

CONNECTED TRANSACTIONS

OUR RESTRUCTURING

Our Company was established on 22 August 2006 as a joint stock limited company under the PRC law. Pursuant to the Restructuring Agreement which took effect on 5 September 2006, ChinaCoal Group transferred to our Company substantially all its assets, liabilities and interests related to its coal operations, coking operations, coal mining equipment manufacturing operations and other related businesses. For further details regarding our Restructuring, see “Restructuring”.

Restructuring Agreement

On 5 September 2006, ChinaCoal Group and our Company entered into the Restructuring Agreement. Under the Restructuring Agreement, ChinaCoal Group has made various representations and warranties in relation to the businesses, assets, liabilities and interests transferred to our Company under the Restructuring, and has agreed to be responsible for all tax liabilities associated with such transferred businesses, assets, liabilities and interests incurred before the Restructuring. ChinaCoal Group has also agreed to indemnify our Company against claims, losses or expenses incurred by our Company in connection with or arising from, among other things:

- any breach of any provision of the Restructuring Agreement on the part of ChinaCoal Group or its subsidiaries (excluding our Company);
- the businesses, assets, liabilities and interests retained or held by ChinaCoal Group following the Restructuring;
- any rights and interests in relation to all employees of our Company who were employed by ChinaCoal Group before the Restructuring for the period of their employment by ChinaCoal Group;
- any title defect in respect of properties being acquired by our Company prior to the Restructuring;
- any litigation or other claims against our Company that relate to events or circumstances occurring before the effective date of the Restructuring in relation to businesses, assets, liabilities and interests transferred to our Company under the Restructuring, except those that are disclosed and provided for in the audited financial statements.

Non-Competition Agreement

In connection with the Restructuring, ChinaCoal Group and our Company entered into a Non-Competition Agreement on 5 September 2006. Under that agreement, ChinaCoal Group has undertaken to our Company that except in certain limited circumstances, for so long as the agreement remains effective, it shall not, and shall procure its associates (excluding our Company) not to, directly or indirectly and in whatever manner, engage, participate or be interested in, or provide support to, any business or activity which competes or may compete with our current or future core businesses. ChinaCoal Group has also granted us an option and pre-emptive rights to acquire certain interests retained by ChinaCoal Group following the Restructuring and certain future business. Further details about the Non-Competition Agreement are set out in “Relationship with ChinaCoal Group”.

Implications under the Hong Kong Listing Rules

Any transaction that might take place after our listing pursuant to any agreement or arrangement described in this “Our Restructuring” sub-section is made in the performance of the relevant transaction

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already entered into before listing. Such transaction will therefore not constitute connected transactions or continuing connected transactions of our Company under Chapter 14A of the Hong Kong Listing Rules, and will not be subject to further regulatory requirements under the Hong Kong Listing Rules, except as described in “Relationship with ChinaCoal Group — Non-Competition Agreement”.

CONNECTED PERSONS

In addition to the Restructuring Agreement and the Non-Competition Agreement, our Company has entered into certain other agreements or transactions with entities which will become connected persons (as defined under Chapter 14A of the Hong Kong Listing Rules) of our Company upon listing, and such agreements or transactions will constitute connected transactions or continuing connected transactions of our Company under the Hong Kong Listing Rules. These entities include:

- (i) ChinaCoal Group: Immediately following completion of the Global Offering, ChinaCoal Group will own approximately 68.25% of our Company’s then issued share capital if the Over-allotment Option is not exercised (or 65.0% if the Over-allotment Option is exercised in full). ChinaCoal Group will therefore be the Controlling Shareholder, and hence a connected person, of our Company by virtue of Rule 14A.11(1) of the Hong Kong Listing Rules.
- (ii) Certain associates (as defined under Chapter 19A of the Hong Kong Listing Rules) of ChinaCoal Group, excluding our Company and our subsidiaries: Such associates will be connected persons of our Company by virtue of Rule 14A.11(4) of the Hong Kong Listing Rules.
- (iii) The following entities (in alphabetical order), each of which is a substantial shareholder (as defined under the Hong Kong Listing Rules) of a subsidiary of our Company, will therefore become connected persons of our Company by virtue of Rule 14A.11(1) of the Hong Kong Listing Rules. These entities (collectively, our “Subsidiaries’ Substantial Shareholders”), except for their respective shareholding interests in the relevant subsidiary of our Company, are otherwise independent of us:
 - Datong Coal Industry Co., Ltd. (大同煤業股份有限公司): A company whose A shares are listed on the Shanghai Stock Exchange and is 60.5% owned by Datong Coal Mine Group (大同煤礦集團), a 40% shareholder of Datong China Coal Export Base Development Co., Ltd. (大同中煤出口煤基地建設有限公司) (one of our subsidiaries) of which our Company directly and indirectly owns 60%.
 - Shanxi Longquan Foundry Coke Company Limited (汾陽市龍泉鑄造焦有限公司): A 40% shareholder of China Coal & Coke Longquan Limited (汾陽市中煤龍泉焦化有限公司) (one of our subsidiaries) of which our Company has an indirect ownership of 60%.
 - Lingshi Jiuxin Coal Preparation Company Limited (靈石縣九鑫選煤有限責任公司): A 25% shareholder of China Coal & Coke Jiuxin Limited (靈石縣中煤九鑫焦化有限責任公司) (one of our subsidiaries) of which our Company has an indirect ownership of 75%.
 - Shuozhou Shuocheng Liu Jia Kou Coal Transportation Terminal (朔州市朔城區劉家口煤炭集運站): A 25% shareholder of Shuozhou China Coal Pingshuo Energy Co., Ltd. (朔州中煤平朔能源有限公司) (one of our subsidiaries) which is 51% owned by our Company.

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- Shaanxi Yulin Coal Export Group Corporation (陝西榆林煤炭出口(集團)有限責任公司): A 26% shareholder of Shaanxi Nanliang Coal Co., Ltd. (陝西南梁礦業有限公司) (one of our subsidiaries) of which our Company directly and indirectly owns 55%.
 - Shuozhou Pingshuo Luda Railway Transportation Co., Ltd. (朔州市平朔路達鐵路運輸有限公司): it is a subsidiary of Datong Luda Railway Transportation Co., Ltd. (大同路達鐵路運輸有限公司) (holding 62.5% interest in Shuozhou Pingshuo Luda Railway Transportation Co., Ltd. (朔州市平朔路達鐵路運輸有限公司)). Datong Luda Railway Transportation Company Limited (大同路達鐵路運輸有限公司) holds a 19% interest in Shuozhou China Coal Pingshuo Energy Co., Ltd. (朔州中煤平朔能源有限公司) (one of our subsidiaries) which is a 51% owned subsidiary of our Company.
- (iv) Jiangsu Datun Aluminium Company Limited (江蘇大屯鋁業有限公司) (“Datun Aluminium”): Datun Aluminium is 75% owned by Shanghai Datun Energy (上海大屯能源股份有限公司) (a 62.43% subsidiary of our Company) and 25% owned by China Coal Hong Kong Limited (a wholly-owned subsidiary of ChinaCoal Group). Datun Aluminium is therefore an indirect non wholly-owned subsidiary, and will by virtue of Rule 14A.11 (5) of the Hong Kong Listing Rules become a connected person, of our Company.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

Our Company has entered into certain agreements or transactions which will, upon our listing, constitute exempt continuing connected transactions of our Company. These transactions are made on normal commercial terms where each of the relevant “percentage ratios” calculated for the purpose of Chapter 14A of the Hong Kong Listing Rules will, as the Directors currently expect, not be more than 0.1% on an annual basis. By virtue of Rule 14A.33(3)(a), these transactions are exempt from the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules, and they include:

- **Coke Export Agency:** ChinaCoal Group has the licence required and valid quotas to perform coke exports in the PRC. On 5 September 2006, we entered into a coke export agency framework agreement to appoint ChinaCoal Group as our non-exclusive coke export agent, and ChinaCoal Group has agreed to allocate all coke export quotas it obtains for our use. ChinaCoal Group also agreed to provide the coke export services free of charge. The agreement took effect on the date of our incorporation and expires on 31 December 2008, and is subject to renewal. After listing, we will independently apply for coke export qualification and quotas, the receipt of which shall automatically terminate this agreement.
- **Trademarks License:** On 5 September 2006, our Company and ChinaCoal Group entered into a trademarks license framework agreement. Pursuant to that agreement, ChinaCoal Group has agreed to grant to us and our subsidiaries a non-exclusive license to use trademarks, including the “ChinaCoal” brands, registered or being applied for registration by ChinaCoal Group in the PRC, Japan, Hong Kong and Korea for a nominal fee of RMB1 per year for an initial term of 10 years from 22 August 2006, being the date of incorporation of our Company. The trademarks license framework agreement contains a non-cancellable provision upon which ChinaCoal Group shall not terminate the agreement without our consent.

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NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

As a result of our Restructuring, our Company has also entered into certain other agreements or transactions with ChinaCoal Group and other connected persons of our Company which will, upon our listing, constitute non-exempt continuing connected transactions of our Company under Chapter 14A of the Hong Kong Listing Rules. These transactions include:

Transactions	Parties
<i>Continuing connected transactions between our Company (and our subsidiaries), and ChinaCoal Group and its associates</i>	
Coal Export and Sales Agency Framework Agreement	Our Company and ChinaCoal Group
Coal Supplies Framework Agreement	Our Company and ChinaCoal Group
Integrated Materials and Services Mutual Provision Framework Agreement	Our Company and ChinaCoal Group
Mine Construction and Design Framework Agreement	Our Company and ChinaCoal Group
Property Leasing Framework Agreement	Our Company and ChinaCoal Group
Land Use Rights Leasing Framework Agreement	Our Company and ChinaCoal Group
<i>Continuing connected transactions between our Company (and our subsidiaries) and connected persons at our subsidiaries' level</i>	
Coal/Coke Product Sales Framework Agreements	Our Company and each of Datong Coal Industry Co. Ltd. (大同煤業股份有限公司), Shanxi Longquan Foundry Coke Company Limited (汾陽市龍泉鑄造焦有限公司), Lingshi Jiuxin Coal Preparation Company Limited (靈石縣九鑫選煤有限責任公司), Shuozhou Shuocheng Liu Jia Kou Coal Transportation Terminal (朔州市朔城區劉家口煤炭集運站) and Shaanxi Yulin Coal Export Group Corporation (陝西榆林煤炭出口(集團)有限責任公司)
Railway Leasing and Management Entrustment Service Framework Agreement	Our Company and Shuozhou Pingshuo Luda Railway Transportation Co., Ltd. (朔州市平朔路達鐵路運輸有限公司)
<i>Continuing connected transactions between our Company (and our relevant subsidiary), and our non wholly-owned subsidiary, being itself a connected person</i>	
Provision of Intra-Group Guarantees	Our Company and Datun Aluminium

Details of these continuing connected transactions and the associated annual caps, and certain principal terms of the relevant agreements are set out below. Certain charges for the services under the agreements will be determined based on PRC Government-prescribed prices or guidance prices, if available and applicable. Those transactions where the charges are not set by reference to such prescribed or guidance prices are determined based on commercial negotiations between the parties, in each case on an arm's length basis. The terms of these agreements are, as currently anticipated, no less favorable than terms as may be available to our Company and our subsidiaries from independent third parties.

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In compliance with the relevant requirements under the Hong Kong Listing Rules, our Company has set maximum annual consideration or values, or annual caps, in respect of each of these continuing connected transactions. These annual caps are determined by reference to factors including previous transactions and figures when available and readily ascertainable.

A. Continuing Connected Transactions Between Our Company (Or Relevant Subsidiaries) And ChinaCoal Group And Its Associates

1. Coal Export and Sales Agency Framework Agreement

Under the PRC law and regulations, coal exports shall only be made through one of four authorized PRC enterprises including ChinaCoal Group. The coal export licence is not freely transferable under current PRC regulatory regime. Our Company has appointed ChinaCoal Group as our coal export sales agent under a Coal Export and Sales Agency Framework Agreement entered into on 5 September 2006.

Pursuant to the Coal Export and Sales Agency Framework Agreement, our Company has appointed ChinaCoal Group as our non-exclusive export and sales agent for the provision of export quotas and export agency services in respect of our coal products. The principal terms of the Coal Export and Sales Agency Framework Agreement are as follows:

- ChinaCoal Group shall ensure that among the coal export quotas allocated to it, there are sufficient quotas to satisfy our Company's coal exports.
- Agency services provided by ChinaCoal Group shall include export contracts signing, application for export licence and foreign exchange settlement.
- We shall select our overseas customers for our coal products, and determine the price, quantity and other contract provisions. ChinaCoal Group shall consult with us before entering into specific provisions of coal export contracts.
- ChinaCoal Group shall receive from our overseas customers the proceeds for coal products sold pursuant to coal export contracts and shall remit the proceeds received from overseas customers to our Company's designated bank account within five days of receipt.
- We shall be responsible for all expenses incurred in transporting the coal products to the port and the associated on-board packaging for exports. In case the relevant export contract incorporates CFR and CIF terms, we shall also be responsible for all shipping expenses incurred and CIF-insurance charges needed.
- The agency services provided by ChinaCoal Group shall be made on terms no less favorable to us than those available from other agents. If the terms offered by other coal export licence holders are more favorable than those offered by ChinaCoal Group, we expect that it will not be difficult for our Company to enter into export agency arrangement with such export licence holders.
- In respect of export sales to the China Taiwan markets, ChinaCoal Group may engage its offshore wholly-owned subsidiaries to perform the relevant export sales services.

The Coal Export and Sales Agency Framework Agreement took effect on the date of incorporation of our Company and expires on 31 December 2008, and is subject to renewal.

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Pricing

The agency fees payable to ChinaCoal Group by us shall be determined on the basis of relevant market rates. Currently, (i) the agency fee for coal exports to countries and territories other than the China Taiwan market is 0.7% of the FOB price in respect of each tonne of coal products exported; and (ii) the agency fee for coal exports and sales to the China Taiwan markets is 0.7% of the FOB price, plus U.S.\$0.5 per tonne of coal products sold.

The agency fees are payable on a monthly basis in arrears, subject to receipt by us of the proceeds from ChinaCoal Group in respect of coal exports and sales made during that month.

Historical figures

For the years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006, the total volume and value of our coal products sold overseas were approximately 14.0 million tonnes, 15.2 million tonnes, 11.5 million tonnes and 4.4 million tonnes, respectively, representing sales of approximately RMB4,449.5 million, RMB5,222.8 million, RMB5,427.6 million and RMB1,863.2 million, respectively. Based on the above pricing principles agreed under the Coal Export and Sales Agency Agreement (as if our Company had been incorporated since 1 January 2003 and the agreement had been in place since that date), the estimated agency fees that would have been paid to ChinaCoal Group in 2003, 2004 and 2005 and the six months ended 30 June 2006 were approximately RMB67.2 million, RMB85.9 million, RMB77.8 million and RMB26.7 million, respectively.

Annual caps

We estimate that the export quota to be allocated to ChinaCoal Group will remain stable for the next three years, of which approximately 25% will be allocated for the export of coal produced by us and the remaining 75% will be allocated for coal exported by ChinaCoal Group. We also estimate that our average export price will remain relatively stable at approximately U.S.\$60 per tonne through to 2008. The Directors have therefore estimated the annual caps for such connected transactions each of the three years ending 31 December 2008 as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>
	(RMB in millions)		
Annual agency fees payable by us to ChinaCoal Group for coal export provided	70	70	70

2. Coal Supplies Framework Agreement

Under the Restructuring, ChinaCoal Group has (through one or more of its subsidiaries other than our Company) retained certain operating rights to operate the Mines under Restructuring as defined and more fully described in “Relationship with ChinaCoal Group — Competition — Group Retained Businesses” and “— ChinaCoal Group’s coal production”. To minimize the potential competition between the coal products of the Mines under Restructuring with our coal products, our Company and ChinaCoal Group entered into a Coal Supplies Framework Agreement on 5 September 2006. The principal terms of the Coal Supplies Framework Agreement are as follows:

- ChinaCoal Group will procure that all coal products produced from the Mines under Restructuring be supplied exclusively to our Company, and has undertaken not to sell any such coal products to any third party.

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- Our Company and ChinaCoal Group shall within the last quarter of each calendar year devise a 12-month coal products supply schedule for the next calendar year. Our Company (or our relevant subsidiary) shall enter into separate contracts with ChinaCoal Group (or its relevant associate) to set out the specific terms and conditions of supplying coal products according to the principles, and within the parameters, provided for under the Coal Supplies Framework Agreement.
- If the coal products supplied by the Mines under Restructuring under the Coal Supplies Framework Agreement cannot satisfy our requirements, including quality or quantity, we are entitled to choose the relevant coal products supplied by third parties.

The Coal Supplies Framework Agreement took effect on the date of incorporation of our Company and expires on 31 December 2008, and is subject to renewal.

Pricing

Under the Coal Supplies Framework Agreement, we (or relevant subsidiaries) shall purchase from ChinaCoal Group (or its relevant associate) coal products produced from the Mines under Restructuring according to the following pricing principles:

- market price, which is determined by reference to the prevailing market rates for comparable coal products as are available on an arm's length basis from independent coal producers located in the region or surrounding areas of the Mines under Restructuring; or,
- where there is no market price, a price to be agreed between the parties, which agreed price will be calculated based on the reasonable costs incurred in supplying the relevant coal products plus 5% profits reasonably earned. In setting the price, the parties may refer to prices for previous related transactions if available.

The purchase prices are payable by us within 30 days upon receipt of the coal products.

Historical figures

For the years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006, the total volume and value of coal products produced by the Mines under Restructuring were approximately 0.85 million tonnes, 1.32 million tonnes, 1.09 million tonnes and 1.57 million tonnes, respectively, representing approximately RMB58.4 million, RMB124.4 million, RMB134.2 million and RMB198 million, respectively.

Annual caps

The Directors have estimated the annual caps based on the following considerations: (1) ChinaCoal Group intends to invest an aggregate sum of RMB1,680 million to increase the aggregate annual production capacities of the Mines under Restructuring to 12 million tonnes per year. Such investment is to improve the production technologies and safety of the Mines under Restructuring by introducing new mining equipment as well as improving the production facilities and the transport facilities. ChinaCoal Group estimates that the aggregate annual production of the Mines under Restructuring will increase from approximately 3 million tonnes in 2006 to approximately 7.6 million tonnes in 2007 and 9.2 million tonnes in 2008; (2) the average price per tonne will remain stable at RMB130 per tonne for the three years ending 31 December 2008, which is the average price per tonne of coal traded during the Track Record Period; and (3) we have assumed that the Coal Supplies Framework Agreement had been in effect throughout the year ending 31 December 2006. For the six months ended 30 June 2006, the total coal production of the Mines under Restructuring was

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approximately 1.57 million tonnes with a total revenue of approximately RMB198 million. On the assumption that the Coal Supplies Framework Agreement had taken effect throughout the year ending 31 December 2006, the Directors estimate that the total sales pursuant to the Coal Supplies Framework Agreement would be approximately 3 million tonnes and an annual amount of approximately RMB400 million for 2006. As such, the Directors estimate that the maximum amounts payable by our Company for each of 2006, 2007 and 2008 will be as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>
	(RMB in millions)		
Amounts payable by us for coal products purchased from the Mines under Restructuring	400	1,000	1,200

3. Integrated Materials and Services Mutual Provision Framework Agreement

Under the Restructuring, ChinaCoal Group transferred to our Company substantially all assets related to its coal export-related services, comprising its sales and marketing network, port facilities, customer access, tradenames and market experience and knowledge. As ChinaCoal Group is one of only four PRC enterprises authorized to perform coal exports and in respect the quotas allocated to ChinaCoal Group that have not been used by us, it continues to provide export quotas and coal export agency services to its other coal export customers. In this connection, it has appointed us, on an exclusive basis, to provide coal export-related services, such as coal blending, logistics and transportation services, for customers of ChinaCoal Group. We receive revenue for the provision of such coal export-related services, which is at a rate of 0.8% to 1.3% on the FOB price per tonne of coal exported. In contrast with the Coal Export and Sales Agency Framework Agreement, ChinaCoal Group provides export sales agency services such as provision of quotas and agency services for the export of coal by us. We have to pay for such services, which is at a rate of 0.7% on the FOB price per tonne of exported coal and at a rate of 0.7% on the FOB price plus U.S.\$0.5 per tonne of coal exported to the Taiwan market. For more information relating to the Coal Export and Sales Agency Framework Agreement, please refer to “Connected Transactions — Coal Export and Sales Agency Framework Agreement”.

Following the Restructuring, ChinaCoal Group has retained certain other ancillary businesses which purchase and continue to purchase other supplies and other support services from us. At the same time, ChinaCoal Group has agreed to provide certain raw materials and services required by us in connection with our operations. It has also retained a small amount of assets and businesses which provide social and support services to us on a continuing basis. To regulate such relationships that will continue following our listing, our Company and ChinaCoal Group entered into an Integrated Materials and Services Mutual Provision Framework Agreement on 5 September 2006, the principal terms of which are as follows:

Mutual provision of materials and services

- We (or relevant subsidiaries) shall provide to ChinaCoal Group and its associates, and ChinaCoal Group and its associates shall provide to us, the following categories of raw materials and services on the principles set out in the agreement:

Production material supplies and ancillary services to be provided by ChinaCoal Group to us:

Production material supplies and ancillary services: production materials including explosives; mining accessories; construction materials; electricity cables and paint and other related or similar production supplies; transportation services (including cars and trucks); electricity and

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heat supplies; testing and equipment maintenance services; equipment leasing; communications services; and

Social and support services: security services; staff training; school; medical care and emergency services, etc.

Production material supplies and ancillary services to be provided by us to ChinaCoal Group include coking coal, hydraulic roof support and ancillary services; related or similar production supplies; electricity supplies; transportation and loading services; gas supply; machinery maintenance; labour; tendering services; water and heat, etc.

- The provision of the above raw materials and services by either party shall be made on terms no less favorable than those available to or, as appropriate, from independent third party under comparable conditions. Otherwise, either party is entitled to engage such other supplier(s) for the raw materials and/or services required.
- The parties (their relevant associates or subsidiaries) shall enter into separate contracts to set out the specific terms and conditions of providing the relevant raw materials and/or services according to the principles, and within the parameters, provided for under the Integrated Materials and Services Mutual Provision Framework Agreement.

Coal export-related services

- We shall provide to ChinaCoal Group and its associates coal export-related services for the export of coal by ChinaCoal Group for third parties. Such services shall include organizing product supplies; performing coal blending; coordinating logistics and transportation; providing port-related services; arranging for inspection and quality verification; and providing services relating to product delivery.

The Integrated Materials and Services Mutual Provision Framework Agreement took effect on the date of incorporation of our Company and expires on 31 December 2008, and is subject to renewal.

Pricing

Mutual provision of materials and services

Under the Integrated Materials and Services Mutual Provision Framework Agreement, either party shall supply production materials, and social and support services to the other party, according to the following pricing principles (and in the following order):

- price prescribed by the PRC Government; or
- where there is no government-prescribed price, the guidance price set by the PRC Government; or
- where there is neither government-prescribed price nor government guidance price, a price determined through tender process or other available market price. Such market price is determined by reference to (i) the prevailing market rates for the supply of that category of product or service as are available on an arm's length basis from independent suppliers located in the region or surrounding areas, or (ii) if failing (i) above, the price then charged under normal commercial terms by independent suppliers in the PRC of that category of product or service; or
- where none of the above is applicable or available, a price to be agreed between the parties. The agreed price will be calculated based on the reasonable costs incurred in making the supplies plus

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profits reasonably earned. In setting the price, the parties may refer to prices for previous related transactions if available.

Coal export-related services

In respect of the provision of coal export-related services by us to ChinaCoal Group for the export of coal by its other customers, the service fee payable by ChinaCoal Group shall be determined on the basis of relevant applicable market rates. Currently, such service fee is fixed at 0.8% to 1.3% on the FOB price per tonne of coal products exported.

The purchase prices or service fees under the Integrated Materials and Services Mutual Provision Framework Agreement are payable by either party on a calendar-monthly basis in arrears in respect of supplies and services provided during that month.

Historical figures

On an estimated basis as if our Company had been incorporated since 1 January 2003 and the Integrated Materials and Services Mutual Provision Framework Agreement had been in place since that date, a breakdown of the approximate maximum historical transactions figures is set out as follows. For the three years ended 31 December 2005 and the six months ended 30 June 2006, on an estimated basis, our Company provided coal export-related services for 30.1 million tonnes, 25.8 million tonnes, 21.0 million tonnes and 9.5 million tonnes of coal for the coal export customers of ChinaCoal Group. The coal export-related service fees stated below are calculated on an estimated basis as if our Company had been incorporated during the Track Record Period and that the service fee for the provision of such services is at 1.3% on the FOB price on each tonne of exported coal.

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>30 June 2006</u>
	(RMB in millions)			
Amounts paid by us for supplies of production materials and ancillary services by ChinaCoal Group				
Production supplies and ancillary production services	334	445	863	379
Social and support services	48	70	77	35
Amounts received by us for supplies of production materials and ancillary services to ChinaCoal Group				
Production supplies and ancillary services	24	47	39	14
Service fees received by us for provision of coal export-related services to ChinaCoal Group	77	173	151	67

Annual caps

Integrated Materials and Services

The materials to be provided by ChinaCoal Group to our Company are supplemental to our Company's coal production. The cost of these materials will increase as our Company's cost of coal production increases. Considering the upward historical trend of the transaction amount and our Company's future production expansion plan, which will begin to have a more marked impact on our production in 2007, we estimate an upward trend of the cost of the relevant materials and service with an approximately 15%, 27% and 7% increase in the transaction amount in 2006, 2007 and 2008, respectively. Using the transaction amount of materials and production services of RMB863 million for 2005 as the basis of calculation, we estimate that the

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transaction amount of materials and production services to be approximately RMB996 million; RMB1,226 million and RMB1,315 million for 2006, 2007 and 2008, respectively.

We estimate that value of social and support services provided by ChinaCoal Group to us will remain relatively stable at approximately RMB80 million for the year ending 31 December 2006, with approximately 10% to 15% increase for the years 2007 and 2008, due mainly to the expansion of our production capacities. We estimate that the annual caps of the social and support services to be approximately RMB80 million, RMB90 million and RMB100 million for the three years ending 31 December 2008, respectively.

The historical average value of materials and ancillary services provided by us to ChinaCoal Group was approximately RMB37 million. As the value of this transaction for the six months ended 30 June 2006 was only approximately RMB14 million, we estimate the annual caps of this type of transaction at approximately RMB35 million, RMB50 million and RMB50 million for each of the three years ending 31 December 2008, respectively.

Coal Export-Related Services

As stated in the sub-paragraph headed “Coal Export and Sales Agency Framework Agreement” above, we estimate that the export quotas to be allocated to ChinaCoal Group will remain stable for the next three years, of which approximately 25% will be allocated for the export of coal produced by us and the remaining 75% will be allocated for export of coal by other coal export customers of ChinaCoal Group. We do not expect wide fluctuation in the coal export price and have estimated the annual caps for this category of transactions at approximately RMB160 million for each of the three years ending 31 December 2008. On the basis that our coal export-related services is at 1.3% on the FOB price per tonne, we have estimated the revenue from our provision of coal export-related services as follows.

	<u>2006</u>	<u>2007</u>	<u>2008</u>
	(RMB in millions)		
Amounts payable by us for supplies of production materials and ancillary services by ChinaCoal Group			
Production supplies and ancillary production services	996	1,226	1,315
Social and support services	80	90	100
Amounts receivable by us for supplies of production materials and ancillary services to ChinaCoal Group			
Production supplies and ancillary services	35	50	50
Service fees receivable by us for provision of coal export-related services to ChinaCoal Group	160	160	160

4. Mine Construction and Design Framework Agreement

Following the Restructuring, ChinaCoal Group has retained certain ancillary coal mine infrastructure construction operations and our Company has received from ChinaCoal Group, and will continue to carry out, its coal mine design operations. As our Company will, in our usual course of business, undertake coal mine design and construction projects for third parties, we will carry out the mine design operations, but may subcontract the coal mine construction works to ChinaCoal Group or its relevant associates. Further, certain associates of ChinaCoal Group may provide coal mine construction services to us as we may require, and we may provide coal mine design services to ChinaCoal Group and its associates. To regulate the business relationship in these respects following our listing, our Company and ChinaCoal Group entered into a Mine

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Construction and Design Framework Agreement on 5 September 2006, the principal terms of which are as follows:

- (i) We shall provide coal mine design services to support the ancillary businesses of ChinaCoal Group and its associates, (ii) ChinaCoal Group and its associates shall provide coal mine construction services to us for construction of coal mines and related mining facilities, and (iii) ChinaCoal Group and its associates shall provide construction services required from us in respect of projects we undertake under sub-contracting arrangement with third parties that involve construction of coal mines and related mining facilities.
- We (or our relevant subsidiary) and ChinaCoal Group (or its relevant associate) shall enter into separate contracts to set out the specific terms and conditions of providing the relevant services according to the principles, and within the parameters, provided for under the Mine Construction and Design Framework Agreement.
- The Mine Construction and Design Framework Agreement took effect on the date of our incorporation and expires on 31 December 2008, and is subject to renewal.

Pricing

If either party requires services under the Mine Construction and Design Framework Agreement, it shall select the service provider and fix the service price through a tender process. When the bidding price and other terms offered by one party to the agreement are equal to or better than those offered by other independent service providers participating in the tender, that party shall be selected in preference to such other independent service providers.

Historical figures

A breakdown of the estimated maximum historical figures is set out as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>30 June</u> <u>2006</u>
	(RMB in millions)			
Amounts paid by us for provision of construction services by ChinaCoal Group and its associates	96	145	118	56
Amounts received by us from provision of coal mine design services to ChinaCoal Group and its associates	0	0.6	6	14

Annual caps

As stated in the “Financial Information — Capital Expenditures” section of this Prospectus, the capital expenditures for our coal operations for 2006, 2007 and 2008 are estimated at approximately RMB3,315 million, RMB5,427 million and RMB4,988 million, respectively, representing substantial increases as compared with the capital expenditures during the Track Record Period. Of these amounts, approximately RMB800 million per year will be used for equipment maintenance projects which involve only equipment purchase and maintenance. Of the remaining balance, approximately 40% will be used as expenditures for our coal mine expansion works. As the two coal mine construction subsidiaries of ChinaCoal Group have expertise in coal mine construction and other ancillary mining facilities and that there are only three large coal mine construction enterprises (including the two subsidiaries mining construction subsidiaries of ChinaCoal Group) in China with expertise in coal mine construction works, we expect that ChinaCoal Group has a higher chance

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of success in tendering for the construction works of our underground mines. Based on the previous coal mine construction services provided by ChinaCoal Group to us, we estimate the success rate of the two coal mine construction subsidiaries of ChinaCoal Group to be at approximately 60% or above. For the six months ended 30 June 2006, the value of the coal mine construction contracts awarded to the subsidiaries of ChinaCoal Group was approximately RMB56 million. However, the value of coal mine construction contracts awarded to the two coal mine construction subsidiaries of ChinaCoal Group up to early November 2006 had increased to approximately RMB470 million. Together with a pending contract of approximately RMB100 million which has been recently awarded to one of the two coal mine construction subsidiaries of ChinaCoal Group, the estimated total annual cap for 2006 is approximately RMB570 million.

The substantial increase from the historical amount of RMB118 million in 2005 to the estimated amount of RMB570 million in 2006 was mainly due to: (i) our estimated capital expenditure in 2006 has increased from RMB1,662 million in 2005 to RMB3,315 million, representing an increase of almost 100%; and (ii) some of the underground coal mine construction works of the Wangjialing Underground Mine were put up for tender in 2006, which, together with the coal mine construction contracts of other mines under development, leads to a substantial increase in the value of coal mining construction transactions with ChinaCoal Group during the year. Based on an estimated successful tender rate of ChinaCoal Group at approximately 60%, we estimate the annual caps of this category of transactions at RMB1,110 million and RMB1,005 million, respectively, for the two years ending 31 December 2008.

As for the coal mine design services to be provided by us to ChinaCoal Group, we have based our annual cap estimates on the following: (i) we expect to provide coal mine design services to ChinaCoal Group in respect of its investments in the Mines under Restructuring. Of the total investment of RMB1,680 million by ChinaCoal Group in the Mines under Restructuring, we estimate the coal mine design service fees will amount to approximately 3% or RMB50.4 million. Based on our experience in coal mine design, the coal mine design fees will normally account for approximately 3% of the total investment of a coal mine project; and (ii) we expect that ChinaCoal Group may invest in and restructure other small local mines in the future, which may also involve the provision of coal mine design services by us. Taking into account the above factors, we propose an annual cap of RMB30 million, RMB50 million and RMB50 million for each of the three years ending 31 December 2008, respectively.

	<u>2006</u>	<u>2007</u>	<u>2008</u>
	(RMB in millions)		
Amounts payable by us for provision of construction services by ChinaCoal Group and its associates	570	1,110	1,005
Amounts receivable by us from provision of coal mine design services to ChinaCoal Group and its associates	30	50	50

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5. Property Leasing Framework Agreement

Following the Restructuring, our Company leases from ChinaCoal Group and its associates certain buildings and properties in the PRC for general business and ancillary purposes. Our Company and ChinaCoal Group entered into a Property Leasing Framework Agreement on 5 September 2006 to regulate their relationship in this regard. The Property Leasing Framework Agreement sets out the particulars of each property subject to the agreement. The principal terms of the Property Leasing Framework Agreement are as follows:

- The properties leased to us (or our relevant subsidiaries) from ChinaCoal Group and its associates comprise 476 properties occupying an aggregate gross floor area of approximately 0.21 million m² and are mostly for production and operation uses.
- We (or our relevant subsidiary) and ChinaCoal Group (or its relevant associate) shall enter into separate agreements to set out the specific terms and conditions in respect of the relevant properties leased according to the principles, and within the parameters, provided for under the Property Leasing Framework Agreement.
- In respect of properties for which ChinaCoal Group or its relevant associate(s) have not yet obtained property ownership certificates, ChinaCoal Group grants a licence for us (or our relevant subsidiaries) to use such properties, and has undertaken to obtain the requisite property ownership certificates within one year from the date of our Company's incorporation.
- We are entitled to lease additional properties from ChinaCoal Group during the term of the Property Leasing Agreement.
- ChinaCoal Group has agreed to indemnify us against any loss or damage we may suffer or incur because of title issue arising from the use of such properties with title defect.
- If ChinaCoal Group or its relevant associate(s) intend to sell any property leased to us under the Property Leasing Framework Agreement, we shall have the pre-emptive right to purchase such property under the same terms offered to third parties.
- Either party may, at any time before the Property Leasing Framework Agreement expires, by giving not less than 6 months' notice to terminate any lease made pursuant to and comprised under the agreement, and the rentals will accordingly be reduced.

The Property Leasing Framework Agreement is of a term of 10 years commencing on 22 August, 2006, being the date of incorporation of our Company, and is subject to renewal. The agreement is of a duration longer than three years as otherwise normally permitted under the connected transactions' regulatory regime of the Hong Kong Listing Rules. This is because 10-year property leases are more desirable for us to avoid unnecessary disruption to our operations and to minimize relocation costs. Our independent property valuer, Savills and the Joint Sponsors are also of the view that it is normal business practice for property leasing agreements involving PRC properties to be of such duration.

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Pricing

Under the Property Leasing Framework Agreement, the rentals shall be determined and paid as follows:

- We (or our relevant subsidiaries) shall pay annual rentals in an aggregate amount of up to approximately RMB70.8 million to ChinaCoal Group and its relevant associates in respect of the buildings and properties leased to us.
- The party taking up any lease shall also be responsible for all utility charges and other miscellaneous expenses (property tax excluded) incurred in using the relevant property during the term of the lease.
- The rentals are payable annually in arrears, and are subject to review and adjustments every three years during the term of the Property Leasing Framework Agreement by reference to the prevailing market rates. The adjusted rentals shall not exceed the then applicable market rates as confirmed by an independent property valuer.
- Further, any downward adjustment in rentals for such properties leased to us may be made at any time during the term of the Property Leasing Framework Agreement notwithstanding the normal three-year rental adjustment mechanism provided for under that agreement as described above.

Savills has confirmed that the rentals under the Property Leasing Framework Agreement reflect, and are no higher than, the prevailing market rates and that the terms of the agreement are fair and reasonable.

Historical figures

The above property leasing arrangement did not exist during the three years ended 31 December 2005, and was put in place as a result of our Restructuring. Accordingly, no relevant or comparable historical figures are available or readily ascertainable.

Annual caps

The annual rentals payable by the parties as provided for under the Property Leasing Framework Agreement are fixed under the agreement as up to RMB70.8 million by us (or our relevant subsidiaries), subject to adjustments and taking into account of market rates, such adjustments may be made once every three years as described above. Such rentals are determined on the basis of the relevant property valuation reports issued by independent qualified PRC property valuers, and Savills has confirmed that such rentals reflect the prevailing market rates. The total annual rentals payable by us (or our relevant subsidiaries) to ChinaCoal Group and its associates are expected to be approximately RMB71 million. This amount is accordingly used as the proposed annual cap for each of the three years ending 31 December 2008.

6. Land Use Rights Leasing Framework Agreement

Following the Restructuring, ChinaCoal Group and its associates lease to our Company certain land use rights in the PRC for general business and ancillary purposes. Our Company and ChinaCoal Group therefore entered into a Land Use Rights Leasing Framework Agreement on 5 September 2006 to regulate their relationship in this regard. Under the Land Use Rights Leasing Framework Agreement, the land use rights leased to our Company from ChinaCoal Group and its associates comprise land use rights in respect of 93 parcels of land occupying an aggregate gross site area of approximately 2.1 million square metres, mostly for production and operation uses. The Land Use Rights Framework Agreement sets out the particulars of

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each parcel of land subject to the agreement. The principal terms of the Land Use Rights Framework Agreement are as follows:

- We (or our relevant subsidiary) and ChinaCoal Group (or its relevant associate) shall enter into separate leases to set out the specific terms and conditions in respect of the relevant parcel(s) of lands leased according to the principles, and within the parameters, provided for under the Land Use Rights Leasing Framework Agreement.
- If ChinaCoal Group or its relevant associate(s) intend to transfer any land use rights leased to our Company under the Land Use Rights Leasing Framework Agreement, our Company shall have the pre-emptive right to acquire such land use rights under the same terms offered to third parties.
- Upon expiry of the Land Use Rights Leasing Framework Agreement, if ChinaCoal Group or its relevant associate(s) intend to continue any lease, we shall also have the pre-emptive right to lease the relevant land use rights under the same terms offered to third parties, even if it has not exercised its right of renewal.
- We are entitled to lease additional the land use rights from ChinaCoal Group during the term of the Land Use Rights Leasing Framework Agreement.

The Land Use Rights Leasing Framework Agreement is of a term of 20 years commencing on 22 August 2006, being the date of incorporation of our Company, and is subject to renewal. The agreement is of a duration longer than three years as otherwise normally permitted under the connected transactions regulatory regime of the Hong Kong Listing Rules. This is because 20-year land use rights leases are more desirable for us (or our relevant subsidiaries) to avoid unnecessary disruption to its operations and to minimize relocation costs, especially when our Company has buildings or fixtures constructed on the relevant parcels of land. Savills and the Joint Sponsors are also of the view that it is normal business practice for PRC land use rights leasing agreements to be of such duration.

We may, at any time before the Land Use Rights Leasing Framework Agreement expires, terminate any lease made pursuant to and comprised under the agreement by giving 2 months' notice, and the rentals payable by us will accordingly be reduced.

Pricing

Under the Land Use Rights Leasing Framework Agreement, the rentals shall be determined and paid as follows:

- We shall pay annual rentals in an aggregate amount of approximately RMB8.9 million to ChinaCoal Group and its associates.
- The rentals are payable annually in arrears, and are subject to review and adjustments every three years during the term of the Land Use Rights Leasing Framework Agreement by reference to the prevailing market rates in respect of similar parcels of lands located in the same regions or areas under comparable conditions, provided that the adjusted rentals shall not exceed the then applicable market rates as confirmed by an independent property valuer.
- Further, any downward adjustment in rentals may be made at any time during the term of the Land Use Rights Leasing Framework Agreement notwithstanding the normal three-year rental adjustment mechanism provided for under the agreement as described above.

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Savills has confirmed that the rentals under the Land Use Rights Leasing Framework Agreement reflect, and are no higher than, the prevailing market rates and that the terms of the agreement are fair and reasonable.

Historical figures

The above land use rights leasing arrangement did not exist during the three years ended 31 December 2005, and was put in place as a result of our Restructuring. Accordingly, no relevant or comparable historical figures are available or readily ascertainable.

Annual caps

The annual rentals payable by us as provided for under the Land Use Rights Leasing Framework Agreement are fixed under the agreement as RMB8.9 million, subject to adjustments and taking into account of market rates, such rental adjustments can be made once every three years as described above. Such rentals are determined on the basis of the relevant property valuation reports issued by independent qualified PRC property valuers, and Savills has confirmed that such rentals reflect the prevailing market rates.

The total annual rentals payable by us (or our relevant subsidiaries) to ChinaCoal Group and its associates are expected to be approximately RMB9.0 million for each year of 2006 to 2008. This amount is accordingly set as the proposed annual cap for the transactions under the Land Use Rights Leasing Framework Agreement in respect of each of the year ending 31 December 2008.

B. Continuing Connected Transactions Between Our Company And Connected Persons At Our Subsidiary Level

1. Coal/Coke Product Sales Framework Agreements

Each of Datong Coal Industry Co. Ltd. (大同煤業股份有限公司), Shanxi Longquan Foundry Coke Company Limited (汾陽市龍泉鑄造焦有限公司), Shuozhou Shuocheng Liu Jia Kou Coal Transportation Terminal (朔州市朔城區劉家口煤炭集運站), Lingshi Jiuxin Coal Preparation Company Limited (靈石縣九鑫選煤有限責任公司) and Shaanxi Yulin Coal Export Group Corporation (陝西榆林煤炭出口(集團)有限責任公司) of the Subsidiaries' Substantial Shareholders is a joint venture partner of our Company in respect of our coal and coking operations. We will continue to purchase and sell coal / coke products from these five Subsidiaries' Substantial Shareholders. Our Company has therefore entered into a Coal/Coke Product Sales Framework Agreement with each of the Subsidiaries' Substantial Shareholders to regulate our business relationship after listing. The terms of each of the Coal/Coke Supplies Framework Agreements are substantially the same, the principal terms of which are as follows:

- We (or our relevant subsidiary) shall sell to and purchase from the five Subsidiaries' Substantial Shareholders coal and/or coke products as the parties may from time to time mutually agree.
- We (or our relevant subsidiary) shall enter into separate purchase and sales contracts with each of the five Subsidiaries' Substantial Shareholders to set out the specific terms and conditions of sale and purchase of coal and/or coke products according to the principles, and within the parameters, provided for under the Coal/Coke Product Sales Framework Agreements.
- The Coal/Coke Product Sales Framework Agreements took effect on the date of incorporation of our Company and expires on 31 December 2008, and is subject to renewal.

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Pricing

Under each of the Coal/Coke Product Sales Framework Agreements, either party shall sell to the other party coal and coke products according to the following pricing principles (in the following order):

- price prescribed by the PRC Government; or
- where there is no government-prescribed price, guidance price set by the PRC Government; or
- market price, which is determined by reference to the prevailing market rates for the same or similar coal or coke products as are available on an arm's length basis from independent coal or coke producers located in the region or surrounding areas; or
- a price to be agreed between the parties, which agreed price will be calculated based on the reasonable costs incurred in supplying the relevant coal or coke products plus 5% reasonable profits. In setting the price, the parties may refer to prices for previous related transactions if available.

Historical figures

During the past three years, the amount of the coal and coke products supplied by the Subsidiaries' Substantial Shareholders to our Company increased continuously. The rate of increase was 26% in 2004 and 66% in 2005. The increase was mainly due to the continuous increase in both the prices and the quantities of the coal and coke products sourced by our Company. For the years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006, the total value of coal and coke products purchased by our Company from the relevant Subsidiaries' Substantial Shareholders amounted to approximately RMB433 million, RMB547 million, RMB911 million and RMB544 million, respectively, and the total value of coal and coke products sold by our Company to the relevant Subsidiaries' Substantial Shareholders amounted to approximately RMB196 million, RMB69.6 million, RMB162 million and RMB137 million, respectively.

Annual caps

Based on the highest historical amount of RMB196 million during the Track Record Period, and an anticipated 10% annual increase, our Company expects the annual caps would be approximately RMB 216 million for 2006, RMB 237 million for 2007 and RMB261 million for 2008. Considering the increase of coal and coke products produced by our Company in the future and that the prices for coal and coke products would continue to stably increase, the amount of coal and coke products supplied by the Subsidiaries' Substantial Shareholders would not increase at the same rates as in the past three years. On the basis of the revenue of RMB912 million in 2005 and an annual rate of increase of 10%, our Company expects that the annual caps for the amount of the coal and coke products purchased from the Subsidiaries' Substantial Shareholders would be approximately RMB1,003 million for 2006, RMB1,104 million for 2007 and RMB1,214 million for 2008.

	2006	2007	2008
	(RMB in millions)		
Amounts payable by us for purchases of coal and coke products from the four Subsidiaries' Substantial Shareholders	1,003	1,104	1,214
Amounts receivable by us from sales of coal and coke products to the two Subsidiaries' Substantial Shareholders	216	237	261

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2. Railway Leasing and Management Entrustment Service Framework Agreement

Shuozhou Pingshuo Luda Railway Transportation Co., Ltd. (朔州市平朔路達鐵路運輸有限公司) (“Pingshuo Luda”) of the Subsidiaries’ Substantial Shareholders leases railway from our subsidiary Shanxi China Coal Pingshuo Antaibao Coal Co., Ltd. (山西中煤平朔安太堡煤炭有限責任公司), formerly known as Ping Shuo First Coal Co., Ltd. (平朔第一煤炭有限公司) and Shanxi Pingshuo Anjialing Surface Mine Company Limited (山西平朔安家嶺露天煤炭有限公司) (“Anjialing Surface Mine”). Pingshuo Luda also provides railway management entrustment services to Pingshuo Antaibao and Anjialing Surface Mine. Pingshuo Luda will after our listing continue to lease railway from Pingshuo Antaibao and Anjialing Surface Mine, and provide to these two companies management entrustment services. As Pingshuo Luda is a subsidiary of Datong Luda Railway Transportation Co., Ltd. (大同路達鐵路運輸有限公司) (“Datong Luda”) and Datong Luda is a connected person for the purposes of the Hong Kong Listing Rules, the transaction between our subsidiary and Pingshuo Luda is also a connected transaction. To regulate our relationship with Pingshuo Luda after our listing, we have entered into a Railway Leasing and Management Entrustment Service Framework Agreement with Pingshuo Luda on 5 September 2006. The principal terms of the agreement are as follows:

- Pingshuo Luda shall lease railway from us (or our relevant subsidiaries) and provide management entrustment services to our relevant subsidiaries, Pingshuo Antaibao and Anjialing Mine.
- Each party shall enter into separate written service contracts with us to set out the specific terms, conditions and price for the provision of each type of railway and management services according to the principles, and within the parameters, provided for under the Railway Leasing and Management Entrustment Service Framework Agreement.
- The quality of the railway leasing and management entrustment services provided by Pingshuo Luda under the Railway Leasing and Management Entrustment Service Framework Agreement shall be in accordance with the standards of services specified in the written agreements and shall be based on a reasonable price. Where the standards are specified by rules or regulations, the services provided shall be in accordance with such standards.
- The parties shall set the standards of services to be provided under the agreement and shall amend such standards from time to time in accordance with the market conditions.

Pricing

The price of the services to be provided under the Railway Leasing and Management Entrustment Service Framework Agreement shall be determined, successively, in accordance with the following pricing principles:

- price for railway leasing and railway management services prescribed by the PRC Government; or
- where there is no government-prescribed price, guidance price for similar services set by the PRC Government; or
- market price, which is determined by reference to the prevailing market rates for similar or the same comparable railway leasing and railway management services as are available on an arm’s length basis from independent railway operators located in the region or surrounding areas; or

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- a price to be agreed between the parties, which agreed price will be calculated based on the reasonable costs incurred in supplying such services plus profits reasonably earned. In setting the price, the parties may refer to prices for previous related transactions if available.

Historical figures

For the years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006, the total value of railway leasing fees paid by Pingshuo Luda to our relevant subsidiaries amounted to approximately RMB3.1 million, RMB47.4 million, RMB75.4 million and RMB41 million, respectively. During the same periods, the total value of the railway management services provided by Pingshuo Luda to our relevant subsidiaries amounted to approximately RMB nil, RMB110.8 million, RMB119.1 million and RMB103.0 million, respectively.

Annual caps

The dedicated rail link under the Railway Leasing and Management Entrustment Service Framework Agreement, which links our Pingshuo Mining Area and the Daqin Rail Line, is approximately 20 kilometres in length and the rate of leasing fees is calculated based on RMB0.12 per kilometre and the rate of management entrustment service fees is calculated based on RMB0.32 per kilometre. Taking into account the production expansion plan of the Pingshuo mines and the recent freight capacity expansion of the Daqin Rail Line, we estimate that the total freight volume of the dedicated rail line will increase from 46 million tonnes in 2006 to 54 million tonnes and 65 million tonnes for 2007 and 2008, respectively. We have therefore estimated the annual caps of this category of transactions as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>
	(RMB in millions)		
Amounts receivable by us for railway leasing to Pingshuo Luda	99	130	156
Amounts payable by our relevant subsidiaries for railway management entrustment services provided by Pingshuo Luda	264	346	416

C. Continuing Connected Transactions Between Our Company, And Our Company's Non Wholly-Owned Subsidiary Being Itself A Connected Person

Datun Aluminium, in its normal course of business, borrowed funds from PRC banks, and the lender banks required guarantee as security for such bank loan as a matter of usual banking practice in the PRC. The guarantee was, before the Restructuring, provided by ChinaCoal Group or its associates. As part of the Restructuring, such guarantee was replaced by the guarantee given by our Company, which has guaranteed the payment and the performance of obligations by Datun Aluminium in relation to a term loan owned to the lender banks in aggregate amounts of RMB500 million. The loan will expire on 18 November 2010. As of 31 December 2005, the outstanding balance of such guaranteed loan and interests thereon was approximately RMB420 million which will be repaid in installments in accordance with the relevant loan agreement. The guarantee has not been enforced as of the date of this Prospectus. Datun Aluminium is 75% owned by Shanghai Datun Energy (上海大屯能源股份有限公司) (a 62.43% subsidiary of our Company) and 25% owned by China Coal Hong Kong Limited (a wholly-owned subsidiary of ChinaCoal Group). Datun Aluminium is therefore an indirect non wholly-owned subsidiary, and will by virtue of Rule 14A.11(5) of the Hong Kong Listing Rules become a connected person, of our Company. Accordingly, the provision of guarantee by our Company in favour of Datun Aluminium constitutes as a connected transaction.

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Implications under Hong Kong Listing Rules — waiver obtained

According to “Our Restructuring” above, any transaction that might take place after our listing pursuant to the Restructuring Agreement is made in the performance of the relevant transaction already entered into before listing. Such transaction will therefore not constitute connected transactions or continuing connected transactions of our Company under Chapter 14A of the Hong Kong Listing Rules, and will not be subject to further regulatory requirements under the Hong Kong Listing Rules. In respect of the indemnities under the Restructuring Agreement, any payment which in the future that might be made by either party in performance of its obligations after the Global Offering also would not constitute a new transaction.

The exercise of any options granted under the Non-Competition Agreement after our listing would constitute a connected transaction under the Hong Kong Listing Rules. In addition, the non-exercise of any option will be treated as if the option were exercised and would constitute a connected transaction. We shall comply with the relevant disclosure and, where appropriate, independent shareholders’ approval requirements under the Hong Kong Listing Rules relating to the exercise or non-exercise of any options under the Non-competition Agreement.

The transactions described in paragraphs A2, A3, A4 and B1 above will constitute non-exempt continuing connected transactions under the Hong Kong Listing Rules once the H shares are listed on the Hong Kong Stock Exchange. Pursuant to the Hong Kong Listing Rules, these non-exempt continuing connected transactions in paragraphs A2, A3, A4 and B1 would normally require full reporting, announcement and prior approval by independent shareholders, subject to the nature and the value of the transactions. The transactions described in paragraphs A1, A5, B2 and C above will also constitute non-exempt continuing connected transactions subject to the announcement requirements of the Hong Kong Listing Rules. Our Directors, including our independent non-executive Directors, consider that disclosure and approval of these transactions in full compliance with the Hong Kong Listing Rules would be impracticable and, in particular, add unnecessary administrative costs to us. In addition, our Directors including our independent non-executive Directors believe that it is in our interests to continue with these transactions after the listing of our H Shares on the Hong Kong Stock Exchange and that such transactions are conducted on normal or on better than normal commercial terms, in our ordinary and usual course of business and are fair and reasonable and in the interests of our shareholders as a whole and that the annual limits for the non-exempt continuing connected transactions are fair and reasonable.

Non-exempt Continuing Connected Transactions

<u>Expenditure</u>	<u>Proposed annual limit</u>		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
	(RMB in million)		
A. ChinaCoal Group			
1. <i>Coal Export and Sales Agency Framework Agreement</i>			
Agency fees payable to ChinaCoal Group for the export of coal and sales agency services	70	70	70
2. <i>Coal Supplies Framework Agreement</i>			
Annual amount payable to ChinaCoal Group for the supply of coal products produced from the Mines under Restructuring	400	1,000	1,200
3. <i>Integrated Materials and Services Mutual Provision Framework Agreement</i>			
Annual amount payable to ChinaCoal Group for production supplies and ancillary services	996	1,226	1,315

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<u>Expenditure</u>	Proposed annual limit		
	2006	2007	2008
	(RMB in million)		
Annual amount payable to ChinaCoal Group for social and support services	80	90	100
4. <i>Mine Construction and Design Framework Agreement</i>			
Annual amount payable to ChinaCoal Group for provision of construction services	570	1,110	1,005
5. <i>Property Leasing Framework Agreement</i>			
Annual rental payable to ChinaCoal Group for the lease of various buildings and properties	71	71	71
B. Subsidiaries’ Substantial Shareholders			
1. <i>Coal/Coke Product Sales Framework Agreements</i>			
Annual amount payable by us for purchase of coal/coke products from the relevant Subsidiaries’ Substantial Shareholders	1,003	1,104	1,214
2. <i>Railway Leasing and Management Entrustment Service Framework Agreement</i>			
Annual amount payable by us for railway management entrustment services provided by Pingshuo Luda	264	346	416
<u>Revenue</u>	Proposed annual limit		
	2006	2007	2008
	(RMB in million)		
A. ChinaCoal Group			
3. <i>Integrated Materials and Services Mutual Provision Framework Agreement</i>			
(a) Annual amount payable by ChinaCoal Group to us for supplies of production materials and ancillary services	35	50	50
(b) Annual amount payable by ChinaCoal Group to us for our coal export-related services	160	160	160
4. <i>Mine Construction and Design Framework Agreement</i>			
Annual amount payable by ChinaCoal Group to us for coal mine design services	30	50	50
B. Subsidiaries’ Substantial Shareholders			
1. <i>Coal/Coke Product Sales Framework Agreements</i>			
Annual amount payable by the relevant Subsidiaries’ Substantial Shareholders . . .	216	237	261
2. <i>Railway Leasing and Management Entrustment Service Framework Agreement</i>			
Annual amount payable by Pingshuo Luda for railway leasing from our relevant subsidiaries	99	130	156

Exempt Continuing Connected Transactions

- *Coke Export Agency Framework Agreement*
- *Trademarks License Framework Agreement*

A. ChinaCoal Group

- 6. *Land Use Rights Leasing Framework Agreement*
Annual rental payable to ChinaCoal Group for lease of land use rights

We have applied to the Hong Kong Stock Exchange for waivers in accordance with Rule 14A.42(3) and the Hong Kong Stock Exchange has granted waivers in relation to the non-exempt continuing connected transactions under the following agreements (being the agreements referred to in paragraphs A2, A3, A4 and

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B1 above) from the announcement and independent shareholders' approval requirements of the Hong Kong Listing Rules pursuant to Rules 14A.47 and 14A.48:

- Coal Supplies Framework Agreement
- Integrated Materials and Services Mutual Provision Framework Agreement
- Mine Construction and Design Framework Agreement
- Coal/Coke Product Sales Framework Agreement

We have applied to the Hong Kong Stock Exchange for waivers in accordance with Rule 14A.42(3) and the Hong Kong Stock Exchange has granted waivers in relation to the non-exempt continuing connected transactions under the following agreements (being the agreements referred to in paragraphs A1, A5, B2 and C above) from the announcement requirement of the Hong Kong Listing Rules pursuant to Rules 14A.47. Pursuant to Rule 14A.34 of the Hong Kong Listing Rules, these transactions are exempt from the independent shareholders' approval requirement of the Hong Kong Listing Rules:

- Coal Export and Sales Agency Framework Agreement
- Property Leasing Framework Agreement
- Railway Leasing and Management Entrustment Service Framework Agreement

In applying for the waivers, we have agreed that we will comply with the requirements specified under Chapter 14A of the Hong Kong Listing Rules. In addition, we will procure Shanxi Longquan Foundry Coke Company Limited, a counterparty to one of the Coal/Coke Product Sales Framework Agreements, shall allow our auditors sufficient access to their records for the purpose of reporting on the continuing connected transactions set out in Item B1 above. Our Board will also state in our annual report whether our auditors have confirmed the matters stated in Rule 14A.38.

Our Directors, including our independent non-executive Directors, consider that the maximum aggregate annual values of all the continuing connected transactions described in paragraphs A1 to A5, B1 to B2 and C above are fair and reasonable and all such continuing connected transactions have been entered into and will be carried out in the ordinary and usual course of business, will be conducted on normal or on better than normal commercial terms and are fair and reasonable so far as our shareholders as a whole are concerned.

The transactions under the Coke Export Agency Framework Agreement and the Trademarks Licence Framework Agreement as described in the sub-paragraph headed "Exempt continuing connected transactions" above and the transactions under the Land Use Rights Leasing Framework Agreement (being the agreement referred to in paragraph A6 above) are exempt connected transactions under the Hong Kong Listing Rules as the annual value of each of these transactions falls below the de minimis disclosure threshold set by the Hong Kong Listing Rules.

Confirmation from the Joint Sponsors

The Joint Sponsors are of the view that our Company's continuing connected transactions described in this "Non-exempt Continuing Connected Transactions" sub-section are in the ordinary and usual course of business of our Company, on normal commercial terms, are fair and reasonable and in the interests of the shareholders of our Company as a whole, and that the proposed annual caps (where applicable) for these continuing connected transactions referred to above are fair and reasonable.