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HISTORY AND DEVELOPMENT

We were established as a joint stock limited company under the PRC Company Law on 22 August 2006 following the restructuring of our Controlling Shareholder, ChinaCoal Group, in preparation for the Global Offering. ChinaCoal Group is a State-owned enterprise. Pursuant to the Restructuring Agreement entered into between ChinaCoal Group and us, ChinaCoal Group transferred to us substantially all of the assets, liabilities and interests of its coal operations, coking operations, coal mining equipment manufacturing operations and other related operations in exchange for our Shares. ChinaCoal Group currently owns all of our Shares and, upon completion of the Global Offering, will own an approximately 68.25% interest in us. Further details of the Restructuring are set forth below under “Our Restructuring”.

The predecessor to ChinaCoal Group, China National Coal Import and Export Corporation (中國煤炭進出口總公司), was a State-owned enterprise established in December 1981, whose primary business focus was import and export trading of coal products. China National Coal Import and Export Corporation (中國煤炭進出口總公司) changed its name to China National Coal Industry Import and Export Corporation (中國煤炭工業進出口總公司) in 1992, and to China National Coal Industry Imp. & Exp. Group Corp. (中國煤炭工業進出口集團公司) in 1997. In 1998, Pingshuo Coal Industry Company (平朔煤炭工業公司), China National Coal Sales and Transportation Corporation (中國煤炭銷售運輸總公司), China National Local Coal Mines Corp. (中國地方煤礦總公司) and China Coal Production Technology Development Corporation (中煤生產技術開發公司) were merged into China National Coal Industry Imp. & Exp. Group Corp. (中國煤炭工業進出口集團公司).

China National Coal Industry Imp. & Exp. Group Corp. (中國煤炭工業進出口集團公司) underwent further reorganization from 1999 to 2003. Pursuant to the approvals by the authorities of the PRC Government, Datun Coal and Electricity (Group) Limited-Liability Company (大屯煤電(集團)有限責任公司), China Coal Mining Engineering Equipment Group Corporation (中國煤礦工程機械裝備集團公司), Beijing Coal Mining Machinery Factory (北京煤礦機械廠), Zhangjiakou Coal Mining Machinery Co., Ltd. (張家口煤礦機械有限公司), China National Comprehensive Coal Utilization Group Corporation (中國煤炭綜合利用集團公司), China National Coal Materials Industrial Group Corp. (中國煤炭物產集團公司), and China Coal Construction Group Corporation (中煤建設集團公司) merged with China National Coal Industry Imp. & Exp. Group Corp. (中國煤炭工業進出口集團公司) during this period. Following the reorganization mentioned above, China National Coal Industry Imp. & Exp. Group Corp. (中國煤炭工業進出口集團公司) changed its name to China National Coal Group Corporation (中國中煤能源集團公司), or ChinaCoal Group, in 2003.

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We underwent the Restructuring in preparation for the Global Offering. Pursuant to the Restructuring Agreement effective on 5 September 2006, ChinaCoal Group transferred to us substantially all of the assets, liabilities and interests of its coal operations, coking operations, coal mining equipment manufacturing operations and other operations in exchange for our Shares. The specific assets and businesses ChinaCoal Group transferred to us include its entire interests in:

- 12 coal mines, comprising nine mines in operation and three mines under development. The mines transferred by ChinaCoal Group to us are all located in the Shanxi, Shaanxi and Jiangsu provinces, including the Pingshuo Mining Area, the Datun Mining Area (through Shanghai Datun), the Liliu Mining Area, the Xiangning Mining Area (through its 50% interest in Huajin Joint Venture) and the Nanliang Mining Area;

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- 13 coal processing plants;
- substantially all businesses related to coal production and sales;
- substantially all businesses associated with coal trading;
- five coking plants, and substantially all businesses related to coke production, sales and trading activities;
- four coal mining equipment manufacturing plants, and substantially all businesses related to coal mining equipment manufacturing operations; and
- two mine design institutes and substantially all businesses related to coal mine design.

Pursuant to the Restructuring Agreement, ChinaCoal Group also transferred to us substantially all assets and liabilities in connection with the above businesses, including the relevant licenses and approvals, contractual rights and obligations, employees, and business and financial books and records. Following the Restructuring, we have focused our business activities on our four core business segments as set out in “— Our corporate structure” below, and have initiated the centralization and integration of various management functions across our businesses.

ChinaCoal Group retained the following businesses and their related assets, liabilities and interests: (i) equity interests in certain coal gas, coke and coking coal operations and in certain coal-based chemicals manufacturing and sales operations; (ii) operations of the Mines under Restructuring; (iii) coal mine and civil engineering construction operations; (iv) coal bed methane development operations; (v) provision of coal export agency services and a small amount of coal trading and agency services business of certain overseas trading companies; (vi) community functions such as schools and hospitals; (vii) a small amount of investment in equity and some non-operational assets; and (viii) other non-core operations including real estate and hotel development and management.

In consideration of the assets and businesses transferred to us, we issued 8.0 billion Domestic Shares to ChinaCoal Group upon our incorporation. Such Domestic Shares represent our entire issued share capital immediately before the Global Offering. Upon completion of the Global Offering, assuming no exercise of the Over-allotment Option, ChinaCoal Group will own approximately a 68.25% interest in us.

In accordance with the relevant regulations of the PRC Government, we are required to make a distribution to ChinaCoal Group in the amount equal to the difference in our Company’s net asset value as of 1 October 2005, the date immediately following our last valuation date, and as of 21 August 2006, the date immediately prior to the date on which our Company was incorporated.

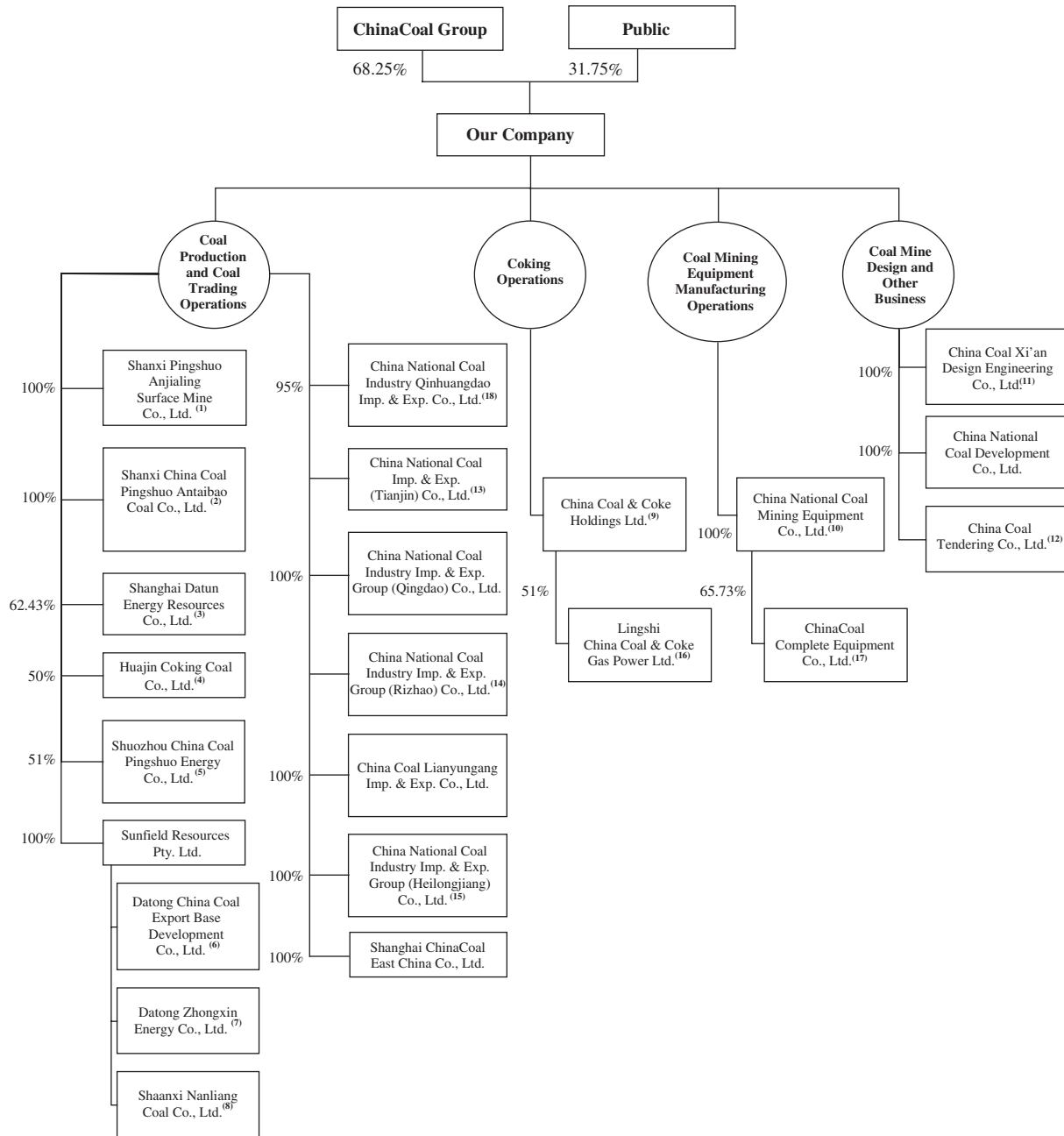
As part of the Restructuring, we have also entered into certain agreements with ChinaCoal Group. Pursuant to these agreements, we and ChinaCoal Group and some of ChinaCoal Group’s subsidiaries will continue to provide relevant products and support services to one another. See “Connected Transactions” for details.

The Restructuring required approvals from relevant PRC regulatory authorities, including the State Council, the SASAC, the MOF and the MLR of the PRC. Our Restructuring complies with all applicable Chinese laws and regulations, and all necessary approvals from relevant PRC regulatory authorities required for the implementation of the Restructuring have been obtained.

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OUR CORPORATE STRUCTURE

The following chart sets out our ownership and corporate structure following the Restructuring and immediately after completion of the Global Offering, assuming no exercise of the Over-allotment Option:



- (1) Shanxi Pingshuo Anjialing Surface Mine Company Limited (山西平朔安家嶺露天煤炭有限公司) wholly owns and operates Anjialing Open Pit Mine, Anjialing Underground Mine and Anjialing Coal Processing Plant.
- (2) Shanxi China Coal Pingshuo Antaibao Coal Co., Ltd. (山西中煤平朔安太堡煤炭有限責任公司), formerly Pingshuo First Coal Co., Ltd., wholly owns and operates Antaibao Open Pit Mine and Antaibao Coal Processing Plant.
- (3) Shanghai Datun Energy Resources Co., Ltd. (上海大屯能源股份有限公司) wholly owns and operates Yaoqiao Mine, Kongzhuang Mine, Xuzhuang Mine, Longdong Mine and ancillary coal processing plants. Shanghai Datun Energy (600508) is a joint stock company incorporated in Shanghai, PRC on 29 December 1999, with its A shares listed on the Shanghai Stock Exchange. As of 30 September 2006, the total issued share capital of Shanghai Datun Energy was 722,718,000 shares, of which

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451,191,333 shares or 62.43% were non-listed shares, and 271,526,667 shares or 37.57%, were listed shares. Shanghai Datun Energy is one of our major subsidiaries. As of 30 September 2006, we had an effective equity interest of 62.43% in Shanghai Datun Energy. The remaining 37.57% equity interests were held by other independent third parties. Its operating and financial results are consolidated to our financial statements in accordance with IFRS and PRC GAAP. Shanghai Datun Energy has published on 26 October 2006 its unaudited interim financial statements as of and for the three months ended 30 September 2006. See “Appendix IV — Unaudited PRC GAAP Interim Financial Information of Shanghai Datun Energy”. As an integrated coal company, Shanghai Datun Energy’s primary products and services include coal, electric power, primary aluminum and transportation. It processes coal mainly extracted from its four coal mines located in the Datun Mining Area and uses a portion of it for power generation at its nine coal-fired power generators. Most of Shanghai Datun Energy’s coal customers are located in the region of the Yangtze River Delta, which includes the Jiangsu Province, Zhejiang Province and Shanghai Municipality. Shanghai Datun Energy also owns 180 km of rail lines which link to major national rail lines to provide coal transportation services to independent third parties. For the year ended 31 December 2005, approximately 75.0%, 7.3%, 13.7% and 3.9% of the total revenue of Shanghai Datun Energy were generated from the sales of coal, power and primary aluminum and the provision of transportation services. For the same period, Shanghai Datun Energy procured approximately 11.8% of goods and services from its five largest suppliers and sold approximately 12.4% to its five largest customers. Currently, Shanghai Datun Energy sells its coal products through its own sales force. In the three months ended 30 September 2006, Shanghai Datun Energy generated a total operating revenue of RMB1,058.1 million, representing an increase of 9.2% as compared with the corresponding period in 2005, which was primarily due to the increase in sales volume and the average selling price of its coal products. During the same period, cost of sales increased by 1.6% from RMB748.5 million to RMB760.2 million. Accordingly, the profit from its principal operations increased by RMB75.0 million, or 35.6%, from RMB210.4 million to RMB285.4 million during the 3 month period. Future new business opportunities will be allocated between Shanghai Datun Energy and our Company according to the product and services to be provided and the expertise required by the relevant business opportunities. In relation to the arrangements to be put in place where a business opportunity arises which, having taken into account the foregoing factors, can be taken up either by the rest of our Company or by Shanghai Datun Energy itself, and which therefore represents a potential area of competition with our Company, our independent non-executive directors will be the final decision-makers. The Board of Directors of Shanghai Datun Energy consists of 12 directors, of whom only Mr. Yang Lieke is also our director. There is no other overlap of senior management personnel between our Company and Shanghai Datun Energy. None of the expected net proceeds from the Global Offering is to be allocated to Shanghai Datun Energy.

- (4) Huajin Coking Coal Co., Ltd. (華晉焦煤有限責任公司) wholly owns and operates Shaqu Underground Mine and Shaqu Coal Processing Plant and holds the mining rights to Wangjialing Underground Mine. Currently, the company mainly operates the businesses of coal production, processing and sales. Our Company owns a 50% interest in Huajin Coking Coal Co., Ltd., which is jointly controlled by us and Shanxi Coking Coal Group Co., Ltd., an independent third party to our Company. The main business scope of Shanxi Coking Coal Group Co., Ltd. includes coal mining, processing and sales. The paid-up capital of Huajin Coking Coal Co., Ltd. is RMB519,876,590. In 2003, the share of revenue and loss combined of Huajin Coking Coal Co., Ltd. was RMB129.8 million and RMB53.2 million, respectively. In 2004, 2005, and the six months ended 30 June 2005 and 2006, Huajin Coking Coal Co., Ltd. had revenues of RMB288.5 million, RMB447.4 million, RMB194.5 million and RMB239.0 million, respectively, and net profits of RMB47.2 million, RMB63.7 million, RMB35.5 million and RMB53.6 million, respectively.
- (5) Shuozhou China Coal Pingshuo Energy Co., Ltd. (朔州中煤平朔能源有限公司) wholly owns and operates Shuozhong Coal Processing Plant. Currently, the company mainly operates the coal processing business. We own a 51% interest in Shuozhou China Coal Pingshuo Energy Co., Ltd. which is jointly controlled by us, and minority shareholders, Datong Luda Railway transportation Co., Ltd., an independent third party to our Company, Shuozhou Shuocheng Liu Jia Kou Coal Transportation Terminal, a connected person to our Company, and Shuozhou Pingshuo Industry Development Co., Ltd, a wholly owned subsidiary of the ChinaCoal Group. Datong Luda Railway Transportation Co., Ltd. mainly operates local dedicated rail lines and cargo transportation by rail. Shuozhou Shuocheng Liu Jia Kou Coal Transportation Terminal mainly operates the coal transportation and sales by rail, cargo transportation by motor vehicle and coal loading and unloading. Shuozhou Pingshuo Industry Development Co., Ltd. is engaged in the business of mechanical maintenance, motor vehicle repairing and trading, etc. The paid-up capital of Shuozhou China Coal Pingshuo Energy Co., Ltd. is RMB150.0 million. In 2004, the share of revenue and net profit combined of Shuozhou China Coal Pingshuo Energy Co., Ltd. was RMB88.5 million and RMB6.3 million, respectively. In 2005 and the six months ended 30 June 2005 and 2006, Shuozhou China Coal Pingshuo Energy Co., Ltd. had revenues of RMB781.4 million, RMB82.8 million and RMB238.9 million, respectively, and net profits of RMB2.5 million, RMB15.1 million and RMB23.4 million, respectively.
- (6) Datong China Coal Export Base Development Co., Ltd. (大同中煤出口煤基地建設有限公司) (“Datong Export Base”) wholly owns and operates Dazhong Coal Processing Plant. Currently, the company mainly operates the businesses of coal processing and sales. Our Company and Sunfield Resources Pty. Ltd. own a 19% interest and a 41% interest, respectively, in Datong Export Base, which is jointly controlled by us and Datong Coal Industry Co., Ltd., a connected person to our Company. Datong Coal Industry Co., Ltd. is mainly engaged in the coal production and processing businesses. The paid-up capital of Datong Export Base is RMB125.0 million. In 2003 and the six months ended 30 June 2006, Datong Export Base had revenues of RMB479.3 million and RMB352.1 million, respectively, and losses of RMB10.0 million and RMB0.3 million, respectively. In 2004, 2005 and the six months ended 30 June 2005, Datong Export Base had revenues of RMB703.0 million, RMB793.5 million and RMB388.4 million, respectively, and net profits of RMB123.1 million, RMB20.0 million and RMB20.7 million, respectively.
- (7) Datong Zhongxin Energy Co., Ltd. (大同中新能源有限公司) (“Datong Zhongxin Energy”) wholly owns and operates Zhongxin Coal Processing Plant. Currently, the company mainly operates in the business of coal processing and sales. Our Company and Sunfield Resources Pty. Ltd. own a 5% interest and a 37% interest, respectively, in Datong Zhongxin Energy, which is jointly

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controlled by us and three independent third parties to our Company namely Datong Shangshenjia Coal Transportation Terminal, Zhejiang Fuxing Electric Power Fuel Co., Ltd. and Hainan Jingtie Trade and Industry Development General Company. The business scope of Datong Shangshenjia Group Transportation Terminal is coal trading. The business scope of Zhejiang Fuxing Electric Power Fuel Co., Ltd. includes the development of electric power fuel technology, coal sales and wholesale of gasoline, diesel fuel and fuel oil. The major business scope of Hainan Jingtie Trade and Industry Development General Company is the trading of mineral products, coal, coke, chemical products and raw materials. The paid-up capital of Datong Zhongxin Energy is RMB161.0 million. In 2003, 2004, 2005 and the six months ended 30 June 2005, Datong Zhongxin Energy had revenues of RMB149.4 million, RMB202.6 million, RMB410.0 million and RMB178.7 million, respectively, and net profits of RMB11.6 million, RMB7.1 million, RMB17.5 million and RMB12.2 million, respectively. In the six months ended 30 June 2006, the share of revenue and loss combined of Datong Zhongxin Energy was RMB127.7 million and RMB3.8 million, respectively.

- (8) Shaanxi Nanliang Coal Co., Ltd. (陝西南梁礦業有限公司) (“Shaanxi Nanliang”) wholly owns and operates Nanliang Mine. Our Company and Sunfield Resources Pty. Ltd. own a 23% interest and a 32% interest, respectively, in Shaanxi Nanliang which is jointly controlled by us and a connected person to our Company, namely Shaanxi Yulin Coal Export Group Corporation, and three independent third parties, namely Hainan Jingtie Trade and Industry Development General Company, Zhejiang Fuxing Electric Power Fuel Co., Ltd. and Shaanxi Coal Transportation Group Co., Ltd. The business scope of Shaanxi Yulin Coal Export Group Corporation is the domestic sale and export of coal. Zhejiang Fuxing Electric Power Fuel Co., Ltd. is mainly engaged in the development of electric power fuel technology, coal sales and wholesale of gasoline, diesel fuel and fuel oil. The business scope of Shaanxi Coal Transportation Group Co., Ltd. includes the sale and transportation of coal, coal associated ore products, coke and by-products, clean coal and by-products of coal processing plants. The paid-up capital of Shaanxi Nanliang is RMB68.75 million. In 2003, 2005 and the six months ended 30 June 2005 and 2006, Shaanxi Nanliang had revenues of RMB83.3 million, RMB89.6 million, RMB46.6 million and RMB46.2 million, respectively, and net profits of RMB11.3 million, RMB23.4 million, RMB5.9 million and RMB11.6 million, respectively. In 2004, the share of revenue and loss combined of Shaanxi Nanliang was RMB64.9 million and RMB0.3 million, respectively.
- (9) Our Company and China National Coal Industry Imp. & Exp. Tianjin Co., Ltd. (天津中煤進出口有限公司) own 95% and 5% interests in China Coal & Coke Holdings Ltd. (中煤焦化控股有限責任公司) (“Coke Holdings”), respectively. The Coking enterprises controlled by and with Coke Holdings as its Shareholder include China Coal & Coke Longquan Limited (汾陽市中煤龍泉焦化有限責任公司), China Coal & Coke Mudanjiang Limited (中煤牡丹江焦化有限責任公司), China Coal & Coke Jingda Limited (山西省太谷縣中煤京達焦化有限責任公司), China Coal & Coke Jiuxin Limited (靈石縣中煤九鑫焦化有限責任公司), China Coal & Coke Xuyang Limited (河北中煤旭陽焦化有限公司), Coke Holdings’ shareholdings in such enterprises are 60%, 100% (Coke Holdings and China National Coal Industry Imp. & Exp. Group (Heilongjiang) Co., Ltd. (中國煤炭工業進出口集團黑龍江有限公司) holding 95% and 5% respectively), 70%, 75% and 45% respectively. The minority Shareholder of China Coal & Coke Jiuxin Limited, namely, Lingshi Jiuxin Coal Preparation Company Limited is a connected person to our Company. The minority Shareholder of China Coal & Coke Longquan Limited, namely Shanxi Longquan Foundry Coke Company Limited, is a connected person to our Company.
- (10) China National Coal Mining Equipment Co., Ltd. (中國煤礦機械裝備有限責任公司) wholly owns and operates China Coal Beijing Coal Mining Machinery Co., Ltd. (中煤北京煤礦機械有限責任公司) and China Coal Zhangjiakou Coal Mining Machinery Co., Ltd. (中煤張家口煤礦機械有限責任公司) and is a 40% shareholder of Zhangjiakou China Coal Chuangli Mining Machinery Co., Ltd. (張家口中煤創力採掘設備有限責任公司).
- (11) China Coal Xi’an Design Engineering Co., Ltd. (中煤西安設計工程有限責任公司) wholly owns and operates China Coal Handan Design Engineering Co., Ltd. (中煤邯鄲設計工程有限責任公司).
- (12) Our Company and China National Coal Development Co., Ltd. (中國煤炭開發有限責任公司) own 60% and 40% interests in China Coal Tendering Co., Ltd. (中煤招標有限責任公司), respectively.
- (13) Our Company and China National Coal Development Co., Ltd. (中國煤炭開發有限責任公司) own 90% and 10% interests in China National Coal Imp. & Exp. (Tianjin) Co., Ltd. (天津中煤進出口有限公司), respectively.
- (14) Our Company and China National Coal Development Co., Ltd. (中國煤炭開發有限責任公司) own 90% and 10% interests in China National Coal Industry Imp. & Exp. Group (Rizhao) Co., Ltd. (中國煤炭工業進出口集團日照有限公司), respectively.
- (15) Our Company and China National Coal Development Co., Ltd. (中國煤炭開發有限責任公司) own 92.6% and 7.4% interests in China National Coal Industry Imp. & Exp. Group (Heilongjiang) Co., Ltd. (中國煤炭工業進出口集團黑龍江有限公司), respectively.
- (16) Lingshi China Coal & Coke Gas Power Limited (靈石縣中煤焦化煤氣發電有限責任公司) owns and operates a gas electric power generation plant. Coke Holdings owns a 51% interest in Lingshi China Coal & Coke Gas Power Limited, which is jointly controlled by it and two independent third parties to our Company, namely Shanxi Lingshi Zhongkai Industrial Co., Ltd. and Lingshi Jiuxin Coal Preparation Company Limited. The business scope of Shanxi Lingshi Zhongkai Industrial Co., Ltd. includes the installation and sales of facilities for electric power lines and power generation, etc. The business scope of Lingshi Jiuxin Coal Preparation Company Limited is clean coal and coke processing. The paid-up capital of Lingshi China Coal & Coke Gas Power Limited is RMB1.0 million. In 2005 and the six months ended 30 June 2005 and 2006, Lingshi China Coal & Coke Gas Power Limited had no revenue and it had losses of RMB0.333 million, RMB0.115 million and RMB0.167 million, respectively.
- (17) China Coal Complete Equipment Co., Ltd. (中煤設備成套有限公司) mainly provides mining equipments and maintenance and repair services to domestic coal producers. China National Coal Mining Equipment Co., Ltd. owns a 65.73% interest in China Coal Complete Equipment Co., Ltd., which is jointly controlled by it and SDIC Asset Management Company (國投資產管理公司), an independent third party to our Company. SDIC Asset Management Company’s business scope includes

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asset management, asset restructuring and related businesses. The paid-up capital of China Coal Complete Equipment Co., Ltd. is RMB28.5 million. In 2003, the share of revenue and loss combined of China Coal Complete Equipment Co., Ltd. was RMB45.6 million and RMB1.5 million, respectively. In 2004, 2005 and the six months ended 30 June 2005 and 2006, China Coal Complete Equipment Co., Ltd. had revenues of RMB37.3 million, RMB67.8 million, RMB31.1 million and RMB22.3 million, respectively, and net profits of RMB0.2 million, RMB0.2 million, RMB0.2 million and RMB0.3 million, respectively.

- (18) China Coal Trade and Industry Co., Ltd. (中煤實業有限責任公司), a wholly owned subsidiary of ChinaCoal Group, holds the other 5% of the interests.

The minority shareholdings not disclosed in the chart and footnotes above are held by third parties independent to our Company.

Other than the disclosure above, we directly hold the exploration right to Pingshuo East Open Pit Mine and the mining right permit for Antaibao Underground Mine. Both of the foregoing two mines are currently under development.