The Pre-establishment Distribution and the Special Dividends are not indicative of the dividends that our Company may declare or pay in the future. We cannot guarantee whether and when any dividends will be paid in the future and the amount of dividends that we have declared historically are not indicative of the dividends that we may pay in the future. Details of our Company's dividend policy after completion of the Global Offering are set out in the section headed "Financial Information — Dividend policy". The declaration, payment and the amount of any future dividends will be at the discretion of our Board and will depend upon general business conditions and strategies, our financial results and capital requirements, the interests of our shareholders, taxation conditions, statutory and regulatory restrictions and other factors that our Board deems relevant.

As stipulated under PRC law, dividends may be paid only out of distributable profits, which are our retained earnings, as determined in accordance with PRC GAAP and IFRS, whichever is lower, less allocations to our statutory and discretionary common reserve funds. Any distributable profits that are not distributed in a given year will be retained and available for distribution in subsequent years. The calculation of distributable profits under PRC GAAP is different from the calculation under IFRS in certain respects. As a result, our operating subsidiaries may not have distributable profits as determined under PRC GAAP, even if they have profits for that year as determined under IFRS, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries to enable us to make dividend distributions to our shareholders in the future, including in respect of periods in which our financial statements indicate that our operations have been profitable.

***Our profitability and ability to operate our business effectively are dependent on the fulfillment by ChinaCoal Group of its obligations under certain agreements entered into in connection with our Restructuring.***

In connection with the Restructuring, we entered into certain agreements with ChinaCoal Group, including a Non-Competition Agreement, the Restructuring Agreement and a number of connected transaction agreements. See "Relationship with ChinaCoal Group" and "Connected Transactions".

Under the Non-Competition Agreement, ChinaCoal Group agreed that, other than the Group Retained Businesses described under "Relationship with ChinaCoal Group", it will not compete with our core businesses. ChinaCoal Group also granted us options and pre-emptive rights to acquire the Group Retained Businesses and certain future businesses from ChinaCoal Group. Under the Coal Export and Sales Agency Framework Agreement, we appointed ChinaCoal Group as our non-exclusive export and sales agent for the export of our coal products. We also entered into the Services Agreement with ChinaCoal Group whereby

ChinaCoal Group appointed us as its exclusive coal export services provider to provide all export-related services to other coal producers which are ancillary to and required for coal exports. In addition, ChinaCoal Group agreed under the Restructuring Agreement to indemnify us for losses and expenses arising from certain matters that have been agreed upon. The fulfillment by ChinaCoal Group of contractual obligations pursuant to these agreements may therefore have a significant impact on our profitability and ability to operate our business effectively. Failure by ChinaCoal Group to fulfill its obligations under any of these agreements may have a material adverse effect on our financial condition, results of operations and future prospects.

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

After the Global Offering, ChinaCoal Group will own approximately 68.25% of our outstanding shares. As a controlling shareholder, ChinaCoal Group will be able to direct the election of all of the members of our Board of Directors and exercise a controlling influence over our business and affairs, including, but not limited to, decisions with respect to:

- mergers or other business combinations;
- the acquisition or disposition of assets;
- the issuance of any additional shares or other equity securities;
- the timing and amount of dividend payments; and
- management of our Company.

As our directors may serve concurrently as managers or officers of ChinaCoal Group, there may be an appearance of conflicts of interest. Furthermore, we cannot give any assurance that the directors appointed by ChinaCoal Group will always vote in a way that is in the best interest of our other shareholders.

***Any material dispute between our Company and a joint venture partner may adversely affect the results of operations of the relevant joint venture company and our Company.***

Among the assets transferred to us by ChinaCoal Group are certain joint venture companies, including the Huajin Joint Venture and Shaanxi Nanliang Coal Co., Ltd. If a dispute arises between any such joint venture partner and us in connection with the performance of the party's obligations or the scope of a party's responsibilities under the relevant joint venture agreement, the parties may not be able to resolve their differences through negotiation or arbitration. In the event such a material dispute cannot be resolved in a timely manner, the business and operations of the relevant joint venture company may suffer, and the joint venture agreement may even be terminated by mutual consent of the parties or as a result of a material breach by one of them.

We cannot guarantee that we and any such joint venture partner will continue to agree on management matters due to possible conflicts of interest, and any disagreement may result in a dispute between us and the relevant joint venture partner. In the event of a deadlock at a board meeting of such joint venture company, if we cannot resolve the disagreement in a timely manner through the dispute resolution mechanisms provided in our joint venture agreements, such deadlock may cause the board of directors of the relevant joint venture company to fail to make, or delay in making, an important decision, which may adversely affect the financial condition and results of operations of that joint venture company.

Any of the foregoing events could have a material adverse effect on our financial condition and results of operations.

***Our Company has a limited operating history as an independent entity, which may affect the efficiency of our operations and your ability to evaluate our business and growth potential.***

We were established on 22 August 2006 as a result of the Restructuring, under which ChinaCoal Group transferred to us substantially all of its assets, liabilities and interests in relation to its coal, coking, coal mining equipment manufacturing and other operations in exchange for an equity interest in us in the form of state-owned shares. We have a limited operating history as a separate operating entity, which may impact your ability to evaluate our business and prospects. As each of the subsidiaries of ChinaCoal Group that merged into us had different operating histories, we may experience difficulties in integrating our various business operations to function as a single entity. We may also experience difficulties in managing our future growth and the increased scale of our operations. To take full advantage of the integration of our operations and capture the resulting synergies, we plan to expand the scope of our operations through capital investments and expansions, including the construction of new coal mines and coal processing plants for the production of thermal coal and coking coal. Such expansions and the need to integrate new operations may place a significant strain on our managerial, operational and financial resources. If we are unable to manage our growth efficiently or fully integrate the new operations with our existing operations, our financial condition, results of operations and prospects could be materially and adversely affected.

The development of our management and internal control measures has largely coincided with the evolution of our principal businesses. As we transition from a coal trading company to a diversified business platform integrating coal production and sales, there has been an increasing emphasis on management and internal control mechanisms to address issues relating to coal production, such as mining safety and environmental protection and financial reporting. We are currently working on improving our internal control measures, including: (i) standardizing control policies and procedures among each of our operating segments; (ii) generating more detailed operating data of each operating segment; and (iii) raising the level of experience among our financial and accounting staff. We cannot assure you that we will be able to design and implement an effective management structure and internal control mechanisms that timely and adequately respond to our expanded scope of operations, or that we will be able to implement our reorganization and restructuring plan efficiently or successfully.

***Our coal mining equipment manufacturing business may be materially and adversely affected by an economic downturn in the domestic coal industry or a decrease in domestic coal consumption, and our coal mining equipment may subject us to product liability claims.***

We are the largest coal mining equipment manufacturer in China based on our 2005 sales revenue. At present, a significant portion of our coal mining equipment sales is derived from domestic sales to major Chinese coal producers. The demand for coal mining equipment is largely driven by the overall business environment of the coal mining industry. A significant decrease in market demand for coal or in coal consumption will likely have a material and adverse effect on the overall business environment of the coal mining industry, which would in turn adversely affect demand for our coal mining equipment.

In addition, if coal mining equipment manufactured by us proves to be defective and results in our customer's financial losses and/or personal injuries, we may be subject to product liability claims under PRC laws. We do not carry product liability insurance and have not implemented any other similar remedy scheme. We cannot give any assurance that we or any of our subsidiaries engaged in the manufacturing of coal mining equipment will not be exposed to future product liability claims. If any such claim is successful, our business and results of operations may be materially and adversely affected.

***Our coking operations are dependent on the domestic and international supply of and demand for coke and may be affected by macro-economic regulations and controls.***

Our revenues from coking operations are substantially dependent on the domestic and international supply of, and demand for, coke. The coking industry depends heavily on demand from steelmakers. A decrease in steel prices and steel production in the domestic market could cause a reduction in demand for coking coal and thus adversely affect our financial position and results of operations. In early 2004, the PRC Government implemented macro-economic control measures with an aim to tightening control over investment and over-production in, among other industries, the steel industry. These measures have resulted in a decrease in domestic demand for coking coal and coal-related products, such as coke.

We cannot assure you that the domestic or international demand for coke will continue to grow, or that the domestic or international markets for coke will not experience excess supply, both of which would have a negative impact on our coke operations. Moreover, continuing or further macro-economic measures implemented by the PRC Government may have a material adverse effect on our business, results of operations and financial condition.

***We have not obtained the land use rights and building ownership rights to some of our mining sites and facilities.***

As of the Latest Practicable Date, we have not obtained land use rights and building ownership rights to some of our mining sites and facilities, including: (i) 12 parcel of land which a total site area of approximately 0.77 million $m^2$ for which ChinaCoal Group has not established proper legal title and for which we are in the process of applying for the relevant land use rights certificates; (ii) 160 buildings with a total gross floor area of approximately 0.12 million $m^2$ for which ChinaCoal Group or its relevant subsidiaries does not have proper building ownership certificates; and (iii) 13 buildings that we leased from ChinaCoal Group and third parties that the landlords have not obtained proper building ownership certificates. As the coal mines and the coal and coking facilities are our main assets and operating facilities, our operating rights and production in connection with such mines or facilities may be adversely impacted if any third party claims that it is the legal or beneficiary owner of any of these lands or facilities. We cannot give any assurance that such ownership dispute or claim will not occur. If any such dispute or claim occurs, our business operations and our financial condition could be materially and adversely affected. In addition, there is no assurance that we would not be subject to any claims (including lawsuits) for compensation in respect of any illegal and/or unauthorized use of lands owned by third parties.

***There is no assurance that our Company, our subsidiaries or our jointly controlled entities will continue to benefit from preferential tax treatment.***

Under the current laws of the PRC, each of our Company, our subsidiaries and jointly controlled entities is subject to PRC income tax. The normal statutory PRC enterprise income tax rate is 33% of taxable income as determined in accordance with the relevant PRC income tax laws and regulations. However, PRC state and local tax laws provide for a number of preferential tax treatments applicable to different enterprises, industries and locations. We are currently subject to an income tax rate of 33%, while some of our subsidiaries and jointly controlled entities are currently subject to various preferential income tax rates, which has resulted in effective tax rates for our Company of 28.1%, 23.1%, 17.6%, 19.7% and 29.8% for the years ended

31 December 2003, 2004 and 2005 and the six months ended 30 June 2005 and 2006, respectively. There is no assurance that members of our Company will continue to benefit from preferential tax treatment previously and currently enjoyed by them. Any change in, or termination of, preferential tax treatment may result in an increase in our tax liability, which would have a negative impact on our net profits.

***Exports of certain of our products are subject to new export tax policies, which may adversely affect our business and financial position.***

The PRC Government announced on 14 September 2006 that the export tax refund for coal products applied to domestically produced coal would be terminated on 15 September 2006. All export coal products sold under sales contracts signed on or before 14 September 2006 may continue to be entitled to the full export tax refund if the corresponding coal export custom declaration was completed on or before 14 December 2006, and if the sales contracts were registered with the relevant tax authority before 30 September 2006. For the years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006, we enjoyed export tax refunds for coal products in the amounts of RMB155.5 million, RMB155.5 million, RMB138.7 million and RMB54.3 million, respectively. As of 30 June 2006, we had RMB31.1 million in export tax receivables for our coal products and the Directors of our Company believe that the existing export tax receivables can be fully recovered by fulfilling the legal requirements of the export tax refund. However, according to the newly issued coal export tax refund policy, we will not be able to enjoy similar refunds in the future. As such, our financial position may be adversely affected depending on the volume of coal we will export in the future.

In addition, in order to further encourage the import of resource-related commodities and commodities that are beneficial to the development of new technology, and also to control the export of resources and products involving high energy costs and high pollution, the Customs Tariff Committee of the State Council issued the "*Notice on Adjusting the Provisional Import and Export Tariff Rate of Certain Commodities*" (the "*Notice*") on 27 October 2006, which took effect on 1 November 2006. Under the *Notice*, certain coal and coke products exported by us will be subject to a 5% provisional export duty. The increased export tax on certain of our products may have a material and adverse effect on our operations.

***Any changes in the political and economic conditions in the Asia-Pacific region may adversely affect our business and operations.***

Our business includes sales of coal, coke products and coal mining equipment to overseas customers. Our overseas customers are mainly located in countries and territories in the Asia-Pacific region, such as Japan, South Korea and China Taiwan. See "Business" and "Appendix I — Accountants' Report". Changes in political or economic conditions in the Asia-Pacific region are difficult to predict. In particular, if the economic conditions in countries in which our overseas customers are located worsen as a result of changes in the Asia-Pacific region's overall economy, our overseas sales volumes could be substantially reduced, resulting in a negative effect on our results of operations, which may reduce our revenues. For example, the recession that many Asia-Pacific countries and regions experienced in 1998 and early 1999 was characterized by currency fluctuations, liquidity shortages and an overall economic decline. Declining economic growth rates in the future may reduce our revenues, causing us to be unable to invest the appropriate expenditures in the construction and development of mines and related mining equipment and facilities. Such events may negatively impact our business and results of operations over time.

Our Asia-Pacific operations also expose us to additional risks inherent in international operations, including:

- difficulties in enforcing agreements and collecting receivables through some Asian legal systems;

- fluctuations in foreign currency exchange rates, which may adversely affect our results of operations and the value of our Asian assets and investments; and
- implementation of foreign exchange controls or other restrictions.

Any of the above risks may adversely affect our financial condition and results of operations.

## RISKS RELATING TO THE PEOPLE'S REPUBLIC OF CHINA

Substantially all of our assets are located in China and a significant amount of our revenue is sourced from China. Accordingly, our results of operations, financial condition and prospects are to a significant degree subject to economic, political and legal developments in China.

***Adverse changes in China's economic, political and social conditions as well as governmental policies could have a material adverse effect on China's overall economic growth, which could in turn adversely affect our financial condition and results of operations.***

The Chinese economy differs from the economies of most developed countries in many respects, including: (i) structure; (ii) level of government involvement; (iii) level of development; (iv) growth rate; (v) control of foreign exchange; and (vi) allocation of resources. The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. For the past two decades, the PRC Government has implemented economic reform measures emphasizing the utilization of market forces in the development of the Chinese economy. We cannot predict whether changes in China's political, economic and social conditions, laws, regulations and policies will have any material adverse effect on our current or future business, financial condition and results of operations.

***Changes in foreign exchange regulations and future movements in the exchange rate of Renminbi may adversely affect the financial condition and results of operations of our Company and our ability to pay dividends.***

Current foreign exchange regulations have already significantly reduced the PRC Government's foreign exchange control on routine transactions under the current account, including trade and service-related foreign exchange transactions and payment of dividends. Under the existing foreign exchange regulations in the PRC, following 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, there is no assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future.

Our combined revenue is denominated in RMB, but our revenue derived from overseas sales to customers in the Asia Pacific Region is denominated in foreign currencies. We purchase equipment and spare parts for our equipment from overseas equipment suppliers in foreign currencies, mainly U.S. dollars. As a result, our operations are exposed to the fluctuation of exchange rates of the RMB against these foreign currencies. The value of the RMB may fluctuate due to a number of factors. Since 1994, the conversion of RMB into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on the rate set by the PBOC and the official exchange rate for the conversion of RMB to U.S. dollars has generally been stable. On 21 July 2005, the revaluation of the RMB resulted in an appreciation of the RMB against the U.S. dollar and the Hong Kong dollar by approximately 2%, and the RMB has appreciated by approximately an additional 3% since that date. As of 21 July 2005, the RMB was no longer pegged to the U.S. dollar but to a basket of currencies. The relaxation of the RMB-U.S. dollar peg may contribute to the volatility or increased fluctuations in the value of RMB. Further appreciation of RMB or any shortage of foreign currency may have an adverse impact on our overseas sales, operating costs and financial conditions and may cause imported products which compete with those of our Company to be relatively less expensive for Chinese consumers. Conversely, depreciation of the RMB would adversely affect the value of, and dividends, if any, payable on, the H Shares by our Company in foreign currency terms.

***The PRC legal system is continuously evolving and has inherent uncertainties, and the legal protections available to our shareholders may be limited.***

Our Company was incorporated under PRC law. As substantially all of our businesses are conducted in the PRC, our operations are governed principally by PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be cited as reference. Since 1979, the PRC Government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial laws. However, due to the fact that these laws and regulations have not been fully developed, and due to the limited volume of published cases and their non-binding nature, the interpretation of PRC laws and regulations still involves a degree of uncertainty.

As a PRC company offering and listing its H Shares outside the PRC, we are subject to the Special Regulations and the Mandatory Provisions. Upon the listing of the H Shares on the Hong Kong Stock Exchange, the Hong Kong Listing Rules will become the principal basis for protection of shareholders' rights. The Hong Kong Listing Rules impose particular standards of conduct and disclosure on our Company, our Directors and the controlling shareholders of our Company. As far as we are aware, China has not published any case report that involves a request by a holder of H shares of a PRC company to exercise his or her rights under any constitutional document of any joint stock company with limited liability, the Company Law or any regulatory provisions of the PRC applicable to PRC joint stock limited companies.

***It may be difficult to enforce any judgments obtained from non-PRC courts against our Company or our Directors, Supervisors or senior executive officers residing in China.***

The legal framework to which our Company is subject is materially different from the Companies Ordinance or corporate law in Hong Kong and other jurisdictions, including the United States, with respect to certain areas, including the protection of minority shareholders. In addition, the mechanisms for enforcement of rights under the corporate governance framework to which our Company is subject are also relatively undeveloped and untested. However, in 2005, the PRC Company Law was amended to allow shareholders to commence an action against the directors, supervisors, officers or any third party on behalf of a company under certain circumstances, but as far as we are aware, China has not published any case report of such shareholders' derivative action under the newly amended PRC Company Law.

Although we will be subject to the Hong Kong Listing Rules and the Hong Kong Codes on Takeovers and Mergers and Share Repurchases, upon the listing of the H Shares on the Hong Kong Stock Exchange, the holders of H Shares will not be able to bring actions on the basis of violations of the Hong Kong Listing Rules and must rely on the Hong Kong Stock Exchange to enforce its rules. The Hong Kong Codes on Takeovers and Mergers and Share Repurchases do not have the force of law and only provide standards of acceptable commercial conduct for takeover and merger transactions and share repurchases in Hong Kong.

China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with countries such as the United States, the United Kingdom and Japan, and therefore enforcement in the PRC of judgments of a court in these jurisdictions may be difficult or impossible. The Articles of Association and the Hong Kong Listing Rules provide that most disputes between holders of H Shares and our

Company, our Directors, Supervisors or officers arising out of the Articles of Association or PRC Company Law and related regulations concerning its affairs, such as the transfer of its H Shares, are to be resolved through arbitration.

There is currently no reciprocal recognition and enforcement of judicial decisions between the PRC and Hong Kong. Although the PRC and Hong Kong signed the "*The Arrangements Relating to Reciprocal Recognition and Enforcement of Civil and Commercial Judgments between the PRC and Hong Kong Pursuant to Choice of Court Agreements Between Parties Concerned*" on 14 July 2006, this arrangement is only another model to assist the judicature on reciprocal recognition over civil and commercial judgments between the PRC and Hong Kong and is not currently an effective rule or regulation. Once the PRC and Hong Kong enact the relevant legislation and implement the corresponding legal processes, each will announce the respective effective and execution dates. In addition, on 18 June 1999, an arrangement was made between Hong Kong and the PRC for the reciprocal enforcement of arbitral awards. This arrangement, made in accordance with the spirit of the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, was approved by the Supreme Court of the PRC and the Hong Kong Legislative Council and became effective on 1 February 2000. Under the arrangement, awards that are made by the PRC arbitral authorities recognized under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong, and awards made by Hong Kong arbitral authorities are also enforceable in the PRC. However, so far as we are aware, no action has been brought in the PRC by a holder of H Shares to enforce an arbitral award made by the PRC arbitral authorities or Hong Kong arbitral authorities, and there are uncertainties as to the outcome of any action brought in the PRC to enforce an arbitral award made in favor of a holder of H Shares.

***The exemption from withholding tax on dividends and income available to holders of H Shares may not continue in the future.***

Under current PRC tax laws, regulations and rulings, dividends paid by our Company to holders of H Shares outside the PRC are currently exempt from PRC income tax. In addition, gains realized by holders of H Shares upon the sale or other disposition of H Shares are currently exempted from PRC income tax. If the exemptions are withdrawn in the future, holders of H Shares may be required to pay PRC income tax, or we may be required to withhold such tax from dividend payments. Such PRC income tax or withholding tax on dividends is currently imposed at the rate of 20%, unless there is an applicable tax treaty between the PRC and the jurisdiction in which such overseas holders of H Shares reside which reduces or exempts the relevant tax.

***Concerns over China's high growth and measures taken by the PRC Government may lead to an increase in interest rates and a slowdown in economic growth.***

In response to concerns regarding China's high rate of growth in industrial production, bank credit, fixed investment and money supply, the PRC Government has taken measures to slow down economic growth to a more manageable level. Among the measures that the PRC Government has taken are restrictions on bank loans in certain sectors. These measures and any additional such measures, including a possible increase in interest rates, could contribute to a slowdown in the Chinese economy.

***There may be an occurrence of a widespread public health problem, such as SARS.***

An outbreak of any widespread public health problem in China, such as SARS, could have a negative effect on our operations and results. Our operations may be affected by a number of health-related factors, including quarantines or closures of some of our offices and manufacturing facilities, travel restrictions, the sickness or death of our key officers and employees, import and export restrictions and a general slowdown in China's economy.

## RISKS RELATING TO THE GLOBAL OFFERING

***There has been no prior public market for the H Shares. The liquidity and market price of the H Shares following the Global Offering may be volatile.***

Prior to the Global Offering, there has been no public market for the H Shares. The initial price range issued to the public for the H Shares was the result of negotiations among our Company and the Underwriters, and the Offer Price may differ significantly from the market price for the H Shares following the Global Offering. We have applied to list and deal in the H Shares on the Hong Kong Stock Exchange. There is no assurance that the Global Offering will result in the development of an active, liquid public trading market for the H Shares. In addition, the price and trading volumes of the H Shares may be volatile. Factors such as variations in our revenue, earnings and cash flows or any other developments of our Company may affect the volume and price at which the H Shares will be traded.

***Because the Offer Price is higher than the net tangible book value per share of our Company, the holders of the H Shares will incur immediate dilution.***

The Offer Price of the H Shares is higher than the net tangible book value per Share. Therefore, purchasers of the H Shares in the Global Offering will experience an immediate dilution in net tangible book value per H Share.

***Disposal of the H Shares by NSSF or transfer of Shares held on our domestic share register into H Shares following the listing of the H Shares may result in an increase in the number of H Shares available on the market and may affect the price of the H Shares.***

Pursuant to the approvals of the relevant PRC authorities, ChinaCoal Group is required to transfer to NSSF such number of Domestic Shares as shall in the aggregate be equivalent to 10% of the number of Offer Shares. These Domestic Shares will be converted into H Shares on a one-for-one basis upon completion of the Global Offering and will be held by NSSF immediately thereafter. NSSF will retain approximately 324,637,000 H Shares, representing approximately 2.9% of our total issued share capital, if the Over-allotment Option is not exercised, or 373,333,000 H Shares, representing approximately 3.2% of our total issued share capital if the Over-allotment Option is exercised in full. There is no legal restriction on NSSF to transfer or dispose of such H Shares following the listing of the H Shares. The above-mentioned arrangement will result in an increase of the number of H Shares available on the market if NSSF disposes of its H Shares and such increase may, directly or indirectly, affect the trading price of the H Shares following completion of the Global Offering. For further details, see "Share capital — Transfer of shares to NSSF".

Subject to the approval of the State Council securities regulatory authority, Shares held on our domestic share register may be transferred to overseas investors, and such transferred Shares may be listed or traded on an overseas stock exchange. Any listing or trading of the transferred Shares on an overseas stock exchange shall also comply with the regulatory procedures, rules and requirements of such stock exchange. No class shareholder voting is required for the listing and trading of the transferred Shares on an overseas stock exchange. Therefore, transfer of Shares held on our domestic share register into H Shares following the listing of the H Shares may result in an increase in the number of H Shares available on the market and could negatively impact the market price of our H Shares.

***Shareholders' interests may be diluted as a result of additional equity fund-raising.***

We may need to raise additional funds in the future to finance further expansion of or new developments relating to our existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to existing shareholders, the percentage ownership of such shareholders in our Company may be reduced and/or such new securities may confer rights and privileges that take priority over those conferred by the H Shares.

***Forward-looking information included in this Prospectus may prove inaccurate.***

This Prospectus contains certain forward-looking statements and information relating to us and the subsidiaries comprising our Company that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this Prospectus, the words "aim," "anticipate", "believe", "continue", "could", "estimate", "expect", "going forward", "intend", "ought to", "may", "plan", "potential", "predict", "project", "seek", "should", "will", "would" and similar expressions, as they relate to our Company or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our Company's management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this Prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our Company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business prospects;
- our future debt levels and capital needs;
- future developments, trends and conditions in China's coal and coal-related products market;
- our strategy, plans, objectives and goals;
- general economic conditions;
- changes to regulatory or operating conditions in the market in which we operate;
- our ability to reduce costs;
- capital market developments;
- the actions and developments of our competitors;
- certain statements in "Financial Information" with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates; and
- other statements in this Prospectus that are not historical fact.

We do not intend to update these forward-looking statements.

***We cannot guarantee the accuracy of facts, forecasts and other statistics with respect to China, the Chinese economy and China's coal and coal-related industries contained in this Prospectus.***

Facts, forecasts and other statistics in this Prospectus relating to China, the Chinese economy and China's coal and coal-related industry have been derived from official government publications and we can guarantee neither the quality nor the reliability of such source materials. They have not been prepared or independently verified by our Company, the Underwriters or any of its or their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts or statistics, which may not be consistent with other information compiled within or outside China. The Joint Sponsors and our Directors have reproduced the data and statistics extracted from such official government publications in a reasonably cautious manner. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies and should not be relied upon. Further, there is no assurance that they have been stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts, forecasts or statistics.

***We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering.***

Prior to the publication of this Prospectus, there has been press and media coverage regarding us and the Global Offering, including news articles published in *The Standard*, *Sing Tao Daily*, *Hong Kong Economic Times* and *Apple Daily* on 21 November 2006, which included certain financial information, financial projections, valuations and other information about us that does not appear in the Prospectus. We have not authorized the disclosure of any such information in the press or media. We do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this Prospectus is inconsistent or conflicts with the information contained in this Prospectus, we disclaim it. Accordingly, prospective investors should not rely on any such information. In making your decision as to whether to purchase our H Shares, you should rely only on the financial, operational and other information contained in this Prospectus.