

## NOTES TO THE FINANCIAL STATEMENTS (UNDER PRC GAAP)

For the year ended December 31, 2004

### 1. GENERAL

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

In July 2004, the company placed an aggregate of 204,000,000 H shares to independent investors. Each share has a par value of RMB1. After the new issue of shares, the company has 3,074,000,000 shares in issue, including RMB1,670,000,000 state legal person shares (representing 54.33% of the total share capital); RMB1,224,000,000 H Shares and American Depository Shares listed on overseas stock exchanges (representing 39.82% of the total share capital); and RMB180,000,000 A Shares (representing 5.85% of the total share capital) listed on domestic stock exchange. Details of the Company's share capital are set out in note 26 to the financial statements.

### 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

#### Accounting system and accounting standards adopted

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

#### Basis of accounting and principle of measurement

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

#### Accounting year

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

#### Reporting currency

The recording currency of the Company is Renminbi.

#### Foreign currency translation

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

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### Cash equivalents

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

### Accounting for bad debts

#### 1) Criteria for recognition of bad debts

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

#### 2) Accounting treatment for bad debt losses

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

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

### Inventories

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

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

#### Provision for decline in value of inventories

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### Current investments

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

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

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

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

### Designated deposit

Designated deposit represents an instructed deposit with an authorized lending institution which lends the deposit to a third party and is accounted for at the actual amount lent out. Interest income from such loans is accrued at the interest rate specified in the loan agreement and recognized in the income statement on a time basis. Accruing interest is stopped if that interest cannot be collected on due dates, and any interest that has previously been accrued is reversed. Designated deposit is carried at the lower of cost and recoverable amount at the end of each period. Where the recoverable amount is lower than the principal amount of a designated deposit, the difference is recognized as a provision for impairment loss.

### Recoverable amount

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

### Long-term investments

#### (1) Accounting treatment for long-term investments

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### Long-term investments (Continued)

#### (1) Accounting treatment for long-term investments (Continued)

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

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

#### (2) Impairment of long-term investments

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

### Fixed assets and depreciation

Fixed assets are tangible assets that (a) are held for use in the production of goods or supply of services, for rental to others, or for administrative purposes; (b) have useful life more than one year; and (c) have relatively high unit price.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### Fixed assets and depreciation (Continued)

Fixed assets are stated at cost or valuation upon the restructuring. Except for the permanently owned lands for which no depreciation is provided, and mining structures, which are depreciated using the estimated production volume method, depreciation is provided over their estimated useful lives from the month after they have reached the working condition for their intended use using the straight-line method with estimated residual value of 3% on cost. The useful life and annual depreciation rate of each category of fixed assets are as follows:

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

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

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

Land category only refers to that of Australian Southland coal mine and no depreciation is provided for as Austar enjoys the permanent ownership.

### Impairment of fixed assets

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

### Fixed assets under construction

Fixed assets under construction are recorded at the actual cost incurred for the construction.

Cost includes all expenditures incurred for construction projects, capitalized borrowing costs incurred on a specific borrowing for the construction of fixed assets incurred before it has reached the working condition for its intended use, and other related expenses. A fixed asset under construction is transferred to fixed assets when it has reached the working condition for its intended use. No depreciation is provided for fixed assets under construction.

Where the work on a fixed asset under construction has been suspended for a long period of time and is not expected to re-commence within three years; or it is technically and physically obsolete and its economic benefits to the Company is uncertain; or there is other evidence indicating a decline in value on the fixed asset under construction, an impairment loss is recognized for the shortfall of the recoverable amount of the fixed asset under construction below its carrying amount.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### Intangible assets

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

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

Mining rights are evenly amortized over the useful life of 20 years since the mining rights are obtained. The useful life is estimated based on the total proven and probable reserves of the coal mine.

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

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

### Impairment loss on intangible assets

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

### Provisions

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

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

### Borrowing costs

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

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### Wei Jian Fei

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

### Work Safety Expense

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

### Revenue recognition

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

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

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

### Subsidy income

Subsidy income is recognized when grants are actually received.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### Income taxes

Income taxes is provided under the tax payable method.

The income tax provision is calculated based on the accounting profit for the period as adjusted in accordance with the relevant tax laws.

### Basis of consolidation

#### (1) Principle for consolidation scope recognition

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

#### (2) Accounting for consolidation

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

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

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

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

#### (3) Translation of Foreign Currency Financial Statements

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

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

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

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



### 3. TAXES

#### Value added tax

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

The calculation method of "Payment first and refund afterwards" was adopted for calculating of the VAT refund on coal products export before January 1, 2002. From January 1, 2002 onwards, the calculation method has been changed to "Exemption, counteract and refund" in accordance with Caishui [2002] No.7. Pursuant to the "Notice of the adjustment of export refund rate" (Caishui [2003] No.222), which was jointly issued by the Ministry of Finance and the State Administration, all the tax refund rate of coal exported by the Company was reduced from 13% to 11% from January 1, 2004.

#### Business tax

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

#### Resource tax

Pursuant to the "Notice of the adjustment of resource tax amount applied by some enterprises in ZaoZhuang of ShanDong province" (Caishui [2004] No.117), which was jointly issued by the Ministry of Finance and the State Administration, resource tax is calculated and paid at the amount of RMB2.40 per tone of raw coal sold and consumed in clean coal production from 1 January, 2004.

#### City construction tax & education fee

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

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

#### Income tax

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

#### 4. SCOPE OF CONSOLIDATION AND DETAILS OF SUBSIDIARIES

The Company owns the following subsidiaries:

Name of subsidiaries	Registered capital/ Paid-in capital	Amount invested by the Company percentage of equity interest	Amount invested by subsidiary percentage of equity interest	Consolidated or not	
Qingdao Free Trade Zone Zhongyan Trade Co., Ltd. ("Zhongyan Trade")	RMB 2,100,000	RMB 2,710,000	52.38%	–	Yes
Shandong Yanmei Shipping Co., Ltd. ("Yanmei Shipping")	RMB 5,500,000	RMB 11,690,000	92%	–	Yes
Yanzhou Coal Yulin Power Chemical Co., Ltd ("Yulin Power")	RMB 800,000,000	RMB 776,000,000	97%	–	Yes
Yancoal Australia Pty Limited Zhongyan Trade Co., Ltd. ("Yanmei Australia")	AUD 30,000,000	AUD 30,000,000	100%	–	Yes
Austar Coal Mine Pty Limited. ("Austar Coal Mine")	–	–	–	AUD 100% 30,000,000	Yes

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

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

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

Nature of business of Yanmei Australia: investment holding company.

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

In 2004, the Company established Yanzhou Coal Yulin Power Chemical Co. Ltd, with Shandong Investment & Development Co., Ltd. and Hualu Engineering & Technology Co., Ltd.. The registered capital of Yulin Power is RMB800,000,000 and the Company invested RMB776,000,000 and holds 97% equity interest. The principal activity of Yulin Power is development of methanol and acetic acid construction for 600,000 ton methanol, 200,000 ton acetic acid and coal mine, electric project.

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

In 2004, the Company established Yancoal Australia Pty Limited with paid-in capital of AUD30,000,000. The Company holds 100% equity interest in Yanmei Australia. The principal activity of Yanmei Australia is managing all the investment projects in Australia.

In 2004, Yanmei Australia established Austar Coal Mine Pty Limited. Yanmei Australia holds 100% equity interest with paid-in capital of AUD30,000,000. The principal activity of Austar Coal Mine is coal mining and sales of coal.

All the notes to the financial statement are applicable to consolidated financial statement, except for note 48 which is only applicable to the Company.

#### 5. BANK BALANCES AND CASH

	December 31, 2004			December 31, 2003		
	Foreign currency	Exchange rate	RMB equivalent	Foreign currency	Exchange rate	RMB equivalent
Cash on hand						
RMB	-	-	704,897	-	-	406,196
AUD	19,000	6.3762	121,148	-	-	-
Cash in bank						
RMB	-	-	2,249,701,801	-	-	1,253,549,388
USD	144,320,499	8.2765	1,194,468,610	87,703,457	8.2767	725,895,203
EUR	78,186	11.2627	880,585	78,107	10.3383	807,494
AUD	8,605,137	6.3762	54,868,075	-	-	-
HKD	1,671,032,794	1.0637	1,777,477,583	56,663,540	1.0657	60,386,335
Other monetary assets						
RMB	-	-	246,021	-	-	248,697
			<u>5,278,468,720</u>			<u>2,041,293,313</u>

## 6. CURRENT INVESTMENTS

	December 31, 2004			December 31, 2003		
	Cost RMB	Provision RMB	Net book value RMB	Cost RMB	Provision RMB	Net book value RMB
DESIGNATED DEPOSITS						
Shandong Xinjia Industry Co., Ltd (Note 1)	640,000,000	-	640,000,000	-	-	-
Shandong Xianglong Industry Co., Ltd (Note 2)	160,000,000	-	160,000,000	-	-	-
Shandong Cement Plant Co., Ltd (Note 3)	50,000,000	-	50,000,000	-	-	-
Shandong Chuangye Investment Co., Ltd	-	-	-	100,000,000	-	100,000,000
	<u>850,000,000</u>	<u>-</u>	<u>850,000,000</u>	<u>100,000,000</u>	<u>-</u>	<u>100,000,000</u>

Note 1: The designated deposit represents an instructed deposit of RMB640,000,000 with Bank of China Jining Branch to Shandong Xinjia Industry Co., Ltd. at interest rate of 7% per annum for one month period from December 20, 2004. Related obligations are secured by Lianda Group Co., Ltd ("Lianda Group") with its 170 million state legal person shares of Huaxia bank and its 66.7% of interest in Xi'an international golf club Co., Ltd.. Details of the subsequent claims of the designated deposit are set out in note 50.

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

Note 3: The designated deposit represents an instructed deposit of RMB50,000,000 with Xinye Bank Jinan Branch to Shandong Cement Plant Co., Ltd. at interest rate of 5.04% per annum for a twelve month period. Related obligations are guaranteed by Xingye Bank Jinan Branch.

## 7. NOTES RECEIVABLE

	December 31, 2004 RMB	December 31, 2003 RMB
Bank acceptance bills	838,465,509	700,388,322
Commercial acceptance bills	60,000,000	-
	<u>898,465,509</u>	<u>700,388,322</u>

See note 47 for notes receivable due from shareholders of the Company holding more than 5% of the total shares of the Company.

## 8. ACCOUNTS RECEIVABLE

The aging analysis of accounts receivable is as follows:

Aging	December 31, 2004				December 31, 2003			
	Amount RMB	%	Bad debt provision RMB	Net book value RMB	Amount RMB	%	Bad debt provision RMB	Net book value RMB
Within 1 year	353,366,220	75	14,470,095	338,896,125	491,927,103	71	19,334,770	472,592,333
1 to 2 years	2,788,505	1	836,552	1,951,953	114,886,911	17	34,466,073	80,420,838
2 to 3 years	31,127,732	7	31,127,732	-	78,919,348	11	39,459,674	39,459,674
Over 3 years	80,265,930	17	80,265,930	-	7,366,106	1	7,366,106	-
Total	<u>467,548,387</u>	<u>100</u>	<u>126,700,309</u>	<u>340,848,078</u>	<u>693,099,468</u>	<u>100</u>	<u>100,626,623</u>	<u>592,472,845</u>

Balance of the 5 largest debtors is as follows:

Total amount of the 5 largest debtors RMB	Percentage in accounts receivable balance
344,298,420	74%

See note 47 for accounts receivable due from shareholders of the Company holding more than 5% of the total shares of the Company.

## 9. OTHER RECEIVABLES

Aging analysis of other receivables is as follows:

Aging	December 31, 2004				December 31, 2003			
	Amount RMB	%	Bad debt provision RMB	Net book value RMB	Amount RMB	%	Bad debt provision RMB	Net book value RMB
Within 1 year	437,979,999	93	14,942,023	423,037,976	71,508,302	58	2,336,498	69,171,804
1 to 2 years	11,879,935	3	3,432,184	8,447,751	26,979,729	22	2,786,432	24,193,297
2 to 3 years	9,547,752	2	9,159,871	387,881	14,376,386	12	4,162,587	10,213,799
Over 3 years	8,555,708	2	8,182,198	373,510	9,908,571	8	3,400,000	6,508,571
Total	<u>467,963,394</u>	<u>100</u>	<u>35,716,276</u>	<u>432,247,118</u>	<u>122,772,988</u>	<u>100</u>	<u>12,685,517</u>	<u>110,087,471</u>

## 9. OTHER RECEIVABLES (Continued)

Balance of the 5 largest debtors is as follows:

Total amount of the 5 largest debtors RMB	Percentage in accounts receivable balance
364,137,243	78%

See note 47 for other receivables due from shareholders of the Company holding more than 5% of the total shares of the Company.

## 10. PROVISION FOR BAD DEBTS

	January 1, 2004 RMB	Addition RMB	Reversal RMB	Other transfer out RMB	December 31, 2004 RMB
Bad debt provision:					
Accounts receivable	100,626,623	26,073,686	–	–	126,700,309
Other receivables	12,685,517	23,030,759	–	–	35,716,276
Total	<u>113,312,140</u>	<u>49,104,445</u>	<u>–</u>	<u>–</u>	<u>162,416,585</u>

## 11. PREPAYMENTS

The aging analysis of prepayments is as follows:

Aging	December 31, 2004		December 31, 2003	
	RMB	%	RMB	%
Within 1 year	48,658,293	81	53,175,910	72
1 to 2 years	10,191,741	17	18,904,541	26
2 to 3 years	1,199,024	2	1,904,689	2
Total	<u>60,049,058</u>	<u>100</u>	<u>73,985,140</u>	<u>100</u>

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

## 11. PREPAYMENTS (Continued)

Balances of the 5 largest debtors are as follows:

Total amount of the 5 largest debtors RMB	Percentage in prepayments balance
37,382,708	62%

See note 47 for prepayments to shareholders of the Company holding more than 5% of the total shares of the Company.

## 12. INVENTORIES

	December 31, 2004			December 31, 2003		
	Amount RMB	Provision RMB	Net book value RMB	Amount RMB	Provision RMB	Net book value RMB
Raw materials	226,270,860	-	226,270,860	204,466,522	-	204,466,522
Finished goods	259,157,512	-	259,157,512	297,562,021	-	297,562,021
	<u>485,428,372</u>	<u>-</u>	<u>485,428,372</u>	<u>502,028,543</u>	<u>-</u>	<u>502,028,543</u>

## 13. DEFERRED EXPENSES

	December 31, 2004 RMB	December 31, 2003 RMB
Harbour transportation fee	<u>56,644,671</u>	<u>94,646,431</u>

## 14. LONG-TERM EQUITY INVESTMENTS

	December 31, 2004 RMB	December 31, 2003 RMB
Other equity investments (1)	62,180,693	31,897,684
Discrepancy on consolidation (2)	10,045,361	11,161,512
Prepayment for an investment (3)	574,000,000	—
Total	<u>646,226,054</u>	<u>43,059,196</u>
Less: Impairment loss on long-term equity investments	—	—
Long-term equity investments – net	<u>646,226,054</u>	<u>43,059,196</u>

(1) Other equity investments

Name of investees	Share in the registered capital of the investee (%)	December 31, 2004 RMB	December 31, 2003 RMB
Jiangsu Lianyungang Port Co., Ltd.	1%	1,760,419	1,760,419
Shenergy Company Limited (Note)	0.83%	60,420,274	30,137,265
		<u>62,180,693</u>	<u>31,897,684</u>

Note: The Company acquired 14,882,600 state legal person shares of Shenergy Company Limited at RMB4.05 per share with the total consideration of RMB60,274,530. In year 2002, the Company paid RMB30,137,265 in advance, which represented 50% of the total consideration. In 2004, the Company has completed the procedure of equity transfer and settled the remaining amount and the relevant commission charge. At December 31, 2004, the Company holds the legal shares representing 0.83% of the total share capital of Shenergy Company Limited.

(2) Discrepancy on consolidation

Name of investee	Original amount	Amortization period	Amortization for the year	At December 31, 2004	Arising from
Yanmei Shipping	<u>11,161,512</u>	10 years	<u>1,116,151</u>	<u>10,045,361</u>	Acquisition of subsidiary

(3) Prepayment for an investment

According to the equity transfer agreement between the Company and Yankuang Group, the Company would pay RMB574,000,000 for 95.67% equity interest in Yankuang Heze Power Chemical Co., Ltd.. As at December 31, 2004, the amount has been fully paid. But the equity transfer has not been completed as at the year end, as the approvals from the State-owned Assets Supervision and Administration Commission of Shandong Province and the shareholders' meeting of the Company have not yet been obtained.



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

For the year ended December 31, 2004

**15. FIXED ASSETS AND ACCUMULATED DEPRECIATION**

	Lands (Note 1)	Buildings	Mining structure	Railway structure	Harbor works and craft	Plant, machinery and equipment	Transportation equipment	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
<b>COST</b>								
At January 1, 2004	-	2,082,464,801	3,908,554,834	870,381,181	250,230,769	7,461,700,147	325,820,032	14,899,151,764
Additions	36,374,971	3,419,735	-	-	-	170,400,698	5,922,746	216,118,150
Transfer from fixed assets under construction	-	76,541,020	-	7,189,611	-	690,072,033	30,969,817	804,772,481
Disposals	-	-	-	-	-	(862,056,543)	(33,003,109)	(895,059,652)
At December 31, 2004	<u>36,374,971</u>	<u>2,162,425,556</u>	<u>3,908,554,834</u>	<u>877,570,792</u>	<u>250,230,769</u>	<u>7,460,116,335</u>	<u>329,709,486</u>	<u>15,024,982,743</u>
<b>ACCUMULATED DEPRECIATION</b>								
At January 1, 2004	-	827,379,904	1,412,513,207	256,799,917	-	3,692,845,454	178,987,255	6,368,525,737
Provided for the year	-	97,878,380	97,866,208	54,498,058	6,068,096	693,886,489	29,068,544	979,265,775
2004 transfer in (Note 2)	-	-	-	-	-	199,183,803	-	199,183,803
Eliminated on disposals	-	-	-	-	-	(748,503,084)	(24,950,308)	(773,453,392)
At December 31, 2004	<u>-</u>	<u>925,258,284</u>	<u>1,510,379,415</u>	<u>311,297,975</u>	<u>6,068,096</u>	<u>3,837,412,662</u>	<u>183,105,491</u>	<u>6,773,521,923</u>
<b>NET BOOK VALUE</b>								
At January 1, 2004	<u>-</u>	<u>1,255,084,897</u>	<u>2,496,041,627</u>	<u>613,581,264</u>	<u>250,230,769</u>	<u>3,768,854,693</u>	<u>146,832,777</u>	<u>8,530,626,027</u>
At December 31, 2004	<u>36,374,971</u>	<u>1,237,167,272</u>	<u>2,398,175,419</u>	<u>566,272,817</u>	<u>244,162,673</u>	<u>3,622,703,673</u>	<u>146,603,995</u>	<u>8,251,460,820</u>
Include:								
Fully depreciated F.A Cost (Note 3)	<u>-</u>	<u>62,385,481</u>	<u>-</u>	<u>2,628,634</u>	<u>-</u>	<u>1,291,596,330</u>	<u>71,724,088</u>	<u>1,428,334,533</u>

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

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

Note 3: No fixed assets are pledged and leased out at December 31, 2004. The fully depreciated fixed assets include those fixed assets acquired for work-safety purpose by using the Work Safety Expense provided. Such fixed assets should be fully depreciated at the date of acquisition according to the relevant regulation from Ministry of Finance. Details are set out in Note 2.

## 16. MATERIALS HELD FOR CONSTRUCTION OF FIXED ASSETS

Category	December 31, 2004 RMB	December 31, 2003 RMB
Materials held for construction	<u>1,993,287</u>	<u>1,721,281</u>

## 17. FIXED ASSETS UNDER CONSTRUCTION

Category	At January 1, 2004 RMB	Additions RMB	Transfers upon completion RMB	At December 31, 2004 RMB	Budget RMB	Proportion to budget %	Source of funds
Equipment to be installed	59,881,127	688,163,025	(692,908,897)	55,135,255	95,889,144	57.50	internally generated fund
Buildings under construction	6,922,926	94,156,020	(88,766,621)	12,312,325	14,427,253	85.34	internally generated fund
Others	17,222,809	22,938,767	(23,096,963)	17,064,613	22,983,636	74.25	internally generated fund
Total	<u>84,026,862</u>	<u>805,257,812</u>	<u>(804,772,481)</u>	<u>84,512,193</u>	<u>133,300,033</u>		

No interest was capitalized for the year.

## 18. INTANGIBLE ASSETS

Category	Original amount RMB	At January 1, 2004 RMB	Addition RMB	Amortization for the year RMB	Accumulated amortization RMB	At December 31, 2004 RMB	Remaining amortization period
Land use rights	310,242,143	272,315,194	-	(6,227,897)	(44,154,846)	266,087,297	42 years and 11 months
Land use rights of Jining III	88,928,996	83,593,256	-	(1,778,580)	(7,114,320)	81,814,676	46 years
Mining rights of Jining III	132,478,800	112,606,886	-	(6,623,940)	(26,495,854)	105,982,946	16 years
Land use rights of Railway Assets	259,378,500	249,003,360	-	(5,187,570)	(15,562,710)	243,815,790	47 years
Goodwill	120,000,000	71,120,000	40,000,000	(13,880,000)	(22,760,000)	97,240,000	7 years
Exploration of Nantian	32,634,381	-	32,634,381	-	-	32,634,381	20 years
	<u>943,662,820</u>	<u>788,638,696</u>	<u>72,634,381</u>	<u>(33,697,987)</u>	<u>(116,087,730)</u>	<u>827,575,090</u>	

The original land use rights are injected by Yankuang Group. The land use rights of Jining III and Railway Assets and mining rights of Jining III were acquired from Yankuang Group at revaluated amount. At December 31, 2004, the registration process in respect of the land use rights of Railway Assets has not yet been completed.

## 18. INTANGIBLE ASSETS (Continued)

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

Goodwill represents the excess of the purchase consideration of Railway Assets over the net assets of Railway Assets at the date of acquisition. According to the "Railway Assets Acquisition Agreement", when the Railway Assets' actual transportation volume reached 25,000,000 tonnes for the year 2002, the Company should pay an extra RMB40,000,000. According to the above agreement, when the Railway Assets' actual transportation volume reaches 28,000,000 tonnes for the year 2003, the Company should pay an extra RMB40,000,000. According to the above agreement, when the Railway Assets' actual transportation volume reaches 30,000,000 tonnes for the year 2004, the Company should pay an extra RMB40,000,000, details of which are set out in note 47(4)(b).

## 19. ACCOUNTS PAYABLE

See note 47 for accounts payable due to shareholders of the Company holding more than 5% of the total shares of the Company.

## 20. ADVANCES FROM CUSTOMERS

See note 47 for amounts advanced from shareholders of the Company holding more than 5% of the total shares of the Company.

## 21. TAXES PAYABLE

	December 31, 2004 RMB	December 31, 2003 RMB
Income tax	529,020,219	114,903,415
Value added tax	107,018,240	97,297,037
City construction tax	32,468,286	50,940,509
Others	116,224,940	63,236,759
	<u>784,731,685</u>	<u>326,377,720</u>

## 22. OTHER PAYABLES

See note 47 for other payables due to shareholders of the Company holding more than 5% of the total shares of the Company.

## 23. PROVISIONS

Category	At January 1, 2004 RMB	Accrual for the year RMB	Payment for the year RMB	At December 31, 2004 RMB
Land subsidence, restoration, rehabilitation and environmental costs	<u>85,022,022</u>	<u>313,171,864</u>	<u>(501,600,620)</u>	<u>(103,406,734)</u>

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

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

## 24. LONG-TERM LOAN

Lender	December 31, 2004 RMB	January 1, 2004 RMB	Period	Annual Interest Rate	Condition for Loan
Bank of China	400,000,000	600,000,000	96 months	5.76%	Guaranteed by Yankuang Group
Less: Long-term loan due within one year	200,000,000	200,000,000			
Long-term loan due after one year	200,000,000	400,000,000			
	<u>400,000,000</u>	<u>600,000,000</u>			

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

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

## 25. LONG-TERM PAYABLE

	December 31, 2004 RMB	December 31, 2003 RMB
Payable for acquisition of Jining III's mining rights (Note 1)	79,487,360	92,735,160
Reform and Specific Development Fund (Note 2)	96,668,980	—
Work Safety Expense (Note 3)	5,484,357	—
	<u>181,640,697</u>	<u>92,735,160</u>
Less: Long-term payable due within one year	18,732,157	13,247,800
Long-term payable due after one year	162,908,540	79,487,360
	<u>181,640,697</u>	<u>92,735,160</u>

## 25. LONG-TERM PAYABLE (Continued)

Note 1: The amount represents the remaining balances of payable to Yankuang Group for acquisition of Jining III's mining rights, details of which are set out in note 47(4)(c).

Note 2: According to the joint regulation of Shandong Province Finance Bureau, State-owned Assets Supervision and Administration Commission of Shandong Municipal government, from July 1, 2004, Reform and Specific Development Fund is accrued at RMB5.00 per ton raw coal mined and will be used for related expenditures on mine construction.

Note 3: According to the relevant regulation of State Administration of Coal Mine Safety, from May 1, 2004, Work Safety Expense is accrued at RMB8 per ton raw coal mined, and will be used on work safety related expenditure for coal mines. In 2004, the Company has accrued RMB204,668,160, of which RMB199,183,803 was used. The Company expects to fully use the remaining balance before the end of 2005.

## 26. SHARE CAPITAL

Changes in share capital from January 1, 2004 to December 31, 2004 are as follows:

	January 1, 2004	Addition	December 31, 2004
(1) Unlisted shares			
1. Initiation shares	1,670,000,000	–	1,670,000,000
–State legal person shares			
2. Staff shares	–	–	–
Total of unlisted shares	<u>1,670,000,000</u>	<u>–</u>	<u>1,670,000,000</u>
(2) Listed shares			
1. A-shares	180,000,000	–	180,000,000
2. H-shares	<u>1,020,000,000</u>	<u>204,000,000</u>	<u>1,224,000,000</u>
Total of listed shares	<u>1,200,000,000</u>	<u>204,000,000</u>	<u>1,404,000,000</u>
(3) Total share capital	<u>2,870,000,000</u>	<u>204,000,000</u>	<u>3,074,000,000</u>

In 2004, the company placed an aggregate of 204,000,000 H shares to independent investors at the price of HK\$8.30 per share (equivalent to RMB8.80 per share). The proceeds received amount to RMB1,756,875,383 with share premium of RMB1,552,875,383 resulted.

The share capital has been verified by Deloitte Touche Tohmatsu Certified Public Accountants Ltd. (formerly known as Deloitte Touche Tohmatsu Shanghai CPA) on capital verification report Deshibao (Yan)zi No. 588, capital verification Deshibao (Yan)zi (98) No. 439, capital verification Deshibao (Yan)zi (01) No. 006 and capital verification Deshibao (Yan)zi (01) No.040, and Deshibao (Yan)zi (04) No.037.

There is no change in share capital from January 1, 2003 to December 31, 2003.

Each share has a par value of RMB1.

## 27. CAPITAL RESERVES

Changes in capital reserves from January 1, 2004 to December 31, 2004 are as follows:

	Share premium (Note 26) RMB	Transfer from Wei Jian Fei (Note) RMB	Total RMB
At January 1, 2004	3,549,258,855	1,164,936,251	4,714,195,106
Additions	1,552,875,383	234,878,898	1,787,754,281
At December 31, 2004	<u>5,102,134,238</u>	<u>1,399,815,149</u>	<u>6,501,949,387</u>

Changes in capital reserves from January 1, 2003 to December 31, 2003 are as follows:

	Share premium RMB	Transfer from Wei Jian Fei (Note) RMB	Total RMB
At January 1, 2003	3,549,258,855	905,262,485	4,454,521,340
Additions	–	259,673,766	259,673,766
At December 31, 2003	<u>3,549,258,855</u>	<u>1,164,936,251</u>	<u>4,714,195,106</u>

Note: Wei Jian Fei is used for purchase of coal production equipment and refurbishment of coal mining structure and the corresponding amounts are transferred from other current liabilities to capital reserves when the construction facilities are put into use. Pursuant to the relevant regulations, this capital reserve can only be used for the future development of the coal mining business.

## 28. SURPLUS RESERVES

Changes in surplus reserves from January 1, 2004 to December 31, 2004 are as follows:

	Statutory common reserve fund RMB	Statutory common welfare fund RMB	Total RMB
At January 1, 2004	498,781,858	249,453,800	748,235,658
Additions	270,811,034	135,421,792	406,232,826
At December 31, 2004	<u>769,592,892</u>	<u>384,875,592</u>	<u>1,154,468,484</u>

## 28. SURPLUS RESERVES (Continued)

Changes in surplus reserves from January 1, 2003 to December 31, 2003 are as follows:

	Statutory common reserve fund RMB	Statutory common welfare fund RMB	Total RMB
At January 1, 2004	388,201,586	194,141,761	582,343,347
Additions	110,580,272	55,312,039	165,892,311
At December 31, 2004	<u>498,781,858</u>	<u>249,453,800</u>	<u>748,235,658</u>

The statutory common reserve fund can be used to make good the losses incurred in previous years, expand the business scale of the Company or convert it into share capital. The statutory common welfare fund can be used for the welfare of the staff of the Company.

## 29. CASH DIVIDEND PROPOSED AFTER THE BALANCE SHEET DATE

	2004 RMB	2003 RMB
At January 1	470,680,000	298,480,000
Less: Transferred to dividends payable	470,680,000	298,480,000
Add: Cash dividend proposed after the balance sheet date (Note)	<u>799,240,000</u>	<u>470,680,000</u>
At December 31	<u>799,240,000</u>	<u>470,680,000</u>

Note: Pursuant to the relevant regulations, companies that issue H shares should appropriate dividend based on profit available for appropriation listed on the audited financial statements prepared under accounting standards in the PRC or International Financial Reporting Standards ("IFRS"), whichever is the lesser.

According to the minute of Board of Directors date April 25, 2005, final dividend of RMB2.6 per ten shares and six bonus shares for every ten shares issued by conversion from capital reserve is proposed based on the total issued shares of 3,074,000,000 (each share with a par value of RMB1). The declaration and payment of the final dividend are subject to the approval of the shareholders' meeting of the Company.



### 30. UNAPPROPRIATED PROFITS

	2004 RMB	2003 RMB
At January 1	<u>2,220,500,672</u>	<u>1,751,708,336</u>
Add: Net profit for the year	2,707,784,846	1,105,364,647
Less: Appropriations to:		
Statutory common reserve fund (Note 1)	270,778,484	110,536,465
Statutory common welfare fund (Note 2)	135,389,242	55,268,232
Statutory common reserve fund of the subsidiary (Note 3)	32,550	43,807
Statutory common welfare fund of the subsidiary (Note 3)	32,550	43,807
Profit available for distribution	<u>4,522,052,692</u>	<u>2,691,180,672</u>
Less: Cash dividend proposed after the balance sheet date	<u>799,240,000</u>	<u>470,680,000</u>
At December 31	<u><u>3,722,812,692</u></u>	<u><u>2,220,500,672</u></u>

Note 1: Appropriations to statutory common reserve fund

Pursuant to the Provision 177 of Company Law and the Company's Article of Association, 10% of its net profit is appropriated as statutory common reserve fund. Such appropriations can be ceased when the accumulated amount of the fund reaches 50% of the Company's registered capital.

Note 2: Appropriations to statutory public welfare fund

Pursuant to the Provision 177 of Company Law and the Company's Article of Association, the Board of Directors proposed to appropriate 5% of current year's net profit as statutory common welfare fund.

Note 3: Appropriations to statutory common reserve fund and statutory common welfare fund of the subsidiary

Statutory common reserve fund and statutory common welfare fund of the subsidiary are appropriated at the preparation of consolidation financial statements.

## 31. REVENUE FROM PRINCIPAL OPERATIONS

	2004 RMB	2003 RMB
Revenue from domestic sales of coal products	8,006,149,560	4,918,043,729
Revenue from export sales of coal products	3,974,708,964	3,587,417,218
Revenue from railway transportation services	228,305,005	159,771,257
	<u>12,209,163,529</u>	<u>8,665,232,204</u>
<b>Total amount of the 5 largest customers RMB</b>		<b>Percentage in total revenue %</b>
1,761,660,602		14.4

The Company exports its coal through China National Coal Group Corporation, Minerals Trading Co., Ltd. and Shanxi Coal Import and Export Group Corporation. Currently, the Company does not have direct export rights, and has to export coals through import and export companies. The final decision on customer selection of the Company's export sales is jointly determined by the Company and the above-mentioned import and export companies. Therefore the amounts of sales made through these import and export companies are excluded from sales of the 5 largest customers.

## 32. COST OF PRINCIPAL OPERATIONS

	2004 RMB	2003 RMB
Cost of sales of coal products	4,997,059,461	3,947,107,054
Cost of the railway transportation services	89,412,848	67,589,146
	<u>5,086,472,309</u>	<u>4,014,696,200</u>

### 32. COST OF PRINCIPAL OPERATIONS (Continued)

Analysis of cost of sales of coal products is as follows:

	2004 RMB	2003 RMB
Materials	1,073,406,704	885,333,208
Wages	887,026,192	754,893,943
Employee welfare	108,630,007	89,909,331
Electricity	295,972,040	275,856,678
Depreciation	893,724,053	817,768,904
Land subsidence, restoration, rehabilitation and environmental costs	323,240,377	264,158,442
Repairs	443,507,344	364,692,980
Safety Work Expense	204,668,160	-
Reform and Specific Development Fund	96,668,980	-
VAT input transfer out	79,872,642	-
Others	355,464,064	234,819,802
Subtotal	4,762,180,563	3,687,433,288
Wei Jian Fei	234,878,898	259,673,766
Total	<u>4,997,059,461</u>	<u>3,947,107,054</u>

### 33. SALES TAXES AND SURCHARGES

	2004 RMB	2003 RMB
Business tax	6,849,150	5,184,955
City construction tax	88,814,898	48,235,735
Education fee	38,063,529	20,672,458
Resource tax	97,613,053	49,925,052
	<u>231,340,630</u>	<u>124,018,200</u>

## 34. PROFITS FROM OTHER OPERATIONS

	2004 RMB	2003 RMB
Sales of raw materials		
– Sales	678,791,759	626,746,635
– Cost of sales	644,913,325	591,550,143
	<u>33,878,434</u>	<u>35,196,492</u>
Others		
– Income	24,306,862	28,348,624
– Cost	19,153,513	20,524,780
	<u>5,153,349</u>	<u>7,823,844</u>
	<u><u>39,031,783</u></u>	<u><u>43,020,336</u></u>

## 35. OPERATING EXPENSES

	2004 RMB	2003 RMB
Selling expense of domestic sales of coal products	434,340,116	503,228,749
Selling expense of export sales of coal products	968,375,436	1,089,065,698
Others	70,412,606	66,780,344
	<u>1,473,128,158</u>	<u>1,659,074,791</u>

## 36. FINANCIAL EXPENSES

	2004 RMB	2003 RMB
Interest expenses	31,392,000	53,682,000
Less: interest income	70,885,565	13,631,237
Exchange loss(Less: gain)	(5,507,225)	(116,242)
Others	841,196	1,435,898
	<u>(44,159,594)</u>	<u>41,370,419</u>

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

For the year ended December 31, 2004

**37. INVESTMENT INCOME**

	2004 RMB	2003 RMB
Short-term investment income		
–Interest income from designated deposits	21,826,327	4,183,333
–Gains on debt investment	–	1,423,858
Long-term investment income		
–Profits declared by investee under cost method	4,464,780	4,809,780
–Amortization of long-term equity investment difference	(1,116,151)	–
	<u>25,174,956</u>	<u>10,416,971</u>

**38. SUBSIDY INCOME**

The amount represents subsidies granted to the Company on its export sales received during the year.

**39. NON-OPERATING INCOME**

	2004 RMB	2003 RMB
Gain on disposal of fixed assets	9,896,466	13,050,762
Others	2,040,456	4,290,828
	<u>11,936,922</u>	<u>17,341,590</u>

**40. NON-OPERATING EXPENSES**

	2004 RMB	2003 RMB
Loss on disposal of fixed assets (Note)	114,493,802	6,179,251
Donations	4,168,000	338,570
Fines and Others	7,009,694	16,252,647
	<u>125,671,496</u>	<u>22,770,468</u>

Note: In 2004, the Company has disposed certain fixed assets which are enclosed underground and have no repairable value after long usage lives.

#### 41. INCOME TAXES

		2004 RMB	2003 RMB
Income tax of the Company	(1)	1,389,239,198	586,884,118
Addition payment of income tax	(2)	16,019,400	–
Income tax of subsidiaries		1,527,124	891,453
		<u>1,406,785,722</u>	<u>587,775,571</u>

- (1) Income tax is provided at 33% of the taxable income which is calculated by adjusting the accounting profits before tax for the year in accordance with the relevant tax laws.
- (2) This represents additional income tax payment for the year of 2002 and 2003 according to the tax verification report Ji Di Shui Ji Chu [2004] No.042003 issued by the local tax bureau.
- (3) The relevant tax authorities have not yet assessed the cap for total wages of the Company that would be deductible under PRC income tax. As a subsidiary of the Parent Company, the directors of the Company are in the opinion that the same basis for determining the deductible wages cap applicable to the Parent Company and assessed by the tax authority would be equally applicable to the Company.

#### 42. OTHER CASH RECEIVED RELATING TO OPERATING ACTIVITIES

	2004 RMB
Other operating income	703,098,621
Non operating income	2,040,456
Interest income	70,885,565
Others	38,001,760
Total	<u>814,026,402</u>

#### 43. OTHER CASH PAID RELATING TO OPERATING ACTIVITIES

	2004 RMB
Cash payments for operating expenses and administrative expenses	1,909,739,371
Other operating expenses	664,066,838
Others	507,031,314
Total	<u>3,080,837,523</u>

#### 44. CASH PAID FOR ACQUISITION OF NANTIAN COAL MINE

	2004 RMB
Fixed assets	191,404,523
Intangible assets	32,634,381
Other payable	(36,726,912)
Total	<u>187,311,992</u>
Considerations	
Cash paid	136,301,992
Amount unpaid	51,010,000
Total	<u>187,311,992</u>

In 2004, Austar acquired coal mine assets of Southland through the company for a cash consideration of RMB187,311,992, among which RMB136,301,992 has been paid up to December 31, 2004.

Under the Asset Purchase Agreement between Austar and Southland/Thiessa further AUD4,000,000 is payable when an Exploration License is granted to Austar cover potential coal reserves to the west and south of CML2, adjoining the existing lease area.

#### 45. CASH AND CASH EQUIVALENTS

	December 31, 2004 RMB	December 31, 2003 RMB
Bank balances and cash	5,278,468,720	2,041,293,313
Less: Restricted cash (Note)	61,731,230	17,521,242
	<u>5,216,737,490</u>	<u>2,023,772,071</u>

Note: The amounts represent the bank deposits pledged to certain banks to secure letters of credit and deposits placed in banks secured for the future payment of land subsidence, restoration, rehabilitation and environmental costs of Austar under the request of Australia government at the balance sheet date.

## 46. SEGMENT INFORMATION

Item	Coal mining business RMB	Railway transportation business RMB	Inter-segment elimination RMB	Unallocated items RMB	Total RMB
1. Operating revenue					
External	11,980,858,524	228,305,005	–	–	12,209,163,529
Inter-segment	–	380,535,120	(380,535,120)	–	–
Total	11,980,858,524	608,840,125	(380,535,120)	–	12,209,163,529
2. Cost of sales					
External	4,997,059,461	89,412,848	–	–	5,086,472,309
Inter-segment	–	155,158,883	(155,158,883)	–	–
Total	4,997,059,461	244,571,731	(155,158,883)	–	5,086,472,309
3. Total operating expenses	2,790,805,522	80,121,660	(225,376,237)	273,757,413	2,919,308,358
4. Total operating profits	4,192,993,541	284,146,734	–	(273,757,413)	4,203,382,862
5. Total assets	10,859,956,946	1,083,502,461	–	6,270,459,563	18,213,918,970
6. Total liabilities	1,812,675,043	23,746,527	–	1,097,353,668	2,933,775,238

## 47. SIGNIFICANT RELATED PARTY TRANSACTIONS

(1) The followings are related parties where a control relationship exists:

Name of related parties	Registration address	Major business	Relationship	Quality	Status representative
Yankuang Group	298 Fu Shan Nan Road, Zoucheng, Shandong	Industry processing	Major shareholder	State-owned	Geng Jia Huai
Zhongyan Trade	No.1 Industrial Zone, Qingdao Free Trade Zone	International trade	Subsidiary	Limited company	Shao Hua Zhen
Yanmei Shipping	Shiqiao town Rengcheng district, Jining	Transportation service via river and lakes	Subsidiary	Limited company	Wang Xin Kun
Yulin Power	West Renmin Road, YuYang District, Heze	Prepare for construction	Subsidiary	Limited company	Wang Xin
Yanmei Australia	Australia	Coal mining and sales of coal	Subsidiary	Limited company	–
Austar Coal Mine	Australia	Coal exploitation And sales of coal	Subsidiary's subsidiary	Limited company	–



**47. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)**

- (2) For the related parties where a control relationship exists, the registered capital and paid-in capital and the changes therein are as follows:

Name of related parties	January 1, 2004 RMB	Additions RMB	Reductions RMB	December 31, 2004 RMB
Yankuang Group	3,090,336,000	—	—	3,090,336,000
Zhongyan Trade	2,100,000	—	—	2,100,000
Yanmei Shipping	5,500,000	—	—	5,500,000
Yulin Power	—	800,000,000	—	800,000,000
Yanmei Australia	—	191,285,954	—	191,285,954
Austar Coal Mine	—	191,285,954	—	191,285,954

- (3) For the related parties where a control relationship exists, the proportion and changes of equity interest are as follows:

Name of related parties	January 1, 2004		Addition		December 31, 2004	
	RMB	%	RMB	%	RMB	%
Yankuang Group	1,670,000,000	58.19	—	—	1,670,000,000	54.33
Zhongyan Trade	1,100,000	52.38	—	—	1,100,000	52.38
Yanmei Shipping	5,060,000	92.00	—	—	5,060,000	92.00
Yulin Power	—	—	776,000,000	97.00	776,000,000	97.00
Yanmei Australia	—	—	191,285,954	100.00	191,285,954	100.00
Austar Coal Mine	—	—	191,285,954	100.00	191,285,954	100.00

- (4) Significant transactions entered with the Company and above-mentioned related parties in current year:

(a) The transactions after acquisition date between the Company and the subsidiaries which the Company can exercise control over and whose financial statements are included in the consolidated financial statements were eliminated.

(b) Acquisition of railway transportation business

On January 1, 2002, the Company acquired from Yankuang Group the assets of the special purpose coal railway transportation business ("Railway Assets") at the consideration of approximately RMB1,242,590,000 according to "Railway Assets Acquisition Agreement" signed with Yankuang Group. When the Railway Assets' actual volume reaches the targets quoted in the agreement, the additional payment would be as follows:

#### 47. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(4) Significant transactions entered with the Company and above-mentioned related parties in current year: – (Continued)

(b) Acquisition of railway transportation business – (Continued)

- A. If the Railway Assets' actual transportation volume reaches 25,000,000 tonnes for the year ended December 31, 2002, the Company will pay an extra RMB40,000,000;
- B. If the Railway Assets' actual transportation volume reaches 28,000,000 tonnes for the year ended December 31, 2003, the Company will pay an extra RMB40,000,000;
- C. If the Railway Assets' actual transportation volume reaches 30,000,000 tonnes for the year ended December 31, 2004, the Company will pay an extra RMB40,000,000.

The total consideration for acquiring Railway Assets should be paid in cash in the following five instalments:

- 1) The amount of RMB1,159,560,000 has been paid by the Company to Yankuang Group at acquisition date;
- 2) The remaining balance of RMB83,030,000 has been paid before June 30, 2002;
- 3) The amount of RMB40,000,000 as mentioned in term A should be paid before June 30, 2003;
- 4) The amount of RMB40,000,000 as mentioned in term B should be paid before June 30, 2004;
- 5) The amount of RMB40,000,000 as mentioned in term C should be paid before June 30, 2005.

The Company had paid off the above consideration of RMB1,242,590,000 at acquisition date. In addition, the Railway Assets' actual capacity reached approximately 25,000,000 tonnes, 28,000,000 tonnes and 30,000,000 tonnes for the year ended December 31, 2002, 2003 and 2004 respectively, an extra RMB40,000,000, RMB40,000,000 and RMB40,000,000 were paid to Yankuang Group according to the agreement mentioned in term A, B and C.

The consideration for the acquisition is determined according to revaluated price.

#### 47. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

- (4) Significant transactions entered with the Company and above-mentioned related parties in current year: – (Continued)

(c) Acquisition of Jining III

On January 1, 2001, the Company acquired Jinjing III according to the "Agreement for Acquisition of Jining III" signed with Yankuang Group at the consideration of RMB2,450,900,000 and mining rights of RMB132,480,000, totally RMB2,583,380,000.

By December 31, 2004, the Company had paid RMB2,503,892,000 to Yankuang Group for the above acquisition, including the consideration of RMB2,450,900,000 and the mining rights of RMB52,992,000. Included in the above payment, RMB13,248,000 was paid in current year for acquisition of the mining rights.

According to the agreement, the Company will pay the interest-free consideration for the cost of mining rights over ten years by equal instalments before December 31 of each year commencing from year 2001. The Company is scheduled to pay for the mining rights of RMB13,248,000 as the fifth instalment before December 31, 2005.

The consideration for the acquisition is determined according to revaluation price.

(d) Sales and purchases

	2004 RMB'000	2003 RMB'000
Sales and service provided		
Sales of coal – Yanmei Shipping	–	77,155
– Yankuang Group	<u>523,015</u>	<u>229,730</u>
Subtotal	<u>523,015</u>	<u>306,885</u>
Railway transportation services income – Yankuang Group	–	66
Public utilities and facilities income – Yankuang Group	29,000	29,000
Material and spare parts sales (Note) – Yankuang Group	<u>350,873</u>	<u>472,899</u>
	<u>902,888</u>	<u>808,850</u>
Purchases – Yankuang Group	<u>303,549</u>	<u>373,710</u>

The price of the above transaction is determined according to market price or negotiated price.

#### 47. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

- (4) Significant transactions entered with the Company and above-mentioned related parties in current year: – (Continued)

(e) Construction services

		2004 RMB'000	2003 RMB'000
Mining structure of Jining III	Yankuang Group	–	257,593
Harbour works in Sihekou	Yankuang Group	–	250,231
Equipment installation in Jining III	Yankuang Group	123,294	–
Civil engineering in Jining III	Yankuang Group	37,048	–
		<u>160,342</u>	<u>507,824</u>

The price of the above transaction is determined at market price.

(f) Amount due to or from related parties

Account	Company	December 31, 2004 RMB'000	December 31, 2003 RMB'000
Notes receivable	Yankuang Group	8,419,139	43,298,758
Accounts receivable	Yankuang Group	7,106,878	10,139,098
Other receivables (Note a)	Yankuang Group	333,289,930	16,662,382
Prepayments	Yankuang Group	3,342,400	3,200,170
Long-term equity investment (Note 14)	Yankuang Group	574,000,000	–
		<u>926,158,347</u>	<u>73,300,408</u>
Accounts payable	Yankuang Group	37,611,106	27,111,232
Advances from customers	Yankuang Group	31,161,331	66,515,176
Other payables (Note b)	Yankuang Group	44,278,697	325,162,158
Long-term payable due within one year (Note 25 and 47(4)c)	Yankuang Group	13,247,800	13,247,800
Long-term payables (Note 25)	Yankuang Group	66,239,560	79,487,360
		<u>192,538,494</u>	<u>511,523,726</u>

#### 47. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

- (4) Significant transactions entered with the Company and above-mentioned related parties in current year: – (Continued)

(f) Amount due to or from related parties (Continued)

Note a: The RMB298,174,116 included above is the construction expense of Heze Power Co. Ltd., which paid by the company to Yankuang Group. All the other receivables due from Yankuang Group are interest free.

Note b: Other payables due to Yankuang Group are interest free and repayable on demand.

(g) Other transactions

- (1) Pursuant to an agreement signed between the Company and Yankuang Group, Yankuang Group manages the retirement benefits, medical benefits and other benefits of the two companies and makes combined payments of the total retirement benefits of the two companies to the government department in charge of the related funds. Amount charged to expenses of the Company for the year of 2004 and 2003 are RMB535,648,000 and RMB458,072,000 respectively.
- (2) Pursuant to an agreement signed by the Company and Yankuang Group, the department and subsidiaries of Yankuang Group provided the following services and charged related service fees during the year:

	2004 RMB'000	2003 RMB'000
Electricity	354,044	284,786
Repairs and maintenance	222,949	225,408
Technical support and training fee	15,130	15,130
Mining rights fees	12,980	12,980
Public utilities expenses	380	380
Road transportation fee	63,478	17,216
Gases and eructate expenses	11,536	10,800
Buildings management fee	37,200	37,200
Children tuition fee	16,600	16,600
Others	14,539	15,530
<b>Total</b>	<b>748,836</b>	<b>636,030</b>

- (3) Total amount of salaries paid to key management, including salaries, welfare and subsidies paid in the form of cash, goods and others, for the year of 2004 and 2003 are RMB3,090,369 and RMB1,845,645, respectively.

#### 47. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(4) Significant transactions entered with the Company and above-mentioned related parties in current year: – (Continued)

(g) Other transactions (Continued)

(4) During the years of 2003 and 2004, the Company and Yankuang Group have made payments or collected receipts to or from individual third party or government authorities on behalf of each other, in respect of goods purchased, services received and other expenses. These payments and receipts made on behalf of the other have been recorded in other payables.

#### 48. NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Long-term equity investments – The Company

	December 31, 2004 RMB	December 31, 2003 RMB
Investments in subsidiaries (a)	971,909,281	4,592,496
Other equity investments (b)	62,180,693	31,897,684
Equity investment difference (b)	10,045,361	11,161,512
Prepayment for an investment (b)	574,000,000	–
	<u>1,618,135,335</u>	<u>47,651,692</u>
Less: Impairment loss on long-term equity investments	–	–
Long-term equity investments – net	<u><u>1,618,135,335</u></u>	<u><u>47,651,692</u></u>

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

Name of investees	Investment cost			Profit and loss adjustment				Net book value	
	January 1, 2004 RMB	Addition RMB	December 31, 2004 RMB	January 1, 2004 RMB	Addition of equity RMB	Cash dividend for the year RMB	December 31, 2004 RMB	January 1, 2004 RMB	December 31, 2004 RMB
Zhangyan Trade	2,709,903	–	2,709,903	1,352,221	325,494	(350,456)	1,327,259	4,062,124	4,037,162
Yanmei Shipping	530,372	–	530,372	–	(497,247)	–	(497,247)	530,372	33,125
Yulin Power	–	776,000,000	776,000,000	–	–	–	–	–	776,000,000
Yanmei Australia	–	191,285,954	191,285,954	–	553,040	–	553,040	–	191,838,994
	<u>3,240,275</u>	<u>967,285,954</u>	<u>970,526,229</u>	<u>1,352,221</u>	<u>381,287</u>	<u>(350,456)</u>	<u>1,383,052</u>	<u>4,592,496</u>	<u>971,909,281</u>

(b) For details of other equity investments, equity investment difference and prepayment for an investment, see note 14.

#### 48. NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(2) Investment income – The Company

	2004 RMB	2003 RMB
Short-term investment income		
–Interest income from designated deposits	21,826,327	4,183,333
–Gains on debt investment	–	1,423,858
Long-term investment income		
–Share of investees' profit recognized under equity method	381,287	574,258
–Profits declared by investees under cost method	4,464,780	4,809,780
–Amortization of long-term equity investment difference	(1,116,151)	–
	<u>25,556,243</u>	<u>10,991,229</u>

(3) Cash and cash equivalents – The Company

	December 31, 2004 RMB	December 31, 2003 RMB
Bank balances and cash	5,003,516,578	2,039,188,498
Less: Restricted cash (Note)	24,876,794	17,521,242
	<u>4,978,639,784</u>	<u>2,021,667,256</u>

Note: At the balance sheet date, the amount represents the bank deposits pledged to certain banks to secure letters of credit.

#### 49. CAPITAL COMMITMENTS

	December 31, 2004 RMB'000	December 31, 2003 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– Purchase of assets	12,872	163,342
– Investments	–	30,137
	<u>12,872</u>	<u>193,479</u>

## 50. SUBSEQUENT EVENTS

At January 19, 2005, the instructed deposit of RMB640,000,000 that the company lent to Shandong Xinjia Industry Co., Ltd ("Shandong Xinjia") through Bank of China, Jining Branch was overdue. Shandong Xinjia was not able to payoff the principal amount and interest. Lianda Group Co., Ltd (Lianda Group) takes on accompanying responsibility on the principal and interest, thus the Company has submitted an application to the High Court of the Shandong provincial Government in order to freeze the RMB289,000,000 of Huaxia Bank's shares held by Lianda Group and has applied for a public auction towards it. Up to the reporting date, the above-mentioned public auction has not been held yet. In the opinion of the management, the principal, interest and overdue interest can be recovered by the proceeds from sales in the public auction, and therefore no impairment of the overdue designated deposit has been provided at year end.