NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL

Organisation and principal activities

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

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

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

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

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

Acquisition and establishment of subsidiaries

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

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

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

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

2. BASIS OF PRESENTATION

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

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

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

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

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

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

1 Effective for annual periods beginning on or after January 1, 2007.
2 Effective for annual periods beginning on or after January 1, 2006.
3 Effective for annual periods beginning on or after December 1, 2005.
4 Effective for annual periods beginning on or after March 1, 2006.
5 Effective for annual periods beginning on or after May 1, 2006.
6 Effective for annual periods beginning on or after June 1, 2006.

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

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

IFRS 3, "Business Combinations"

Goodwill

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

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

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

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

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

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

IFRS 3, "Business Combinations" (Continued)

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

Revenue recognition

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

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

Service income is recognized when services are provided.

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

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

Mining rights

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

Prepaid lease payments

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

Property, plant and equipment

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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

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

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

Impairment other than goodwill

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

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

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

Goodwill

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

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

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

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

Inventories

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

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

Income taxes

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes (Continued)

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

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

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

Research and development

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

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

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

No development expenditure has been deferred.

Land subsidence, restoration, rehabilitation and environmental costs

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

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

Capitalization of borrowing costs

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

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

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

Government grants

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

Retirement benefit costs

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

Financial instruments

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

Loan and receivables

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Investments

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

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

Cash and cash equivalents

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

Financial liabilities and equity

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

Bank borrowings

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

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

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

Equity instruments

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINAITY

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

Depreciation

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

Mining rights

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

Estimated impairment on trade receivables

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

Provision for land subsidence, restoration, rehabilitation and environmental costs

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

Estimated impairment of goodwill

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

6. SEGMENT INFORMATION

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

Business segments

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

Principal activities are as follows:

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

Segment information about these businesses is presented below:

INCOME STATEMENT

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

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

	Coal mining RMB'000	Coal railway transportation RMB'000	Eliminations RMB'000	Consolidated RMB'000
RESULT				
Segment results	4,601,715	67,381	–	4,669,096
Unallocated corporate expenses				(320,692)
Unallocated corporate income				96,180
Interest expenses				(24,611)
Income before income taxes				4,419,973
Income taxes				(1,538,036)
Income for the year				2,881,937

6. SEGMENT INFORMATION (Continued)

BALANCE SHEET

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

OTHER INFORMATION

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

6. SEGMENT INFORMATION (Continued)

INCOME STATEMENT

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

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

	Coal mining RMB'000	Coal railway transportation RMB'000	Eliminations RMB'000	Consolidated RMB'000
RESULT				
Segment results	4,642,234	284,147	–	4,926,381
Unallocated corporate expenses				(314,283)
Unallocated corporate income				97,176
Interest expenses				(35,942)
Income before income taxes				4,673,332
Income taxes				(1,518,762)
Income for the year				3,154,570

6. SEGMENT INFORMATION (Continued)

BALANCE SHEET

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

OTHER INFORMATION

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

6. SEGMENT INFORMATION (Continued)

INCOME STATEMENT

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

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

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

BALANCE SHEET

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

6. SEGMENT INFORMATION (Continued)

OTHER INFORMATION

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

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

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

6. SEGMENT INFORMATION (Continued)

Geographical segment

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

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

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

7. NET SALES OF COAL

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

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.

8. COST OF SALES AND SERVICE PROVIDED

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

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

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

10. OTHER INCOME

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

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

11. INTEREST EXPENSE

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

No interest was capitalized during each of the years presented.

12. INCOME TAXES

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

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

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

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

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

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

13. INCOME FOR THE YEAR

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

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

(a) Directors' and supervisors' emoluments

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

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

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

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

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

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

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

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

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

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

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

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

(b) Employees' emoluments

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

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

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

15. DIVIDEND

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

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

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

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

15. DIVIDEND (Continued)

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

16. EARNINGS PER SHARE AND PER ADS

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

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

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

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

Impact of changes in accounting policies

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

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

17. TERM DEPOSITS AND RESTRICTED CASH

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

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

18. BILLS AND ACCOUNTS RECEIVABLE

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

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

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

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

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

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

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

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

19. INVENTORIES

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

20. OTHER LOANS RECEIVABLE

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

21. PREPAYMENTS AND OTHER CURRENT ASSETS

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

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

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

22. MINING RIGHTS

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

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

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

23. PREPAID LEASE PAYMENTS

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

Analysis for reporting purposes as:

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

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

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

24. PROPERTY, PLANT AND EQUIPMENT, NET

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

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

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

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

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

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

25. GOODWILL

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

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

25. GOODWILL (Continued)

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

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

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

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

26. NEGATIVE GOODWILL

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

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

27. SUBSIDIARIES

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

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

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

28. INVESTMENTS IN SECURITIES

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

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

29. DEPOSIT MADE ON INVESTMENT

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

30. DEFERRED TAX LIABILITY

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

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

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

31. BILLS AND ACCOUNTS PAYABLE

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

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

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

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

32. OTHER PAYABLES AND ACCRUED EXPENSES

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

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

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

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

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

34. UNSECURED BANK BORROWING

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

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

The above loan is repayable as follows:

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

35. SHAREHOLDERS' EQUITY

Share capital

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

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

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

Each share has a par value of RMB1.

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

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

35. SHAREHOLDERS' EQUITY (Continued)

Reserves

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

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

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

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

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

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

36. ACQUISITION OF HEZE

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

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

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

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

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

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

36. ACQUISITION OF HEZE (Continued)

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

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

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

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

37. ACQUISITION OF SOUTHLAND

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

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

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

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

38. ACQUISITION OF YANMEI SHIPPING

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

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

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

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

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

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

39. RELATED PARTY BALANCES AND TRANSACTIONS

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

Related Party Balances

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

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

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

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

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

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

39. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

Related Party Transactions

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

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

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

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

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

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

39. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

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

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

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

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

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

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

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

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

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

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

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

39. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

Compensation of key management personnel

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

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

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

40. COMMITMENTS

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

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

41. RETIREMENT BENEFITS

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

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

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

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

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

42. HOUSING SCHEME

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

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

43. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

44. CONCENTRATION OF CREDIT RISK

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

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

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

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

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

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

	Percentage of accounts receivable At December 31,	
	2005	2004
Five largest receivable balances	**66%**	75%

45. INFORMATION OF THE COMPANY

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

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

45. INFORMATION OF THE COMPANY (Continued)

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

45. INFORMATION OF THE COMPANY (Continued)

Note: The Company's equity are as follows:

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

46. SUBSEQUENT EVENT

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