

## Management Discussion and Analysis

The following discussion and analysis should be read in conjunction with the audited financial statements of the Company for 2005 and 2006 and the notes thereto included elsewhere in this report. Such financial statements have been prepared in accordance with IFRS. For a discussion of certain differences between IFRS and US Generally Accepted Accounting Principles ("US GAAP"), please refer to Note II contained herein or the Company's annual report on Form 20-F filed with the Securities and Exchange Commission of United States of America, which will be provided to any shareholder of the Company upon written request.

### YEAR ENDED 31ST DECEMBER, 2006 COMPARED WITH YEAR ENDED 31ST DECEMBER 2005

The Company's realized net sales in 2006 was RMB12,007.3 million, which was an increase of RMB490.4 million, or 4.3%, compared with RMB11,516.9 million in 2005, including: (1) realized net sales of coal was RMB11,846.9 million, among which (a) realized net sales of coal of the headquarters was RMB11,710.7 million, an increase of RMB357.2 million, or 3.1%, compared with RMB11,353.5 million in 2005. The increase was mainly due to an increase of coal sales volume which resulted in an increase of net sales of coal by RMB644.9 million; and a decrease of average coal prices which resulted in the decrease of net sales by RMB287.7 million; (b) consolidated net sales of coal of Yancoal Australia Pty was RMB114.4 million in 2006; (c) consolidated net sales of coal of Shanxi Nenghua was RMB21.875 million in 2006; (2) net income from railway transportation service (calculated on ex-mine basis and on the basis of transportation expenses being borne by the customers on designated railway assets) was RMB160.4 million, representing a decrease of RMB3.038 million, or 1.9%, from RMB163.4 million in 2005. The decrease was principally due to the decrease in the volume of coal deliveries.

Cost of sales and cost of railway transportation service of the Company was increased by RMB901.5 million, or 17.0%, to RMB6,190.1 million in 2006, as compared to RMB5,288.6 million in 2005. Among which: (1) cost of coal sales of the headquarter was RMB5,841.4 million, an increase of RMB656.6 million, or 12.7%, compared with RMB5,184.8 million in 2005; unit cost of coal sales per tonne of the headquarter was RMB170.15, an increase of RMB10.54, or 6.6%, compared with RMB159.61 in 2005. This was principally due to (a) the increase of prices of raw materials resulting in the increase of unit cost of coal sales by RMB3.07; (b) an increase of unit cost of coal sales by RMB4.49 as a result of the increase of employees' wages; (c) the increase in subsidence fees of the Company as a result of the strengthening measures to resettle the villages located above the coal field resulting in the increase of unit cost of coal sales by RMB1.86; (d) frequent changes of workfaces underground causing an increase of the unit coal sales by RMB1.94; (e) the partial set-off of part of the cost-increasing factors which resulting in the increase of unit cost of coal sales by the Company's tightening of cost control measures; (2) Cost of coal sales of Yancoal Australia Pty was RMB235.0 million in 2006; and (3) Cost of coal sales of Shanxi Nenghua was RMB15.909 million in 2006.

Sales, general and administrative expenses of the Company were RMB2,230.1 million in 2006, an increase of RMB311.3 million, or 16.2%, from RMB1,918.8 million of 2005. Among which (1) sales, general and administrative expenses of the headquarters increased by RMB378.0 million, which was mainly due to the increase in employees' insurance, wages and depreciation expenses; (2) Shanxi Nenghua's sales, general and administrative expenses of RMB5.106 million in 2006 were included; and (3) sales, general and administrative expenses of Yancoal Australia Pty in 2006 decreased by RMB42.043 million compared with that in 2005.

Other operating income of the Company increased by RMB30.799 million or 22.8%, to RMB165.8 million in 2006 from RMB135.0 million in 2005. This was mainly due to: (1) profit from material and fittings increased by RMB12.874 million; (2) interest income of bank deposit increased by RMB8.401 million.

Interest expenses of the Company increased by RMB1.738 million, or 7.1%, to RMB26.349 million in 2006 from RMB24.611 million in 2005.

Income before income taxes of the Company decreased by RMB693.4 million, or 15.7%, to RMB3,726.6 million in 2006 from RMB4,420.0 million in 2005.

Income attributable to the equity holders of the Company decreased by RMB508.5 million, or 17.6%, to RMB2,373.0 million in 2006 from RMB2,881.5 million in 2005.

## Management Discussion and Analysis (Cont'd)

Total assets increased by RMB2,204.3 million, or 10.4%, to RMB23,458.7 million as at 31st December, 2006 from RMB21,254.4 million as at 31st December 2005. This was principally due to the increase of the appreciation of asset value from the Company's production and operation activities.

Total liabilities increased by RMB857.9 million, or 23.8%, to RMB4,465.0 million as at 31st December, 2006 from RMB3,607.1 million as at 31st December, 2005.

Equity attributable to equity holders of the Company increased by RMB1,313.2 million, or 7.5%, to RMB18,931.80 million as at 31st December, 2006 from RMB17,618.6 million as at 31st December, 2005. The increase was mainly due to the increase of profit from operating activities.

### LIQUIDITY AND CAPITAL RESOURCES

In 2006, the Company's principal source of capital was the cash flow from operations. The Company's principal uses of the capital include payment for operating expenses, purchase of property, machinery and equipment, and payment of Shareholders' dividends, and purchase of equity interest in Shanxi Nenghua.

As at 31st December 2006, the bills and accounts receivable were RMB2,211.9 million, representing a decrease of RMB12.927 million, or 0.6%, from RMB2,224.8 million as at 31st December, 2005. Bills receivable decreased by RMB88.524 million, or 4.2%, to RMB2,004.4 million as at 31st December, 2006 from RMB2,092.9 million as at 31st December, 2005. Accounts receivable increased by RMB75.597 million, or 57.3%, to RMB207.5 million as at 31st December, 2006 from RMB131.9 million as at 31st December, 2005. The increase was mainly due to (1) accounts receivable of the headquarters increased by RMB43.278 million in 2006, caused by the increasing of settlement balance for strategic consumers; (2) accounts receivable of Yancoal Australia Pty was RMB26.311 million in 2006; (3) accounts receivable of Shanxi Nenghua was RMB6.008 million in 2006;

The provision of doubtful accounts of the Company was RMB78.761 million in 2006. As approved by the sixth meeting (on August 18th, 2006) and the tenth meeting (on April 20th, 2007) of the third session of the board of directors of the Company respectively, the board approved provisions of RMB70.18 million and RMB8.581 million of doubtful accounts respectively.

As at 31st December, 2006, inventories of the Company increased by RMB109.1 million, or 23.2%, to RMB579.6 million as at 31st December, 2006 from RMB470.5 million as at 31st December, 2005. The increase was due to the increase in coal inventories of Yancoal Australia Pty.

Prepayment and other current assets increased by RMB29.088 million, or 14.4%, to RMB231.5 million as at 31st December, 2006, from RMB202.4 million as at 31st December, 2005. The increase was mainly due to the increase of prepayment for goods.

As at 31st December, 2006, bills and accounts payable increased by RMB248.0 million, or 49.8%, to RMB745.7 million from RMB497.7 million as at 31st December, 2005. The increase was mainly caused by the increase of accounts payable.

Other accounts payable and provisions increased by RMB323.8 million, or 20.5 %, to RMB1,899.7 million as at 31st December, 2006 from RMB1,575.9 million as at 31st December, 2005 principally due to (1) customers' deposits increased by RMB199.5 million; (2) accounts payable increased by RMB226.3 million for the purchase of property, machinery, equipment and project materials compared to that in 2005; and (3) resources compensation payable decreased by RMB100.9 million compared to that in 2005.

Long-term liabilities increased by RMB458.9 million, or 257.7%, to RMB637.0 million as at 31st December 2006 from RMB178.1 million as at 31st December, 2005. This was principally due to (1) the new long-term loan of RMB330 million for Shanxi Nenghua; (2) deferred tax liabilities increased by RMB137.5 million.

The Company's capital expenditure for the purchase and construction of property, machinery and equipment was RMB1,290.5 million and RMB3,363.4 million in year 2005 and 2006 respectively, representing an increase of RMB2,072.9 million, among which, (1) capital expenditure for the construction of property increased by RMB1881.1 million; (2) capital expenditure for machinery and equipment increased by RMB185.6 million. These increases were mainly due to the increase in expenditure in the construction of properties and purchase of machinery and equipments for the projects being developed by some of the wholly owned subsidiaries and controlled entities of the Company.

## Management Discussion and Analysis (Cont'd)

According to the Acquisition Agreement of Jining III Coal Mine, the Company has paid the Yankuang Group Corporation Limited (the "Yankuang Group" or the "Controlling Shareholder") RMB13.248 million for acquisition of the mining rights of Jining III Coal Mine during this reporting period.

As at 31st December, 2006, the Company's debt to equity ratio was 2.1%, which was calculated on the basis of the equity attributable to equity holders of the Company and total amount of borrowings amounting to RMB18,931.8 million and RMB403.1 million, respectively.

The Company's estimated capital expenditure for year 2007 is RMB4,147.2 million. This is mainly due to: (1) the capital expenditure for the purchase and construction of property, machinery and equipment for the existing 6 operating coal mines and Railway Assets of approximately RMB1,035.3 million; (2) the capital expenditure for external development projects of approximately RMB3,111.9 million, including: (a) investment in 600,000 tonnes methanol project in Shaanxi Province of approximately RMB1,948.1 million; (b) investment in Zhaolou Coal Mine in Shandong Province of about RMB663.8 million; (c) investment in 100,000 tonnes methanol project in Shanxi Province of approximately RMB278.9 million; (d) investment in the construction of Yanzhou Astar Coal Mine in Australia of approximately RMB221.1million. The capital resource for the above capital expenditure is mainly from the Company's cash in hand and remaining proceeds from the issuance of H shares in 2004.

Considering the cash currently owned by the Company and the abundant capital sources, the Company believes that it will have sufficient capital to satisfy its operational and development requirements.

### TAXATION

The Company is still subject to an income tax rate of 33% on its taxable profits in 2006.

### US GAAP RECONCILIATION

The Company's audited financial statements are prepared in compliance with IFRS, which differs in certain respects from accounting principles generally accepted in the United States of America (the "US GAAP"). Please refer to Note II contained herein for a description of the differences between IFRS and US GAAP, and the current income attributable to equity holders of the Company for the year ended 31st December, 2006 and the equity attributable to equity holders of the Company as at 31st December, 2006 after reconciliation made in accordance with US GAAP.