Management Discussion and Analysis of Financial Conditions and Operating Results

The following discussion and analysis should be read in conjunction with the Group's audited financial statements and the notes as set out in this Annual Report. The Group's financial statements have been prepared in accordance with International Financial Reporting Standards.

I Overview

For the year ended 31 December 2006, backed by the expansion in coal production capacity and the resulting increase in production volume, the Group optimized the coal sales structure, increased the sales of self-produced coal and reduced the sales of coal purchased from third parties. Profitability has been further strengthened. The Group's profit before tax for the same period was RMB4,725 million, an increase of 9.6% over last year; profit attributable to shareholders of the Group was RMB3,172 million, a decrease of 5.1% over last year. Had the increase of 10.8% in the combined income tax rate during the year not been taken into account, the profit attributable to shareholders of the Group would have increased by 10.1% compared to last year. Basic earnings per share of the Group for the same period was RMB0.39.

For the year ended 31 December 2006, the Group generated record operating profits from the coal production and sales and coal trading business, which increased from RMB4,108 million for the year ended 31 December 2005 to RMB4,620 million for the year ended 31 December 2006, representing an increase of 12.5%; operating profits from the coal mining equipment manufacturing also hit historical high, which increased from RMB94 million to RMB214 million, representing an increase of 127.7%, while operating profit from the coking business decreased from RMB112 million for the year ended 31 December 2005 to RMB77 million for the year ended 31 December 2006, representing a decrease of 31.3%.

In addition, the Group's EBITDA increased from RMB5,434 million for the year ended 31 December 2005 to RMB6,263 million for the year ended 31 December 2006, representing an increase of 15.3%. Our gearing ratio (total interest bearing debts/(total interest bearing debts + equity interest)) decreased from 73.2% as at 31 December 2005 to 33.0% as at 31 December 2006.

Since the Company raised funds through listing at the end of 2006, both total assets and total equity as at the end of the year increased substantially. Our return on total assets decreased from 14.7% for the year ended 31 December 2005 to 10.3% for the year ended 31 December 2006. Return on equity decreased from 113.7% for the year ended 31 December 2005 to 24.9% for the year ended 31 December 2006.

II Consolidated Operating Results

Revenues

The Group's total revenues net of inter-segment sales increased from RMB30,061 million for the year ended 31 December 2005 to RMB30,227 million for the year ended 31 December 2006, representing an increase of 0.6%, of which growth in the domestic revenue from the sales of self-produced commercial coal of the Group was relatively high, and revenue from other business segments such as coking and the coal mining equipment manufacturing also recorded growth. Meanwhile, the decrease in coal export by the Group and revenue from the sales of coal purchased from third parties set off part of the growth.

The proportion of revenue of the coal business of the total revenue decreased from 83.7% for the year ended 31 December 2005 to 78.8% for the year ended 31 December 2006. During the same period, the proportion of revenue of the coking business of the total revenue increased from 5.3% to 6.7%. The proportion of revenue of the coal mining equipment manufacturing business of the total revenue increased from 6.3% to 7.8%, while the proportion of revenue of other businesses of the total revenue increased from 4.8% to 6.7%.

Cost of sales

The Group's cost of sales decreased from RMB24,438 million for the year ended 31 December 2005 to RMB23,681 million for the year ended 31 December 2006, representing a decrease of 3.1%. The main reasons for the decrease were:

— The cost of materials decreased from RMB16,238 million for the year ended 31 December 2005 to RMB12,589 million for the year ended 31 December 2006, representing a decrease of 22.5%. The decrease was mainly attributable to a reduction in the volume of coal purchased by the Group from third parties.

— Staff costs increased from RMB1,156 million for the year ended 31 December 2005 to RMB1,402 million for the year ended 31 December 2006, representing an increase of 21.3%. The increase was mainly attributable to an increase in the wages and related additional expenses of the employees in the Group's coal and coking businesses.

— Depreciation and amortisation expenses increased from RMB913 million for the year ended 31 December 2005 to RMB1,004 million for the year ended 31 December 2006, representing an increase of 10.0%. The increase was mainly attributable to the commissioning of coal mines, coal processing plants and coking plants newly developed by the Group.

— Repair and maintenance costs increased from RMB240 million for the year ended 31 December 2005 to RMB425 million for the year ended 31 December 2006, representing an increase of 77.1%.

— Transportation costs increased from RMB4,055 million for the year ended 31 December 2005 to RMB5,448 million for the year ended 31 December 2006, representing an increase of 34.4%. The increase was mainly attributable to an increase in the sales volume of self-produced coal of the Group, with a corresponding increase in the volume of transportation by railway.

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— Other expenses increased from RMB1,835 million for the year ended 31 December 2005 to RMB2,813 million for the year ended 31 December 2006, representing an increase of 53.3%. The increase was mainly attributable to an increase in the Group's coal production volume that led to an increase in corresponding expenses and taxes.

Gross profit

The Group's gross profit increased from RMB5,624 million for the year ended 31 December 2005 to RMB6,546 million for the year ended 31 December 2006, representing an increase of 16.4%. Gross profit margin increased from 18.7% for the year ended 31 December 2005 to 21.7% for the year ended 31 December 2006, representing an increase of 300 basis points.

Selling, general and administrative expenses

Selling, general and administrative expenses increased from RMB1,484 million for the year ended 31 December 2005 to RMB1,811 million for the year ended 31 December 2006, representing an increase of 22.0%. The increase was mainly attributable to the increase in cost of sales as a result of an increase in the sales volume, as well as increases in employee wages and related expenses.

Profit from operations

Profit from operations increased from RMB4,429 million for the year ended 31 December 2005 to RMB5,173 million for the year ended 31 December 2006, representing an increase of 16.8%.

Finance costs (net)

Finance costs (net) increased from RMB112 million for the year ended 31 December 2005 to RMB481 million for the year ended 31 December 2006. The increase was mainly attributable to the amount of net exchange gain which amounted to RMB392 million for the year ended 31 December 2005, while the amount of net exchange gain for the year ended 31 December 2006 amounted to RMB48 million.

Profit before income tax

Profit before income tax increased from RMB4,310 million for the year ended 31 December 2005 to RMB4,725 million for the year ended 31 December 2006, representing an increase of 9.6%.

Income tax expense

Income tax expense increased from RMB759 million for the year ended 31 December 2005 to RMB1,341 million for the year ended 31 December 2006, representing an increase of 76.7%. The consolidated income tax rate increased from 17.6% for the year ended 31 December 2005 to 28.4% for the year ended 31 December 2006, representing an increase of 10.8%. The increase was mainly attributable to the reduction in tax preferential treatments enjoyed by some subsidiaries.

Profit attributable to equity holders of the Company

Profit attributable to equity holders of the Company decreased from RMB3,343 million for the year ended 31 December 2005 to RMB3,172 million for the year ended 31 December 2006.

III Operating results of principal business segments

Production and business activities of the Group can be categorized into four segments, namely coal production and trading, coking, coal mining equipment manufacturing and other businesses and services. All of the Group's revenue was generated from these four business segments.

Coal production and trading

1 Revenues

The total revenues from the coal production and trading business decreased from RMB25.374 billion for the year ended 31 December 2005 to RMB24.044 billion for the year ended 31 December 2006, representing a decrease of 5.2%, of which the revenue after setting off other inter-segment sales decreased from RMB25.148 billion for the year ended 31 December 2005 to RMB23.832 billion for the year ended 31 December 2006, representing a decrease of 5.2%. The decrease was mainly due to the decrease in coal export sales and the reduction in the sales of coal purchased from third parties, while this decrease was partially offset by the increase in the domestic sales volume of self-produced coal of the Group and the increase in selling prices.

In 2006, by expanding coal production capacity and increasing production volume, the Group improved the structure of coal sales. Although the sales volume of coal decreased from 92.20 million tons for 2005 to 88.45 million tons for 2006, representing a decrease of 4.1%, the volume of domestic sales of self-produced coal which amounted to 39.51 million tons for the year ended 31 December 2005 increased to 47.73 million tons for the year ended 31 December 2006, representing an increase of 20.8%. In the same period, the average domestic selling price of thermal coal of the Group was RMB298 per ton, representing an increase of RMB10 per ton over last year, average export sales price was RMB394 per ton, representing a decrease of RMB71 per ton from last year. The average domestic selling price of coking coal was RMB564 per ton, representing a decrease of RMB62 from last year. Average export sales price of coking coal was RMB847 per ton, representing a decrease of RMB78 per ton from last year.

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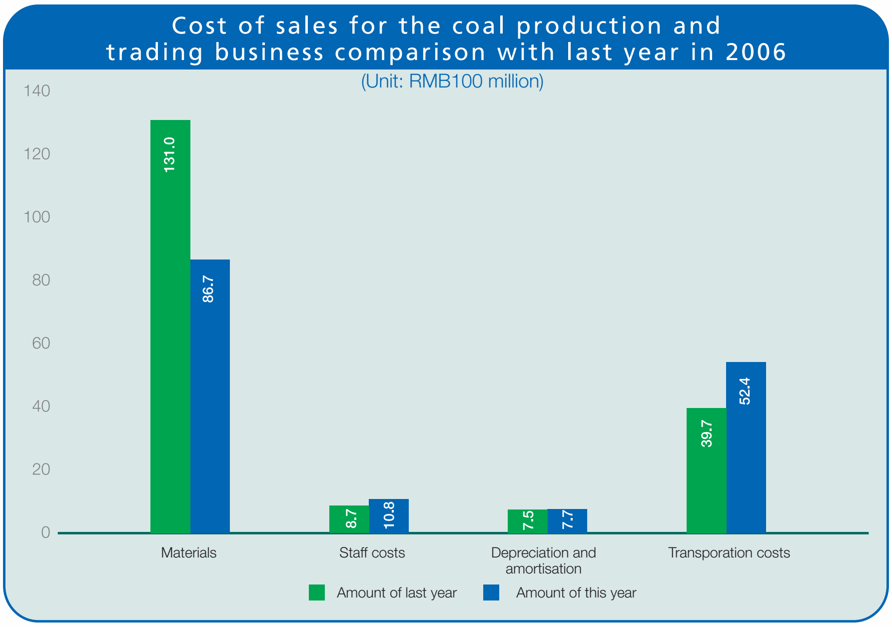
2 Cost of sales

Cost of sales for the coal production and trading business decreased from RMB20.407 billion for the year ended 31 December 2005 to RMB18.480 billion for the year ended 31 December 2006, representing a decrease of 9.4%. The decrease was mainly due to a decline in the sales of coal purchased from third parties. In addition, the increase in the sales volume of self-produced commercial coal of the Group led to an increase in railway freight.



3 Selling, general and administrative expenses

Selling, general and administrative expenses increased from RMB1.068 billion for the year ended 31 December 2005 to RMB1.235 billion for the year ended 31 December 2006, representing an increase of 15.6%.

4 Profit from operations

Profit from operations increased from RMB4.108 billion for the year ended 31 December 2005 to RMB4.620 billion for the year ended 31 December 2006, representing an increase of 12.5%.

Coking operations

1 Revenue

Revenue from the Group's coking business increased from RMB1.591 billion for the year ended 31 December 2005 to RMB2.035 billion for the year ended 31 December 2006, representing an increase of 27.9%. The increase was mainly attributable to an increase in the sales volume of self-produced coke as a result of an increase in the production volume of the coking plants owned by the Group.

Sales of coke in 2006 amounted to 2.20 million tons, an increase of 0.90 million tons over last year, of which self-produced coke amounted to 1.65 million tons, representing an increase of 0.98 million tons over last year.

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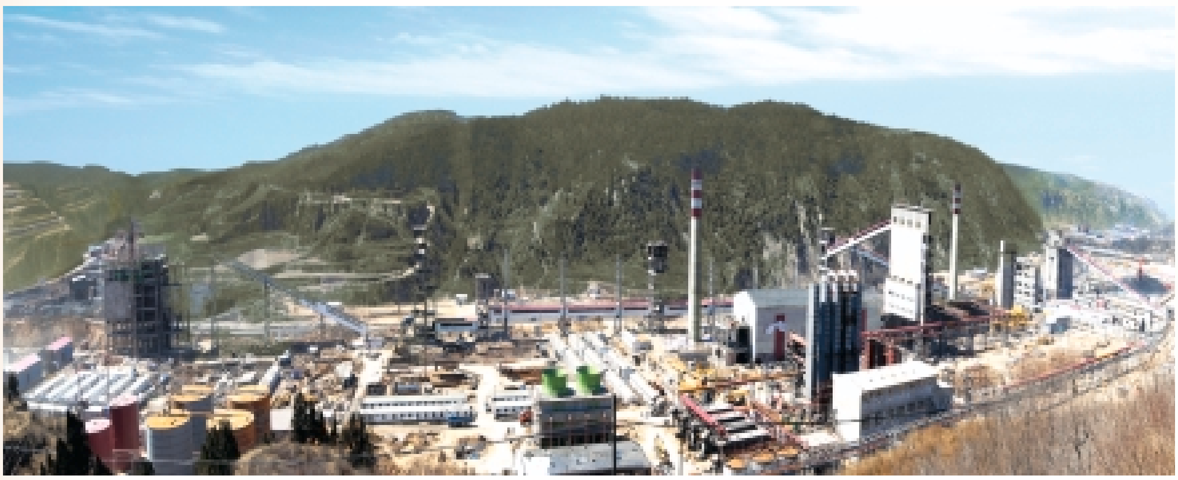
In 2006, the weighted average price of coke was RMB927 per ton, a decrease of RMB302 compared with last year, of which the domestic selling price of coke was RMB807 per ton, a decrease of RMB108 compared with last year. Export price of coke was RMB1,246, a decrease of RMB280 compared with last year.

2 *Cost of sales*

The Group's cost of sales for its coking business increased from RMB1.410 billion for the year ended 31 December 2005 to RMB1.891 billion for the year ended 31 December 2006, representing an increase of 34.1%. The increase was mainly attributable to an increase in the sales volume of coke. The unit cost of sales was RMB860.95/ton, representing a decrease of RMB228.08/ton compared with last year.

3 *Selling, general and administrative expenses*

Selling, general and administrative expenses decreased from RMB89 million for the year ended 31 December 2005 to RMB87 million for the year ended 31 December 2006.



4 *Profit from operations*

Profit from operations decreased from RMB112 million for the year ended 31 December 2005 to RMB77 million for the year ended 31 December 2006, representing a decrease of 31.3%.

Coal mining equipment manufacturing

1 *Revenue*

Revenue from the coal mining equipment manufacturing increased from RMB2.011 billion for the year ended 31 December 2005 to RMB2.739 billion for the year ended 31 December 2006, representing an increase of 36.2%, of which revenue after setting off other inter-segment sales increased from RMB1.891 billion for the year ended 31 December 2005 to RMB2.346 billion for the year ended 31 December 2006, representing an increase of 24.1%. The increase was mainly attributable to an increase in production volume and enhanced technical content that boosted market demands, while at the same time raising both product sales and prices.

2 Cost of sales

Cost of sales for the coal mining equipment manufacturing increased from RMB1.701 billion for the year ended 31 December 2005 to RMB2.215 billion for the year ended 31 December 2006, representing an increase of 30.2%.The increase was mainly attributable to an increase in the production volume of coal mining equipment, and an increase in prices for the procurement of raw materials such as steel.

3 Selling, general and administrative expenses

Selling, general and administrative expenses of the coal mining equipment business increased from RMB235 million for the year ended 31 December 2005 to RMB321 million for the year ended 31 December 2006, representing an increase of 36.6%.

4 Profit from operations

Profit from operations from the coal mining equipment manufacturing business increased from RMB94 million for the year ended 31 December 2005 to RMB214 million for the year ended 31 December 2006, representing an increase of 127.7%.

Others

Apart from the above mentioned businesses of coal production and trading, coking and coal mining equipment manufacturing, the Group is also engaged in other businesses including the production and sales of primary aluminium, power and the supply of coal mine design services. The aggregate revenue from these other businesses increased from RMB1.626 billion for the year ended 31 December 2005 to RMB2.275 billion for the year ended 31 December 2006, representing an increase of 39.9%, of which the revenue after setting off other inter-segment sales increased from RMB1.431 billion for the year ended 31 December 2005 to RMB2.014 billion for the year ended 31 December 2006, representing an increase of 40.7%. The increase was mainly attributable to an increase in revenue from the sales of primary aluminium produced by the Group, as well as an increase in the revenue earned by providing coal mine design services to external customers.

Cost of sales for the above businesses in the current period was RMB1.926 billion, representing an increase of 32.5%; selling, general and administrative expenses was RMB177 million, representing an increase of 88.3%; operating profit was RMB295 million, representing an increase of 189.2%.

IV. Cashflow

As at 31 December 2006, the Group had cash and cash equivalents amounting to RMB18.224 billion, a net increase of RMB15.084 billion compared with cash and cash equivalents of RMB3.140 billion as at 31 December 2005.

Net cash generated from operating activities increased from RMB2.765 billion for the year ended 31 December 2005 to RMB5.220 billion for the year ended 31 December 2006, representing an increase of 88.8%. The increase was mainly attributable to a decrease in the amount of receivables and prepayments arising from operating activities and an increase in amounts of accruals and other payables and taxes payable.

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Net cash used in investing activities increased from RMB2.718 billion for the year ended 31 December 2005 to RMB3.797 billion for the year ended 31 December 2006, representing an increase of 39.7%. This was mainly attributable to an increase in investment in the construction of coal mines, coal washing plant properties, plants and the purchase of equipment.

Net cash outflow from financing activities for the year ended 31 December 2005 was RMB154 million, compared with RMB13.661 billion generated for the year ended 31 December 2006. This was mainly attributable to the net proceeds received from the initial public offering of the Company amounting to RMB14.680 billion; this increase in funds was partially reduced by expenses including the repayment of bank loans and payment of dividends.

V. Liquidity and sources of capital

For the year ended 31 December 2006, the main sources of capital for the Group were the net funds generated from operations, bank loans and the net proceeds from the initial public offering of the Company. Capital of the Group was mainly applied in the investment of production facilities and equipment for coal, coking and coal mining equipment manufacturing, repayment of the Group's debts, and as working capital and general operating expenses of the Group.

Cashflow generated from operations, the net proceeds from the Global Offering by the Company, and the relevant credit facilities granted by the banks are sufficient to guarantee the availability of funds to finance production activities and project constructions in the future.

VI. Assets and Liabilities

Property, plant and equipment

As at 31 December 2006, the original value of property, plant and equipment of the Group was RMB23.146 billion, representing an increase of RMB3.569 billion or 18.2% when compared with the original value of property, plant and equipment of RMB19.577 billion as at 31 December 2005. The increase was mainly attributable to a net increase of RMB879 million in buildings, representing a net increase of RMB201 million in mining shaft structures and a net increase of RMB2.443 billion in plant and equipment. As at 31 December 2006, the net value of property, plant and equipment amounted to RMB15.955 billion, representing an increase of RMB2.336 billion or 17.2%. As at 31 December 2006, the net value of buildings represented 25.1% of the net value of property, plant and equipment; the net value of mining shaft structures represented 13.2% of the net value of property, plant and equipment; the net value of plant and equipment represented 44.3% of the net value of property, plant and equipment; the net value of railways represented 2.4% of the net value of property, plant and equipment; the net value of vehicles, fixtures and other equipment represented 1.6% of the net value of property, plant and equipment; while the net value of construction in progress represented 13.3% of the net value of property, plant and equipment.

Trade receivable and notes receivable

As at 31 December 2006, the balance of trade receivable and notes receivable of the Group amounted to RMB2.752 billion, representing a decrease of RMB635 million or 18.7% when compared with the balance of RMB3.387 billion as at 31 December 2005.

Bank borrowings

As at 31 December 2006, the balance of the Group's long-term borrowings was RMB8.270 billion, a decrease of RMB107 million when compared with the balance of RMB8.377 billion as at 31 December 2005. As at 31 December 2006, the balance of the Group's short-term borrowings was RMB1.860 billion, a decrease of RMB244 million when compared with the balance of RMB2.104 billion as at 31 December 2005. As at 31 December 2006, the current portion of the Group's long-term borrowings was RMB501 million, an increase of RMB235 million when compared with the balance of RMB266 million as at 31 December 2005.

VII.Significant investment

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

VIII.Material acquisition and disposal of assets

For the year ended 31 December 2006, the Group did not make any material acquisition or disposal of assets.

IX. Exchange risks

The business operations of the Group are affected by the exchange rate of Renminbi as the Group accepts the United States dollar payments for most of its export sales, with liabilities denominated in foreign currencies, including Japanese Yen and the United States dollar. At the same time, the Group also has to make payments for equipment and spare parts imported in foreign currencies, and in most cases, in the United States dollar. Therefore volatility in exchange rates, especially volatility in the conversion of foreign currencies into Renminbi, may have favorable or adverse impact on the operating results of the Group. The appreciation of Renminbi will lead to a decline in the revenue derived by the Group from exports, but will also lower the cost of equipment and spare parts imported by the Group, as well as lowering the costs for the repayment of foreign debts.

X. Commodity price risks

The Group is also subject to commodity price risks arising from movements in the prices of its products and materials.

XI. Industry risks

Like other coal companies and coking companies in China, the Group's operational activities are subject to regulation by the Chinese government in aspects such as industry policies, project approval, the granting of permits, industry special tax and levy, environmental protection and safety standards. Therefore the Group may be restricted in its efforts to expand businesses or increase earnings. Future policies adopted by the Chinese government in industries relevant to the Group's businesses such as coal and chemical may have impact on the Group's operations.

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XII. Contingent liabilities

Bank guarantees

As at 31 December 2006, the Group did not have any guarantee in favor of third parties.

Environmental protection responsibilities

Environmental protection laws and regulations are in full force in China. However, the management of the Group is of the opinion that other than that accounted for in the financial statements, there does not currently exist any other major liability in relation to environmental protection that may have major negative impact on the financial position of the Group.

Contingent legal liability

As at 31 December 2006, the Group was not involved in any material litigation or arbitration, and as far as the Group is aware, there are no material litigations or claims pending threatened or occurring against the Group.