

Management Discussion and Analysis of Financial Condition and Results of Operations¹

The following discussion and analysis should be read together with the audited financial statements and related notes of the Group set out in this report.

Overview

For the year ended 31 December 2006, the profit before income tax of the Group amounted to RMB25,673 million, representing a year-on-year increase of 16.3%. The profit attributable to equity shareholders of the Company amounted to RMB17,460 million, representing a year-on-year increase of 11.8%. Earnings per share of the Company was RMB0.965.

For the year ended 31 December 2006, the profit from operations in our coal and power segments hit historical highs. Profit from operations in coal segment grew from RMB21,301 million for the year ended 31 December 2005 to RMB23,302 million for the year ended 31 December 2006, representing an increase of 9.4%. During the same period, the profit from operations in power segment increased from RMB2,600 million to RMB4,286 million, representing an increase of 64.8%.

Increase in the profit from operations from the two business segments was attributable to our having successfully captured the opportunities in the coal market, increasing our coal production as well as the sales volume; and in relation to the power segment, we accelerated the construction of new power plants and expanded the installed capacities of existing power plants, increased power output dispatch and improved our management.

Our return on total assets decreased from 11.0% for the year ended 31 December 2005 to 10.7% for the year ended 31 December 2006. The return on net assets decreased from 27.0% for the year ended 31 December 2005 to 26.1% for the year ended 31 December 2006. EBITDA² increased from RMB29,500 million for the year ended 31 December 2005 to RMB34,385 million for the year ended 31 December 2006, an increase of 16.6%. As at 31 December 2006, our total debt capitalisation ratio³ decreased by 1.5 percentage points, from 41.5% as at 31 December 2005 to 40.0% as at 31 December 2006.

Notes:

1. In August 2006, the Company acquired a 70% stake in Jinjie Energy from Shenhua Group Corporation Limited ("Shenhua Group") (the "Acquisition"). As the Company and Jinjie Energy were under common control of Shenhua Group, the Acquisition has been reflected as a combination of entities under common control and accounted for in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities of Jinjie Energy have been accounted for at historical costs and the financial statements of the Company prior to the Acquisition have been restated to include the results of operations of Jinjie Energy on a combined basis. Additionally, analysis on operation of business segments for last year was restated to conform with the current year's presentation. Our financial data for the period prior to the Acquisition is presented based on those restated amounts.
2. EBITDA, a measure used by management to measure our operating performance, is defined as profit for the year plus net financing costs, investment income, income tax, depreciation and amortisation and minority interests. We present our EBITDA here to provide additional information regarding our operating performance and because our management believes EBITDA is useful to investors as it is a measure commonly used by securities analysts, investors and other interested parties in the evaluation of companies in the mining industry on the basis of operating performance. EBITDA is not a recognised term under International Financial Reporting Standards ("IFRS"). You should not consider it an alternative to profit for the year as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of EBITDA may be different from the calculation used by other companies and therefore comparability may be limited. In addition, EBITDA is not intended to be a measure of free cash flow for management's discretionary use, as it does not reflect certain cash requirements such as interest payments, tax payments and debt service requirements.
3. The total debt capitalisation ratio = $\frac{\text{long-term interest bearing debt} + \text{short-term interest bearing debt (including bills payable)}}{\text{total debt} + \text{total equity}}$

A panoramic view of Daliuta mine at the Shendong Mines



The following is a comparison of financial results between the year ended 31 December 2005 and the year ended 31 December 2006:

Consolidated Results of Operations

Revenues

Revenues increased from RMB52,242 million for the year ended 31 December 2005 to RMB64,240 million for the year ended 31 December 2006, an increase of 23.0%. The increase was attributable to an increase in production and coal sales with the prices of certain types of coal rising; new power plants and power generation units had been put into operation which resulted in an increase of power output dispatch; and the policy of linking the coal prices and power tariff, which resulted in an increase in average on-grid tariff. The proportion of coal revenues to total operating revenues decreased from 76.4% for the year ended 31 December 2005 to 71.5% for the year ended 31 December 2006, whereas the proportion of power revenues to total operating revenues increased from 20.8% to 25.9% for the same period.

Cost of revenues

Cost of revenues increased from RMB25,119 million for the year ended 31 December 2005 to RMB32,460 million for the year ended 31 December 2006, an increase of 29.2%.

The main reasons for the increase are as follows:

- Coal purchased from third parties increased significantly from RMB4,339 million for the year ended 31 December 2005 to RMB6,935 million for the year ended 31 December 2006, an increase of 59.8%. The increase was mainly attributable to the increase in the volume of coal purchased from third parties in 2006.
- Materials, fuel and power increased from RMB2,545 million for the year ended 31 December 2005 to RMB3,236 million for the year ended 31 December 2006, an increase of 27.2%. The increase was mainly attributable to the increase in the consumption and prices of spare parts, raw materials and fuel.
- Personnel expenses increased from RMB2,046 million for the year ended 31 December 2005 to RMB2,441 million for the year ended 31 December 2006, an increase of 19.3%. The increase was mainly attributable to the increase in wages as a result of improved operational results and the increase in the number of employees due to the operation of new power plants and coal mines.

- Depreciation and amortisation increased from RMB5,182 million for the year ended 31 December 2005 to RMB6,346 million for the year ended 31 December 2006, representing an increase of 22.5%. The increase was mainly attributable to development of our businesses and the increase in fixed assets in power plants, coal mines, ports and railways.
- Repairs and maintenance increased from RMB2,660 million for the year ended 31 December 2005 to RMB3,142 million for the year ended 31 December 2006, an increase of 18.1%. The increase was mainly attributable to the increase in the equipment maintenance expenses for Shendong Mines, the costs for replacing the rails of railway and the repair expenses of equipment in power plants.
- Transportation charges increased from RMB5,152 million for the year ended 31 December 2005 to RMB6,246 million for the year ended 31 December 2006, representing an increase of 21.2%. The increase was mainly attributable to the increase in the sales volume of coal, which led to the increase in the transportation volume by state-owned railways and thus resulted in the rise in port handling fees and sea freight charges.
- Other expenses increased from RMB3,195 million for the year ended 31 December 2005 to RMB4,114 million for the year ended 31 December 2006, an increase of 28.8%. The increase was mainly attributable to the increase in coal selection and minery fees, coal extraction service costs, sales taxes and surcharges resulting from the increase in the commercial coal sales, and increase in environmental protection costs and resources compensation fee.

Selling, general and administrative expenses

Selling, general and administrative expenses increased from RMB3,311 million for the year ended 31 December 2005 to RMB4,166 million for the year ended 31 December 2006, an increase of 25.8%. The increase was mainly attributable to the new power plants put into operation and the increase in related amortisation of pre-operating expenses and the increase in staff insurance and welfare expenses and taxes.

Profit from operations

Profit from operations increased from RMB23,662 million for the year ended 31 December 2005 to RMB27,296 million for the year ended 31 December 2006, an increase of 15.4%.

Net financing costs

Net financing costs increased from RMB2,060 million for the year ended 31 December 2005 to RMB2,100 million for the year ended 31 December 2006, an increase of 1.9%. Finance income and finance expenses decreased by 42.6% and 11.4%, respectively.

Income tax

Income tax increased from RMB4,080 million for the year ended 31 December 2005 to RMB5,388 million for the year ended 31 December 2006, an increase of 32.1%. Effective tax rate increased from 18.5% for the year ended 31 December 2005 to 21.0% for the year ended 31 December 2006, an increase of 2.5 percentage points. The increase was mainly attributable to the increase in the proportion of taxable profits taxed at the tax rate of 33% and expiry of some preferential tax policies.

Profit attributable to equity shareholders of the Company

Profit attributable to equity shareholders of the Company increased from RMB15,619 million for the year ended 31 December 2005 to RMB17,460 million for the year ended 31 December 2006, an increase of 11.8%.

Operating Results by Segment

The Group conducts production, sales and transportation of coal as well as power generation and related activities through two main business segments: coal segment and power segment.

	Coal		Power		Corporate and others		Eliminations		Total	
	2006 RMB million	2005 RMB million	2006 RMB million	2005 RMB million	2006 RMB million	2005 RMB million	2006 RMB million	2005 RMB million	2006 RMB million	2005 RMB million
Revenues										
External sales	47,604	41,344	16,636	10,898	-	-	-	-	64,240	52,242
Inter-segment sales	6,744	4,156	83	53	-	-	(6,827)	(4,209)	-	-
Total operating revenues	54,348	45,500	16,719	10,951	-	-	(6,827)	(4,209)	64,240	52,242
Cost of revenues										
Cost of coal purchased from third parties	(6,777)	(4,209)	(158)	(130)	-	-	-	-	(6,935)	(4,339)
Cost of coal production	(8,964)	(7,042)	-	-	-	-	2,009	1,190	(6,955)	(5,852)
Costs of coal transportation	(11,306)	(9,673)	-	-	-	-	1,423	804	(9,883)	(8,869)
Power cost	-	-	(10,905)	(7,387)	-	-	3,372	2,195	(7,533)	(5,192)
Others	(1,144)	(853)	(10)	(14)	-	-	-	-	(1,154)	(867)
Total cost of revenues	(28,191)	(21,777)	(11,073)	(7,531)	-	-	6,804	4,189	(32,460)	(25,119)
Selling, general and administrative expenses	(2,611)	(2,215)	(1,336)	(877)	(219)	(219)	-	-	(4,166)	(3,311)
Other operating (expenses)/ income, net	(244)	(207)	(24)	57	(50)	-	-	-	(318)	(150)
Profit/(loss) from operations	23,302	21,301	4,286	2,600	(269)	(219)	(23)	(20)	27,296	23,662
Operating margins (%)	42.9	46.8	25.6	23.7					42.5	45.3

Coal Segment

In 2006, our coal segment enhanced its production efficiency by implementing technological revamps to existing mines and constructing new mines to increase coal production. The coal segment transports and sells coal to customers, mainly by employing the Group's self-owned railways and ports.

Overall analysis

(1) Revenues

Revenues of the coal segment increased from RMB45,500 million for the year ended 31 December 2005 to RMB54,348 million for the year ended 31 December 2006, representing an increase of 19.4%. The increase was mainly attributable to the sales volume increasing from 144.4 million tonnes in 2005 to 171.1 million tonnes in 2006, an increase of 18.5%. The weighted average sales price of coal increased from RMB305.4/tonne in 2005 to RMB308.1/tonne in 2006, an increase of 0.9%.

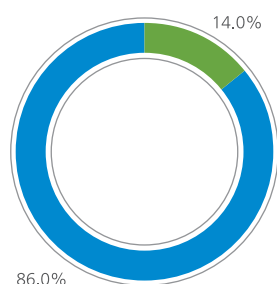
The sales volume and price of our coal by market for the year ended 31 December 2005 compared with that for the year ended 31 December 2006 were as follows:

Coal sales (by market)

	2006		2005	
	Sales volume Million tonnes	Sales price RMB/tonne	Sales volume Million tonnes	Sales price RMB/tonne
Total domestic sales volume/ weighted average price	147.2	296.1	121.1	284.6
Long-term contract sales volume/ weighted average price	119.3	296.0	93.5	275.7
Mine mouth	2.0	131.9	2.1	132.0
Direct arrival (along rail lines)	36.9	220.4	32.4	208.0
Seaborne (FOB)	80.4	334.8	59.0	318.1
Spot market sales volume/ weighted average price	27.9	296.8	27.5	313.5
Mine month	5.5	110.0	3.8	93.4
Direct arrival (along rail lines)	9.0	285.7	5.8	298.2
Seaborne (FOB)	13.4	380.8	17.9	367.3
Export sales volume/price	23.9	381.6	23.3	413.7
Total sales volume/ weighted average price	171.1	308.1	144.4	305.4

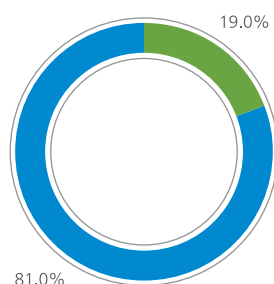
Analysis of commercial coal sales

By market



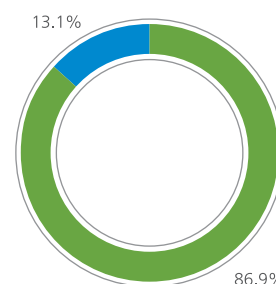
■ Export sales ■ Domestic sales

By means of domestic sales



■ Spot market sales ■ Long-term contracts

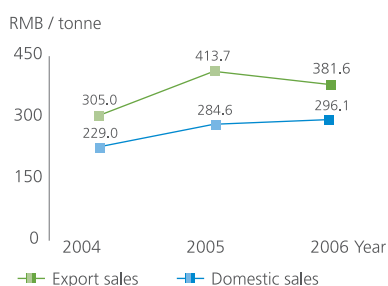
By customer



■ External customers ■ Our power segment

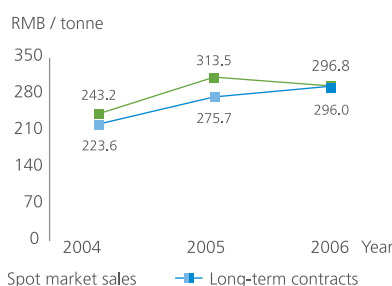
Analysis of sales price of commercial coal sales

By market



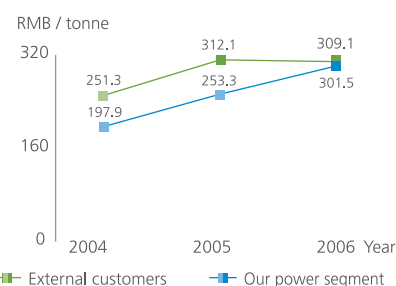
■ Export sales ■ Domestic sales

By means of domestic sales



■ Spot market sales ■ Long-term contracts

By customer



■ External customers ■ Our power segment

Sales of the coal segment were mainly targeted at the domestic market. Revenues from domestic sales increased from RMB34,446 million for the year ended 31 December 2005 to RMB43,575 million for the year ended 31 December 2006, an increase of 26.5%. The increase was mainly attributable to the increase in coal prices as well as the sales volume. Our domestic sales increased from 121.1 million tonnes for the year ended 31 December 2005 to 147.2 million tonnes for the year ended 31 December 2006, an increase of 21.6%. During the same period, the proportion of domestic sales volume to the total sales volume increased from 83.9% to 86.0%. The weighted average price for domestic sales increased from RMB284.6/tonne to RMB296.1/tonne, an increase of 4.0%.

Domestic sales of the coal segment mainly comprised sales pursuant to long-term contracts. The revenues from domestic sales pursuant to long-term contracts increased from RMB25,790 million for the year ended 31 December 2005 to RMB35,304 million for the year ended 31 December 2006, an increase of 36.9%. The increase was mainly attributable to the increase in sales volume and the rise in coal prices. The sales volume of our coal pursuant to long-term contracts increased from 93.5 million tonnes for the year ended 31 December 2005 to 119.3 million tonnes for the year ended 31 December 2006, an increase of 27.6%. During the same period, the proportion of domestic sales volume pursuant to long-term contracts to the domestic sales increased from 77.2% to 81.0%. The weighted average price for domestic sales pursuant to long-term contracts increased from RMB275.7/tonne to RMB296.0/tonne, an increase of 7.4%. Increases in the domestic sales and prices were attributable to the prosperous domestic coal market, which also enhanced sales and marketing efficiency as well as our profitability.

Domestic seaborne coal sales included sales pursuant to long-term contracts and spot sales. Revenues from our domestic seaborne coal sales increased from RMB25,353 million for the year ended 31 December 2005 to RMB32,019 million for the year ended 31 December 2006, an increase of 26.3%. Domestic seaborne coal sales increased from 76.9 million tonnes for the year ended 31 December 2005 to 93.8 million tonnes for the year ended 31 December 2006, an increase of 22.0%. During the same period, the proportion of domestic seaborne coal sales to the total domestic sales increased from 63.5% to 63.7%. The price for domestic seaborne coal sales increased from RMB329.6/tonne to RMB341.4/tonne, an increase of 3.6%.

Export sales of the coal segment decreased from RMB9,636 million for the year ended 31 December 2005 to RMB9,117 million for the year ended 31 December 2006, a decrease of 5.4%. Our export sales increased from 23.3 million tonnes for the year ended 31 December 2005 to 23.9 million tonnes for the year ended 31 December 2006, an increase of 2.6%. During the same period, the proportion of export sales volumes to the total sales volume decreased from 16.1% to 14.0%. The price for export sales decreased from RMB413.7/tonne to RMB381.6/tonne, a decrease of 7.8%.

The decrease was mainly attributable to:

- (a) the decrease in coal prices in the international coal market, resulting in a decrease in the prices under long-term export sales contracts with certain major customers compared to that of 2005;
- (b) Renminbi appreciation in 2006, resulting in the decrease in weighted average exchange rate between US Dollars and Renminbi on export sales from 8.1589 for the year ended 31 December 2005 to 7.9741 for the year ended 31 December 2006. The Renminbi appreciated by 2.3%, resulting in the decrease in export sales prices translated into Renminbi;

(c) reduction in the export tax rebate from 13% to 8% on 1 May 2005, while the rate of 13% tax rebate prevailed from January to April in 2005, resulted in a decrease in the export sales contract price for 2006 as compared with 2005.

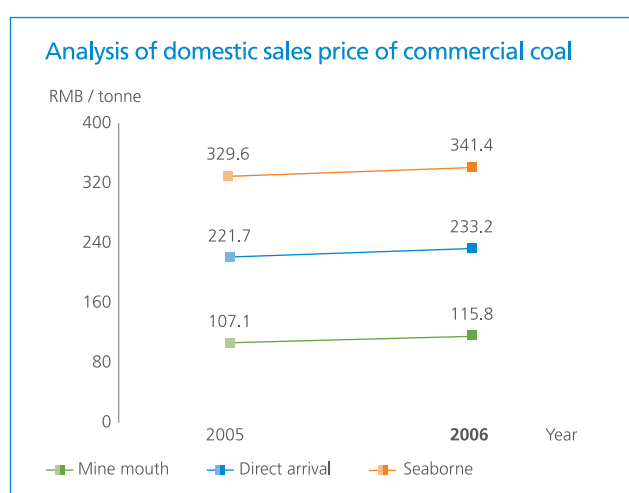
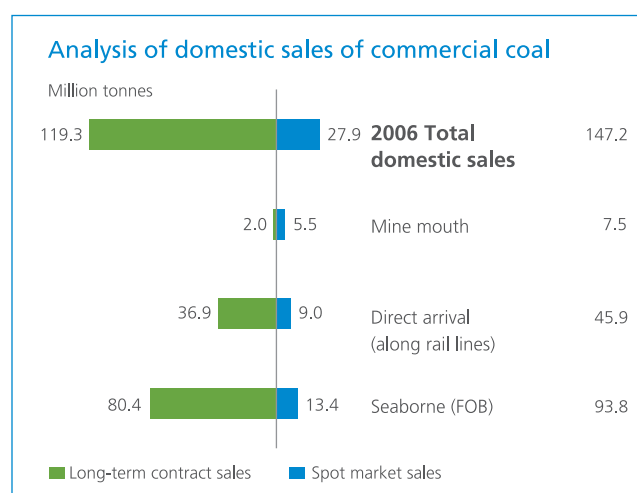
Sales in coal segment are mainly made to the external customers, and they are mainly power generation companies and fuel companies. Revenue from sales to external customers increased from RMB39,926 million for the year ended 31 December 2005 to RMB45,948 million for the year ended 31 December 2006, an increase of 15.1%. The

increase was mainly attributable to the increase in sales volume and the sales price to domestic external customers. Our sales to external customers increased from 128.0 million tonnes for the year ended 31 December 2005 to 148.7 million tonnes for the year ended 31 December 2006, an increase of 16.2%. During the same period, the proportion of sales volume to external customers to total sales volume decreased from 88.6% to 86.9%. The price of sales to external customers decreased from RMB312.1/tonne to RMB309.1/tonne, a decrease of 1.0%. The decrease was mainly attributable to the decrease in export sales price.

Our coal sales volume and price by customer for the year ended 31 December 2005 compared with those for the year ended 31 December 2006 were as follows:

Coal sales (by customer)

	2006		2005			
	Sales volume Million tonnes	Percentage to sales volume %	Sales price RMB/tonne	Sales volume Million tonnes	Percentage to sales volume %	Sales price RMB/tonne
Sales to external customers	148.7	86.9	309.1	128.0	88.6	312.1
Domestic sales to external customers	124.8	72.9	295.2	104.7	72.5	289.5
Export sales	23.9	14.0	381.6	23.3	16.1	413.7
Domestic sales to our power segment	22.4	13.1	301.5	16.4	11.4	253.3
Total coal sales/ weighted average price	171.1	100.0	308.1	144.4	100.0	305.4



Sales of coal by coal segment to our power segment is part of our unique integrated model of operation. Revenues from sales to our power segment increased from RMB4,156 million for the year ended 31 December 2005 to RMB6,744 million for the year ended 31 December 2006, an increase of 62.3%. The increase was mainly attributable to the increase in coal demand with the increase in power generation of our power plants. Sales to our power segment increased from 16.4 million tonnes for the year ended 31 December 2005 to 22.4 million tonnes for the year ended 31 December 2006, an increase of 36.6%. During the same period, the proportion of the sales volume to our power segment to the total sales volume increased from 11.4% to 13.1%. The price of sales to our power segment increased from RMB253.3/tonne to RMB301.5/tonne, an increase of 19.0%. The increase in price was mainly attributable to the change in sales structure of our power generation business in 2006 and the rise in proportion of seaborne coal sales which has a higher price compared with mine mouth and direct arrival sales.

(2) Cost of revenues

Cost of revenues of our coal segment increased from RMB21,777 million for the year ended 31 December 2005 to RMB28,191 million for the year ended 31 December 2006, an increase of 29.5%. The increase was mainly attributable to the increase in the volume of coal purchased from third parties, raw materials and fuel cost for coal

production and production volume of commercial coal, as well as transportation volume of coal.

(3) Selling, general and administrative expenses

Selling, general and administrative expenses of our coal segment increased from RMB2,215 million for the year ended 31 December 2005 to RMB2,611 million for the year ended 31 December 2006, an increase of 17.9%. The increase was mainly attributable to the increase in personnel expenses as a result of the improved operational results, and increase in sales taxes and surcharges.

(4) Profit from operations

Profit from operations of our coal segment increased from RMB21,301 million for the year ended 31 December 2005 to RMB23,302 million for the year ended 31 December 2006, an increase of 9.4%. During the same period, the operating margin of coal segment decreased from 46.8% to 42.9%.

Analysis of self-produced coal operations

(1) Revenues from self-produced coal operations

For the year ended 31 December 2006, the revenues from self-produced coal operations in our coal segment amounted to RMB41,138 million.

(2) Cost of revenues of self-produced coal operations

The cost of revenues and unit cost in respect of self-produced coal operations for 2006 compared with those of 2005 were as follows:

Analysis of cost of self-produced coal

	2006		2005	
	Cost RMB million	Unit cost RMB/tonne	Cost RMB million	Unit cost RMB/tonne
Cost of coal production	8,964	66.1	7,042	57.3
Cost of coal transportation	8,924	65.8	9,138	74.4
Total/average	17,888	131.9	16,180	131.7

The cost of coal production for our self-produced coal operations increased from RMB7,042 million for the year ended 31 December 2005 to RMB8,964 million for the year ended 31 December 2006, an increase of 27.3%. The sales volume of self-produced coal increased from 122.9 million tonnes in 2005 to 135.7 million tonnes in

2006, an increase of 10.4%. The difference in the sales volume of self-produced coal and the production volume of commercial coal arose from changes in inventory.

The cost of coal production of the self-produced coal operations by cost item of the Group for the year ended 31 December 2006 compared with that of 2005 were as follows:

Cost of coal production of self-produced coal operations

	2006		2005	
	Cost RMB million	Unit cost RMB/tonne	Cost RMB million	Unit cost RMB/tonne
Cash cost	6,784	50.0	5,178	42.1
Materials, fuel and power	1,597	11.8	1,442	11.7
Personnel expenses	968	7.1	723	5.9
Repairs and maintenance	1,418	10.5	1,021	8.3
Others	2,801	20.6	1,992	16.2
Depreciation and amortisation	2,180	16.1	1,864	15.2
Total	8,964	66.1	7,042	57.3

The unit cost of coal production of self-produced coal operations increased from RMB 57.3/tonne for the year ended 31 December 2005 to RMB 66.1/tonne for the year ended 31 December 2006, an increase of 15.4%. The increase was mainly attributable to the rise in repairs and maintenance resulting from the increase in mining equipment and the equipment age, the rise in personnel

expenses resulted from the improved operational results as well as the rise in other costs such as coal selection and minery fees, sales taxes and surcharges and environmental protection costs.

The cost of coal transportation of the self-produced coal operations by cost item for the year ended 31 December 2006 were as follows:

Cost of coal transportatin of self-produced coal operations

	2006	
	Cost RMB million	Unit cost RMB/tonne
Cash cost	7,590	56.0
Materials, fuel and power	1,020	7.5
Personnel expenses	576	4.3
Repairs and maintenance	833	6.1
Third party transportation cost	5,028	37.1
Others	133	1.0
Depreciation and amortisation	1,334	9.8
Total	8,924	65.8

(3) Profit from operations in respect of self-produced coal

Profit from operations in respect of self-produced coal of our coal segment for the year ended 31 December 2006 amounted to RMB 20,622 million.

In 2006, the operating margin of self-produced coal operations was as follows:

Analysis of operating margin

	Sales volume Million tonnes	2006 Percentage to the coal sales volume %	Operating margin %
Self-produced coal operations	135.7	79.3	50.1

Analysis of operations of coal purchase from third parties

(1) Revenues from the operations of coal purchase from third parties

The coal purchased from third parties by the Group was partly re-sold through our transportation system, which increased revenues and profit, and partly blended with the self-produced coal in order to meet the quality requirements

from customers. For the year ended 31 December 2006, the revenues from the operations of coal purchase from third parties amounted to RMB 11,554 million.

(2) Cost of revenues of the operations of coal purchase from third parties

The cost and unit cost in respect of the operations of coal purchase from third parties were as follows:

Operations of coal purchase from third parties for the year ended 31 December 2006

	2006 Cost RMB million	Unit cost RMB/tonne
Purchase cost	6,777	191.4
Transportation cost	2,382	67.3
Total/average	9,159	258.7

The purchase cost in respect of the operations of coal purchase from third parties was RMB6,777 million for the year ended 31 December 2006. The volume of coal purchased from third parties was 35.4 million tonnes for the year ended 31 December 2006, an increase of 64.7%. The unit purchase cost for coal purchased from third parties amounted to RMB191.4/tonne for the year ended 31 December 2006.

The transportation cost in respect of the operations of coal purchase from third parties amounted to RMB2,382 million for the year ended 31 December 2006. The unit transportation cost for coal purchased from third parties amounted to RMB 67.3/tonne for the year ended 31 December 2006.

(3) Profit from operations in respect of the operations of coal purchase from third parties

Profit from operations in respect of the operations of coal purchase from third parties amounted to RMB2,288 million for the ended 31 December 2006. The proportion of profit from operations in respect of the operations of coal purchase from third parties accounted for 9.8% of the profit from operations in the coal segment. Our operations of coal purchase from third parties assists us in increasing our revenues and profit, better utilising our transportation system and increasing our transportation and sales volume of coal, thereby enabling us to increase our coal market share.

For the year ended 31 December 2006, the operating margin in respect of the operations of coal purchase from third parties was as follows:

Analysis of operating margin

	Sales volume Million tonnes	2006 Percentage to the coal sales volume %	Operating margin %
Operations of coal purchase from third parties	35.4	20.7	19.8

Power Segment

In 2006, the Group's power segment developed rapidly. New power generation units commenced operation and the installed capacity increased by 5,400 MW. For the year ended 31 December 2006, the Group controlled and operated 11 coal-fired power plants with total installed capacity of 11,960 MW. In 2006, there was a significant increase in profitability of the power segment which became a key part of the Group's integrated operations.

(1) Revenues

Revenues of the power segment increased from RMB10,951 million for the year ended 31 December 2005 to RMB16,719 million for the year ended 31 December 2006, an increase of 52.7%. The increase was mainly attributable to the increase in the power output dispatch from 36.37 billion kwh in 2005 to 51.71 billion kwh in 2006, an increase of 42.2%; and the increase in weighted average power tariff from RMB294/MWh in 2005 to RMB318/MWh in 2006, an increase of 8.2%, as a result of the national policy linking the coal price and power tariff in 2005 and 2006.

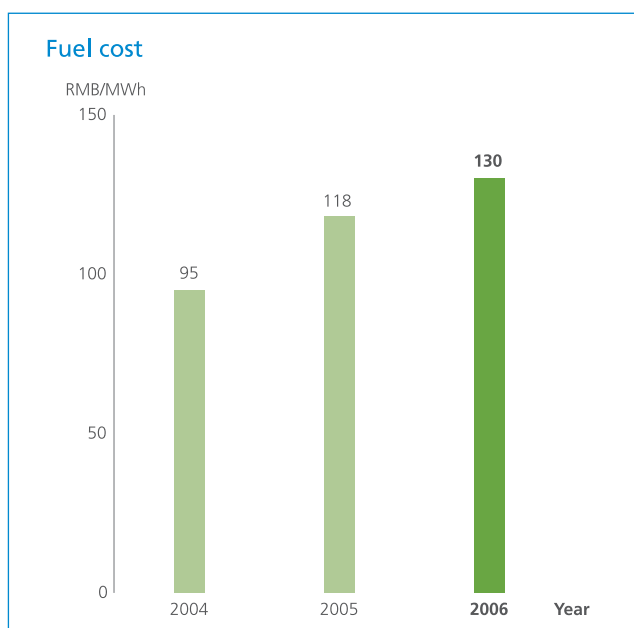
The power tariffs of our power segment for the year ended 31 December 2005 to those for the year ended 31 December 2006 were as follows:

Operating power plants	Regional grid	2006 Power tariff RMB/MWh	2005 Power tariff RMB/MWh
Huanghua Power	North China Power Grid	299	–
Panshan Power	North China Power Grid	337	325
Sanhe Power	North China Power Grid	307	297
Guohua Zhunge'er	North China Power Grid	205	202
Beijing Thermal	North China Power Grid	377	357
Zhunge'er Power	North China Power Grid	170	170
Suizhong Power	Northeast Power Grid	297	273
Ninghai Power	East China Power Grid	347	309
Jinjie Energy	Northwest Power Grid	211	–
Shenmu Power	Northwest Power Grid	244	223
Taishan Power	Southern Power Grid	371	359
Weighted average		318	294

(2) Cost of revenues

Cost of revenues in the power segment mainly included fuel cost, personnel expenses, repairs and maintenance, depreciation and amortisation. The cost of revenues in our power segment increased from RMB7,531 million for the year ended 31 December 2005 to RMB11,073 million for the year ended 31 December 2006, representing an increase of 47.0%. The increase was mainly attributable to the increase of fuel consumption and the rise in fuel prices; and increases in labour expenses with the increase in the number of employees employed by power plants newly put in operation and the adjustment of wages of employees of our existing power plants with the improvement in our operating results.

Operating power plants	Regional grid	2006		2005	
		Fuel cost RMB/MWh	Standard coal price RMB/tonne	Fuel cost RMB/MWh	Standard coal price RMB/tonne
Huanghua Power	North China Power Grid	124	370	–	–
Panshan Power	North China Power Grid	122	369	117	354
Sanhe Power	North China Power Grid	119	367	112	345
Guohua Zhunge'er	North China Power Grid	69	214	62	193
Beijing Thermal	North China Power Grid	95	354	99	317
Zhunge'er Power	North China Power Grid	85	213	58	128
Suizhong Power	Northeast Power Grid	141	430	135	406
Ninghai Power	East China Power Grid	164	499	134	447
Jinjie Energy	Northwest Power Grid	82	238	–	–
Shenmu Power	Northwest Power Grid	58	147	64	161
Taishan Power	Southern Power Grid	157	493	145	454
Weighted average		130	401	118	358



(3) Selling, general and administrative expenses

Selling, general and administrative expenses of the Group's power segment increased from RMB877 million for the year ended 31 December 2005 to RMB1,336 million for the year ended 31 December 2006, an increase of 52.3%. The increase was mainly attributable to the increase in the amortisation of pre-operating expenses for the new power plants, wages as a result of increase in the number of employees and improved operational results and in depreciation.

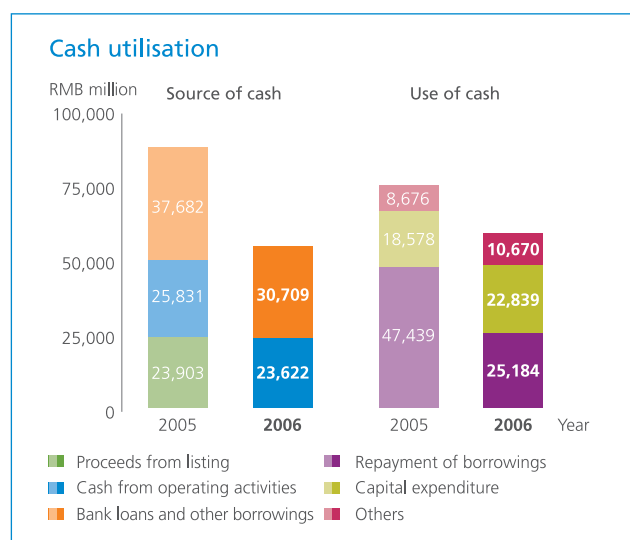
(4) Profit from operations

Profit from operations in our power segment increased from RMB2,600 million for the year ended 31 December 2005 to RMB4,286 million for the year ended 31 December 2006, an increase of 64.8%. During the same period, the operating margin of the power segment increased from 23.7% to 25.6%. The increase was mainly attributable to the significant increase in the proportion of power generation from high profit margin power plants being located in the coastal regions rather than in other regions with lower margin.

Cash Flow

As at 31 December 2006, the cash and cash equivalents of the Group amounted to RMB15,501 million, representing a decrease of RMB4,362 million, or 22.0%, as compared with the cash and cash equivalents of RMB19,863 million as at 1 January 2006. Of this, net cash from operating activities decreased from RMB25,831 million for the year ended 31 December 2005 to RMB23,622 million for the year ended 31 December 2006, a decrease of 8.6%. The decrease was mainly attributable to the increase in the accounts receivable of the power segment; reduction in accounts payable and corresponding increase in cash payments and increase in inventories as a result of the increased new power plants and power generation units with the related increase in spare parts and coal inventory.

Net cash used in investing activities increased from RMB19,347 million for the year ended 31 December 2005 to RMB24,938 million for the year ended 31 December 2006, an increase of 28.9%. Net cash from financing activities changed from RMB6,239 million for the year ended 31 December 2005 to net cash used in financing activities of RMB3,046 million for the year ended 31 December 2006.



Assets and Liabilities

Property, plant and equipment

As at 31 December 2006, the book value of property, plant and equipment of the Group was RMB136,432 million, representing an increase of RMB31,100 million, or 29.5%, compared with that as at 31 December 2005 of RMB105,332 million. The increase was mainly attributable to the amount transferred from construction in progress of RMB30,100 million for the year ended 31 December 2006, which mainly included coal mines of RMB6,081 million, railways of RMB2,537 million, ports of RMB2,762 million and power plants of RMB 18,720 million. As at 31 December 2006, the net book value of property, plant and equipment of the Group amounted to



Coal depot of Beijing Thermal

RMB107,859 million, representing an increase of RMB25,329 million, or 30.7%, over the net book value of property, plant and equipment amounted of RMB82,530 million on 1 January 2006. As at 31 December 2006, the net book value of buildings accounted for 10.5% of the net book value of property, plant and equipment, the net book value of mining structures and mining rights accounted for 9.3% of the net book value of property, plant and equipment, the net book value of mining related machinery and equipment accounted for 12.5% of the net book value of property, plant and equipment, the net book value of generators and related machinery and equipment accounted for 31.3% of the net book value of property, plant and equipment, the net book value of railway and port transportation structures accounted for 34.6% of the net book value of property, plant and equipment, and the net value book of furniture, fixtures, motor vehicles and other equipments accounted for 1.8% of the net book value of property, plant and equipment.

Construction in progress

As at 31 December 2006, our construction in progress amounted to RMB14,115 million, representing a decrease of RMB 7,795 million or 35.6% over the construction in progress of RMB21,910 million as at 31 December 2005. The decrease was mainly attributable to the amount transferred to property, plant and equipment of RMB30,100 million and an increase in construction in progress of RMB22,305 million. As at 31 December 2006, our construction in progress included coal mines of RMB5,388 million, railways of RMB 1,500 million, ports of RMB278 million and power plants of RMB 6,949 million.

Accounts receivable and bills receivable

As at 31 December 2006, our accounts receivable and bills receivable amounted to RMB4,860 million, representing an increase of RMB2,178 million or 81.2% over the RMB2,682 million as at 31 December 2005. The increase was mainly attributable to increase in accounts receivable from the power segment as a result of increase in new power plants. As at 31 December 2006, our current accounts receivable and bills receivable accounted for 98.8% of total accounts receivable and bills receivable. The turnover days of accounts receivable and bills receivable increased from 19.7 days for the year ended 31 December 2005 to 21.5 days for the year ended 31 December 2006.

Borrowings

As at 31 December 2006 and 31 December 2005, the details of our borrowings were as set out below:

	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million
Short-term borrowings and current portion of long-term borrowings	14,842	9,645
Long-term borrowings, less current portion	40,840	40,793
Total borrowings	55,682	50,438
Less:		
Cash and cash equivalents	15,501	19,863
Time deposits with original maturity over three months	8	66
Net borrowings	40,173	30,509

As at 31 December 2006, we had RMB49,541 million of borrowings denominated in Renminbi, RMB5,577 million denominated in Japanese Yen and RMB564 million denominated in US Dollars.

Significant Investments

For the year ended 31 December 2006, the Group had no new significant external investments.

Significant Acquisitions and Disposals

The Group completed the acquisition of Jinjie Energy integration project at the end of August 2006. At present, the construction project is proceeding smoothly.

In 2006, the Group did not conduct any substantial disposals of assets.

Exchange Rate Risk

The operations of the Group are affected by the Renmimbi exchange rate. In 2006, exchange gains arising from debts denominated in foreign currencies amounted to RMB235 million; export sales reduced by RMB228 million as a result of the effect of exchange rate; and exchange rate changes led to a saving of RMB60 million in cost in respect of imported equipment. Overall, an exchange gain of RMB67 million was resulted from the changes in the exchange rate in 2006.

Bank guarantees

	As at 31 December 2006 RMB million	As at 31 December 2005 RMB million
Associates	310	310

As at 31 December 2006, no assets of the Group were encumbered.

Commodity Value Risk

The Group engages in coal production and sales and power generation business. The worldwide coal market is affected by various factors such as international politics, economy, military affairs and supply and demand. The Chinese coal market is affected by supply and demand, transportation capacity and safety conditions. Reduction in domestic and international coal prices will adversely affect the Group's financial performance.

Industry Risk

Consistent with the operational activities of other Chinese coal companies and power generation companies, the Company's operations are under the supervision of the PRC government in respect of aspects such as industry policy, project approval, issue of licences, industry special tax, environmental protection and safety standards. Therefore, the Company may be restricted in its business development or profit enhancement. Certain future policies regarding coal and power industry made by the PRC government may also affect the operations of the Company.

Contingent Liabilities

As at 31 December 2006, the status of the Group's contingent liabilities was as follows:

Bank guarantees

Environmental protection responsibility

The Group has been operating in China for many years. China has implemented comprehensive environmental protection regulations which affect our coal and power generation business. It is not clear what future environmental protection legislation will be enacted but legislation in future may have a material impact on us. However, the management of the Group believes that, other than that accounted for in the financial statements, no environmental protection liability that may adversely affect the Group's financial condition currently exists.

Contingent legal liabilities

As at 31 December 2006, the Group was not involved in any material litigation or arbitration. To the best knowledge of the Company, the Group had no material litigation or claim which was pending, or threatened against the Company. As at 31 December 2006, the Group was the defendant of certain non-material litigation as well as the plaintiff of some other litigation arising from the ordinary course of its business. The likely outcome of these contingent liabilities, litigation and other legal proceedings is not certain. However, the management of the Group believes any possible legal liability which may be incurred will not have a material adverse effect on the Group's financial condition.

Group's insurance

Consistent with what we believe is the customary practice for PRC coal mining entities, for the year ended 31 December 2006, the Group had not maintained fire, liability or other property insurance covering our property, equipment or inventory in our coal operations.

We maintain business interruption insurance or third-party liability insurance for personal injuries or environmental damages arising from accidents on our property or relating to our operations for certain of our power plants and for our vehicles. In addition, in accordance with requirements of relevant regulations, the Group maintained insurance for its employees against occupational injury, medical treatment, third party liability and unemployment.

The Group insured all of its operating power plants against property losses, lost profits, damages in plant and equipment, employee injuries and third party liability. Consistent with our understanding of China's industry practices, the Group did not carry insurance for risks relating to our power plants that are under construction. The Group will continue to review and assess its risk portfolio and make necessary and appropriate adjustments to our insurance cover based on its needs and industry practice with respect to insurance in China.

The insured value of the properties of companies under the Group amounted to RMB105,210 million, and insurance premium amounted to RMB95.8 million.

Highly Efficient and Rapidly Developing Power Operations



In 2006, the newly added installed capacity of Taishan Power was 1,800MW, which was equipped with FGD and de-NOx facilities and became the largest coal-fired power plant in the Southern Power Grid of China. The reliability of our coal operations, coal consumption levels, environmental protection measures and our sophisticated management model are all foremost in China's industry.

Power Operations
Increasingly
Thriving

