

1. GENERAL

Organisation and principal activities

The Group represents the Company and its consolidated subsidiaries as set out in note 26.

The Company is established as a joint stock company with limited liability in the People's Republic of China (the "PRC") and 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.

Acquisitions

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. At December 31, 2004, Yulin had not yet commenced business operations and had no significant impact on the Group's results for the year.

In addition, the Company acquired the entire interest in the Southland coal mine located in New South Wales, Australia ("Southland") from independent third parties in 2004 for aggregate cash consideration of AUD29,377,000 (equivalent to RMB187,312,000). See note 35 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. Southland has not commenced production of saleable coal since the Company's acquisition and therefore it has had no significant impact on the Group's results for the year.

2. BASIS OF PRESENTATION

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Group also prepares a set of financial statements in accordance with the relevant accounting principles and regulations applicable to PRC enterprises ("PRC GAAP"). Differences between IFRS and PRC GAAP are stated in note 45.

The financial statements reflect additional disclosures to conform with the disclosure requirements of the Hong Kong Companies Ordinance and with presentations customary in the United States of America.

Differences between IFRS and accounting principles generally accepted in the United States of America ("US GAAP") are stated in note 46.

3. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the International Accounting Standards Board issued a number of new or revised IFRS which are effective for accounting periods beginning on or after January 1, 2005. The Group has not early adopted these new IFRS in the financial statements for the year ended December 31, 2004.

The Group has considered these new IFRS and identified a number of these new IFRS that may have a material effect on how the results of operations and financial position of the Group are prepared and presented as described below:

IFRS 3 "Business Combination"

IFRS 3 requires goodwill acquired in a business combination to be measured after initial recognition at cost less any accumulated impairment losses. Therefore, the goodwill is not amortized and instead must be tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Currently, the Group amortizes the goodwill capitalized on a straight line basis over its useful economic life.

IFRS 3 also requires negative goodwill to be recognized in the profit or loss immediately on acquisition. Currently, the Group presented the negative goodwill as a deduction from assets and released to income based on an analysis of the circumstance from which the balances resulted.

Accordingly, the Group estimates that the adoption of IFRS 3 in the annual period beginning on January 1, 2005 in relation to the discontinued goodwill amortization would result in an increase in the net profit the year ending December 31, 2005 of approximately RMB15.8 million.

In addition, the Group estimates that the adoption of IFRS 3 in the annual period beginning on January 1, 2005 in relation to the negative goodwill, would result in an increase in the opening balance of accumulated profits by approximately RMB27.6 million with the corresponding decrease in negative goodwill of the same amount.

In relation to other new IFRS the Group does not expect that the adoption will have a material effect on how the results of operation and financial position of the Group are prepared and presented.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of financial instruments.

In the current year, the Group has adopted, for the first time, the accounting treatment of IFRS 3 "Business combinations" for business combinations for which the agreement date is on or after March 31, 2004 and has also adopted, for the first time, International Accounting Standard ("IAS") 36 (Revised) "Impairment of assets" and IAS 38 (Revised) "Intangible assets" for goodwill and intangible assets acquired through business combinations for which the agreement date is on or after March 31, 2004. For business combinations for which the agreement date was before March 31, 2004, goodwill arising on those acquisitions is accounted for in accordance with IAS 22 "Business Combinations". Goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair value of identifiable assets and liabilities of a subsidiary at the date of acquisition and is stated at cost less accumulated amortisation and accumulated impairment losses. IFRS 3 requires goodwill arising from acquisitions to be determined as the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities on the date of acquisition and is measured after initial recognition of cost less accumulated impairment losses. Under IFRS 3, goodwill is not amortised and instead must be tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. The adoption of IFRS 3, IAS 36 (Revised) and IAS 38 (Revised) has had no material effect on the results for the current or prior accounting period. Accordingly, no prior period adjustment has been made.

The principal accounting policies which have been adopted in preparing these financial statements and which conform with IFRS are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries as of December 31 each year.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess (deficiency) of the cost of acquisition over (below) the fair values of the identifiable net assets acquired is recognised as goodwill (negative goodwill). The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognized.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in subsidiaries

Investments in subsidiaries in the Company's balance sheet are stated at cost, less any identified impairment loss.

Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

Revenue recognition

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

Service income is recognized when services are provided.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payments have been established.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash accounts, interest bearing savings accounts and time deposits which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

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 their useful life estimated based on the total proven and probable reserves of the coal mine.

Property, plant and equipment and land use rights

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses. When assets are sold or retired, the gain or loss is determined as the difference between the sales proceeds and the carrying amount of the asset and the gain or loss is included in the statement of income.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and land use rights (Continued)

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, after taking into account their estimated residual value, using the straight line method. The estimated useful lives of property, plant and equipment are as follows:

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.

Land use rights are amortized over the term of the relevant rights.

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

Construction in progress

Construction in progress is stated at cost less any identified impairment loss. Cost comprises construction expenditures 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 as stated above.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on acquisition with the agreements dated prior to March 31, 2004 represented the excess of the purchase consideration paid over the Group's share in the fair value of the identifiable assets and liabilities of businesses or subsidiaries at the date of acquisition. Goodwill was then capitalized and amortized on a straight line basis over its useful economic life.

Goodwill arising on acquisition with agreements dated on or after March 31, 2004 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 businesses or subsidiaries at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in income and is not subsequently reversed.

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 businesses or subsidiaries is presented separately in the balance sheet.

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

Negative goodwill

Negative goodwill arising on acquisition of businesses or subsidiaries with agreement dated prior to March 31, 2004, representing the excess of the fair value ascribed to the Group's share of the identifiable assets and liabilities of businesses or subsidiaries at the date of acquisition over the purchase consideration, is presented as a deduction from the assets in the balance sheet. Negative goodwill is released to income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets.

Negative goodwill arising on acquisition with the agreements dated on or after 31 March 2004 represents the excess of the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of businesses or subsidiaries at the date of acquisition over the purchase consideration. Such negative goodwill is recognized in income immediately.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in securities

Investments in securities are recognized on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortized cost, less any impairment loss recognized to reflect irrecoverable amounts. The annual amortization of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognized in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value, based on quoted market prices at the balance sheet date or at cost subject to impairment recognition where the fair value cannot be reliably determined. Where securities are held for trading purposes, unrealized gains and losses are included in net profit or loss for the period. For available-for-sale investments, unrealized gains and losses 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 net profit or loss for the period.

Loan receivables

For loans receivables, an allowance for doubtful receivables is recognized when it is probable that the companies will be unable to collect all amounts due according to the contractual terms of the agreement. The impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate (or, alternatively, at the observable market price of the receivable or the fair value of the underlying collateral).

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 provision, if necessary, for obsolescence.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 net 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 the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the 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 recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative 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 recognised 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, i.e. 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. Capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowings costs are recognized as an expense in the period in which they are incurred.

Foreign currency translation

The Group maintains its books and records in Renminbi.

Transactions denominated in foreign currencies are translated into Renminbi at the applicable rates of exchange quoted by the People's Bank of China prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the applicable rates of exchange quoted by the People's Bank of China prevailing at the balance sheet date. Profits and losses arising on translation are recorded in the statement of income.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange difference arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation (Continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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 subsidize 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.

Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

5. SEGMENT INFORMATION

The Group is engaged primarily in the coal mining business and, commencing from January 1, 2002, 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

5. SEGMENT INFORMATION (Continued)

Segment information about these businesses is presented below:

INCOME STATEMENT

	For the year ended December 31, 2004			Consolidated RMB'000
	Coal mining RMB'000	Coal railway transportation RMB'000	Eliminations 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				4,612,098 97,176
Operating income				4,709,274
Interest expenses				(35,942)
Income before income taxes				4,673,332
Income taxes				(1,518,762)
Income before minority interest				<u>3,154,570</u>

5. 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 and land use rights	887,266	79,823	4,772	971,861
Amortization of mining rights	6,624	–	–	6,624
Loss (gain) on disposal of property, plant and equipment	104,759	272	(434)	104,597
Allowance for doubtful debts	<u>49,104</u>	<u>–</u>	<u>–</u>	<u>49,104</u>

5. 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>	<u>–</u>	2,258,729
Unallocated corporate expenses				<u>(246,469)</u>
Unallocated corporate income				<u>2,012,260</u> <u>22,624</u>
Operating income				2,034,884
Interest expenses				<u>(59,966)</u>
Income before income taxes				1,974,918
Income taxes				<u>(587,710)</u>
Income before minority interest				<u>1,387,208</u>

5. SEGMENT INFORMATION (Continued)

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>

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 and land use rights	850,994	79,445	3,774	934,213
Amortization of mining rights	6,624	–	–	6,624
(Gain) loss on disposal of property, plant and equipment	(7,113)	185	56	(6,872)
Allowance for doubtful debts	<u>80,272</u>	<u>–</u>	<u>–</u>	<u>80,272</u>

5. SEGMENT INFORMATION (Continued)

INCOME STATEMENT

	For the year ended December 31, 2002			Consolidated RMB'000
	Coal mining RMB'000	Coal railway transportation RMB'000	Eliminations RMB'000	
GROSS REVENUE				
External	7,772,315	142,471	–	7,914,786
Inter-segment	–	386,823	(386,823)	–
Total	<u>7,772,315</u>	<u>529,294</u>	<u>(386,823)</u>	<u>7,914,786</u>
Inter-segment revenue is charged at prices pre-determined by the relevant governmental authority.				
RESULT				
Segment results	<u>1,791,446</u>	<u>271,272</u>	<u>–</u>	2,062,718
Unallocated corporate expenses				<u>(226,795)</u>
				1,835,923
Unallocated corporate income				<u>30,218</u>
Operating income				1,866,141
Interest expenses				<u>(117,929)</u>
Income before income taxes				1,748,212
Income taxes				<u>(523,148)</u>
Income before minority interest				<u>1,225,064</u>

5. SEGMENT INFORMATION (Continued)

BALANCE SHEET

	At December 31, 2002		
	Coal mining RMB'000	Coal railway transportation RMB'000	Consolidated RMB'000
ASSETS			
Segment assets	<u>9,861,375</u>	<u>1,162,372</u>	11,023,747
Unallocated corporate assets			<u>1,900,298</u>
			<u>12,924,045</u>
LIABILITIES			
Segment liabilities	<u>1,346,568</u>	<u>56,000</u>	1,402,568
Unallocated corporate liabilities			<u>1,521,507</u>
			<u>2,924,075</u>

OTHER INFORMATION

	For the year ended December 31, 2002			
	Coal mining RMB'000	Coal railway transportation RMB'000	Corporate and others RMB'000	Consolidated RMB'000
Capital additions	802,090	1,206,898	5,547	2,014,535
Amortization of goodwill	777	–	–	777
Release of negative goodwill to income	(27,620)	–	–	(27,620)
Depreciation of property, plant and equipment and land use rights	764,470	75,519	11,130	851,119
Amortization of mining rights	6,624	–	–	6,624
Loss on disposal of property, plant and equipment	1,093	–	–	1,093
Allowance for doubtful debts	<u>66,204</u>	<u>–</u>	<u>–</u>	<u>66,204</u>

5. SEGMENT INFORMATION (Continued)

OTHER INFORMATION (Continued)

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

	At December 31,		
	2004	2003	2002
Coal mining	25,892	24,810	24,623
Coal railway transportation	3,374	3,151	3,249
	<u>29,266</u>	<u>27,961</u>	<u>27,872</u>

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:

	Year ended December 31,		
	2004 RMB'000	2003 RMB'000	2002 RMB'000
The PRC	869,957	1,351,830	2,014,535
Australia	224,325	–	–
	<u>1,094,282</u>	<u>1,351,830</u>	<u>2,014,535</u>

6. NET SALES OF COAL

	Year ended December 31,		
	2004 RMB'000	2003 RMB'000	2002 RMB'000
Domestic sales of coal, gross	7,841,328	4,840,317	3,939,953
Less: Transportation costs	434,340	503,228	525,998
Domestic sales of coal, net	<u>7,406,988</u>	<u>4,337,089</u>	<u>3,413,955</u>
Export sales of coal, gross	3,915,724	3,546,312	3,832,362
Less: Transportation costs	968,375	1,089,066	1,032,416
Export sales of coal, net	<u>2,947,349</u>	<u>2,457,246</u>	<u>2,799,946</u>
Net sales of coal	<u><u>10,354,337</u></u>	<u><u>6,794,335</u></u>	<u><u>6,213,901</u></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.

Sales taxes consist primarily of a resource tax calculated at the rate of RMB2.40 per metric tonne ("tonne") of the imputed quantity of raw coal sold and are paid to the local tax bureau. Prior to January 1, 2004, resource tax was charged at the rate of RMB1.20 per tonne of the imported quantity of raw coal sold. The resource tax for each of the three years ended December 31, 2004, 2003 and 2002 amounted to RMB97,613,000, RMB49,925,000 and RMB44,712,000, respectively.

7. COST OF SALES AND SERVICE PROVIDED

	Year ended December 31,		
	2004 RMB'000	2003 RMB'000	2002 RMB'000
Materials	1,088,683	899,602	752,513
Wages and employee benefits	1,022,614	863,707	757,532
Electricity	298,274	278,507	278,407
Depreciation	918,360	836,120	813,761
Land subsidence, restoration, rehabilitation and environmental costs	323,240	264,158	232,030
Repairs and maintenance	455,782	374,855	346,290
Annual fee and amortization of mining rights (note)	19,604	19,604	19,604
Transportation costs	119,737	48,231	43,239
Others	305,409	170,239	119,525
	<u><u>4,551,703</u></u>	<u><u>3,755,023</u></u>	<u><u>3,362,901</u></u>

7. COST OF SALES AND SERVICE PROVIDED (Continued)

Note: 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 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.

The cost of the mining rights of Jining III of approximately RMB132,479,000 acquired in 2001 is amortized on a straight line basis over twenty years.

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,		
	2004 RMB'000	2003 RMB'000	2002 RMB'000
Retirement benefit scheme contributions (note 40)	408,462	349,377	334,120
Wages and employee benefits	155,500	115,456	164,549
Additional medical insurance	35,912	27,814	29,710
Depreciation	53,501	44,339	37,358
Amortization of goodwill	15,773	9,657	777
Distribution charges	43,639	37,779	54,524
Allowance for doubtful debts	49,104	80,272	66,204
Resource compensation fees (note)	110,959	84,941	73,762
Repairs and maintenance	18,753	13,918	8,668
Research and development	24,934	46,144	30,657
Staff training costs	28,762	26,780	26,272
Freight charges	9,801	14,862	14,016
Loss on disposal of property, plant and equipment	104,597	–	1,093
Others	420,166	413,519	389,349
	<u>1,479,863</u>	<u>1,264,858</u>	<u>1,231,059</u>

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.

9. OTHER OPERATING INCOME

	Year ended December 31,		
	2004 RMB'000	2003 RMB'000	2002 RMB'000
Dividend income	4,465	4,810	–
Gain on sales of auxiliary materials	33,878	35,197	21,277
Gain on disposal of property, plant and equipment	–	6,872	–
Government grants (note)	–	8,194	20,157
Interest income from bank deposits	70,885	13,631	28,737
Interest income from investments in securities	–	–	1,481
Interest income on loan receivable	21,826	4,183	–
Release of negative goodwill to income	27,620	27,620	27,620
Others	7,058	5,338	4,457
	<u>165,732</u>	<u>105,845</u>	<u>103,729</u>

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

10. INTEREST EXPENSES

	Year ended December 31,		
	2004 RMB'000	2003 RMB'000	2002 RMB'000
Interest expenses on:			
– bank borrowings wholly repayable within 5 years	31,392	53,682	3,666
– bank borrowings not wholly repayable within 5 years	–	–	72,072
– bills receivable discounted without recourse	–	1,023	2,235
Deemed interest expenses in respect of acquisition of Jining III	4,550	5,261	39,956
	<u>35,942</u>	<u>59,966</u>	<u>117,929</u>

No interest was capitalized during each of the years presented.

11. INCOME BEFORE INCOME TAXES

	Year ended December 31,		
	2004 RMB'000	2003 RMB'000	2002 RMB'000
Income before income taxes has been arrived at after charging:			
Amortization of mining rights	6,624	6,624	6,624
Auditors' remuneration	5,000	5,000	3,500
Staff costs, including directors' and supervisors' emoluments	1,682,240	1,437,682	1,354,251
and crediting:			
Gain on disposal of investments in securities	–	1,424	2,209

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

(a) Directors' and supervisors' emoluments

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

	Year ended December 31,		
	2004 RMB'000	2003 RMB'000	2002 RMB'000
Independent non-executive directors			
Fees	325	248	239
Executive directors			
Fees	–	–	–
Salaries, allowance and other benefits in kind	1,303	989	825
Retirement benefit scheme contributions (note 40)	586	445	371
Discretionary bonuses	–	–	–
	<u>1,889</u>	<u>1,434</u>	<u>1,196</u>
Supervisors			
Fees	–	–	–
Salaries, allowance and other benefits in kind	537	426	400
Retirement benefit scheme contributions (note 40)	242	191	180
Discretionary bonuses	–	–	–
	<u>779</u>	<u>617</u>	<u>580</u>

Emoluments of each of the directors and supervisors are all within the band of Nil to HK\$1,000,000 for the years ended December 31, 2004, 2003 and 2002.

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

(b) Employees' emoluments

The five highest paid individuals in the Group in 2004 included four directors for the year ended December 31, 2004 (2003: five; 2002: three), details of whose emoluments are included in the disclosures in note 12(a) above. The emoluments of the remaining one individual for the year ended December 31, 2004 (2003: nil; 2002: two) were as follows:

	Year ended December 31,		
	2004 RMB'000	2003 RMB'000	2002 RMB'000
Salaries, allowance and other benefits in kind	224	–	314
Retirement benefit scheme contributions (note 40)	101	–	141
Discretionary bonuses	–	–	–
	<u>325</u>	<u>–</u>	<u>455</u>

Emoluments of each of these employees were all within the band of Nil to HK\$1,000,000 for the years ended December 31, 2004 and 2002.

13. INCOME TAXES

	Year ended December 31,		
	2004 RMB'000	2003 RMB'000	2002 RMB'000
Income taxes:			
Current taxes	1,390,767	587,775	524,534
Underprovision in prior years	16,019	–	–
	<u>1,406,786</u>	<u>587,775</u>	<u>524,534</u>
Deferred tax (note 29)			
Charge (credit) for the current year	67,540	(65)	(1,386)
Overprovision in prior years	44,436	–	–
	<u>111,976</u>	<u>(65)</u>	<u>(1,386)</u>
	<u>1,518,762</u>	<u>587,710</u>	<u>523,148</u>

The Company is 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.

13. INCOME TAXES (Continued)

A reconciliation between the provision for income taxes computed by applying the standard PRC income tax rate to income before income taxes and the actual provision for income taxes is as follows:

	Year ended December 31,		
	2004 RMB'000	2003 RMB'000	2002 RMB'000
Standard income tax rate in the PRC	33%	33%	33%
Standard income tax rate applied to income before income taxes	1,542,200	651,723	576,910
Reconciling items:			
Transfer to future development fund deductible for tax purposes but not charged to income under IFRS	(109,411)	(85,692)	(76,101)
Release of negative goodwill not subject to tax	(9,115)	(9,115)	(9,115)
Deemed interest not deductible for tax purposes	1,502	1,736	13,185
Allowance for doubtful debts not deductible for tax purposes	16,187	25,731	23,681
Loss on disposal of property, plant and equipment not deductible for tax purposes	8,273	–	–
Government grants received not subject to tax	–	(2,704)	(6,652)
Overprovision of deferred tax asset in prior years	44,436	–	–
Underprovision in prior years	16,019	–	–
Others	8,671	6,031	1,240
Income taxes	<u>1,518,762</u>	<u>587,710</u>	<u>523,148</u>
Effective income tax rate	<u>32%</u>	<u>30%</u>	<u>30%</u>

Note: The relevant tax authorities have not yet assessed the cap for total wages of the Company that would be deductible under PRC income tax. Given a subsidiary of the Parent Company, the directors of the Company are of the opinion that the basis for determining the deductible wages cap applicable to the Parent Company that has been allowed by the tax authority would be equally applicable to the Company.

The subsidiaries acquired during the years ended December 31, 2004 and 2003 did not have any significant impact on the income taxes provided for the years ended December 31, 2004, 2003 and 2002.

14. DIVIDEND

	Year ended December 31,		
	2004 RMB'000	2003 RMB'000	2002 RMB'000
Final dividend approved, RMB0.114 per share (2003: RMB0.104; 2002: RMB0.100)	327,180	298,480	287,000
Special dividend approved, RMB0.050 per share (2003 and 2002: nil)	143,500	—	—
	<u>470,680</u>	<u>298,480</u>	<u>287,000</u>

Pursuant to the annual general meeting held on June 7, 2002, a final dividend in respect of the year ended December 31, 2001 was approved and paid to the shareholders of the Company.

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

Pursuant to 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 were approved and paid to the shareholders of the Company.

The board of directors proposes to declare a final dividend of approximately RMB799,240,000 calculated based on a total number of 3,074,000,000 shares in issue at RMB1 each, at RMB0.26 per share and a bonus issue on the basis of six bonus shares for every ten existing shares in respect of the year ended December 31, 2004. The declaration and payment of the final dividend and the bonus issue need 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.

15. EARNINGS PER SHARE AND PER ADS

The calculation of the earnings per share for the years ended December 31, 2004, 2003 and 2002 is based on the net income for the year of RMB3,154,317,000, RMB1,386,686,000 and RMB1,221,999,000 and on the weighted average of 2,964,754,098 shares, 2,870,000,000 shares and 2,870,000,000 shares in issue, respectively, during the year.

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.

16. RESTRICTED CASH

At the balance sheet date, the short-term restricted cash represents the bank deposits pledged to certain banks to secure banking facilities granted to the Group and the Company. 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.

17. BILLS AND ACCOUNTS RECEIVABLE

	THE GROUP At December 31,		THE COMPANY At December 31,	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Total bills receivable	890,046	657,090	889,446	656,490
Total accounts receivable	460,442	682,961	460,442	682,826
Less: Allowance for doubtful debts	(126,700)	(100,627)	(126,700)	(100,627)
Total bills and accounts receivable, net	<u>1,223,788</u>	<u>1,239,424</u>	<u>1,223,188</u>	<u>1,238,689</u>

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

An analysis of the allowance for doubtful debts for 2004 and 2003 follows:

	THE GROUP AND THE COMPANY At December 31,	
	2004 RMB'000	2003 RMB'000
Balance at January 1	100,627	76,083
Additional allowance charged to income statement	26,073	71,125
Direct write-off charged against allowance	—	(46,581)
Balance at December 31	<u>126,700</u>	<u>100,627</u>

17. BILLS AND ACCOUNTS RECEIVABLE (Continued)

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:

	THE GROUP		THE COMPANY	
	At December 31,		At December 31,	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
1 – 180 days	1,233,248	961,307	1,232,648	960,572
181 – 365 days	654	177,571	654	177,571
1 – 2 years	3,913	114,887	3,913	114,887
2 – 3 years	32,407	78,919	32,407	78,919
Over 3 years	80,266	7,367	80,266	7,367
	<u>1,350,488</u>	<u>1,340,051</u>	<u>1,349,888</u>	<u>1,339,316</u>

18. INVENTORIES

	THE GROUP		THE COMPANY	
	At December 31,		At December 31,	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
COST				
Auxiliary materials, spare parts and small tools	226,271	204,466	215,220	199,068
Coal products	259,158	297,562	259,158	297,562
	<u>485,429</u>	<u>502,028</u>	<u>474,378</u>	<u>496,630</u>

19. OTHER LOANS RECEIVABLE

At December 31, 2004, the amount consists of loans granted to 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 defaulted in January 2005 and the Company has applied to the People's Supreme Court of the Shandong 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 will be applied to repay the Default Loan to the Company. In the opinion of the directors, based on the estimated fair market value of the Secured Shares, the proceeds from their sale should be sufficient to cover the principal and interest of the Default Loan.

At December 31, 2003, the amount represented a loan granted to a minority shareholder of a subsidiary of the Company. The amount was guaranteed by an independent third party, bore interest at 6% per annum and was secured by shares of a private PRC company (equivalent to approximately 16% of the share capital of that company) in which the borrower was a shareholder. The amount was fully settled during the year.

20. PREPAYMENTS AND OTHER CURRENT ASSETS

	THE GROUP		THE COMPANY	
	At December 31,		At December 31,	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Advances to suppliers	56,707	70,785	62,877	69,692
Prepaid freight charges and related handling charges	58,623	103,680	58,623	103,680
Value added tax ("VAT") refund	–	275,624	–	275,624
Prepayments for acquisition of property, plant and equipment	4,290	3,163	4,290	3,163
Prepaid land subsidence, restoration, rehabilitation and environmental costs	5,010	24,510	5,010	24,510
Receivables for utilities charges	3,264	6,838	3,264	6,838
Receivables for sales of auxiliary materials	13,689	15,057	13,689	15,057
Others	46,713	34,816	40,611	30,816
	<u>188,296</u>	<u>534,473</u>	<u>188,364</u>	<u>529,380</u>

Included in the above balances of the Group and of the Company as of December 31, 2004 and 2003 were allowances for doubtful debts of RMB35,717,000 and RMB12,686,000, respectively. During the year ended December 31, 2004, the Group and the Company made an allowance for doubtful debts of RMB23,031,000 (2003: RMB9,147,000).

21. MINING RIGHTS

	THE GROUP RMB'000	THE COMPANY RMB'000
COST		
At January 1, 2004	132,479	132,479
Acquisition of Southland (note 35)	32,634	—
	<hr/>	<hr/>
At December 31, 2004	165,113	132,479
	<hr/>	<hr/>
AMORTIZATION		
At January 1, 2004	19,872	19,872
Provided for the year	6,624	6,624
	<hr/>	<hr/>
At December 31, 2004	26,496	26,496
	<hr/>	<hr/>
NET BOOK VALUES		
At December 31, 2004	138,617	105,983
	<hr/> <hr/>	<hr/> <hr/>
At December 31, 2003	112,607	112,607
	<hr/> <hr/>	<hr/> <hr/>

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 amortised, on a straight-line basis, over their useful life of twenty years.

22. LAND USE RIGHTS

	THE GROUP AND THE COMPANY RMB'000
<hr/>	
COST	
At January 1, 2004 and December 31, 2004	658,549
DEPRECIATION	
At January 1, 2004	53,637
Provided for the year	13,194
	<hr/>
At December 31, 2004	66,831
	<hr/>
NET BOOK VALUES	
At December 31, 2004	591,718
	<hr/> <hr/>
At December 31, 2003	604,912
	<hr/> <hr/>

The land use rights 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, 2004.

23. PROPERTY, PLANT AND EQUIPMENT, NET

THE GROUP

	Freehold land in Australia RMB'000	Buildings RMB'000	Habour works and crafts RMB'000	Railway structures RMB'000	Mining structures RMB'000	Plant, machinery and equipment RMB'000	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	57,195	2,134,845	250,231	727,674	3,904,460	7,290,213	285,633	86,505	14,736,756
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	-	895,723	6,068	161,401	1,506,284	3,491,102	139,028	-	6,199,606
NET BOOK VALUES									
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
At December 31, 2003	-	1,255,082	250,231	613,581	2,496,042	3,768,855	146,834	85,748	8,616,373

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

THE COMPANY

	Buildings RMB'000	Habour works and crafts RMB'000	Railway structures RMB'000	Mining structures RMB'000	Plant, machinery and equipment RMB'000	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	7,312,623	270,471	85,748	14,596,944
Additions	-	-	-	-	18,729	5,402	802,613	826,744
Transfers	76,541	-	7,190	-	690,072	30,970	(804,773)	-
Disposals	-	-	-	-	(862,057)	(32,798)	-	(894,855)
At December 31, 2004	<u>2,129,468</u>	<u>250,231</u>	<u>727,674</u>	<u>3,904,460</u>	<u>7,159,367</u>	<u>274,045</u>	<u>83,588</u>	<u>14,528,833</u>
DEPRECIATION								
At January 1, 2004	797,845	-	106,903	1,408,418	3,545,633	134,804	-	5,993,603
Provided for the year	97,878	6,068	54,498	97,866	693,369	28,286	-	977,965
Eliminated on disposals	-	-	-	-	(748,503)	(24,799)	-	(773,302)
At December 31, 2004	<u>895,723</u>	<u>6,068</u>	<u>161,401</u>	<u>1,506,284</u>	<u>3,490,499</u>	<u>138,291</u>	<u>-</u>	<u>6,198,266</u>
NET BOOK VALUES								
At December 31, 2004	<u>1,233,745</u>	<u>244,163</u>	<u>566,273</u>	<u>2,398,176</u>	<u>3,668,868</u>	<u>135,754</u>	<u>83,588</u>	<u>8,330,567</u>
At December 31, 2003	<u>1,255,082</u>	<u>250,231</u>	<u>613,581</u>	<u>2,496,042</u>	<u>3,766,990</u>	<u>135,667</u>	<u>85,748</u>	<u>8,603,341</u>

24. GOODWILL

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
COST				
At January 1	106,707	55,545	95,545	55,545
Subsequent adjustment to contingent consideration payment in respect of the acquisition of Railway Assets (note 37)	40,000	40,000	40,000	40,000
Acquisition of Yanmei Shipping (note 36)	–	11,162	–	–
At December 31	<u>146,707</u>	<u>106,707</u>	<u>135,545</u>	<u>95,545</u>
AMORTIZATION				
At January 1	13,542	3,885	13,542	3,885
Provided for the year	15,773	9,657	14,657	9,657
At December 31	<u>29,315</u>	<u>13,542</u>	<u>28,199</u>	<u>13,542</u>
NET BOOK VALUES				
At December 31	<u>117,392</u>	<u>93,165</u>	<u>107,346</u>	<u>82,003</u>

The amounts represent goodwill arising from acquisition of Jining II, Railway Assets and Yanmei Shipping. Goodwill is amortised on a straight line basis over a period of ten to twenty years.

Additional goodwill resulting from contingent consideration payments in respect of the acquisition of the Railway Assets is amortized on a straight line basis over the remaining life of the original period of ten years.

25. NEGATIVE GOODWILL

	THE GROUP AND THE COMPANY At December 31,	
	2004 RMB'000	2003 RMB'000
COST		
At January 1 and December 31	138,101	138,101
RELEASED TO INCOME		
At January 1	82,860	55,240
Released for the year	27,620	27,620
At December 31	110,480	82,860
NET BOOK VALUES		
At December 31	<u>27,621</u>	<u>55,241</u>

The amount represents negative goodwill arising from acquisition of Jining III and is released to income on a straight line basis over a period of five years.

26. INVESTMENT IN SUBSIDIARIES/AMOUNTS DUE FROM/TO SUBSIDIARIES

	THE COMPANY At December 31,	
	2004 RMB'000	2003 RMB'000
Unlisted investments, at cost	<u>981,688</u>	<u>14,402</u>
Amount due from a subsidiary (note)	<u>350</u>	–
Amounts due to subsidiaries (note)	<u>571,449</u>	–

Note: The amounts are non-interest bearing, unsecured and have no specific terms of repayment.

26. INVESTMENT IN SUBSIDIARIES/AMOUNTS DUE FROM/TO SUBSIDIARIES (Continued)

Details of the Company's subsidiaries at December 31, 2004 are as follows:

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

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

27. INVESTMENTS IN SECURITIES

The amounts represent cost of available-for-sale equity investments of the Group and the Company.

The amount at December 31, 2004 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.

In the opinion of directors, the carrying value of the Group's unlisted equity investments is approximate to their fair values.

28. DEPOSITS MADE ON INVESTMENTS

		THE GROUP AND THE COMPANY At December 31,	
		2004	2003
	Notes	RMB'000	RMB'000
Deposits made on investments comprises:			
Acquisition of a subsidiary	(i)	574,000	–
Acquisition of investment in securities	(ii)	–	30,183
		<u>574,000</u>	<u>30,183</u>

- (i) The amount represents the payment made by the Group and the Company to the Parent Company in relation to the transfer of a 95.67% equity interest in Yankuang Heze Power Chemical Co. Ltd., ("Heze"), a limited liability company established in the PRC with registered capital of RMB600,000,000, 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 Shandong Province in the PRC. At December 31, 2004, the Company had not yet obtained all the approvals from the State-owned Assets Supervision and Administration Commission of the Shandong Province and the shareholders of the Company for such transfer and therefore, the amount is presented as a deposit on the balance sheet.
- (ii) At December 31, 2003, the amount represented a deposit paid by the Group and the Company in connection with the acquisition of a less than 1 percent stake in Shenergy Company Limited, a company listed on the SSE. The acquisition of the shares was completed during the year.

29. DEFERRED TAX ASSET (LIABILITY)

THE GROUP AND THE COMPANY

	Provision for land subsidence, restoration, rehabilitation and environmental costs RMB'000	Provision for work safety costs RMB'000	Total RMB'000
Balance at January 1, 2003	88,807	–	88,807
Credit for the year (note 13)	65	–	65
Balance at January 1, 2004	88,872	–	88,872
Charge for the year (note 13)	(44,436)	(67,540)	(111,976)
Balance at December 31, 2004	<u>44,436</u>	<u>(67,540)</u>	<u>(23,104)</u>

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

30. ACCOUNTS PAYABLE

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

	THE GROUP At December 31,		THE COMPANY At December 31,	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
1 – 180 days	360,684	239,593	360,684	239,756
181 – 365 days	85,714	135,942	85,714	135,942
1 – 2 years	31,883	52,073	31,883	52,073
	<u>478,281</u>	<u>427,608</u>	<u>478,281</u>	<u>427,771</u>

Included in the Company's accounts payable at December 31, 2003 was an amount due from its subsidiary of RMB1,206,000.

31. OTHER PAYABLES AND ACCRUED EXPENSES

	THE GROUP At December 31,		THE COMPANY At December 31,	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Customers' deposits	426,877	598,315	426,861	597,617
Accrued wages	80,242	70,633	80,223	70,633
Other taxes payable	255,711	211,474	255,708	211,285
Payables in respect of purchases of property, plant and equipment and construction materials	173,093	84,745	173,093	84,745
Accrued freight charges	51,685	60,093	51,685	60,093
Accrued repairs and maintenance	47,895	37,254	47,895	37,254
Accrued utility expenses	7,672	15,175	7,672	15,175
Staff welfare payable	41,376	39,512	41,376	39,512
Accrued land subsidence, restoration, rehabilitation and environmental costs	8,592	4,996	8,592	4,996
Resource compensation fees payable	83,658	–	83,658	–
Consideration payable on acquisition of Southland	51,010	–	–	–
Others	109,754	52,616	69,648	62,081
	<u>1,337,565</u>	<u>1,174,813</u>	<u>1,246,411</u>	<u>1,183,391</u>

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

	THE GROUP AND THE COMPANY	
	2004 RMB'000	2003 RMB'000
Balance at January 1	85,022	83,044
Additional provision in the year	313,172	268,330
Transfers to prepayments and accrued expenses	(501,601)	(266,352)
Balance at December 31	<u>(103,407)</u>	<u>85,022</u>

The provision for land subsidence, restoration, rehabilitation and environmental costs has been determined by the directors based on their best estimates. The payments in 2004 include mainly rehabilitation costs paid on mining areas relating to mining activities in the future periods and therefore the balance is presented as a prepayment at December 31, 2004. 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.

33. UNSECURED BANK BORROWINGS

During the year ended December 31, 2002, the Group and the Company obtained a new 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 in instalments over a period of 7 years, the first instalment payment was due in August 2004. The proceeds were used to finance the acquisition of the Railway Assets (see note 1).

During the year ended December 31, 2003, the interest rate of the bank loan was adjusted to 5.76% per annum, pursuant to the terms of the loan agreement. The Company made a partial repayment of RMB600,000,000 during that year and according to the terms of the loan agreement, the remaining balance of the loan became repayable in annual instalments over the following 3 years, the first repayment instalment of which was due and paid in August 2004. Interests are repayable quarterly over the terms of the loan.

33. UNSECURED BANK BORROWINGS (Continued)

The above loan is repayable as follows:

	THE GROUP AND THE COMPANY	
	2004 RMB'000	2003 RMB'000
Within one year	200,000	200,000
More than one year, but not exceeding two years	200,000	200,000
More than two years, but not exceeding five years	—	200,000
	400,000	600,000
Less: Amount due within one year and included in current liabilities	(200,000)	(200,000)
Amount due after one year	200,000	400,000

34. SHAREHOLDERS' EQUITY

The movements during the year in the Company's shareholders' 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, 2003	2,870,000	3,272,527	855,237	388,120	194,060	2,412,369	9,992,313
Net income	—	—	—	—	—	1,388,054	1,388,054
Appropriations to reserves	—	—	259,674	110,536	55,268	(425,478)	—
Dividends	—	—	—	—	—	(298,480)	(298,480)
Balance at December 31, 2003	2,870,000	3,272,527	1,114,911	498,656	249,328	3,076,465	11,081,887
Balance at January 1, 2004	2,870,000	3,272,527	1,114,911	498,656	249,328	3,076,465	11,081,887
Share issued at premium (note)	204,000	1,591,977	—	—	—	—	1,795,977
Share issue expenses (note)	—	(39,102)	—	—	—	—	(39,102)
Net income	—	—	—	—	—	3,155,403	3,155,403
Appropriations to reserves	—	—	331,548	270,779	135,389	(737,716)	—
Dividends	—	—	—	—	—	(470,680)	(470,680)
Balance at December 31, 2004	3,074,000	4,825,402	1,446,459	769,435	384,717	5,023,472	15,523,485

34. SHAREHOLDERS' EQUITY (Continued)

Note: 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 2003 annual general meeting of the Company held on June 25, 2004 and these shares rank pari passu with other H shares in issue in all respects.

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

Class of shares	Type of shares	Number of shares at December 31,	
		2004	2003
Domestic invested shares	– State legal person shares (held by the Parent Company)	1,670,000,000	1,670,000,000
	– A shares (note 1)	180,000,000	180,000,000
Foreign invested shares	– H shares (including H shares represented by ADS) (note 1)	1,224,000,000	1,020,000,000
	Total	<u>3,074,000,000</u>	<u>2,870,000,000</u>

Each share has a par value of RMB1.

Pursuant to regulations in the PRC, the Company is required to transfer an annual amount to a 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 regulations of the Shandong Province Finance Bureau, State-owned Assets Supervision and Administration Commission of Shandong Province and the Shandong Province Coal Mining Industrial Bureau, the Company is required to transfer an additional amount at RMB5 per tonne of raw coal mined beginning July 1, 2004 to the future development fund for the future improvement of the mining facilities.

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.

34. SHAREHOLDERS' EQUITY (Continued)

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 reserve available for distribution as at December 31, 2004 is the retained earnings computed under PRC GAAP which amounted to approximately RMB4,522,369,000 (2003: RMB2,691,181,000).

35. 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) is 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 pay the sellers an addition of AUD4,000,000 (equivalent to RMB25,505,000) when the Company acquires further coal mines and land adjacent to Southland and obtains the exploration license under the Mining Act of Australia for such coal mines.

	2004 Book value and fair value RMB'000
The net assets of Southland at the date of acquisition were as follows:	
Mining rights	32,634
Property, plant and equipment	191,405
Other payables and accrued expenses	(36,727)
	<hr/>
Total net assets acquired	<u>187,312</u>
	<hr/>
Total consideration	<u>187,312</u>

Southland did not contribute significantly to the Group's turnover and profit from operations 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 attributable to the equity holders of the Company for the year ended December 31, 2004 would have been RMB11,977,823,000 and RMB3,154,317,000, respectively.

36. ACQUISITION OF YANMEI SHIPPING

	2003 RMB'000
The net assets of Yanmei Shipping at the date of acquisition 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)
	<hr/>
Total net assets acquired	530
Goodwill arising on acquisition	11,162
	<hr/>
	11,692
	<hr/> <hr/>
Consideration:	
Satisfied by cash	11,692
	<hr/> <hr/>
Net cash outflow arising on acquisition:	
Cash paid	(11,692)
Bank balances and cash acquired	506
	<hr/>
	(11,186)
	<hr/> <hr/>

During the year ended 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.

37. ACQUISITION OF RAILWAY ASSETS

	2002 RMB'000
The net assets of Railway Assets at the date of acquisition were as follows:	
Bank balances and cash	141
Bills and accounts receivable	4,586
Prepayment and other current assets	132,633
Inventories	5,461
Land use rights	259,378
Property, plant and equipment, net	877,380
Bills and accounts payable	(22,830)
Other payables and accrued expenses	(14,163)
	<u>1,242,586</u>
Net assets	1,242,586
Goodwill arising on subsequent adjustment to contingent consideration payment	120,000
	<u><u>1,362,586</u></u>
Satisfied by:	
Cash consideration paid on acquisition	1,242,586
Subsequent adjustment to contingent consideration payment	120,000
	<u><u>1,362,586</u></u>
Net cash outflow arising on acquisition:	
Cash paid on acquisition	(1,282,586)
Cash paid during the year ended December 31, 2003	(40,000)
Cash paid during the year ended December 31, 2004	(40,000)
Bank balances and cash acquired	141
	<u><u>(1,362,445)</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 target 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.

38. RELATED PARTY BALANCES AND TRANSACTIONS

The amounts due from Parent Company and its subsidiary companies are non-interest bearing, unsecured and have no specific terms of repayments.

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, 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 ten years by equal annual installments before December 31 of each year, commencing from 2001. During the year ended December 31, 2004, the Company made a payment in a discounted amount of RMB10,483,000 (2003: RMB11,115,000; 2002: RMB11,805,000).

	THE GROUP		THE COMPANY	
	At December 31,		At December 31,	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due to Parent Company and its subsidiary companies				
Within one year	–	369,620	–	343,469
More than one year, but not exceeding two years	9,230	9,802	9,230	9,802
More than two years, but not exceeding five years	24,574	26,101	24,574	26,101
Exceeding five years	7,253	14,956	7,253	14,956
Total due	41,057	420,479	41,057	394,328
Less: amount due within one year	–	369,620	–	343,469
Amount due after one year	41,057	50,859	41,057	50,859

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

38. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

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

	Year ended December 31,		
	2004 RMB'000	2003 RMB'000	2002 RMB'000
Income			
Sales of coal	523,015	229,730	110,403
Sales of auxiliary materials	350,873	472,899	–
Gain on sales of auxiliary materials	–	–	12,385
Utilities and facilities	29,000	29,000	5,000
Railway transportation services	–	66	496
Expenditure			
Utilities and facilities	354,424	285,166	1,350
Annual fee for mining rights	12,980	12,980	12,980
Purchases of supply materials and equipment	303,549	373,710	409,117
Repair and maintenance services	222,949	225,408	239,297
Social welfare and support services	207,062	188,825	186,657
Technical support and training	15,130	15,130	15,130
Road transportation services	63,478	17,216	33,208
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,		
	2004 RMB'000	2003 RMB'000	2002 RMB'000
Sales of coal by the Group	–	77,155	37,693
Transaction services provided to the Group	–	74,783	–

Certain expenditure for social welfare and support services (excluding medical and child care expenses) of RMB63,275,000, RMB63,530,000 and RMB66,500,000 for each of the three years ended December 31, 2004, 2003 and 2002, respectively, and for technical support and training of RMB15,130,000 for each of the three years ended December 31, 2004, 2003 and 2002, 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.

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 40) and paid RMB574,000,000 to the Parent Company for its acquisition of equity interest in Heze (see note 28(i)).

39. COMMITMENTS

	THE GROUP AND THE COMPANY At December 31,	
	2004 RMB'000	2003 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– acquisition of property, plant and equipment	12,872	163,342
– acquisition of an equity investment	–	30,137
Capital expenditure authorised but not contracted for in respect of development of new coal mines	2,100,000	–
	<u>2,112,872</u>	<u>193,479</u>

In addition to the above, the Company is required to set aside an amount at RMB8 per tonne of raw coal mined beginning May 1, 2004 for the enhancement of safety production environment and facilities ("Work Safety Cost") pursuant to the regulations of the State Administration of Work Safety. The amount, which has been set aside for such purposes and has not yet been utilized, amounted to RMB5,484,000 as at December 31, 2004.

40. 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 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.

41. 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, 2004, 2003 and 2002. Such expenses, amounting to RMB37,200,000 for each of the three years ended December 31, 2004, 2003 and 2002, have been included as part of the social welfare and support services expenses summarized in note 38.

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.

42. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of bills and accounts receivable, investments in securities, accounts payable and variable debt approximate their fair values because of the short maturity of these amounts or because of the variable rate return of the debt. In addition, the carrying amount of bank borrowings approximate their fair value as the interest rates approximate the market rate.

43. 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.

43. CONCENTRATION OF CREDIT RISK (Continued)

For the years ended December 31, 2004, 2003 and 2002, net sales to the Group's five largest domestic customers accounted for approximately, 15.3%, 18.5% and 21.2%, respectively, of the Group's total net sales. Net sales to the Group's largest domestic customer accounted for 9.2%, 11.3% and 13.3% of the Group's net sales for the years ended December 31, 2004, 2003 and 2002, respectively. The Group's largest domestic customer was the Huadian Power International Corporation Limited for the year ended December 31, 2004 (2003 and 2002: 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% and 12.6% of the Group's net sales for the years ended December 31, 2003 and 2002, respectively.

Details of the amounts receivable from the five customers with the largest receivable balances at December 31, 2004 and 2003 are as follows:

	Percentage of accounts receivable At December 31,	
	2004	2003
Five largest receivable balances	<u>75%</u>	<u>46%</u>

44. 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,	
	NOTES	2004 RMB'000	2003 RMB'000
ASSETS			
CURRENT ASSETS			
Bank balances and cash		4,978,640	2,021,667
Restricted cash	16	24,877	17,521
Bills and accounts receivable	17	1,223,188	1,238,689
Inventories	18	474,378	496,630
Other loans receivable	19	850,000	100,000
Amount due from Parent Company and its subsidiaries	38	243,410	–
Prepayments and other current assets	20	188,364	529,380
Prepayment for land subsidence, restoration, rehabilitation and environmental costs	32	103,407	–
Amount due from a subsidiary	26	350	–
TOTAL CURRENT ASSETS		8,086,614	4,403,887
MINING RIGHTS	21	105,983	112,607
LAND USE RIGHTS	22	591,718	604,912
PROPERTY, PLANT AND EQUIPMENT, NET	23	8,330,567	8,603,341
GOODWILL	24	107,346	82,003
NEGATIVE GOODWILL	25	(27,621)	(55,241)
INVESTMENT IN SUBSIDIARIES	26	981,688	14,402
INVESTMENTS IN SECURITIES	27	62,181	1,760
DEPOSITS MADE ON INVESTMENTS	28	574,000	30,138
DEFERRED TAX ASSET	29	–	88,872
TOTAL ASSETS		18,812,476	13,886,681
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	30	478,281	427,771
Other payables and accrued expenses	31	1,246,411	1,183,391
Provision for land subsidence, restoration, rehabilitation and environmental costs	32	–	85,022
Amounts due to subsidiaries	26	571,449	–
Amounts due to Parent Company and its subsidiary companies	38	–	343,469
Unsecured bank borrowing – due within one year	33	200,000	200,000
Taxes payable		528,689	114,282
TOTAL CURRENT LIABILITIES		3,024,830	2,353,935
AMOUNTS DUE TO PARENT COMPANY AND ITS SUBSIDIARY COMPANIES – DUE AFTER ONE YEAR	38	41,057	50,859
UNSECURED BANK BORROWING – DUE AFTER ONE YEAR	33	200,000	400,000
DEFERRED TAX LIABILITY	29	23,104	–
TOTAL LIABILITIES		3,288,991	2,804,794
COMMITMENTS	39		
SHAREHOLDERS' EQUITY	34	15,523,485	11,081,887
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		18,812,476	13,886,681

45. 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 (see note 34), which is charged to income before income taxes under PRC GAAP, to shareholders' equity;
- (ii) 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, which are not recognised under PRC GAAP;
- (iii) negative goodwill arising under IFRS for the acquisition of Jining III is 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. 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; and
- (v) Reversal of the Work Safety Cost provided but not yet incurred (see note 39), which is charged as an expense when set aside under PRC GAAP.

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

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

	Net income for the year ended December 31,			Net assets as at December 31,	
	2004 RMB'000	2003 RMB'000	2002 RMB'000	2004 RMB'000	2003 RMB'000
As per consolidated financial statements prepared under IFRS	3,154,317	1,386,686	1,221,999	15,523,751	11,083,239
Impact of IFRS adjustments in respect of:					
– transfer to future development fund which is charged to income before income taxes under PRC GAAP	(331,548)	(259,674)	(230,610)	(96,669)	–
– reversal of Work Safety Cost	(204,668)	–	–	(204,668)	–
– deferred tax effect on temporary differences not recognized under PRC GAAP	111,976	(65)	(1,386)	23,104	(88,872)
– release of negative goodwill to income	(27,620)	(27,620)	(27,620)	(110,480)	(82,860)
– deemed interest expenses	4,550	5,261	39,956	109,362	104,812
– others	778	777	777	8,071	7,292
As per consolidated financial statements prepared under PRC GAAP	<u>2,707,785</u>	<u>1,105,365</u>	<u>1,003,116</u>	<u>15,252,471</u>	<u>11,023,611</u>

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

46. 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 and amortized over a period of ten to twenty years. Any excess of the fair value of the net assets acquired over the purchase consideration is recorded as negative goodwill, which is presented as a deduction from the assets of the Group in the consolidated balance sheet. The Group releases the negative goodwill to the statement of income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets.

Under US GAAP, as the Group, Jining II, Jining III and the Railway Assets are entities under the common control of the Parent Company, the assets and liabilities of Jining II, Jining III and the Railway Assets 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 and the Railway Assets acquired and the purchase price paid is recorded as an adjustment to shareholders' equity.

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 land use rights 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 land use rights 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. Under US GAAP, goodwill is not amortized but instead tested for impairment at least annually.

46. 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,		
	2004 RMB'000	2003 RMB'000	2002 RMB'000
Net income as reported under IFRS	3,154,317	1,386,686	1,221,999
US GAAP adjustments:			
Additional depreciation charged on fair valued property, plant and equipment and land use rights	187,418	188,191	188,178
Additional deferred tax charge due to a higher tax base resulting from the difference in cost bases of property, plant and equipment and land use rights and capitalization of mining rights	(64,034)	(64,289)	(64,284)
Amortization of negative goodwill on acquisition of Jining III	(27,620)	(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	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	–	–
Net income under US GAAP	<u>3,272,478</u>	<u>1,499,249</u>	<u>1,325,674</u>
Earnings per share under US GAAP	<u>RMB1.10</u>	<u>RMB0.52</u>	<u>RMB0.46</u>
Earnings per ADS under US GAAP	<u>RMB55.19</u>	<u>RMB26.12</u>	<u>RMB23.10</u>

46. SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP (Continued)

	At December 31,	
	2004 RMB'000	2003 RMB'000
Shareholders' equity as reported under IFRS	15,523,751	11,083,239
US GAAP adjustments:		
Difference in cost bases of property, plant and equipment and land use rights	(2,561,032)	(2,561,032)
Additional depreciation charged on fair valued property, plant and equipment and land use rights	1,312,938	1,125,520
Additional deferred tax asset due to a higher tax base resulting from the difference in cost bases of property, plant and equipment and land use rights	411,871	473,719
Goodwill arising on acquisition of Jining II	(10,106)	(10,883)
Negative goodwill arising on acquisition of Jining III, net Mining rights of Jining III	27,621	55,241
Additional deferred tax asset due to a higher tax base resulting from capitalization of mining rights	(105,983)	(112,607)
Goodwill arising on acquisition of Railway Assets	34,974	37,160
Amortization of goodwill on acquisition of Yanmei Shipping	(97,240)	(71,120)
	1,116	–
Shareholders' equity under US GAAP	<u>14,537,910</u>	<u>10,019,237</u>

Under US GAAP, the Group's total assets would have been RMB17,327,752,000 and RMB12,845,802,000 at December 31, 2004 and 2003, respectively.

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

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements" and provides guidance on the identification of entities for which control is achieved through means other than voting rights ("variable interest entities" or "VIEs") and how to determine when and which business enterprise should consolidate the VIEs. This new model for consolidation applies to an entity in which either: (1) the equity investors (if any) lack one or more characteristics deemed essential to a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. FIN 46 was applicable for periods ending December 15, 2003. In December 2004 the FASB issued FIN 46R which defers the implementation date to the end of the first reporting period after March 15, 2003 unless the Company has a special purpose entity in which case the provisions must be applied for fiscal years ending December 31, 2003. The Company does not have a special purpose entity and therefore the adoption of FIN 46 did not have a material impact on the Group's financial statements.

46. SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP (Continued)

In March 2004, the Emerging Issue Task Force ("EITF") reached a consensus in EITF 03-1 "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments". The consensus was that certain quantitative and qualitative disclosures should be required for debt and marketable equity securities classified as available-for-sale or held-to-maturity under SFAS Nos. 115 and 124, that are impaired at the balance sheet date but for which an other-than-temporary impairment has not been recognized. This EITF consensus is effective for fiscal years ending after June 15, 2004. Adoption of the EITF consensus did not result in an impact on the Group's financial position, results of operations or cash flows.