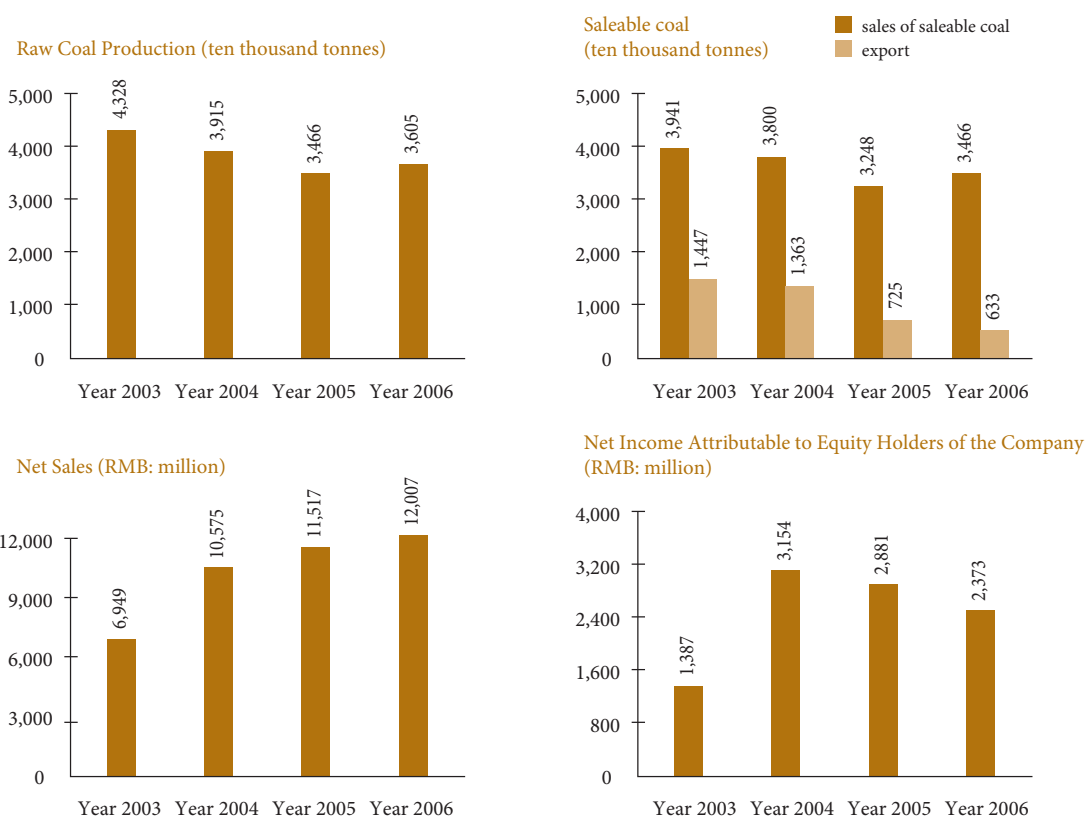


Review of Operations

The following discussion is based on the Company's audited results of 2005 and 2006 prepared in accordance with IFRS.

ACHIEVEMENTS IN 2006

In 2006, the Company produced 36.05 million tonnes of raw coal, sold 34.66 million tonnes of coal and the railway transportation of coal achieved 19.49 million tonnes. In 2006, net sales of the Company was RMB12,007.3 million, among which net sales of coal was RMB11,846.9 million and net income of railway transportation services was RMB160.4 million, and the net income attributable to the equity holders of the Company was RMB2,373.0 million.



COAL PRODUCTION

In 2006, the raw coal production of the Company was 36.05 million tonnes, representing an increase of 1.39 million tonnes or 4.0% as compared to the same period last year, among which, (1) the raw coal production of the Company's six coal mines in the headquarters area were 35.49 million tonnes, representing an increase of 0.83 million tonnes or 2.4%, as compared to the same period last year. The increase was mainly due to the production capacity of the raw coal mines in the headquarters during the fourth quarter of 2006 having resumed their normal level; (2) the raw coal production of Yancoal Australia Pty was 0.44 million tonnes; and (3) the raw coal production of Shanxi Nenghua was 0.12 million tonnes.

The output of saleable coal of the Company was 34.64 million tonnes in 2006, representing an increase of 2.70 million tonnes, or 8.5%, as compared with that of 2005, among which, (1) the output of coal of the Company's six coal mines in the headquarters area was 34.09 million tonnes, representing an increase of 2.15 million tonnes or 6.7%, as compared with that of 2005; (2) the output of saleable coal of Yancoal Australia Pty was 0.43 million tonnes; and (3) the output of saleable coal of Shanxi Nenghua was 0.12 million tonnes.

Review of Operations (*Cont'd*)

PRODUCT PRICES AND SALES

The following table sets out the coal prices of the Company for the years ended 31st December, 2006 and 2005:

	2006 (RMB/tonne)	2005 (RMB/tonne)
1. Headquarters		
Clean Coal		
No. 1 Clean Coal	505.38	514.20
No. 2 Clean Coal	479.40	491.51
Domestic	493.02	513.67
Export	442.53	460.09
No. 3 Clean Coal	377.72	370.54
Domestic	387.10	361.30
Export	362.55	381.51
Lump Coal	427.88	432.26
Domestic	427.88	434.66
Exports	–	397.53
Average price for Clean Coal	414.58	413.69
Domestic	429.92	420.26
Export	382.13	404.37
Screened Raw Coal	289.89	321.88
Mixed Coal and Others	147.17	150.45
Average Coal Price of Headquarters	341.12	349.50
Domestic	332.19	333.74
2. Yancoal Australia Pty	594.55	–
3. Shanxi Nenghua	155.22	–

Notes: The coal prices represent the invoice prices less sales tax, transportation cost from the Company to ports, port charges and miscellaneous fees for coal sales.

The average coal price of the Company's headquarters was RMB341.12/tonne in 2006, representing a decrease of RMB8.38/tonne, or 2.4%, as compared with that of 2005, of which, the average domestic coal price was RMB332.19/tonne, representing a decrease of RMB1.55/tonne, or 0.5%, as compared with that of 2005 and the average export coal price was RMB382.13/tonne, representing a decrease of RMB22.24/tonne, or 5.5%, as compared with that of 2005.

Decrease in average coal price of the Company's headquarters was mainly due to the corresponding decrease in export coal price.

The average coal price of Yancoal Australia Pty was RMB594.55/tonne in 2006.

The average coal price of Shanxi Nenghua was RMB155.22/tonne in 2006.

Review of Operations (Cont'd)

The following table sets out the Company's sales volume and net sales of coal by product category for the years ended 31st December 2006 and 2005:

	Year ended 31st December					
	2006			2005		
	Sales volume (^{'000} Tonnes)	Net sales of coal (RMB ^{'000})	% of total net sales of coal	Sales volume (^{'000} Tonnes)	Net sales of coal (RMB ^{'000})	% of total net sales of coal
1. Headquarters						
Clean Coal						
No. 1 Clean Coal	869.3	439,320	3.7	773.9	397,957	3.5
No. 2 Clean Coal	5,566.3	2,668,468	22.5	5,084.5	2,499,068	22.0
Domestic	4,064.2	2,003,752	16.9	2,981.3	1,531,433	13.5
Exports	1,502.1	664,716	5.6	2,103.2	967,635	8.5
No. 3 Clean Coal	12,129.7	4,581,674	38.7	11,183.0	4,143,820	36.5
Domestic	7,495.6	2,901,583	24.5	6,066.8	2,191,938	19.3
Exports	4,634.1	1,680,091	14.2	5,116.2	1,951,882	17.2
Lump Coal	555.4	237,649	2.0	485.5	209,862	1.8
Domestic	555.4	237,649	2.0	454.0	197,356	1.7
Exports	-	-	-	31.5	12,506	0.1
Subtotal for Clean Coal	19,120.7	7,927,111	66.9	17,527.0	7,250,707	63.9
Domestic	12,984.5	5,582,304	47.1	10,276.2	4,318,684	38.0
Exports	6,136.2	2,344,807	19.8	7,250.8	2,932,023	25.8
Screened Raw Coal	10,826.4	3,138,506	26.5	10,805.4	3,478,075	30.6
Mixed Coal and Others	4,383.1	645,047	5.4	4,152.1	624,703	5.5
Subtotal for Headquarter	34,330.2	11,710,664	98.8	32,484.5	11,353,485	100.0
Domestic	28,194.0	9,365,857	79.0	25,233.7	8,421,462	74.2
2. Yancoal Australia Pty	192.4	114,409	1.0	-	-	-
3. Shanxi Nenghua	140.9	21,875	0.2	-	-	-
Total for the Company	34,663.5	11,846,948	100.0	32,484.5	11,353,485	100.0

The Company sold 34.66 million tonnes of coal in 2006, representing an increase of 2.18 million tonnes, or 6.7%, as compared with that of 2005, among which, (1) sales volume of the Company's six coal mines in the headquarters area was 34.33 million tonnes, representing an increase of 1.85 million tonnes, or 5.7%; of which domestic sales volume was 28.19 million tonnes, representing an increase of 2.96 million tonnes, or 11.7%, as compared with that of 2005; export sales volume was 6.14 million tonnes, representing a decrease of 1.11 million tonnes, or 15.3%, as compared with that of 2005. The sales volume of clean coal represented 55.7% of total coal sales volume of the headquarters in 2006, which was an increase from 54.0% of that in the year 2005. The change in sales structure is principally due to timely adjustment of product variety by the Company in light of market needs; (2) sales volume of Yancoal Australia Pty was 0.19 million tonnes and (3) sales volume of Shanxi Nenghua was 0.14 million tonnes.

The Company's coal products are exported to East Asian countries, such as Japan and South Korea. Net export sales of coal in 2006 accounted for 20.8% of the Company's total net sales of coal.

Domestic sales of the Company's coal products are concentrated in Eastern China, especially in Shandong Province.

Review of Operations (Cont'd)

The following table sets out the Company's net sales of coal by geographical break-down for the years ended 31st December 2006 and 2005:

	Year ended 31st December			
	2006		2005	
	Net sales of coal (RMB'000)	% of total net sales of coal	Net sales of coal (RMB'000)	% of total net sales of coal
1. Headquarters				
Eastern China				
Shandong Province	6,544,702	55.2	5,697,426	50.2
Jiangsu Province	677,333	5.7	674,671	5.9
Zhejiang Province	449,143	3.8	536,315	4.7
Shanghai Province	506,584	4.3	528,841	4.7
Other provinces in Eastern China	386,876	3.2	560,782	4.9
Subtotal for Eastern China	8,564,638	72.2	7,998,035	70.4
Southern China	801,219	6.8	423,427	3.7
Export	2,344,807	19.8	2,932,023	25.8
Subtotal for Headquarters	11,710,664	98.8	11,353,485	100.0
2. Yancoal Australia Pty	114,409	1.0	-	-
3. Shanxi Nenghua	21,875	0.2	-	-
Total for the Company	11,846,948	100.0	11,353,485	100.0

Note: Other provinces in Eastern China include Anhui Province, Fujian Province and Jiangxi Province whereas Southern China includes Guangdong Province, and Hunan Province.

Most of the Company's domestic coal sales were made to power plants, metallurgical mills, chemical plants and fuel companies etc.

The following table sets out the Company's net sales of coal by industries for the year ended 31st December 2006 and 2005:

	Year ended 31st December			
	2006		2005	
	Net sales of coal (RMB'000)	% of total net sales of coal	Net sales of coal (RMB'000)	% of total net sales of coal
1. Headquarters				
Domestic				
Power plants	9,365,857	79.0	8,421,462	74.2
Metallurgical mills	2,696,769	22.7	2,357,640	20.8
Construction material/coke/ chemical companies	607,888	5.1	811,426	7.1
Fuel trading companies/others	2,037,326	17.2	686,215	6.0
Export	4,023,874	34.0	4,566,181	40.3
Power plants	2,344,807	19.8	2,932,023	25.8
Metallurgical mills	1,680,091	14.2	1,951,955	17.2
Others	664,716	5.6	967,635	8.5
Subtotal for headquarter	-	-	12,433	0.1
Subtotal for headquarter	11,710,664	98.8	11,353,485	100.0
2. Yancoal Australia Pty	114,409	1.0	-	-
3. Shanxi Nenghua	21,875	0.2	-	-
Total for the Company	11,846,948	100.0	11,353,485	100.0

Review of Operations (Cont'd)

RAILWAY ASSETS

In 2006, railway transportation volume of the Company was 19.49 million tonnes, representing a decrease of 0.67 million tonnes, or 3.3%, as compared with that of 2005. Net income from railway transportation services of the Company was RMB160.4 million in 2006, representing a decrease of RMB3.038 million or 1.9%, as compared with that of 2005.

OPERATING EXPENSES AND COST CONTROL

In 2006, the total operating expenses of the Company were RMB8,420.2 million, representing an increase by RMB1,212.8 million, or 16.8%, as compared with that of 2005. Costs of sales and railway transportation service and sales, general and administrative expenses increased by 17.0% and 16.2% as compared with that of 2005, respectively. The percentage of total operating expenses of total net sales increased to 70.1% from 62.6% in 2005.

The following table sets out the Company's principal operating expenses, which are also expressed as percentages of total net sales of the years ended 31st December 2006 and 2005:

	Year ended 31st December			
	2006 (RMB'000)	2005	2006 (% of total net sales of coal)	2005
Net sales				
Net sales of coal	11,846,948	11,353,485	98.7	98.6
Net income of railway transportation service	160,399	163,437	1.3	1.4
Total net sales	12,007,347	11,516,922	100.0	100.0
Costs of sales and railway transportation service				
Materials	1,320,596	1,147,572	11.0	10.0
Wages and employee welfare	1,646,018	1,258,333	13.7	10.9
Electricity	336,284	282,492	2.8	2.5
Depreciation	962,963	891,640	8.0	7.7
Repairs and maintenance	327,151	350,953	2.7	3.0
Land subsidence, restoration, rehabilitation and environmental costs	742,985	636,590	6.2	5.5
Mining rights fee	25,049	19,604	0.2	0.2
Other transportation expenses	106,572	98,787	0.9	0.9
Other costs	722,451	602,617	6.0	5.2
Total cost of sales and railway transportation service	6,190,069	5,288,588	51.6	45.9
Sales, general and administrative expenses	2,230,142	1,918,788	18.6	16.7
Total operating expenses	8,420,211	7,207,376	70.1	62.6