Unless the context otherwise indicates, in the following discussion and analysis, the financial data for the periods referred to herein reflects our financial condition after the Restructuring and has been prepared as if our current structure had been in existence throughout the Track Record Period. In addition, the financial data also includes certain other businesses retained by ChinaCoal Group that were historically associated with the Predecessor Operations.

Unless otherwise indicated, all financial data, whether presented on a combined basis or by segment, is presented net of inter-segment transactions. (i.e., inter-segment and other inter-company transactions have been eliminated).

SELECTED HISTORICAL COMBINED FINANCIAL INFORMATION AND OPERATING DATA

Selected Historical Combined Financial Information

The following tables present our selected historical combined financial information for the periods indicated. The selected summary combined income statement information, segment financial information and cash flow information and other financial information for the years ended 31 December 2003, 2004, 2005 and the six months ended 30 June 2005 and 2006, and the selected summary combined balance sheet information as of 31 December 2003, 2004, 2005 and 30 June 2006 are derived from, and should be read in conjunction with, the combined financial information set forth in the Accountants' Report included as Appendix I to this Prospectus.

Prior to the Restructuring, our business operations were conducted by the companies wholly owned or controlled by ChinaCoal Group (the "Predecessor Operations"). Since ChinaCoal Group controlled the business operations and the related assets that were transferred to us pursuant to the Restructuring, and continues to control us after the Restructuring, our historical combined financial information has been prepared as a combination of businesses under common control in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities transferred to us have been stated at historical carrying amounts. In addition, the historical combined financial information presented below for each of the years in the three-year period ended 31 December 2005 and the six months ended 30 June 2005 and 2006 also reflect the financial position and results of operations of certain of the businesses and assets historically associated with the Predecessor Operations retained by ChinaCoal Group as part of the Restructuring. Businesses retained by ChinaCoal Group include: (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 businesses 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. Although certain of such businesses and assets retained by ChinaCoal Group were not transferred to us, they have been included in the historical combined financial information up to the effective date of the Restructuring, 22 August 2006, because they were an integral part of, or historically associated with, the assets, liabilities and interests of the Predecessor Operations (the "Transferred Businesses"). Accordingly, the financial information included in this section may not necessarily reflect what our results of operations, financial position and cash flows would have been had we been a separate and stand-alone entity during the periods presented below. For selected historical financial information relating to businesses and assets retained by ChinaCoal Group historically associated with the Predecessor Operations, see Note 2 in the Accountants' Report included as Appendix I to this Prospectus.

The selected historical combined financial data should be read in conjunction with our combined financial information set forth in the Accountants' Report included as Appendix I to this Prospectus and included elsewhere in this Prospectus.

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
	(audited)	(audited)	(audited)	(unaudited)	(audited)
			(RMB million)		
Selected combined income statement information[1]					
IFRS					
Revenue	14,480.8	22,163.8	30,061.3	15,011.9	14,679.7
Cost of sales	(12,762.7)	(17,544.0)	(24,437.8)	(11,418.9)	(11,635.9)
Gross profit	1,718.1	4,619.8	5,623.5	3,593.0	3,043.8
Selling, general and administrative expenses	(848.1)	(1,134.6)	(1,483.8)	(731.3)	(835.8)
Other gains	86.5	71.5	126.6	44.2	87.5
Other operating income, net	50.2	138.7	162.4	93.7	107.5
Total operating expenses	(711.5)	(924.4)	(1,194.9)	(593.5)	(640.9)
Profit from operations	1,006.6	3,695.4	4,428.6	2,999.5	2,403.0
Finance costs	(675.4)	(527.8)	(112.3)	(23.7)	(291.5)
Share of profit/(losses) of associates	0.7	(1.9)	(6.1)	3.1	(1.2)
Profit before income tax	332.0	3,165.8	4,310.2	2,979.0	2,110.3
Income tax expense	(93.3)	(730.2)	(758.8)	(586.9)	(627.9)
Profit for the year/period	238.6	2,435.5	3,551.4	2,392.0	1,482.4
Attributable to:					
Equity owner of our Company	141.0	2,248.2	3,343.5	2,179.0	1,334.4
Minority interests	97.7	187.3	208.0	213.0	148.0
	238.6	2,435.5	3,551.4	2,392.0	1,482.4
Dividends	404.0	798.9	1,161.4	178.3	160.6

	As of 31 December			As of 30 June
	2003	2004	2005	2006
	(audited)	(audited)	(audited)	(audited)
		(RMB million)		
Selected combined balance sheet information(2)				
IFRS				
ASSETS				
Non-current assets	10,433.2	12,414.8	14,489.6	16,000.2
Current assets	8,352.8	10,350.0	12,272.5	12,386.2
Total assets	18,786.0	22,764.8	26,762.1	28,386.4
EQUITY AND LIABILITIES				
Total equity	2,044.7	2,935.6	4,593.9	5,955.2
Non-current liabilities	6,902.0	8,490.4	9,372.7	9,886.6
Current liabilities	9,839.2	11,338.8	12,795.5	12,544.6
Total equity and liabilities	18,786.0	22,764.8	26,762.1	28,386.4

(1) The selected combined income statement information for each of the years in the three-year period ended 31 December 2005 and the six months ended 30 June 2005 and 2006 include the results of certain businesses and assets retained by ChinaCoal Group after the Restructuring.

(2) The selected combined balance sheet information as of 31 December 2003, 2004, 2005 and 30 June 2006 include certain businesses and assets retained by ChinaCoal Group after the Restructuring.

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
	(audited)	(audited)	(audited)	(unaudited)	(audited)
			(RMB million)		
Segment financial information					
Profit from operations					
Coal operations	655.8	2,808.3	4,107.5	2,620.4	2,111.8
Coking operations	122.6	631.9	112.2	190.7	34.1
Coal mining equipment manufacturing operations	60.3	100.1	94.2	51.5	79.3
Other operations	178.7	172.6	102.4	128.0	155.6
Eliminations	(10.9)	(17.5)	12.4	9.1	22.1
Total profit from operations	1,006.6	3,695.4	4,428.6	2,999.5	2,403.0
Depreciation					
Coal operations	561.9	730.4	796.6	398.4	417.3
Coking operations	0.8	6.3	32.5	11.9	39.4
Coal mining equipment manufacturing operations	32.5	38.2	35.0	16.7	20.5
Other operations	42.7	88.3	128.4	26.4	71.3
Total depreciation	637.8	863.1	992.5	453.3	548.6
Capital expenditure					
Coal operations	1,449.1	1,538.2	1,662.9	932.7	1,493.7
Coking operations	118.1	595.3	718.3	346.6	133.8
Coal mining equipment manufacturing operations	57.5	75.2	159.7	59.4	103.9
Other operations	807.9	717.2	557.4	6.3	5.4
Total capital expenditure	2,432.7	2,925.9	3,098.2	1,345.0	1,736.8

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
	(audited)	(audited)	(audited)	(unaudited)	(audited)
			(RMB million)		
Selected combined cash flow information					
Net cash from operating activities	985.1	3,490.7	2,765.4	1,705.2	1,143.0
Net cash used in investing activities	(2,095.1)	(2,525.7)	(2,717.7)	(1,135.9)	(1,963.4)
Net cash from/(used in) financing activities	1,211.8	(694.8)	(153.9)	287.1	(25.9)

Other Selected Financial Information

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

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
			(RMB million)		
Profit for the year/period	238.6	2,435.5	3,551.4	2,392.0	1,482.4
Income tax expense	(93.3)	(730.2)	(758.8)	(586.9)	(627.9)
Share of profits/(losses) of associates	0.7	(1.9)	(6.1)	3.1	(1.2)
Finance costs	(675.4)	(527.8)	(112.3)	(23.7)	(291.5)
Depreciation and amortization	(632.5)	(871.3)	(1,005.5)	(436.4)	(561.4)
EBITDA[1] (unaudited)	1,639.1	4,566.7	5,434.1	3,435.9	2,964.4
Revenue	14,480.8	22,163.8	30,061.3	15,011.9	14,679.7
EBITDA Margin[1] (unaudited)	11.3%	20.6%	18.1%	22.9%	20.2%

(1) EBITDA, which is used to measure our operating performance, is defined as profit for the year plus finance costs, share of profits/(losses) of associates, income tax expense and depreciation and amortization. EBITDA margin is calculated by dividing EBITDA by total operating revenue. We present our EBITDA and EBITDA margin here to provide additional information regarding our operating performance and because our management believes EBITDA is useful to investors as a measure commonly used by securities analysts, investors and other interested parties in the evaluation of the performance of companies in the mining industry. EBITDA is not a standard measure under IFRS. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as turnover and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges.

SELECTED HISTORICAL OPERATING DATA

The following tables set forth selected operating data of each of our segments, after elimination of inter-segment sales, for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2003		2004		2005		2005		2006	
	Sales volume	Sales	Sales volume	Sales	Sales volume	Sales	Sales volume	Sales	Sales volume	Sales
	(tonnes)	(RMB)	(tonnes)	(RMB)	(tonnes)	(RMB)	(tonnes)	(RMB)	(tonnes)	(RMB)
					(in millions)					
Coal operations segment										
Coal production and sales										
Thermal coal										
Domestic sales	21.6	3,528.0	29.7	7,198.4	37.1	10,687.1	15.7	4,503.2	20.3	6,105.8
Overseas sales	13.7	3,335.1	14.9	5,078.6	11.3	5,246.3	6.4	2,896.5	4.3	1,739.3
Sub-total	35.3	6,863.1	44.6	12,276.9	48.4	15,933.4	22.1	7,399.7	24.6	7,845.2
Coking coal										
Domestic sales	1.6	531.3	2.0	954.0	2.4	1,482.1	1.2	778.9	1.4	832.9
Overseas sales	0.4	114.4	0.2	144.2	0.2	181.3	0.1	75.9	0.1	123.9
Sub-total	2.0	645.6	2.2	1,098.2	2.6	1,663.4	1.3	854.8	1.6	956.7
Total coal production and sales	37.3	7,508.7	46.9	13,375.1	51.0	17,596.8	23.4	8,254.5	26.2	8,801.9
Coal trading										
Proprietary coal trading	16.2	4,025.5	10.0	4,159.2	21.1	7,263.4	10.5	4,231.5	7.3	2,856.5
Import/export-related services	25.8	122.4	23.3	198.7	20.1	287.5	9.8	114.2	10.1	102.6
Total coal trading	42.0	4,148.0	33.3	4,357.9	41.2	7,550.9	20.3	4,345.6	17.4	2,959.1
Total coal operations	79.2	11,656.7	80.1	17,733.0	92.2	25,147.7	43.6	12,600.1	43.5	11,761.0

	Year ended 31 December						Six months ended 30 June			
	2003		2004		2005		2005		2006	
	Sales volume	Sales	Sales volume	Sales	Sales volume	Sales	Sales volume	Sales	Sales volume	Sales
	(tonnes)	(RMB)	(tonnes)	(RMB)	(tonnes)	(RMB)	(tonnes)	(RMB)	(tonnes)	(RMB)
					(in millions)					
Coking operations segment										
Coke production and sales	0.1	83.3	0.2	241.7	0.7	624.8	0.2	215.1	0.6	573.9
Coke trading and services	0.9	981.7	0.8	1,797.5	0.6	966.5	0.4	723.5	0.4	438.5
Total coking operations	1.0	1,064.9	1.0	2,039.2	1.3	1,591.3	0.6	938.6	1.0	1012.4

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
			(RMB million)		
Coal mining equipment manufacturing operations segment					
Domestic sales	1,024.4	1,458.0	1,880.0	886.2	879.0
Overseas sales	33.5	21.4	11.1	2.9	92.9
Total coal mining equipment manufacturing operations	1,057.9	1,479.4	1,891.2	889.1	971.9

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in conjunction with our combined financial information set forth in the Accountants' Report included as Appendix I to this Prospectus, and our selected historical combined financial information and operating data and the notes thereto included elsewhere in this Prospectus. Our combined financial information has been prepared in accordance with IFRS.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether the actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. See "Risk Factors" and "Forward-looking Statements".

Overview

We are the second largest coal enterprise in China, the largest coal producing and consuming country in the world, in terms of our revenue in 2005. We operate our coal production and related businesses and services in the following segments to capitalize on growing domestic and international demand:

- *Coal operations.* We are the second largest coal supplier in China as measured by our revenue in 2005. Our raw coal output grew from 33.2 million tonnes in 2003 to 50.1 million tonnes in 2005, representing a CAGR of 22.8%. In 2005 and the six months ended 30 June 2006, we sold 92.2 million tonnes and 43.5 million tonnes of coal products, respectively, and generated revenue of RMB25,147.7 million and RMB11,761.0 million from coal operations, respectively, which accounted for 83.7% and 80.1%, respectively, of our total revenue in the same periods. In certain cases, we blend raw coal from our mines with raw coal supplied by other coal producers in order to meet customers' specifications. We also purchase coal from third party coal producers in China and resell it to domestic customers or to overseas customers through export agents on a proprietary trading basis, import coal from overseas coal producers as an agent, and provide coal export-related services on behalf of ChinaCoal Group for coal exporters in China who engage ChinaCoal Group as their export agent.

- *Coking operations.* Our coking operations include the production and sale of coke and coal-based chemicals generated from our coking process, such as coke gas, coke-gas power generation, refined tar, benzene, industrial refined naphthalene, methanol, sulfur, phenol and their derivative chemicals products. We also resell coke in domestic and overseas markets on a proprietary trading basis. In 2005 and the first six months of 2006, we generated revenue of RMB1,591.3 million and RMB1,012.4 million, respectively, in revenue from our coking operations, which accounted for 5.3% and 6.9%, respectively, of our total revenue in the same periods.

- *Coal mining equipment manufacturing operations.* We are the largest manufacturer of coal mining equipment in China based on our 2005 revenue from coal mining equipment sales and services. We also provide a full range of services ranging from design, production, installation, testing and services to underground mines within and outside China. In 2005 and the first six months of 2006, our revenue from coal mining equipment manufacturing operations was

RMB1,891.2 million and RMB971.9 million, respectively, which accounted for 6.3% and 6.6% respectively, of our total revenue in the same periods.

- *Other operations.* We engage in other operations in addition to our coal operations, coking operations and coal mining equipment manufacturing operations. The other operations include sales of primary aluminum and electric power, as well as provision of coal-related services such as coal mine design. In 2005 and the first six months of 2006, our revenue from these other operations was RMB1,431.1 million and RMB934.4 million, respectively, which accounted for 4.8% and 6.4%, respectively, of our total revenue in the same periods.

The table below presents, for the periods indicated, our revenue from segment operations after inter-segment elimination in terms of amount and as a percentage of our total revenue, as well as the underlying CAGR from 2003 to 2005:

	Year ended 31 December						CAGR	Six months ended 30 June			
	2003		2004		2005		(2003-2005)	2005		2006	
	(RMB million)	(%)	(RMB million)	(%)	(RMB million)	(%)	(%)	(RMB million)	(%)	(RMB million)	(%)
Revenue											
Coal operations	11,656.7	80.5	17,733.0	80.0	25,147.7	83.7	46.9	12,600.1	83.9	11,761.0	80.1
Coking operations	1,064.9	7.4	2,039.2	9.2	1,591.3	5.3	22.2	938.6	6.3	1,012.4	6.9
Coal mining equipment operations	1,057.9	7.3	1,479.4	6.7	1,891.2	6.3	33.7	889.1	5.9	971.9	6.6
Other operations	701.2	4.8	912.2	4.1	1,431.1	4.8	42.9	584.1	3.9	934.4	6.4
Total revenue	14,480.8	100.0	22,163.8	100.0	30,061.3	100.0	44.1	15,011.9	100.0	14,679.7	100.0

Basis of Presentation

Our Company was established in the PRC on 22 August 2006 as a joint stock company with limited liability under the Company Law of the PRC as a result of a group reorganization of ChinaCoal Group. ChinaCoal Group was established in 1981 as a large state-owned enterprise administered directly under the SASAC. Prior to the establishment of our Company, mining and processing of coal, sales of coal and coke products and manufacturing and sales of coal mining equipment operations were carried out by companies wholly owned or controlled by ChinaCoal Group.

Pursuant to the Restructuring, our Company issued 8.0 billion ordinary domestic shares with par value of RMB1.00 per share to ChinaCoal Group in exchange for all subsidiaries now comprising our Company as well as the Transferred Businesses. The Transferred Businesses comprised mainly operations in relation to: (i) coal and coke production, including the mines in operations and under development as well as ChinaCoal Group's equity interests in certain mining companies and coking companies; (ii) trading of coal and coke to customers in the PRC and overseas; (iii) manufacturing and sales of coal mining machinery; and (iv) others (including, among others, power plants and a primary aluminum refinery).

In connection with the Restructuring, certain assets, liabilities and interests historically associated with the Predecessor Operations were not transferred to us and were retained by ChinaCoal Group. These assets, liabilities and interests are principally related to: (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 businesses 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. For selected historical financial information relating to certain of the businesses retained by ChinaCoal Group, see Note 2 of the Accountants' Report in Appendix I to this Prospectus.

Since ChinaCoal Group controlled the business operations and the related assets that were transferred to us pursuant to the Restructuring, and continues to control us after the Restructuring, our historical combined financial information has been prepared as a combination of business under common control in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities transferred to us have been stated at historical carrying amounts. In addition to the Transferred Businesses, the historical combined financial information presented below also includes assets, liabilities and results of operations of certain of the businesses retained by ChinaCoal Group as part of the Restructuring. Although these assets, liabilities and interests retained by ChinaCoal Group were not transferred to us, they have been included in the historical combined financial information up to the effective date of the Restructuring, 22 August 2006, because they were an integral part of, or historically associated with, the Transferred Businesses.

The financial information presents the combined results and financial position of our Company as if the current structure of our Company had been in existence throughout the Track Record Periods and as if the Transferred Businesses were transferred to our Company by ChinaCoal Group at the beginning of the earliest period presented or when such businesses were incorporated or acquired by ChinaCoal Group, whichever is the shorter period.

Factors Affecting Our Results of Operations

Our combined financial statements and this discussion present our results of operations as if:

- we had been in existence throughout the relevant periods; and
- our operations and businesses were transferred to us as of 1 January 2003 and were conducted by us throughout the three-year period ended 31 December 2005 and the six months ended 30 June 2006.

Our results of operations and the period-to-period comparability of our financial results are affected by a number of external factors. Our combined financial statements may not be indicative of our future earnings, cash flows or financial position for numerous reasons, including those described below.

Average selling prices of our coal products

We sell our thermal and coking coal products to customers in China and abroad. The average selling prices of our coal products during the Track Record Period are as follows:

	Year ended 31 December						Six months ended 30 June	
	2003		2004		2005		2006	
	Domestic	Export	Domestic	Export	Domestic	Export	Domestic	Export
	(RMB/tonne)							
Thermal coal	163	244	242	340	288	465	301	403
Coking coal	322	313	473	649	626	925	577	945

The main factors affecting the prices of our thermal and coking coal products include:

- the supply of and demand for thermal coal and coking coal in the PRC domestic market and in the Asia-Pacific regional coal market;

- coal characteristics and quality;
- the availability of coal transportation capacity and the means of transportation; and
- the PRC Government's policy regarding coal-consuming industries.

Domestic coal prices have been mainly market driven since 2002, when the PRC Government eliminated the price control measures for coal used in electric power generation. Prior to 2006, however, the PRC Government continued to implement temporary measures to intervene and control unusual fluctuations in thermal coal prices. This, among other reasons, has caused thermal coal contract prices for major users to be generally lower than spot market prices during the period. On 27 December 2005, the NDRC announced the elimination of such temporary thermal coal price intervention practices, thus completely removing control over thermal coal prices, including contract prices for major users.

Sales volume of coal

The sales volume of our coal, which consists of our coal products, coal sold on a proprietary trading basis and coal sold on an agency basis, to external customers increased by 1.1% from 79.2 million tonnes in 2003 to 80.1 million tonnes in 2004, and by a further 15.0% to 92.2 million tonnes in 2005. In the first six months of 2006, we sold a total of 43.5 million tonnes of coal, representing a 0.1% decrease from 43.6 million tonnes of coal we sold in the comparable period of 2005. The main factors affecting our domestic and export coal sales volumes include:

- our coal production capacity;
- market demand for our coal;
- the export quota allocated to ChinaCoal Group by the PRC Government; and
- coal transportation capacity.

Our coal sales volume is largely dependent upon the demand for our coal and our ability to meet such demand. To meet an increasing market demand, we have significantly increased production at all our mines. In the years ended 31 December 2003, 2004, 2005 and the six months ended 30 June 2005 and 2006, we sold 37.3 million tonnes, 46.9 million tonnes, 51.0 million tonnes, 23.4 million tonnes and 26.2 million tonnes of our coal products, respectively. Growth in the production and sales volumes of our coal products is largely driven by our capital investment in the expansion of existing mines and construction of new mines.

We currently focus on the production of a wide range of thermal coal and coking coal products for use in power generation and steel-making, respectively. We sell our coal mainly to coal-fired power plants and steel mills in the domestic market in China and the Asia-Pacific coal export market. Rapid growth in the PRC economy has created substantial energy demand in China. At the same time, coal demand from the Asia-Pacific region has also increased due to economic expansion and the addition of new coal-fired power generation capacity in the region.

We also purchase coal for proprietary trading purposes. In the years ended 31 December 2003, 2004, 2005 and the six months ended 30 June 2005 and 2006, our coal sales on a proprietary trading basis were 16.2 million tonnes, 10.0 million tonnes, 21.1 million tonnes, 10.5 million tonnes and 7.3 million tonnes, respectively. We were also involved in the export of 22.9 million tonnes, 21.8 million tonnes, 18.5 million tonnes, 8.9 million tonnes and 8.6 million tonnes, respectively, in the same periods on an agency services basis. Our agency services revenue generally ranged from 1.5% to 2.0% of the corresponding sales on an FOB basis.

Coal export is subject to annual national quotas prescribed by the NDRC and MOFCOM. In 2003, 2004, 2005 and 2006, the national export quota totaled 100.0 million tonnes, 80.0 million tonnes, 80.0 million tonnes and 80.0 million tonnes, respectively. In 2003, 2004, 2005 and 2006, 49.6 million tonnes, 36.2 million tonnes, 38.2 million tonnes and 38.2 million tonnes, respectively, of the national coal export quotas were allocated to ChinaCoal Group, accounting for nearly 50% of China's coal export quotas in each of the relevant periods. Among the export quotas allocated to ChinaCoal Group, 14.0 million tonnes, 15.2 million tonnes, 11.5 million tonnes and 4.4 million tonnes were allocated, respectively, to us for the export of our coal products during the same periods. See "Regulations — The coal industry — Coal trading" for details regarding export quota of coal imposed by the PRC Government.

We generally use the national railway system to transport coal to our customers and major coal shipping ports along the eastern coast of China. We expect that increases in our coal sales volume will continue to be the main driver for our revenue growth in the future. Such increases, however, may be affected by the availability of sufficient transport capacity on the national railway system allocated to us by the PRC Government.

Cost of sales for coal

Cost of sales for coal include: (i) materials costs, including coal, fuel and utilities and accessories, used mainly in mining operations; (ii) transportation costs; (iii) staff costs; (iv) depreciation and amortization expenses; and (v) maintenance expenses for our facilities and equipment. The following factors will impact the cost of sales of our coal operations:

- the effectiveness of our cost reduction measures;
- the effect of economies of scale as we improve the capacity utilization of our own mining operations;
- the application of advanced mining technologies; and
- contractual terms of delivery (e.g., ex-mine sales, FOB or CIF) of our coal products.

In addition, on the same quality basis, the unit cost of coal purchased from third parties are generally higher than the unit cost of coal from our own mines. Furthermore, upward market price movements and purchase volumes of high-quality coal from third party producers will also impact our cost of sales.

Finance costs

We finance a significant portion of our business operations and capital projects with short-term and long-term borrowings. As of 30 June 2006, our outstanding short-term and long-term borrowings amounted to RMB11,619.7 million. See "— Indebtedness". Our borrowings incur interest. Interest rate fluctuations and the balance of our total borrowings will have an impact on our finance costs.

We borrowed funds denominated in foreign currencies, including U.S. dollars and Japanese Yen, through commercial banks, mostly to meet our foreign exchange needs as well as to fund a portion of our capital expenditures. To the extent that the Renminbi depreciates against any of these currencies, our finance costs on these loans would increase. As of 30 June 2006, our foreign currencies borrowings, primarily denominated in Japanese Yen, amounted to RMB2,121.5 million. We incurred net foreign exchange losses of RMB345.1 million and RMB83.4 million, respectively, in 2003 and 2004, and had a net foreign exchange gain of RMB391.5 million in 2005. We had a net foreign exchange gain of RMB155.1 million and incurred a net foreign exchange loss of RMB28.0 million, respectively, for the six months ended 30 June 2005 and 2006.

These changes were mainly caused by fluctuations in the value of the Japanese Yen in recent years. See "— Market risk".

Anticipated capital expenditures

We intend to spend approximately RMB20.6 billion as capital expenditures from 2006 through 2008 primarily to expand the production capacity of our coal, coking, and coal mining equipment manufacturing operations and other operations to upgrade our existing mines, coal processing plants and other production facilities, to make improvements to our coal mining operations, and to undertake other projects. The costs associated with these expansion and improvement plans and the revenue we expect to derive from them could have a significant impact on our future consolidated financial statements. See "— Capital expenditures".

The Restructuring conducted in anticipation of the Global Offering

Prior to the Restructuring conducted in anticipation of this Global Offering, we did not exist as a separate legal entity. Our operations were conducted by ChinaCoal Group and its predecessors. As part of the Restructuring, 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, including twelve coal mines, five coking plants, four coal mining equipment manufacturing plants and two coal mine design institutes. Because ChinaCoal Group controlled these operations prior to the Restructuring and controls us after the Restructuring, our historical combined financial information included in this Prospectus have been prepared as a combination under common control in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities transferred to us have been stated at historical amounts in the combined financial statements. The combined financial information present the results of our operations as if our operations had already been transferred to us from ChinaCoal Group as of 1 January 2003. In addition, our combined financial statements also include assets, liabilities, and results of operations of certain of the businesses and assets historically associated with predecessor operations retained by ChinaCoal Group in the Restructuring. Businesses retained by ChinaCoal Group include: (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 businesses 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. Certain of these assets, liabilities, revenue and expenses will not be reflected in our consolidated financial statements after the Restructuring Date. In addition, because of the asset restructuring and the related carve-out accounting, the combined financial statements reflect various historical payments as distributions to ChinaCoal Group that are not expected to be indicative of future practices or results. See Note 2 of the Accountants' Report included as Appendix I to this Prospectus.

Description of Components of Results of Operations

Revenue

We generate all of our revenue from coal operations, coking operations, coal mining equipment manufacturing operations as well as other businesses and services including coal mine design services. Our revenue are presented net of inter-segment sales and other inter-company transactions. The table below presents, for the periods indicated, our revenue from operations in terms of amount and as a percentage of our total operating revenue:

	Year ended 31 December						CAGR	Six months ended 30 June			
	2003		2004		2005		(2003-2005)	2005		2006	
	(RMB million)	(%)	(RMB million)	(%)	(RMB million)	(%)	(%)	(RMB million)	(%)	(RMB million)	(%)
Revenue											
Coal operations	11,656.7	80.5	17,733.0	80.0	25,147.7	83.7	46.9	12,600.1	83.9	11,761.0	80.1
Coking operations	1,064.9	7.4	2,039.2	9.2	1,591.3	5.3	22.2	938.6	6.3	1,012.4	6.9
Coal mining equipment operations	1,057.9	7.3	1,479.4	6.7	1,891.2	6.3	33.7	889.1	5.9	971.9	6.6
Other operations	701.2	4.8	912.2	4.1	1,431.1	4.8	42.9	584.1	3.9	934.4	6.4
Total revenue	14,480.8	100.0	22,163.8	100.0	30,061.3	100.0	44.1	15,011.9	100.0	14,679.7	100.0

We derived the majority of our revenue from our coal operations, historically our largest revenue contributing segment. Our coal operations generate revenue through sales of coal products produced at our four mining areas and stand-alone coal processing plants, and coal trading businesses, consisting of proprietary coal trading, export-related services and import agency services.

We also generated revenue during the Track Record Period from sales of coke and coal-based chemicals produced at our coking facilities. In addition, revenue was derived from sales of coke in domestic and overseas markets on a proprietary trading basis.

Revenue from our coal mining equipment manufacturing operations mainly includes sales of coal mining equipment manufactured by our three coal mining equipment manufacturing plants. In addition, we derive sales revenue from the provision of turn-key services for installation of coal mining equipment.

We also receive revenue from other operations, mainly including sales of primary aluminum produced at our refinery, electric power generated from our own coal-fired power plants, and the provision of coal mine design services to major coal mining companies in China.

Our revenue on a combined basis is presented after elimination of inter-segment sales. As a result, only income generated from sales made to external customers are accounted for as our revenue in our combined results of operations. For the years ended 31 December 2003, 2004, 2005 and the six months ended 30 June 2005 and 2006, the inter-segment sales revenue amounted to RMB291.1 million, RMB486.9 million, RMB542.1 million, RMB280.9 million and RMB366.2 million, respectively, representing 2.0%, 2.2%, 1.8%, 1.9% and 2.5%, respectively, of our total revenue including external and inter-segment sales. Our inter-segment sales revenue was mainly derived from (i) sales of our coal products from coal operations segment to our coking facilities and power plants; (ii) sales of coal mining equipment from coal equipment manufacturing segment to our coal mines at the Pingshuo and Datun Mining Areas; and (iii) the provision of coal mine design services from our other operations segment to our coal mines.

Gross profits

Our gross profits on a combined basis are presented after elimination of inter-segment sales and cost of sales by deducting the cost of sales from our revenue of each accounting period. Our gross profits before elimination of inter-segment transactions amounted to RMB1,729.7 million, RMB4,639.6 million, RMB5,631.5 million, RMB3,598.1 million and RMB3,010.7 million, for the years ended 31 December 2003, 2004, 2005 and the six months ended 30 June 2005 and 2006, respectively, a difference of RMB11.6 million, RMB19.7 million, RMB8.0 million, RMB5.1 million and RMB33.1 million, respectively, for the same periods if the inter-segment transactions had been taken into account.

Cost of sales

Cost of sales represents the direct costs of production, which includes primarily materials costs, staff costs, depreciation and amortization expenses, repair and maintenance costs, transportation costs, sales taxes and surcharges. The following table breaks down our cost of sales for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2003		2004		2005		2005		2006	
	(RMB million)	(%)	(RMB million)	(%)	(RMB million)	(%)	(RMB million)	(%)	(RMB million)	(%)
Cost of sales										
Materials	8,819.8	69.1	10,661.7	60.8	16,237.7	66.4	7,456.2	65.3	7,134.0	61.3
Staff costs	798.3	6.3	963.8	5.5	1,156.5	4.7	562.3	4.9	689.4	5.9
Depreciation and amortization	569.8	4.5	802.6	4.6	913.0	3.7	403.4	3.5	524.7	4.5
Repairs and maintenance	199.2	1.6	285.2	1.6	240.2	1.0	61.1	0.5	97.5	0.8
Transportation costs	1,839.8	14.4	3,709.5	21.1	4,055.4	16.6	2,082.2	18.2	2,265.6	19.5
Sales taxes and surcharges	89.6	0.7	187.2	1.1	288.2	1.2	139.1	1.2	174.9	1.5
Others	446.2	3.5	933.9	5.3	1,546.8	6.3	714.6	6.3	749.7	6.4
Total cost of sales	12,762.7	100.0	17,544.0	100.0	24,437.8	100.0	11,418.9	100.0	11,635.9	100.0

Materials costs were the main component of our cost of sales, representing approximately 69.1%, 60.8%, 66.4%, 65.3% and 61.3%, respectively, of our total cost of sales for each of the years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2005 and 2006. Materials used in our coal operations mainly include coal, cement, steel and explosives. Materials used in our coking operations mainly include coal and coke purchased for resale purposes. Materials used in our coal mining equipment manufacturing operations mainly include steel and other raw materials used in the production of coal mining machinery.

Transportation costs were also a large contributor to our cost of sales. Transportation costs mainly include railway, waterway and roadway transportation expenses charged by carriers who deliver our coal and coke products to end customers. Sales on an FOB or CIF basis typically result in higher transportation costs than other terms of sales, such as ex-mine sales, as we are responsible for the transportation costs for delivering the goods to the port or the customers' sites.

Staff costs were also a significant component of our cost of sales during the Track Record Period. They are comprised mainly of wages for our employees working at the coal mines, coal processing plants, coking plants, coal mining equipment manufacturing facilities and other production facilities.

During the Track Record Period, our costs of sales also included other expenses, such as stripping costs, utilities expenses, resources compensation fees and compensation for land sinking.

Our costs of sales on a combined basis are presented after elimination of inter-segment transactions. As a result, only the cost of sales incurred from purchases of goods or services from external suppliers is accounted as cost in our combined results of operations. For the years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2005 and 2006, the cost incurred from inter-segment sales amounted to RMB279.4 million, RMB467.1 million, RMB534.0 million, RMB275.8 million and RMB399.3 million, respectively, representing 2.2%, 2.7%, 2.2%, 2.4% and 3.4%, respectively, of our total cost of sales including cost of external and inter-segment purchases. The inter-segment cost of sales was mainly from (i) purchases of coal mining equipment by our coal operations segment from coal mining equipment manufacturing segment; (ii) procurement of coal mine design services from our other operations segment by our coal operations segment; and (iii) purchases of our coal products from coal operations segment by our coking facilities in the coking operations segment and power plants of our other operations.

Selling, general and administrative expenses

Our selling, general and administrative expenses primarily consist of personnel expenses, depreciation and amortization costs, repairs and maintenance, operating lease charges, public utility charges, allowance for doubtful debts, entertainment and traveling expenses and other miscellaneous expenses. The largest component of our selling, general and administrative expenses is personnel expenses, which were mainly wages paid to our employees not directly involved in the production operations in our coal mines and production facilities. Personnel expenses represented 46.4%, 52.2%, 46.6%, 56.6% and 51.7%, respectively, of our total selling, general and administrative expenses for each of the years ended 31 December 2003, 2004, 2005 and the six months ended 30 June 2005 and 2006.

Other gains

Other gains are composed of dividend income from unlisted investments, gains on disposal of investments, interest income and government grants and subsidies.

Other operating income, net

Other operating income net of other operating expenses consists of other operating income less other operating expenses. Other operating income consists of sales of surplus of raw materials and components, rental, agency fee relating to non-core products, transportation and other service income. Other operating expenses mainly include the costs directly relate to other operating income.

Finance costs

Finance costs consist of financing payments on (i) interests of bank loans and other borrowings less capitalized interest, (ii) applicable bank charges and (iii) net foreign exchange losses or gains.

Share of profits/(losses) of associates

Our share of losses of associates is the profits/(losses) attributable to us from our associates, pursuant to our equity interests in such associates. Associates are entities over which we have significant influence but not control, in which generally we hold between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost.

Income tax expenses

Under the current laws of the PRC, we, our subsidiaries, associates and jointly controlled entities are subject to PRC income tax on an individual basis. 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. The effective income tax rates applicable to us for each of the years ended 31 December 2003, 2004, 2005 and the six months ended 30 June 2005 and 2006 were 28.1%, 23.1%, 17.6%, 19.7% and 29.8%, respectively.

Critical Accounting Policies

The discussion and analysis of our results of operations and financial condition is based on our audited combined financial information, which have been prepared in accordance with IFRS. Our results of operations and financial condition are sensitive to accounting methods, assumptions and estimates that underlie the preparation of our combined financial information. We base our assumptions and estimates on historical experience and on various other assumptions that we currently believe to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. Our management evaluates these estimates on an ongoing basis. Actual results may differ from these estimates as facts, circumstances and conditions change or as a result of different assumptions.

Our management considers the following factors in reviewing our combined financial information:

- the selection of critical accounting policies; and
- the judgments and other uncertainties affecting the application of those critical accounting policies.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our audited combined financial information. Our principal accounting policies are set forth in detail in Note 3 of the Accountants' Report included as Appendix I to this Prospectus. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our audited combined financial information.

Carrying value of non-current assets

Non-current assets, including property, plant and equipment, land use rights, mining rights and intangible assets, are carried at cost less accumulated amortization. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised and may impact our results of operations or financial position.

Useful lives of property, plant and equipment

Our management determines the estimated useful lives and related depreciation charges for property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment having a similar nature and function. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimates, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Trade and other receivables

Our management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of our customers and current market conditions. Management reassesses the provision at each balance sheet date.

Income taxes

There are certain transactions and calculations for which the ultimate tax determination is uncertain until the end of relevant period. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax expense and deferred tax provisions in the period in which such determination is made. In addition, the realization of future income tax assets is dependent on our ability to generate sufficient taxable income in future years to utilize income tax benefits and income tax loss carry-forwards. Deviations of future profitability from estimates would result in adjustments to the value of future income tax assets and liabilities that could have a significant effect on earnings.

Provision for close-down, restoration and environmental costs

The provision for close down, restoration and environmental costs for our coal mining operations is determined by our management based on their past experience and best estimation of future expenditures, after taking into account existing relevant PRC regulations. However, in so far as the effect on the land and the environment from current mining activities becomes apparent in future years, the estimate of the associated costs may be subject to revision from time to time.

Combined Results of Operations

The following table sets forth, for the periods indicated, information relating to certain income and expense items from our combined income statement:

	Year ended 31 December						Six months ended 30 June			
	2003		2004		2005		2005		2006	
	RMB million	%	RMB million	%	RMB million	%	RMB million	%	RMB million	%
	(audited)		(audited)		(audited)		(unaudited)		(audited)	
IFRS										
Revenue	14,480.8	100.0	22,163.8	100.0	30,061.3	100.0	15,011.9	100	14,679.7	100
Cost of sales	(12,762.7)	(88.1)	(17,544.0)	(79.2)	(24,437.8)	(81.3)	(11,418.9)	(76.1)	(11,635.9)	(79.3)
Gross profit	1,718.1	11.9	4,619.8	20.8	5,623.5	18.7	3,593.0	23.9	3,043.8	20.7
Selling, general and administrative expenses	(848.1)	(5.9)	(1,134.6)	(5.1)	(1,483.8)	(4.9)	(731.3)	(4.9)	(835.8)	(5.7)
Other gains	86.5	0.6	71.5	0.3	126.6	0.4	44.2	0.3	87.5	0.6
Other operating income, net	50.2	0.3	138.7	0.6	162.4	0.5	93.7	0.6	107.5	0.7
Total operating expenses	(711.5)	(4.9)	(924.4)	(4.2)	(1,194.9)	(4.0)	(593.5)	(4.0)	(640.9)	(4.4)
Profit from operations	1,006.6	7.0	3,695.4	16.7	4,428.6	14.7	2,999.5	20.0	2,403.0	16.4
Finance costs	(675.4)	(4.7)	(527.8)	(2.4)	(112.3)	(0.4)	(23.7)	(0.2)	(291.5)	(2.0)
Share of profits/(losses) of associates	0.7	0.0	(1.9)	0.0	(6.1)	0.0	3.1	0.0	(1.2)	(0.0)
Profit before income tax	332.0	2.3	3,165.8	14.3	4,310.2	14.3	2,979.0	19.8	2,110.3	14.4
Income tax expense	(93.3)	(0.6)	(730.2)	(3.3)	(758.8)	(2.5)	(586.9)	(3.9)	(627.9)	(4.3)
Profit for the year	238.6	1.6	2,435.5	11.0	3,551.4	11.8	2,392.0	15.9	1,482.4	10.1
Attributable to:										
Equity owner	141.0	1.0	2,248.2	10.1	3,343.5	11.1	2,179.0	14.5	1,334.4	9.1
Minority interests	97.7	0.7	187.3	0.8	208.0	0.7	213.0	1.4	148.0	1.0
Dividends	404.0	—	798.9	—	1,161.4	—	178.3	—	160.6	—

Six months ended 30 June 2006 compared with six months ended 30 June 2005

Revenue

Our total revenue after elimination of inter-segment sales decreased by 2.2% from RMB15,011.9 million in the six months ended 30 June 2005 to RMB14,679.7 million in the six months ended 30 June 2006. This decrease was attributable to a decrease of RMB839.1 million in revenue from our coal operations, partially offset by an increase in revenue of RMB73.8 million from our coking operations, an increase in revenue of RMB82.8 million from our coal mining equipment manufacturing operations and an increase in revenue of RMB350.2 million from our other operations.

Total revenue generated from external sales of our coal operations decreased from RMB12,600.1 million in the six months ended 30 June 2005 to RMB11,761.0 million in the six months ended 30 June 2006. This decrease was mainly attributable to the decrease in revenue from coal exports and proprietary coal trading, partially offset by the increase in revenue from domestic sales of our coal products.

Exports of our coal products sold to external customers decreased from 6.4 million tonnes in the six months ended 30 June 2005 to 4.4 million tonnes in the six months ended 30 June 2006, mainly because the average market prices for coal exports in the same period were less favorable to coal producers than in the previous period. As a result, we reduced our coal export volumes and focused instead on the domestic market. Consequently, the total revenue from export sales of our coal products decreased from RMBR2,972.4 million in the six months ended 30 June 2005 to RMB1,863.2 million in the six months ended 30 June 2006.

The volumes of coal sold to external customers on a proprietary trading basis decreased significantly. The volumes of our coal sold on a proprietary trading basis decreased from 10.5 million tonnes in the six months ended 30 June 2005 to 7.3 million tonnes in the six months ended 30 June 2006, mainly because of the increase in the production capacity and coal output of our coal mines, which enabled us to satisfy our customers' needs with our coal products. In addition, the decrease of export sales price of coal we sold on a proprietary trading basis in the six months ended 30 June 2005 compared to the six months ended 30 June 2006 was attributed to the decreases of revenue from proprietary coal trading, although this decrease was partially offset by the increase in the average selling price of coal we sold in the domestic market on a proprietary trading basis in the same period.

In the six months ended 30 June 2006, we sold approximately 26.2 million tonnes of our coal products in China to external customers, compared to approximately 23.4 million tonnes in the six months ended 30 June 2005, representing an increase of 12.0%. The increase in sales volume was due primarily to the increase in production capacity and coal output of our coal mines and coal processing plants. In particular, our newly constructed Anjialing Underground Mine produced 6.6 million tonnes of raw coal in the six months ended 30 June 2006. In addition, the price of our coal products increased in the six months ended 30 June 2006 compared to the six months ended 30 June 2005, which also attributed to the increases of revenue from domestic sales of our coal products.

Our total revenue from coking operations increased by 7.9% from RMB938.6 million in the six months ended 30 June 2005 to RMB1,012.4 million in the six months ended 30 June 2006. This increase was due primarily to the increase in domestic sales volume, which was partially offset by the decrease in prices in international markets.

Domestic sales of coke increased significantly by 215.0% from 200,000 tonnes in the six months ended 30 June 2005 to 630,000 tonnes in the six months ended 30 June 2006, primarily due to increased market demand and the commencement of commercial production of two of our coking facilities, namely the Jiuxin Plant and the Jinda Plant, in late 2005. However, the average selling price of our coke products in the domestic market decreased by 9.9% from RMB1,072.7 per tonne in the six months ended 30 June 2005 to RMB966.4 per tonne in the six months ended 30 June 2006. Although we began to change our product mix in the first six months of 2006 and our unit price of foundry coke, our new product, is relatively higher, there has not yet been an increase in average selling prices because we are still in the initial stages for the production of such product. As a result, our revenue generated from domestic sales of coke increased by 183.8% from RMB215.1 million in the six months ended 30 June 2005 to RMB610.3 million in the six months ended 30 June 2006.

Our export sales of coke products remained relatively stable in the six months ended 30 June 2005 and 2006, but the average selling price decreased as a result of unfavorable market conditions for coke producers. As a result, our revenue generated from export sales of coke decreased by 44.4% from RMB723.5 million in the six months ended 30 June 2005 to RMB402.1 million in the six months ended 30 June 2006.

Total revenue generated from the external sales of our coal mining equipment manufacturing operations was RMB889.1 million in the six months ended 30 June 2005 and RMB971.9 million in the six months ended 30 June 2006. This increase was mainly attributable to an increase in prices as well as an increase in sales as a result of the improved market environment of the coal industry, which stimulated demand for our mining equipment. Rollout of our high end and high quality line of products also enabled us to achieve higher pricing, both of which led to the growth in our revenue from coal mining equipment manufacturing operations.

Revenue from external sales of our other businesses increased by 60.0% from RMB584.1 million in the six months ended 30 June 2005 to RMB934.4 million in the six months ended 30 June 2006. This increase was mainly due to the increase in revenue from sales of primary aluminum from our new aluminum refinery, and from our coal mine design services to external customers.

Cost of sales

The cost associated with external sales increased slightly by 1.9% from RMB11,418.9 million in the six months ended 30 June 2005 to RMB11,635.9 million in the six months ended 30 June 2006. This increase was mainly due to an increase in staff costs, depreciation and amortization costs, transportation costs and other costs from our coal operations and our other segments, partially offset by the decrease in raw materials costs for our coal operations.

Our materials costs decreased by 4.3% from RMB7,456.2 million in the six months ended 30 June 2005 to RMB7,134.0 million in the six months ended 30 June 2006. The decrease was primarily due to a decrease in volumes of coal purchased from third parties.

Our staff costs increased by 22.6% from RMB562.3 million in the six months ended 30 June 2005 to RMB689.4 million in the six months ended 30 June 2006, mainly caused by the increase in staff costs incurred by our coal and coking operations. The increase in staff costs was mainly attributable to the commercial operation of our newly developed coal mines, coal processing plants and coking facilities.

Our depreciation and amortization costs increased by 30.1% from RMB403.4 million in the six months ended 30 June 2005 to RMB524.7 million in the six months ended 30 June 2006, mainly caused by the increase in depreciation and amortization costs incurred by our coal and coking operations. The increase in depreciation and amortization costs was mainly attributable to the commercial operations of our newly developed coal mines, coal processing plants and coking facilities.

Our transportation costs increased by 8.8% from RMB2,082.2 million in the six months ended 30 June 2005 to RMB2,265.6 million in the six months ended 30 June 2006, mainly caused by the increase in transportation costs for our coal operations. The increase in transportation costs for our coal operations was mainly attributable to the increase in coal products that were delivered to our customers through railways and roadways. However, the increase in transportation costs was partially offset by the increase in ex-mine sales that incurs less transportation costs and the decrease in port fees due to the decrease in coal export volumes.

Gross profit

As a result of the foregoing, our gross profit generated from external transactions decreased by 15.3% from RMB3,593.0 million in the six months ended 30 June 2005 to RMB3,043.8 million in the six months ended 30 June 2006. Our gross profit margin generated from external transactions decreased from 23.9% in the six months ended 30 June 2005 to 20.7% in the six months ended 30 June 2006.

Selling, general and administrative expenses

Our selling, general and administrative expenses increased by 14.3% from RMB731.3 million in the six months ended 30 June 2005 to RMB835.8 million in the six months ended 30 June 2006, mainly due to the expansion of operations in each of our operating segments, which resulted in an increase in personnel expenses, maintenance expenses, marketing and sales expenses and utility charges.

Other gains

Our other gains increased by 98.1% from RMB44.2 million in the six months ended 30 June 2005 to RMB87.5 million in the six months ended 30 June 2006. This increase in other gains was mainly due to: (i) an increase in government grants and subsidies from RMB5.0 million in the six months ended 30 June 2005 to RMB24.5 million in the six months ended 30 June 2006; and (ii) an increase in dividend income, representing our investments, from RMB4.3 million in the six months ended 30 June 2005 to RMB20.2 million in the six months ended 30 June 2006.

Other operating income, net

Our other operating net income includes other operating income less other operating expenses. Our other operating income net of other operating expenses increased by 14.7% from RMB93.7 million in the six months ended 30 June 2005 to RMB107.5 million in the six months ended 30 June 2006. This increase was due primarily to (i) an increase in transportation income resulting from the increased volume of transportation services we provided to our customers, and (ii) the increases from sales of scraps due to the increases of price and sales volume caused by the increase of market demands.

Finance costs

Our interest expenses relating to bank loans, loans from other financial institution and loans from related parties increased from RMB201.3 million in the six months ended 30 June 2005 to RMB269.0 million in the six months ended 30 June 2006. After deducting interest on the amounts capitalized for construction in progress, our interest expenses increased from RMB155.8 million for the six months ended 30 June 2005 to RMB238.6 million for the six months ended 30 June 2006. In addition, in the six months ended 30 June 2006, we incurred net foreign exchange losses of RMB28.0 million, compared to net foreign exchange gains of RMB155.1 million in the six months ended 30 June 2005. Consequently, our finance costs increased significantly by RMB267.9 million from RMB23.7 million in the six months ended 30 June 2005 to RMB291.5 million in the six months ended 30 June 2006.

Share of profits/(losses) of associates

We incurred share of losses of associates of RMB1.2 million in the six months ended 30 June 2006, compared to share of profits of associates of RMB3.1 million in the six months ended 30 June 2005. Certain of our associate companies recorded less profit or more loss in the six months ended 30 June 2006 compared to the six months ended 30 June 2005. China Coal & Coke Xuyang Limited, our 45% owned associate, generated substantial profit in the six months ended 30 June 2005 from its sales of coke products in the China domestic market, its main revenue source, thus offsetting some losses from other associate companies and contributing to the RMB3.1 million profits of associates in the six months ended 30 June 2005. However, China Coal & Coke Xuyang Limited generated less profit in the first six months of 2006 due to an increase in supply of comparable coke products in the market and therefore increased competition. The decreased profit was insufficient to offset losses from other associate companies, resulting in a share of losses of associates of RMB1.2 million in the six months ended 30 June 2006.

The profits we generated from our investments in China Coal & Coke Xuyang Limited partially offset the losses we incurred from our investment in other associates.

Income tax expenses

Our income tax expense increased by 7.0% from RMB586.9 million in the six months ended 30 June 2005 to RMB627.9 million in the six months ended 30 June 2006. Although we continued to benefit from the preferential tax rates enjoyed by some of our subsidiaries and jointly controlled entities, several of our subsidiaries and jointly controlled entities incurred more tax expenses due to changes in, or termination of, preferential tax treatments in the six months ended 30 June 2006. As such, our effective income tax rate increased from 19.7% in the six months ended 30 June 2005 to 29.8% in the six months ended 30 June 2006.

Profit for the period

As a result of the foregoing, our profit for the period in the six months ended 30 June 2006 decreased by 38.0% or RMB909.6 million, from RMB2,392.0 million in the six months ended 30 June 2005 to RMB1,482.4 million in the six months ended 30 June 2006.

Minority interests

Minority interests decreased by 30.5% from RMB213.0 million in the six months ended 30 June 2005 to RMB148.0 million in the six months ended 30 June 2006. The decrease in minority interests was primarily due to: (i) the decrease of the net profit of Shanghai Datun Energy due to the commencement of commercial operation of its new primary aluminum plant, which resulted in lower gross profit margin of Shanghai Datun Energy than the comparable period in 2005, and (ii) the decrease of net profit of certain of our coking plants operated by China Coal and Coking Holdings Limited due to intensive competition in the coking industry.

Profit attributable to equity holders

Profit attributable to equity holders decreased by 38.8% from RMB2,179.0 million in the six months ended 30 June 2005 to RMB1,334.4 million in the six months ended 30 June 2006.

Year ended 31 December 2005 compared with year ended 31 December 2004

Revenue

Our total revenue after elimination of inter-segment sales increased by 35.6%, from RMB22,163.8 million in the year ended 31 December 2004 to RMB30,061.3 million in the year ended 31 December 2005. This increase was attributable to an increase of RMB7,414.7 million in revenue from our coal operations, an increase of RMB411.8 million in revenue from our coal mining equipment manufacturing operations and an increase of RMB518.9 million in revenue from our other operations, partially offset by a decrease of RMB447.9 million in revenue from our coking operations.

Total revenue generated from external sales of our coal operations increased by 41.8% from RMB17,733.0 million in the year ended 31 December 2004 to RMB25,147.7 million in the year ended 31 December 2005. The increase was attributable to the increase in revenue generated from sales of coal products and from coal trading due to strong market demand, as well as to the expansion of our production capacity and output. Revenue from our export sales of coal products remained at the same level in 2005 compared to 2004, as the impact from increased average selling price in the export market was offset by the decrease in sales volume.

In the year ended 31 December 2005, we sold approximately 39.5 million tonnes of our coal products in China to external customers, compared to approximately 31.7 million tonnes in the year ended 31 December 2004, representing an increase of 24.6%. The increase in sales volume was primarily due to the expanded production capacity and the increased output of our coal mines and coal processing plants. In particular, our newly constructed Anjialing Underground Mine produced 8.7 million tonnes of raw coal in 2005. Strong market demand resulting from the continuous growth in China's economy, particularly in the power generation, metallurgical, construction materials and chemicals sectors, also contributed to the increase in our coal sales volume. In addition, the average domestic selling price of our coal products increased from RMB257 per tonne to RMB308 per tonne, further contributing to the increase in our total revenue derived from coal sales. The increase in coal sales prices in 2005 was primarily attributable to the continuous increase in coal consumption in recent years resulting from economic growth and the increase in prices of other energy sources such as oil and natural gas.

Although there was a strong demand for coal in the export markets in 2005, the amount of coal products we exported for sale to external customers decreased from 15.2 million tonnes in the year ended 31 December 2004 to 11.5 million tonnes in the year ended 31 December 2005. This decrease was mainly the result of the reduction in the export quota we carried forward from 2004 to 2005 than from 2003 to 2004. See "Regulations — The coal industry — Coal trading". However, the significant increase in the average selling prices in the export coal market due to strong coal demand from neighboring countries and territories of China caused the total revenue from export sales of our coal products in 2005 to remain at approximately the same level as in 2004. For example, the average selling price of our thermal coal in the export market was RMB465 per tonne in 2005, compared to RMB340 per tonne in 2004.

Due to strong market demand, we also increased the trading volume of our proprietary coal trading businesses for sale to external customers by 11.1 million tonnes in 2005 to meet the needs of both our long-term and new customers. Our dominant position in China's coal trading market and ability to secure coal supply sources were further enhanced by the significant increase in our proprietary coal trading volume. In addition to the increase in trading volume, the average selling price of coal sold in the domestic market on a proprietary trading basis increased from RMB287 per tonne in 2004 to RMB307 per tonne in 2005, which further contributed to the increase in total revenue from our proprietary coal trading business. The average selling price of coal sold in the export market on a proprietary trading basis increased from RMB612 per tonne in 2004 to RMB627 per tonne in 2005.

Total revenue from the external sales of our coal mining equipment manufacturing operations increased by 27.8% from RMB1,479.4 million in the year ended 31 December 2004 to RMB1,891.2 million in the year ended 31 December 2005. This increase was mainly due to the increase in sales of coal mining equipment to our external customers. This is attributable to improved market conditions, strong demand for our products as well as our ability to achieve higher prices following the rollout of our high-end and high-quality coal mining equipment.

Revenue from external sales of our other businesses increased by 56.9% from RMB912.2 million in the year ended 31 December 2004 to RMB1,431.1 million in the year ended 31 December 2005. This increase was mainly due to the increase in revenue from coal mine design services to external customers and our other segment and sales of primary aluminum from our new refinery.

Total revenue generated from external sales of our coking operations decreased by 22.0% from RMB2,039.2 million in the year ended 31 December 2004 to RMB1,591.3 million in the year ended 31 December 2005. This decrease was primarily due to the decrease in revenue from export sales, most of which related to proprietary coke trading, partially offset by an increase in revenue from domestic sales, most of which related to coke we produced at our coking facilities. Export sales volumes and average selling prices of our coke products decreased in 2005. As a result of the reduced export quota allocated to ChinaCoal Group by the PRC Government, our export sales volume decreased 13.4% from 760,000 tonnes in 2004 to 660,000 tonnes in 2005. The average selling price of coke we sold in the export market (including coke produced by us and coke sold on a proprietary trading basis) decreased by 35.8% from RMB2,377 per tonne in 2004 to RMB1,526 per tonne in 2005, primarily due to the increased international supply of comparable coke products and the corresponding price stabilization in the export market. As a result, our revenue generated from export sales of coke decreased by 44.4% from RMB1,805.6 million in 2004 to RMB1,004.0 million in 2005.

In the domestic market, sales volume of our coke products increased by 184.5% from 230,000 tonnes in the year ended 31 December 2004 to 640,000 tonnes in the year ended 31 December 2005, primarily due to strong market demand and the commencement of commercial production of two of our coking facilities, namely the Jiuxin Plant and the Jinda Plant, in 2005. The average selling price of coke we sold in the domestic market (including coke produced by us and coke sold on a proprietary trading basis) decreased by 11.6% from RMB1,036 per tonne in 2004 to RMB915 per tonne in 2005, mainly due to the increased in coke supply and competition in the domestic market. As a result, our revenue generated from domestic sales of coke increased by 151.4% from RMB233.6 million in the year ended 2004 to RMB587.3 million in 2005.

Costs of sales

The cost associated with external sales increased by 39.3% from RMB17,544.0 million in the year ended 31 December 2004 to RMB24,437.8 million in the year ended 31 December 2005. The increase was primarily due to the increase in materials costs and transportation costs incurred by our coal operations, coking operations and coal mining equipment manufacturing operations.

Our materials costs increased by 52.3% from RMB10,661.7 million in the year ended 31 December 2004 to RMB16,237.7 million in the year ended 31 December 2005. The increase was primarily driven by increased production and sales of coal, coke and coal-based chemicals and coal mining equipment. Increase in materials costs in our coal operations was also attributable to (i) the increase in purchase volume and average purchase price of coal from other suppliers, and (ii) the increase in the cost of mining accessories. Increase in materials costs in our coking operations was also attributable to the increase in purchase volume and average purchase price of coal from third party suppliers used as raw materials in coking and, partially offset by the decrease in the cost of coke we purchased for export from other suppliers. The increased materials costs in our coal mining equipment manufacturing operations were primarily due to the increased cost of steel and other raw materials used in our production process.

Our transportation costs increased by 9.3% from RMB3,709.5 million in the year ended 31 December 2004 to RMB4,055.4 million in the year ended 31 December 2005, mainly caused by the increase in transportation costs incurred by our coal operations as a result of increased volume of coal delivered to our customers through railways, roadways and sea-bound vessels. This increase was partially offset by the cost savings as a result of a greater proportion of our sales being shipped on an FOB instead of CIF basis in 2005 relative to 2004.

Gross profit

As a result of the foregoing, our gross profit generated from external transactions increased by 21.7% from RMB4,619.8 million in the year ended 31 December 2004 to RMB5,623.5 million in the year ended 31 December 2005. Our gross profit margin decreased from 20.8% in 2004 to 18.7% in 2005.

Selling, general and administrative expenses

Our selling, general and administrative expenses increased by 30.8% from RMB1,134.6 million in the year ended 31 December 2004 to RMB1,483.8 million in the year ended 31 December 2005, mainly due to the expansion of operations in each of our operating segments, which resulted in an increases in personnel expenses, traveling, marketing and sales expenses, depreciation and amortization costs and utility charges.

Other gains

Our other gains increased by 77.0% from RMB71.5 million in the year ended 31 December 2004 to RMB126.6 million in the year ended 31 December 2005. This increase was mainly due to the increase of interest income from RMB48.6 million in 2004 to RMB71.7 million in 2005.

Other operating income, net

Our other operating net income includes other operating income less other operating expenses. Our other operating income net of other operating expenses increased by 17.1% from RMB138.7 million in the year ended 31 December 2004 to RMB162.4 million in the year ended 31 December 2005, mainly because of the RMB27.2 million increase of net rental income from the dedicated railway located in our Pingshuo Mining Area, which we leased to Shuozhou Pingshuo Luda Railways Transportation Company, a subsidiary of a connected person, based on an agreement entered into in 2004.

Finance costs

In the year ended 31 December 2005, we had net foreign exchange gains of RMB391.5 million, compared to a net foreign exchange loss of RMB83.4 million in the year ended 31 December 2004. As a result, our finance costs decreased significantly by 78.7%, or RMB415.4 million, from RMB527.8 million in 2004 to RMB112.3 million in 2005.

Share of profits/(losses) of associates

Share of losses of associates increased by 223.4% from 1.9 million in the year ended 31 December 2004 to RMB6.1 million in the year ended 31 December 2005. The substantial increase was mainly due to the significant losses incurred by China Coal & Coke Xuyang Limited, our 45% owned associate. We generated a profit of RMB0.1 million from our investment in China Coal & Coke Xuyang Limited in 2004 but incurred a loss of RMB7.8 million 2005.

The profits we generated from our investments in other associates partially offset the losses we incurred from our investment in China Coal & Coke Xuyang Limited.

Income tax expenses

Our income tax expense increased by 3.9% from RMB730.2 million in the year ended 31 December 2004 to RMB758.8 million in the year ended 31 December 2005. In spite of the increased taxable profit, we benefited from preferential tax rates enjoyed by certain of our subsidiaries and jointly controlled entities. Such tax savings lowered our effective income tax rate from 23.1% in 2004 to 17.6% in 2005.

Profit for the year

As a result of the foregoing, our profit for the year ended 31 December 2005 increased by 45.8%, or RMB1,115.9 million, from RMB2,435.5 million in the year ended 31 December 2004 to RMB3,551.4 million in the year ended 31 December 2005.

Minority interests

Minority interests increased by 11.0% from RMB187.3 million in the year ended 31 December 2004 to RMB208.0 million in the year ended 31 December 2005.

Profit attributable to equity holders

Profit attributable to equity holders increase by 48.7% from RMB2,248.2 million in the year ended 31 December 2004 to RMB3,343.5 million in the year ended 31 December 2005.

Year ended 31 December 2004 compared with year ended 31 December 2003

Revenue

Our total revenue after elimination of inter-segment sales increased by 53.1%, from RMB14,480.8 million in the year ended 31 December 2003 to RMB22,163.8 million in the year ended 31 December 2004. This increase was attributable to increases of RMB6,076.3 million, RMB974.3 million, RMB421.4 million and RMB211.0 million in revenue from each of our coal operations, coking operations, coal mining equipment manufacturing operations and other operations, respectively.

Total revenue generated from external sales of our coal operations increased by 52.1% from RMB11,656.7 million in the year ended 31 December 2003 to RMB17,733.0 million in the year ended 31 December 2004. This increase was attributable to the increase in revenue from both domestic and export sales of our coal products, driven by increases in our production capacity and output as well as a sharp increase in average selling price due to strong market demand. Revenue increase from coal sales was slightly offset by a decrease in revenue from proprietary trading of coal during 2004.

In the year ended 31 December 2004, we sold approximately 31.7 million tonnes of coal products in China to external customers, compared to approximately 23.2 million tonnes in the year ended 31 December 2003, representing an increase of 36.5%. The increase in sales volume was driven principally by the expansion of production capacity and output at our coal mines and coal processing plants. In the year ended 31 December 2004, our Anjialing Open Pit Mine and Shaqu Mine commenced full operations and produced 14.5 million tonnes of thermal coal and 1.6 million tonnes of high-quality coking coal, respectively. Strong market demand resulting from the continuous growth in China's economic sectors, particularly the power generation, metallurgical, construction materials and chemicals sectors, also contributed to the increase in our sales volume. In addition, the average domestic selling price of our coal products increased from RMB175 per tonne in 2003 to RMB257 per tonne in 2004 and contributed to the increase in our coal sales revenue. The increase in coal sales prices in 2004 was primarily attributable to the continuous rise in coal consumption in recent years resulting from economic growth and the increase in prices of other energy sources such as oil and natural gas.

The export volume of our coal products sold to external customers increased from 14.0 million tonnes in the year ended 31 December 2003 to 15.2 million tonnes in the year ended 31 December 2004. In addition, higher average selling prices in the export coal market resulting from strong coal demand from neighboring countries and territories contributed to the increase in our revenue from export coal sales. For example, the average selling price of our thermal coal in the export market increased from RMB244 per tonne in 2003 to RMB340 per tonne in 2004.

The revenue we generated from our proprietary coal trading business to external customers increased from RMB4,025.5 million in the year ended 31 December 2003 to RMB4,159.2 million in the year ended 31 December 2004. The average selling price of coal traded domestically increased from RMB239 per tonne in 2003 to RMB287 per tonne in 2004. In addition, the average selling price of coal traded overseas increased from RMB260 per tonne in 2003 to RMB612 per tonne in 2004. The increase in average selling prices was partially offset by the decrease in proprietary trading volume from 16.2 million tonnes in 2003 to 10.0 million tonnes in 2004. Decrease in our proprietary trading volume was mainly due to the shift of our focus on coal sales of our coal products.

Total revenue from the external sales of our coking operations increased by 91.5% from RMB1,064.9 million in the year ended 31 December 2003 to RMB2,039.2 million in the year ended 31 December 2004. This increase was primarily due to the sharp increase in average selling price and sales volume as a result of the continuous improvement in market conditions.

The increase in export sales revenue was primarily attributable to a 122.2% increase in the average selling price of our coke products sold in the export market, from RMB1,070 per tonne in 2003 to RMB2,377 per tonne in 2004. The significant price increase in the overseas market was caused by a supply shortage during 2004 and also resulted in part from the PRC Government's reduced coke export quotas. Our coke export volume remained at approximately the same level in 2004 and 2003. As a result, our revenue generated from export sales of coke increased by 83.9% from RMB981.7 million in 2003 to RMB1,805.6 million 2004.

The domestic sales volume of our coke products increased by 182.0% from 0.08 million tonnes in the year ended 31 December 2003 to 230,000 tonnes in the year ended 31 December 2004. In addition to strong market demand, the commencement of commercial production at our Fenyang Longquan Plant, which has an annual output capacity of 400,000 tonnes, also contributed to the increase. Meanwhile, the average selling price of our coke products decreased by 0.5% in the domestic market, from RMB1,041 per tonne in 2003 to RMB1,036 per tonne in 2004. As a result, revenue generated from our domestic sales of coke increased by 180.6% from RMB83.3 million in 2003 to RMB233.6 million in 2004.

The revenue from external sales of our coal mining equipment manufacturing operations increased by 39.8% from RMB1,057.9 million in the year ended 31 December 2003 to RMB1,479.4 million in the year ended 31 December 2004. This increase was mainly due to the increase in sales volume of coal mining equipment, whereas the average selling price of our products remained at the same level during this period.

Revenue from external sales of our other businesses increased by 30.1% from RMB701.2 million in the year ended 31 December 2003 to RMB912.2 million in the year ended 31 December 2004. This increase was mainly due to the increase in revenue from coal mine design services.

Costs of sales

The cost associated with external sales increased by 37.5% from RMB12,762.7 million in the year ended 31 December 2003 to RMB17,544.0 million in the year ended 31 December 2004. The increase was primarily due to the increase in transportation costs and materials costs incurred by our coal operations, coking operations and coal mining equipment manufacturing operations.

Our materials costs increased by 20.9% from RMB8,819.8 million in the year ended 31 December 2003 to RMB10,661.7 million in the year ended 31 December 2004. The increase was primarily driven by our increased production and sales of coal, coke and coal-based chemicals and coal mining equipment. Increase in material costs in our coal operations was attributable to: (i) the increase in purchase volume and average purchase price of coal from third party suppliers; and (ii) the increase in the cost of mining accessories. Increase in material costs in our coking operations was attributable to: (i) the increase in purchase volume and average purchase price of coal we purchased from third party suppliers used as raw material in coking; and (ii) the increased purchase volume and average purchase price of coke we purchased from third party suppliers for trading purposes. The increased materials costs in our coal mining equipment manufacturing operations were primarily due to the increased costs of steel and other raw materials used in our production process.

Our transportation costs increased by 101.6% from RMB1,839.8 million in the year ended 31 December 2003 to RMB3,709.5 million in the year ended 31 December 2004, mainly due to the increases in transportation costs incurred by both our coal and coking operations as a result of increased volume of coal and coke delivered to our customers. The addition of railway construction fees imposed by the PRC Government, increased port charges imposed by relevant port authorities for export sales of our coal products, as well as a greater proportion of our sales being shipped on an FOB instead of ex-mine sales basis in 2004 compared to 2003, all contributed to the increase in transportation costs relating to our coal operations.

Gross profit

As a result of the foregoing, our gross profit generated from external transactions increased by 168.9% from RMB1,718.1 million in the year ended 31 December 2003 to RMB4,619.8 million in the year ended 31 December 2004. Our gross profit margin increased from 11.9% in 2003 to 20.8% in 2004.

Selling, general and administrative expenses

Our selling, general and administrative expenses increased by 33.8% from RMB848.1 million in the year ended 31 December 2003 to RMB1,134.6 million in the year ended 31 December 2004, mainly due to the expansion of operations in each of our operating segments, which resulted in an increase in personnel expenses, traveling, marketing and sales expenses, depreciation and amortization costs and utility charges.

Other gains

Our other gains decreased by 17.3% from RMB86.5 million in the year ended 31 December 2003 to RMB71.5 million in the year ended 31 December 2004. This decrease was primarily due to a RMB8.4 million decrease in dividend income from unlisted investments and a RMB3.8 million decrease in interest income.

Other operating income, net

Our other operating net income includes other operating income less other operating expenses. Our other operating income net of other operating expenses increased by 176.4% from RMB50.2 million in the year ended 31 December 2003 to RMB138.7 million in the year ended 31 December 2004. The substantial increase was mainly due to (i) the RMB43.8 million increase of net rental income from the dedicated railway located in the Pingshuo Mining Area, which we leased to Shuozhou Pingshuo Luda Railways Transportation Company, a subsidiary of a connected person, based on an agreement entered into in 2004, and (ii) the RMB44.5 million increase in agency service income relating to non-core products, partially offset by the decrease of RMB10.0 million in miscellaneous income.

Finance costs

Our finance costs decreased by 21.9%, or RMB147.6 million, from RMB675.4 million in the year ended 31 December 2003 to RMB527.8 million in the year ended 31 December 2004, primarily due to a RMB261.7 million decrease in net foreign exchange loss which was partially offset by an increase in interest expenses and bank charges.

Share of profits/(losses) of associates

For the year ended 31 December 2004, we incurred share of losses of associates of RMB1.9 million, compared to the share of profits of associates of RMB0.7 million in the year ended 31 December 2003.

Income tax expenses

Income tax expenses increased by 682.5% from RMB93.3 million in the year ended 31 December 2003 to RMB730.2 million in the year ended 31 December 2004. This increase was primarily due to increase in our taxable profit, which is directly related to our increased profit before income tax of RMB2,833.8 million from RMB332.0 million in 2003 to RMB3,165.8 million in 2004. In spite of the increased taxable profit, we benefited from preferential tax rates enjoyed by some of our subsidiaries and jointly controlled entities. Such tax savings lowered our effective tax rates from 28.1% in 2003 to 23.1% in 2004.

Profit for the year

As a result of the foregoing, our profit for the year increased by 920.6%, or RMB2,196.9 million, from RMB238.6 million in the year ended 31 December 2003 to RMB2,435.5 million in the year ended 31 December 2004.

Minority interests

Minority interests increased by 91.8% from RMB97.7 million in the year ended 31 December 2003 to RMB187.3 million in the year ended 31 December 2004.

Profit attributable to equity holders

Profit attributable to equity holders increased by RMB2,107.3 million from RMB141.0 million in the year ended 31 December 2003 to RMB2,248.2 million in the year ended 31 December 2004.

Liquidity and Capital Resources

To date, we have funded our operations principally from cash generated from our operations, capital contributions from our shareholder and bank borrowings. Any significant decrease in demand for, or pricing of, our products or a significant decrease in the availability of bank loans may adversely impact our liquidity.

Our current assets divided by current liabilities, or current ratio, was 0.85, 0.91, 0.96 and 0.99 as of 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006, respectively. Our current assets after subtraction of inventories divided by current liabilities, or quick ratio, was 0.69, 0.73, 0.76 and 0.77 as of 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006, respectively.

As of 30 June 2006, our current assets amounted to RMB12,386.2 million, representing an increase of RMB113.7 million from RMB12,272.5 million as of 31 December 2005. The increase was mainly attributable to an increase of RMB858.1 million in trade and notes receivables mainly due to changes of payment terms by our customers.

As of 31 December 2005, our current assets amounted to RMB12,272.5 million, representing an increase of RMB1,922.5 million from RMB10,350.0 million as of 31 December 2004. The increase was mainly attributable to: (i) an increase of RMB890.3 million in trade and notes receivables mainly due to the increase in coal product sales in the fourth quarter of 2005 compared to the same period in 2004; (ii) increase in accounts receivables from connected parties and the increase of RMB865.0 million in prepayments and other receivables; (iii) an increase of RMB475.7 million in inventories, including increases in coal, coke and machinery for sale, auxiliary materials, spare parts and tools; and (iv) an increase of RMB13.7 million in term deposits with initial terms of over three months. The increase in our current assets was partially offset by decreases of RMB215.8 million and RMB106.2 million in restricted bank deposits and cash and cash equivalents, respectively, in the year ended 31 December 2005.

As of 30 June 2006, our current liabilities amounted to RMB12,544.6 million, representing a decrease of RMB250.8 million from RMB12,795.5 million as of 31 December 2005. The decrease was mainly attributable to: (i) a decrease of RMB585.5 million in accrual and other payables mainly to ChinaCoal Group as a dividend payable; and (ii) a decrease of RMB205.1 million in trade and other payables due to decreased purchase of raw materials in the second quarter of 2006 compared to the fourth quarter in 2005 resulting from the decreased trading volume of coal and other products. The decrease was partially offset by the increase of RMB479.7 million in short-term borrowings (including the current portion of long-term borrowings).

As of 31 December 2005, our current liabilities amounted to RMB12,795.5 million, representing an increase of RMB1,456.6 million from RMB11,338.8 million as of 31 December 2004. The increase was mainly attributable to: (i) an increase of RMB995.3 million in accrual and other payables mainly to ChinaCoal Group as a dividend payable; (ii) an increase of RMB776.3 million in trade payables due to increased purchase of raw materials in the fourth quarter of 2005 compared to the same period in 2004 resulting from the increased production volume of coal and other products; and (iii) an increase of RMB155.9 million in taxes payable. The increase in current liabilities was partially offset by a decrease of RMB205.6 million in short-term borrowings from commercial banks, a decrease of RMB195.0 million in our current portion of long-term borrowings, as well as a decrease of RMB70.3 million in our current portion of provisions for shut-downs, restorations and environmental clean-up costs.

Among the sources of the prepayments and other receivables as our current assets, the amounts due from related parties were RMB1,050.1 million as of 31 December 2005 and RMB1,122.3 million as of 30 June 2006, representing increases of RMB437.0 million and RMB72.2 million from 31 December 2004 and 31 December 2005, respectively. The increases were mainly due to the increase in the amount of deposits receivables from ChinaCoal Group to us and from our jointly controlled entity, Datong Zhongxin Energy Co., Ltd., as inter-company advances.

Among the sources of the accruals and other payables as our current liabilities, the amounts due to related parties were RMB897.8 million as of 31 December 2005 and RMB976.2 million as of 30 June 2006, representing increases of RMB120.3 million and RMB78.3 million from 31 December 2004 and 31 December 2005, respectively. The increases were mainly due to the increase of payables due to ChinaCoal Group as considerations for the acquisition of a power plant in 2005 and our inter-company advances from ChinaCoal Group in 2006.

Cash flow

Our primary uses of cash are to invest in mines, production facilities and equipment, repay our indebtedness, and fund working capital and normal recurring expenses. As of 31 December 2005 and 30 June 2006, we had cash and cash equivalents of RMB3,140.3 million and RMB2,294.0 million, respectively, and approximately RMB24,861.7 million and RMB23,774.0 million, respectively, of unutilized bank credit facilities. The following table sets forth our cash flows in each of the three years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2005 and 2006:

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
	(RMB million)			(RMB million)	
Cash and cash equivalents at beginning of year	2,874.5	2,976.2	3,246.5	3,246.5	3,140.3
Net cash generated from operating activities	985.1	3,490.7	2,765.4	1,705.2	1,143.0
Net cash used in investing activities	(2,095.1)	(2,525.7)	(2,717.7)	(1,135.9)	(1,963.4)
Net cash generated from/(used in) financing activities	1,211.8	(694.8)	(153.9)	287.1	(25.9)
Net increase/(decrease) in cash and cash equivalents	101.8	270.2	(106.2)	856.3	(846.3)
Cash and cash equivalents at end of year	2,976.2	3,246.5	3,140.3	4,102.8	2,294.0

Net cash generated from operating activities

Net cash generated from operating activities decreased by 33.0% from RMB1,705.2 million in the six months ended 30 June 2005 to RMB1,143.0 million in the six months ended 30 June 2006. The decrease of RMB562.2 million was primarily due to the decrease of RMB552.4 million in net cash inflows generated from operations mainly attributable to: (i) the decrease in profit in the period; (ii) the increase in accounts receivables due to rising sales volume as well as the increasing proportion of sales made pursuant to long-term sales contracts. Given our established transaction history with long-term contract customers and common industry practice, such customers often enjoy more favorable credit terms which are more toward the higher end of the three to six months range; and (iii) the decrease in trade payables due to early settlement of outstanding construction and materials costs incurred by Huajin Joint Venture, no active major maintenance projects during the first six months of 2006 by Shanghai Datun Energy, and early settlement of purchase price for the procurement of steel and oil inventories in anticipation of significant price increases.

Net cash generated from operating activities decreased by 20.8% from RMB3,490.7 million in the year ended 31 December 2004 to RMB2,765.4 million in the year ended 31 December 2005. The decrease of RMB725.3 million was attributable to the increase in income tax paid, from RMB461.8 million in 2004 to RMB661.9 million in 2005. The decrease in net cash inflow, notwithstanding the RMB1,115.9 million increase in profit for the year, was mainly attributable to the high balance of unpaid accruals to third parties in 2004, consisting of advance from customers, amounts due to related parties, and payable for site restoration, the larger increase in trade receivables in 2005 and the gain in foreign exchange in 2005. The high balance of unpaid accruals to third parties in 2004 was driven by the strictly enforcement of our advanced payment policy due to strong market demand for our coal products. The increase in trade receivables in 2005 was in line with the substantial increase in sales revenue in 2005.

Net cash generated from operating activities increased by 254.4% from RMB985.1 million in the year ended 31 December 2003 to RMB3,490.7 million in the year ended 31 December 2004. The increase of RMB2,505.6 million was attributable to a significant increase in net cash generated from operations of RMB2,636.8 million, from RMB1,733.6 million in 2003 to RMB4,370.4 million in 2004. The substantial increase in net cash generated from operations was mainly due to the increase of RMB2,196.9 million in profit for the year and RMB237.4 million increase in depreciation expenses. This increase was partially offset by an increase in income tax paid from RMB231.3 million in 2003 to RMB461.8 million in 2004 due to increases in taxable profits in 2004.

Net cash used in investing activities

Net cash used in investing activities increased by 72.8% from RMB1,135.9 million in the six months ended 30 June 2005 to RMB1,963.4 million in the six months ended 30 June 2006. The increase of RMB827.5 million was mainly attributable to (i) an increase of RMB339.8 million in the purchase of property, plant and equipment relating to the construction of our coal mines, coal processing plants and coking facilities and (ii) an increase of RMB363.9 million in increase in investments in associates. The increase was partially offset by the changes in the balance of term deposits. In the six months ended 30 June 2005, our term deposits with terms of more than three months increased by RMB10.0 million and for the six months ended 30 June 2006, our term deposits with the same terms decreased by RMB36.4 million from the previous comparable period.

Net cash used in investing activities increased by 7.6% from RMB2,525.7 million in the year ended 31 December 2004 to RMB2,717.7 million in the year ended 31 December 2005. The increase of RMB192.0 million was mainly attributable to an increase of RMB357.5 million in the purchase of property, plant and equipment, mainly for the construction of our mines and coal processing plants, from RMB2,518.9 million in 2004 to RMB2,876.4 million in 2005.

Net cash used in investing activities increased by 20.5% from RMB2,095.1 million in the year ended 31 December 2003 to RMB2,525.7 million in the year ended 31 December 2004. The increase of RMB430.5 million was mainly attributable to an increase in the purchase of property, plant and equipment for the construction of the Anjialing Underground Mine and the Shaqu Mine.

Net cash generated from/(used in) financing activities

For the six months ended 30 June 2005, we generated RMB287.1 million from financing activities but we used RMB25.9 million in financing activities for the six months ended 30 June 2006. The change was mainly attributable to (i) a decrease of RMB598.6 million in proceeds from long-term borrowings, and (ii) an increase of RMB579.0 million in the dividends paid to ChinaCoal Group. In addition, in the six months ended 30 June 2005, we distributed RMB308.5 million to ChinaCoal Group as consideration for the lump sum purchase of nine power generators. The increase in cash outflow for financing activities was partially offset by the decrease in repayments of long- and short-term borrowings.

Net cash used in financing activities decreased by RMB540.9 million from RMB694.8 million in the year ended 31 December 2004 to RMB153.9 million in the year ended 31 December 2005 mainly due to the change in net repayment of short-term borrowings of RMB574.8 million.

Net cash outflow from financing activities was RMB694.8 million in the year ended 31 December 2004 compared to net cash generated from financing activities of RMB1,211.8 million in the year ended 31 December 2003. The change was mainly due to: (i) net repayments of short-term borrowings of RMB812.6 million in 2004 compared with net proceeds from short-term borrowings of RMB515.0 million in 2003; (ii) the contribution from ChinaCoal Group decreased by RMB413.6 million from 2003 to 2004; and (iii) the dividend and distribution to ChinaCoal Group increased by RMB738.4 million from 2003 to 2004. This was offset by the net change in long-term borrowings of RMB460.5 million in 2004.

Trade receivables, inventories and trade payables turnover

The following table sets forth the turnover days of our trade receivables, inventories and trade payables for the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2003	2004	2005	2006
Turnover days of trade receivables(1)	57.6	38.4	35.7	46.8
Turnover days of inventories(2)	41.4	38.5	34.8	40.5
Turnover days of trade payables(3)	75.8	65.1	57.4	63.9

(1) Turnover days of trade receivables for a year is derived by dividing the arithmetic mean of the opening and closing balances of trade receivables by revenue for the relevant period and then multiplied by 365 days. Turnover days of trade receivables for a six-month period is derived by dividing the arithmetic mean of the opening and closing balances of trade receivables by revenue for the relevant period and then multiplied by 180 days.

(2) Turnover days of inventories for a year is derived by dividing the arithmetic mean of the opening and closing balances of inventory by cost of sales for the relevant period and then multiplied by 365 days. Turnover days of inventories for a six-month period is derived by dividing the arithmetic mean of the opening and closing balances of inventories for the relevant period by cost of sales and then multiplied by 180 days.

(3) Turnover days of trade payables for a year is derived by dividing the arithmetic mean of opening and closing balances of trade payables, by cost of sales for the relevant period and then multiplied by 365 days. Turnover days of trade payables for a six-month period is derived by dividing the arithmetic mean of the opening and closing balances of trade payables by cost of sales for the relevant period and then multiplied by 180 days.

Capital expenditures

We incurred capital expenditures for the construction, expansion and technology upgrade of our mines, coal processing plants and mine railways. In addition, we incurred capital expenditures for the capacity expansion of our coking, coal-based chemicals products and mining equipment manufacturing businesses. Our capital expenditures were RMB2,432.7 million, RMB2,925.9 million and RMB3,098.2 million in the years ended 31 December 2003, 2004 and 2005, respectively. Capital expenditures during these periods were primarily related to property, plant and equipment and intangible assets.

As part of our future growth strategy, we have made capital expenditure plans for 2006, 2007 and 2008, respectively. The following table sets forth our capital expenditures during the Track Record Period as well as the current estimate of our capital expenditures for 2006, 2007 and 2008 relating to our operations:

	Year ended 31 December					
	2003	2004	2005	2006E	2007E	2008E
	(RMB million)					
Coal operations	1,449.1	1,538.2	1,662.9	3,315.0	5,427.0	4,988.5
Coking operations	118.1	595.3	718.3	150.0	650.0	438.0
Coal mining equipment operations	57.5	75.2	159.7	380.0	280.0	280.0
Other operations	807.9	717.2	557.4	1,178.1	1,931.1	1,588.0
Total	2,432.7	2,925.9	3,098.2	5,023.1	8,288.1	7,294.5

Indebtedness

Borrowings

Our combined borrowings as of 31 December 2003, 2004, 2005 and 30 September 2006, for the purpose of calculating the indebtedness of our Company, were as follows:

	As of 31 December			As of 30 September
	2003	2004	2005	2006
		(RMB million)		(RMB million)
Secured bank loans	838.8	669.3	455.0	395.9
Unsecured bank loans	8,548.8	7,615.2	7,074.3	7,841.7
Other unsecured loans(1)	211.4	2,077.5	3,217.0	4,421.2
Total	9,598.9	10,361.9	10,746.3	12,658.8

(1) Include loans from ChinaCoal Group and minority shareholders of certain subsidiaries.

The above borrowings during the Track Record Period and as of 30 September 2006 bore interest as follows:

	As of 31 December			As of 30 September 2006
	2003	2004	2005	
Banks loans and loans from other financial institutions	3.83%-7.89%	4.02%-7.89%	4.66%-7.89%	4.40%-6.39%
Loans from ChinaCoal Group	5.12%-5.94%	5.12%-5.94%	5.12%-5.94%	5.12%-6.39%
Loans from minority shareholders of certain subsidiaries	5.60%	5.60%-5.89%	5.60%-5.89%	5.60%-5.89%

The maturity profile of interest-bearing long-term borrowings of our Company as of 31 December 2003, 2004, 2005 and 30 September 2006 was as follows:

	As of 31 December			As of 30 September
	2003	2004	2005	2006
			(RMB million)	
Banks loans and loans from other financial institutions				
Within one year	449.1	444.0	265.5	354.4
In the second year	859.8	941.0	545.7	325.3
In the third to fifth year	2,435.6	2,258.2	2,045.2	2,625.0
After the fifth year	2,675.8	2,572.8	2,836.1	2,321.4
	6,420.4	6,216.0	5,692.5	5,626.1
Loans from ChinaCoal Group				
Within one year	—	16.5	—	—
In the second year	16.5	—	—	—
In the third to fifth year	—	—	924.2	36.0
After the fifth year	40.0	1,820.0	2,025.8	3,520.0
	56.5	1,836.5	2,950.0	3,556.0
	6,476.9	8,052.5	8,642.5	9,182.1

Our gearing ratio was 0.91, 0.84 and 0.73 and 0.73 as of 31 December 2003, 2004 and 2005 and 30 September 2006, respectively. Gearing ratio is derived by dividing total interest-bearing bank and other borrowings by the sum of interest-bearing bank and other borrowings and shareholders equity. As of

31 December 2005 and 30 September 2006, RMB6,073.9 million and RMB6,088.2 million, respectively, of our total borrowings were guaranteed by ChinaCoal Group and its subsidiaries. All guarantees provided by ChinaCoal Group and its subsidiaries to our Company will be released or withdrawn prior to or upon the Listing Date.

Other than as disclosed above, there has been no material change in our indebtedness since the Latest Practicable Date.

Our Directors confirm that there has been no material change in our indebtedness or contingencies since 30 September 2006.

Net current liabilities

As of 30 September 2006, our net current liabilities were approximately RMB922.2 million, consisting of current assets of RMB12,338.9 million and current liabilities of RMB13,261.1 million. As of the same date, our current assets mainly included trade and notes receivable of approximately RMB3,947.5 million, prepayments and other receivables of approximately RMB2,743.3 million, inventories of approximately RMB2,600.3 million and cash and cash equivalents of approximately RMB3,009.9 million. Our current liabilities on the same date mainly included accruals and other payables of approximately 5,047.3 million, trade and notes payable of approximately RMB3,676.2 million and short-term borrowings of approximately RMB3,476.7 million.

Capital commitments

Capital expenditures contracted for at the balance sheet date but not yet incurred is then as follows:

	As of 31 December			As of 30 June
	2003	2004	2005	2006
		(RMB million)		
Property, plant and equipment	469.3	1,426.2	1,295.1	2,516.7
Others	—	—	110.0	110.0

Contractual obligations

The following table sets forth our material contractual obligations due by period as of 30 June 2006:

	Payments due in			
	Total	2006	2007 to 2010	2011 and thereafter
		(RMB million)		
Debt obligations(1)	11,619.7	2,849.0	3,238.8	5,531.9
Operating lease obligations(2)	118.6	24.6	19.8	74.2
Total	11,738.4	2,873.6	3,258.6	5,606.1

(1) Include bank loans and other borrowings.

(2) Include payments for leases of land, buildings, factories and machinery under operating lease arrangements for terms ranging from one to twenty years.

Contingent liabilities

In connection with the Restructuring, ChinaCoal Group has agreed to assume any undisclosed liabilities of the Transferred Businesses related to the periods prior to the Restructuring.

Bank and other guarantees

As of 31 December 2003, 2004, 2005 and 30 June 2006, the undiscounted maximum amount of potential future payments under guarantees given to banks in respect of banking facilities granted to the parties below were as follows:

	As of 31 December			As of 30 June
	2003	2004	2005	2006
		(RMB million)		
Jointly controlled entity of our Company (after elimination of our Company's proportionate interest in those jointly controlled entities)	44.1	62.1	15.1	—
Third parties	99.0	65.2	6.3	6.3
	143.1	127.3	21.4	6.3

Guarantees to third parties will be released or withdrawn prior to the listing of our Company's Shares on the Hong Kong Stock Exchange.

Lawsuits and other proceedings

Our Company is involved in certain lawsuits and other proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, we believe that any resulting liabilities will not have a material adverse effect on the financial position or our results of operations. See "Business — Legal proceedings."

Off-balance Sheet Arrangements

As of 30 June 2006, being the date of our most recent financial statements, we did not have any off-balance sheet arrangements.

Market Risk

We are exposed to various types of market risks in the ordinary course of our business, including fluctuations in interest rates and foreign exchange rates and changes in the selling prices for our main products and costs of raw materials. We manage our exposure to these and other market risks through regular operating and financial activities.

Interest rate risk

Our exposure to market risk for changes in interest rates relates primarily to fluctuations in interest rates on our short-term and long-term debt and our ability to borrow further funds. Higher interest rates may adversely affect our revenue, profit from operations and net profit. We have not historically been exposed nor do we anticipate being exposed to material risks due to changes in interest rates on debt denominated in Renminbi, although our future interest income and interest disbursements may fluctuate in line with changes in interest rates on debt denominated in Renminbi.

Foreign exchange risk

In the year ended 31 December 2003, 2004, 2005 and the six months ended 30 June 2005 and 2006, we generated RMB6,583.9 million, RMB9,733.8 million, RMB8,280.7 million, RMB4,616.6 million and RMB2,913.4 million, respectively, in income from foreign currency-denominated export sales of our coal, coke and other products. We mainly receive U.S. dollars as payment for our export sales. We also have a substantial amount of indebtedness denominated in foreign currencies, including Japanese Yen and U.S. dollars. Consequently, foreign currency fluctuations, particularly fluctuations in foreign currencies against the Renminbi, affect and will continue to affect, our results of operations.

Inflation and monetary risk

Inflation in China has not had a material impact on our results of operations in recent years. According to the National Bureau of Statistics of China, the change in the Consumer Price Index in China was 1.2%, 3.9% and 1.8% in 2003, 2004 and 2005, respectively.

Commodity price risk

We are also exposed to commodity price risk resulting from changes in the prices of our products and the cost of raw materials, mainly including coal produced by third parties.

WORKING CAPITAL CONFIRMATION

Taking into account our cash generated from operating activities, the net proceeds of the Global Offering and our credit facilities maintained with our banks and financial institutions, we are satisfied that we will have available sufficient working capital for our operations during the 12 months following the date of this Prospectus.

ACQUISITION OF SHANXI PINGSHUO SUBSEQUENT TO THE TRACK RECORD PERIOD

After obtaining an approval from the PRC Government in September 2006, our Company acquired the remaining 20% equity interests in Shanxi China Coal Pingshuo Antaibao Coal Co., Ltd. ("Shanxi Pingshuo"), a jointly controlled entity, from ChinaCoal Group and another third-party joint venture partner for an aggregate consideration of approximately RMB247.7 million (the "Pingshuo Acquisition"). Upon completion of the Pingshuo Acquisition in September 2006, Shanxi Pingshuo became our wholly owned subsidiary and, as a result, 100% of its operating results have been consolidated into those of our Company since then. See Note 37(c) of the Accountants' Report included as Appendix I to this Prospectus.

PROPERTY VALUATION

Savills Valuation and Professional Services Limited, an independent property valuer, has valued our property interests as of 30 September 2006. The text of the letter, summary of valuation and the summary valuation certificates are set out in Appendix V to this Prospectus.

A reconciliation of the net book value of the relevant land use rights and properties as of 30 June 2006 to their unaudited net book values of property interests, as stated in Appendix V to this Prospectus, is as follows:

	Properties	Land use rights
	(RMB'000)	
Net book value as of 30 June 2006	3,908,482	132,414
Movements for the period ended from 30 June 2006 to 30 September 2006		
— Additions	135,982	—
— Disposal	(3,195)	(558)
— Depreciation	(170,837)	(542)
— Others	(16,237)	(72)
Net book value as of 30 September 2006	3,854,195	131,242
Valuation appreciation	135,915	972,100
Valuation depreciation	(2,395,889)	—
Valuation as of 30 September 2006 as per Appendix V to this Prospectus	1,458,306	1,103,342

PROFIT FORECAST

We believe that on the bases and assumptions as set forth below and in the absence of unforeseen circumstances as set forth in Rule 11.17 of the Listing Rules, our forecast consolidated profit attributable to equity holders of our Company for the year ending 31 December 2006 is expected to be not less than RMB3,147.1 million under IFRS. On the basis of the prospective financial information and the number of Shares expected to be issued, assuming the Over-allotment Option is not exercised, the forecast consolidated profits attributable to shareholders per Share for the year ending 31 December 2006 would be approximately RMB0.280 on a pro forma fully diluted basis under IFRS.

Bases And Assumptions

The prospective financial information has been prepared based on the accounting policies consistent in all material respects with those adopted by us as set forth in the Accountants' Report included as Appendix I to this Prospectus, and on bases and assumptions including the following:

- there will be no material change in existing political, legal, fiscal, market or economic conditions in China, Hong Kong, or any other country or territory in which we currently operate or which are otherwise material to our business;
- there will be no changes in legislation, regulations or rules in China, Hong Kong or any other country or territory in which we operate or with which we have arrangements or agreements, which materially adversely affect our business;
- there will be no material change in the bases or rates of taxation in China or any other country or territory in which we operate, except as otherwise disclosed in this Prospectus; and
- there will be no material changes in inflation rates, interest rates or foreign currency exchange rates from those currently prevailing.

DIVIDEND POLICY

After completion of the Global Offering, our shareholders will be entitled to receive dividends declared by us. The payment and the amount of any dividends will be at the discretion of our Board and will depend on our general business condition and strategies, cash flows, financial results and capital requirements, interests of our shareholders, taxation conditions, statutory and regulatory restrictions and other factors that our Board deems relevant. Any dividend distribution shall also be subject to approval of our shareholders. Under the PRC Company Law and our Articles of Association, all of our shareholders have equal rights to dividends and distributions. For holders of our H Shares, cash dividend payments, if any, will be declared by our Board in Renminbi and paid in Hong Kong dollars.

We intend to distribute 20% to 30% of our net distributable profit for the periods subsequent to the Global Offering.

PRE-ESTABLISHMENT DISTRIBUTION AND SPECIAL DIVIDENDS

In accordance with the *"Provisional Regulations Relating to Corporate Reorganization of Enterprises and Related Management of State-owned Capital and Financial Treatment"* 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. The Pre-establishment Distribution represents a surplus between the value of our net assets as at our incorporation date over the value of the net assets as at the last valuation date, and we are required by the Provisional Regulations to return such surplus to ChinaCoal Group.

On 23 August 2006, our shareholders' meeting resolved that ChinaCoal Group will be entitled 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, which, assuming that the Global Offering is completed on 19 December 2006, would mean up to 30 November 2006.

We currently estimate the total amount of the Pre-establishment Distribution and the Special Dividends to be RMB 1,210.0 million, of which (i) the Pre-establishment Distribution is based on the difference in our net asset value as stated in our management accounts as of 1 October 2005 and as of 21 August 2006 and (ii) the Special Dividends are calculated on a pro rata basis based on the number of days from 22 August 2006 to 30 November 2006, and a net profit per day calculation based on the net profits as recorded in our management accounts for the three months ended 30 September 2006.

We will determine the actual amount of the Pre-establishment Distribution and Special Dividends by reference to our accounts for the period from 1 October 2005 to 30 November 2006. We will engage PwC to perform a special audit of our accounts for the period from 1 October 2005 to 30 November 2006, which is expected to be completed by 30 April 2007. We expect to finance the Pre-establishment Distribution and the Special Dividends to ChinaCoal Group from our existing cash on hand prior to the Global Offering. Payment of the Pre-establishment Distribution and the Special Dividends will take place after the Global Offering and after the special audit of our accounts for the period from 1 October 2005 to 30 November 2006 is completed. The Pre-establishment Distribution is determined based on audited accounts prepared in accordance with PRC GAAP. The Special Dividends will be determined based on audited accounts prepared in accordance with PRC GAAP and IFRS, whichever is lower, after deducting any contribution made by the Company to the statutory and discretionary reserve funds. We will publish an announcement of the final amount of the Pre-establishment Distribution and the Special Dividends and the outcome of the special audit prior to the payment of the Pre-establishment Distribution and the Special Dividends to ChinaCoal Group.

Holders of H Shares are not entitled to share in the Pre-establishment Distribution or 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 Pre-establishment Distribution is required to be paid to ChinaCoal Group under regulations issued by the MOF. We decided to distribute the Special Dividends based on our commercial discretion. You should not rely on the Pre-establishment Distribution and Special Dividends as an indication of our future dividend distribution policy or practice.

DISTRIBUTABLE RESERVES

As our Company was only incorporated on 22 August 2006, there were no reserves available for distribution to shareholders as of 30 June 2006.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and pro forma statement of adjusted net tangible assets of our Company which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 30 June 2006. This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial positions of our Company had the Global Offering been completed as of 30 June 2006 or at any future dates.

	Adjusted combined net tangible assets of our Company attributable to the equity holders of our Company as of 30 June 2006	Estimated net proceeds from the Global Offering	Net assets not assumed by our Company	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share	
	RMB'000(1)	RMB'000(2)	RMB'000(3)	RMB'000	RMB(4)	HK$
Based on the Offer Price of HK$3.20 for each Offer Share	5,021,163	10,021,236	(1,023,470)	14,018,929	1.25	1.24
Based on the Offer Price of HK$4.05 for each Offer Share	5,021,163	12,707,241	(1,023,470)	16,704,934	1.49	1.47

(1) The adjusted combined net tangible assets of our Company attributable to the equity holders of our Company as of 30 June 2006 is extracted from the Accountants' Report set out in Appendix I to this Prospectus, which is based on the audited combined net assets of our Company attributable to the equity holders of our Company as of 30 June 2006 of RMB5,035,250,000 with an adjustment for the intangible assets as of 30 June 2006 of RMB14,087,000.

(2) The estimated net proceeds from the Global Offering are based on an indicative Offer Price of HK$3.20 (equivalent to RMB3.23) and HK$4.05 (equivalent to RMB4.09) per H Share, respectively (after deducting the underwriting fees and other related expenses), and takes no account of any H Shares which may be issued pursuant to the Over-allotment Option. For the purpose of the estimated net proceeds from the Global Offering, the translation of Renminbi into HK dollars was made at the rate of RMB1.0087 to HK$1.00, the exchange rate prevailing on 30 November 2006 set by PBOC for foreign exchange transactions.

(3) Pursuant to the Restructuring, certain businesses and assets will be retained by ChinaCoal Group and will be treated as a deemed distribution upon completion of the Restructuring on 22 August 2006. Consequently, the unaudited pro forma net tangible assets have been reduced accordingly after taking into account this deemed distribution, which is based on the financial information as of 30 June 2006 of certain businesses and assets retained by ChinaCoal Group that were not transferred to us.

(4) The unaudited pro forma net tangible assets per Share is arrived at by dividing the unaudited pro forma adjusted net tangible assets by 11,246,374,000 Shares, being the number of shares in issue assuming that the Global Offering has been completed on 30 June 2006 but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option.

In accordance with the "Provisional Regulation Relating to Corporate Reorganization of Enterprises and Related Management of State-owned Capital and Financial Treatment" (the "Provisional Regulations") issued by the MOF, which became effective from 27 August 2002, our Company is required to make a distribution to ChinaCoal Group, in an amount equals to the difference in our Company's net asset values as at 1 October 2005 and as at 21 August 2006 (being the date immediately prior to the date on which our Company was incorporated) (the "Pre-establishment Distribution") as determined based on the audited accounts prepared in accordance with PRC GAAP.

In addition, pursuant to the resolution of a shareholders' meeting dated 23 August 2006, the shareholder of our Company has resolved to make a special distribution to ChinaCoal Group, in an amount equal to the distributable profit of our Company for the period from 22 August 2006 to the last day of the month prior to the listing of our Company's shares (the "Special Dividends"). The distributable profit of our

Company for the Special Dividends will be determined based on the audited accounts prepared in accordance with PRC GAAP and IFRS respectively, whichever is the lower, after deducting any contribution made by our Company to the statutory and discretionary reserve funds.

The Directors have preliminarily estimated that the total aggregate amount of the Pre-establishment Distribution and the Special Dividends to be RMB1,210.0 million.

The unaudited pro forma adjusted net tangible assets and the unaudited pro forma adjusted net tangible assets per Share have not taken into account the effect of the Pre-establishment Distribution and the Special Dividends. After taking into account the aforementioned distributions, the pro forma adjusted net tangible assets of our Company and the pro forma adjusted net tangible assets value per Share would be reduced.

Details of our Company's property valuation as of 30 September 2006 are set out in Appendix V to this Prospectus. We will not incorporate any revaluation surplus/deficit in its financial statements for the year ending 31 December 2006. It is our accounting policy to state its property, plant and equipment at cost less accumulated depreciation and any impairment losses rather than at revalued amounts. With reference to the valuation of our properties as set out in Appendix V to this Prospectus, there was a revaluation deficit of our properties of approximately RMB1,288.0 million. Had the properties been stated at such valuation, a reduction in depreciation and amortization charge of approximately RMB51.0 million per annum would have been incurred.

No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading result or other transaction of our Company entered into subsequent to 30 June 2006.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE HONG KONG LISTING RULES

Our Directors confirm that as of the Latest Practicable Date, there were no circumstances which would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Hong Kong Listing Rules had the H Shares been listed on the Hong Kong Stock Exchange on that date.

Our Directors are aware of the requirement under Rule 13.09(2) of the Hong Kong Listing Rules and will ensure to publish share price sensitive information of our Company in the market of Hong Kong and the PRC. As the controlling shareholder of Shanghai Datun Energy, we will inform the Hong Kong Stock Exchange of any information in connection with Shanghai Datun Energy that is of a price sensitive nature and publish the information in Hong Kong. After the proposed listing, our Company will simultaneously release in Hong Kong, among other things, the quarterly and interim reports of Shanghai Datun Energy pursuant to Listing Rule 13.09(2).

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that there has been no material adverse change in our financial or trading position since 30 June 2006 (being the date to which our Company's latest combined financial results were prepared, as set forth in the Accountants' Report included as Appendix I to this Prospectus).