

COMPANY PROFILE

Yanzhou Coal Mining Company Limited (“Yanzhou Coal” or “the Company”) is located in Shandong Province, the People’s Republic of China (the “PRC”). The Company is principally engaged in underground coal mining, preparation and processing, and sale and railway transportation of coal.

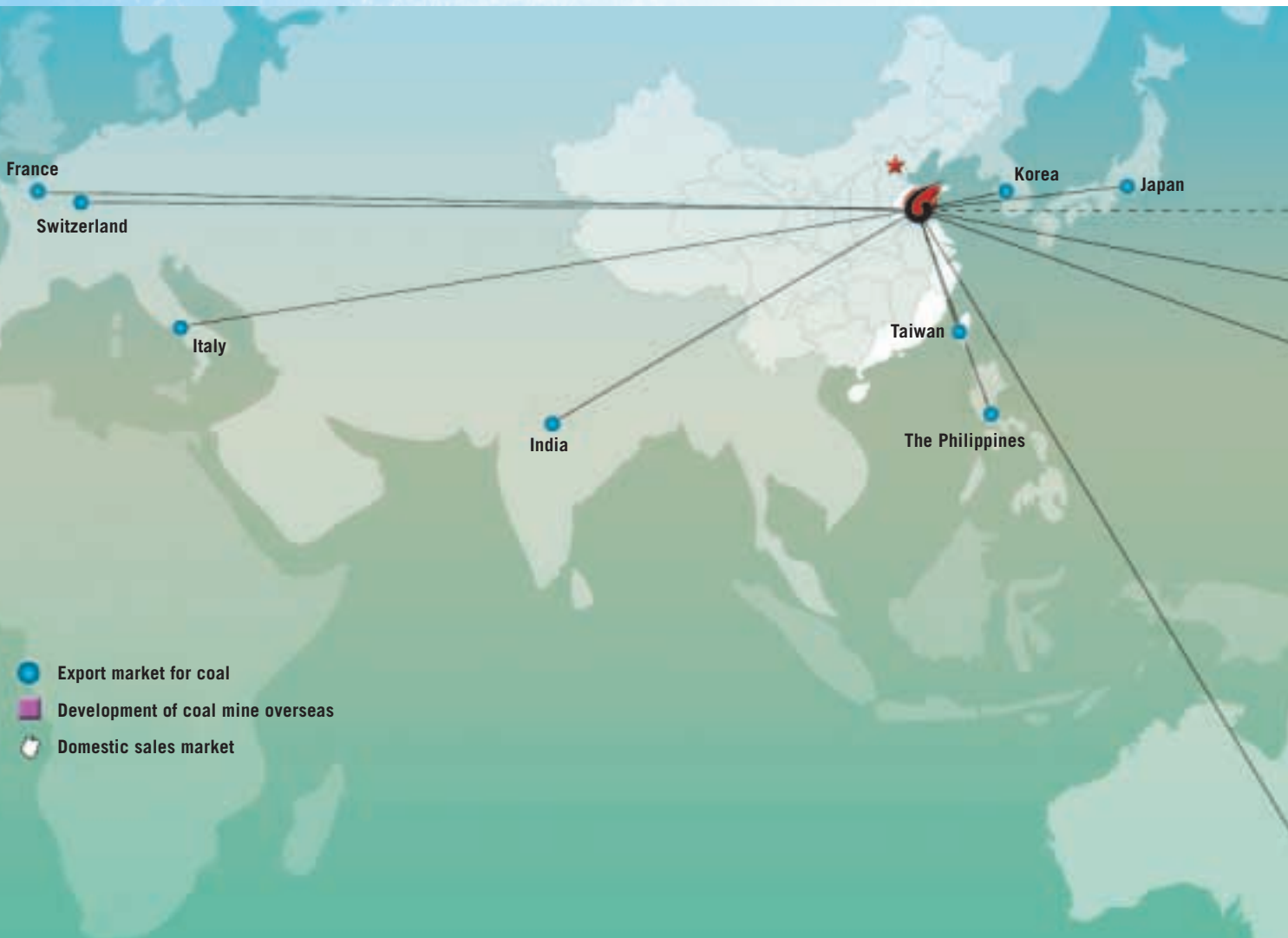
In 2005, the Company produced 34.66 million tonnes of raw coal, making it the largest coal producer in Eastern China; sold 32.48 million tonnes of saleable coal of which 7.25 million tonnes are export sales, making it the largest coal exporters in the PRC; and realized a income attributable to equity holders of the Company of RMB2,881.5 million, making it one of the most profitable coal enterprises in the PRC.

PRODUCTS

The Company’s products are mainly prime quality low-sulphur coal, which is suitable for large-scale power plant as steam coal, metallurgical production as coal to be used with coking coal and for use in pulverized coal injection (PCI).

CUSTOMERS

The customers of the Company are mainly located in countries or regions in East Asia such as Japan, Korea, Eastern China and South China.



MAJOR PRIZES IN 2005

- No.4 of the *China's Best Corporate Governance* as rated by the magazine *Asia Money* in Hong Kong.
- *CCTV 2004 China's Most Valuable Listed Companies* elected by China Central Television.
- *Shangzheng 50 Index Component Shares* elected by the Shanghai Stock Exchange
- No. 21 of the *Top 50 Listed Companies with Strongest Development Strength in China* rated by China Securities & Asian Business and No. 6 of the *Top 10 with Organizational and Execution Strength* among the *Top 50 Listed Companies with Strongest Development Strength in China* rated by China Securities & Asian Business.

IMPORTANT EVENTS

- Successfully listed in New York, Hong Kong and Shanghai stock markets in 1998.
- Successfully issued 100 million new A shares and 170 million new H shares in 2001 and 204 million new H shares in 2004.
- Acquired Jining II coal mine, Jining III coal mine and railway assets specifically used for the transportation of coal (the "Railway Assets") in 1998, 2001 and 2002, respectively.
- Successfully acquired Southland Coal Mine in Australia (now renamed as "Austar Coal Mine") in 2004, which is the first successful purchase of an overseas coal mine by a Chinese enterprise.
- Setting up Yanzhou Coal Yulin Nenghua Company Limited ("Yulin Nenghua Company") with a controlling stake by the Company in 2004 and started a 600,000 tonnes Methanol Project.
- Purchase of 95.67% shares of Yankuang Heze Nenghua Company Limited ("Heze Nenghua") in 2005.
- Patent of "Two-leg Shields Type" hydraulic support of the Company was transferred for consideration to DBT Germany in 2005 and achieved the first breakthrough of technique output from the PRC's coal industry to foreign countries.



FINANCIAL HIGHLIGHTS

(Prepared in accordance with International Financial Reporting Standards (“IFRS”))

The financial highlights are prepared based on the financial information set out in the audited consolidated statement of income, consolidated balance sheet, and consolidated statement of cash flows in 2005, 2004, 2003, 2002 and 2001.

OPERATING RESULTS

	Year ended 31st December				
	2005 (RMB'000)	2004 (RMB'000)	2003 (RMB'000)	2002 (RMB'000)	2001 (RMB'000)
Net sales					
Net sales of coal	11,353,485	10,354,337	6,794,335	6,213,901	4,876,010
including: Domestic	8,421,462	7,406,988	4,337,089	3,413,955	2,599,812
Export	2,932,023	2,947,349	2,457,246	2,799,946	2,276,198
Net Income of railway, Transportation Service	163,437	220,771	154,585	142,471	–
Total Net Sales ⁽¹⁾	11,516,922	10,575,108	6,948,920	6,356,372	4,876,010
Gross Profit	6,228,334	6,023,405	3,193,897	2,993,471	2,063,427
Interest Expenses	(24,611)	(35,942)	(59,966)	(117,929)	(61,519)
Income Before Income Taxes	4,419,973	4,673,332	1,974,918	1,748,212	1,360,173
Income attributable to equity holders of the Company	2,881,461	3,154,317	1,386,686	1,221,999	970,945
Earnings per Share ⁽²⁾	RMB0.59	RMB0.66	RMB0.30	RMB0.43	RMB0.35
Dividend per Share ⁽³⁾	RMB0.220	RMB0.260	RMB0.164	RMB0.104	RMB0.100

Notes: (1) Total net sales in 2005, 2004, 2003 and 2002 include net sales of coal and net income of railway transportation service.

(2) Earnings per Share is calculated on the basis of the net income realized in the relevant reporting period and the weighted average number of shares in the relevant year after adjusting for the bonus issue of the Company in July 2005.

(3) Dividend per share of year 2005 represents the dividend proposed.

FINANCIAL HIGHLIGHTS (Cont'd)

ASSETS AND LIABILITIES

	31st December				
	2005 (RMB'000)	2004 (RMB'000)	2003 (RMB'000)	2002 (RMB'000)	2001 (RMB'000)
Net Current Assets	7,522,121	5,774,466	2,045,252	2,157,429	1,166,187
Net Book Value of Property, Plant and Equipment	9,318,486	8,537,150	8,616,373	8,276,941	7,479,755
Total Assets	21,254,444	18,336,697	13,909,804	12,924,045	11,182,591
Total Borrowings	231,827	441,057	650,859	1,261,341	72,456
Equity attributable to equity holders of the Company	17,618,577	15,523,751	11,083,239	9,995,033	9,060,034
Net Asset Value per Share	RMB3.58	RMB5.05	RMB3.86	RMB3.48	RMB3.16
Return on Net Assets (%)	16.35	20.32	12.51	12.23	10.72

SUMMARY STATEMENT OF CASH FLOWS

	Year ended 31st December				
	2005 (RMB'000)	2004 (RMB'000)	2003 (RMB'000)	2002 (RMB'000)	2001 (RMB'000)
Net Cash from Operating Activities	3,939,274	4,418,381	2,701,236	2,239,712	1,610,239
Increase in Cash and Cash Equivalent	667,529	3,192,966	479,599	419,367	280,052
Net Cash Flow per Share from Operating Activities	RMB0.80	RMB1.44	RMB0.94	RMB0.78	RMB0.56

Notes: As at 31st December, 2001, 2002, and 2003, the total share capital of the Company was 2,870 million shares; the total share capital was 3,074 million and 4,918.4 million as at 31st December, 2004 and 31st December, 2005 respectively. The Dividend per Share, Net Asset Value per Share and Net Cash Flow per Share from Operating Activities in the above financial highlights are calculated based on the total share capital as at the end of each corresponding year of the Company.

The above financial indicators of year 2005 also consolidated the result of the financial statements of Heze Nenghua during this reporting period. Since 2004, the financial statements of the Company have consolidated the financial statements of Shandong Yanmei Shipping Co. Ltd. ("Yanmei Shipping") and Yulin Nenghua Company and Yanzhou Coal Australia Pty Limited (Yancoal Australia Pty).

The taxes and surcharges resulting from the principal businesses of Yanmei Shipping are offset against the transportation cost of coal of the Company, thereby increasing the total coal sales. As the total sales, operating results and assets of Yanmei Shipping do not have any material impact on the Company, they are therefore not itemized in this report.

Yulin Nenghua Company, Yancoal Australia Pty and Heze Nenghua are currently under preparation or construction and do not have significant impact on the operational results of the Company, and hence are not itemized in this report.

CHAIRMAN'S STATEMENT



Wang Xin *Chairman of the Board*

In the year 2005, due to the delay in resettlement of certain of the villages located within the coal field of the Company, the raw coal production of the Company decreased. However, with the great support of all the shareholders and through the hard work of our staffs, the Company has achieved good income results and the income attributable to equity holders of the Company for the year 2005 was RMB2,881.5 million, representing a decrease of 8.6% over that of 2004.

To reward the shareholders of the Company (the "Shareholders") for their long-term support to the Company, the Board of Directors proposes to declare a special cash dividend to the Shareholders for the year 2005 in addition to the dividend payable in accordance with the Company's consistent dividend policy. The 2005 cash dividend payable in accordance with the Company's consistent dividend policy is RMB737.7 million (tax included) or RMB0.150 per share (tax included); and the 2005 special cash dividend is RMB344.3 million (tax included) or RMB0.070 per share (tax included). The amount of these two types of dividends aggregate to RMB1,082 million (tax included) or RMB0.220 per share (tax included) in total. The proposed dividends payment will be presented to the Shareholders for approval at the Company's annual general meeting for 2005 (the "2005 AGM").

ACHIEVEMENTS IN 2005

In 2005, in both domestic and overseas coal markets, demand and supply thrived, prices recorded a significant increase.

In 2005, the Company produced 34.66 million tonnes of raw coal, representing a decrease of 11.5% over that of 2004; sold 32.48 million tonnes of saleable coal, representing a decrease of 14.5% over that of 2004. The average coal sales price of the Company was RMB349.50 per tonne, representing a 28.3% increase over that of 2004. In 2005, the Company realized a net income attributable to equity holders of the Company of RMB2,881.5 million, representing a 8.6% decrease over that of 2004.

In 2005, the Company focused on the implementation of a series of operation measures to stabilize its existing coal output and sales volume, to strengthen the "Four Optimizations" for the sale of coal and to tighten its cost control. These measures include i) enhancement of efforts to decrease the negative impact caused by the delay in the resettlement of the villages located within the coal field of the Company and after a sharp decrease in the third quarter; the raw coal production of the Company gradually increased month by month in the fourth quarter of 2005. ii) reduction of the sales cost and increase product selling prices by optimizing its products mix, users mix, transportation structure and port flow structure; iii) improving the product reputation and competitive capability of the Company by

CHAIRMAN'S STATEMENT (Cont'd)

continuously implementing the "Three Nil Project" (Nil Defect, Nil Impurity and Nil Claim) thereby decreasing the impurity ratio of clean coal to 1.12kg/10,000 tonnes; iv) strengthening its cost management and control, which has partially offset the increased costs and expenses.

The Company's external development projects have achieved some breakthroughs. The Company acquired 95.67% equity interest in Heze Nenghua, which was owned by Yankuang Group Corporation Limited (the "Yankuang Group" or the "Parent Company"), and the construction of Zhaolou Coal Mine, a coal mine owned and operated by Heze Nenghua is being carried out as planned. The preparatory works prior to the recommencement of production of Austar Coal Mine in Australia, which was acquired by the Company at the end of 2004, is being carried out smoothly. Negotiation for the new coal mine project in Shaanxi Province has made progress. The preliminary design of the principle part and the equipment procurement tender of the 600,000 tonnes of methanol project have been finished. The development of these new projects enriches the resources reserves and extends the production chains of the Company are beneficial to the enhancement of the Company's operating scale and profitability and thereby consistently increases our shareholders' return.

The Company has improved its systems and normalized its operation. The Company has established and improved its procedures for the corporate governance and the connected transactions of the Company and the system for disclosure of information, etc. Pursuant to the requirements of Sarbanes-Oxley Act, the Company has fully initiated and improved the construction of the internal control systems.

In March 2006, the Company completed the share reform plan proposed by the Yankuang Group. The Yankuang Group paid 2.5 non-tradable shares for every 10 shares held by each holder of A shares in exchange for the right to list and trade the non-tradable shares held by the Parent Company on the PRC's domestic A share market. After the implementation of the reform, the shareholding of the Yankuang Group was reduced from 54.33% to 52.86%.

The Board is satisfied with the Company's achievements in 2005.

OUTLOOK FOR 2006

In 2006, the demand and supply of coal in both domestic and overseas markets will generally be in equilibrium.

The total quantity of the demand and supply of coal in the domestic coal market will remain in equilibrium. The supply of coal in some regions, at certain time or in respect of certain types of coal may fall short of the demand. The steady growth of the PRC's economy will increase the demand of certain coal-consuming industries, such as power and metallurgical industries. Factors such as the commencement of new coal mines and the decreased net export volume of coal, etc. will increase the domestic supply of coal. According to the PRC's Government's plan to continue closing down small sub-standard coal mines, the growth in the volume of coal supply will be slightly lower than the growth in demand volume in the year 2006. The increasing coal transportation capacity will partially ease the tight domestic coal transportation capacity. The price of good quality steam coal is expected to maintain at a high level, and the prices of poor quality coal and coking coal are expected to reduce slightly. Measures such as greater concentration among coal enterprises and the PRC Government's policies such as continuously strengthening the safety and environmental protection of the coal mines, protective mining of coal resources and the marketisation of the prices of power coal, etc.. are beneficial to sustaining the development of the coal industry and the increase of the competitive capacities of the large scale coal enterprises.

The demand of coal in the international market will be strong. The economic growth of U.S.A., Japan and the other Asian countries will maintain strong, and the demand for energy by these counties will increase. The coal import of India and China will increase and it is expected that in 2006, the growth in import volume of coal in the Asia-Pacific region will be higher than that of the average level of the world. It is expected that in 2006, the export volume of coal from Australia will remain stable on the whole, the

CHAIRMAN'S STATEMENT (Cont'd)

export volume of coal of the PRC will decrease and coal export from Indonesia will increase slightly and that the supply of coal in East-Asia will slightly increase. High international oil price and coal price in South Africa and Europe and the increased demand for coal in the Asia Pacific region will be beneficial to the stability of coal price in the Asia-Pacific region. On 20th April 2006, the spot price of the Australian BJ steam coal was USD52.90/tonne, representing an increase of 39.4% over the lowest price of USD37.95/tonne in 2005. It is expected that the export coal contract price in the year 2006 will be higher than the current spot price, and the amount of price decrease in coking coal will be greater than that in steam coal.

The average coal sales prices of the Company is expected to decrease slightly in 2006 compared to that of 2005. Currently, The Company has not yet completed its negotiations for domestic and export coal sales contracts for the year 2006. It is expected that the contract price of domestic power coal will increase slightly and the domestic contract prices of other coal sales remain stable; export coal price is expected to decrease, amongst which the amount of price decrease in semi-soft coking coal will be greater than that of steam coal. It is expected that the Company's contract price of export coal will be higher than the current spot price.

The sales target for the year 2006 of the Company is 34 million tonnes and the export coal volume is expected to be 7 million tonnes.

OPERATING STRATEGIES

The Company will continue to improve its profitability and Shareholders' return through organic development and external expansion. In 2006, the Company will focus on the following operating strategies:

i) **Improving operation management and boosting profitability of the existing coal mines.**

Firstly, the Company will stabilize the output and sales volume of its existing coal mines, optimize and adjust the production system of the coal mines so that the level of output will return to the normal level commencing from April this year, in order that the output of raw coal will start to increase again for the year.

Secondly, the Company will continue to implement the "Three Nil Project" to improve product quality and reputation in the market and to continuously implement the "Four Optimizations" by increasing the product sales prices through optimizing the Company's products mix and users mix; optimizing the transportation structure and port flow structure to reduce the cost of sales and increase the net product sales prices; strategically allocating the coal sales to the more profitable markets and emphatically increasing the sales volume to major consumers.

Thirdly, improving management and cost control. The Company will improve the financial control system, strengthen the budgeting management for its capital and control the capital risk. The Company will fully implement the policy of "increasing the income, reducing the cost, reducing the material consumption and increasing the efficiency" by improving the overall budgeting management system, strengthening accountability and improving the system of assessment of performance for reward and punishment, thereby effectively controlling the cost. The Company will strive to control its unit cost below that of year 2005.

CHAIRMAN'S STATEMENT (Cont'd)

ii) **Speeding up the development pace of the existing project and continuing to look for new acquisition opportunities.**

The Company will accomplish the production system revamping, mining equipment installation and commissioning of Austar Coal Mine in Australia, and endeavours to put the coal mine into full operation in the third quarter of 2006. The Company will complete the commercial negotiation for the new coal mine project in Shaanxi Province, and endeavours to finish construction of coal mine so acquired by end of this year. The Company will speed up the construction pace of Zhaolou Coal Mine in Shandong Province and the methanol project in Shaanxi Province, and endeavours to accomplish the constructions of these two projects and put them into operation in the fourth quarter of year 2007.

In the year 2006, the Parent Company will implement the transfer of part of its coal and power operations and other new projects, which are in line with the Company's development strategies in accordance with the relevant regulations. In addition, the Parent Company will support the Company in its acquisition of the above-mentioned transfers to increase the business performance of the Company, reduce connected transactions and intra-industry competition between the Parent Company and the Company. The Company would be invited to invest in the coal liquefaction project which is being developed by the Parent Company.

The Company will continue to look for new acquisition opportunities in coal and other related industries, expand the scale of its coal mine assets, develop coal further processing business.

iii) **Regulating the operations of the Company and improving the management expertise of the Company.**

Firstly, completing the re-engineering of the internal control systems before the end of the year 2006. The Company will improve its internal control of work flow and system in accordance with the requirements of Sarbanes-Oxley Act. The Company will complete the assessment and evaluation of the internal control system and test-run the system in the second quarter of 2006, and will formally run the system and issue the Internal Control Report by the end of the year 2006.

Secondly, improving the management of the Company, strengthening staff training. The Company will arrange for its Directors, Supervisors, senior management and the other employees to attend regular training of the newly revised Corporate Laws, Securities Law and the other relevant trainings to strengthen their awareness of self-discipline and responsibility. The Company will revise its Articles of Association for the purpose of improving its corporate governance to promote the operational compliance of the Company.

Thirdly, strengthening the management of external investment. The Company will improve of its external investment and management systems, set up evaluation system on responsibility assessment, control the risk of investment and improve the quality and returns of investment.

I would like to express my sincere gratitude to the management and staff of the Company for their hard work as well as to all our Shareholders for their support. I am confident that the output volume of the Company's existing coal mines will resume increases, that the Company will attain breakthroughs in the development of new projects in 2006 and that the Company will achieve good economic efficiency and strong competitive edge.

On behalf of the Board

Wang Xin
Chairman

21st April, 2006

REVIEW OF OPERATIONS



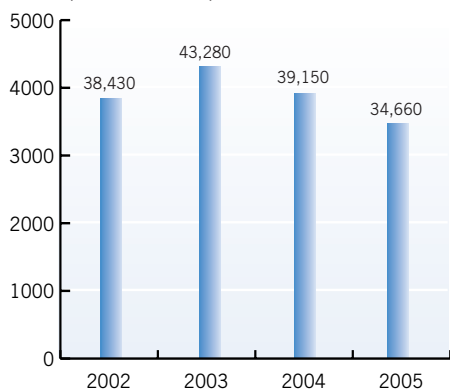
Yang Deyu
Vice Chairman, General Manager

The following discussion is based on the Company's audited results of 2004 and 2005 prepared in accordance with IFRS.

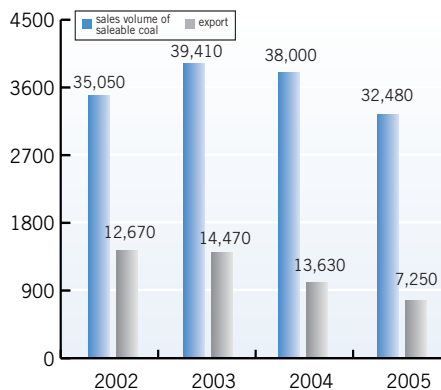
OVERVIEW

In 2005, the Company produced 34.66 million tonnes of raw coal, sold 32.48 million tonnes of coal and the railway transportation of coal achieved 20.16 million tonnes. In 2005, net sales of the Company was RMB11,516.9 million, among which net sales of coal was RMB11,353.5 million and net income of railway service was RMB163.4 million, and the income attributable to the equity holders of the Company was RMB2,881.5 million.

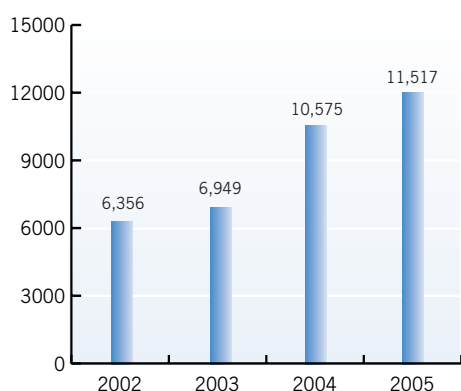
Raw coal production
(thousands tonnes)



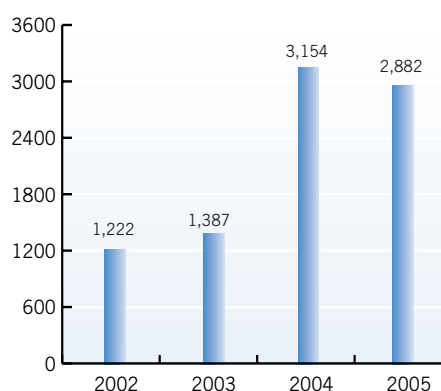
Sales volume of saleable coal
(thousands tonnes)



Net sales of coal
(RMB million)



Income attributable to equity holders of the Company
(RMB million)



REVIEW OF OPERATIONS (Cont'd)

COAL PRODUCTION

The Company's raw coal production decreased by 4.49 million tonnes, or 11.5%, to 34.66 million tonnes in 2005 as compared with that of 2004. The decrease was mainly due to the delay in resettlement of certain of the villages located within the coal field of the Company, as a result, 6 among the 12 coal production systems of the Company did not achieve continuous production in the third quarter of year 2005. Upon the resettlement of 2 villages in the last quarter of year 2005, 3 coal production systems have resumed normal coal production. Upon the resettlement of the remaining 4 villages in the first quarter of year 2006, raw coal production capacity of the Company has resumed its normal level in April 2006.

The output of saleable coal of the Company was 31.94 million tonnes in 2005, representing a decrease of 4.81 million tonnes, or 13.1%, as compared with that of 2004.

PRODUCT PRICES AND SALES

The following table sets out the average coal prices of the Company for the years ended 31st December, 2005 and 2004:

	2005 (RMB/ton)	2004 (RMB/ton)
Clean coal		
No. 1	514.20	349.26
No. 2	491.51	318.13
Domestic	513.67	346.17
Export	460.09	301.83
No. 3	370.54	293.71
Domestic	361.30	298.64
Export	381.51	288.62
Lump coal	432.26	377.92
Domestic	434.66	399.60
Export	397.53	308.75
Subtotal for clean coal	413.69	306.64
Domestic	420.26	319.60
Export	404.37	294.26
Screened raw coal	321.88	258.93
Mixed coal and others	150.45	138.71
Average coal price	349.50	272.45
Including: Domestic	333.74	264.65

Notes: 1. The average coal prices represent the invoice prices less sale taxes, transportation cost from the Company to ports, port charges and miscellaneous fees for coal sales.

2. The average coal price for year 2005 and 2004 has taken into account the consolidation of financial statement of Yanmei Shipping Co. Limited and adjusted the average coal price of year 2004. The adjusted average coal prices for year 2004 have been disclosed in the Company's interim report of 2005.

REVIEW OF OPERATIONS (Cont'd)

The average coal price of the Company was RMB349.50/tonne in 2005, representing an increase of RMB77.05/tonne, or 28.3%, as compared with that of 2004. The average domestic coal price was RMB333.74/tonne, representing an increase of RMB69.09/tonne, or 26.1%, as compared with that of 2004. The average export coal price was RMB404.37/tonne, representing an increase of RMB110.11/tonne, or 37.4%, as compared with that of 2004.

The increase in average coal price of the Company was principally due to the increase of coal price in domestic and overseas markets and the increase of net sale price due to the implementation of the “four optimizations” strategy.

The following table sets out the Company's net sales of coal by product category for the years ended 31st December 2005 and 2004:

	Year ended 31st December					
	2005			2004		
	Sales volume ('000 Ton)	Net sales of coal (RMB'000)	% of total net sales of coal	Sales volume ('000 Ton)	Net sales of coal (RMB'000)	% of total net sales of coal
Clean coal						
No. 1	773.9	397,957	3.5	631.3	220,480	2.1
No. 2	5,084.5	2,499,068	22.0	6,329.2	2,013,510	19.5
Domestic	2,981.3	1,531,433	13.5	2,326.7	805,435	7.8
Export	2,103.2	967,635	8.5	4,002.5	1,208,075	11.7
No. 3	11,183.0	4,143,820	36.5	11,861.9	3,484,026	33.7
Domestic	6,066.8	2,191,938	19.3	6,027.9	1,800,193	17.4
Export	5,116.2	1,951,882	17.2	5,834.0	1,683,833	16.3
Lump coal	485.5	209,862	1.8	752.3	284,314	2.7
Domestic	454.0	197,356	1.7	572.7	228,873	2.2
Export	31.5	12,506	0.1	179.6	55,441	0.5
Subtotal for clean coal	17,527.0	7,250,707	63.9	19,574.7	6,002,330	58.0
Domestic	10,276.2	4,318,684	38.0	9,558.6	3,054,981	29.5
Export	7,250.8	2,932,023	25.8	10,016.1	2,947,349	28.5
Screened raw coal	10,805.4	3,478,075	30.6	14,936.6	3,867,528	37.3
Mixed coal and others	4,152.1	624,703	5.5	3,492.6	484,479	4.7
Total	32,484.5	11,353,485	100.0	38,003.9	10,354,337	100.0
Including: Domestic	25,233.7	8,421,462	74.2	27,987.8	7,406,988	71.5

The Company sold 32.48 million tonnes of coal in 2005, representing a decrease of 5.52 million tonnes, or 14.5%, as compared with that of 2004. Domestic sales were 25.23 million tonnes, representing a decrease of 2.75 million tonnes, or 9.9%, as compared with that of 2004. Export sales were 7.25 million tonnes, representing a decrease of 2.77 million tonnes, or 27.6%, as compared with that of 2004.

The sales volume of clean coal is 54% of total coal sales volume of the Company in 2005, which is an increase from 51.5% of that in the year 2004.

The change in sale structure is principally due to the timely adjustment of product mix by the Company in light of market needs.

REVIEW OF OPERATIONS (Cont'd)

The Company's coal products are exported to East Asian countries, such as Japan and South Korea. Net export sales of coal in 2005 accounted for 25.8% of the Company's total net sales of coal.

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

The following table sets out the Company's net sales of coal by industries for the year ended 31st December 2005 and 2004:

	Year ended 31st December			
	2005		2004	
	Net sales of coal (RMB'000)	of Total net sales of coal (%)	Net sales of coal (RMB'000)	of total net sales of coal (%)
Domestic	8,421,462	74.2	7,406,988	71.5
Power plants	2,357,640	20.8	2,127,011	20.5
Metallurgical mills	811,426	7.1	656,895	6.3
Construction material/ coke/chemical companies	686,215	6.0	784,063	7.6
Fuel trading companies/others	4,566,181	40.3	3,839,019	37.1
Export	2,932,023	25.8	2,947,349	28.5
Power plants	967,635	8.5	1,683,833	16.3
Metallurgical mills	1,951,955	17.2	1,208,075	11.7
Others	12,433	0.1	55,441	0.5
Total	11,353,485	100.0	10,354,337	100.0

Domestic sales of the Company's coal products are concentrated in Eastern China, particularly 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 2005 and 2004:

	Year ended 31st December			
	2005		2004	
	Net sales of coal (RMB'000)	of total net sales of coal (%)	Net sales of coal (RMB'000)	of total net sales of coal (%)
Eastern China				
Shandong Province	5,697,426	50.2	5,014,430	48.4
Jiangsu Province	674,671	5.9	738,088	7.1
Zhejiang Province	536,315	4.7	700,560	6.8
Shanghai Municipality	528,841	4.7	351,589	3.4
Other provinces in Eastern China	560,782	4.9	316,786	3.1
Subtotal	7,998,035	70.4	7,121,453	68.8
South China	423,427	3.7	285,535	2.8
Export	2,932,023	25.8	2,947,349	28.5
Total sales of coal	11,353,485	100.0	10,354,337	100.0

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

RAILWAY ASSETS

In 2005, railway transportation volume of the Company was 20.16 million tonnes, representing a decrease of 10.12 million tonnes, or 33.4%, as compared with that of 2004. Net income from railway transportation services of the Company was RMB163.4 million in 2005, representing a decrease of RMB57.334 million, or 26.0%, as compared with that of 2004.

REVIEW OF OPERATIONS (Cont'd)

OPERATING EXPENSES AND COST CONTROL

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 2005 and 2004:

	Year ended 31st December			
	2005 (RMB'000)	2004 (RMB'000)	2005 (% of total net sales)	2004 (% of total net sales)
Net sales				
Net sales of coal	11,353,485	10,354,337	98.6	97.9
Net income of railway transportation service	163,437	220,771	1.4	2.1
Total net sales	11,516,922	10,575,108	100.0	100.0
Costs of coal sales and railway transportation service				
Materials	1,147,572	1,088,683	10.0	10.3
Wages and employee welfare	1,258,333	1,022,614	10.9	9.7
Electricity	282,492	298,274	2.5	2.8
Depreciation	891,640	918,360	7.7	8.7
Repairs and maintenance	350,953	455,782	3.0	4.3
Land subsidence, restoration, rehabilitation and environmental costs	636,590	323,240	5.5	3.1
Mining rights expenses	19,604	19,604	0.2	0.2
Transportation fee	98,787	119,737	0.9	1.1
Other costs	602,617	305,409	5.2	2.8
Total cost of sales and railway transportation service	5,288,588	4,551,703	45.9	43.0
Sales, general and management expenses	1,918,788	1,479,863	16.7	14.0
Total operating expenses	7,207,376	6,031,566	62.6	57.0

In 2005, the total operating expenses of the Company were RMB7,207.4 million, representing an increase by RMB1,175.8 million, or 19.5%, as compared with that of 2004. Costs of sales and railway transportation service and sales, general and management expenses increased by 16.2% and 29.7% as compared with that of 2004, respectively. Total operating expenses were increased to 62.6% over total net sales from 57.0% in 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with the audited financial statements of the Company for 2004 and 2005 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 the supplemental information 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 upon written request.

YEAR ENDED 31ST DECEMBER, 2005 COMPARED WITH YEAR ENDED 31ST DECEMBER 2004

The Company’s realised net sales in 2005 was 11,516.9 million, increased by RMB941.8 million, or 8.9%, compared with RMB10,575.1 million in 2004, among which: (1) realized net sales of coal was RMB11,353.5 million, increased by RMB999.1 million, or 9.6%, compared with RMB10,354.3 million in 2004. The increase was mainly due to: an increase of average coal prices of 28.3%, which resulted in an increase of net sales of coal by RMB2,502.9 million; and a decrease of coal sales volume of 14.5%, which resulted in the decrease of net sales of coal by RMB1,503.8 million; (2) net income from railway transportation service (calculated on ex-mine basis and on the basis of transportation expenses being borne by the customers) was RMB163.4 million, representing a decrease of RMB57.334 million, or 26.0%, from RMB220.8 million in 2004. Such decrease was principally due to the decrease of coal sales volume resulting from the Company’s decrease of raw coal output and the decrease in the volume of coal deliveries where transportation expenses were calculated on ex-mine basis and were borne by the customers.

Cost of sales and railway transportation service of the Company increased by RMB736.9 million, or 16.2%, to RMB5,288.6 million in 2005, as compared to RMB4,551.7 million in 2004. The cost of coal sales was RMB5,184.8 million, representing an increase of RMB722.5 million, or 16.2%, as compared to RMB4,462.3 million in 2004, principally due to an increase in commodity prices, an increase in employees’ wages, a reduction of the rate of export VAT rebate and an increase in the safety inputs. The unit cost of coal sales was RMB159.61, representing an increase of RMB42.23, or 36.0%, as compared to RMB117.38 of 2004. This was principally due to (1) objective factors increasing the unit cost of coal sales by RMB15.79 among which, the reduction of the rate of export VAT rebate resulted in the increase of unit cost of coal sales by RMB2.60; the increase of prices of raw materials resulted in the increase of unit cost of coal sales by RMB2.09; the increase in subsidence fees as a result of the increase in commodity prices and the strengthening measures to resettle the villages located within the coal field of the Company resulted in the increase of unit cost of coal sales by RMB11.10; (2) an increase of unit cost of coal sales by RMB9.43 as a result of the increase of employees’ wages; (3) an increase of the unit coal sales by RMB2.85 as a result of an increase of expenses from the implementation of the “Four Optimizations” for sales of coal; (4) an increase of the unit coal sales by RMB1.20 as a result of an increase in safety inputs; (5) an increase of the unit cost of coal sales by RMB14.65 as a result of the increase in fixed costs resulting from the decrease of 5.52 million tonnes of sales when compared to the sales in the previous year; (6) the partial set-off of part of the said cost-increasing factors which resulted in the increase of unit cost of coal sales by the Company’s tightening of cost control measures.

Sales, general and management expenses of the Company were RMB1,918.8 million in 2005, increased by RMB438.9 million, or 29.7%, from RMB1,479.9 million of 2004. This increase was mainly due to: (1) the increase of RMB114.2 million as payment of retirement pension scheme; (2) the increase in wages and employee welfare by RMB114.3 million; (3) the increase in initial cost of Yancoal Australia Pty Ltd by RMB121.8 million; (4) increase in currency conversion losses by RMB98.681 million resulting from the fluctuation of exchange rate.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Other income of the Company decreased by RMB30.694 million, or 18.5%, to RMB135 million in 2005 from RMB165.7 million in 2004. This was mainly due to: (1) interest income decreased by RMB16.082 million; (2) a provision for devaluation instead of amortization as stipulated in the newly revised IFRS adopted by the Company in 2005, the negative goodwill amortization decreased by RMB27.62 million in 2005 compared with that of 2004.

Interest expenses of the Company decreased by RMB11.331 million, or 31.5 %, to RMB24.611 million in 2005 from RMB35.942 million in 2004. This was principally due to the partial repayment of bank loans.

Income before income taxes of the Company decreased by RMB253.3 million, or 5.4%, to RMB4,420 million in 2005 from RMB4,673.3 million in 2004.

Income attributable to the equity holders of the Company decreased by RMB272.8 million, or 8.6%, to RMB2,881.5 million in 2005 from RMB3,154.3 million in 2004.

Total assets increased by RMB2,917.7 million, or 15.9%, to RMB21,254.4 million as at 31st December, 2005 from RMB18,336.7 million as at 31st December 2004. 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 RMB797.8 million, or 28.4%, to RMB3,607.1 million as at 31st December, 2005 from RMB2,809.3 million as at 31st December, 2004. This is mainly due to (1) accounts payable to the Parent Company and the Parent Company's subsidiary increased by RMB508.3 million (2) tax payable increased by RMB118.0 million (3) deferred tax liabilities increased by RMB123.2 million.

Equity attributable to equity holders of the Company increased by RMB2,094.8 million, or 13.5%, to RMB17,618.6 million as at 31st December, 2005 from RMB15,523.8 million as at 31st December, 2004. This was principally due to profit realized by operation activities.

LIQUIDITY AND CAPITAL RESOURCES

In 2005, 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, repayment of Shareholders' dividends.

As at 31st December 2005, the balance of bills and accounts receivable were RMB2,224.8 million, representing an increase of RMB1,001 million, or 81.8%, from RMB1,223.8 million as at 31st December, 2004. Bills receivable increased by RMB1,202.9 million, or 135.2%, to RMB2,092.9 million as at 31st December, 2005 from the RMB890 million as at 31st December, 2004, principally due to the increase in bank bills of exchange from the sale of coal. Accounts receivable decreased by RMB201.8 million, or 60.5%, to RMB131.9 million as at 31st December, 2005 from RMB333.7 million as at 31st December, 2004, principally due to the reduction of newly occurred accounts receivable in this reporting period and the Company's enhanced efforts of collecting the previous accounts receivable.

As at 31st December, 2005, inventories of the Company decreased by RMB14.928 million, or 3.1%, to RMB470.5 million as at 31st December, 2005 from RMB485.4 million as at 31st December, 2004. The decrease was due to the decrease in coal inventories.

Other loans receivable decreased by RMB210 million, or 24.7%, to RMB640 million as at 31st December 2005, from RMB850 million as to 31st December 2004. During the reporting period, the Company withdrew an entrusting bank loan of RMB160 million to Shandong Longxiang Industrial Co. Ltd and an entrusting bank loan of RMB50 million entrusting bank loan to Shandong Cement Co. Ltd.

Prepayment and other current assets increased by RMB14.121 million, or 7.5%, to RMB202.4 million as at 31st December, 2005, from RMB188.3 million as at 31st December, 2004.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

As at 31st December, 2005, bills and accounts payable increased by RMB19.385 million, or 4.1%, to RMB497.7 million from RMB478.3 million as at 31st December, 2004.

Other accounts payable and provisions increased by RMB238.3 million, or 17.8 %, to RMB1,575.9 million as at 31st December, 2005 from RMB1,337.6 million as at 31st December, 2004 principally due to (1) accounts receivable in advance increased by RMB48.456 million (2) wages payable increased by RMB55.133 million (3) accounts payable for purchase of property, machinery and equipment, material increased by RMB43.157 million (4) accounts payable to the Parent Company increased by RMB81.514 million.

Long-term liabilities decreased by RMB86.055 million, or 32.6%, to RMB178.1 million as at 31st December 2005 from RMB264.2 million as at 31st December, 2004. This was principally due to (1) bank borrowing above one year decreased by RMB200 million (2) deferred tax liabilities accrued by provision expenses including land subsidence fees and safety production expenses increased by RMB123.2 million.

The Company's capital expenditure for the purchase and construction of property, machinery and equipment was RMB830.2 million and RMB1,290.5 million in year 2004 and 2005 respectively.

According to the Acquisition Agreement of Jining III Coal Mine, the Company has paid the Parent Company RMB13.248 million for mining right during this reporting period.

As at 31st December, 2005, the Company's debt to equity ratio was 1.3%, which was calculated on basis of the equity attributable to equity holders of the Company and total amount of borrowings amounting to RMB17,618.6 million and RMB231.8 million, respectively.

The Company's estimated capital expenditure for year 2006 is RMB4,817 million. This is mainly due to: (1) the capital expenditure for purchase of property, machinery and equipment for the existing operating 6 coal mines and railway assets of approximately RMB1,262 million; (2) the capital expenditure for external projects development is approximately RMB3,555 million, including: investment in the construction of Yanzhou Astar Coal Mine in Australia of approximately RMB1,513 million; investment in 600,000 tonnes methanol project and new coal mine project in Shanxi Province of approximately RMB1,352 million; and investment in Heze Zhaolou Coal Mine of about RMB690 million. The capital resource for the above capital expenditure is mainly from the Company's cash in hand.

Taking into account the cash in hand and existing abundant capital sources, the Company believes that it will have sufficient capital to satisfy for its operational and developmental requirements.

TAXATION

The Company is still subject to an income tax rate of 33% on its taxable profits in 2005.

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 ("US GAAP"). Please refer to supplemental information contained herein for a description of the differences between IFRS and US GAAP, and the adjusted net income for the year ended 31st December, 2005 and the Shareholders' equity as at 31st December, 2005 after reconciliation made in accordance with US GAAP.

REPORT OF THE DIRECTORS

The Board is pleased to submit the Report of the Directors of Year 2005 together with the audited financial statements of the Company for the year ended 31st December, 2005.

PRINCIPAL ACTIVITIES

The Company is engaged in underground coal mining, preparation and processing, and sales and railway transportation of coal.

FINANCIAL HIGHLIGHTS

A summary of the results of the Company, the assets and liabilities of the Company and the cash flow of the Company for each of the five years ended 31st December, 2005, 2004, 2003, 2002 and 2001, which are prepared in accordance with the International Financial Reporting Standards (“IFRS”), are set out in the section headed “Financial Highlights” of this report.

PROPOSED PROFIT APPROPRIATION

The profit appropriation of the Company for the year ended 31st December, 2005 as proposed by the Board is as follows:

<i>Prepared in accordance with PRC GAAP</i>	RMB'000
Net Income	2,495,481
Unappropriated profits at the beginning of year	3,722,813
Appropriation to statutory surplus reserve	249,548
Appropriation to statutory public welfare fund	124,774
Distributable profits	5,843,972
Proposed cash dividends after the date of the balance sheet	1,082,048
Unappropriated profits	4,761,924

The proposed profit appropriation will be presented to the shareholders of the Company (the “Shareholders”) for approval at the forthcoming 2005 annual general meeting of the Company (the “2005 AGM”).

Pursuant to the articles of association of the Company (the “Articles”), the Company’s financial statements should be prepared according to the PRC GAAP as well as the IFRS and the accounting standards and regulations of the places in which its shares are listed.

For the purpose of determining the dividends payable to the Shareholders in a relevant year, the lower of the profits after taxation in these accounting standards will be applied for the relevant year. For this purpose, audited profits after taxation in accordance with the PRC GAAP will be applied to determine the proposed cash dividends after the date of balance sheet for the year 2005.

DIVIDENDS

The directors of the Company have decided to propose at the 2005 AGM, a payment of cash dividends for the year 2005 of RMB1,082 million (tax included) or RMB0.220 (tax included) per share, which includes (1) a cash dividends of RMB737.7 million (tax included) or RMB0.150 (tax included) per share in accordance with the Company’s consistent dividend policy; and (2) a special cash dividends of RMB344.3 million (tax included) or RMB0.07 (tax included) per share. Following the approval by the Shareholders at the 2005 AGM, the above dividends will be declared and paid to all Shareholders within two months after the 2005 AGM (if so approved).

REPORT OF THE DIRECTORS (Cont'd)

Pursuant to the Articles, cash dividends payable to the Shareholders shall be calculated and declared in RMB. Cash dividends payable to holders of the Company's domestic shares shall be paid in RMB, while cash dividends payable to holders of the Company's H shares shall be paid in Hong Kong dollars.

MAJOR SUPPLIERS AND CUSTOMERS

The percentage of purchases attributable to the Company's five largest suppliers was less than 30% of the total purchase of its goods and services for 2005.

Net sales to the Company's five largest domestic customers accounted for less than 30% of the Company's net sales in 2005.

As far as the directors of the Company (the "Directors") are aware, neither the Directors, their associates, nor Shareholders who own more than 5% of the Company's share capital had any right and interest in the five largest customers of the Company.

EXTERNAL GUARANTEES BY THE COMPANY

As at 31st December, 2005, no external guarantees has been made by the Company, which has been confirmed by the Company's independent non-executive Directors.

The above information concerning the external guarantee by the Company constitutes a disclosure under requirement by relevant laws of China (except Hong Kong).

INTEREST CAPITALIZATION

No interest has been capitalized by the Company during the year ended 31st December 2005.

RESERVES

Details of changes in the reserves of the Company for the year ended 31st December, 2005 and details of the distributable reserves of the Company as at 31st December, 2005 are set out in the note 35 to the financial statements prepared in accordance with the IFRS contained herein.

STATUTORY COMMON WELFARE FUND

Details of the statutory common welfare fund are set out in note 35 to the financial statements prepared in accordance with the IFRS contained herein.

NET VALUE OF PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company during the year ended 31st December, 2005 are set out in note 24 to the financial statements prepared in accordance with the IFRS contained herein.

EMPLOYEES' PENSION SCHEME

Details of the Company's employees' pension scheme are set out in note 41 to the financial statements prepared in accordance with the IFRS contained herein.

ON-GOING CONNECTED TRANSACTIONS

The on-going connected transactions between the Company and the Parent Company for the year 2005 including the following three aspects.

1. On-going Supply of Materials and Services

The connected transactions of on-going supply of materials and services between the Company and the Parent Company were carried out in accordance with The Materials and Services Supply Agreement signed on 17th October, 1997 and its subsequent supplemental agreement, as approved by independent shareholders.

The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") granted a conditional waiver (the "Waiver") to the Company on 11th July, 2003 from strict compliance with the requirements of disclosure and approval as stipulated in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in respect of the connected transactions under the above agreements between the Company and the Parent Company for a period of three financial years ended 31st December 2005. The upper limits of the Waiver in respect of the on-going supply of material and services by the Company to the Parent company should not exceed 13% of the Company's audited consolidated net sales in the immediately preceding financial year, and the aggregate value of connected transactions relating to the provision of materials and services by the Parent Company to the Company should not exceed 26% of the Company's audited consolidated net sales in the immediate preceding financial year.

For the year ended 31st December, 2005, the value of connected transactions relating to the provision of materials and services by the Company to the Parent Company was RMB1,255.4 million and accounted for 11.87% of the Company's audited consolidated net sales for the year ended 31st December, 2004, and the value of connected transactions relating to the provision of materials and services by the Parent Company to the Company was RMB1,293.2 million and accounted for 12.23% of the Company's audited consolidated net sales for the year ended 31st December, 2004.

2. Mining Rights Fee

During this reporting period, pursuant to the Mining Rights Agreement dated 17th October, 1997 and its supplemental agreement dated 18th February, 1998 entered into between the Parent Company and the Company, the Company paid RMB12.98 million to the Parent Company.

REPORT OF THE DIRECTORS (Cont'd)

3. Payment of Endowment Insurance Fund

Pursuant to Agreement of Endowment Insurance Fund entered into between the Company and the Parent Company dated 17th October, 1997, the Parent Company undertakes to be responsible for the management of the old age insurance fund to the employees and payments of the pension and other benefits to the retirees of the Company (the "Endowment Insurance Fund") on a free of charge basis. In this reporting period and pursuant to the Agreement of Endowment Insurance Fund, the Company has paid the Endowment Insurance Fund of RMB522.7 million.

The Company's independent non-executive Directors have reviewed the connected transactions of on-going connected transaction in the year 2005 and confirmed that: (1) all such connected transactions have been: (a) entered into by the Company in the ordinary and usual course of its business; (b) conducted either on normal commercial terms, or where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from independent third parties; and (c) entered into in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole; (2) the value of the connected transaction in respect of the on-going supply of materials and services have not exceeded the cap under the Waiver granted by the Hong Kong Stock Exchange.

The auditors of the Company, as reported to the Board in a letter, have performed certain agreed upon procedures on the above on-going connected transactions between the Company and the Parent Company in relation to the compliance of these transactions on: (a) have received approval by the Board; (b) are in accordance with the pricing policies of the Company; (c) have been entered into in accordance with the relevant agreement governing the connected transactions, and (d) have not exceeded the cap disclosed in the previous announcement.

APPROVAL OF NEW ON-GOING CONNECTED TRANSACTION AGREEMENTS AND THE ANNUAL CAPS FOR YEAR 2006 TO 2008

Pursuant to the regulations of Hong Kong Stock Exchange and Shanghai Stock Exchange on on-going connected transactions and the operation developments of the Company and the Parent Company, the Company completed the review of its on-going connected transactions as required by law and entered into six new on-going connected transaction agreements ("New On-going Connected Transaction Agreements") with the Parent Company in the first quarter 2006. It also determined the caps on the connected transactions for each New On-going Connected Transaction Agreements in each year ("the Annual Caps") from 2006 to 2008.

The New On-going Connected Transaction Agreements and the Annual Caps were approved by the independent shareholders on 24th March, 2006. The term for each of the New On-going Connected Transaction Agreements is from 1st January, 2006 till 31st December, 2008. The Materials and Services Supply Agreement and its supplementary agreement and the Agreement of Endowment Insurance Fund originally entered into between the Company and the Parent Company have been terminated.

ACQUISITION OF CONNECTED ASSETS

Acquisition of Equity Interest of Heze Neng Hua

The 2005 first extraordinary general meeting of the Company was held on 19th August, 2005, in which the "Equity Transfer Agreement between Yankuang Group Corporation Limited and Yanzhou Coal Mining Company Limited" and its "Supplemental Agreement" (collectively the "Acquisition Agreement") were approved. According to the Acquisition Agreement, the Company has acquired 95.67% equity interest in Heze Neng Hua at the consideration of RMB584.01 million. Heze Neng Hua is responsible for coal development in Juye coalfield in Shandong province for the Company.

Mining Right Consideration of Jining III Coal Mine

Pursuant to the Jining III Coal Mine Acquisition Agreement entered into between the Company and the Parent Company, the consideration of the mining right of Jining III coal mine is approximately RMB132.5 million, which shall be paid to the Parent Company in ten equal annual interest free installments commencing from 2001. During this reporting period, the Company paid RMB13.248 million to the Parent Company.

HOUSING SCHEME

According to the Materials and Services Supply Agreement (as amended by the supplemental agreement) entered into between the Company and the Parent Company, which is set out in the paragraph headed "On-going Supply of Materials and Services" of the section headed "On-going Connected Transactions", the Parent Company is responsible for providing accommodation to its employees and the employees of the Company. The Company and the Parent Company share the incidental expenses relating to the provision of such accommodation on a pro-rata basis based on their respective number of employees and mutual agreement. Such expenses amounted to RMB37.2 million and RMB37.2 million in 2004 and 2005, respectively.

Commencing from 2002, the Company paid to its employees a housing allowance, which is based on a fixed percentage of employees' wages, for their purchase of residential houses. During the year 2005, the employees' housing allowances paid by the Company amounted to RMB136.9 million in total.

Details of the housing scheme are set out in note 42 to the financial statements prepared in accordance with the IFRS contained herein.

DISCLOSURE OF SIGNIFICANT EVENTS

Material Litigation and Arbitration

On 13th December 2004, the Company made an entrusted loan of RMB640 million to Shandong Xin Jia Industrial Company Limited ("Shandong Xin Jia") through the Bank of China Jining Branch (the "Entrusted Loan"). Since Shandong Xin Jia failed to duly repay the principal and interest of the Entrusted Loan, the Higher People's Court of Shandong Province appointed Shandong Yinxing Auction Company Limited and auctioned the 289 million shares held by Lianda Group Limited, the guarantor, in Huaxia Bank Company Limited (the "Pledged Shares") in accordance with the relevant laws on 6th September, 2005. The final auction price is RMB3.5 per Pledged Share and total final auction amount is RMB1,011.5 million.

After the qualification approval procedures of China Banking Regulatory Commission and the transfer procedures of the Pledged Shares have been completed, the successful bidder of the Pledged Shares will pay the auction amount. The auction amount will be administered by the People's High Court of Shandong Province. After the completion of the legal procedures, the Company will get back the principal, interest, penalty interest and relevant expenses of the Entrusted Loan and upon which the Company will timely publish an announcement. As at the date of this report, the legal procedures and the transfer of the pledged shares still have not been completed yet.

Save as disclosed above, the Company was not involved in any other significant litigation and arbitration during this reporting period.

REPORT OF THE DIRECTORS (Cont'd)

Share Reform Plan

The Share Reform Plan of the Company was carried out on 31st March, 2006. Yankuang Group has paid a consideration of 2.5 non-tradable shares for every 10 shares held by each holder of A shares whose name appear on the register of member of A share on 30th March, 2006 in exchange for the right to list and trade the non-tradable shares of the Parent Company on the Shanghai Stock Exchange. The non-tradable shares held by the Yankuang Group were granted the right to listing and trading on the Shanghai Stock Exchange since 3rd April, 2006.

In addition to the statutory undertakings, Yankuang Group also undertook the following: (1) the original non-tradable shares of the Company held by the Parent Company would be subject to a trading moratorium of 48 months from the date of the completion of the Share Reform Plan; (2) the Parent Company would, in accordance with the relevant governmental procedures, assign part of its operations including coal and power operations together with new projects, which are in line with the Company's development strategies to the Company in 2006 and support the Company in the implementation of such assignment; and the Company would be invited to invest in the coal liquefaction project which is being developed by the Yankuang Group; (3) All related expenses arising from the Share Reform Plan would be borne by the Parent Company.

The financial indicators of the Company including assets, liabilities, ownership interest, total share capital and net profit remain unchanged upon implementation of the revised Share Reform Plan of the Yankuang Group.

Election of New Session of Directors and Supervisors

At the 2004 annual general meeting of the Company held on 28th June, 2005, Mr. Wang Xin, Mr. Geng Jiahuai, Mr. Yang Deyu, Mr. Shi Xuerang, Mr. Chen Changchun, Mr. Wu Yuxiang, Mr. Wang Xinkun, Mr. Chen Guangshui and Mr. Dong Yunqing were elected as directors of the third session of the Board, Mr. Pu Hongjiu, Mr. Cui Jianmin, Mr. Wang Xiaojun and Mr. Wang Quanxi were elected as independent non-executive directors of the third session of the Board, and Mr. Meng Xianchang, Mr. Song Guo, Mr. Zhang Shengdong and Mr. Liu Weixin were elected as shareholders representative supervisors of the third session of the supervisory committee. At the employees' representative conference of the Company held in May 2005, Mr. Xu Bentai was elected as the employee representative supervisor of the third session of the supervisory committee.

The term of office for the directors of the third session of the Board and that of the supervisors of the third session of the supervisory committee are both three years, commencing from the conclusion of the 2004 annual general meeting to the shareholders' meeting appointing the directors of the fourth session of the Board and the supervisors of the fourth session of the supervisory committee.

Election of Chairman, Vice Chairman and Appointment of Senior Management

At the first meeting of the third session of the Board held on 28th June, 2005, Mr. Wang Xin was elected as the chairman of the third session of the Board; Mr. Geng Jiahuai and Mr. Yang Deyu were elected as the vice-chairmen of the third session of the Board; Mr. Yang Deyu was appointed as the general manager of the Company; Mr. Jin Tai, Mr. Zhang Yingmin, Mr. He Ye, Mr. Wang Xinkun, Mr. Tian Fengze, Mr. Shi Chengzhong and Mr. Lai Cunliang were appointed as the deputy general managers; Mr. Wu Yuxiang was appointed as the chief financial officer; Mr. Chen Guangshui was appointed as the secretary of the Board; Mr. Ni Xinghua was appointed as the chief engineer; Mr. Wu Yuxiang and Mr. Chen Guangshui were appointed as the Company's authorized representatives.

REPORT OF THE DIRECTORS (Cont'd)

Establishment of Special Committee of the Board and Adjustment of Functioning Departments

At the first meeting of the third session of the Board, the establishment of the audit committee of the third session of the Board was approved. Mr. Cui Jianmin, Mr. Pu Hongjiu, Mr. Wang Xiaojun, Mr. Wang Quanxi, Mr. Chen Changchun and Mr. Dong Yunqing were appointed as members of the audit committee with Mr. Cui Jianmin being the chairman.

The establishment of the remuneration committee of the third session of the Board was approved. Mr. Wang Quanxi, Mr. Wang Xiaojun and Mr. Dong Yunqing were appointed as members of the remuneration committee with Mr. Wang Quanxi being the chairman.

Adjustment of some functioning departments of the Company was approved: abolition of the original economic operation department; establishment of the general coordination department, enterprise management department, project department and the enterprise community office.

Election of Chairman and Vice Chairman of the Supervisor Committee

At the first meeting of the third session of the supervisor committee held on 28th June, 2005, Mr. Meng Xianchang was elected as the chairman of the supervisor committee, and Mr. Song Guo was elected as the vice chairman of the supervisor committee.

Amendments to the Articles of Association of the Company

Pursuant to the approval of the 2004 annual general meeting, the Company amended the articles of association of the Company (the "Articles of Association") in accordance with the new requirements of domestic and overseas supervising authorities and the needs of daily operations of the Company. Details of the amendments to the Articles of Association were posted to the shareholders of the Company on 13th May, 2005 and were published in the domestic China Securities Journal, Shanghai Securities News and Wen Wei Po, South China Morning Post of Hong Kong on 13th May, 2005.

Pursuant to the authorization granted at the 2004 annual general meeting of the Company, the Company amended Articles 16, 17 and 20 of the Articles of Association at the second meeting of the third session of the Board held on 19th August, 2005 so as to reflect the changes in the total share capital and the share capital structure of the Company upon completion the Bonus Share Issue approved by the shareholders at the 2004 annual general meeting of the Company. Details of the amendments to the Articles of Association were published in the domestic China Securities Journal, Shanghai Securities News and Wen Wei Po, South China Morning Post of Hong Kong on 22nd August, 2005.

Upon approval at the first extraordinary general meeting in 2006 dated on 24th March, 2006, the Company amended the Articles of Association. Details of the amendments to the Articles of Association were published in the domestic China Securities Journal, Shanghai Securities News and Wen Wei Po, South China Morning Post of Hong Kong on 27th March, 2006.

MATERIAL CONTRACTS

Besides the Acquisition Agreement disclosed in the section headed "Acquisition of Equity Interest of Heze Neng Hua", the Company was not a party to any material contract during this reporting period.

PRE-EMPTIVE RIGHTS

The Articles of Association of the Company and the laws of the PRC contain no provision for any pre-emptive rights, requiring the Company to offer new shares to the Shareholders on a pro-rata basis to their shareholdings.

REPORT OF THE DIRECTORS (Cont'd)

SHARE CAPITAL

Details of the share capital of the Company are set out in the note 35 to the financial statements prepared in accordance with the IFRS contained herein.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

Changes in Share Capital

Bonus Issue of Shares

At the 2004 annual general meeting of the Company held on 28th June, 2005, the shareholders of the Company approved the issue of bonus shares on the basis of six bonus shares for every ten existing shares based on the total share capital of 3,074,000,000 shares of the Company as at 31st December, 2004, thereby increasing the Company's total share capital to 4,918,400,000 shares. The bonus shares were listed for public dealing from 28th July, 2005. During this reporting period, the changes in share capital of the Company were as follows.

	As at 1st January 2005	Changes during this reporting period (+ /-)	As at 31st December 2005
<i>Unit: shares (Par value per share: RMB1.00)</i>			
State legal person shares (Shares not listed for public dealings)	1,670,000,000	+1,002,000,000	2,672,000,000
A shares	180,000,000	+108,000,000	288,000,000
H shares	1,224,000,000	+734,400,000	1,958,400,000
Total numbers of shares	3,074,000,000	+1,844,400,000	4,918,400,000

As at 31st December, 2005, the Company had a total of 48,013 Shareholders, of which one was the holder of state legal person shares, 47,870 were holders of A shares and 142 were holders of H shares.

Share Reform Plan

Upon the implementation of the Share Reform Plan on 31st March, 2006, changes in the share capital are as follows.

	Before 31st March, 2006	Changes (+ /-)	As at 31st March, 2006
<i>Unit: shares (Par value per share: RMB1.00)</i>			
State legal person shares (Tradable shares subject to a trading moratorium)	2,672,000,000	-72,000,000	2,600,000,000
A shares	288,000,000	+72,000,000	360,000,000
H shares	1,958,400,000	0	1,958,400,000
Total numbers of shares	4,918,400,000	0	4,918,400,000

REPORT OF THE DIRECTORS (Cont'd)

Top Ten Shareholders and Top Ten Shareholders Holding Listed Shares of the Company

According to the register of Shareholders as at 31st December, 2005, which was provided by Shanghai Branch of China Securities Depository and Clearing Corporation Limited and Hong Kong Registrars Limited, the top ten Shareholders and the top ten Shareholders holding listed shares of the Company were as follows:

(as at 31st December, 2005)

Name	Class of shares held	Number of shares at the end of this reporting period (shares)	Percentage holding of the total capital of the Company (%)
Yankuang Group Corporation Limited	State legal person share	2,672,000,000	54.33
HKSCC Nominees Limited	H Shares	1,953,593,196	39.72
DEUTSCHE BANK AKTIENGESELLSCHAFT	A Shares	11,543,201	0.23
Yanjiang Xizhilang Pudding Manufacturing Co., Ltd.	A Shares	9,851,987	0.20
CREDIT SUISSE FIRST BOSTON (HONG KONG) LIMITED	A Shares	8,788,357	0.18
China Merchants Bank Co., Ltd. – Zhongxin Classic Allocation Securities Investment Fund	A Shares	8,500,000	0.17
LEHMAN BROTHERS INTERNATIONAL (EUROPE)	A Shares	8,000,000	0.16
Industrial and Commercial Bank of China – Shangzheng 50 Tradable Open Index Securities Investment Fund	A Shares	6,957,018	0.14
UBS LIMITED	A Shares	5,899,113	0.12
Shanghai Bao Steel Group Corporation	A Shares	5,335,250	0.11
Bank of Communications – Yifangda 50 Index Securities Investment Fund	A Shares	4,669,413	0.09

Save as disclosed above, no other Shareholder was recorded in the register kept pursuant to the Securities Law of the People's Republic of China as having an interest of 5% or more of the Company's public shares as at 31st December, 2005.

None of the shares held by the Parent Company was pledged or restricted or under any trust arrangement during the reporting period under review. It is uncertain as to whether the shares held by other Shareholders as disclosed above were pledged or restricted or under any trust arrangement during the reporting period.

Related party relationships and concert actions among the Shareholders as disclosed above are not known.

As the clearing and settlement agent for the Company's H shares, HKSCC Nominees Limited held the Company's H Shares in a nominee capacity.

REPORT OF THE DIRECTORS (Cont'd)

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31st December, 2005, no other person (other than a director, chief executive or supervisor of the Company) had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance (the "SFO").

Name of substantial shareholder	Class of shares	Number of shares held (shares)	Capacity	Type of interest	Percentage in the relevant class of share capital	Percentage in total share capital
Yankuang Group Corporation Limited (Note 1)	Domestic Shares (state-owned legal person shares)	2,672,000,000 ^(L)	Beneficial Owner	Corporate	90.27%	54.33%
JPMorgan Chase & Co.	H Shares	231,968,318 ^(L) (including 65,598,770 ^(P))	Beneficial owner, Investment manager and Custodian corporation/ Approved lending agent	Corporate	11.84%	7.84%
Credit Suisse Group	H Shares	116,552,620 ^(L) (including 2,460,700 ^(P)) 60,187,774 ^(S)	Interest of controlled corporations	Corporate	9.02%	5.97%
Citigroup Inc.	H Shares	110,617,841 ^(L) (including 5,852,000 ^(P)) 7,403,400 ^(S)	Beneficial owner, Person having a security interest in shares and Custodian corporation/ Approved lending agent	Corporate	6.03%	3.93%

Notes:

- Upon the authorization and appointment of the Parent Group, the Company implemented a Share Reform Plan on 31st March 2006. Details of the Share Reform Plan are set out in the paragraph headed "Share Reform Plan" under the section "Disclosure of Significant Events". Upon the implementation of the Share Reform Plan and on 31st March, 2006, the shareholding of the Parent Company changed from 2,672,000,000 Domestic Shares to 2,600,000,000 Domestic Shares, representing 87.84% of the Company's total Domestic Shares and 52.86% of the Company's total share capital.
- The letter "L" denotes a long position. The letter "S" denotes a short position. The letter "P" denotes interest in a lending pool.

REPORT OF THE DIRECTORS (Cont'd)

LEGAL PERSON SHAREHOLDERS WITH SHAREHOLDING OF 10% OR MORE

As at 31st December, 2005, Yankuang Group held 2,672,000,000 state legal person shares of the Company, representing 54.33% of the total share capital of the Company.

Yankuang Group, a state wholly-owned enterprise, is a controlling Shareholder of the Company. Its legal representative is Mr. Geng Jiahui and its registered capital is RMB3,090.336 million. It is principally engaged in coal production, building and building materials, chemical and machinery processing businesses. Its actual controller is the State-owned Assets Supervision and Administration Commission of the People's Government of Shandong Province.

During the reporting period, the Company's controlling Shareholder or its actual controller remained unchanged.

As at 31st December, 2005, HKSCC Nominees Limited held 1,953,593,196 H shares of the Company, representing 39.72% of the total share capital of the Company.

HKSCC Nominees Limited is a participant of the Central Clearing and Settlement System and provides securities registrations and trustee services to its customers.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, the total share capital of the Company consisted of 4,918,400,000 shares, of which 2,318,400,000 shares were held by the public, representing 47.14% of the Company's total share capital. Among the 2,318,400,000 shares held by the public, 1,958,400,000 of them were H shares, representing 39.82% of the Company's total share capital whereas 360,000,000 were A shares, representing 7.32% of the Company's total share capital.

REPORT OF THE DIRECTORS (Cont'd)

SHAREHOLDING OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Save as disclosed below, as at 31st December 2005, none of the Directors, chief executive or supervisors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) as recorded in the register required to be kept under section 352 of the SFO; or (ii) as otherwise notified to the Company and The Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("the Model Code") (which shall be deemed to apply to the Company's supervisors to the same extent as it applies to the Company's Directors).

Name	Capacity	Title	Number of domestic shares held at the beginning of this reporting period (shares)	Number of domestic shares held at the end of this reporting period (shares)	Reasons for changes
Wang Xin	–	Chairman of the Board	0	0	No change
Geng Jiahuai	–	Vice Chairman of the Board	0	0	No change
Yang Deyu	Beneficial owner	Vice Chairman of the Board and General Manager	10,000	16,000	bonus shares
Shi Xuerang	–	Director	0	0	No change
Chen Changchun	–	Director	0	0	No change
Wu Yuxiang	Beneficial owner	Director and Chief Financial Officer	10,000	16,000	bonus shares
Wang Xinkun	–	Director and Deputy General Manager	0	0	No change
Chen Guangshui	Beneficial owner	Director and Secretary to the Board	1,000	1,600	bonus shares
Dong Yunqing	–	Director	0	0	No change
Pu Hongjiu	–	Independent Non-executive Director	0	0	No change
Cui Jianmin	–	Independent Non-executive Director	0	0	No change
Wang Xiaojun	–	Independent Non-executive Director	0	0	No change
Wang Quanxi	–	Independent Non-executive Director	0	0	No change
Meng Xianchang	Beneficial owner	Chairman of the Supervisor Committee	10,000	16,000	bonus shares
Song Guo	–	Vice-Chairman of the Supervisor Committee	0	0	No change
Zhang Shengdong	–	Supervisor	0	0	No change
Liu Weixin	–	Supervisor	0	0	No change
Xu Bentai	–	Supervisor	0	0	No change
Jin Tai	–	Deputy General Manager	0	0	No change
Zhang Yingmin	–	Executive Deputy General Manager	0	0	No change
He Ye	–	Deputy General Manager	0	0	No change
Tian Fengze	–	Deputy General Manager	0	0	No change
Shi Chengzhong	–	Deputy General Manager	0	0	No change
Lai Cunliang	–	Deputy General Manager	0	0	No change
Ni Xinghua	–	Chief Engineer	0	0	No change

All the interests disclosed above represent long position in the shares of the Company.

As at 31st December, 2005, the total number of domestic shares of the Company held by the Directors, supervisors and senior management of the Company is 49,600, representing 0.001% of the total share capital of the Company.

REPORT OF THE DIRECTORS (Cont'd)

As at 31st December, 2005, none of the Directors, chief executive or supervisors of the Company or their spouses or children under the age of 18 was given the right to acquire shares or debentures of the Company or any associated corporation (within the meaning of the SFO).

BRIEF BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

WANG Xin, aged 47, an engineering technique application researcher, doctor of engineering technology, is the chairman of the Board and the vice chairman of the board of directors and the general manager of the Parent Company. Mr. Wang joined the predecessor of the Company in 1982 and became the vice general manager of the Parent Company in 2000. He was appointed as the director of the board of directors and vice general manager of the Parent Company in 2002, and promoted to be the vice chairman of the board of directors and the general manager of the Parent Company in 2003. In 2004, he became a director and the chairman of the Board of the Company. He graduated from China University of Mining and Technology.

GENG Jiahuai, aged 55, an engineering technique application researcher, is the vice chairman of the Board and the chairman of the board of directors and the party committee secretary of the Parent Company. During the period from 1985 to 2002, Mr. Geng successively acted as the deputy director of Zibo Mining Bureau, the Director of the Safety and Supervision Bureau and the director general of Zibo Mining Bureau. Mr. Geng joined the Parent Company in 2002 and became the general manager, the vice chairman of the board of directors and the party committee deputy secretary of the Parent Company. Mr. Geng became the chairman of the board of the directors and the party committee secretary of the Parent Company in 2003. Mr. Geng became a director of the Company in 2002 and the vice chairman of the Company in 2004. He graduated from Shandong Mining Institute.

YANG Deyu, aged 57, an engineering technique application researcher, is the vice chairman of the Board and the general manager of the Company, and a director of the board of the Parent Company. Mr. Yang joined the Predecessor in 1968 and became the deputy director of Yanzhou Mining Bureau in 1994, and the deputy general manager of the Predecessor and the Director of the Safety and Supervision Bureau in 1996. Mr. Yang became an executive director and the general manager of the Company in 1997 and the vice chairman of the Board and the general manager of the Company in 2002. Mr. Yang became a director of the board of directors of the Parent Company in 2004. He graduated from Shandong Mining Institute.

Shi Xuerang, aged 51, a senior engineer, is a director of the Company and deputy general manager of the Parent Company. From 2001 to 2003, Mr. Shi has successively acted as the deputy general manager of Xinkuang Group. He joined the Parent Company as the deputy general manager of the Parent Company in 2003 and became a director of the Company in 2005. He graduated from Shandong Mining Institute.

Chen Changchun, aged 53, a senior accountant, is a director of the Company and a director and the chief accountant of the Parent Company. Mr. Chen joined the Predecessor in 1984 and became the chief accountant of the Parent Company in 1998 and became a director of the Parent Company in 2004. Mr. Chen became a director of the Company in 2005. He graduated from Beijing Coal Cadre Institute.

WU Yuxiang, aged 44, a senior accountant, is a director and the chief financial officer of the Company. Mr. Wu joined the Predecessor in 1981 and became the chief accountant of the finance department of the Predecessor in 1996. Mr. Wu became the Manager of the finance department of the Company in 1997, and was promoted to be a director and the chief financial officer of the Company in 2002. He graduated from Shandong TV University.

WANG Xinkun, aged 53, a senior economist, is a director and the deputy general manager of the Company. Mr. Wang joined the Predecessor in 1977. Mr. Wang became the manager of the coal transportation and sales department of the Company in 2000, and the deputy general manager of the Company in 2002. He became a director of the Company in 2004. He graduated from Tianjin University.

REPORT OF THE DIRECTORS (Cont'd)

CHEN Guangshui, aged 40, a senior economist, is a director, the secretary to the Board. Mr. Chen joined the Predecessor in 1990, became the secretary to the Board and the head of the Secretariat of the Board of the Company in 1997. Mr. Chen became a director of the Company in 2005. He graduated from Fuxin Mining Institute.

DONG Yunqing, aged 50, a senior administrative officer, is a director and the chairman of labor union of the Company. Mr. Dong joined the Predecessor in 1981 and was the vice chairman of labor union of the Parent Company from 2001 to April 2003. Mr. Dong became a director and the chairman of labor union of the Company in 2002. He graduated from Shandong Mining Institute.

Independent Non-executive Directors

Pu Hongjiu, aged 69, professor-level senior engineer, is an independent non-executive director of the Company. He is the first vice chairman of the China Coal Industry Association, the chairman of Coal Industry Association of China International Association, the board chairperson of China Coal Academy. Mr. Pu was a party group member and the head of disciplinary inspection group in State Administration of Work Safety and State Administration of Coal Mine Safety in 2001. He has been the board chairperson of China Coal Academy since 2001, the first vice chairman of the China Coal Industry Association since 2003 and the board chairperson of China Miner Pneumoconiosis Treatment Foundation since 2004. He became an independent non-executive director of the Company in 2005. He graduated from Hefei Mining Institute. He also acts as an independent non-executive director in Shanghai Datun Energy Company Limited and Shenhua Ningxia Coal Mining Group Corporation Limited.

CUI Jianmin, aged 73, a senior auditor and certified accountant, is a consultant for China Tax Expert Association, and part-time professor for colleges such as Central Finance and Economics University. Mr. Cui had previously been the deputy chief auditor of National Audit Office of the PRC, the chairman of the Association of China Certified Accountant, and a committee member of the 8th National Committee of the Chinese People's Political Consultative Conference. Mr. Cui became an independent non-executive director of the Company in 2002 and he has been a consultant in China Tax Expert Association since September 2004. Mr. Cui graduated from People's University of China. Mr. Cui also acts as an independent non-executive director both in China Power Co., Ltd and CITIC Guoan Information Industry Co., Ltd..

WANG Xiaojun, aged 51, admitted as a solicitor in England and Wales and Hong Kong, is an independent non-executive director and a partner of the Wang & Co., X. J. in Hong Kong and is an independent non-executive director of the Company. He has practiced PRC law in Beijing, and was admitted in the PRC, Hong Kong and England and Wales in 1988, 1995 and 1996, respectively. Mr. Wang has worked as a legal adviser in the Hong Kong Stock Exchange and Richards Bulter. He became an independent non-executive Director of the Company in 2002. He graduated from the People's University of China and the Graduate School of the Chinese Academy of Social Sciences and holds a bachelor degree in laws and a master degree in laws. Meanwhile, he also acts as independent non-executive director of the Guangzhou Guangchuan International Company Limited and Hong Kong Zhengqi Investment Company Limited.

WANG Quanxi, aged 50, professor of Nankai University, is an independent non-executive director of the Company. He is the director of financial management department of Nankai University, the director of Enterprise Research Center of Nankai University, the vice director of MBA Center of Nankai University, and the secretary-general of Association of Management of Tianjin City. Mr. Wang became the independent non-executive director of the Company in 2004. He graduated from Tianjin Finance and Economics University. Meanwhile, he also acts as independent non-executive director of YinuoBohai Group Co., Ltd.

SUPERVISORS

MENG Xianchang, aged 58, a senior administrative officer, is the chairman of the supervisory committee of the Company and party committee deputy secretary of the Parent Company. Mr. Meng joined the Predecessor in 1981 and was promoted as party committee deputy secretary and a supervisor of the Predecessor in 1996, and became the chairman of the supervisory committee of the Company in 1997. He graduated from Shandong Mining Institute.

SONG Guo, aged 51, a senior administrative officer, is the vice chairman of the supervisory committee of the Company, and the party committee deputy secretary and the secretary of disciplinary inspection committee of the Parent Company. Mr. Song was the director of the office of Coal Management Bureau of Shandong Province in 2002. He joined the Parent Company as secretary of the disciplinary inspection committee in 2002, and became the deputy secretary of party committee of the Parent Company. He became the vice chairman of the supervisory committee of the Company in 2005. He graduated from Shandong university.

ZHANG Shengdong, aged 49, a senior accountant, is a supervisor of the Company and the deputy chief accountant of the Parent Company. Mr. Zhang joined the Predecessor in 1981 and became the deputy chief accountant in 1997. He became a supervisor of the Company in 2002. He graduated from China University of Mining and Technology.

LIU Weixin, aged 55, a senior accountant, is a supervisor of the Company and the vice director of the audit department of the Parent Company. Mr. Liu joined the Predecessor in 1971, and became the vice director of the audit affair office of the Parent Company in 2001, the chief of audit department of the Parent Company in 2003, and the deputy director of audit department of the Parent Company in 2005. Mr. Liu became a supervisor of the Company in 2002. He graduated from Shandong Youth Cadre Institute.

XU Bentai, aged 47, a senior administrative officer, is an employee supervisor of the Company and the chairman of Jining III Coal Mine's labor union. Mr. Xu joined the Predecessor in 1978 and became the chairman of Jining III Coal Mine's labor union in 1999. He became an employee supervisor of the Company in 2002. He graduated from the Central Communist Party School Correspondence Institute.

SENIOR MANAGEMENT

JIN Tai, aged 54, a senior engineer, is the deputy general manger of the Company. Mr. Jin joined the Predecessor in 1968. He became the director of the dispatching office of the Predecessor in 1996, and became the head of Xinglongzhuang coal mine in 1998, and became the deputy general manager of the Parent Company in 2000. Mr. Jin became the deputy general manager of the Company in 2004. He graduated from China University of Mining and Technology.

ZHANG Yingmin, aged 52, an engineering technology application researcher, is the executive deputy general manager of the Company and a director of the Parent Company. Mr. Zhang joined the Predecessor in 1971. He became the head of Baodian coal mine in 2000. Mr. Zhang became the executive deputy general manager of the Company in 2002 and the deputy general manager of the Parent Company in 2003. Mr Zhang became a director of the board of directors of the Parent Company in 2004. He graduated from Tianjin University.

He Ye, aged 48, a senior engineer, is a deputy general manager of the Company. Mr. He joined the Predecessor in 1993. He became the head of Jining II Coal Mine in 1999, and became the executive deputy general manager of an industrial company subordinated to the Parent Company in 2002. Mr. He was promoted to be a deputy general manager of the Company in 2002. He graduated from Guizhou Institute of Technology.

REPORT OF THE DIRECTORS (Cont'd)

TIAN Fengze, aged 49, a senior economist, is a deputy general manager of the Company. Mr. Tian joined the Predecessor in 1976. He became the head of Beixu coal mine in 1991. Mr. Tian became a deputy general manager of the Company in 2002. He graduated from Beijing Coal Cadre Institute.

SHI Chengzhong, aged 43, a senior engineer, is a deputy general manager of the Company. Mr. Shi joined the Predecessor in 1983 and became a deputy chief engineer of the Parent Company in 2000 and a deputy general manager of the Company in 2002. He graduated from Shandong Mining Institute. Mr. Shi also acts as a director of Guizhou Panjiang Coal Power Company Limited.

Lai Cunliang, aged 45, a senior engineer, master of mining engineer, is a deputy general manager of the Company. Mr. Lai joined the Predecessor in 1980 and became the head of Xinglongzhuang coal mine of the Company in 2000. Then he became a director and the general manager of YanCoal Australia Pty Limited in 2004. And he became a deputy general manager of the Company in 2005. He graduated from China University of Mining & Technology.

NI Xinghua, aged 49, an engineering technology application researcher, is the chief engineer of the Company. Mr. Ni joined the Predecessor in 1975 and became the deputy chief engineer of the Parent Company in 2000. He was promoted to be the chief engineer of the Company in 2002. He graduated from Tianjin University.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received the letter of annual confirmation issued by each of the independent non-executive Directors as to his/her independence pursuant to Rule 3.13 of the Listing Rules. All of the four independent non-executive Directors are considered by the Company as independent persons.

DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors and the supervisors of the Company and the five highest paid individuals of the Company are set out in note 14 to the financial statements prepared in accordance with the IFRS contained herein.

There were no arrangements under which a Director or supervisor of the Company had waived or agreed to waive any remuneration in respect of the year ended 31st December, 2005.

ARRANGEMENT TO PURCHASE EQUITY OR DEBT SECURITIES

At no time during the year ended 31st December, 2005, was the Company, its holding company, or any of its subsidiaries involved or a party to any arrangement to enable the Directors or supervisors of the Company to acquire benefits by means of the acquisition of equity or debt securities of the Company or any other body corporate with the exceptions of the A shares held to the Directors, supervisors and senior management of the Company. Details are set out in the paragraph headed "Shareholdings of Directors, Supervisors and Senior Management of the Company" of the section headed "Changes in Share Capital and Shareholders".

REPORT OF THE DIRECTORS (Cont'd)

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors and supervisors of the Company has entered into a service contract with the Company. Under such contracts, each Director will receive a salary and a discretionary year-end bonus, the amount of which shall be recommended by the Board and approved by the Shareholders in general meetings, provided that the discretionary year-end bonuses paid to the Directors and other employees of the Company (including but not limited to other Directors, supervisors and senior managements of the Company) does not exceed 1% of the aggregate of net profit after taxation and extraordinary losses but before extraordinary gains for that year.

No Director or supervisor of the Company has entered into any service contract with the Company, which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS

None of the Directors or supervisors of the Company had a material interest directly or indirectly in any contract of significance to which the Company was a party during the year ended 31st December, 2005.

REPURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

During this reporting period, the Company and its subsidiaries did not repurchase or redeem any shares of the Company.

IMPACT OF FLUCTUATIONS IN EXCHANGE RATES ON THE COMPANY

Starting from 21st July, 2005, China reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. RMB will no longer be pegged to the US dollar.

Impact of RMB appreciation to the Company is mainly reflected in (a) income through coal export after conversion into RMB since coal exports of the Company are calculated in US dollar; (b) conversion loss of foreign currency deposit; and (c) the Company's import costs of equipment and fittings.

The Company has no plan to make hedging arrangements for the exchange rates of RMB to foreign currencies.

POLICY OF REMUNERATION

The remuneration for the directors, supervisors and senior management should be proposed to the Board by remuneration committee of the Board. Upon review and approval by the Board, the proposal of remuneration for the directors and supervisors has to be approved in the shareholders' general meeting; while the remuneration for the senior management should be approved by the Board.

The Company adopts a combined annual remuneration and risk control system for assessing and rewarding the directors and senior management of the Company. The annual remuneration consists of basic salary and benefit income: basic salary is determined according to the operational scale of the Company with reference to the market wages and the income of employees whereas benefit income is determined by the actual operational achievement of the Company. The annual remunerations for the directors and senior management of the Company are pre-paid on a monthly basis and are cashed after the assessment to be carried out in the following year.

The remuneration policy of the other employees of the Company is principally a position and skill remuneration system, which determines the remuneration of the employees on the basis of their positions and responsibilities and their quantified assessment results. Rewards are linked to the Company's overall economic efficiency.

REPORT OF THE DIRECTORS (*Cont'd*)

EMPLOYEES

As at 31st December, 2005, the Company had 30,063 employees, of whom 1,995 were administrative personnel, 1,069 were technicians, 23,060 were directly involved in coal production and 3,939 were supporting staff.

On behalf of the Board

WANG Xin
Chairman

Zoucheng, PRC, 21st April, 2006

SUPERVISORY COMMITTEE'S REPORT

During this reporting period, in accordance with the PRC Corporate Laws and the Articles of Association, all supervisors of the Company have fulfilled their supervising responsibilities, preserved the rights of the Company and its Shareholders, followed the principles of honesty and trustworthiness, and actively carried out their duties with care and diligence. The supervisory committee held two meetings and has independently carried out the following work during the period under review:

1. The eleventh meeting of the second session supervisory committee was held in the afternoon on 25th April, 2005 at the conference room of the Company's headquarters. All of the five supervisors duly attended the meeting as required to meet the quorum set out in the Corporate Laws and Articles of Association. This meeting was presided by Mr. Meng Xianchang, chairman of the supervisory committee, at which *the 2004 annual supervisory committee's report, the 2004 annual report, the audited financial report for 2004, the proposed allocation of the profits of 2004, supervisory committee agenda regulation and proposal for next selection meeting of supervisory committee and recommendation for candidates of the third session supervisory committee* were considered, approved and passed.
2. The first meeting of the third session supervisory committee was held in the afternoon on 28th June, 2005 at the conference room of the Company's headquarters. All of the five supervisors duly attended the meeting as required to meet the quorum set out in the Corporate Laws and Articles of Association. This meeting was presided by Mr. Meng Xianchang, chairman of the supervisory committee, at which *proposal for selecting the chairman and vice-chairman of Company's third session supervisory committee meeting* was approved.

The Supervisory Committee gave independent opinion on the following:

1. Operations of the Company in 2005 were in compliance with laws

Pursuant to the relevant laws and regulations of the State, the supervisory committee, via sitting in the Board's meeting and shareholders' meeting, auditing and examining the Company's operations, the supervisory committee has carried out investigation and supervision on matters such as the resolutions of and the procedures on convening the Shareholders and Directors' meetings, the implementation of the resolutions of the Shareholders' general meetings by the Board, the carrying out of duties by the senior management of the Company and the management system of the Company. No act against the law, regulations and the Articles has been found. No breach of laws and regulations of the Directors and managers of the Company have been found. The supervisory committee considered that the performance of the Board in 2005 was in compliance with relevant laws and regulations of the State and the Articles, and was serious and responsible and its decision procedures were systematic. The Company had also further upgraded the internal control systems and reached all the operating targets successfully.

2. Inspection of the financial situation of the Company

The supervisory committee carried out supervision and inspections on the financial system and financial conditions of the Company, and considered that the Company, in accordance with accounting standards and principles issued by Financial Department of P.R.C, has established financial management principles and accounting principles which are suitable to the Company. In the reporting period, Deloitte has issued an unqualified opinion on the relevant information such as the financial statements. The supervisory committee held the view that the contents and format of the Company's financial statements were in conformity with all the rules set by the Securities Supervision Committee of PRC and the Stock Exchange, and the information provided can accurately and objectively reflect the Company's financial situation and operating results. The performance of the Company is true and all costs, expenses and provisions were in accordance with the relevant laws, regulations and the Company's Articles of Association.

SUPERVISORY COMMITTEE'S REPORT (Cont'd)

3. Usage of Raised Funds

The supervisory committee takes the view that the projects actually invested by the funds are consistent with the projects undertaken to be invested.

4. Fairness of Assets Acquisition

In the reporting period, the Company acquired 95.67% equity interest in Heze Nenghua Limited owned by the Yankuang Group. The Acquisition Agreement was approved in the first extraordinary shareholders' meeting of 2005 on 19th August, 2005. The equity interest transfer procedures were completed on 7th December, 2005 and the consideration for the acquisition of equity interest was RMB584.01 million.

The agreement is fair and reasonable, did not contravene of the principles of integrity, fairness and equity and did not impair the interests of the Company.

5. Connected transactions

During the reporting period, the connected transactions during the period of this report between the Company and the Parent Company and its subsidiaries were just, fair and lawful, and did not impair the interests of the Company.

Meng Xianchang

Chairman of supervisory committee

Zoucheng, China, 21st April, 2006

CORPORATE GOVERNANCE REPORT

The Company has set up a relatively regulated and reliable corporate governance system, and emphasizes the corporate governance principles of transparency, accountability and protection of the rights and interests of all the shareholders.

The Board believes that good corporate governance is very important to the operation and development of the Company. The Board will regularly review the corporate governance practices to ensure that the Company's operation is in compliance with the laws, rules and the regulations of the stocklisting places, and constantly endeavors to implement high quality corporate governance.

The Company has adopted the following corporate governance practices documentation, including, but not limited to: the Articles of Association, the Rules of Procedure for the Shareholders' Meeting, the Rules of Procedure for Board Meeting, the Rules of Procedure for Supervisory Committee Meeting, the System of Work of the Independent Directors, the Rules for Disclosure of Information, the Rules for the Approval and the Disclosure of the Connected Transactions of the Company, the Rules for the Management of the Investors' Relationships, the Code for Securities Transactions by the Management, the Standard of Conduct and Professional Ethics of the Senior Employees, etc. As at 31st December, 2005, and as of the date of this Annual Report, the corporate governance practices documentation and the governance operation adopted by the Company are in compliance with the principles and the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of Hong Kong Stock Exchange Listing Rules.

The following are the major respects in which the Company's adopted corporate governance code has a wider coverage than the CG Code:

- The provisions set out in the Code for Securities Transactions by the Management and the Standard of Conduct and Professional Ethics of the Senior Employees are stricter than those of the Model;
- The Board met 6 times during the year 2005;
- The Company is improving the set up of its internal controls system according to the requirements of the US Sarbanes-Oxley Act, in which the standards of the internal controls contained are more specific than those of the CG Code.

SECURITIES TRANSACTIONS BY DIRECTORS

Having made specific enquiry of all Directors, during this reporting period, the Directors have strictly complied with the Model Code. All Directors have confirmed that they have complied with the requirements under the Model Code during 2005.

On 21st April, 2006, the Code for Securities Transactions by the Management was approved at the 5th Board Meeting of the 3rd Session of the Board of Directors. The relevant requirements relating to the securities transactions under the PRC domestic laws, regulations and governance requirements are included in the Code for Securities Transactions by the Management which is drafted based on the Model Code. Accordingly, the Code for Securities Transactions by the Management is stricter than the Model Code.

CORPORATE GOVERNANCE REPORT (Cont'd)

BOARD OF DIRECTORS

The Board comprises thirteen Directors including four independent non-executive Directors. The names and positions of the Directors are described in the paragraph headed "Shareholding of Directors, Supervisors and Senior Management of the Company" of the section headed "Report of Directors" in this Annual Report.

The Board is mainly responsible for the decision-making of the Company and the supervision of operations of the Company and the management. The Board primarily has the powers to decide on the operation plans and investment policy, to formulate the policy for financial depository and clearing and the policy for the allocation of profits, to develop and review the internal controls system, and to confirm the management organization and the basic management system of the Company etc. The duties and powers of the Board and the management have been set out in the Articles of Association in detail.

According to the Articles of Association and the Rules of Procedure for the Board, all the Directors are entitled to include any matters in the agenda for Board meetings; the Company shall deliver a notice of the ordinary Board meeting or extraordinary Board meeting to the Directors 14 days before the ordinary Board meeting or 3 days before the extraordinary Board meeting; and the agenda and information for discussion have to be circulated to the Directors for their review 5 days before the meeting or 3 days before the extraordinary Board meeting. Draft and final versions of minutes of board meetings should be sent to all Directors for their comments and records respectively, in both cases within a reasonable time after the Board meeting is held. Any of the Directors are entitled to inspect the recorded minutes of Board meetings at any reasonable time.

The Company has set up a Special Secretary Department of the Board, through which all Directors are able to access the services of the Board secretary. The Board is entitled to resolve to seek independent professional advice in appropriate circumstances, at the Company's expense. When the Board considers any connected transaction, the interested Director shall abstain from the voting for such transaction.

As at 31st December, 2005, six board meetings were held in the year, all Directors attended the meetings in person or by means of electronic communication, representing 100% attendance of the Board.

The Company has received an annual confirmation provided by each of the independent non-executive Directors concerning his independence pursuant to Rule 3.13 of the Listing Rules. The Company confirms that it considers all of the four independent non-executive Directors are independent.

Except for the work relationship, there are no other relations such as financial, business, family relationships etc. between the Directors, Supervisors and senior management.

The Directors are responsible for preparing the financial accounts of the Company for the relevant accounting period of the Company, to reflect the Company's financial situation, operating results and cash flows truly and fairly.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Wang Xin serves as the Chairman of the Company, and Mr. Yang Deyu is the General Manager. The authorities and responsibilities between the Chairman and the General Manager are clearly divided. Details of such authorities and responsibilities of the Chairman and the General Manager are set out in the Articles of Association.

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

Each of the non-executive Directors has entered into a service contract with the Company. Pursuant to the Company's Articles of Association, the term of appointment of the members of the Board (including the non-executive Directors) is three years. The members of the Board can be reappointed consecutively after expiry of the term. However, the term of reappointment of independent non-executive Directors cannot exceed six years.

REMUNERATION OF DIRECTORS

As approved at the 1st board meeting of the 3rd Session of the Board held on 28th June, 2005, the Company set up the Remuneration Committee of the 3rd Session of the Board (the "Remuneration Committee") which comprises two independent non-executive directors Mr. Wang Quanxi and Mr. Wang Xiaojun, and one non-executive Director Mr. Dong Yunqing. Mr. Wang Quangxi serves as the Chairman of the Remuneration Committee.

The Remuneration Committee is mainly responsible for formulating the remuneration policy for the Directors, Supervisors and the senior management, and recommendations to the Board the remuneration plans for the Directors, Supervisors and the senior management. The details of the responsibilities of the Remuneration Committee are disclosed on the Company's website.

As approved by all the members of the Remuneration Committee, the relevant proposals regarding remuneration of the Directors, Supervisors and senior management for the year 2006 were submitted by the Compensation Committee to the 5th Board meeting of the 3rd Session of the Board held on 21th April, 2006. Such proposals were considered and approved by the Board.

The remuneration policy, remuneration calculation and payment methods of the Directors, Supervisors and senior management have been included in the paragraph headed "Remuneration Policy" under the section headed "Report of Directors" in this Annual Report. The remunerations of the Directors, supervisors and Senior Management have been included in the note 14 to the financial statement of this Annual Report which was prepared in accordance with the International Financial Reporting Standards.

NOMINATION OF DIRECTORS

The Company has not set up a Nomination Committee of the Board.

The Company has set up and has been strictly implementing the transparent and fair nomination and election procedures for the Directors. Pursuant to the Articles of Association, the candidates for directorship are generally proposed to the shareholders' meeting by the Board by way of a resolution. The Shareholders and the Supervisory Committee may nominate the candidate/s for directorship in accordance with the requirements under the Articles of Association.

During this reporting period, the members of the 3rd Session of the Board were elected. Details relating to the election of the Directors are set out in the paragraph headed "Appointment of New Directors and Supervisors" under the section headed "Disclosure of Significant Events" in this Annual Report.

CORPORATE GOVERNANCE REPORT (Cont'd)

AUDITORS' REMUNERATION

For the year 2005, the Company has retained Deloitte Touche Tohmatsu (Certified Public Accountants in Hong Kong) and Deloitte Touche Tohmatsu Certified Public Accountants Ltd. (Certified Public Accountants in the PRC (excluding Hong Kong)) as its international and domestic auditors, respectively.

In 2005, the Company has paid an annual financial audit and review fee of HKD7 million and a financial audit fees of RMB0.42 million relating to the acquisition by the Company of an equity interest in Heze Nenghua.

Save as disclosed above, the auditors did not provide any other non-auditing services to the Company in 2005.

The auditors of the Company have not been changed in the last three years. Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants Ltd. have been the Company's international and domestic auditors for nine years consecutively. There was no registered accountant of Deloitte Touche Tohmatsu Certified Public Accountants Ltd. providing audit services to the Company for more than five years.

A resolution to reappoint Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants Ltd. as the Company's international and domestic auditors, respectively, for the year 2006 will be proposed at the forthcoming 2005 AGM.

AUDIT COMMITTEE

The Company set up the Audit Committee of the 2nd Session of the Board in October 2002. The Audit Committee comprises three independent non-executive Directors, namely Mr. Cui Jianmin (being the Chairman of the Audit Committee), Mr. Fan Weitang and Mr. Wang Xiaojun, and two non-executive Directors, namely Mr. Wang Bangjun and Mr. Dong Yunqing.

As approved at the first Board meeting of the 3rd Session of the Board held on 28th June 2005, the Company set up the Audit Committee of the 3rd Board (the "Audit Committee"). The Audit Committee comprises four independent non-executive Directors, namely Mr. Cui Jianmin (the Chairman of the Audit Committee of the Board), Mr. Pu Hongjiu, Mr. Wang Xiaojun and Mr. Wang Quanxi, and two non-executive Directors, namely Mr. Chen Changchun and Mr. Dong Yunqing.

The Audit Committee is mainly responsible for proposing the appointment or replacement of the external audit agencies; reviewing the accounting policies of the Company, the disclosure of the financial information and the procedures for preparing financial reports; and reviewing the internal control system and risk management system of the Company. The details of the responsibilities of the Audit Committee have been disclosed on the Company's website.

CORPORATE GOVERNANCE REPORT (Cont'd)

4 meetings were held by the Audit Committee in the year 2005, details of the meeting are as follows:

Date	Main Topics	Member	Attendance
22nd April	Review the results of the Company for the year 2004; discuss the reappointment of the auditors and their remunerations for the year 2005; debrief the auditors' report on financial report.	Cui Jianmin, Fan Weitang, Wang Xiaojun, Wang Bangjun, Dong Yunqing	√ √ √ √
20th June	Discuss the audit service fees to be paid to the auditors for the case of the Company's acquisition of the equity interest of Heze Nenghua.	Cui Jianmin, Fan Weitang, Wang Xiaojun, Wang Bangjun, Dong Yunqing	√ √ √ √ √
21st July	Discuss the amendments to the Rules for the Organization and Work of the Audit Committee of the Board of Yanzhou Coal Mining Company Limited pursuant to the corporate governance requirements of the United States.	Cui Jianmin, Pu Hongjiu, Wang Xiaojun, Wang Quanxi, Chen Changchun, Dong Yunqing	√ √ √ √ √ √
18th August	Review the interim results of the Company for the year 2005; debrief the auditors' report on the financial report.	Cui Jianmin, Pu Hongjiu, Wang Xiaojun, Wang Quanxi, Chen Changchun, Dong Yunqing	√ √ √ √ √ √

The Audit Committee of the Board has reviewed the results of the Company for the year 2005.

INTERNAL CONTROLS

The Board and the management pay much attention to the set up and improvement of the internal control system. The Company has preliminarily set up an internal supervisory and control system on the basis of normalizing the system structure and exploiting the professional advantages of the internal organization.

Since 2005 the Company has commenced setting up a uniform internal supervisory and evaluation system and a business procedure control system in respect of the finance control, business operation, corporate compliance, risk management, etc. pursuant to the listing requirements of the United States, Hong Kong and the PRC.

The Company is expected to complete the review and evaluation of the internal control system in the second half of 2006, and realize the effective operation of the internal control system.

CORPORATE GOVERNANCE REPORT (Cont'd)

INVESTOR RELATIONS

The Company has drafted the Rules for the Management of Investors' Relationship and the Rules for Disclosure of Information to govern the management of investor relations pursuant to the laws and supervisory regulations of both the domestic and other stock listing places, and taking into account day-to-day business practices.

The Company has set up a normative and effective control procedure for the collection, reorganization, examination and approval, disclosure and feedback of information to ensure that the disclosure of information is in compliance with the governance requirements of the stock listing places and meet the investors' needs to a reasonable access to the Company's information. The Company takes an active initiative to consider the needs of investors and strives to enable investors to draw the conclusions by themselves based on the disclosed information.

The Company insists on making at least two international road-shows each year. By face to face meetings the Company reports to investors its business operation while collecting opinions and suggestions in relation to the Company from the investors and the market.

The Company pays much attention to the communication with shareholders through Shareholders' meetings, and encourages the medium and small shareholders to attend Shareholders' meetings by various means including voting on the internet. The Chairman and the Vice Chairman of the Board, the General Manager, the Chairman and the Vice Chairman of the Supervisory Committee, the relevant Directors and Supervisors generally attend the Shareholders' meetings. At the Shareholders' meetings, each individual resolution is proposed separately, all the resolutions are voted by poll.

COMPLIANCE OF AND EXEMPTION FROM CORPORATE GOVERNANCE STANDARDS IMPOSED BY THE NEW YORK STOCK EXCHANGE

As at the date of this Annual Report, 52.86% of the Company's shareholding is owned by the Parent Company. The Company is therefore exempted from certain requirements under Section 303A of Listed Company Manual of the New York Stock Exchange [the "NYSE"]: (i) the Company is not required to comply with the requirements under Section 303A.01 to form a Board with a majority of independent directors, (ii) the Company is not required to comply with the requirements under Section 303A.04 to form a nomination and corporate governance committee of the Board with all the members being independent directors, and (iii) the Company is not required to comply with the requirements under Section 303A.05 to form a remuneration committee of the Board with all the members being independent directors.

CORPORATE GOVERNANCE REPORT (Cont'd)

As a foreign issuer, the Company sets out below the material differences between its corporate governance practices and the NYSE's corporate governance requirements contained in Section 303A of the Listed Company Manual of the NYSE:

	NYSE Listed Company Manual Requirements on Corporate Governance	Differences from the corporate governance practices currently adopted by the Company
Meetings held by non-executive directors	Section 303A.03 of the NYSE Listed Company Manual requires non-executive directors of each listed company to meet regularly without the participation of executive directors at such meetings.	There is no identical corporate governance requirement in the PRC. The Company has established a reporting system to the Board of Directors to ensure that the Directors are kept informed of the Company's business and operations. The Company believes that the convention of Board meetings on a regularly basis offers the non-executive Directors a well-established communication forum to put their concerns and engage in full and open discussions regarding the Company's affairs.
Corporate Governance Guidelines	<p>Section 303A.09 of the NYSE Listed Company Manual requires that a listed company must adopt and disclose corporate governance guidelines. In addition, Section 303A.09 lists out the matters that must be addressed in the guidelines which mainly include:</p> <ul style="list-style-type: none"> • qualifications of the directors; • responsibilities and obligations of the director; • Communications between the director and the management and independent advisors; • Remuneration of the director; • orientation and continuing education of the director; • reappointment of the management ; and • annual review of the performance of the board. 	Although the Company has not adopted a separate set of corporate governance guidelines encompassing all corporate governance requirements required by the NYSE, the Company has however, formulated (i) the Rules of Procedures for the Shareholders' Meeting, the Rules of Procedures for the Board, the Rules of Procedures for the Supervisory Committee, the Rules for the Work of the Independent Non-Executive Directors, the Rules for Disclosure of Information, the Rules for the Approval and the Disclosure of the Connected Transactions of the Company and other corporate governance documentation. The above corporate governance documentation has adequately addressed the corporate governance requirements required by the NYSE and provides more extensive and specific corporate governance requirements that can further facilitate the operation of the Company effectively.
Code of Business Conduct and Ethics	Section 303A.10 of the NYSE Listed Company Manual requires that a listed company must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.	Although the Company has not adopted a Code of Business Conduct and Ethics which completely conforms with the NYSE requirements, the Company has adopted a suitable Code of Ethics in compliance with the PRC laws and regulations as well as the rules of the relevant listing stock exchanges. The Code of Business Conduct and Ethics is disclosed on the Company's website. The Company believes that the existing Code of Ethics can appropriately protect the interests of both the Company and its Shareholders.

CORPORATE GOVERNANCE REPORT (Cont'd)

	NYSE Listed Company Manual Requirements on Corporate Governance	Differences from the corporate governance practices currently adopted by the Company
Code of Business Conduct and Ethics	<p>In addition, Section 303A.10 lists out topics that must be addressed in the a code of business conduct and ethics:</p> <ul style="list-style-type: none">• Conflicts of Interest• Corporate Opportunities;• Confidentiality;• Fair dealing;• Protection and proper use of company assets• Compliance with laws, rules and regulations (including insider trading laws)• Encouraging the reporting of any illegal or unethical behavior.	

REPORT OF THE AUDITORS

Deloitte. 德勤

TO THE SHAREHOLDERS OF YANZHOU COAL MINING COMPANY LIMITED

兖州煤業股份有限公司

(A joint stock company with limited liability established in the People's Republic of China)

We have audited the financial statements on pages 48 to 105 which have been prepared in accordance with International Financial Reporting Standards.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Group as at December 31, 2005 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

April 21, 2006

CONSOLIDATED STATEMENT OF INCOME

				Year ended December 31,		
	NOTES	2005 RMB'000	2004 RMB'000	2003 RMB'000		
RAILWAY TRANSPORTATION						
SERVICE INCOME		163,437	220,771	154,585		
GROSS SALES OF COAL	7	12,283,588	11,757,052	8,386,629		
		12,447,025	11,977,823	8,541,214		
TRANSPORTATION COSTS OF COAL	7	(930,103)	(1,402,715)	(1,592,294)		
COST OF SALES AND SERVICE PROVIDED	8	(5,288,588)	(4,551,703)	(3,755,023)		
GROSS PROFIT		6,228,334	6,023,405	3,193,897		
SELLING, GENERAL AND						
ADMINISTRATIVE EXPENSES	9	(1,918,788)	(1,479,863)	(1,264,858)		
OTHER INCOME	10	135,038	165,732	105,845		
INTEREST EXPENSE	11	(24,611)	(35,942)	(59,966)		
INCOME BEFORE INCOME TAXES		4,419,973	4,673,332	1,974,918		
INCOME TAXES	12	(1,538,036)	(1,518,762)	(587,710)		
INCOME FOR THE YEAR	13	2,881,937	3,154,570	1,387,208		
Attributable to:						
Equity holders of the Company		2,881,461	3,154,317	1,386,686		
Minority interest		476	253	522		
		2,881,937	3,154,570	1,387,208		
APPROPRIATIONS TO RESERVES		755,530	737,782	425,566		
DIVIDEND	15	799,240	470,680	298,480		
EARNINGS PER SHARE, BASIC	16	RMB0.59	RMB0.66	RMB0.30		
EARNINGS PER ADS, BASIC	16	RMB29.29	RMB33.25	RMB15.10		

CONSOLIDATED BALANCE SHEET

		At December 31,	
	NOTES	2005 RMB'000	2004 RMB'000
ASSETS			
CURRENT ASSETS			
Bank balances and cash		5,885,581	5,216,738
Term deposits	17	1,326,335	–
Restricted cash	17	30,505	24,877
Bills and accounts receivable	18	2,224,836	1,223,788
Inventories	19	470,501	485,429
Other loans receivable	20	640,000	850,000
Amounts due from Parent Company and its subsidiary companies	39	–	213,871
Prepayments and other current assets	21	202,417	188,296
Prepaid lease payments	23	13,465	13,171
Prepayment for land subsidence, restoration, rehabilitation and environmental costs	33	157,511	103,407
TOTAL CURRENT ASSETS		10,951,151	8,319,577
MINING RIGHTS	22	153,265	138,617
PREPAID LEASE PAYMENTS	23	579,773	578,547
PROPERTY, PLANT AND EQUIPMENT, NET	24	9,318,486	8,537,150
GOODWILL	25	153,037	117,392
NEGATIVE GOODWILL	26	–	(27,621)
INVESTMENTS IN SECURITIES	28	62,181	62,181
RESTRICTED CASH	17	36,551	36,854
DEPOSIT MADE ON INVESTMENT	29	–	574,000
TOTAL ASSETS		21,254,444	18,336,697

CONSOLIDATED BALANCE SHEET (Cont'd)

		At December 31,	
	NOTES	2005 RMB'000	2004 RMB'000
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Bills and accounts payable	31	497,660	478,281
Other payables and accrued expenses	32	1,575,869	1,337,565
Amounts due to Parent Company and its subsidiary companies	39	508,254	–
Unsecured bank borrowing – due within one year	34	200,000	200,000
Taxes payable		647,247	529,265
TOTAL CURRENT LIABILITIES		3,429,030	2,545,111
AMOUNTS DUE TO PARENT COMPANY AND ITS SUBSIDIARY COMPANIES – DUE AFTER ONE YEAR	39	31,827	41,057
UNSECURED BANK BORROWING – DUE AFTER ONE YEAR	34	–	200,000
DEFERRED TAX LIABILITY	30	146,279	23,104
TOTAL LIABILITIES		3,607,136	2,809,272
COMMITMENTS	40		
CAPITAL AND RESERVES			
SHARE CAPITAL	35	4,918,400	3,074,000
RESERVES		12,700,177	12,449,751
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		17,618,577	15,523,751
MINORITY INTEREST		28,731	3,674
TOTAL EQUITY		17,647,308	15,527,425
TOTAL LIABILITIES AND EQUITY		21,254,444	18,336,697

The financial statements on pages 48 to 105 were approved and authorized for issue by the Board of Directors on April 21, 2006 and are signed on its behalf by:

Yang Deyu
Director

Wu Yuxiang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital RMB'000	Share premium RMB'000	Future development fund RMB'000 (note)	Statutory common reserve fund RMB'000 (note 35)	Statutory common welfare fund RMB'000 (note 35)	Translation reserve RMB'000	Retained earnings RMB'000	Attributable to equity holders of the Company RMB'000	Minority interest RMB'000	Total RMB'000
Balance at January 1, 2003	2,870,000	3,272,527	855,237	388,201	194,141	-	2,414,927	9,995,033	4,937	9,999,970
Net income and total recognized income and expenses for the year	-	-	-	-	-	-	1,386,686	1,386,686	522	1,387,208
Appropriations to reserves	-	-	259,674	110,580	55,312	-	(425,566)	-	-	-
Dividends	-	-	-	-	-	-	(298,480)	(298,480)	(1,765)	(300,245)
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	46	46
Balance at December 31, 2003	<u>2,870,000</u>	<u>3,272,527</u>	<u>1,114,911</u>	<u>498,781</u>	<u>249,453</u>	<u>-</u>	<u>3,077,567</u>	<u>11,083,239</u>	<u>3,740</u>	<u>11,086,979</u>
Balance at January 1, 2004	2,870,000	3,272,527	1,114,911	498,781	249,453	-	3,077,567	11,083,239	3,740	11,086,979
Net income and total recognized income and expenses for the year	-	-	-	-	-	-	3,154,317	3,154,317	253	3,154,570
Appropriations to reserves	-	-	331,548	270,812	135,422	-	(737,782)	-	-	-
Dividends	-	-	-	-	-	-	(470,680)	(470,680)	(319)	(470,999)
Share issued at premium	204,000	1,591,977	-	-	-	-	-	1,795,977	-	1,795,977
Share issue expenses	-	(39,102)	-	-	-	-	-	(39,102)	-	(39,102)
Balance at December 31, 2004	<u>3,074,000</u>	<u>4,825,402</u>	<u>1,446,459</u>	<u>769,593</u>	<u>384,875</u>	<u>-</u>	<u>5,023,422</u>	<u>15,523,751</u>	<u>3,674</u>	<u>15,527,425</u>
Balance at January 1, 2005	3,074,000	4,825,402	1,446,459	769,593	384,875	-	5,023,422	15,523,751	3,674	15,527,425
Effect of change in accounting policy	-	-	-	-	-	-	27,621	27,621	-	27,621
As restated	3,074,000	4,825,402	1,446,459	769,593	384,875	-	5,051,043	15,551,372	3,674	15,555,046
Exchange difference arising on translation of foreign operations recognized directly in equity	-	-	-	-	-	(15,016)	-	(15,016)	-	(15,016)
Net income	-	-	-	-	-	-	2,881,461	2,881,461	476	2,881,937
Total recognized income and expenses for the year	-	-	-	-	-	(15,016)	2,881,461	2,866,445	476	2,866,921
Appropriations to reserves	-	-	381,208	249,548	124,774	-	(755,530)	-	-	-
Bonus issue of shares	1,844,400	(1,844,400)	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	(799,240)	(799,240)	(237)	(799,477)
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	24,818	24,818
Balance at December 31, 2005	<u>4,918,400</u>	<u>2,981,002</u>	<u>1,827,667</u>	<u>1,019,141</u>	<u>509,649</u>	<u>(15,016)</u>	<u>6,377,734</u>	<u>17,618,577</u>	<u>28,731</u>	<u>17,647,308</u>

Note:

According to a clarification of the relevant regulations obtained from the Ministry of Finance during the year 2002, the Company is required to transfer annually an amount to the future development fund at RMB6 per tonne of raw coal mined. The fund can only be used for the future development of the coal mining business and is not available for distribution to shareholders.

Pursuant to the relevant regulations of the Shandong Province Finance Bureau, State-owned Assets Supervision and Administration Commission of Shandong Province and Shandong Province Coal Mining Industrial Bureau, the Company is required to transfer an additional amount at RMB5 per tonne of raw coal mined from July 1, 2004 to the future development fund for the future improvement of the mining facilities and is not distributable to shareholders.

CONSOLIDATED STATEMENT OF CASH FLOWS

	NOTES	Year ended December 31,		
		2005 RMB'000	2004 RMB'000	2003 RMB'000
OPERATING ACTIVITIES				
Income for the year		2,881,937	3,154,570	1,387,208
Adjustments to reconcile income for the year to net cash from operating activities:				
Depreciation of property, plant and equipment		952,096	958,667	920,533
Amortization of prepaid lease		13,171	13,194	13,294
Amortization of goodwill		–	15,773	9,657
Release of negative goodwill to income		–	(27,620)	(27,620)
Amortization of mining rights		6,624	6,624	6,624
Recognition (utilization) of deferred tax asset		44,436	44,436	(65)
Recognition of deferred tax liability		78,739	67,540	–
Impairment loss on accounts receivables		–	49,104	80,272
Loss (gain) on disposal of property, plant and equipment		527	104,597	(6,872)
Gain on disposal of investments in securities		–	–	(1,424)
(Increase) decrease in assets:				
Bills and accounts receivable		(1,001,048)	(10,437)	(506,885)
Inventories		59,989	27,129	93,153
Prepayment for land subsidence, restoration, rehabilitation and environmental cost		(53,377)	–	–
Prepayments and other current assets		(17,261)	324,273	224,674
Amounts due from Parent Company and its subsidiary companies		213,871	(213,871)	–
Prepaid lease payment		(14,691)	–	–
Increase (decrease) in liabilities:				
Bills and accounts payable		19,379	50,673	(175,117)
Other payables and accrued expenses		157,833	(13,333)	569,651
Provision for land subsidence, restoration, rehabilitation and environmental costs		–	(178,361)	(2,194)
Amounts due to Parent Company and its subsidiary companies		479,067	(368,939)	58,794
Taxes payable		117,982	414,362	57,553
NET CASH FROM OPERATING ACTIVITIES		3,939,274	4,418,381	2,701,236

CONSOLIDATED STATEMENT OF CASH FLOWS (Cont'd)

	NOTES	Year ended December 31,		
		2005 RMB'000	2004 RMB'000	2003 RMB'000
INVESTING ACTIVITIES				
Increase in term deposits		(1,326,335)	–	–
Purchase of property, plant and equipment		(1,315,431)	(743,022)	(1,317,856)
Decrease (increase) in other loans receivable		210,000	(750,000)	(100,000)
Acquisition of Heze	36	170,247	(574,000)	–
(Increase) decrease in restricted cash		(5,325)	(44,210)	34,240
Proceeds on disposal of property, plant and equipment		4,378	17,009	34,399
Acquisition of Southland	37	–	(136,302)	–
Acquisition of Yanmei Shipping	38	–	–	(11,186)
Proceeds on disposal of investments in securities		–	–	90,126
Acquisition of Railway Assets		–	(40,000)	(40,000)
Acquisition of investment in securities		–	(30,283)	–
NET CASH FLOW USED IN INVESTING ACTIVITIES		(2,262,466)	(2,300,808)	(1,310,277)
FINANCING ACTIVITIES				
Dividend paid		(799,240)	(470,680)	(298,480)
Repayments of bank borrowings		(200,000)	(200,000)	(600,000)
Repayment to Parent Company and its subsidiary companies in respect of consideration for acquisition of Jining III		(9,802)	(10,483)	(11,115)
Dividend paid to a minority shareholder of a subsidiary		(237)	(319)	(1,765)
Issues of shares, net of share issue expenses		–	1,756,875	–
NET CASH FLOW FROM (USED IN) FINANCING ACTIVITIES		(1,009,279)	1,075,393	(911,360)
NET INCREASE IN CASH AND CASH EQUIVALENTS		667,529	3,192,966	479,599
CASH AND CASH EQUIVALENTS, BEGINNING		5,216,738	2,023,772	1,544,173
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		1,314	–	–
CASH AND CASH EQUIVALENTS, ENDING, REPRESENTED BY BANK BALANCES AND CASH		5,885,581	5,216,738	2,023,772
Additional cash flow information:				
Cash paid during the year for				
Interest		24,199	34,157	56,838
Income taxes		1,296,879	992,424	530,222

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL

Organisation and principal activities

Yanzhou Coal Mining Company Limited (the “Company”) is established as a joint stock company with limited liability in the People’s Republic of China (the “PRC”). The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The Company operates six coal mines, namely the Xinglongzhuang coal mine, Baodian coal mine, Nantun coal mine, Dongtan coal mine, Jining II coal mine (“Jining II”) and Jining III coal mine (“Jining III”) as well as a regional railway network that links these mines with the national railway grid. These six coal mines and the railway were originally divisions of the Company’s ultimate holding company, Yankuang Group Corporation Limited (the “Parent Company”), a state-owned enterprise in the PRC. The Parent Company contributed the assets and liabilities of the Xinglongzhuang coal mine, Baodian coal mine, Nantun coal mine and Dongtan coal mine into the Company upon its formation.

The Company acquired from the Parent Company Jining II, Jining III and the assets of the special purpose coal railway transportation business (“Railway Assets”) in 1998, 2001 and 2002, respectively.

In April 2001, the status of the Company was changed to that of a sino-foreign joint stock limited company.

The Company’s A shares are listed on the Shanghai Securities Exchange (“SSE”), its H shares are listed on The Stock Exchange of Hong Kong (the “SEHK”), and its American Depositary Shares (“ADS”, one ADS represents 50 H shares) are listed on the New York Stock Exchange, Inc.

Acquisition and establishment of subsidiaries

At December 31, 2003, the Company acquired a 92% interest in the registered capital of Shandong Yanmei Shipping Co., Ltd. (formerly known as Zoucheng Nanmei Shipping Co., Ltd.) (“Yanmei Shipping”) for a cash consideration of RMB11,692,000. Yanmei Shipping is a limited liability company established and operated in the PRC and is principally engaged in the transportation business via rivers and lakes and sale of coal and construction materials.

In 2004, the Company established Yanzhou Coal Yulin Power Chemical Co., Ltd. (“Yulin”), a 97% owned subsidiary, for the future development of the methanol projects of the Group in the Shaanxi Province in the PRC.

In 2004, the Company acquired the entire interest in the Southland coal mine located in New South Wales of Australia (“Southland”) from independent third parties at an aggregate cash consideration of AUD28,000,000 (equivalent to RMB187,312,000). See note 37 for further details. The Company has also established two wholly-owned subsidiaries in Australia, namely Yancoal Australia Pty Limited (“Yancoal”) and Austar Coal Mine Pty Limited (“Austar”), in 2004 for the Group’s future operations in Southland.

In 2005, the Company acquired a 95.67% equity interest in Yankuang Heze Power Chemical Company Limited (“Heze”) from the Parent Company at cash consideration of RMB584,008,000. See note 36 for further details. The principal activities of Heze are to conduct the initial preparation of the coal mines at the Juye coalfield which includes obtaining the approvals for the coal mine projects, applying rights to explore for coal and preparing the construction work of the coal mines. At December 31, 2005, Heze has commenced construction works for the Zhaolou coal mine and it has no significant impact on the Group’s results for the year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2. BASIS OF PRESENTATION

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The Company also prepares a set of financial statements in accordance with the relevant accounting principles and regulations applicable to PRC enterprises (“PRC GAAP”).

The financial statements reflect additional disclosures to conform with the disclosure requirements of the Hong Kong Companies Ordinance.

The presentation currency of the Group is Renminbi, which is same as the functional currency of the Group.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (the “IASB”) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on January 1, 2005. The adoption of these new and revised standards and interpretations has resulted in changes to the Group’s accounting policies in the following areas that have affected the amounts reported for the current or prior periods:

- goodwill (IFRS 3); and
- excess of acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost of acquisition (previously known as negative goodwill) (IFRS 3).

The impact of these changes in accounting policies is discussed in detail later in this note. The impact on basic earnings per share is disclosed in note 16.

At the date of authorization of these financial statements, the following standards and interpretations were in issue but not yet effective:

IAS 1 (Amendment)	Presentation of Financial Statements Added disclosures about an entity’s capital ¹
IAS 19 (Amendment)	Employee Benefits ²
IAS 39 (Amendment)	Financial Instruments: Recognition and Measurement Amendment for hedges of forecast intragroup transactions ²
IAS 39 (Amendment)	Financial Instruments: Recognition and Measurement Amendment for fair value option ²
IAS 39 (Amendment) & IFRS 4	Financial Instruments: Recognition and Measurement Amendment for financial guarantee contracts ²
IFRS 6	Exploration for and Evaluation of Mineral Assets ²
IFRS 7	Financial Instruments: Disclosures ¹
IFRIC 4	Determining whether an Arrangement Contains a Lease ²
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds ²
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment ³
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies ⁴
IFRIC 8	Scope of IFRS 2 ⁵
IFRIC 9	Reassessment of Embedded Derivatives ⁶

¹ Effective for annual periods beginning on or after January 1, 2007.

² Effective for annual periods beginning on or after January 1, 2006.

³ Effective for annual periods beginning on or after December 1, 2005.

⁴ Effective for annual periods beginning on or after March 1, 2006.

⁵ Effective for annual periods beginning on or after May 1, 2006.

⁶ Effective for annual periods beginning on or after June 1, 2006.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

The directors are evaluating the impact of the adoption of these standards and interpretations but have not yet determined the effect on the adoption on its financial position and results of operations.

IFRS 3, “Business Combinations”

Goodwill

IFRS 3 “Business Combinations” has been adopted for business combinations for which the agreement date is on or after March 31, 2004. The option of limited retrospective application of the Standard has not been taken up, thus avoiding the need to restate past business combinations. The principal impact of the new standard on the accounting for that transaction has been the recognition of contingent liabilities that would not have been recognized separately from goodwill under the predecessor Standard, IAS 22. The recognition of these liabilities has had no material impact on the results for the year.

After initial recognition, IFRS 3 requires goodwill acquired in a business combination to be carried at cost less any accumulated impairment losses. Under IAS 36 “Impairment of Assets” (as revised in 2004), impairment reviews are required annually, or more frequently if there are indications that goodwill might be impaired. IFRS 3 prohibits the amortization of goodwill. Previously, under IAS 22, the Group carried goodwill in its balance sheet at cost less accumulated amortization and accumulated impairment losses. Amortization was charged over the estimated useful life of the goodwill, subject to the rebuttable presumption that the maximum useful life of goodwill was 20 years.

In accordance with the transitional rules of IFRS 3, the Group has applied the revised accounting policy for goodwill prospectively from the beginning of its first annual period beginning on or after March 31, 2004, i.e. January 1, 2005, to goodwill acquired in business combinations for which the agreement date was before March 31, 2004. Therefore, from January 1, 2005, the Group has discontinued amortizing such goodwill and has tested the goodwill for impairment in accordance with IAS 36. At January 1, 2005, the carrying amount of amortization accumulated before that date of RMB29.3 million has been eliminated, with a corresponding decrease in the cost of goodwill.

Because the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for the year ended December 31, 2004 or prior periods. No amortization has been charged in the current year. Under the previous accounting policy, RMB15.8 million would have been charged to income statement during the year ended December 31, 2005, leaving a balance of goodwill of RMB137.2 million at December 31, 2005.

No impairment loss has been recognized in the current period in accordance with IAS 36.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 3, "Business Combinations" (Continued)

Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as negative goodwill)

IFRS 3 requires that, after reassessment, any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination should be recognized immediately in profit or loss. IFRS 3 prohibits the recognition of negative goodwill in the balance sheet.

Previously, under IAS 22 (superseded by IFRS 3), the Group released negative goodwill to income over a number of accounting periods, based on an analysis of the circumstances from which the balance resulted. Negative goodwill was reported as a deduction from assets in the balance sheet.

In accordance with the transitional rules of IFRS 3, the Group has applied the revised accounting policy prospectively from January 1, 2005. Therefore, the change has had no impact on amounts reported for the year ended December 31, 2004 or prior periods.

The carrying amount of negative goodwill at January 1, 2005 has been derecognized at the transition date. Therefore, an adjustment of RMB27.6 million is made to opening retained earnings and negative goodwill at January 1, 2005.

Under the previous accounting policy, RMB27.6 million of negative goodwill would have been released to income during the year ended December 31, 2005, leaving zero balance of negative goodwill at December 31, 2005. Therefore, the impact of the change in accounting policy in 2005 is a reduction in other operating income of RMB27.6 million and no financial impact on net assets at December 31, 2005.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments which are stated at fair value. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods and services provided in the normal courses of business, net of discounts and sales related taxes.

Sales of goods are recognized when goods are delivered and title has passed.

Service income is recognized when services are provided.

Interest income from a financial asset accrued on a time basis by reference to the principal outstanding and at the interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

Dividend from investments is recognized when the shareholders' rights to receive payments have been established,

Mining rights

Mining rights of Jining III and Southland are stated at cost less accumulated amortization and are amortized on a straight line basis over the shorter of their useful lives estimated based on the total proven and probable reserves of the coal mine or contractual period from the date of commencement of commercial production.

Prepaid lease payments

Prepaid lease payments represents land use rights which are stated at cost less accumulated amortization and identified impairment losses.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged so as to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method or units of production method.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Construction in progress is stated at cost less any identified impairment loss. Cost comprises construction expenditure and other direct costs attributable to such projects, including borrowing costs, if the amount of capital expenditures and the time involved to complete the construction are significant. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policies.

Assets under construction are not depreciated until they are completed and put into commercial operation.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

Impairment other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition. Goodwill is initially recognized as an asset and is subsequently measured at cost less any accumulated impairment losses. Any impairment is recognized immediately in income statement and is not subsequently reversed.

For previously capitalized goodwill arising on acquisitions after January 1, 2001, the Group has discontinued amortization from January 1, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually and whenever there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

Goodwill arising on the acquisition of a subsidiary is presented separately in the balance sheet.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

Inventories

Inventories of coal are physically measured and are stated at the lower of cost and net realizable value. Cost, which comprises direct materials and, where applicable, direct labor and overheads that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realizable value represents the estimated selling price less all further costs to completion and costs to be incurred in selling, marketing and distribution.

Inventories of auxiliary materials, spare parts and small tools expected to be used in production are stated at weighted average cost less allowance, if necessary, for obsolescence.

Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes (Continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Research and development

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognized only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortized on a straight line basis over its useful life.

Where no internally-generated intangible asset can be recognized, development expenditure is recognized as an expense in the period in which it is incurred.

No development expenditure has been deferred.

Land subsidence, restoration, rehabilitation and environmental costs

One consequence of coal mining is land subsidence caused by the resettlement of the land above the underground mining sites. Depending on the circumstances, the Group may relocate inhabitants from the land above the underground mining sites prior to mining those sites or the Group may compensate the inhabitants for losses or damages from land subsidence after the underground sites have been mined. The Group may also be required to make payments for restoration, rehabilitation or environmental protection of the land after the underground sites have been mined.

An estimate of such costs is recognized in the period in which the obligation is identified and is charged as an expense in proportion to the coal extracted.

Capitalization of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowings costs are recognized as in profit or loss in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Renminbi) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Government grants

Government grants are recognized as income over the periods necessary to match them with the related costs. If the grants do not relate to any specific expenditures incurred by the Group, they are reported separately as other operating income. If the grants subsidise an expense incurred by the Group, they are deducted in reporting the related expense. Grants relating to depreciable assets are presented as a deduction from the cost of the relevant asset.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as expenses as they fall due.

Financial instruments

Financial assets and financial liabilities are recognized on the balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Loan and receivables

Loan and receivables (including bills and accounts receivables, other loan receivable) are subsequently measured at amortized cost using the effective interest rate method. An impairment loss for estimated irrecoverable amounts are recognized in profit or loss when there is objective evidence that the asset is impaired. The impairment loss recognized is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Investments

Investments are recognized and derecognized on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period. Available-for sale equity investments that do not have quoted market prices in an active market and those fair value can not be reliably measured are measured at cost less impairment after initial recognition. Impairment losses recognized in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized over the term of the borrowings.

Bills and accounts payable, other payables and accrued expenses and amounts due to Parent Company and its subsidiary companies

Bills and accounts payable, other payables and accrued expenses and amounts due to Parent Company and its subsidiary companies are subsequently measured at amortized cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 4, management has made the following judgments that have the most significant effect on the amounts recognized in the financial statements.

Depreciation

The cost of mining structures is depreciated using the units of production method based on the estimated production volume for which the structure was designed. The management exercises their judgment in estimating the useful lives of the depreciable assets and the production volume of the mine.

Mining rights

Mining rights are amortized on a straight line basis over the shorter of the contractual period and their useful lives estimated based on the total proven and probable reserves of coal mine. The management exercises their judgment in estimating the total proven and probable reserves of coal mine.

Estimated impairment on trade receivables

The management regularly reviews the recoverability and age of the trade receivables. Impairment on trade receivables is made based on the estimation of the future cash flow discounted at an effective interest rate to calculate the present value.

Provision for land subsidence, restoration, rehabilitation and environmental costs

The cost of relocation of inhabitants from the land in preparation for mining activities is charged to statement of income when incurred. The provision is reviewed regularly to verify that it properly reflects the remaining obligation arising from the current and past mining activities. Provision for land subsidence, restoration, rehabilitation and environmental costs are determined by the management based on their best estimates of the current and future cost and past experiences.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at December 31, 2005, the carrying amount of goodwill is RMB153,037,000.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6. SEGMENT INFORMATION

The Group is engaged primarily in the coal mining business and the Group is also engaged in the coal railway transportation business. The Company does not currently have direct export rights in the PRC and all of its export sales must be made through China National Coal Industry Import and Export Corporation ("National Coal Corporation"), Minmetals Trading Co., Ltd. ("Minmetals Trading") or Shanxi Coal Imp. & Exp. Group Corp. ("Shanxi Coal Corporation"). The final customer destination of the Company's export sales is determined by the Company, National Coal Corporation, Minmetals Trading or Shanxi Coal Corporation. Certain of the Company's subsidiaries are engaged in trading and processing of mining machinery and the transportation business via rivers and lakes in the PRC. No separate segment information about these businesses is presented in these financial statements as the underlying gross sales, results and assets of these businesses, which are currently included in the coal mining business segment, are insignificant to the Group.

Business segments

For management purposes, the Group is currently organized into two operating divisions – coal mining and coal railway transportation. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- Coal mining – Underground mining, preparation and sales of coal
- Coal railway transportation – Provision of railway transportation services

Segment information about these businesses is presented below:

INCOME STATEMENT

	For the year ended December 31, 2005			
	Coal mining RMB'000	Coal railway transportation RMB'000	Eliminations RMB'000	Consolidated RMB'000
GROSS REVENUE				
External	12,283,588	163,437	–	12,447,025
Inter-segment	–	226,852	(226,852)	–
Total	<u>12,283,588</u>	<u>390,289</u>	<u>(226,852)</u>	<u>12,447,025</u>

Inter-segment revenue is charged at prices pre-determined by the relevant governmental authority.

RESULT

Segment results	<u>4,601,715</u>	<u>67,381</u>	<u>–</u>	4,669,096
Unallocated corporate expenses				(320,692)
Unallocated corporate income				96,180
Interest expenses				(24,611)
Income before income taxes				4,419,973
Income taxes				(1,538,036)
Income for the year				<u>2,881,937</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6. SEGMENT INFORMATION (Continued)

BALANCE SHEET

	At December 31, 2005		
	Coal mining RMB'000	Coal railway transportation RMB'000	Consolidated RMB'000
ASSETS			
Segment assets	<u>12,139,834</u>	<u>1,031,347</u>	13,171,181
Unallocated corporate assets			<u>8,083,263</u>
			<u>21,254,444</u>
LIABILITIES			
Segment liabilities	<u>2,584,110</u>	<u>29,500</u>	2,613,610
Unallocated corporate liabilities			<u>993,526</u>
			<u>3,607,136</u>

OTHER INFORMATION

	For the year ended December 31, 2005			
	Coal mining RMB'000	Coal railway transportation RMB'000	Corporate and others RMB'000	Consolidated RMB'000
Capital additions	1,828,130	23,710	5,531	1,857,371
Amortization of prepaid lease payments	7,983	5,188	–	13,171
Depreciation of property, plant and equipment	867,210	77,412	7,474	952,096
Amortization of mining rights	6,624	–	–	6,624
(Gain) loss on disposal of property, plant and equipment	–	(13)	540	527
	<u>–</u>	<u>(13)</u>	<u>540</u>	<u>527</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6. SEGMENT INFORMATION (Continued)

INCOME STATEMENT

	For the year ended December 31, 2004			
	Coal mining RMB'000	Coal railway transportation RMB'000	Eliminations RMB'000	Consolidated RMB'000
GROSS REVENUE				
External	11,757,052	220,771	–	11,977,823
Inter-segment	–	380,535	(380,535)	–
Total	<u>11,757,052</u>	<u>601,306</u>	<u>(380,535)</u>	<u>11,977,823</u>

Inter-segment revenue is charged at prices pre-determined by the relevant governmental authority.

RESULT

Segment results	<u>4,642,234</u>	<u>284,147</u>	<u>–</u>	4,926,381
Unallocated corporate expenses				(314,283)
Unallocated corporate income				97,176
Interest expenses				<u>(35,942)</u>
Income before income taxes				4,673,332
Income taxes				<u>(1,518,762)</u>
Income for the year				<u>3,154,570</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6. SEGMENT INFORMATION (Continued)

BALANCE SHEET

	At December 31, 2004		
	Coal mining RMB'000	Coal railway transportation RMB'000	Consolidated RMB'000
ASSETS			
Segment assets	<u>10,923,609</u>	<u>1,083,502</u>	12,007,111
Unallocated corporate assets			<u>6,329,586</u>
			<u>18,336,697</u>
LIABILITIES			
Segment liabilities	<u>1,669,373</u>	<u>23,747</u>	1,693,120
Unallocated corporate liabilities			<u>1,116,152</u>
			<u>2,809,272</u>

OTHER INFORMATION

	For the year ended December 31, 2004			
	Coal mining RMB'000	Coal railway transportation RMB'000	Corporate and others RMB'000	Consolidated RMB'000
Capital additions	1,009,788	66,036	18,458	1,094,282
Amortization of goodwill	777	13,880	1,116	15,773
Release of negative goodwill to income	(27,620)	–	–	(27,620)
Depreciation of property, plant and equipment	879,260	74,635	4,772	958,667
Amortization of prepaid lease payments	8,006	5,188	–	13,194
Amortization of mining rights	6,624	–	–	6,624
Loss (gain) on disposal of property, plant and equipment	104,759	272	(434)	104,597
Impairment losses on accounts receivable	<u>49,104</u>	<u>–</u>	<u>–</u>	<u>49,104</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6. SEGMENT INFORMATION (Continued)

INCOME STATEMENT

	For the year ended December 31, 2003			Consolidated RMB'000
	Coal mining RMB'000	Coal railway transportation RMB'000	Eliminations RMB'000	
GROSS REVENUE				
External	8,386,629	154,585	–	8,541,214
Inter-segment	–	400,048	(400,048)	–
Total	<u>8,386,629</u>	<u>554,633</u>	<u>(400,048)</u>	<u>8,541,214</u>

Inter-segment revenue is charged at prices pre-determined by the relevant governmental authority.

RESULT

Segment results	<u>2,013,688</u>	<u>245,041</u>	–	2,258,729
Unallocated corporate expenses				(246,469)
Unallocated corporate income				22,624
Interest expenses				<u>(59,966)</u>
Income before income taxes				1,974,918
Income taxes				<u>(587,710)</u>
Income for the year				<u>1,387,208</u>

BALANCE SHEET

	At December 31, 2003		
	Coal mining RMB'000	Coal railway transportation RMB'000	Consolidated RMB'000
ASSETS			
Segment assets	<u>10,440,480</u>	<u>1,115,491</u>	11,555,971
Unallocated corporate assets			<u>2,353,833</u>
			<u>13,909,804</u>
LIABILITIES			
Segment liabilities	<u>1,818,585</u>	<u>11,929</u>	1,830,514
Unallocated corporate liabilities			<u>992,311</u>
			<u>2,822,825</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6. SEGMENT INFORMATION (Continued)

OTHER INFORMATION

	For the year ended December 31, 2003			
	Coal mining RMB'000	Coal railway transportation RMB'000	Corporate and others RMB'000	Consolidated RMB'000
Capital additions	1,255,070	82,616	14,144	1,351,830
Amortization of goodwill	777	8,880	–	9,657
Release of negative goodwill to income	(27,620)	–	–	(27,620)
Depreciation of property, plant and equipment	842,975	74,170	3,774	920,919
Amortization of prepaid lease payments	8,019	5,275	–	13,294
Amortization of mining rights	6,624	–	–	6,624
(Gain) loss on disposal of property, plant and equipment	(7,113)	185	56	(6,872)
Impairment losses on accounts receivables	80,272	–	–	80,272

The number of employees in each of the Group's principal divisions are as follows:

	At December 31,		
	2005	2004	2003
Coal mining	26,662	25,892	24,810
Coal railway transportation	3,401	3,374	3,151
	30,063	29,266	27,961

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6. SEGMENT INFORMATION (Continued)

Geographical segment

The Group's operations are primarily located in the PRC. In December 2004, the Group acquired Southland which is located in Australia. Analysis of the Group's gross sales and carrying amount of assets by geographical area is not presented in the financial statements as over 90% of the amounts involved are in the PRC.

The following is an analysis of the additions to property, plant and equipment and intangible assets analysed by the geographical area in which the assets are located:

	Additions to property, plant and equipment and intangible assets Year ended December 31,		
	2005 RMB'000	2004 RMB'000	2003 RMB'000
The PRC	1,599,372	869,957	1,351,830
Australia	257,999	224,325	–
	<u>1,857,371</u>	<u>1,094,282</u>	<u>1,351,830</u>

7. NET SALES OF COAL

	Year ended December 31,		
	2005 RMB'000	2004 RMB'000	2003 RMB'000
Domestic sales of coal, gross	8,689,496	7,841,328	4,840,317
Less: Transportation costs	268,034	434,340	503,228
Domestic sales of coal, net	<u>8,421,462</u>	<u>7,406,988</u>	<u>4,337,089</u>
Export sales of coal, gross	3,594,092	3,915,724	3,546,312
Less: Transportation costs	662,069	968,375	1,089,066
Export sales of coal, net	<u>2,932,023</u>	<u>2,947,349</u>	<u>2,457,246</u>
Net sales of coal	<u>11,353,485</u>	<u>10,354,337</u>	<u>6,794,335</u>

Net sales of coal represents the invoiced value of coal sold and is net of returns, discounts, sales taxes and transportation costs if the invoiced value includes transportation costs to the customers.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

8. COST OF SALES AND SERVICE PROVIDED

	Year ended December 31,		
	2005 RMB'000	2004 RMB'000	2003 RMB'000
Materials	1,147,572	1,088,683	899,602
Wages and employee benefits	1,258,333	1,022,614	863,707
Electricity	282,492	298,274	278,507
Depreciation	891,640	918,360	836,120
Land subsidence, restoration, rehabilitation and environmental costs	636,590	323,240	264,158
Repairs and maintenance	350,953	455,782	374,855
Annual fee and amortization of mining rights (note 22)	19,604	19,604	19,604
Transportation costs	98,787	119,737	48,231
Others	602,617	305,409	170,239
	5,288,588	4,551,703	3,755,023

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,		
	2005 RMB'000	2004 RMB'000	2003 RMB'000
Retirement benefit scheme contributions (note 41)	523,324	408,462	349,377
Wages and employee benefits	271,213	155,500	115,456
Additional medical insurance	46,458	35,912	27,814
Staff training costs	32,553	28,762	26,780
Depreciation	73,627	53,501	44,339
Amortization of goodwill	–	15,773	9,657
Distribution charges	35,626	43,639	37,779
Impairment loss on accounts receivables	–	49,104	80,272
Resource compensation fees (note)	117,228	110,959	84,941
Repairs and maintenance	17,012	18,753	13,918
Research and development	45,009	24,934	46,144
Freight charges	19,256	9,801	14,862
Loss on disposal of property, plant and equipment	527	104,597	–
Others	736,955	420,166	413,519
	1,918,788	1,479,863	1,264,858

Note: In accordance with the relevant regulations, the Group pays resource compensation fees (effectively a government levy) to the Ministry of Geology and Mineral Resources at the rate of 1% on the imputed sales value of raw coal.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10. OTHER INCOME

	Year ended December 31,		
	2005 RMB'000	2004 RMB'000	2003 RMB'000
Dividend income	4,465	4,465	4,810
Gain on sales of auxiliary materials	36,749	33,878	35,197
Gain on disposal of property, plant and equipment	–	–	6,872
Government grants (note)	–	–	8,194
Interest income from bank deposits	85,971	70,885	13,631
Interest income on other loans receivable	5,744	21,826	4,183
Release of negative goodwill to income	–	27,620	27,620
Others	2,109	7,058	5,338
	<u>135,038</u>	<u>165,732</u>	<u>105,845</u>

Note: Government grants represented the amount received by the Group in respect of its export sales activities.

11. INTEREST EXPENSE

	Year ended December 31,		
	2005 RMB'000	2004 RMB'000	2003 RMB'000
Interest expenses on:			
– bank borrowings wholly repayable within 5 years	20,753	31,392	53,682
– bills receivable discounted without recourse	–	–	1,023
Deemed interest expenses in respect of acquisition of Jining III	3,858	4,550	5,261
	<u>24,611</u>	<u>35,942</u>	<u>59,966</u>

No interest was capitalized during each of the years presented.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

12. INCOME TAXES

	Year ended December 31,		
	2005 RMB'000	2004 RMB'000	2003 RMB'000
Income taxes:			
Current taxes	1,372,398	1,390,767	587,775
Underprovision in prior years	42,463	16,019	–
	<u>1,414,861</u>	<u>1,406,786</u>	<u>587,775</u>
Deferred tax charge (credit) (note 30)	123,175	111,976	(65)
	<u><u>1,538,036</u></u>	<u><u>1,518,762</u></u>	<u><u>587,710</u></u>

The Company and its subsidiaries in the PRC are subject to a standard income tax rate of 33% on its taxable income.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The total charge for the year can be reconciled to the accounting profit as follows:

	Year ended December 31,		
	2005 RMB'000	2004 RMB'000	2003 RMB'000
Standard income tax rate in the PRC	33%	33%	33%
Standard income tax rate applied to income before income taxes	1,458,591	1,542,200	651,723
Reconciling items:			
Transfer to future development fund deductible for tax purposes but not charged to income under IFRS	(68,618)	(109,411)	(85,692)
Release of negative goodwill not subject to tax	–	(9,115)	(9,115)
Deemed interest not deductible for tax purposes	1,273	1,502	1,736
Impairment loss on doubtful debts not deductible for tax purposes	–	16,187	25,731
Loss on disposal of property, plant and equipment not deductible for tax purposes	836	8,273	–
Government grants received not subject to tax	–	–	(2,704)
Tax effect of tax losses not recognized	42,151	–	–
Underprovision in prior years	42,463	16,019	–
Write off deferred tax asset	44,436	44,436	–
Others	16,904	8,671	6,031
Income taxes	<u><u>1,538,036</u></u>	<u><u>1,518,762</u></u>	<u><u>587,710</u></u>
Effective income tax rate	<u><u>35%</u></u>	<u><u>32%</u></u>	<u><u>30%</u></u>

The subsidiaries acquired during the years ended December 31, 2005, 2004 and 2003 did not have any significant impact on the income taxes provided for the years ended December 31, 2005, 2004 and 2003.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

13. INCOME FOR THE YEAR

	Year ended December 31,		
	2005 RMB'000	2004 RMB'000	2003 RMB'000
Income for the year has been arrived at after charging:			
Amortization of mining rights	6,624	6,624	6,624
Amortization of goodwill	–	15,773	9,657
Amortization of prepaid lease payment	13,171	13,194	13,294
Depreciation of property, plant and equipment	952,096	958,667	920,533
Total depreciation and amortization	971,891	994,258	950,108
Auditors' remuneration	9,229	5,000	5,000
Staff costs, including directors' and supervisors' emoluments	2,164,616	1,682,240	1,437,682
Cost of inventories	5,144,888	4,460,844	3,687,433
Exchange loss	98,681	–	–
and crediting:			
Gain on disposal of investments in securities	–	–	1,424
Exchange gain	–	5,507	116
	<u> </u>	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' and supervisors' emoluments

Details of the directors' and supervisors' emoluments are as follows:

	For the year ended December 31, 2005				Total RMB'000
	Fees RMB'000	Salaries, allowance and other benefits in kind RMB'000	Retirement benefit scheme contribution RMB'000	Discretionary bonus RMB'000	
Independent non-executive directors					
Pu Hongjiu	43	-	-	-	43
Cui Jianmin	81	-	-	-	81
Wang Xiaojun	98	-	-	-	98
Wang Quanxi	81	-	-	-	81
Fan Weitang	39	-	-	-	39
	<u>342</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>342</u>
Executive directors					
Wang Xin	-	-	-	-	-
Geng Jiahuai	-	-	-	-	-
Yang Deyu	-	-	-	-	-
Shi Xuerang	-	-	-	-	-
Chen Changchun	-	-	-	-	-
Wu Yuxiang	-	144	65	-	209
Wang Xinkun	-	144	65	-	209
Chen Guangshui	-	144	65	-	209
Dong Yunqing	-	144	65	-	209
	<u>-</u>	<u>576</u>	<u>260</u>	<u>-</u>	<u>836</u>
Supervisors					
Meng Xianchang	-	-	-	-	-
Song Guo	-	-	-	-	-
Zhang Sheng Dong	-	-	-	-	-
Liu Wei Xin	-	-	-	-	-
Xu Bentai	-	160	72	-	232
	<u>-</u>	<u>160</u>	<u>72</u>	<u>-</u>	<u>232</u>
Other management team					
Jin Tai	-	-	-	-	-
Zhang Yingmin	-	-	-	-	-
He Ye	-	144	65	-	209
Tian Fengze	-	144	65	-	209
Shi Chenzhong	-	145	65	-	210
Lai Cunliang	-	190	86	-	276
Ni Xinghua	-	144	65	-	209
	<u>-</u>	<u>767</u>	<u>364</u>	<u>-</u>	<u>1,113</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(a) Directors' and supervisors' emoluments (Continued)

Details of the directors' and supervisors' emoluments are as follows:

	For the year ended December 31, 2004				
	Fees RMB'000	Salaries, allowance and other benefits in kind RMB'000	Retirement benefit scheme contribution RMB'000	Discretionary bonus RMB'000	Total RMB'000
Independent non-executive directors					
Fan Weitang	77	-	-	-	77
Cui Jianmin	77	-	-	-	77
Wang Xiaojun	93	-	-	-	93
Wang Quanxi	77	-	-	-	77
	<u>324</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>324</u>
Executive directors					
Mo Liqi	-	-	-	-	-
Yang Deyu	-	-	-	-	-
Geng Jiahuai	-	-	-	-	-
Wang Bangjun	-	-	-	-	-
Yang Jiachun	-	-	-	-	-
Wu Yuxiang	-	98	44	-	142
Dong Yunqing	-	124	56	-	180
Wang Xin	-	-	-	-	-
Wang Xinkun	-	118	53	-	171
	<u>-</u>	<u>340</u>	<u>153</u>	<u>-</u>	<u>493</u>
Supervisors					
Meng Xianchang	-	-	-	-	-
Xiao Shuzhang	-	-	-	-	-
Zhang Sheng Dong	-	-	-	-	-
Liu Wei Xin	-	-	-	-	-
Xu Bentai	-	126	57	-	183
	<u>-</u>	<u>126</u>	<u>57</u>	<u>-</u>	<u>183</u>
Other management team					
Jin Tai	-	-	-	-	-
Zhang Yingmin	-	-	-	-	-
He Ye	-	121	54	-	175
Tian Fengze	-	119	54	-	173
Shi Chenzhong	-	97	44	-	141
Ni Xinghua	-	103	46	-	149
Chen Guangshui	-	123	55	-	178
	<u>-</u>	<u>563</u>	<u>253</u>	<u>-</u>	<u>816</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(a) Directors' and supervisors' emoluments (Continued)

Details of the directors' and supervisors' emoluments are as follows:

	For the year ended December 31, 2003				
	Fees RMB'000	Salaries, allowance and other benefits in kind RMB'000	Retirement benefit scheme contribution RMB'000	Discretionary bonus RMB'000	Total RMB'000
Independent non-executive directors					
Fan Weitang	77	-	-	-	77
Cui Jianmin	77	-	-	-	77
Wang Xiaojun	93	-	-	-	93
	<u>247</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>247</u>
Executive directors					
Mo Liqi	-	-	-	-	-
Yang Dayu	-	-	-	-	-
Geng Jiahuai	-	-	-	-	-
Yu Xuezhi	-	-	-	-	-
Wang Bangjun	-	-	-	-	-
Yang Jiachun	-	-	-	-	-
Wu Yuxiang	-	29	13	-	42
Dong Yunqing	-	29	13	-	42
	<u>-</u>	<u>58</u>	<u>26</u>	<u>-</u>	<u>84</u>
Supervisors					
Meng Xianchang	-	-	-	-	-
Xiao Shuzhang	-	-	-	-	-
Zhang Sheng Dong	-	-	-	-	-
Liu Wei Xin	-	-	-	-	-
Xu Bentai	-	80	36	-	116
	<u>-</u>	<u>80</u>	<u>36</u>	<u>-</u>	<u>116</u>
Other management team					
Zhang Yingmin	-	38	17	-	55
Wang Xinkun	-	29	13	-	42
Tian fengze	-	29	13	-	42
Shi Chenzhong	-	29	13	-	42
Ni Xinghua	-	29	13	-	42
Chen Guangshui	-	29	13	-	42
	<u>-</u>	<u>183</u>	<u>82</u>	<u>-</u>	<u>265</u>

No directors waived any emoluments in each of the year ended 31 December 2005, 2004 and 2003.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(b) Employees' emoluments

The five highest paid individuals in the Group in 2005 included one director for the year ended December 31, 2005 (2004: four; 2003: five), details of whose emoluments are included in the disclosures in note 14(a) above. The emoluments of the remaining four individual for the year ended December 31, 2005 (2004: one; 2003: Nil) were as follows:

	Year ended December 31,		
	2005 RMB'000	2004 RMB'000	2003 RMB'000
Salaries, allowance and other benefits in kind	3,690	224	–
Retirement benefit scheme contributions (note 41)	365	101	–
Discretionary bonuses	–	–	–
	4,055	325	–

Emoluments of each of these employees were all within the band of Nil to HK\$1,000,000 for the year ended December 31, 2005.

15. DIVIDEND

	Year ended December 31,		
	2005 RMB'000	2004 RMB'000	2003 RMB'000
2004 Final dividend, RMB0.260 per share (2004: 2003 final dividend RMB0.114; 2003: 2002 final dividend RMB0.104)	799,240	327,180	298,480
2004 Special dividend RMB0.050 per share	–	143,500	–
	799,240	470,680	298,480

In the annual general meeting held on June 27, 2003, a final dividend in respect of the year ended December 31, 2002 was approved by the shareholders and paid to the shareholders of the Company.

In the annual general meeting held on June 25, 2004, a final dividend and a special dividend in respect of the year ended December 31, 2003 was approved by the shareholders and paid to the shareholders of the Company.

In the annual general meeting held on June 28, 2005, a final dividend and a bonus issue to the shareholder through the capitalization of share premium of the Company on the basis of six shares for every ten existing shares in respect of the year ended December 31, 2004 were approved by the shareholders and paid and issued to the shareholders of the Company.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15. DIVIDEND (Continued)

The board of directors proposes to declare a final dividend and a special dividend of approximately RMB737,760,000 and RMB344,288,000 calculated based on a total number of 4,918,400,000 shares issued at RMB1 each, at RMB0.15 per share and RMB0.07 per share respectively, in respect of the year ended December 31, 2005. The declaration and payment of the final dividend needs to be approved by the shareholders of the Company by way of an ordinary resolution in accordance with the requirements of the Company's Articles of Association. A shareholders' general meeting will be held for the purpose of considering and, if thought fit, approving this ordinary resolution.

16. EARNINGS PER SHARE AND PER ADS

The calculation of the earnings per share attributable to the equity holders of the Company for the years ended December 31, 2005, 2004 and 2003 is based on the income attributable to the equity holders of the Company for the year of RMB2,881,461,000, RMB3,154,317,000 and RMB1,386,686,000 and on the weighted average number of 4,918,400,000 shares, 4,743,606,557 shares and 4,592,000,000 shares in issue, respectively, during the years.

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for all the period presented has been adjusted for the bonus issue of the Company on July 27, 2005.

The earnings per ADS have been calculated based on the net income for the relevant periods and on one ADS being, equivalent to 50 shares, which has been adjusted for the bonus issue of the Company on July 27, 2005.

No diluted earnings per share has been presented as there are no dilutive potential shares in issue during the years ended December 31, 2005, 2004 and 2003.

Impact of changes in accounting policies

Changes in the Group's accounting policies during the year are described in details in note 3. To the extent that those changes have had an impact on results reported for the years ended December 31, 2005, 2004 and 2003, they have had an impact on the amounts reported for earnings per share. The following table summarizes that impact on basic earnings per share:

	Impact on basic earnings per share			Impact on earnings per ADS		
	2005 RMB	2004 RMB	2003 RMB	2005 RMB	2004 RMB	2003 RMB
Non-amortisation of goodwill (replaced by impairment loss)	0.003	–	–	0.16	–	–
Negative goodwill no longer released to income	(0.006)	–	–	(0.28)	–	–
Total impact of changes in accounting policies	<u>(0.003)</u>	<u>–</u>	<u>–</u>	<u>(0.12)</u>	<u>–</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

17. TERM DEPOSITS AND RESTRICTED CASH

At the balance sheet dates, the short-term restricted cash represents the bank deposits pledged to certain banks to secure banking facilities granted to the Group. The long-term amount represents the bank deposits placed as guarantee for the future payments of rehabilitation costs of Southland as required by the Australian government. The long-term deposits carry interest at rate of 5.16% per annum.

The term deposits carry fixed interest rate of 0.72% to 2.70% per annum. The fair value of term deposit and restricted cash at December 31, 2005 approximates to its carrying amount.

18. BILLS AND ACCOUNTS RECEIVABLE

	At December 31,	
	2005 RMB'000	2004 RMB'000
Total bills receivable	2,092,949	890,046
Total accounts receivable	258,587	460,442
Less: Impairment loss	(126,700)	(126,700)
Total bills and accounts receivable, net	<u>2,224,836</u>	<u>1,223,788</u>

Bills receivable represents unconditional orders in writing issued by or negotiated from customers of the Group for completed sale orders which entitle the Group to collect a sum of money from banks or other parties.

The fair value of bills and accounts receivable at December 31, 2005 approximates to their carrying amount.

An analysis of the impairment loss on bills and accounts receivable is as follows:

	2005 RMB'000	2004 RMB'000
Balance at January 1	126,700	100,627
Additional impairment loss	–	26,073
Balance at December 31	<u>126,700</u>	<u>126,700</u>

According to the credit rating of different customers, the Group allows a range of credit periods to its trade customers not exceeding 180 days.

The following is an aged analysis of bills and accounts receivable at the reporting date:

	At December 31,	
	2005 RMB'000	2004 RMB'000
1 – 180 days	2,245,170	1,233,248
181 – 365 days	6,014	654
1 – 2 years	19	3,913
2 – 3 years	–	32,407
Over 3 years	100,333	80,266
	<u>2,351,536</u>	<u>1,350,488</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19. INVENTORIES

	At December 31,	
	2005 RMB'000	2004 RMB'000
COST		
Auxiliary materials, spare parts and small tools	256,755	226,271
Coal products	213,746	259,158
	<u>470,501</u>	<u>485,429</u>

20. OTHER LOANS RECEIVABLE

At the balance sheet dates, the amounts consist of loans granted to the independent third parties. The amounts are guaranteed by other independent third parties and bear interest at 5.04% – 7.00% per annum. Included in the total amount is a loan of RMB640,000,000 (the “Default Loan”) which is secured by certain state legal person shares of a company listed on the SSE (“the Secured Shares”) and certain equity interest in another unlisted company held by the guarantor. The Default Loan was defaulted in January 2005 and the Company had applied to the People’s Supreme Court of the Shangdong Province (the “Court”) to freeze the Secured Shares. The Company has also applied to the Court to dispose the Secured Shares by way of a public auction and the proceed would be applied to repay the Default Loan and the associated interests to the Company. The public auction was held successfully in September 2005. Up to the date of the report, the legal procedure for the transfer of ownership of the Secured Shares has not yet been completed. In the opinion of the directors, based on the result of the auction, the proceeds net of relevant expense would be sufficient to cover the principal and interest of the Default Loan.

21. PREPAYMENTS AND OTHER CURRENT ASSETS

	At December 31,	
	2005 RMB'000	2004 RMB'000
Advances to suppliers	69,605	56,707
Prepaid freight charges and related handling charges	62,445	58,623
Others	70,367	72,966
	<u>202,417</u>	<u>188,296</u>

The directors consider that the carrying amount of other current assets approximates their fair value.

Included in the above balances as of December 31, 2005 is impairment loss of RMB35,717,000 (2004: RMB35,717,000). During the year ended December 31, 2005, the Group did not made any additional impairment on doubtful debts (2004: RMB23,031,000; 2003: RMB9,147,000).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

22. MINING RIGHTS

	RMB'000
COST	
At January 1, 2004	132,479
Acquisition of Southland	32,634
	165,113
At December 31, 2004 and January 1, 2005	165,113
Exchange re-alignment	(2,372)
Addition	23,644
	186,385
At December 31, 2005	186,385
AMORTIZATION	
At January 1, 2004	19,872
Provided for the year	6,624
	26,496
At December 31, 2004 and January 1, 2005	26,496
Provided for the year	6,624
	33,120
At December 31, 2005	33,120
NET BOOK VALUES	
At December 31, 2005	153,265
	153,265
At December 31, 2004	138,617
	138,617

In addition, the Parent Company and the Company have entered into a mining rights agreement pursuant to which the Company has agreed to pay to the Parent Company, effective from September 25, 1997, an annual fee of RMB12,980,000 as compensation for the Parent Company's agreement to give up the mining rights associated with the Xinglongzhuang coal mine, Baodian coal mine, Nantun coal mine, Dongtan coal mine and Jining II. The annual fee is subject to change after a ten-year period.

Mining rights is amortized, on a straight-line basis, over the useful life of twenty years from the date of commencement of commercial production.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

23. PREPAID LEASE PAYMENTS

	RMB'000
COST	
At January 1, 2004 and December 31, 2004	658,549
Addition	14,691
At December 31, 2005	<u>673,240</u>
AMORTIZATION	
At January 1, 2004	53,637
Provided for the year	13,194
At December 31, 2004	66,831
Provided for the year	13,171
At December 31, 2005	<u>80,002</u>
NET BOOK VALUES	
At December 31, 2005	<u><u>593,238</u></u>
At December 31, 2004	<u><u>591,718</u></u>

Analysis for reporting purposes as:

	At December 31,	
	2005 RMB'000	2004 RMB'000
Current portion	13,465	13,171
Non-current portion	<u>579,773</u>	<u>578,547</u>
	<u><u>593,238</u></u>	<u><u>591,718</u></u>

The amounts represent prepaid lease payment for land use rights which are situated in the PRC and have a term of fifty years from the date of grant of land use rights certificates.

The land use rights of Railway Assets were acquired from the Parent Company during the year ended December 31, 2002. The registration process in respect of the land use rights of the Railway Assets has not yet been completed at December 31, 2005.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

24. PROPERTY, PLANT AND EQUIPMENT, NET

	Freehold land in Australia RMB'000	Buildings RMB'000	Harbor works and crafts RMB'000	Railway structures RMB'000	Mining structures RMB'000	Plant, machinery and Transportation equipment RMB'000	Construction in progress RMB'000	Total RMB'000	
COST									
At January 1, 2004	-	2,052,927	250,231	720,484	3,904,460	7,314,574	281,744	85,748	14,610,168
Acquisition of Southland	57,195	5,377	-	-	-	128,833	-	-	191,405
Additions	-	-	-	-	-	18,791	5,922	805,530	830,243
Transfers	-	76,541	-	7,190	-	690,072	30,970	(804,773)	-
Disposals	-	-	-	-	-	(862,057)	(33,003)	-	(895,060)
At December 31, 2004 and January 1, 2005	57,195	2,134,845	250,231	727,674	3,904,460	7,290,213	285,633	86,505	14,736,756
Exchange re-alignment	(4,164)	(392)	-	-	-	(9,381)	(21)	-	(13,958)
Acquisition of Heze	-	-	-	-	-	35,103	201	472,292	507,596
Additions	-	1,689	-	-	-	71,578	25,258	1,191,961	1,290,486
Transfers	-	34,447	-	2,115	-	823,315	-	(859,877)	-
Disposals	-	(597)	-	-	-	(20,175)	(8,115)	-	(28,887)
At December 31, 2005	53,031	2,169,992	250,231	729,789	3,904,460	8,190,653	302,956	890,881	16,491,993
ACCUMULATED DEPRECIATION									
At January 1, 2004	-	797,845	-	106,903	1,408,418	3,545,719	134,910	-	5,993,795
Provided for the year	-	97,878	6,068	54,498	97,866	693,886	29,069	-	979,265
Eliminated on disposals	-	-	-	-	-	(748,503)	(24,951)	-	(773,454)
At December 31, 2004 and January 1, 2005	-	895,723	6,068	161,401	1,506,284	3,491,102	139,028	-	6,199,606
Provided for the year	-	124,340	6,068	54,568	86,638	684,913	41,356	-	997,883
Eliminated on disposals	-	(511)	-	-	-	(17,046)	(6,425)	-	(23,982)
At December 31, 2005	-	1,019,552	12,136	215,969	1,592,922	4,158,969	173,959	-	7,173,507
NET BOOK VALUES									
At December 31, 2005	53,031	1,150,440	238,095	513,820	2,311,538	4,031,684	128,997	890,881	9,318,486
At December 31, 2004	57,195	1,239,122	244,163	566,273	2,398,176	3,799,111	146,605	86,505	8,537,150

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

24. PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

The following estimated useful lives are used for the depreciation of property, plant and equipment, other than construction in progress:

Buildings	15 to 35 years
Harbour works and crafts	40 years
Railway structures	15 to 25 years
Plant, machinery and equipment	5 to 15 years
Transportation equipment	6 to 18 years

Transportation equipment includes vessels which are depreciated over the estimated lives of 18 years.

The mining structures include the main and auxiliary mine shafts and underground tunnels. Depreciation is provided to write off the cost of the mining structures using the units of production method based on the estimated production volume for which the structure was designed and the contractual period of the relevant mining rights.

25. GOODWILL

	2005 RMB'000	2004 RMB'000
COST		
At January 1	146,707	106,707
Subsequent adjustment to contingent consideration payment in respect of the acquisition of Railway Assets	–	40,000
Elimination of amortization accumulated prior to the adoption of IFRS 3 (note 3)	(29,315)	
Acquisition of Heze (note 36)	35,645	–
At December 31	<u>153,037</u>	<u>146,707</u>
AMORTIZATION		
At January 1	29,315	13,542
Elimination of amortization accumulated prior to the adoption of IFRS 3 (note 3)	(29,315)	–
Charge for the year	–	15,773
At December 31	<u>–</u>	<u>29,315</u>
NET BOOK VALUE		
At December 31	<u><u>153,037</u></u>	<u><u>117,392</u></u>

On January 1, 2002, the Company acquired the Railway Assets from its Parent Company for an original consideration of RMB1,242,586,000. Pursuant to the terms of the acquisition agreement, the consideration was adjusted to RMB1,282,586,000, RMB1,322,586,000 and RMB1,362,586,000 as the annual transportation volume of the Railway Assets reached the volume milestone targets of 25,000,000 tonnes, 28,000,000 tonnes and 30,000,000 tonnes for the years ended December 31, 2002, 2003 and 2004, respectively. The contingent consideration resulted in additional goodwill.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

25. GOODWILL (Continued)

Prior to January 1, 2005, goodwill was amortized over its estimated useful life, ranging from 10 to 20 years. No amortization was made on goodwill from January 1, 2005 in accordance with the Group's accounting policy.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units that all expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

	2005 RMB'000	2004 RMB'000
Coal mining		
– Jining II	10,106	10,106
– Yanmei Shipping	10,046	10,046
– Heze	35,645	–
Coal Railway transportation		
– Railway Assets	97,240	97,240
	<u>153,037</u>	<u>117,392</u>

The recoverable amounts of goodwill have been determined on the basis of value in use calculations. Their recoverable amounts are based on certain similar key assumptions on discount rates, growth rates and expected charges in selling prices and direct cost. All value in use calculations use cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 5%. During the year ended December 31, 2005, management of the Group determines that there are no impairments of any of its CGU containing goodwill.

26. NEGATIVE GOODWILL

	2005 RMB'000	2004 RMB'000
COST		
At January 1	138,101	138,101
Derecognized upon the application of IFRS 3 (note 3)	(138,101)	–
At December 31	–	138,101
RELEASED TO INCOME		
At January 1	110,480	82,860
Released for the year	–	27,620
Derecognized upon the application of IFRS 3 (note 3)	(110,480)	–
At December 31	–	110,480
NET BOOK VALUE		
At December 31	<u>–</u>	<u>27,621</u>

As explained in note 3, all negative goodwill arising on acquisition prior to January 1, 2005 was derecognized as a result of the application of IFRS 3.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

27. SUBSIDIARIES

Details of the Company's subsidiaries at December 31, 2005 are as follows:

Name of subsidiary	Country of incorporation/ registration and operation	Issued and fully paid capital/ registered capital	Proportion of registered capital/ issued share capital held by the Company		Proportion of voting power held	Principal activities
			Directly	Indirectly		
Austar	Australia	AUD30,000,000	-	100%	100%	Coal mining business
Heze (note)	PRC	RMB600,000,000	95.67%	-	95.67%	Development of ancillary projects
Yancoal	Australia	AUD30,000,000	100%	-	100%	Investment holding
Yanmei Shipping (note)	PRC	RMB5,500,000	92%	-	97%	Transportation via rivers and lakes and the sales of coal and construction materials
Yulin (note)	PRC	RMB800,000,000	97%	-	97%	Not yet commenced operations
Zhongyan Trade Co., Ltd. ("Zhongyan") (note)	PRC	RMB2,100,000	52.38%	-	52.38%	Trading and processing of mining machinery

Note: Yanmei Shipping, Yulin, Zhongyan and Heze are established in the PRC as limited liability companies.

28. INVESTMENTS IN SECURITIES

The amounts represent cost of available-for-sale equity investment of the Group. The amount at December 31, 2005 principally includes an unlisted investment of RMB60,421,000 in the form of state legal person shares of Shenergy Company Limited, a company listed on the SSE. These shares are not tradable on the SSE.

They are stated at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

29. DEPOSIT MADE ON INVESTMENT

The amount in 2004 represented the payment made by the Company to the Parent Company in relation to the transfer of 95.67% equity interest in Heze owned by the Parent Company. The principal activity of Heze is the development of ancillary projects of Wangfu Coal Mine and Zhaolou Coal Mine in Shangdon Province in the PRC. During the year ended December 31, 2005, the acquisition was completed and Heze became a subsidiary of the Company.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

30. DEFERRED TAX LIABILITY

	Provision for land subsidence, restoration, rehabilitation and environmental costs RMB'000	Accelerated tax depreciation RMB'000	Total RMB'000
Balance at January 1, 2004	88,872	–	88,872
(Charge) for the year (note 12)	(44,436)	(67,540)	(111,976)
Balance at January 1, 2005	44,436	(67,540)	(23,104)
(Charge) credit for the year (note 12)	(44,436)	(78,739)	(123,175)
Balance at December 31, 2005	–	(146,279)	(146,279)

At the balance sheet date, the Group has unused tax losses of AUD24 million, equivalent to RMB140 million (2004: Nil) contributed by the Australian subsidiaries available for offset against future profits. No deferred tax asset has been recognized in respect of such losses due to the unpredictability of future profit streams. Such tax losses may be carried forward indefinitely.

There was no other material unprovided deferred tax for the year or at the balance sheet date.

31. BILLS AND ACCOUNTS PAYABLE

	At December 31,	
	2005 RMB'000	2004 RMB'000
Bills payable	136,779	–
Accounts payable	360,881	478,281
	<u>497,660</u>	<u>478,281</u>

The following is an aged analysis of bills and accounts payable at the reporting date:

	At December 31,	
	2005 RMB'000	2004 RMB'000
1 – 180 days	361,680	360,684
181 – 365 days	96,397	85,714
1 – 2 years	39,583	31,883
	<u>497,660</u>	<u>478,281</u>

The fair value of the Group's bills and accounts payable at December 31, 2005 approximates to their carrying amount.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32. OTHER PAYABLES AND ACCRUED EXPENSES

	At December 31,	
	2005 RMB'000	2004 RMB'000
Customers' deposits	475,333	426,877
Accrued wages	135,375	80,242
Other taxes payable	249,955	255,711
Payables in respect of purchases of property, plant and equipment and construction materials	216,250	173,093
Accrued freight charges	39,342	51,685
Accrued repairs and maintenance	22,829	47,895
Accrued utility expenses	4,120	7,672
Staff welfare payable	69,372	41,376
Accrued land subsidence, restoration, rehabilitation and environmental costs	196	8,592
Resource compensation fees payable	100,886	83,658
Consideration payable on acquisition of Southland	47,299	51,010
Payable in respect of purchase of mining rights in Southland (note 37)	23,644	–
Others	191,268	109,754
	1,575,869	1,337,565

The fair value of the Group's other payables and accrued expenses at December 31, 2005 approximates to their carrying amount.

33. (PREPAYMENT) PROVISION FOR LAND SUBSIDENCE, RESTORATION, REHABILITATION AND ENVIRONMENTAL COSTS

	2005 RMB'000	2004 RMB'000
Balance at January 1	(103,407)	85,022
Additional provision in the year	635,863	313,172
Utilization of provision	(689,967)	(501,601)
Balance at December 31	(157,511)	(103,407)

The provision for land subsidence, restoration, rehabilitation and environmental costs has been determined by the directors based on their best estimates. The payment during both years included mainly rehabilitation costs paid on mining areas in relation to mining activities in the future periods and therefore the balances are presented as prepayment at the balances sheet dates. However, in so far as the effect on the land and the environment from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to change in the near term.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

34. UNSECURED BANK BORROWING

In 2002, the Group obtained a bank loan in the amount of RMB1,200,000,000, of which the repayment is guaranteed by the Parent Company. The loan bears interest at 6.21% per annum and is repayable by instalments over a period of 7 years, the first repayment instalment of which was due in August 2004. The proceeds were used to finance the acquisition of the Railway Assets.

In 2003, the interest rate of the bank loan was adjusted to 5.76% per annum, pursuant to the terms of the loan agreement. The loan is arranged at fixed interest rates and expose the Group to fair value interest rate risk. The Group has made a partial repayment of RMB600,000,000 during that year and according to the terms of the loan agreement, an early settlement would be deemed to settle the latest instalments due. The balance of the loan was therefore repayable in instalments over the following 3 years, the first repayment instalment of which was due and repaid in August 2004. Interests are payable quarterly over the terms of the loan.

The above loan is repayable as follows:

	At December 31,	
	2005 RMB'000	2004 RMB'000
Within one year	200,000	200,000
More than one year, but not exceeding two years	–	200,000
	200,000	400,000
Less: Amount due within one year and included in current liabilities	(200,000)	(200,000)
Amount due after one year	<u>–</u>	<u>200,000</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35. SHAREHOLDERS' EQUITY

Share capital

The Company's share capital structure at the balance sheet date is as follows:

	Domestic invested shares		Foreign invested shares	Total
	State legal person shares (held by the Parent Company)	A shares (Note 1)	H shares (including H share represented by ADS (Note 1))	
Number of shares				
At January 1, 2004	1,670,000,000	180,000,000	1,020,000,000	2,870,000,000
Issue of shares	–	–	204,000,000	204,000,000
At January 1, 2005	1,670,000,000	180,000,000	1,224,000,000	3,074,000,000
Bonus issue of shares	1,002,000,000	108,000,000	734,400,000	1,844,400,000
At January 31, 2005	<u>2,672,000,000</u>	<u>288,000,000</u>	<u>1,958,400,000</u>	<u>4,918,400,000</u>

	Domestic invested shares		Foreign invested shares	Total
	State legal person shares (held by the Parent Company) RMB'000	A shares (Note 1) RMB'000	H shares (including H share represented by ADS (Note 1)) RMB'000	
Registered, issued and fully paid				
At January 1, 2004	1,670,000	180,000	1,020,000	2,870,000
Issue of shares	–	–	204,000	204,000
At January 1, 2005	1,670,000	180,000	1,224,000	3,074,000
Bonus issue of shares	1,002,000	108,000	734,400	1,844,400
At January 31, 2005	<u>2,672,000</u>	<u>288,000</u>	<u>1,958,400</u>	<u>4,918,400</u>

Each share has a par value of RMB1.

At July 27, 2005, a bonus issue of six bonus shares for every ten shares in issue resulted in an increase in issued share capital of RMB1,844,400,000, and an equivalent reduction in the share premium account.

On July 15, 2004, the Company issued an aggregate of 204,000,000 H shares to independent investors upon private placement. The net proceeds of approximately RMB1,756,875,000 will be used for the investments in the proposed development of coal mines in Shandong Province and the coal-methanol project in Shaanxi Province. These new H shares were issued under the general mandate granted to the directors at the 2004 annual general meeting of the Company held on June 28, 2005 and these shares rank pari passu with other H shares in issue in all respects.

35. SHAREHOLDERS' EQUITY (Continued)

Reserves

The Company has to set aside 10% of its net income for the statutory common reserve fund (except where the fund has reached 50% of the Company's registered capital) and 5% to 10% of its net income for the statutory common welfare fund. The statutory common reserve fund can be used for the following purposes:

- to make good losses in previous years; or
- to convert into capital, provided such conversion is approved by a resolution at a shareholders' general meeting and the balance of the statutory common reserve fund does not fall below 25% of the registered capital.

The statutory common welfare fund, which is to be used for the welfare of the staff and workers of the Company, is of a capital nature.

In accordance with the Company's Articles of Association, the net income for the purpose of appropriation will be deemed to be the lesser of the amounts determined in accordance with (i) PRC accounting standards and regulations and (ii) IFRS or the accounting standards of the places in which its shares are listed.

The Company can also create a discretionary reserve in accordance with its Articles of Association or pursuant to resolutions which may be adopted at a meeting of shareholders.

The Company's distributable reserve as at December 31, 2005 is the retained earnings computed under PRC GAAP which amounted to approximately RMB5,844,289,000 (2004: RMB4,522,369,000).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

36. ACQUISITION OF HEZE

The net assets of Heze acquired, and the goodwill arising, are as follows:

	Fair value RMB'000
Bank balances and cash	180,255
Prepayments and other current assets	1,150
Property, plant and equipment	507,596
Other payables and accrued expenses	(86,061)
Amounts due to Parent Company and its subsidiary companies	(29,759)
Minority interest	(24,818)
Total net assets acquired	548,363
Goodwill arising on acquisition	35,645
	<u>584,008</u>
Total consideration satisfied by:	
Deposit made on investment in 2004	574,000
Cash consideration paid on acquisition	10,008
	<u>584,008</u>
Net cash outflow arising on acquisition:	
Cash paid on acquisition	(10,008)
Bank balances and cash acquired	180,255
	<u>170,247</u>

Heze did not contribute significantly to the Group's turnover and profit before profit for the year ended December 31, 2005.

If the acquisition had been completed on January 1, 2005, the Group's revenue and the Group's profit for the year ended December 31, 2005 would have been RMB12,447,025,000 and RMB2,864,866,000, respectively.

On November 16, 2004, the Company entered into an equity transfer agreement ("Acquisition Agreements") with the Parent Company and conditionally agreed to purchase the 95.67% equity interest in Heze held by the Parent Company. As at December 31, 2004, a deposit of RMB574,000,000 was paid to the Parent Company.

On June 28, 2005, a supplemental agreement (the "Supplemental Agreement") was entered between the Company and the Parent Company, pursuant to which the consideration of the acquisition of 95.67% equity interest in Heze has been determined to be RMB584,008,000. Under the Supplemental Agreement, the Parent Company has irrevocably undertaken that the Group shall have the right to purchase the mining rights of Zhaolou coal mine and Wanfu coal mine from the Parent Company within twelve months from the respective dates on which such mining rights are obtained by the Parent Company, based on valuations conducted by independent qualified PRC valuers which should also be endorsed by the applicable PRC government authorities.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

36. ACQUISITION OF HEZE (Continued)

In December 2005, the acquisition was completed and the Company paid the remaining consideration of RMB10,008,000 to the Parent Company. The Company then holds 95.67% equity interest in Heze. The net assets acquired were included in the coal mining segment. Heze did not have any significant impact on the Group's results or cash flows for the year ended December 31, 2005.

Pursuant to the Acquisition Agreement and the Supplemental Agreement, should certain situations arise, including but not limited to failure of Heze to obtain the land use rights or failure of the Parent Company to obtain the mining rights of the Zhaolou coal mine by June 30, 2006, the Company shall have the right to transfer the 95.67% equity interest in Heze back to the Parent Company, and the Parent Company will be obligated to refund the purchase consideration to the Company, within 30 days from the date of the issue of notice by the Company for such transfer.

The carrying amount of Heze's net assets approximates to its fair value at date of acquisition.

The goodwill arising on the acquisition is attributable to the anticipated profitability of the sales of coal products.

37. ACQUISITION OF SOUTHLAND

In December 2004, the Group acquired a 100% interest in Southland for a cash consideration of RMB187,312,000, of which RMB136,302,000 was paid upon acquisition and RMB51,010,000 (equivalent to AUD8,000,000) was payable upon the production of the initial 4 million tonnes of saleable coal by the Group in Southland. Pursuant to the agreements in relation to the acquisition, the Company has an obligation to acquire further coal mines and land adjacent to Southland at AUD4,000,000 when the sellers obtain the exploration license under the Mining Act of Australia for such coal mines. During the year, the Group successfully obtained the exploration licences for the adjacent mines. Accordingly, consideration amounted to RMB23,644,000 (equivalent to AUD4,000,000) was payable upon the completion of registration process. In the opinion of directors, the registration process will be completed by June 2006.

	Carrying value and fair value RMB'000
<hr/>	
The net assets of Southland acquired in the transaction were as follows:	
Mining rights	32,634
Property, plant and equipment	191,405
Other payables and accrued expenses	(36,727)
Total net assets acquired	<u>187,312</u>
Satisfied by:	
Cash consideration paid on acquisition	<u>187,312</u>

Southland did not contribute significantly to the Group's turnover and profit before income taxes for the year ended December 31, 2004.

If the acquisition had been completed on January 1, 2004, the Group's revenue and the Group's profit for the year ended December 31, 2004 would have been RMB11,977,823,000 and RMB3,154,570,000, respectively.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

38. ACQUISITION OF YANMEI SHIPPING

	Fair value RMB'000
The net assets of Yanmei Shipping acquired in the transaction, and the goodwill arising, were as follows:	
Bank balances and cash	506
Bills and accounts receivable	735
Inventories	1,254
Prepayments and other current assets	16,423
Property, plant and equipment, net	12,551
Other payables and accrued expenses	(4,259)
Amounts due to Parent Company and its subsidiaries	(26,151)
Taxes payable	(483)
Minority interest	(46)
Total net assets acquired	530
Goodwill arising on acquisition	11,162
	<u>11,692</u>
Consideration satisfied by cash	<u>11,692</u>
Net cash outflow arising on acquisition:	
Cash consideration paid	(11,692)
Bank balances and cash acquired	506
	<u>(11,186)</u>

On December 31, 2003, the Group acquired 92% of the issued share capital of Yanmei Shipping for a cash consideration of RMB11,692,000. The net assets acquired were included in the coal mining segment. Yanmei Shipping did not have any significant impact on the Group's results or cash flows for the year ended December 31, 2003.

The carrying amount of Yanmei Shipping's net assets approximates to its fair value at date of acquisition.

The goodwill arising on the acquisition is attributable to the anticipated future operating synergies from the combination.

Yanmei Shipping did not contribute significantly to the Group's turnover and profit before income taxes for the year ended December 31, 2003.

If the acquisition had been completed on January 1, 2003, the Group's revenue and the Group's profit for the year ended December 31, 2003 would have been RMB8,542,214,000 and RMB1,385,573,000, respectively.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

39. RELATED PARTY BALANCES AND TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed. Details of balances and transactions between the Group and other related parties are disclosed below.

Related Party Balances

The amounts due from Parent Company and its subsidiary companies were non-interest bearing, unsecured and repayable on demand.

The amounts due to the Parent Company and its subsidiary companies are non-interest bearing and unsecured.

The amounts due to the Parent Company and its subsidiary companies as at December 31, 2005 and 2004 included the present value of the outstanding balance that arose from the funding of the acquisition of the mining rights of Jining III as of January 1, 2001 discounted using the market rate of bank borrowings.

The consideration for the cost of the mining rights of approximately RMB132,479,000 is to be settled over the 10 years by equal installments before December of each year, commencing from 2001.

	At December 31,	
	2005 RMB'000	2004 RMB'000
Amounts due to Parent Company and its subsidiary companies		
Within one year	508,254	–
More than one year, but not exceeding two years	8,689	9,230
More than two years, but not exceeding three years	8,181	8,689
More than three years, but no exceeding four years	7,704	8,181
More than four years, but not exceeding five years	7,253	7,704
Exceeding five years	–	7,253
Total	540,081	41,057
Less: amount due within one year	(508,254)	–
Amount due after one year	<u>31,827</u>	<u>41,057</u>

Except the amounts disclosed above, the amounts due to the Parent Company and/or its subsidiary companies have no specific terms of repayments.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

39. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

Related Party Transactions

During the periods, the Group had the following significant transactions with the Parent Company and/or its subsidiary companies:

	Year ended December 31,		
	2005 RMB'000	2004 RMB'000	2003 RMB'000
<i>Income</i>			
Sales of coal	856,580	523,015	229,730
Sales of auxiliary materials	369,855	350,873	472,899
Utilities and facilities	29,000	29,000	29,000
Railway transportation services	–	–	66
<i>Expenditure</i>			
Utilities and facilities	355,953	354,424	285,166
Annual fee for mining rights	12,980	12,980	12,980
Purchases of supply materials and equipment	341,935	303,549	373,710
Repair and maintenance services	197,624	222,949	225,408
Social welfare and support services	242,952	207,062	188,825
Technical support and training	15,130	15,130	15,130
Road transportation services	53,346	63,478	17,216
Construction services	–	160,342	507,824

During the periods, the Group had the following significant transactions with a related party, certain management members of which were also management members of the Group:

	Year ended December 31,		
	2005 RMB'000	2004 RMB'000	2003 RMB'000
Sales of coal by the Group	–	–	77,155
Transaction services provided to the Group	–	–	74,783

Certain expenditure for social welfare and support services (excluding medical and child care expenses) of RMB63,361,000, RMB63,275,000 and RMB63,530,000 for each of the three years ended December 31, 2005, 2004 and 2003, respectively, and for technical support and training of RMB15,130,000 for each of the three years ended December 31, 2005, 2004 and 2003, have been charged by the Parent Company at a negotiated amount per annum, subject to changes every year.

The above transactions were charged either at market prices or based on terms agreed by both parties

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

39. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

During the year, the Company acquired Heze from the Parent Company. Details of this acquisition are set out in note 36.

In addition to the above, the Company participates in a multi-employer scheme of the Parent Company in respect of retirement benefits (see notes 8 and 41).

Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under the Parent Company which is controlled by the PRC government. Apart from the transactions with the Parent Company and fellow subsidiaries and other related parties disclosed above, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counter-party is a state-controlled entity or not.

Material transactions with other state-controlled entities are as follows:

	Year ended December 31,		
	2005 RMB'000	2004 RMB'000	2003 RMB'000
Trade sales	<u>3,855,545</u>	<u>4,466,519</u>	<u>3,941,149</u>
Trade purchases	<u>1,607,729</u>	<u>1,541,147</u>	<u>1,760,528</u>

Material balances with other state-controlled entities are as follows:

	At December 31,	
	2005 RMB'000	2004 RMB'000
Amounts due from other state-controlled entities	<u>350,688</u>	<u>400,603</u>
Amounts due to other state-controlled entities	<u>270,559</u>	<u>303,103</u>

In addition, the Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

Except as disclosed above, the directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

39. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

Compensation of key management personnel

The remuneration of directors and other members of key management was as follows:

	Year ended December 31,		
	2005 RMB'000	2004 RMB'000	2003 RMB'000
Directors' fee	342	324	247
Salaries, allowance and other benefit in kind	1,503	1,029	321
Retirement benefit scheme contribution	678	463	144
	2,523	1,816	712

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

40. COMMITMENTS

	At December 31,	
	2005 RMB'000	2004 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	920,907	12,872
Capital expenditure authorized but not contracted for in respect of development of new coal mines	1,900,000	2,100,000
	2,820,907	2,112,872

In accordance with the regulations of the State Administration of Work Safety, the Group has a commitment to incur RMB8 per tone of raw coal mined from May 1, 2004 aggregating to RMB91,462,000 (2004: RMB5,848,000) on enhancement of safety production environment and facilities ("Work Safety Cost").

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

41. RETIREMENT BENEFITS

Qualifying employees of the Company are entitled to a pension, medical and other welfare benefits. The Company participates in a multi-employer scheme of the Parent Company and pays a monthly contribution to the Parent Company in respect of retirement benefits at an agreed contribution rate based on the monthly basic salaries and wages of the qualified employees. The Parent Company is responsible for the payment of all retirement benefits to the retired employees of the Company.

The monthly contribution rate was set initially at 45% of the aggregate monthly basic salaries and wages of the Company's employees, and was fixed until December 31, 2001. Upon expiration of the initial period, the Company and the Parent Company determined that the contribution rate should remain at 45% for the period from January 1, 2002 to December 31, 2006.

The amount of contribution paid to the Parent Company were RMB522,650,000, RMB408,462,000 and RMB349,377,000 for the years ended December 31, 2005, 2004, and 2003.

The Company's subsidiaries are participants in a state-managed retirement scheme pursuant to which the subsidiaries pay a fixed percentage of its qualifying staff's wages as a contribution to the scheme. The subsidiaries' financial obligations under this scheme are limited to the payment of the employer's contribution. During the year, contributions payable by the subsidiaries pursuant to this arrangement were insignificant to the Group.

During the year and at the balance sheet date, there were no forfeited contributions which arose upon employees leaving the above schemes available to reduce the contributions payable in future years.

42. HOUSING SCHEME

The Parent Company is responsible for providing accommodation to its employees and the employees of the Company. The Company and the Parent Company share the incidental expenses relating to the accommodation at a negotiated amount for each of the three years ended December 31, 2005, 2004 and 2003. Such expenses, amounting to RMB37,200,000 for each of the three years ended December 31, 2005, 2004 and 2003, have been included as part of the social welfare and support services expenses summarized in note 39.

The Company currently makes a fixed monthly contribution for each of its qualifying employees to a housing fund which is equally matched by a contribution from the employees. The contributions are paid to the Parent Company which utilizes the funds, along with the proceeds from the sales of accommodation and, if the need arises, from loans arranged by the Parent Company, to construct new accommodation. Starting from 2002, the Parent Company intends to sell the new accommodation by reference to market prices instead of cost. Accordingly, the Company paid an additional housing allowance to the employees at a percentage of their wages.

43. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of bank balances and cash, bills and accounts receivable, bills and accounts payables, other payables and accrued expenses and variable debts approximate their fair value because of the short maturity of these amounts or because they are stated at present value discounted using market rates. In addition, the carrying amount of bank borrowing approximates its fair value as the interest rate approximates the market rate.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

44. CONCENTRATION OF CREDIT RISK

The Group maintains its cash and cash equivalents with banks in the PRC.

The Group generally grants the long-term customers credit terms with a range from one to four months, depending on the situations of the individual customers. For small to medium sized new customers, the Group generally requires them to pay for the products before delivery.

Most of the Group's domestic sales are sales to electric power plants, metallurgical companies, construction material producers and railway companies. The Group generally has established long-term and stable relationships with these companies. The Group also sells its coal to provincial and city fuel trading companies.

As the Group does not currently have direct export rights, all of its export sales must be made through National Coal Corporation, Shanxi Coal Corporation or Minmetals Trading. The quality, prices and final customer destination of the Group's export sales are determined by the Group, National Coal Corporation, Shanxi Coal Corporation or Minmetals Trading. The Group intends to apply for direct export rights although there can be no assurance that such rights will be obtained on a timely basis.

For the years ended December 31, 2005, 2004 and 2003, net sales to the Group's five largest domestic customers accounted for approximately 20.0%, 15.3% and 18.5%, respectively, of the Group's total net sales. Net sales to the Group's largest domestic customer accounted for 13.4%, 9.2% and 11.3% of the Group's net sales for the years ended December 31, 2005, 2004 and 2003, respectively. The Group's largest domestic customer was the Huadian Power International Corporation Limited ("Huadian") for the year ended December 31, 2005 (2004: Huadian; 2003: the Shandong Power and Fuel Company). The Shandong Power and Fuel Company purchases coal on behalf of several power plants in Shangdong Province, the largest of which, the Zouxian Electric Power Plant, alone accounted for 9.6% of the Group's net sales for the years ended December 31, 2003.

Details of the amounts receivable from the five customers with the largest receivable balances at December 31, 2005 and 2004 are as follows:

	Percentage of accounts receivable At December 31,	
	2005	2004
Five largest receivable balances	<u>66%</u>	<u>75%</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

45. INFORMATION OF THE COMPANY

Pursuant to the Hong Kong Companies Ordinance, the Company's balance sheet is required to be disclosed as follows:

	At December 31,	
	2005 RMB'000	2004 RMB'000
ASSETS		
CURRENT ASSETS		
Bank balances and cash	4,940,802	4,978,640
Term deposits	1,326,335	–
Restricted cash	30,505	24,877
Bills and accounts receivable	2,224,636	1,223,188
Inventories	428,484	474,378
Other loans receivable	640,000	850,000
Amount due from Parent Company and its subsidiary companies	–	243,410
Prepayments and other current assets	198,617	188,364
Prepaid lease payments	13,171	13,171
Prepayment for land subsidence, restoration, rehabilitation and environmental costs	157,511	103,407
Amounts due from subsidiaries	304,219	350
TOTAL CURRENT ASSETS	10,264,280	8,099,785
MINING RIGHTS	99,359	105,983
PREPAID LEASE PAYMENTS	565,376	578,547
PROPERTY, PLANT AND EQUIPMENT, NET	8,271,361	8,330,567
GOODWILL	107,346	107,346
NEGATIVE GOODWILL	–	(27,621)
INVESTMENT IN SUBSIDIARIES	1,565,695	981,688
INVESTMENTS IN SECURITIES	224,381	62,181
DEPOSIT MADE ON INVESTMENT	–	574,000
TOTAL ASSETS	21,097,798	18,812,476

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

45. INFORMATION OF THE COMPANY (Continued)

	At December 31,	
	2005 RMB'000	2004 RMB'000
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Bills and accounts payable	497,719	478,281
Other payables and accrued expenses	1,325,664	1,246,411
Amounts due to subsidiaries	–	571,449
Amounts due to Parent Company and its subsidiary companies	463,942	–
Unsecured bank borrowing – due within one year	200,000	200,000
Taxes payable	647,247	528,689
TOTAL CURRENT LIABILITIES	3,134,572	3,024,830
AMOUNTS DUE TO PARENT COMPANY AND ITS SUBSIDIARY COMPANIES – DUE AFTER ONE YEAR	31,827	41,057
UNSECURED BANK BORROWING – DUE AFTER ONE YEAR	–	200,000
DEFERRED TAX LIABILITY	146,279	23,104
TOTAL LIABILITIES	3,312,678	3,288,991
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY (note)	17,785,120	15,523,485
TOTAL LIABILITIES AND EQUITY	21,097,798	18,812,476

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

45. INFORMATION OF THE COMPANY (Continued)

Note: The Company's equity are as follows:

	Share capital RMB'000	Share premium RMB'000	Future development fund RMB'000	Statutory common reserve fund RMB'000	Statutory common welfare fund RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at January 1, 2004	2,870,000	3,272,527	1,114,911	498,656	249,328	3,076,465	11,081,887
Net income and total income and expenses recognized for the year	-	-	-	-	-	3,155,403	3,155,403
Appropriations to reserves	-	-	331,548	270,779	135,389	(737,716)	-
Dividends	-	-	-	-	-	(470,680)	(470,680)
Share issued at premium	204,000	1,591,977	-	-	-	-	1,795,977
Share issue expenses	-	(39,102)	-	-	-	-	(39,102)
Balance at December 31, 2004	<u>3,074,000</u>	<u>4,825,402</u>	<u>1,446,459</u>	<u>769,435</u>	<u>384,717</u>	<u>5,023,472</u>	<u>15,523,485</u>
Balance at January 1, 2005	3,074,000	4,825,402	1,446,459	769,435	384,717	5,023,472	15,523,485
Effect of change in accounting polices	-	-	-	-	-	27,621	27,621
As adjusted	3,074,000	4,825,402	1,446,459	769,435	384,717	5,051,093	15,551,106
Net income and total income and expense recognized for the year	-	-	-	-	-	3,033,254	3,033,254
Appropriations to reserves	-	-	381,208	249,548	124,774	(755,530)	-
Dividends	-	-	-	-	-	(799,240)	(799,240)
Bonus issue of shares	1,844,400	(1,844,400)	-	-	-	-	-
Balance at December 31, 2005	<u>4,918,400</u>	<u>2,981,002</u>	<u>1,827,667</u>	<u>1,018,983</u>	<u>509,491</u>	<u>6,529,577</u>	<u>17,785,120</u>

46. SUBSEQUENT EVENT

Pursuant to a meeting for the holders of A shares of the Company held on March 6, 2006, the share reform plan ("Share Reform Plan") was approved by the relevant shareholders. Under the Share Reform Plan, 2.5 A shares for every existing 10 A shares would be offered by the Parent Company and the non-tradable legal person shares held by the Parent Company would then be converted to tradable shares in 4 years time according to a formula. The Share Reform Plan has been further approved by the Ministry of Commerce of the PRC on March 21, 2006.

SUPPLEMENTAL INFORMATION

I. SUMMARY OF DIFFERENCES BETWEEN IFRS AND PRC GAAP

The consolidated financial statements prepared under IFRS and those prepared under PRC GAAP have the following major differences:

- (i) adjustment of future development fund, which is charged to income before income taxes under PRC GAAP, to shareholders' equity;
- (ii) reversal of the Work Safety Cost provided but not yet utilizing for the enhancement of safety production environment and facilities, which is charged as expenses when provided under PRC GAAP;
- (iii) negative goodwill arising under IFRS for the acquisition of Jining III was recognized as income in the statement of income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets prior to January 1, 2005. No negative goodwill is recognized under PRC GAAP;
- (iv) the installments payable to the Parent Company for the acquisition of Jining III have been stated at present value discounted using market rates under IFRS while under PRC GAAP, the installments payable are stated at gross amounts. Accordingly, deemed interest expense arises on the installments payable to the Parent Company under IFRS and no such interest expenses are recognized under PRC GAAP;
- (v) write off pre-operating expenses capitalized in a subsidiary of the Company as a long term asset under PRC GAAP;
- (vi) reversal of amortization of goodwill under PRC GAAP, which is not amortized but instead tested for impairment at least annually under IFRS from January 1, 2005 onwards; and
- (vii) recognition of a deferred tax asset/liability under IFRS for the tax consequence of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities.

SUPPLEMENTAL INFORMATION (Cont'd)

I. SUMMARY OF DIFFERENCES BETWEEN IFRS AND PRC GAAP (Continued)

The following table summarizes the differences between IFRS and PRC GAAP:

	Net income attributable to the equity holders of the Company for the year ended December 31,			Net assets attributable to equity holders of the Company as at December 31,	
	2005 RMB'000	2004 RMB'000	2003 RMB'000	2005 RMB'000	2004 RMB'000
As per consolidated financial statements prepared under IFRS	2,881,461	3,154,317	1,386,686	17,618,577	15,523,751
Impact of IFRS adjustments in respect of:					
– transfer to future development fund which is charged to income before income taxes under PRC GAAP	(381,208)	(331,548)	(259,674)	(269,945)	(96,669)
– reversal of Work Safety Cost	(238,600)	(204,668)	–	(443,268)	(204,668)
– release of negative goodwill to income	–	(27,620)	(27,620)	(138,101)	(110,480)
– deemed interest expenses	3,858	4,550	5,261	113,220	109,362
– write-off of pre-operating expenses of a subsidiary	121,801	–	–	121,801	–
– reversal of goodwill amortisation	(15,006)	–	–	(15,006)	–
– deferred tax effect on temporary differences not recognized under PRC GAAP	123,175	111,976	(65)	146,279	23,104
– others	–	778	777	8,070	8,071
As per consolidated financial statements prepared under PRC GAAP	<u>2,495,481</u>	<u>2,707,785</u>	<u>1,105,365</u>	<u>17,141,627</u>	<u>15,252,471</u>

Note: There are also differences in other items in the consolidated financial statements due to differences in classification between IFRS and PRC GAAP.

SUPPLEMENTAL INFORMATION (Cont'd)

II SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP

The consolidated financial statements are prepared in accordance with IFRS, which differ in certain significant respects from US GAAP. The significant differences relate principally to the accounting for the acquisitions of Jining II, Jining III and Railway Assets, the cost bases of property, plant and equipment and land use rights and related adjustments to deferred taxation.

Under IFRS, the acquisitions of Jining II, Jining III and the Railway Assets have been accounted for using the purchase method which accounts for the assets and liabilities of Jining II, Jining III and the Railway Assets at their fair value at the date of acquisition. Any excess of the purchase consideration over the fair value of the net assets acquired is capitalized as goodwill. Prior to January 1, 2005, such goodwill was amortized over a period of ten to twenty years. Subsequent to January 1, 2005, such goodwill is tested for impairment at least annually. Prior to January 1, 2005, any excess of the fair value of the net assets acquired over the purchase consideration is recorded as negative goodwill, which was presented as a deduction from the assets of the Group in the consolidated balance sheet. Such negative goodwill was released to the statement of income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets. The carrying amount of negative goodwill has been de-recognized and adjusted to the opening retained earnings at January 1, 2005.

Under US GAAP, as the Group, Jining II, Jining III, the Railway Assets and Heze are entities under the common control of the Parent Company, the assets and liabilities of Jining II, Jining III, the Railway Assets and Heze are required to be included in the consolidated balance sheet of the Group at historical cost. The difference between the historical cost of the assets and liabilities of Jining II, Jining III, the Railway Assets and Heze acquired and the purchase price paid is recorded as an adjustment to shareholders' equity.

In applying the pooling of interest method, the financial statement items of the combining enterprises for the period in which the combination occurs and for any comparative periods disclosed should be included in the financial statements of the combined enterprises as if they had been combined from the beginning of the earliest period presented. The effect of accounting for the acquisition of Heze using the pooling of interest method on the net income under US GAAP for the year ended December 31, 2004 and 2003 is as follows:

	Year ended December 31,	
	2004	2003
	RMB'000	RMB'000
Net income		
As previously reported	3,272,478	1,499,249
Pooling of interest adjustment		
Net loss from Heze	(8,586)	—
As restated	<u>3,263,892</u>	<u>1,499,249</u>

II SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP (Continued)

Under IFRS, the mining rights of Jining III are stated at purchase consideration less amortization. Mining rights are amortized on a straight line basis over twenty years, being the useful life estimated based on the total proven and probable reserves of the coal mine. Under US GAAP, as both the Group and Jining III are entities under the common control of the Parent Company, the mining rights have to be restated at nil cost and no amortization on mining rights will be recognized. However, a deferred tax asset relating to the capitalization of mining rights is required to be recognized under US GAAP as a higher tax base resulting from the capitalization is utilized for PRC tax purposes.

Under IFRS, property, plant and equipment and prepaid lease payments have been stated based on their respective fair values at the date of acquisition even for cases involving transaction between entities under common control. The fair value amount becomes the new cost basis of the assets of the Company formed from the reorganization and depreciation is based on such new basis. Under US GAAP, when accounting for a transfer of assets or exchange of shares between entities under common control, the entity that receives the net assets or equity interests shall initially recognize the assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity at the date of transfer. Accordingly, property, plant and equipment and prepaid lease payments are restated at the historical cost and no additional depreciation on the fair value amounts will be recognized under US GAAP. However, a deferred tax asset relating to the difference in cost bases between the fair value at the date of acquisition and historical cost is required to be recognized under US GAAP and the tax bases of the assets are the fair value amount at the date of acquisition.

Under IFRS, the acquisition of Yanmei Shipping has been accounted for using purchase method which accounted for the assets and liabilities of Yanmei Shipping at their fair value at the date of acquisition. The excess of the purchase consideration over the value of the net assets acquired is capitalized and amortized over a period of ten years prior to January 1, 2005. No further difference in this treatment of goodwill are identified from January 1, 2005 onwards. Under US GAAP, goodwill is not amortized but instead tested for impairment at least annually.

SUPPLEMENTAL INFORMATION (Cont'd)

II SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP (Continued)

The adjustments necessary to restate net income and shareholders' equity in accordance with US GAAP are shown in the tables set out below.

	Year ended December 31,		
	2005 RMB'000	2004 RMB'000	2003 RMB'000
Income attributable to the equity holders of the Company as reported under IFRS	2,881,461	3,154,317	1,386,686
US GAAP adjustments:			
Additional depreciation charged on fair valued property, plant and equipment and prepaid lease payments	187,885	187,418	188,191
Additional deferred tax charge due to a higher tax base resulting from the difference in cost bases of property, plant and equipment and prepaid lease payments and capitalization of mining rights	(64,188)	(64,034)	(64,289)
Amortization of negative goodwill on acquisition of Jining III	–	(27,620)	(27,620)
Amortization of mining rights of Jining III	6,624	6,624	6,624
Amortization of goodwill arising on acquisition of Jining II	–	777	777
Amortization of goodwill arising on acquisition of the Railway Assets	–	13,880	8,880
Amortization of goodwill arising on acquisition of Yanmei Shipping	–	1,116	–
Loss of Heze included in the Group using the pooling of interest method	(17,071)	(8,586)	–
Income under US GAAP	<u>2,994,711</u>	<u>3,263,892</u>	<u>1,499,249</u>
Earnings per share under US GAAP, Basic and diluted	<u>RMB0.61</u>	<u>RMB0.69</u>	<u>RMB0.33</u>
Earnings per ADS under US GAAP Basic and diluted	<u>RMB30.44</u>	<u>RMB34.40</u>	<u>RMB16.32</u>

SUPPLEMENTAL INFORMATION (Cont'd)

II SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP (Continued)

	At December 31,	
	2005 RMB'000	2004 RMB'000
Equity attributable to the equity holders of the Company as reported under IFRS	17,618,577	15,523,751
US GAAP adjustments:		
Difference in cost bases of property, plant and equipment and prepaid lease payments	(2,561,032)	(2,561,032)
Additional depreciation/amortization charged on fair valued property, plant and equipment and prepaid lease payments	1,500,823	1,312,938
Additional deferred tax asset due to a higher tax base resulting from the difference in cost bases of property, plant and equipment and prepaid lease payments	349,869	411,871
Goodwill arising on acquisition of Jining II	(10,106)	(10,106)
Negative goodwill arising on acquisition of Jining III, net Mining rights of Jining III	(99,359)	(105,983)
Additional deferred tax asset due to a higher tax base resulting from capitalization of mining rights	32,788	34,974
Goodwill arising on acquisition of Railway Assets	(97,240)	(97,240)
Amortization of goodwill on acquisition of Yanmei Shipping	1,116	1,116
Net assets of Heze incorporated under pooling of interest		
– current assets		442,355
– property, plant and equipment, net		192,963
– current liabilities	–	(44,292)
– minority interests	–	(25,592)
	–	565,434
Consideration payable on acquisition of Heze	–	(584,008)
Goodwill arising on acquisition of Heze	(35,645)	–
Shareholders' equity under US GAAP	<u>16,699,791</u>	<u>14,519,336</u>

Under US GAAP, the Group's total assets would have been RMB20,189,379,000 and RMB17,379,062,000 at December 31, 2005 and 2004, respectively.

SUPPLEMENTAL INFORMATION (Cont'd)

II SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP (Continued)

Details of effect of recent accounting pronouncements in the US GAAP are as follows:

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 123 (revised 2004) ("SFAS No. 123-R"). "Share-Based Payment", which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS No. 123-R supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". Generally, the approach in SFAS No. 123-R is similar to the approach described in SFAS No. 123. However, SFAS No. 123-R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on the grant-date fair values. Pro forma disclosure previously permitted under SFAS No. 123 is no longer an alternative. The new standard, as recently amended, will be effective for the Group in the annual reporting period beginning after January 1, 2006. Under SFAS No. 123-R, the Group could elect the modified prospective or modified retroactive option for transition on the adoption of this new standard. Under the modified retroactive option, prior periods are adjusted on a basis consistent with the pro forma disclosures previously required for those periods by SFAS No. 123. Under the modified prospective option, compensation expense for all unvested stock options must be recognized on or after the required effective date based on the grant-date fair value of those stock options. The Group does not issue stock options and therefore the adoption of SFAS No. 123-R did not have material impact on the Group's financial statements.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs — an amendment of ARB No. 43, Chapter 4". SFAS No. 151 clarifies the accounting that requires abnormal amounts of idle facility expenses, freight, handling costs, and spoilage costs to be recognized as current-period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 will be effective for inventory costs incurred on or after July 1, 2005. The Group adopted SFAS No. 151 on July 1, 2005 and it did not have a material effect on the Group's financial position or results of operations.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets — an amendment of APB Opinion No. 29" ("SFAS 153"), which amends Accounting Principles Board Opinion No. 29, "Accounting for Nonmonetary Transactions" to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS 153 is effective for nonmonetary assets exchanges occurring in fiscal periods beginning after June 15, 2005. The Group does not anticipate that the adoption of this statement will have a material effect on the Group's financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS 154") which replaces Accounting Principles Board Opinions No. 20 "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements — An Amendment of APB Opinion No. 28." SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Group does not anticipate that the adoption of this statement will have a material effect on the Group's financial position or results of operations.

REPORT OF THE AUDITORS (PRC)

德勤华永会计师事务所有限公司

Deloitte Touche Tohmatsu
Certified Public Accountants Ltd.
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Deloitte.
德勤

YANZHOU COAL MINING COMPANY LIMITED
AUDITOR'S REPORT FOR THE YEAR ENDED DECEMBER 31, 2005
DTT (A) (06) No. P0690 [Translation]

TO THE SHAREHOLDERS OF YANZHOU COAL MINING COMPANY LIMITED

We have audited the accompanying balance sheets of the Company and the Group as of December 31, 2005 and the related statements of income and cash flows of the Company and the Group for the year then ended. The preparation of these financial statements is the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We planned and performed our audit in accordance with China's Independent Auditing Standards to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant accounting estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements on pages 114 to 161 present fairly, in all material respects, the financial position of the Company and the Group as of December 31, 2005 and the results of their operations and cash flows for the year then ended in accordance with the requirements of the Accounting Standards for Business Enterprises and the "Accounting System for Business Enterprises" promulgated by the State.

Deloitte Touche Tohmatsu CPA Ltd.

Shanghai, China

Chinese Certified Public Accountants
Zhang Ying
Chen Song

April 21, 2006

BALANCE SHEET (under PRC GAAP)

At December 31, 2005

NOTES	The Group		The Company		
	December 31, 2005 RMB	December 31, 2004 RMB	December 31, 2005 RMB	December 31, 2004 RMB	
ASSETS					
CURRENT ASSETS:					
Bank balances and cash	5	7,278,972,385	5,278,468,720	6,297,641,649	5,003,516,578
Current investments	6	640,000,000	850,000,000	640,000,000	850,000,000
Notes receivable	7	2,100,443,880	898,465,509	2,100,243,880	897,865,509
Dividends receivable		–	–	–	350,456
Accounts receivable	8	134,802,711	340,848,078	134,802,711	340,848,078
Other receivables	9	143,528,596	432,247,118	398,177,622	401,278,358
Prepayments	11	73,704,963	60,049,058	78,776,194	66,218,808
Inventories	12	470,501,129	485,428,372	428,483,999	474,377,994
Deferred expenses	13	62,444,803	56,644,671	62,346,044	55,863,146
Other current assets	14	157,511,340	103,406,734	157,511,340	103,406,734
TOTAL CURRENT ASSETS		11,061,909,807	8,505,558,260	10,297,983,439	8,193,725,661
LONG-TERM INVESTMENTS					
Long-term equity investments	15	81,117,603	646,226,054	1,597,035,257	1,618,135,335
Including: Discrepancy on consolidation	15	18,936,910	10,045,361	–	–
Long-term debt investments	16	–	–	162,200,000	–
TOTAL LONG TERM INVESTMENTS		81,117,603	646,226,054	1,759,235,257	1,618,135,335
FIXED ASSETS:					
Fixed assets – cost	17	15,978,522,004	15,024,982,743	15,669,699,268	14,813,883,039
Less: Accumulated depreciation	17	7,902,722,461	6,773,521,923	7,883,750,808	6,766,087,913
Fixed assets – net book value	17	8,075,799,543	8,251,460,820	7,785,948,460	8,047,795,126
Materials held for construction of fixed assets	18	194,334,918	1,993,287	8,926,618	1,993,287
Fixed assets under construction	19	711,236,841	84,512,193	124,679,186	81,594,857
TOTAL FIXED ASSETS		8,981,371,302	8,337,966,300	7,919,554,264	8,131,383,270
INTANGIBLE ASSETS AND OTHER ASSETS					
Intangible assets	20	815,161,408	827,575,090	761,255,776	794,940,709
Long-term deferred expenses	21	148,620,077	–	–	–
TOTAL INTANGIBLE ASSETS AND OTHER ASSETS		963,781,485	827,575,090	761,255,776	794,940,709
TOTAL ASSETS		21,088,180,197	18,317,325,704	20,738,028,736	18,738,184,975

The accompanying notes are part of the financial statements.

BALANCE SHEET (under THE PRC GAAP) (Cont'd)

At December 31, 2005

NOTES	The Group		The Company	
	December 31, 2005 RMB	December 31, 2004 RMB	December 31, 2005 RMB	December 31, 2004 RMB
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Notes payable	22 136,779,128	–	136,779,128	–
Accounts payable	23 381,517,651	515,892,192	381,517,651	515,892,192
Advances from customers	24 527,865,895	458,038,528	527,793,426	458,022,488
Salaries and wages payable	25 127,539,246	80,241,534	126,888,680	80,223,075
Taxes payable	26 897,202,321	784,731,685	895,394,930	784,396,963
Other payables	27 1,194,089,906	616,637,336	885,365,147	1,065,538,997
Long-term payable due within one year	28/29 304,709,446	218,732,157	304,709,446	218,732,157
TOTAL CURRENT LIABILITIES	3,569,703,593	2,674,273,432	3,258,448,408	3,122,805,872
LONG-TERM LIABILITIES:				
Long-term loan	28 –	200,000,000	–	200,000,000
Long-term payable	29 322,936,910	162,908,540	322,936,910	162,908,540
TOTAL LONG-TERM LIABILITIES	322,936,910	362,908,540	322,936,910	362,908,540
TOTAL LIABILITIES	3,892,640,503	3,037,181,972	3,581,385,318	3,485,714,412
MINORITY INTERESTS	53,912,439	27,673,169	–	–
SHAREHOLDERS' EQUITY:				
Share capital	30 4,918,400,000	3,074,000,000	4,918,400,000	3,074,000,000
Capital reserves	31 4,865,480,791	6,501,949,387	4,865,480,791	6,501,949,387
Surplus reserves	32 1,528,790,703	1,154,468,484	1,528,474,119	1,154,151,900
Including: Statutory common welfare fund	32 509,649,665	384,875,592	509,491,373	384,717,300
Cash dividend proposed after the balance sheet date	33 1,082,048,000	799,240,000	1,082,048,000	799,240,000
Unappropriated profits	34 4,761,923,924	3,722,812,692	4,762,240,508	3,723,129,276
Translation reserve	(15,016,163)	–	–	–
TOTAL SHAREHOLDERS' EQUITY	17,141,627,255	15,252,470,563	17,156,643,418	15,252,470,563
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	21,088,180,197	18,317,325,704	20,738,028,736	18,738,184,975

The accompanying notes are part of the financial statements.

The financial statements on pages 114 to 161 were signed by the following:

Head of the Company:
Geng Jia Huai

Chief Financial Officer:
Wu Yu Xiang

Head of Accounting Department:
Zhang Bao Cai

STATEMENT OF INCOME AND PROFITS APPROPRIATION (under PRC GAAP)

For the year ended December 31, 2005

	NOTES	The Group		The Company	
		2005 RMB	2004 RMB	2005 RMB	2004 RMB
Revenue from principal operations	35	12,705,529,905	12,209,163,529	12,705,529,905	12,209,163,529
Less: Cost of principal operations	36	5,907,119,918	5,086,472,309	5,908,395,835	5,087,919,186
Sales taxes and surcharges	37	258,504,729	231,340,630	258,504,729	231,340,630
Profit from principal operations		6,539,905,258	6,891,350,590	6,538,629,341	6,889,903,713
Add: Profits from other operations	38	43,674,129	39,031,783	41,770,016	37,812,551
Less: Operating expenses	39	997,377,040	1,473,128,158	1,001,895,961	1,477,900,400
General and administrative expenses		1,627,752,362	1,298,030,947	1,603,012,619	1,291,676,868
Financial expenses	40	45,193,046	(44,159,594)	34,758,133	(43,365,374)
Operating profit		3,913,256,939	4,203,382,862	3,940,732,644	4,201,504,370
Add: Investment income	41	9,092,385	25,174,956	(20,638,842)	25,556,243
Non-operating income	42	2,397,034	11,936,922	2,185,909	11,605,824
Less: Non-operating expenses	43	13,927,078	125,671,496	12,618,939	125,622,993
Total profits		3,910,819,280	4,114,823,244	3,909,660,772	4,113,043,444
Less: Income taxes	44	1,414,861,832	1,406,785,722	1,414,179,321	1,405,258,598
Minority interest		475,997	252,676	–	–
Net profit		2,495,481,451	2,707,784,846	2,495,481,451	2,707,784,846
Add: Unappropriated profits at the beginning of the year	34	3,722,812,692	2,220,500,672	3,723,129,276	2,220,752,156
Profits available for appropriation		6,218,294,143	4,928,285,518	6,218,610,727	4,928,537,002
Less: Appropriations to statutory common reserve fund	34	249,548,146	270,811,034	249,548,146	270,778,484
Appropriations to statutory common welfare fund	34	124,774,073	135,421,792	124,774,073	135,389,242
Profits available for appropriation to shareholders		5,843,971,924	4,522,052,692	5,844,288,508	4,522,369,276
Less: Cash dividend proposed after the balance sheet date	33	1,082,048,000	799,240,000	1,082,048,000	799,240,000
Unappropriated profits at the end of the year		4,761,923,924	3,722,812,692	4,762,240,508	3,723,129,276

The accompanying notes are part of the financial statements.

CASH FLOW STATEMENT (under PRC GAAP)

For the year ended December 31, 2005

NOTES	The Group		The Company	
	2005 RMB	2004 RMB	2005 RMB	2004 RMB
1. CASH FLOW FROM OPERATING ACTIVITIES:				
Cash received from sales of goods or rendering of services	13,476,932,655	13,811,316,864	13,475,817,162	13,810,353,368
Refunds of taxes	–	275,624,031	–	275,624,031
Other cash received relating to operating activities	46 588,838,380	192,623,914	186,985,815	195,917,541
Sub-total of cash inflows	14,065,771,035	14,279,564,809	13,662,802,977	14,281,894,940
Cash paid for goods and services	3,903,830,672	3,631,919,750	3,921,446,617	3,646,457,066
Cash paid to and on behalf of employees	1,785,519,649	1,702,043,503	1,765,543,379	1,700,453,371
Taxes payment	2,537,018,590	2,030,649,428	2,536,222,962	2,029,066,507
Other cash paid relating to operating activities	47 1,846,492,022	2,488,706,281	2,205,656,139	2,496,598,428
Sub-total of cash outflows	10,072,860,933	9,853,318,962	10,428,869,097	9,872,575,372
NET CASH FLOW FROM OPERATING ACTIVITIES	3,992,910,102	4,426,245,847	3,233,933,880	4,409,319,568
2. CASH FLOW FROM INVESTING ACTIVITIES:				
Cash received from the returns of investments	210,000,000	600,000,000	210,000,000	600,000,000
Cash received from return on investment	10,208,536	26,291,107	10,819,392	26,291,107
Net cash received from disposal of fixed assets intangible assets and other long-term assets	4,378,342	17,008,924	4,214,255	16,967,165
Cash received from acquisition of Heze Power	48 170,247,828	–	–	–
Decrease in restricted cash	303,647	–	–	–
Sub-total of cash inflows	395,138,353	643,300,031	225,033,647	643,258,272
Cash paid to acquire fixed assets, intangible assets and other long-term assets	1,353,764,616	783,022,445	959,394,956	779,522,963
Cash paid for investments	–	2,090,585,001	172,207,700	2,350,282,380
Including: Net cash paid for acquisition of Heze	48 –	574,000,000	10,007,700	574,000,000
Cash paid for acquisition of Southland Assets	–	136,301,992	–	–
Increase in restricted cash	–	36,854,436	–	–
Sub-total of cash outflows	1,353,764,616	2,910,461,882	1,131,602,656	3,129,805,343
NET CASH FLOW USED IN INVESTING ACTIVITIES	(958,626,263)	(2,267,161,851)	(906,569,009)	(2,486,547,071)
3. CASH FLOW FROM FINANCING ACTIVITIES:				
Cash received from issue of share capital	–	1,756,875,383	–	1,756,875,383
Sub-total of cash inflows	–	1,756,875,383	–	1,756,875,383

CASH FLOW STATEMENT (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

NOTES	The Group		The Company	
	2005 RMB	2004 RMB	2005 RMB	2004 RMB
Repayments of borrowings	200,000,000	200,000,000	200,000,000	200,000,000
Cash paid for acquisition of Jining III	13,247,800	13,247,800	13,247,800	13,247,800
Dividends paid, profit distributed or interest paid	820,228,727	502,390,608	819,992,000	502,072,000
Include: dividends paid to minority shareholder of a subsidiary	236,727	318,608	-	-
Sub-total of cash outflows	1,033,476,527	715,638,408	1,033,239,800	715,319,800
NET CASH FLOW FROM (USED IN) FINANCING ACTIVITIES	(1,033,476,527)	1,041,236,975	(1,033,239,800)	1,041,555,583
4. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	-	-	-	-
5. NET INCREASE IN CASH AND CASH EQUIVALENTS	2,000,807,312	3,200,320,971	1,294,125,071	2,964,328,080
SUPPLEMENTAL INFORMATION:				
1. RECONCILIATION OF NET PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES:				
Net profit	2,495,481,451	2,707,784,846	2,495,481,451	2,707,784,846
Add: Minority interest	475,997	252,676	-	-
Impairment losses on assets	-	49,104,445	-	49,104,445
Depreciation of fixed assets	959,241,081	979,265,775	950,274,520	977,965,985
Provision for Wei Jian Fei	207,931,404	234,878,898	207,931,404	234,878,898
Provision for Work Safty Expense	277,241,872	204,668,160	277,241,872	204,668,160
Provision for Reform and Specific Development Fund	173,276,170	96,668,980	173,276,170	96,668,980
Amortization of intangible assets	33,684,933	33,697,987	33,684,933	33,697,987
Decrease (Increase) in deferred expenses	(5,800,132)	38,001,760	(6,482,898)	38,783,285
Decrease (Increase) in long-term deferred assets	(121,801,480)	-	-	-
Losses (Gains) on disposal of fixed assets, Intangible assets and other long-term assets	526,605	104,597,336	526,605	104,585,195
Financial expenses	20,752,000	31,392,000	20,752,000	31,392,000
Gain (Loss) arising from investments	(9,092,385)	(25,174,956)	20,638,842	(25,556,243)
Decrease (Increase) in inventories	14,927,243	16,600,171	45,893,995	22,252,239
Decrease (Increase) in receivables under operating activities	(776,801,811)	(3,029,399)	(1,064,184,260)	(9,104,537)
Increase (Decrease) in payables under operating activities	722,867,154	(42,462,832)	78,899,246	(57,801,672)
NET CASH FLOW FROM OPERATING ACTIVITIES	3,992,910,102	4,426,245,847	3,233,933,880	4,409,319,568
2. NET INCREASE IN CASH AND CASH EQUIVALENTS:				
Cash at the end of the year	49 7,242,421,596	5,241,614,284	6,297,641,649	5,003,516,578
Less: Cash at the beginning of the year	5,241,614,284	2,041,293,313	5,003,516,578	2,039,188,498
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,000,807,312	3,200,320,971	1,294,125,071	2,964,328,080

The accompanying notes are part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP)

For the year ended December 31, 2005

1. GENERAL

Yanzhou Coal Mining Company Limited (the “Company”) is a Sino-foreign joint stock company with limited liability established in the People’s Republic of China (the “PRC”). The Company was established on September 25, 1997 by Yankuang Group Corporation Limited (the “Yankuang Group”) and commenced operations on October 1, 1997. The A Shares, H Shares and American Depository Shares issued by the Company are listed on the stock exchanges in Shanghai, Hong Kong and New York, respectively. The principal operations of the Company are the mining and screening of coal, sales of coal products and coal transportation service.

On August 4, 2005, approved by the shareholders’ meeting, six bonus shares for every ten shares issued by conversion from capital reserve of 1,844,400,000 shares is proposed based on the total issued shares of 3,074,000,000 (each share with a per value of RMB1). After the new issue of shares, the company has 4,918,400,000 shares in issue, including RMB2,672,000,000 state legal person shares (representing 54.33% of the total share capital); RMB1,958,400,000 H Shares and American Depository Shares listed on overseas stock exchanges (representing 39.82% of the total share capital); and RMB288,000,000 A Shares (representing 5.85% of the total share capital) listed on domestic stock exchange. Details of the Company’s share capital are set out in note 30 to the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Accounting system and accounting standards adopted

The Company has adopted the Accounting Standards for Business Enterprises, the “Accounting System for Business Enterprises” and the supplementary regulations thereto.

Basis of accounting and principle of measurement

The Company has adopted the accrual basis of accounting and uses the historical cost convention as the principle of measurement.

Accounting year

The Company has adopted the calendar year as its accounting year, i.e. from January 1 to December 31.

Reporting currency

The recording currency of the Company is Renminbi.

Foreign currency translation

Transactions denominated in foreign currencies (currencies other than the reporting currency) are translated into Renminbi at the applicable rates of exchange (“market exchange rate”) prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the market exchange rate prevailing at the balance sheet date. Exchange gains or losses incurred on a specific borrowing for the acquisition or construction of a fixed asset are capitalized as part of the cost of fixed asset before the fixed asset has reached working condition for its intended use; other exchange gains or losses are dealt with as finance costs.

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Accounting for bad debts

1) Criteria for recognition of bad debts

The irrecoverable amount of a bankrupt debtor after pursuing the statutory procedures; the irrecoverable amount of a debtor who has deceased and has insufficient estate to repay; the amount owed by a debtor who is unable to repay the obligations after the debts fall due, and the amount is irrecoverable or unlikely to be recovered as demonstrated by sufficient evidence.

2) Accounting treatment for bad debt losses

Bad debt is accounted for using the allowance method and provided according to the recoverability of receivables at the year-end. The provision for bad debts relating to significant receivable accounts, amounts due from related parties and deposit on packing materials for long-term use are individually identified based on relevant information such as past experience, actual financial position and cash flows of the debtors, as well as other relevant information. General provision for the remaining receivables is estimated according to aging analysis. The percentages of the general provision are as follows:

Within 1 year (including 1 year)	4%
1-2 years	30%
2-3 years	50%
Over 3 years	100%

Inventories

Inventories are initially recorded at cost. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Inventories mainly include raw materials and finished goods.

Inventories are accounted for using the actual costing method. In determining the cost of inventories transferred out or issued for use, the actual costs of raw materials and finished goods are determined by the moving average and weighted average method, respectively.

The Company adopts a perpetual inventory system to account for its inventory.

Provision for decline in value of inventories

Inventories are measured at the lower of cost and net realizable value at the end of a period. When the net realizable value is lower than the cost, the difference is recognized as a provision for decline in value. Provision for decline in value of inventories is made by comparing cost with net realizable value on an individual item basis.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs to completion and the estimated expenses and the related taxes necessary to make the sale.

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Current investments

A current investment is initially recorded at its cost of acquisition. The initial cost of an investment is the total price paid on acquisition, including incidental expenses such as tax payments and handling charges. However, cash dividends declared but unpaid or bonds interests due but unpaid that are included in the acquisition cost are accounted for separately as receivable items.

Cash dividends or interest on current investments, other than those recorded as receivable items as noted in the preceding paragraph, are offset against the carrying amount of investments upon receipt.

Current investments are carried at the lower of cost and market value at the end of each period. Provision on current investments is calculated and determined on the basis of individual investment.

On disposal of a current investment, the difference between the carrying amount of the investment and the sales proceeds actually received is recognized as an investment gain or loss in the current period.

Designated deposit

Designated deposit represents an instructed deposit with an authorized lending institution which lends the deposit to a third party and is accounted for at the actual amount lent out. For those principal and interest receivable that mature within one year should be classified under "short-term investment", those that mature over one year should be classified under "long-term debt investment".

Interest income from such loans is accrued at the interest rate specified in the loan agreement and recognized in the income statement on a time basis. Accruing interest is stopped if that interest cannot be collected on due dates, and any interest that has previously been accrued is reversed. Designated deposit is carried at the lower of cost and recoverable amount at the end of each period. Where the recoverable amount is lower than the principal amount of a designated deposit, the difference is recognized as a provision for impairment loss.

Recoverable amount

Recoverable amount is the higher of an asset's net selling price and the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life.

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Long-term investments

(1) Accounting treatment for long-term investments

A long-term investment is initially recorded at its cost on acquisition.

The cost method is used to account for a long-term equity investment when the Company does not have control, joint control or significant influence over the investee enterprise. The equity method is used when the Company can control, jointly control or has significant influence over the investee enterprise.

When the cost method is adopted, the amount of investment income recognized is limited to the amount distributed out of accumulated net profits of the investee enterprise that has arisen after the investment was made. The amount of profits or cash dividends declared by the investee enterprise in excess of the above threshold is treated as return of investment cost, and the carrying amount of the investment is reduced accordingly.

When the equity method is adopted, the investment income for the current period is recognized according to the attributable share of the net profit or loss of the investee enterprises. The attributable share of net losses incurred by the investee enterprise is recognized to the extent that the carrying amount of the investment is reduced to zero. If the investee enterprise realizes net profits in subsequent periods, the carrying amount of the investment is resumed by the excess of the Company's attributable share of profits over the share of unrecognized losses.

When a long-term equity investment is accounted for using the equity method, the difference between the initial investment cost of the Company and its share of owners' equity of the investee enterprise is accounted for as "equity investment difference". An excess of the initial investment cost over the Company's share of owners' equity of the investee enterprise is debited to "long-term equity investment – equity investment difference" and amortized on a straight-line basis and charged to the income statement accordingly. The amortization period is the investing period if it is stipulated in the investment contract. Otherwise, it is amortized over a period of not more than 10 years. A shortfall of the initial investment cost below the Company's share of owners' equity of the investee enterprise arising before the issuance of Caikuai [2003] 10, is credited to "long-term equity investment – equity investment difference", and amortized on a straight-line basis and charged to the income statement accordingly. The amortization period is the investing period if it is stipulated in the investment contract. Otherwise, it is amortized over a period of not less than 10 years. The shortfall of the initial investment cost below the Company's share of owners' equity of the investee enterprise arising after the issuance of Caikuai [2003] 10 is credited to "capital reserves – provision for equity investment".

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Long-term investments (continued)

(2) Impairment of long-term investments

If the recoverable amount of any long-term investment is lower than the carrying amount of that investment as a result of a continuing decline in market value or changes in operating conditions of the investee enterprise, the difference between the recoverable amount and the carrying amount of the investment should be recognized as an impairment loss in the current period.

Fixed assets and depreciation

Fixed assets are stated at cost or valuation upon the restructuring. Except for lands category for which no depreciation is provided, and mining structures, which are depreciated using the estimated production volume method, depreciation is provided over their estimated useful lives from the month after they have reached the working condition for their intended use using the straight-line method. The estimated residual rate, useful life and annual depreciation rate of each category of fixed assets are as follows:

Category	Estimated residual value	Useful life	Annual depreciation rate
Buildings	3%	15-30 years	3.23-6.47%
Railway structure	3%	15-25 years	3.88-6.47%
Harbor works and craft	3%	40 years	2.43%
Plant, machinery and equipment	3%	5-15 years	6.47-19.40%
Transportation equipment (Note)	3%	6-18 years	5.39-16.17%

Note: Vessels of Shandong Yanmei Shipping Co., Ltd. are depreciated over 18 years. All the other transportation equipments are depreciated over 6 to 9 years.

Mining structures are depreciated using production volume method at RMB2.5 per tonne of raw coal mined.

Land category only refers to that of Australian Southland coal mine and no depreciation is provided for as Astar Coal Mine Pty Limited, a subsidiary of the Company, enjoys the permanent ownership.

Subsequent costs incurred on an asset upon its initial recognition shall be recognised as addition to the asset provided economic benefits associated with the item will flow to the Company, and the revised carrying amount does not exceed the recoverable amount of the said asset.

Impairment of fixed assets

At the end of each period, the Company determines whether an impairment loss should be recognized for a fixed asset by considering the indications that such a loss may have occurred. When the recoverable amount of any fixed asset is lower than its carrying amount, an impairment loss on fixed asset is recognized for the difference.

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Fixed assets under construction

Fixed assets under construction are recorded at the actual cost incurred for the construction. Cost includes all expenditures incurred for construction projects, capitalized borrowing costs incurred on a specific borrowing for the construction of fixed assets incurred before it has reached the working condition for its intended use, and other related expenses. A fixed asset under construction is transferred to fixed assets when it has reached the working condition for its intended use.

At the end of each period, the Company determines whether an impairment loss should be recognized for a construction in progress by considering the indications that such a loss may have occurred. Where the recoverable amount of any construction in progress is lower than its carrying amount, an impairment loss on construction in progress is recognized for the difference.

Intangible assets

Intangible assets are recorded at the actual cost of acquisition or valuation upon the restructuring.

Land use rights are evenly amortized over 50 years since the certificate of land use rights are obtained.

Mining rights are evenly amortized over the useful life since the rights are obtained. The useful life is estimated based on the total proven and probable reserves of the coal mine.

Goodwill represents the excess of the purchase consideration over the net assets of the acquired business unit as a whole.

Goodwill is evenly amortized over 10 years, starting from its initial recognition. Additional of such goodwill acquired in future are amortized over the remaining life of the original amortization period.

Impairment loss on intangible assets

At the end of each period, the Company determines whether an impairment loss should be recognized for an intangible asset by considering the indications that such a loss may have occurred. When the recoverable amount of any intangible asset is lower than its carrying amount, an impairment loss on the intangible asset is recognized for the difference.

Long-term deferred expenses

Unless related to the acquisition or construction of fixed assets, all expenditure incurred during the pre-operating period is recognized as an expense in the month in which the enterprise commences operation.

Provisions

The obligation related to a contingency is recognized as a liability when it meets the following conditions:

- (1) the obligation is a present obligation of the Company; and
- (2) it is probable that an outflow of economic benefits from the Company will be required to settle the obligation; and
- (3) a reliable estimate can be made of the amount of the obligation.

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Provisions (continued)

Where some or all of the expenditure required to settle a liability that meets the above recognition criteria is expected to be reimbursed by a third party or other parties, the reimbursement is separately recognized as an asset when, and only when, it is virtually certain that the reimbursement will be received. The amount recognized for the reimbursement is limited to the carrying amount of the liability recognized.

Borrowing costs

Borrowing costs comprise interest incurred on borrowings, amortization of discounts or premiums, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings. Borrowing costs incurred on a specific borrowing for the acquisition or construction of a fixed asset, are capitalized as the cost of the fixed asset to the extent they are incurred before the fixed asset has reached working condition for its intended use if the conditions for capitalisation are met. Other borrowing costs are recognized as expenses and included as finance costs in the period in which they are incurred.

Wei Jian Fei

According to the relevant regulations, Wei Jian Fei is accrued at RMB6 per tonne of raw coal mined and is recorded in cost of sales and other current liabilities. Wei Jian Fei is used for purchase of coal production equipment and refurbishment of coal mining structure and the corresponding amounts are transferred from other current liabilities to capital reserves when related expenditure occurs. Pursuant to the relevant regulations, the capital reserve can only be used for the future development of the coal mining business.

Work Safety Expense

Pursuant to "Method for Accrual and Usage of Work Safety Expense" Caijian [2004] No. 119, which was jointly issued by States Finance Bureau, National Development and Reform Commission and State Administration of Coal Mine Safety, Work Safety Expense is accrued at RMB8 per tonne raw coal mined and recorded in cost of sales and long-term liability from May 1, 2004. Work Safety Expense is used for purchase of coal production equipment and safety expense of coal mining structure. Relevant expenditure should offset with long-term payable when actually incurs and related fixed assets should be fully depreciated and no further depreciation is provided afterwards.

Reform and Specific Development Fund

Pursuant to "Notice of setting up reform and specific Development Fund for province key corporations" Caiqi [2004] No.28, which was jointly issued by Shandong Province Finance Bureau, State-owned Assets Supervision and Administration Commission of Shandong Municipal Government, Shangdong Province Coal Mine Industry Bureau, from July 1, 2004 Reform and Specific Development Fund is accrued at RMB5 per tonne raw coal mined and will be used for related expenditures on mine construction.

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Revenue recognition

Revenue from sales of goods:

Revenue is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, will receive the economic benefits associated with the transaction, and can reliably measure the relevant amount of revenue and costs.

Revenue from rendering of services:

When the provision of services is started and completed within the same accounting year, revenue is recognized at the time of completion of the services. When the provision of services is started and completed in different accounting years and the outcome of a transaction involving the rendering of services can be estimated reliably, revenue is recognized at the balance sheet date by the use of the percentage of completion method. Revenue is otherwise recognized at the balance sheet date only to the extent of the costs incurred that are recoverable and service costs are recognized as expenses in the period in which they are incurred. If the service costs incurred are not expected to be recovered, revenue is not recognized.

Interest income:

Interest income is measured based on the length of time for which the enterprise's cash is used by others and the applicable interest rate.

Income taxes

Income taxes is provided under the tax payable method. The income tax provision is calculated based on the accounting profit for the period as adjusted in accordance with the relevant tax laws.

Basis of consolidation

(1) Principle for consolidation scope recognition

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") made up to the balance sheet date. A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than 50% of the equity, or whose operating are controlled by the Company through other channels.

(2) Accounting for consolidation

The accounting policies used by subsidiaries conform to those used by the Company.

The operating results and cash flows of subsidiaries during the period are included in the consolidated statement of income and cash flow statement from the effective date of acquisition appropriately.

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

Equity interest and share of results of minority shareholders are disclosed in the consolidated financial statements separately.

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(3) Translation of Foreign Currency Financial Statements

Foreign currency financial statements are translated into RMB financial statements for consolidation as follows:

The assets and liabilities are translated at the exchange rate prevailing on the balance sheet date. Except for unappropriated profits, owners' equity items are reported at the market exchange rates at the dates of the transactions. Income statement items and profit appropriations in the year are translated at the average market exchange rates for the year. The unappropriated profits brought forward are reported at the prior year's closing balance. The unappropriated profits (or accumulated losses) carried forward are calculated, based on the translated amounts of net income and other profit appropriation items. All exchange differences resulting from the translation are recognized as "translation reserve" in the balance sheet.

Cash flows of a foreign subsidiary are translated at average exchange rates for the year. The effect of changes in exchange rates on cash and cash equivalents is presented separately as a reconciling item in the cash flow statement.

The opening balances and prior year's figures are presented according to the translated amounts of the prior year.

3. TAXES

Value added tax

Value added tax ("VAT") on sales is calculated at 13% on revenue from sales of coal products and 17% on other types of sales, and paid after deducting input VAT.

Pursuant to the "Notice of the adjustment of export refund rate"(Caishui [2003] No.222), which was jointly issued by the Ministry of Finance and the State Administration, all the tax refund rate of coal exported by the Company was reduced from 13% to 11% from January 1,2004. Pursuant to the notice "Notice of the adjustment of export refund rate" (Caishui[2005] No.75) which was jointly issued by the Ministry of Finance and the State Administration, all the tax refund rate of coal exported by the Company was refund fro, 11% to 8% from May 1, 2005.

Business tax

Business tax is paid at the applicable tax rate of the corresponding revenue and the business tax on revenue from coal transportation service is calculated at 3%.

Resource tax

Pursuant to the "Notice of the adjustment of resource tax amount of Shandong province" (Caishui [2005] No.86), which was jointly issued by the Ministry of Finance and the State Administration, resource tax of Shandong province increase from the amount of RMB2.40 to RMB3.60 per tonne of raw coal sold and consumed in clean coal production from May 1, 2005.

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

3. TAXES (Continued)

City construction tax & education fee

Although the Company was changed to a Sino-foreign joint stock limited company, it is still subject to all taxes applicable to domestic enterprise according to the "Reply Letter to Yanzhou Coal Mining Co., Ltd." issued by State Taxes Bureau (Guoshuihan [2001] No.673). The Company continues to calculate and pay the taxes under the tax law applicable to domestic companies. Therefore, the city construction tax and education fee are still calculated and paid at 7% and 3%, respectively, on the total amount of VAT payable and business tax payable.

According to "Notice of issues on collection of city construction tax & education fee after application of 'Exemption, counteract and refund' by exporting enterprises" issued by Shandong Local Taxes Bureau (Ludishuifa [2002] No.108), the amount of VAT exemption and counteract declared by the Company is also deemed as the basis for city construction tax & education fee calculation.

Income tax

Income tax, including both national and domestic income tax, is calculated at 33% of the total assessable income of the Company.

Income tax for Yancoal Australia Pty Limited and Austar Coal Mine Pty Limited is calculated at 30% of the total assessable income of the company.

4. SCOPE OF CONSOLIDATION AND DETAILS OF SUBSIDIARIES

The Company owns the following subsidiaries:

Name of subsidiaries	Place of registration	Registered capital/ Paid-in capital	Equity directly held by the company	Equity indirectly held by the company	Type of enterprise	Consolidation not
Qingdao Free Trade Zone Zhongyan Trade Co., Ltd. ("Zhongyan Trade")	Qingdao, Shandong	RMB2,100,000	52.38%	-	Company limited	Yes
Shandong Yanmei Shipping Co., Ltd. ("Yanmei Shipping")	Jining, Shandong	RMB5,500,000	92%	-	Company limited	Yes
Yanzhou Coal Yulin Power Chemical Co., Ltd ("Yulin Power")	Yulin, Shanxi	RMB800,000,000	97%	-	Company limited	Yes
Yancoal Australia Pty Limited ("Yanmei Australia")	Australia	AUD 30,000,000	100%	-	Company limited	Yes
Austar Coal Mine Pty Limited. ("Austar Coal Mine")	Australia	AUD 30,000,000	-	100%	Company limited	Yes
Yancoal Heze Power Chemical Co., Ltd. ("Heze Power")	Heze, Shandong	RMB600,000,000	95.67%	-	Company limited	Yes

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

4. SCOPE OF CONSOLIDATION AND DETAILS OF SUBSIDIARIES (Continued)

Nature of business of Zhongyan Trade: international trade, processing and matching, trimming, exhibiting and storage in Qingdao Free Trade Zone (except for project subjected to special approval according to national regulations).

Nature of business of Yanmei Shipping: transportation service via river and lakes within the province of Shandong, Jiangsu, Anhui, Zhejiang and Shanghai and sales of coal.

Nature of business of Yulin Power Chemical: development of methanol and acetic acid construction for 600,000 ton methanol, 200,000 ton acetic acid and coal mine, electric project.

Nature of business of Yanmei Australia: investment holding company.

Nature of business of Astar Coal Mine: coal mining and sales of coal.

Nature of business of Heze power: the third industry and Pre-operation preparation for construction of Juye coal mine

Approved by the State-owned Assets Supervision and Administration Commission of Shandong Province and the Shareholders' meeting of the Company, the Company acquired 95.67% equity interest in Yankuang Heze Power Chemical Co., Ltd. in December 2005. As at December 31, 2005, Heze Power was in the pre-operating period, the cash flows of Heze Power from the effect date of acquisition have been reflected in the Consolidated Cash Flow Statement. The financial position of Heze Power at the effect date of acquisition are set out in note 48 to the financial statements.

5. BANK BALANCES AND CASH

	The Group At December 31, 2005			The Group At December 31, 2004		
	Foreign currency	Exchange rate	RMB equivalent	Foreign currency	Exchange rate	RMB equivalent
Cash on hand						
RMB	-	-	401,959	-	-	704,897
AUD	-	-	-	19,000	6.3762	121,148
Cash in bank						
RMB	-	-	4,515,589,010	-	-	2,249,701,801
USD	174,405,972	8.0702	1,407,491,075	144,320,499	8.2765	1,194,468,610
EUR	28,402,611	9.5797	272,088,493	78,186	11.2627	880,585
AUD	15,058,553	5.9119	89,024,659	8,605,137	6.3762	54,868,075
HKD	950,110,315	1.0403	988,399,761	1,671,032,794	1.0637	1,777,477,583
GBP	195,985	13.9122	2,726,583	-	-	-
Other monetary assets						
RMB	-	-	3,250,845	-	-	246,021
			<u>7,278,972,385</u>			<u>5,278,468,720</u>

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

6. CURRENT INVESTMENTS

	The Group At December 31, 2005			The Group At December 31, 2004		
	Cost RMB	Provision RMB	Net book value RMB	Cost RMB	Provision RMB	Net book value RMB
Designated deposits						
Shandong Xinjia Industry Co., Ltd (Note1)	640,000,000	-	640,000,000	640,000,000	-	640,000,000
Shandong Xianglong Industry Co., Ltd (Note2)	-	-	-	160,000,000	-	160,000,000
Shandong Cement Plant Co., Ltd (Note 3)	-	-	-	50,000,000	-	50,000,000
	<u>640,000,000</u>	<u>-</u>	<u>640,000,000</u>	<u>850,000,000</u>	<u>-</u>	<u>850,000,000</u>

Note 1: The designated deposit represents an instructed deposit of RMB640,000,000 with Bank of China Jining Branch to Shandong Xinjia Industry Co., Ltd. at interest rate of 7% per annum for one month period from December 20, 2005. Related obligations are secured by Lianda Group Co., Ltd ("Lianda Group") with its 170 million state legal person shares of Huaxia bank and its 66.7% of interest in Xi'an international golf club Co., Ltd.. Details of the designated deposit are set out in note 53(1).

Note 2: The designated deposit represents an instructed deposit of RMB160,000,000 with Industrial and Commercial Bank of China Linyi Branch to Shandong Xianglong Industry Co., Ltd. at interest rate of 5.31% per annum for a twelve-month period. Related obligations are guaranteed by Shandong Three Dimensional Grease Group Co., Ltd. As at December 31, 2005, the designated deposit has been fully called back.

Note 3: The designated deposit represents an instructed deposit of RMB50,000,000 with Xinye Bank Jinan Branch to Shandong Cement Plant Co., Ltd. at interest rate of 5.04% per annum for a twelve-month period. Related obligations are guaranteed by Xingye Bank Jinan Branch. As at December 31, 2005, the designated deposited has been fully called back.

7. NOTES RECEIVABLE

	The Group At December 31 2005 RMB	The Group At December 31 2004 RMB
Bank acceptance bills	2,100,443,880	838,465,509
Commercial acceptance bills	-	60,000,000
	<u>2,100,443,880</u>	<u>898,465,509</u>

See note 51 4(d) for notes receivable due from shareholders of the Company holding more than 5% (including 5%) of the total shares of the Company.

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

8. ACCOUNTS RECEIVABLE

The aging analysis of accounts receivable is as follows:

The Group and the Company

Aging	At December 31, 2005				At December 31, 2004			
	Amount RMB	%	Bad debt provision RMB	Net book value RMB	Amount RMB	%	Bad debt provision RMB	Net book value RMB
Within 1 year	161,151,370	62	26,361,799	134,789,571	353,366,220	75	14,470,095	338,896,125
1 to 2 years	18,771	-	5,631	13,140	2,788,505	1	836,552	1,951,953
2 to 3 years	-	-	-	-	31,127,732	7	31,127,732	-
Over 3 years	100,332,879	38	100,332,879	-	80,265,930	17	80,265,930	-
Total	<u>261,503,020</u>	<u>100</u>	<u>126,700,309</u>	<u>134,802,711</u>	<u>467,548,387</u>	<u>100</u>	<u>126,700,309</u>	<u>340,848,078</u>

The Group and the Company balance of the 5 largest debtors is as follows:

Total balance of the 5 largest debtors RMB	Percentage in accounts receivable balance
165,488,181	63%

See note 51 4(d) for accounts receivable due from shareholders of the Company holding more than 5% (including 5%) of the total shares of the Company.

9. OTHER RECEIVABLES

Aging analysis of other receivables is as follows:

The Group

Aging	At December 31, 2005				At December 31, 2004			
	Amount RMB	%	Bad debt provision RMB	Net book value RMB	Amount RMB	%	Bad debt provision RMB	Net book value RMB
Within 1 year	143,236,071	80	14,317,977	128,918,094	437,979,999	93	14,942,023	423,037,976
1 to 2 years	11,086,622	6	1,612,650	9,473,972	11,879,935	3	3,432,184	8,447,751
2 to 3 years	6,818,719	4	2,055,759	4,762,960	9,547,752	2	9,159,871	387,881
Over 3 years	18,103,460	10	17,729,890	373,570	8,555,708	2	8,182,198	373,510
Total	<u>179,244,872</u>	<u>100</u>	<u>35,716,276</u>	<u>143,528,596</u>	<u>467,963,394</u>	<u>100</u>	<u>35,716,276</u>	<u>432,247,118</u>

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

9. OTHER RECEIVABLES (Continued)

The Company

Aging	At December 31, 2005				At December 31, 2004			
	Amount RMB	%	Bad debt provision RMB	Net book value RMB	Amount RMB	%	Bad debt provision RMB	Net book value RMB
Within 1 year	399,466,828	92	14,317,977	385,148,851	407,484,809	93	14,942,023	392,542,786
1 to 2 years	9,978,462	2	1,612,650	8,365,812	11,779,935	3	3,432,184	8,347,751
2 to 3 years	6,718,718	2	2,055,759	4,662,959	9,547,692	2	9,159,871	387,821
Over 3 years	17,729,890	4	17,729,890	-	8,182,198	2	8,182,198	-
Total	<u>433,893,898</u>	<u>100</u>	<u>35,716,276</u>	<u>398,177,622</u>	<u>436,994,634</u>	<u>100</u>	<u>35,716,276</u>	<u>401,278,358</u>

The Group balance of the 5 largest debtors is as follows:

Total balance of the 5 largest debtors RMB	Percentage in other receivables balance
89,609,384	50%

The Company balance of the 5 largest debtors is as follows:

Total balance of the 5 largest debtors RMB	Percentage in other receivables balance
89,609,384	21%

See note 51 4(d) for other receivables due from shareholders of the Company holding more than 5% (including 5%) of the total shares of the Company.

10. PROVISION FOR BAD DEBTS

The Group and the Company

	At January 1, 2005 and December 31, 2005 RMB
Bad debt provision:	
Accounts receivable	126,700,309
Other receivables	35,716,276
Total	<u>162,416,585</u>

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

11. PREPAYMENTS

The aging analysis of prepayments is as follows:

Aging	The Group December 31, 2005		The Group December 31, 2004	
	RMB	%	RMB	%
Within 1 year	46,029,271	62	48,658,293	81
1 to 2 years	24,864,123	34	10,191,741	17
2 to 3 years	2,811,569	4	1,199,024	2
Total	<u>73,704,963</u>	<u>100</u>	<u>60,049,058</u>	<u>100</u>

The balances with aging over 2 years are mainly the prepayments for the purchases of spare parts and materials. As disputes on quality or price exist between the Company and the suppliers, the amount has not yet been settled or offset with corresponding accounts payable.

The Group balances of the 5 largest debtors are as follows:

Total balance of the 5 largest debtors RMB	Percentage in prepayments balance
31,640,737	43%

See note 51(4)d for prepayments to shareholders of the Company holding more than 5% (including 5%) of the total shares of the Company.

12. INVENTORIES AND PROVISION FOR DECLINE IN VALUE OF INVENTORIES

	The Group At December 31, 2005			The Group December 31, 2004		
	Amount RMB	Provision RMB	Net book value RMB	Amount RMB	Provision RMB	Net book value RMB
Raw materials	256,755,014	-	256,755,014	226,270,860	-	226,270,860
Finished goods	213,746,115	-	213,746,115	259,157,512	-	259,157,512
	<u>470,501,129</u>	<u>-</u>	<u>470,501,129</u>	<u>485,428,372</u>	<u>-</u>	<u>485,428,372</u>

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

13. DEFERRED EXPENSES

	The Group At December 31 2005 RMB	The Group At December 31 2004 RMB
Harbour transportation fee	<u>62,444,803</u>	<u>56,644,671</u>

The amount represent the freight paid by the Company for the transportation of unsold coals from mining area to port.

14. OTHER CURRENT ASSETS

Category	At January 1, 2005 RMB	Accrual for the year RMB	The Group Payment for the year RMB	At December 31, 2005 RMB
Prepaid land subsidence, restoration, rehabilitation and environmental costs	<u>103,406,734</u>	<u>(635,862,808)</u>	<u>689,967,414</u>	<u>157,511,340</u>

The consequence of coal mining activities is land subsidence caused by the resettlement of the land above the underground mining sites. Depending on the circumstances, the Company may relocate inhabitants from the land above the underground mining sites prior to mining those sites or the Company may compensate the inhabitants for losses or damages from land subsidence after the underground sites have been mined.

The provision for land subsidence, restoration, rehabilitation and environmental costs has been determined by management based on their past experience and estimation on future expenditure and accrued on a certain ratio of raw coal mined. However, in so far as the effect on the land and the environment from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to change in the near term.

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

15. LONG-TERM EQUITY INVESTMENTS

The Group		December 31, 2005 RMB	December 31, 2004 RMB
Other equity investments	(1)	62,180,693	62,180,693
Discrepancy on consolidation	(2)	18,936,910	10,045,361
Prepayment for an investment	(3)	–	574,000,000
		81,117,603	646,226,054
Less: Impairment loss on long-term equity investments		–	–
Long-term equity investments – net		81,117,603	646,226,054

The Company		December 31, 2005 RMB	December 31, 2004 RMB
Investment in subsidiaries	(4)	1,515,917,654	971,909,281
Other equity investments	(1)	62,180,693	62,180,693
Equity investment difference	(2)	18,936,910	10,045,361
Prepayment for an investment	(3)	–	574,000,000
		1,597,035,257	1,618,135,335
Less: Impairment loss on long-term equity investments		–	–
Long-term equity investments – net		1,597,035,257	1,618,135,335

(1) Other equity investments

Name of investees	Investment period	Share in the registered capital of the investee (%)	December 31, 2005 and December 31, 2004 RMB
Jiangsu Lianyungang Port Co., Ltd.	Infinity	1%	1,760,419
Shenergy Company Limited (Note)	Infinity	0.83%	60,420,274
			62,180,693

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

15. LONG-TERM EQUITY INVESTMENTS (Continued)

(2) Discrepancy on consolidation/Equity investment difference

Name of investees	Original amount	Amortization period	At January 31, 2005	Addition for the year	Amortization for the year	At December 31, 2005	Arising from
Yanmei Shipping	11,161,512	10 years	10,045,361	-	(1,116,151)	8,929,210	Acquisition of subsidiary
Heze Power	10,007,700	10 years	-	10,007,700	-	10,007,700	Acquisition of subsidiary
	<u>21,169,212</u>		<u>10,045,361</u>	<u>10,007,700</u>	<u>(1,116,151)</u>	<u>18,936,910</u>	

(3) Prepayment for an investment

According to the equity transfer agreement and supplementary agreement between the Company and Yankuang Group, the Company would pay RMB584,007,700 for 95.67% equity interest in Yankuang Heze Power Chemical Co., Ltd.. As at December 31, 2004, the amount of RMB574,007,700 has been paid as a prepayment. Approvals from the Shareholder's meeting of the Company and the State-owned Assets Supervision and Administration Commission of People's Government of Shandong Province have been obtained in August and December 2005 respectively. Details are set out in note 48.

(4) Details of investments in subsidiaries are as follows:

Name of the investees	Investment cost			Profit and loss adjustments			Net book value			
	Original cost	At January 1, 2005	At December 31, 2005	At January 1, 2005	Addition/ (reduce) of equity	Cash dividend received	At December 31, 2005	At January 1, 2005	At December 31, 2005	
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	
Zhongyan Trade	2,709,903	2,709,903	-	2,709,903	1,327,259	373,227	(260,400)	1,440,086	4,037,162	4,149,989
Yanmei Shipping	530,372	530,372	-	530,372	(497,247)	1,571,903	-	1,074,656	33,125	1,605,028
Yulin Power	776,000,000	776,000,000	-	776,000,000	-	-	-	-	776,000,000	776,000,000
Yanmei Australia	191,285,954	191,285,954	-	191,285,954	553,040	(31,676,357)	-	(31,123,317)	191,838,994	160,162,637
Heze Power Chemical	-	-	574,000,000	574,000,000	-	-	-	-	-	574,000,000
Total	<u>970,526,229</u>	<u>970,526,229</u>	<u>574,000,000</u>	<u>1,544,526,229</u>	<u>1,383,052</u>	<u>(29,731,227)</u>	<u>(260,400)</u>	<u>(28,608,575)</u>	<u>971,909,281</u>	<u>1,515,917,654</u>

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

16. LONG-TERM DEBT INVESTMENT

The Company	December 31, 2005 RMB	December 31, 2004 RMB
Designated deposit (Note)	<u>162,200,000</u>	<u>—</u>
Long-term debt investment due after one year	<u>162,000,000</u>	<u>—</u>

Note: Details of designated deposit are as follow:

Trustee	Borrower	Investment cost RMB	Annual interest	Maturity	Interest of this term RMB	Accumulated interest receivable or interest received RMB	Impairment RMB	At December 31, 2005 RMB
Bank of China Co., Ltd. Jining Branch	Yancoal Australia	162,000,000	12 months USD. LIBOR+15 BP	November 7, 2007	-	-	-	162,000,000

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

17. FIXED ASSETS AND ACCUMULATED DEPRECIATION

	Lands (Note 1) RMB	Buildings RMB	Mining structure RMB	Railway structure RMB	Harbor works and craft RMB	Plant, machinery and equipment RMB	Transportation equipment RMB	Total RMB
Cost								
At January 1, 2005	36,374,971	2,162,425,556	3,908,554,834	877,570,792	250,230,769	7,460,116,335	329,709,486	15,024,982,743
Increasing resulting from								
acquisition of a subsidiary	-	-	-	-	-	37,576,501	404,642	37,981,143
Additions (Note 2)	-	1,688,693	-	-	-	71,578,459	25,259,570	98,526,722
Reclassification	20,819,542	1,957,315	-	-	-	(22,776,857)	-	-
Exchange realignment	(4,164,771)	(391,544)	-	-	-	(9,381,315)	(20,770)	(13,958,400)
Transfer from fixed								
assets under construction	-	34,446,742	-	2,114,627	-	823,315,496	-	859,876,865
Disposals	-	(596,929)	-	-	-	(20,175,208)	(8,114,932)	(28,887,069)
At December 31, 2005	53,029,742	2,199,529,833	3,908,554,834	879,685,419	250,230,769	8,340,253,411	347,237,996	15,978,522,004
Accumulated depreciation								
At January 1, 2005	-	925,258,284	1,510,379,415	311,297,975	6,068,096	3,837,412,662	183,105,491	6,773,521,923
Increasing resulting from								
acquisition of a subsidiary	-	-	-	-	-	2,473,103	203,894	2,676,997
Provided for the year	-	124,339,384	86,638,084	54,567,596	6,068,096	646,271,774	41,356,147	959,241,081
2005 transfer in (Note 2)	-	-	-	-	-	191,264,582	-	191,264,582
Eliminated on disposals	-	(510,999)	-	-	-	(17,045,542)	(6,425,581)	(23,982,122)
At December 31, 2005	-	1,049,086,669	1,597,017,499	365,865,571	12,136,192	4,660,376,579	218,239,951	7,902,722,461
Net book value								
At January 1, 2005	36,374,971	1,237,167,272	2,398,175,419	566,272,817	244,162,673	3,622,703,673	146,603,995	8,251,460,820
At December 31, 2005	53,029,742	1,150,443,164	2,311,537,335	513,819,848	238,094,577	3,679,876,832	128,998,045	8,075,799,543
Include:								
Fully depreciated F.A								
Cost	-	-	-	-	-	50,033,844	-	50,033,844

Note 1: The item represents the land of the Australian Southland coal mine, which Austar enjoys the permanent ownership.

Note 2: The amount of RMB191,264,582 represents the machinery and equipment purchased with Work Safety Expense by the Company to ensure the production safety according to the regulation of State Administration of Coal Mine Safety.

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

18. MATERIALS HELD FOR CONSTRUCTION OF FIXED ASSETS

The Group	December 31, 2005 RMB	December 31, 2004 RMB
Materials held for construction	<u>194,334,918</u>	<u>1,993,287</u>

19. FIXED ASSETS UNDER CONSTRUCTION

The Group

Category	At January 1, 2005 RMB	Acquired on acquisition of subsidiary RMB	Additions RMB	Transfers upon completion RMB	At December 31, 2005 RMB	Proportion Budget RMB	to budget %	Source of funds
Equipment to be installed	55,135,255	24,438,263	694,691,307	(630,377,753)	143,887,072	165,892,381	87	internally generated fund
Buildings under construction	12,312,325	336,530,368	313,337,232	(208,627,137)	453,552,788	538,638,664	84	internally generated fund
Others	17,064,613	95,586,107	22,018,236	(20,871,975)	113,796,981	162,270,309	70	internally generated fund
Total	<u>84,512,193</u>	<u>456,554,738</u>	<u>1,030,046,775</u>	<u>(859,876,865)</u>	<u>711,236,841</u>			

No borrowing costs were capitalized for the year.

20. INTANGIBLE ASSETS

The Group

Category	Original amount RMB	At January 1, 2005 RMB	Addition RMB	Amortization for the year RMB	Accumulated amortization RMB	Exchange realignment RMB	At December 31, 2005 RMB	Remaining amortization period
Land use rights	310,242,143	266,087,297	-	(6,204,843)	(50,359,689)	-	259,882,454	41 years and 11 months
Land use rights of Jining III	88,928,996	81,814,676	-	(1,778,580)	(8,892,900)	-	80,036,096	45 years
Mining rights of Jining III	132,478,800	105,982,946	-	(6,623,940)	(33,119,794)	-	99,359,006	15 years
Land use rights of Railway Assets	259,378,500	243,815,790	-	(5,187,570)	(20,750,280)	-	238,628,220	46 years
Goodwill	120,000,000	97,240,000	-	(13,890,000)	(36,650,000)	-	83,350,000	6 years
Mining rights of Southland coal mine	32,634,381	32,634,381	23,643,505	-	-	(2,372,254)	53,905,632	20 years
	<u>943,662,820</u>	<u>827,575,090</u>	<u>23,643,505</u>	<u>(33,684,933)</u>	<u>(149,772,663)</u>	<u>(2,372,254)</u>	<u>815,161,408</u>	

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

20. INTANGIBLE ASSETS (Continued)

The original land use rights are injected by Yankuang Group. The land use rights of Jining III and Railway Assets and mining rights of Jining III were acquired from Yankuang Group at revaluated amount. At December 31, 2005, the registration process in respect of the land use rights of Railway Assets has not yet been completed.

The original land use rights of the Company are revaluated by reference to the revaluation report [97] Zhongdizi [zong] zi No.032 of China Land Consultation and Evaluation Center with the method of cost approaching and coefficient-revising of benchmark land price to determine the value of the land. Land use rights of Jining III are revaluated by reference to the revaluation report Ludijia [2000] No.7 of Shandong Land Evaluation Office with the method of cost approaching and coefficient-revising of benchmark land price. Mining rights of Jining III are revaluated by reference to the revaluation report Haidiren Pingbaozi [2000] No.11 Zong No.24 of Beijing Haidiren Resource Consulting Co., Ltd. with the method of discounting cashflow. Land use rights of Railway Assets are revaluated by reference to the revaluation report [2001] Luzhengkuai Pingbaozi No. 10041 of Shandong Zhengyuan Hexin Limited Liability CPA with the method of cost revaluation.

Goodwill represents the excess of the purchase consideration of Railway Assets over the net assets of Railway Assets at the date of acquisition. According to the "Railway Assets Acquisition Agreement", when the Railway Assets' actual transportation volume reached 25,000,000 tonnes for the year 2002, the Company should pay an extra RMB40,000,000. According to the above agreement, when the Railway Assets' actual transportation volume reaches 28,000,000 tonnes for the year 2003, the Company should pay an extra RMB40,000,000. According to the above agreement, when the Railway Assets' actual transportation volume reaches 30,000,000 tonnes for the year 2004, the Company should pay an extra RMB40,000,000, The amount has been fully paid at the end of 2004.

Austar acquired mining rights of Southland coal mine through Southland Coal Pty limited at market value. On December 31, 2005, Australian Southland Coal mine was in pre-operational coal mine development period, exploration has not started yet, hence amortization of mining rights of Southland coal mine has not started.

21. LONG-TERM DEFERRED EXPENSES

	The Group			At December 31, 2005 RMB
	At January 1, 2005 RMB	Increase resulting from acquisition of a subsidiary RMB	Addition RMB	
Pre-operating expenses of Heze Power (Note 48)	–	26,818,597	–	26,818,597
Pre-operating expenses of Austar	–	–	121,801,480	121,801,480
	<u>–</u>	<u>26,818,597</u>	<u>121,801,480</u>	<u>148,620,077</u>

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

22. NOTES PAYABLE

	The Group December 31, 2005 RMB	The Group December 31, 2004 RMB
Commercial acceptance bills	<u>136,779,128</u>	<u>–</u>

23. ACCOUNTS PAYABLE

See note 51 (4)d for accounts payable due to shareholders of the Company holding more than 5% (including 5%) of the total shares of the Company.

24. ADVANCES FROM CUSTOMERS

See note 51 (4)d for amounts advanced from shareholders of the Company holding more than 5% (including 5%) of the total shares of the Company.

25. SALARIES AND WAGES PAYABLE

The balance represents unpaid salaries and wages accrued according to the same deductible wages cap applicable to Yankuang. See note 44(3).

26. TAXES PAYABLE

	The Group December 31, 2005 RMB	The Group December 31, 2004 RMB
Income tax	647,286,994	529,020,219
Value added tax	126,084,888	107,018,240
City construction tax	45,010,917	32,468,286
Resource Tax	40,456,209	39,524,670
Others	38,363,313	76,700,270
	<u>897,202,321</u>	<u>784,731,685</u>

27. OTHER PAYABLES

See note 51 (4)d for other payables due to shareholders of the Company holding more than 5% (including 5%) of the total shares of the Company.

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

28. LONG-TERM LOAN

Lender	The Group December 31, 2005 RMB	The Group January 1, 2005 RMB	Period	Annual Interest Rate	Condition for Loan
Bank of China	200,000,000	400,000,000	From January 4, 2002 to August 25, 2006	5.76%	Guaranteed by Yankuang Group
Less: Long-term loan due within one year	200,000,000	200,000,000			
Long-term loan due after one year	-	200,000,000			
	200,000,000	400,000,000			

On January 4, 2002, the Company obtained a new bank loan in the amount of RMB1,200,000,000 from Bank of China Shandong Branch, Bank of China Jining Branch and Bank of China Zoucheng Branch to finance the acquisition of Railway Assets. The loan is repayable by instalments over a period of 96 months, whereas the first 2 years of which is grace period. According to the agreement, interests are payable on quarterly basis and principal will be paid in 6 instalments of RMB200 million each instalment, i.e. on August 25, of each year from year 2004 to 2008 and on January 4, 2010 for the last instalment.

In June 2003, the Company repaid the long-term loan of RMB600,000,000 ahead of schedule. According to the agreement, the unpaid principal will be paid in 3 instalments of RMB200 million each instalment, i.e. on August 25, of each year from year 2004 to 2006.

29. LONG-TERM PAYABLE

	The Group December 31, 2005 RMB	The Group December 31, 2004 RMB
Payable for acquisition of Jining III's mining rights (Note1)	66,239,560	79,487,360
Reform and Specific Development Fund (Note2)	269,945,150	96,668,980
Work Safety Expense (Note3)	91,461,646	5,484,357
	427,646,356	181,640,697
Less: Long-term payable due within one year	104,709,446	18,732,157
Long-term payable due after one year	322,936,910	162,908,540
	427,646,356	181,640,697

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

29. LONG-TERM PAYABLE (Continued)

Note1: The amount represents the remaining balances of payable to Yankuang Group for acquisition of Jining III's mining rights, details of which are set out in note 51(4)(a).

Note2: According to the joint regulation of Shandong Province Finance Bureau, State-owned Assets Supervision and Administration Commission of Shandong Municipal government, from July 1, 2004, Reform and Specific Development Fund is accrued at RMB5.00 per ton raw coal mined and will be used for related expenditures on mine construction.

Note3: According to the relevant regulation of State Administration of Coal Mine Safety, from May 1, 2004, Work Safety Expense is accrued at RMB8 per ton raw coal mined, and will be used on work safety related expenditure for coal mines. The Company expects to fully use the remaining balance before the end of 2006.

30. SHARE CAPITAL

Changes in share capital from January 1, 2005 to December 31, 2005 are as follow:

	January 1, 2005	Addition conversion from capital reserve	December 31, 2005
(1) Unlisted shares			
Initiation shares	1,670,000,000	1,002,000,000	2,672,000,000
(2) Listed shares			
1. A-shares	180,000,000	108,000,000	288,000,000
2. H-shares	1,224,000,000	734,400,000	1,958,400,000
Total of listed shares	1,404,000,000	842,400,000	2,246,400,000
(3) Total share capital	<u>3,074,000,000</u>	<u>1,844,400,000</u>	<u>4,918,400,000</u>

On August 4, 2005, approved by the shareholders' meeting, six bonus shares for every ten shares issued by conversion form capital reserve of 1,844,400,000 shares is proposed based on the total issued shares of 3,074,000,000 (each share with a par value of RMB1).

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

30. SHARE CAPITAL (Continued)

Changes in share capital from January 1, 2004 to December 31, 2004 are as follow:

	January 1, 2004	Addition	December 31, 2004
(1) Unlisted shares			
1. Initiation shares	1,670,000,000	–	1,670,000,000
(2) Listed shares			
1. A-shares	180,000,000	180,000,000	
2. H-shares	1,020,000,000	204,000,000	1,224,000,000
Total of listed shares	1,200,000,000	204,000,000	1,404,000,000
(3) Total share capital	2,870,000,000	204,000,000	3,074,000,000

In 2004, the Company placed an aggregate of 204,000,000 H shares to independent investors at the price of HK\$8.30 per share (equivalent to RMB8.80 per share). The proceeds received amount to RMB1,756,875,383 with share premium of RMB1,552,875,383 resulted.

The share capital has been verified by Deloitte Touche Tohmatsu Certified Public Accountants Ltd. (formerly known as Deloitte Touche Tohmatsu Shanghai CPA) on capital verification report Deshibao (Yan)zi No. 588, capital verification Deshibao (Yan)zi (98) No. 439, capital verification Deshibao (Yan)zi (01) No. 006 and capital verification Deshibao (Yan)zi (01) No.040, and Deshibao (Yan)zi (04) No.037, and Deshibao (Yan)zi (05) No.0031

Each share has a par value of RMB1.

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

31. CAPITAL RESERVES

Changes in capital reserves from January 1, 2005 to December 31, 2005 are as follows:

	Share premium (Note 30) RMB	The Group Transfer from Wei Jian Fei (Note) RMB	Total RMB
At January 1, 2005	5,102,134,238	1,399,815,149	6,501,949,387
Additions	–	207,931,404	207,931,404
Reversals	(1,844,400,000)	–	(1,844,400,000)
At December 31, 2005	<u>3,257,734,238</u>	<u>1,607,746,553</u>	<u>4,865,480,791</u>

Changes in capital reserves from January 1, 2004 to December 31, 2004 are as follows:

	Share premium (Note 30) RMB	The Group Transfer from Wei Jian Fei (Note) RMB	Total RMB
At January 1, 2004	3,549,258,855	1,164,936,251	4,714,195,106
Additions	1,552,875,383	234,878,898	1,787,754,281
At December 31, 2004	<u>5,102,134,238</u>	<u>1,399,815,149</u>	<u>6,501,949,387</u>

Note: Wei Jian Fei is used for purchase of coal production equipment and refurbishment of coal mining structure and the corresponding amounts are transferred from other current liabilities to capital reserves when related expenditure occurs. Pursuant to the relevant regulations, this capital reserve can only be used for the future development of the coal mining business.

32. SURPLUS RESERVES

Changes in surplus reserves from January 1, 2005 to December 31, 2005 are as follows:

	Statutory common reserve fund RMB	The Group Statutory common welfare fund RMB	Total RMB
At January 1, 2005	769,592,892	384,875,592	1,154,468,484
Additions	249,548,146	124,774,073	374,322,219
At December 31, 2005	<u>1,019,141,038</u>	<u>509,649,665</u>	<u>1,528,790,703</u>

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

32. SURPLUS RESERVES (Continued)

Changes in surplus reserves from January 1, 2004 to December 31, 2004 are as follows:

	Statutory common reserve fund RMB	The Group Statutory common welfare fund RMB	Total RMB
At January 1, 2004	498,781,858	249,453,800	748,235,658
Additions	270,811,034	135,421,792	406,232,826
At December 31, 2004	<u>769,592,892</u>	<u>384,875,592</u>	<u>1,154,468,484</u>

The statutory common reserve fund can be used to make good the losses incurred in previous years, expand the business scale of the Company or convert it into share capital. The statutory common welfare fund can be used for the welfare of the staff of the Company. According to the policy of "Solution of company financial problems after the implement of 'Company Law'" which was released by the Ministry of Finance recently, the Company will stop appropriating the statutory common welfare fund from 2006, the remaining balance of the statutory common welfare fund will be transferred to the statutory common reserve fund.

33. CASH DIVIDEND PROPOSED AFTER THE BALANCE SHEET DATE

	The Group 2005 RMB	The Group 2004 RMB
At January 1	799,240,000	470,680,000
Less: Transferred to dividends payable	799,240,000	470,680,000
Add: Cash dividend proposed after the balance sheet date (Note)	<u>1,082,048,000</u>	<u>799,240,000</u>
At December 31	<u>1,082,048,000</u>	<u>799,240,000</u>

Note: Pursuant to the relevant regulations, companies that issue H shares should appropriate dividend based on profit available for appropriation listed on the audited financial statements prepared under accounting standards in the PRC or International Financial Reporting Standards ("IFRS"), whichever is the lesser.

According to the minute of Board of Directors date April 21, 2006, final cash dividend of RMB 1.5 and special cash dividend of RMB 0.7, total cash dividend of RMB2.2 per ten shares is proposed based on the total issued shares of 4,918,400,000 (each share with a par value of RMB1). The declaration and payment of the final dividend are subject to the approval of the shareholders' meeting of the Company.

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

34. UNAPPROPRIATED PROFITS

	The Group 2005 RMB	The Group 2004 RMB
At January 1	3,722,812,692	2,220,500,672
Add: Net profit for the year	2,495,481,451	2,707,784,846
Less: Appropriations to:		
Statutory common reserve fund (Note1)	249,584,146	270,778,484
Statutory common welfare fund (Note2)	124,774,073	135,389,242
Statutory common reserve fund of subsidiaries (Note 3)	-	32,550
Statutory common welfare fund of subsidiaries (Note 3)	-	32,550
Profit available for distribution	5,843,971,924	4,522,052,692
Less: Cash dividend proposed after the balance sheet date	1,082,048,000	799,240,000
At December 31	<u>4,761,923,924</u>	<u>3,722,812,692</u>

Note 1: Appropriations to statutory common reserve fund

Pursuant to the Relative Company Law and the Company's Article of Association, 10% of its net profit is appropriated as statutory common reserve fund. Such appropriations can be ceased when the accumulated amount of the fund reaches 50% of the Company's registered capital.

Note2: Appropriations to statutory public welfare fund

Pursuant to the Relative Company Law and the Company's Article of Association, the Board of Directors proposed to appropriate 5% of current year's net profit as statutory common welfare fund.

Note 3: Appropriations to statutory common reserve fund and statutory common welfare fund of the subsidiary

Statutory common reserve fund and statutory common welfare fund of the subsidiary are appropriated at the preparation of consolidation financial statements. No appropriation of statutory common reserve fund and statutory common welfare fund was proposed by subsidiaries in the current year.

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

35. REVENUE FROM PRINCIPAL OPERATIONS

	The Group For the year ended December 31,	
	2005 RMB	2004 RMB
Revenue from domestic sales of coal products	8,885,946,648	8,006,149,560
Revenue from export sales of coal products	3,650,541,278	3,974,708,964
Revenue from railway transportation services	169,041,979	228,305,005
	<u>12,705,529,905</u>	<u>12,209,163,529</u>
Total balance of the 5 largest customers		Percentage in total revenue RMB
	2,498,571,427	20%

The Company exports its coal through China National Coal Group Corporation, Minerals Trading Co., Ltd. and Shanxi Coal Import and Export Group Corporation. Currently, the Company does not have direct export rights, and has to export coals through import and export companies. The final decision on customer selection of the Company's export sales is jointly determined by the Company and the above-mentioned import and export companies. Therefore the amounts of sales made through these import and export companies are excluded from sales of the 5 largest customers.

36. COST OF PRINCIPAL OPERATIONS

	The Group For the year ended December 31,	
	2005 RMB	2004 RMB
Cost of sales of coal products (Note)	5,803,337,413	4,997,059,461
Cost of railway transportation services	103,782,505	89,412,848
	<u>5,907,119,918</u>	<u>5,086,472,309</u>

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

36. COST OF PRINCIPAL OPERATIONS (Continued)

Note: analysis of cost of sales of coal products is as follows:

	The Group For the year ended December 31,	
	2005 RMB	2004 RMB
Materials	1,134,166,366	1,073,406,704
Wages	1,087,878,740	887,026,192
Employee welfare	135,781,077	108,630,007
Electricity	279,990,861	295,972,040
Depreciation	862,793,619	893,724,054
Land subsidence, restoration, rehabilitation and environmental costs	636,589,854	323,240,377
Repairs	339,839,490	443,507,344
Safety Work Expense	277,241,872	204,668,160
Reform and Specific Development Fund	173,276,170	96,668,980
VAT input transfer out	152,762,677	79,872,642
Transportation fee	97,548,212	119,439,225
Others	417,537,071	236,024,838
Subtotal	<u>5,595,406,009</u>	<u>4,762,180,563</u>
Wei Jian Fei	<u>207,931,404</u>	<u>234,878,898</u>
Total	<u><u>5,803,337,413</u></u>	<u><u>4,997,059,461</u></u>

	The Company For the year ended December 31,	
	2005 RMB	2004 RMB
Cost of sales of coal products	5,804,613,330	4,998,506,338
Cost of railway transportation services	103,782,505	89,412,848
	<u><u>5,908,395,835</u></u>	<u><u>5,087,919,186</u></u>

37. SALES TAXES AND SURCHARGES

	The Group For the year ended December 31,	
	2005 RMB	2004 RMB
Business tax	5,071,259	6,849,150
City construction tax	90,570,153	88,814,898
Education fee	51,773,063	38,063,529
Resource tax	111,090,254	97,613,053
	<u><u>58,504,729</u></u>	<u><u>231,340,630</u></u>

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

38. PROFITS FROM OTHER OPERATIONS

	The Group For the year ended December 31,	
	2005 RMB	2004 RMB
Sales of raw materials		
– Sales	810,909,188	678,791,759
– Cost of sales	774,159,646	644,913,325
	<u>36,749,542</u>	<u>33,878,434</u>
Others		
– Income	33,767,202	24,306,862
– Cost	26,842,615	19,153,513
	<u>6,924,587</u>	<u>5,153,349</u>
	<u>43,674,129</u>	<u>39,031,783</u>

39. OPERATING EXPENSES

	The Group For the year ended December 31,	
	2005 RMB	2004 RMB
Selling expense of domestic sales of coal products	268,033,858	434,340,116
Selling expense of export sales of coal products	662,069,317	968,375,436
Others	67,273,865	70,412,606
	<u>997,377,040</u>	<u>1,473,128,158</u>

40. FINANCIAL EXPENSES

	The Group For the year ended December 31,	
	2005 RMB	2004 RMB
Interest expenses	20,752,000	31,392,000
Less: interest income	85,970,245	70,885,565
Exchange loss (Less: gain)	98,680,918	(5,507,225)
Others	11,730,373	841,196
	<u>45,193,046</u>	<u>(44,159,594)</u>

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

41. INVESTMENT INCOME

The Group

	For the year ended December 31,	
	2005 RMB	2004 RMB
Short-term investment income		
– Interest income from designated deposits	5,743,756	21,826,327
Long-term investment income		
– Profits declared by investee under cost method	4,464,780	4,464,780
– Amortization of long-term equity investment difference	(1,116,151)	(1,116,151)
	<u>9,092,385</u>	<u>25,174,956</u>

The Company

	For the year ended December 31,	
	2005 RMB	2004 RMB
Short-term investment income		
-Interest income from designated deposits	5,743,756	21,826,327
Long-term investment income		
– Share of investees' profit recognized under equity method	(29,731,227)	381,287
– Profits declared by investee under cost method	4,464,780	4,464,780
– Amortization of long-term equity investment difference	(1,116,151)	(1,116,151)
	<u>(20,638,842)</u>	<u>25,556,243</u>

42. NON-OPERATING INCOME

	The Group For the year ended December 31,	
	2005 RMB	2004 RMB
Gain on disposal of fixed assets	2,007,090	9,896,466
Others	389,944	2,040,456
	<u>2,397,034</u>	<u>11,936,922</u>

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

43. NON-OPERATING EXPENSES

	The Group For the year ended December 31,	
	2005 RMB	2004 RMB
Loss on disposal of fixed assets	2,533,695	114,493,802
Donations	4,002,788	4,168,000
Fines and Others	7,390,595	7,009,694
	<u>13,927,078</u>	<u>125,671,496</u>

44. INCOME TAXES

	The Group For the year ended December 31,	
	2005 RMB	2004 RMB
Income tax of the Company for the year (1)/(3)	1,371,716,644	1,389,239,198
Additional tax paid of the Company in respect of the prior year (2)	42,462,677	16,019,400
Income tax of subsidiaries for the year	682,511	1,527,124
	<u>1,414,861,832</u>	<u>1,406,785,722</u>

- (1) Income tax is provided at 33% of the taxable income which is calculated by adjusting the accounting profits before tax for the year in accordance with the relevant tax laws.
- (2) According to the assessment result of the tax authority where the Company is located, the Company should pay additional tax in respect of 2004.
- (3) The relevant tax authorities have not yet assessed the cap for total wages of the Company that would be deductible under PRC income tax. As a subsidiary of the Yankuang Group, the directors of the Company are in the opinion that the same basis for determining the deductible wages cap applicable to the Yankuang Group and assessed by the tax authority would be equally applicable to the Company.

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

45. NET PROFIT AFTER NON-RECURRING PROFIT AND LOSS

	The Group	
	For the year ended December 31,	
	2005 RMB	2004 RMB
Net profit	2,495,481,451	2,707,784,846
Add/less: Extraordinary gain		
– Loss (gains) on disposal of fixed assets	526,605	104,597,336
– Other deductible non-operating expenses	11,393,383	11,177,694
– Other deductible non-operating income	(389,944)	(2,040,456)
– Income from designated deposit	(5,743,756)	(21,826,327)
Income tax effect for non-recurring profit and loss	629,788	(19,338,211)
Net profit after non-recurring profit and loss	<u>2,501,897,527</u>	<u>2,780,354,882</u>

46. OTHER CASH RECEIVED RELATING TO OPERATING ACTIVITIES

	The Group	
	For the year ended December 31,	
	2005 RMB	2004 RMB
Other operating income	102,929,417	81,696,133
Non operating income	389,944	2,040,456
Interest income	85,873,522	70,885,565
Cash receipts from funds paid for on other's behalf	399,645,497	38,001,760
Total	<u>588,838,380</u>	<u>192,623,914</u>

47. OTHER CASH PAID RELATING TO OPERATING ACTIVITIES

	The Group	
	For the year ended December 31,	
	2005 RMB	2004 RMB
Other payments for operating and administrative expenses	1,495,050,267	1,909,739,371
Other operating expenses	94,318,481	71,935,596
Others	257,123,274	507,031,314
Total	<u>1,846,492,022</u>	<u>2,488,706,281</u>

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

48. ACQUISITION OF SUBSIDIARY

According to the equity transfer agreement and supplementary agreement between the Company and Yankuang Group. The Company would pay RMB584,007,700 for 95.67% equity interest in Yankuang Heze Power Chemical Co., Ltd.. As at December 31, 2005, the amount has been fully paid, and the approvals from the Shareholder's meeting of the Company and the State-owned Assets Supervision and Administration Commission of Shandong Province have been obtained in August and December 2005 respectively. The Company has been renamed to Yankuang Heze Power Chemical Co., Ltd.. The acquisition was completed in December 2005.

The financial position of the subsidiary at the effect date of acquisition is as follows:

	The effective date of acquisition RMB
Current assets	181,404,219
Fixed assets	35,304,146
Materials held for construction of fixed assets	15,738,017
Fixed assets under construction	456,554,738
Long-term deferred expenses	26,818,597
Current liabilities	<u>(115,819,717)</u>
Net assets	600,000,000
Minority interests	<u>(26,000,000)</u>
The Company's share of net assets (95.67%)	574,000,000
Equity investment difference	<u>10,007,700</u>
Total	<u>584,007,700</u>
Consideration	574,000,000
Cash paid in 2004	<u>10,007,700</u>
Cash paid in 2005	<u><u>584,007,700</u></u>

	For the year ended December 31,	
	2005 RMB	2004 RMB
Net cash flow of acquisition of subsidiary:		
Cash consideration	(10,007,700)	(574,000,000)
Cash and bank balances of the acquired subsidiary	180,255,528	-
	<u>(170,247,828)</u>	<u>(574,000,000)</u>

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

49. CASH AND CASH EQUIVALENTS

The Group	December 31, 2005 RMB	December 31, 2004 RMB
Bank balances and cash	7,278,972,385	5,278,468,720
Less: Restricted cash (Note)	36,550,789	36,854,436
	<u>7,242,421,596</u>	<u>5,241,614,284</u>

The Company	December 31, 2005 RMB	December 31, 2004 RMB
Bank balances and cash	<u>6,297,641,649</u>	<u>5,003,516,578</u>

Note: The amounts represent the deposits placed in banks secured for the future payment of land subsidence, restoration, rehabilitation and environmental costs of Aустar under the request of Australia government at the balance sheet date.

50. SEGMENT INFORMATION

Item	Coal mining business RMB	Railway transportation business RMB	Inter-segment elimination RMB	Unallocated items RMB	Total RMB
1. Operating revenue					
External	13,381,164,316	169,041,979	-	-	13,550,206,295
Inter-segment	-	226,851,879	(226,851,879)	-	-
Total	<u>13,381,164,316</u>	<u>395,893,858</u>	<u>(226,851,879)</u>	<u>-</u>	<u>13,550,206,295</u>
2. Cost of sales					
External	6,857,773,144	108,853,764	-	-	6,966,626,908
Inter-segment	-	138,296,058	(138,296,058)	-	-
Total	<u>6,857,773,144</u>	<u>247,149,822</u>	<u>(138,296,058)</u>	<u>-</u>	<u>6,966,626,908</u>
3. Total operating expenses	<u>2,373,923,371</u>	<u>86,434,197</u>	<u>(88,555,821)</u>	<u>298,520,701</u>	<u>2,670,322,448</u>
4. Total operating profits	<u>4,149,467,801</u>	<u>62,309,839</u>	<u>-</u>	<u>(298,520,701)</u>	<u>3,913,256,939</u>
5. Total assets	<u>10,120,372,630</u>	<u>1,031,347,131</u>	<u>-</u>	<u>9,936,460,436</u>	<u>21,088,180,197</u>
6. Total liabilities	<u>3,334,451,400</u>	<u>29,499,801</u>	<u>-</u>	<u>528,689,302</u>	<u>3,892,640,503</u>

Over 90% of total assets of the Company are located in China.

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

51. SIGNIFICANT RELATED PARTY TRANSACTIONS

(1) The followings are related parties where a control relationship exists:

Name of related parties	Registration address	Major business	Relationship	Quality	Status representative
Yankuang Group	Zoucheng, Shandong	Industry processing	Major shareholder	State-owned	Geng Jia Huai
Zhongyan Trade	Qingdao, Shandong	International trade	Subsidiary	Limited company	Shao Hua Zhen
Yanmei Shipping	Jining, Shandong	Transportation service via river and lakes	Subsidiary	Limited company	Wang Xin Kun
Yulin Power	Yulin, Shanxi	Prepare for construction	Subsidiary	Limited company	Wang Xin
Heze Power	Heze, Shandong	Prepare for construction	Subsidiary	Limited company	Wang Xin
Yanmei Australia	Australia	Investment holding	Subsidiary	Limited company	-
Austar Coal Mine	Australia	Coal exploitation	Subsidiary	Limited company	-

(2) For the related parties where a control relationship exists, the registered capital and paid-in capital and the changes therein are as follows:

Name of related parties	At January 1, 2005 and December 31, 2005
	RMB
Yankuang Group	3,090,336,000
Zhongyan Trade	2,100,000
Yanmei Shipping	5,500,000
Yulin Power	800,000,000
Yanmei Australia	191,285,954
Austar Coal Mine	191,285,954
Heze Power	600,000,000

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

51. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

- (3) For the related parties where a control relationship exists, the proportion and changes of equity interest are as follows:

Name of related parties	January 1, 2005		Addition		December 31, 2005	
	RMB	%	RMB	%	RMB	%
Yankuang Group	1,670,000,000	54.33	1,002,000,000	-	2,672,000,000	54.33
Zhongyan Trade	1,100,000	52.38	-	-	1,100,000	52.38
Yanmei Shipping	5,060,000	92.00	-	-	5,060,000	92.00
Yulin Power	776,000,000	97.00	-	-	776,000,000	97.00
Yanmei Australia	191,285,954	100.00	-	-	191,285,954	100.00
Austar Coal Mine	191,285,954	100.00	-	-	191,285,954	100.00
Heze Power	-	-	574,000,000	95.67	574,000,000	95.67

- (4) Significant transactions entered with the Company and above-mentioned related parties in current year:

(a) Acquisition of Jining III

On January 1, 2001, the Company acquired Jinjing III according to the "Agreement for Acquisition of Jining III" signed with Yankuang Group at the consideration of RMB2,450,900,000 and mining rights of RMB132,480,000, totally RMB2,583,380,000.

By December 31, 2005, the Company had paid RMB2,517,140,000 to Yankaung Group for the above acquisition, including the consideration of RMB2,450,900,000 and the mining rights of RMB66,240,000. Included in the above payment, RMB13,248,000 was paid in current year for acquisition of the mining rights.

According to the agreement, the Company will pay the interest-free consideration for the cost of mining rights over ten years by equal instalments before December 31 of each year commencing from year 2001. The Company is scheduled to pay for the mining rights of RMB13,248,000 as the sixth instalment before December 31, 2006.

The consideration for the acquisition is determined according to revaluation price.

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

51. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(4) Significant transactions entered with the Company and above-mentioned related parties in current year: (continued)

(b) Sales and purchases

	For the year ended December 31,	
	2005 RMB'000	2004 RMB'000
Sales and service provided		
Sales of coal – Yankuang Group and its affiliates	856,580	523,015
Public utilities and facilities income – Yankuang Group and its affiliates	29,000	29,000
Material and spare parts sales – Yankuang Group and its affiliates	369,855	350,873
	<u>1,255,435</u>	<u>902,888</u>
Purchases – Yankuang Group and its affiliates	<u>341,935</u>	<u>303,549</u>

The price of the above transaction is determined according to market price or negotiated price.

(c) Construction services

	For the year ended December 31,	
	2005 RMB'000	2004 RMB'000
Mining Equipment installation in Jining III Yankuang Group	–	123,294
Civil engineering in Jining III Yankuang Group	–	37,048
	<u>–</u>	<u>160,342</u>

The price of the above transaction is determined at market price or negotiated price.

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

51. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(4) Significant transactions entered with the Company and above-mentioned related parties in current year: (continued)

(d) Amount due to or from related parties

Account	Company	December 31, 2005 RMB	December 31, 2004 RMB
Notes receivable	Yankuang Group and its affiliates	7,495,158	8,419,139
Accounts receivable	Yankuang Group and its affiliates	2,915,543	7,106,878
Other receivables (Note)	Yankuang Group and its affiliates	49,153,257	333,289,930
Prepayments	Yankuang Group and its affiliates	4,100,645	3,342,400
Long-term equity investment (Note 14)	Yankuang Group and its affiliates	–	574,000,000
		63,664,603	926,158,347
Accounts payable	Yankuang Group and its affiliates	20,637,078	37,611,106
Advances from customers	Yankuang Group and its affiliates	52,533,644	31,161,331
Other payables (Note)	Yankuang Group and its affiliates	473,671,303	44,278,697
Long-term payable due within one year (Note 29 and 51(4)a)	Yankuang Group	13,247,800	13,247,800
Long-term payables (Note 29 and 51(4)a)	Yankuang Group	52,991,760	66,239,560
		613,081,585	192,538,494

Note: Other receivables due from Yankuang Group are interest free and receivable on demand.

Other payables due to Yankuang Group are interest free and repayable on demand.

(e) Other transactions

- (1) Pursuant to an agreement signed between the Company and Yankuang Group, Yankuang Group manages the retirement benefits, medical benefits and other benefits of the two companies and makes combined payments of the total retirement benefits of the two companies to the government department in charge of the related funds. Amount charged to expenses of the Company for the year of 2005 and 2004 are RMB685,252,000 and RMB535,648,000 respectively.

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

51. SIGNIFICANT RELATED PARTY TRANSACTIONS – CONTINUED

(4) Significant transactions entered with the Company and above-mentioned related parties in current year: (continued)

(e) Other transactions (continued)

- (2) Pursuant to an agreement signed by the Company and Yankuang Group, the department and subsidiaries of Yankuang Group provided the following services and charged related service fees during the year:

	For the year ended December 31,	
	2005 RMB'000	2004 RMB'000
Electricity	351,313	354,044
Repairs and maintenance	197,624	222,949
Technical support and training fee	15,130	15,130
Mining rights fees (Note)	12,980	12,980
Public utilities expenses	4,640	380
Road transportation fee	53,346	63,478
Gases and eructate expenses	11,020	11,536
Buildings management fee	37,200	37,200
Children tuition fee	16,600	16,600
Others	15,530	14,539
Total	715,383	748,836

Note: Pursuant to the mining rights agreement between the Company and Yankuang Group, the Company pays annual mining rights fees to Yankuang Group at RMB12,980,000 in first ten years from February 1998, which is used to compensate the five coals' mining rights given up by Yankuang Group; after ten years, the fee will be recalculated. The payment will stop until the last year of the useful life of the 5 mining rights.

- (3) Total amount of salaries paid to key management, including salaries, welfare and subsidies paid in the form of cash, goods and others, for the year of 2005 and 2004 are RMB5,906,139 and RMB3,090,369 respectively.
- (4) During the years of 2004 and 2005, the Company and Yankuang Group have made payments or collected receipts to or from individual third party or government authorities on behalf of each other, in respect of goods purchased, services received, other expenses and insurances. These payments and receipts made on behalf of the other have been recorded in other payables.

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

52. CAPITAL COMMITMENTS

	December 31, 2005 RMB'000	December 31, 2004 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– Purchase of assets	<u>920,907</u>	<u>12,872</u>

53. OTHER IMPORTANT EVENTS

- 1) At January 19, 2005, the designated deposit of RMB640,000,000 that the Company lent to Shandong Xinjia Industry Co., Ltd (“Shandong Xinjia”) through Bank of China, Jining Branch was overdue. Shandong Xinjia was not able to payoff the principal amount and interest. Lianda Group Co., Ltd (“Lianda Group”) takes on accompanying responsibility on the principal and interest, thus the Company has submitted an application to the High Court of the Shandong provincial Government in order to freeze the RMB289,000,000 of Huaxia Bank's shares held by Lianda Group and has applied for a public auction towards it. The auction was held on September 6, 2005 and the above shares were successfully sold. Up to the reporting date, related formalities are still in process. In the opinion of the management, the principal, interest and overdue interest can be recovered by the proceeds from sales in the public auction, and therefore no impairment of the overdue designated deposit has been provided at year end.
- 2) According to the supplemental agreement of the acquisition agreement between the Company and Yankuang Group, Yankuang Group irrevocably undertakes that the Company shall have the right to purchase the Zhaolou and Wanfu minging rights from the Yankuang Group within twelve months from the respective date on which the mining rights of such mines are obtained by the Yankuang Group. Moreover, the Company shall have the right to transfer the 95.67% equity interest in Heze back to the Parent Company by June 30, 2006 if (1) failure of Heze to obtain the land use rights of Zhaolou coal mine and its cleaning coal factory project; (2) failure of the Parent Company to obtain the mining rights of the Zhaolou coal mine; (3) any other factors which result in the Parent Company failing to complete the acquisition of Zhaolou coal mine mining rights. The Parent Company would be obligated to refund the purchase consideration, investment fund (if any) and cash occupied interest, calculated by 10% annual interest rate to the Company.
- 3) As approved by the Lu State-owned Assets Ownership Letter [2006] No. 32 issued by the State-owned Assets Supervision & Administration Commission (SASAC) of People's Government of Shandong Province, as well as approved by the Company's shareholder's meeting regarding the share reform plan, the Company's share reform plan is as follows: 2.5 A shares for every existing 10 A shares would be offered by the non-tradable legal person shares on the share registration date (March 30, 2006) of share reform plan implemented. After the implementation of the plan, the Company's total share capital as well as the Company's financial indicators such as assets, liabilities, shareholder's equity, earnings per share, etc. will remain unchanged, and the Yankuang Group would then be converted to tradable shares in 4 years time according to formula. The Share Reform Plan has been further approved by the Ministry of Commerce of the PRC on March 21, 2006.

54. APPROVE OF FINANCIAL STATEMENTS

The Company and the consolidated financial statements of the Company have been approved by board of directors on April 21, 2006.

SUPPLEMENT (under PRC GAAP)

For the year ended December 31, 2005

1. SUMMARY OF DIFFERENCES BETWEEN IFRS AND PRC GAAP

For the year ended December 31, 2005, under PRC GAAP net profit is 2,495,481 (RMB'000) and shareholders' equity is 17,141,627 (RMB'000). The summary of differences of net profit and shareholder's equity between PRC GAAP and IFRS in this year are as follows:

	Net profit for the year RMB'000	Net assets at December 31, 2005 RMB'000
As per the financial statements prepared under PRC GAAP	2,495,481	17,141,627
Adjustments under IFRS:		
– Reversal of Wei Jian Fei	207,932	–
– Reversal of Work Safety Expense	238,600	443,268
– Reversal of Reform and Specific Development Fund	173,276	269,945
– Deferred tax effect	(123,175)	(146,279)
– Release of negative goodwill to income	–	138,101
– Deemed interest expenses	(3,858)	(113,220)
– Release goodwill prepared	15,006	15,006
– Yanmei Australia pre-operating expenses	(121,801)	(121,801)
– Minority interest	476	28,731
– Others	–	(8,070)
As per financial statements prepared under IFRS	2,881,937	17,647,308

2. RETURN ON SHAREHOLDERS' EQUITY AND EARNINGS PER SHARE CALCULATED BY DILUTED METHOD AND WEIGHTED AVERAGE METHOD

Profit for the reporting period	Return on shareholders' equity %		Earnings per share RMB	
	Diluted	Weighted average	Diluted	Weighted average
Income from principal operations	38.15%	40.38%	1.33	1.71
Operating profits	22.83%	24.16%	0.80	1.02
Net profit	14.56%	15.41%	0.51	0.65
Net profit excluding extraordinary gain (loss)	14.60%	15.45%	0.51	0.65

SUPPLEMENT (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

3. LIST OF PROVISION FOR IMPAIRMENT LOSS ON ASSETS

Unit: RMBYuan

Item	2005.1.1		Provision		Reversal		Other transfer out		2005.12.31	
	The Group	The Company	The Group	The Company	The Group	The Company	The Group	The Company	The Group	The Company
1. Total provision for bad debts	162,416,585	162,416,585	-	-	-	-	-	-	162,416,585	162,416,585
- Accounts receivable	126,700,309	126,700,309	-	-	-	-	-	-	126,700,309	126,700,309
- Other receivables	35,716,276	35,716,276	-	-	-	-	-	-	35,716,276	35,716,276
2. Total provision for loss on current investment	-	-	-	-	-	-	-	-	-	-
- Bond investment	-	-	-	-	-	-	-	-	-	-
3. Total provision for loss on inventory	-	-	-	-	-	-	-	-	-	-
- Raw material	-	-	-	-	-	-	-	-	-	-
- Finished goods	-	-	-	-	-	-	-	-	-	-
4. Total provision for loss on long-term investment	-	-	-	-	-	-	-	-	-	-
- Long-term equity investment	-	-	-	-	-	-	-	-	-	-
5. Total provision for loss on fixed assets	-	-	-	-	-	-	-	-	-	-
- Buildings	-	-	-	-	-	-	-	-	-	-
- Mining structure	-	-	-	-	-	-	-	-	-	-
- Railway structure	-	-	-	-	-	-	-	-	-	-
- Harbour works and craft	-	-	-	-	-	-	-	-	-	-
- Plant, machinery and equipment	-	-	-	-	-	-	-	-	-	-
- Transportation equipment	-	-	-	-	-	-	-	-	-	-
6. Total provision for loss on intangible assets	-	-	-	-	-	-	-	-	-	-
- Land use rights	-	-	-	-	-	-	-	-	-	-
- Mining rights	-	-	-	-	-	-	-	-	-	-
- Goodwill	-	-	-	-	-	-	-	-	-	-
7. Provision for loss on fixed assets under construction	-	-	-	-	-	-	-	-	-	-
8. Provision for loss on designated deposit	-	-	-	-	-	-	-	-	-	-

SUPPLEMENT (under PRC GAAP) (Cont'd)

For the year ended December 31, 2005

4. ANALYSIS OF ITEMS WHICH FLUCTUATED OVER 30% (INCLUDING 30%), AND ACCOUNTING FOR 5% (INCLUDING 5%) OF THE TOTAL ASSETS ON THE BALANCE SHEET DATE OR 10%(INCLUDING 10%) OF THE TOTAL PROFITS FOR THE REPORTING YEAR:

Unit: RMBYuan

Items in balance sheet	December 31, 2005		December 31, 2004	Fluctuation	Reason
	Amount	Percentage in total assets			
Bank balance and cash	7,278,972,385	35%	5,278,468,720	38%	Note 1
Notes receivable	2,100,443,880	10%	898,465,509	134%	Note 2
Other payables	1,127,064,904	6%	616,637,336	94%	Note 3
Share capital	4,918,400,000	23%	3,074,000,000	60%	Note 4

Note 1: In 2005, as the demand and supply in coal market remain stable, the price of coal was at a high level and the sales by means of cash increased a lot, which caused significant increase in cash balance.

Note 2: In 2005, as the demand and supply in coal market remain stable, the price of coal was at a high level, customers settled by bank acceptance bills increased, which caused significant increase in notes receivable balance.

Note 3: Due to the acquisition of Heze Power, the other payables increased.

Note 4: In 2005, share capital issued by conversion from capital reserve.

Unit: RMBYuan

Items in statement of income and profits appropriation	2005		2004	Fluctuation	Reason
	Amount	Percentage in total profits			
Selling expense	997,377,040	26%	1,473,128,158	(32%)	Note 5

Note 5: Due to the decline in sales, selling expenses decreased accordingly.

CORPORATE INFORMATION

Registered Name	兖州煤業股份有限公司
English Name	Yanzhou Coal Mining Company Limited
Registered Address	298 Fushan South Road Zoucheng City Shandong Province 273500 PRC
Place of Business in Hong Kong	Rooms 2608-10, 26/F, the Center 99 Queen's Road Central Hong Kong Tel: (852) 2136 6185 Fax: (852) 2136 6068 Contact Person: Luo Yating
Company Secretary	Chen Guangshui
Authorized Representatives	Wu Yuxiang Chen Guangshui
Auditors	
<i>International:</i>	Deloitte Touche Tohmatsu Certified Public Accountants, 26th Floor, Wing On Centre 111 Connaught Road Central Hong Kong
<i>Domestic:</i>	Deloitte Touche Tohmatsu Certified Public Accountants Ltd. Certified Public Accountants in the PRC (excluding Hong Kong) 30th Floor, Bund Center 222 Yan'an Road East Shanghai 200002 PRC
Legal Advisors	
<i>As to Hong Kong law and United States law:</i>	Baker & McKenzie 14th Floor, Hutchison House 10 Harcourt Road Hong Kong
<i>As to PRC law:</i>	King & Wood 40th Floor, Tower A Beijing Fortune Center 7 Dong-sanhuan Zhonglu Chaoyang District Beijing 100022 PRC

CORPORATE INFORMATION (Cont'd)

Principal Bankers

The Industrial & Commercial Bank of China
Zoucheng Branch
Tie Xi Office
489 Fushan South Road
Zoucheng City
Shandong Province 273500
PRC

China Construction Bank
Yanzhou Coal Mining District Special Branch
543 Kuangjian East Road
Zoucheng City
Shandong Province 273500
PRC

Bank of China
Zoucheng Branch
205 Pingyang Road
Zoucheng City
Shandong Province 273500
PRC

Hong Kong Share Registrar

Hong Kong Share Registrar
Hong Kong Registrars Limited
46th Floor, Hopewell Center
183 Queen's Road East
Hong Kong

Shanghai Share Registrar

Shanghai Share Registrar China Securities
Depository and Clearing Corporation Limited
Shanghai Branch
3rd Floor China Insurance Tower
166 Lujiazui East Road
Pudong
Shanghai
PRC

Depository

The Bank of New York
American Depositary Receipts Division
101 Barclay Street
22W, New York, NY 10286
USA

CORPORATE INFORMATION (Cont'd)

Places of listing

<i>H shares:</i>	The Stock Exchange of Hong Kong Limited Stock Code:1171
<i>ADSs:</i>	The New York Stock Exchange, Inc. Tick Symbol: YZC
<i>A shares:</i>	The Shanghai Securities Exchanges Stock Abbreviation: Yanzhou Mei Ye Stock Code: 600188

Publications:

As required by the United States securities laws, the Company will file an annual report on Form 20-F with the United States Securities and Exchange Commission on or before 30th June, 2006. Once the copies of the annual report as well as the Form 20-F have been filed, they will also be available at:

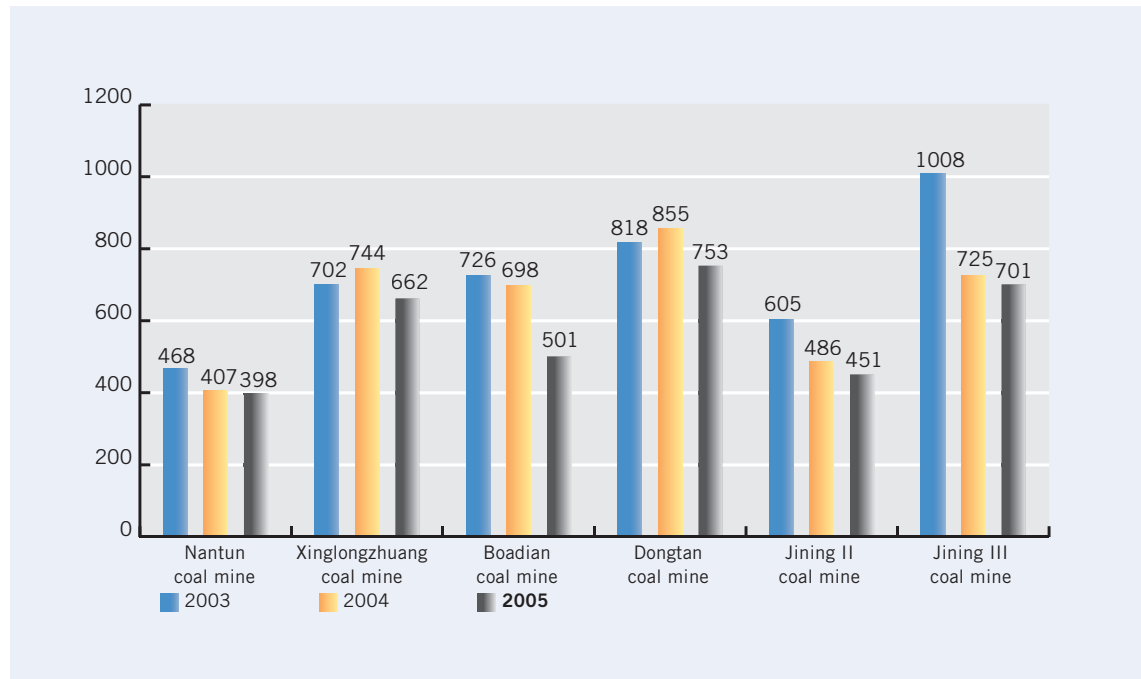
The PRC:	Yanzhou Coal Mining Company Limited Office of the Secretary of the Board 298 Fushan South Road Zoucheng City Shangdong Province 273500 PRC Tel: (86-537) 538-2319 Fax: (86-537) 538-3311 Website: http://www.yanzhoucoal.com.cn e-mail: yzc@yanzhoucoal.com.cn
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Hong Kong/Outside PRC	IPR Ogilvy Ltd. Rooms 2608-10, 26/F the Center 99 Queen's Road Central Hong Kong Tel: (852) 2136 6185 Fax: (852) 2136 6068
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APPENDIX

RAW COAL OUTPUT OF THE COMPANY'S COAL MINES

(10 thousands tonnes)



SHARE PRICE GRAPH OF THE COMPANY

(2002 to 2005)

