

NOTES TO THE FINANCIAL STATEMENTS (under PRC GAAP)

For the year ended December 31, 2005

1. GENERAL

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Accounting system and accounting standards adopted

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

Basis of accounting and principle of measurement

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

Accounting year

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

Reporting currency

The recording currency of the Company is Renminbi.

Foreign currency translation

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

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

For the year ended December 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Cash equivalents

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

Accounting for bad debts

1) Criteria for recognition of bad debts

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

2) Accounting treatment for bad debt losses

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

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

Inventories

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

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

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

Provision for decline in value of inventories

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

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

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

For the year ended December 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Current investments

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

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

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

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

Designated deposit

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

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

Recoverable amount

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

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

For the year ended December 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Long-term investments

(1) Accounting treatment for long-term investments

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

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

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

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

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

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

For the year ended December 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Long-term investments (continued)

(2) Impairment of long-term investments

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

Fixed assets and depreciation

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

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

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

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

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

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

Impairment of fixed assets

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

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

For the year ended December 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Fixed assets under construction

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

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

Intangible assets

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

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

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

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

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

Impairment loss on intangible assets

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

Long-term deferred expenses

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

Provisions

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

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

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

For the year ended December 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Provisions (continued)

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

Borrowing costs

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

Wei Jian Fei

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

Work Safety Expense

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

Reform and Specific Development Fund

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

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

For the year ended December 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Revenue recognition

Revenue from sales of goods:

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

Revenue from rendering of services:

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

Interest income:

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

Income taxes

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

Basis of consolidation

(1) Principle for consolidation scope recognition

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

(2) Accounting for consolidation

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

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

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

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

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

For the year ended December 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(3) Translation of Foreign Currency Financial Statements

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

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

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

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

3. TAXES

Value added tax

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

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

Business tax

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

Resource tax

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

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

For the year ended December 31, 2005

3. TAXES (Continued)

City construction tax & education fee

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

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

Income tax

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

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

4. SCOPE OF CONSOLIDATION AND DETAILS OF SUBSIDIARIES

The Company owns the following subsidiaries:

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

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

For the year ended December 31, 2005

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

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

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

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

Nature of business of Yanmei Australia: investment holding company.

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

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

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

5. BANK BALANCES AND CASH

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

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

For the year ended December 31, 2005

6. CURRENT INVESTMENTS

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

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

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

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

7. NOTES RECEIVABLE

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

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

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

For the year ended December 31, 2005

8. ACCOUNTS RECEIVABLE

The aging analysis of accounts receivable is as follows:

The Group and the Company

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

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

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

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

9. OTHER RECEIVABLES

Aging analysis of other receivables is as follows:

The Group

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

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

For the year ended December 31, 2005

9. OTHER RECEIVABLES (Continued)

The Company

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

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

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

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

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

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

10. PROVISION FOR BAD DEBTS

The Group and the Company

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

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

For the year ended December 31, 2005

11. PREPAYMENTS

The aging analysis of prepayments is as follows:

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

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

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

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

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

12. INVENTORIES AND PROVISION FOR DECLINE IN VALUE OF INVENTORIES

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

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

For the year ended December 31, 2005

13. DEFERRED EXPENSES

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

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

14. OTHER CURRENT ASSETS

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

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

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

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

For the year ended December 31, 2005

15. LONG-TERM EQUITY INVESTMENTS

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

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

(1) Other equity investments

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

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

For the year ended December 31, 2005

15. LONG-TERM EQUITY INVESTMENTS (Continued)

(2) Discrepancy on consolidation/Equity investment difference

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

(3) Prepayment for an investment

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

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

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

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

For the year ended December 31, 2005

16. LONG-TERM DEBT INVESTMENT

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

Note: Details of designated deposit are as follow:

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

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

For the year ended December 31, 2005

17. FIXED ASSETS AND ACCUMULATED DEPRECIATION

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

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

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

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

For the year ended December 31, 2005

18. MATERIALS HELD FOR CONSTRUCTION OF FIXED ASSETS

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

19. FIXED ASSETS UNDER CONSTRUCTION

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

No borrowing costs were capitalized for the year.

20. INTANGIBLE ASSETS

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

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

For the year ended December 31, 2005

20. INTANGIBLE ASSETS (Continued)

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

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

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

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

21. LONG-TERM DEFERRED EXPENSES

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

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

For the year ended December 31, 2005

22. NOTES PAYABLE

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

23. ACCOUNTS PAYABLE

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

24. ADVANCES FROM CUSTOMERS

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

25. SALARIES AND WAGES PAYABLE

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

26. TAXES PAYABLE

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

27. OTHER PAYABLES

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

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

For the year ended December 31, 2005

28. LONG-TERM LOAN

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

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

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

29. LONG-TERM PAYABLE

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

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

For the year ended December 31, 2005

29. LONG-TERM PAYABLE (Continued)

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

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

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

30. SHARE CAPITAL

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

	January 1, 2005	Addition conversion from capital reserve	December 31, 2005
(1) Unlisted shares			
Initiation shares	1,670,000,000	1,002,000,000	2,672,000,000
(2) Listed shares			
1. A-shares	180,000,000	108,000,000	288,000,000
2. H-shares	1,224,000,000	734,400,000	1,958,400,000
Total of listed shares	1,404,000,000	842,400,000	2,246,400,000
(3) Total share capital	<u>3,074,000,000</u>	<u>1,844,400,000</u>	<u>4,918,400,000</u>

On August 4, 2005, approved by the shareholders' meeting, six bonus shares for every ten shares issued by conversion form capital reserve of 1,844,400,000 shares is proposed based on the total issued shares of 3,074,000,000 (each share with a par value of RMB1).

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

For the year ended December 31, 2005

30. SHARE CAPITAL (Continued)

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

	January 1, 2004	Addition	December 31, 2004
(1) Unlisted shares			
1. Initiation shares	1,670,000,000	–	1,670,000,000
(2) Listed shares			
1. A-shares	180,000,000	180,000,000	
2. H-shares	1,020,000,000	204,000,000	1,224,000,000
Total of listed shares	1,200,000,000	204,000,000	1,404,000,000
(3) Total share capital	2,870,000,000	204,000,000	3,074,000,000

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

The share capital has been verified by Deloitte Touche Tohmatsu Certified Public Accountants Ltd. (formerly known as Deloitte Touche Tohmatsu Shanghai CPA) on capital verification report Deshibao (Yan)zi No. 588, capital verification Deshibao (Yan)zi (98) No. 439, capital verification Deshibao (Yan)zi (01) No. 006 and capital verification Deshibao (Yan)zi (01) No.040, and Deshibao (Yan)zi (04) No.037, and Deshibao (Yan)zi (05) No.0031

Each share has a par value of RMB1.

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

For the year ended December 31, 2005

31. CAPITAL RESERVES

Changes in capital reserves from January 1, 2005 to December 31, 2005 are as follows:

	Share premium (Note 30) RMB	The Group Transfer from Wei Jian Fei (Note) RMB	Total RMB
At January 1, 2005	5,102,134,238	1,399,815,149	6,501,949,387
Additions	–	207,931,404	207,931,404
Reversals	(1,844,400,000)	–	(1,844,400,000)
At December 31, 2005	<u>3,257,734,238</u>	<u>1,607,746,553</u>	<u>4,865,480,791</u>

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

	Share premium (Note 30) RMB	The Group Transfer from Wei Jian Fei (Note) RMB	Total RMB
At January 1, 2004	3,549,258,855	1,164,936,251	4,714,195,106
Additions	1,552,875,383	234,878,898	1,787,754,281
At December 31, 2004	<u>5,102,134,238</u>	<u>1,399,815,149</u>	<u>6,501,949,387</u>

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

32. SURPLUS RESERVES

Changes in surplus reserves from January 1, 2005 to December 31, 2005 are as follows:

	Statutory common reserve fund RMB	The Group Statutory common welfare fund RMB	Total RMB
At January 1, 2005	769,592,892	384,875,592	1,154,468,484
Additions	249,548,146	124,774,073	374,322,219
At December 31, 2005	<u>1,019,141,038</u>	<u>509,649,665</u>	<u>1,528,790,703</u>

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

For the year ended December 31, 2005

32. SURPLUS RESERVES (Continued)

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

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

The statutory common reserve fund can be used to make good the losses incurred in previous years, expand the business scale of the Company or convert it into share capital. The statutory common welfare fund can be used for the welfare of the staff of the Company. According to the policy of "Solution of company financial problems after the implement of 'Company Law'" which was released by the Ministry of Finance recently, the Company will stop appropriating the statutory common welfare fund from 2006, the remaining balance of the statutory common welfare fund will be transferred to the statutory common reserve fund.

33. CASH DIVIDEND PROPOSED AFTER THE BALANCE SHEET DATE

	The Group 2005 RMB	The Group 2004 RMB
At January 1	799,240,000	470,680,000
Less: Transferred to dividends payable	799,240,000	470,680,000
Add: Cash dividend proposed after the balance sheet date (Note)	<u>1,082,048,000</u>	799,240,000
At December 31	<u>1,082,048,000</u>	<u>799,240,000</u>

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

According to the minute of Board of Directors date April 21, 2006, final cash dividend of RMB 1.5 and special cash dividend of RMB 0.7, total cash dividend of RMB2.2 per ten shares is proposed based on the total issued shares of 4,918,400,000 (each share with a par value of RMB1). The declaration and payment of the final dividend are subject to the approval of the shareholders' meeting of the Company.

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

For the year ended December 31, 2005

34. UNAPPROPRIATED PROFITS

	The Group 2005 RMB	The Group 2004 RMB
At January 1	3,722,812,692	2,220,500,672
Add: Net profit for the year	2,495,481,451	2,707,784,846
Less: Appropriations to:		
Statutory common reserve fund (Note1)	249,584,146	270,778,484
Statutory common welfare fund (Note2)	124,774,073	135,389,242
Statutory common reserve fund of subsidiaries (Note 3)	-	32,550
Statutory common welfare fund of subsidiaries (Note 3)	-	32,550
Profit available for distribution	5,843,971,924	4,522,052,692
Less: Cash dividend proposed after the balance sheet date	1,082,048,000	799,240,000
At December 31	<u>4,761,923,924</u>	<u>3,722,812,692</u>

Note 1: Appropriations to statutory common reserve fund

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

Note2: Appropriations to statutory public welfare fund

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

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

Statutory common reserve fund and statutory common welfare fund of the subsidiary are appropriated at the preparation of consolidation financial statements. No appropriation of statutory common reserve fund and statutory common welfare fund was proposed by subsidiaries in the current year.

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

For the year ended December 31, 2005

35. REVENUE FROM PRINCIPAL OPERATIONS

	The Group For the year ended December 31,	
	2005 RMB	2004 RMB
Revenue from domestic sales of coal products	8,885,946,648	8,006,149,560
Revenue from export sales of coal products	3,650,541,278	3,974,708,964
Revenue from railway transportation services	169,041,979	228,305,005
	<u>12,705,529,905</u>	<u>12,209,163,529</u>
Total balance of the 5 largest customers		Percentage in total revenue RMB
	2,498,571,427	20%

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

36. COST OF PRINCIPAL OPERATIONS

	The Group For the year ended December 31,	
	2005 RMB	2004 RMB
Cost of sales of coal products (Note)	5,803,337,413	4,997,059,461
Cost of railway transportation services	103,782,505	89,412,848
	<u>5,907,119,918</u>	<u>5,086,472,309</u>

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

For the year ended December 31, 2005

36. COST OF PRINCIPAL OPERATIONS (Continued)

Note: analysis of cost of sales of coal products is as follows:

	The Group For the year ended December 31,	
	2005 RMB	2004 RMB
Materials	1,134,166,366	1,073,406,704
Wages	1,087,878,740	887,026,192
Employee welfare	135,781,077	108,630,007
Electricity	279,990,861	295,972,040
Depreciation	862,793,619	893,724,054
Land subsidence, restoration, rehabilitation and environmental costs	636,589,854	323,240,377
Repairs	339,839,490	443,507,344
Safety Work Expense	277,241,872	204,668,160
Reform and Specific Development Fund	173,276,170	96,668,980
VAT input transfer out	152,762,677	79,872,642
Transportation fee	97,548,212	119,439,225
Others	417,537,071	236,024,838
Subtotal	<u>5,595,406,009</u>	<u>4,762,180,563</u>
Wei Jian Fei	<u>207,931,404</u>	<u>234,878,898</u>
Total	<u><u>5,803,337,413</u></u>	<u><u>4,997,059,461</u></u>

	The Company For the year ended December 31,	
	2005 RMB	2004 RMB
Cost of sales of coal products	5,804,613,330	4,998,506,338
Cost of railway transportation services	103,782,505	89,412,848
	<u><u>5,908,395,835</u></u>	<u><u>5,087,919,186</u></u>

37. SALES TAXES AND SURCHARGES

	The Group For the year ended December 31,	
	2005 RMB	2004 RMB
Business tax	5,071,259	6,849,150
City construction tax	90,570,153	88,814,898
Education fee	51,773,063	38,063,529
Resource tax	111,090,254	97,613,053
	<u><u>58,504,729</u></u>	<u><u>231,340,630</u></u>

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

For the year ended December 31, 2005

38. PROFITS FROM OTHER OPERATIONS

	The Group For the year ended December 31,	
	2005 RMB	2004 RMB
Sales of raw materials		
– Sales	810,909,188	678,791,759
– Cost of sales	774,159,646	644,913,325
	<u>36,749,542</u>	<u>33,878,434</u>
Others		
– Income	33,767,202	24,306,862
– Cost	26,842,615	19,153,513
	<u>6,924,587</u>	<u>5,153,349</u>
	<u>43,674,129</u>	<u>39,031,783</u>

39. OPERATING EXPENSES

	The Group For the year ended December 31,	
	2005 RMB	2004 RMB
Selling expense of domestic sales of coal products	268,033,858	434,340,116
Selling expense of export sales of coal products	662,069,317	968,375,436
Others	67,273,865	70,412,606
	<u>997,377,040</u>	<u>1,473,128,158</u>

40. FINANCIAL EXPENSES

	The Group For the year ended December 31,	
	2005 RMB	2004 RMB
Interest expenses	20,752,000	31,392,000
Less: interest income	85,970,245	70,885,565
Exchange loss (Less: gain)	98,680,918	(5,507,225)
Others	11,730,373	841,196
	<u>45,193,046</u>	<u>(44,159,594)</u>

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

For the year ended December 31, 2005

41. INVESTMENT INCOME

The Group

	For the year ended December 31,	
	2005 RMB	2004 RMB
Short-term investment income		
– Interest income from designated deposits	5,743,756	21,826,327
Long-term investment income		
– Profits declared by investee under cost method	4,464,780	4,464,780
– Amortization of long-term equity investment difference	(1,116,151)	(1,116,151)
	<u>9,092,385</u>	<u>25,174,956</u>

The Company

	For the year ended December 31,	
	2005 RMB	2004 RMB
Short-term investment income		
-Interest income from designated deposits	5,743,756	21,826,327
Long-term investment income		
– Share of investees' profit recognized under equity method	(29,731,227)	381,287
– Profits declared by investee under cost method	4,464,780	4,464,780
– Amortization of long-term equity investment difference	(1,116,151)	(1,116,151)
	<u>(20,638,842)</u>	<u>25,556,243</u>

42. NON-OPERATING INCOME

	The Group For the year ended December 31,	
	2005 RMB	2004 RMB
Gain on disposal of fixed assets	2,007,090	9,896,466
Others	389,944	2,040,456
	<u>2,397,034</u>	<u>11,936,922</u>

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

For the year ended December 31, 2005

43. NON-OPERATING EXPENSES

	The Group For the year ended December 31,	
	2005 RMB	2004 RMB
Loss on disposal of fixed assets	2,533,695	114,493,802
Donations	4,002,788	4,168,000
Fines and Others	7,390,595	7,009,694
	<u>13,927,078</u>	<u>125,671,496</u>

44. INCOME TAXES

	The Group For the year ended December 31,	
	2005 RMB	2004 RMB
Income tax of the Company for the year (1)/(3)	1,371,716,644	1,389,239,198
Additional tax paid of the Company in respect of the prior year (2)	42,462,677	16,019,400
Income tax of subsidiaries for the year	682,511	1,527,124
	<u>1,414,861,832</u>	<u>1,406,785,722</u>

- (1) Income tax is provided at 33% of the taxable income which is calculated by adjusting the accounting profits before tax for the year in accordance with the relevant tax laws.
- (2) According to the assessment result of the tax authority where the Company is located, the Company should pay additional tax in respect of 2004.
- (3) The relevant tax authorities have not yet assessed the cap for total wages of the Company that would be deductible under PRC income tax. As a subsidiary of the Yankuang Group, the directors of the Company are in the opinion that the same basis for determining the deductible wages cap applicable to the Yankuang Group and assessed by the tax authority would be equally applicable to the Company.

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

For the year ended December 31, 2005

45. NET PROFIT AFTER NON-RECURRING PROFIT AND LOSS

	The Group	
	For the year ended December 31,	
	2005 RMB	2004 RMB
Net profit	2,495,481,451	2,707,784,846
Add/less: Extraordinary gain		
– Loss (gains) on disposal of fixed assets	526,605	104,597,336
– Other deductible non-operating expenses	11,393,383	11,177,694
– Other deductible non-operating income	(389,944)	(2,040,456)
– Income from designated deposit	(5,743,756)	(21,826,327)
Income tax effect for non-recurring profit and loss	629,788	(19,338,211)
Net profit after non-recurring profit and loss	<u>2,501,897,527</u>	<u>2,780,354,882</u>

46. OTHER CASH RECEIVED RELATING TO OPERATING ACTIVITIES

	The Group	
	For the year ended December 31,	
	2005 RMB	2004 RMB
Other operating income	102,929,417	81,696,133
Non operating income	389,944	2,040,456
Interest income	85,873,522	70,885,565
Cash receipts from funds paid for on other's behalf	399,645,497	38,001,760
Total	<u>588,838,380</u>	<u>192,623,914</u>

47. OTHER CASH PAID RELATING TO OPERATING ACTIVITIES

	The Group	
	For the year ended December 31,	
	2005 RMB	2004 RMB
Other payments for operating and administrative expenses	1,495,050,267	1,909,739,371
Other operating expenses	94,318,481	71,935,596
Others	257,123,274	507,031,314
Total	<u>1,846,492,022</u>	<u>2,488,706,281</u>

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

For the year ended December 31, 2005

48. ACQUISITION OF SUBSIDIARY

According to the equity transfer agreement and supplementary agreement between the Company and Yankuang Group. The Company would pay RMB584,007,700 for 95.67% equity interest in Yankuang Heze Power Chemical Co., Ltd.. As at December 31, 2005, the amount has been fully paid, and the approvals from the Shareholder's meeting of the Company and the State-owned Assets Supervision and Administration Commission of Shandong Province have been obtained in August and December 2005 respectively. The Company has been renamed to Yankuang Heze Power Chemical Co., Ltd.. The acquisition was completed in December 2005.

The financial position of the subsidiary at the effect date of acquisition is as follows:

	The effective date of acquisition RMB
Current assets	181,404,219
Fixed assets	35,304,146
Materials held for construction of fixed assets	15,738,017
Fixed assets under construction	456,554,738
Long-term deferred expenses	26,818,597
Current liabilities	(115,819,717)
Net assets	600,000,000
Minority interests	(26,000,000)
The Company's share of net assets (95.67%)	574,000,000
Equity investment difference	10,007,700
Total	584,007,700
Consideration	574,000,000
Cash paid in 2004	10,007,700
Cash paid in 2005	584,007,700

	For the year ended December 31,	
	2005 RMB	2004 RMB
Net cash flow of acquisition of subsidiary:		
Cash consideration	(10,007,700)	(574,000,000)
Cash and bank balances of the acquired subsidiary	180,255,528	-
	<u>(170,247,828)</u>	<u>(574,000,000)</u>

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

For the year ended December 31, 2005

49. CASH AND CASH EQUIVALENTS

The Group	December 31, 2005 RMB	December 31, 2004 RMB
Bank balances and cash	7,278,972,385	5,278,468,720
Less: Restricted cash (Note)	36,550,789	36,854,436
	<u>7,242,421,596</u>	<u>5,241,614,284</u>

The Company	December 31, 2005 RMB	December 31, 2004 RMB
Bank balances and cash	<u>6,297,641,649</u>	<u>5,003,516,578</u>

Note: The amounts represent the deposits placed in banks secured for the future payment of land subsidence, restoration, rehabilitation and environmental costs of Aустar under the request of Australia government at the balance sheet date.

50. SEGMENT INFORMATION

Item	Coal mining business RMB	Railway transportation business RMB	Inter-segment elimination RMB	Unallocated items RMB	Total RMB
1. Operating revenue					
External	13,381,164,316	169,041,979	-	-	13,550,206,295
Inter-segment	-	226,851,879	(226,851,879)	-	-
Total	<u>13,381,164,316</u>	<u>395,893,858</u>	<u>(226,851,879)</u>	<u>-</u>	<u>13,550,206,295</u>
2. Cost of sales					
External	6,857,773,144	108,853,764	-	-	6,966,626,908
Inter-segment	-	138,296,058	(138,296,058)	-	-
Total	<u>6,857,773,144</u>	<u>247,149,822</u>	<u>(138,296,058)</u>	<u>-</u>	<u>6,966,626,908</u>
3. Total operating expenses	<u>2,373,923,371</u>	<u>86,434,197</u>	<u>(88,555,821)</u>	<u>298,520,701</u>	<u>2,670,322,448</u>
4. Total operating profits	<u>4,149,467,801</u>	<u>62,309,839</u>	<u>-</u>	<u>(298,520,701)</u>	<u>3,913,256,939</u>
5. Total assets	<u>10,120,372,630</u>	<u>1,031,347,131</u>	<u>-</u>	<u>9,936,460,436</u>	<u>21,088,180,197</u>
6. Total liabilities	<u>3,334,451,400</u>	<u>29,499,801</u>	<u>-</u>	<u>528,689,302</u>	<u>3,892,640,503</u>

Over 90% of total assets of the Company are located in China.

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

For the year ended December 31, 2005

51. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

Name of related parties	Registration address	Major business	Relationship	Quality	Status representative
Yankuang Group	Zoucheng, Shandong	Industry processing	Major shareholder	State-owned	Geng Jia Huai
Zhongyan Trade	Qingdao, Shandong	International trade	Subsidiary	Limited company	Shao Hua Zhen
Yanmei Shipping	Jining, Shandong	Transportation service via river and lakes	Subsidiary	Limited company	Wang Xin Kun
Yulin Power	Yulin, Shanxi	Prepare for construction	Subsidiary	Limited company	Wang Xin
Heze Power	Heze, Shandong	Prepare for construction	Subsidiary	Limited company	Wang Xin
Yanmei Australia	Australia	Investment holding	Subsidiary	Limited company	-
Austar Coal Mine	Australia	Coal exploitation	Subsidiary	Limited company	-

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

Name of related parties	At January 1, 2005
	and December 31, 2005
	RMB
Yankuang Group	3,090,336,000
Zhongyan Trade	2,100,000
Yanmei Shipping	5,500,000
Yulin Power	800,000,000
Yanmei Australia	191,285,954
Austar Coal Mine	191,285,954
Heze Power	600,000,000

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

For the year ended December 31, 2005

51. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

Name of related parties	January 1, 2005		Addition		December 31, 2005	
	RMB	%	RMB	%	RMB	%
Yankuang Group	1,670,000,000	54.33	1,002,000,000	-	2,672,000,000	54.33
Zhongyan Trade	1,100,000	52.38	-	-	1,100,000	52.38
Yanmei Shipping	5,060,000	92.00	-	-	5,060,000	92.00
Yulin Power	776,000,000	97.00	-	-	776,000,000	97.00
Yanmei Australia	191,285,954	100.00	-	-	191,285,954	100.00
Austar Coal Mine	191,285,954	100.00	-	-	191,285,954	100.00
Heze Power	-	-	574,000,000	95.67	574,000,000	95.67

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

(a) Acquisition of Jining III

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

By December 31, 2005, the Company had paid RMB2,517,140,000 to Yankaung Group for the above acquisition, including the consideration of RMB2,450,900,000 and the mining rights of RMB66,240,000. Included in the above payment, RMB13,248,000 was paid in current year for acquisition of the mining rights.

According to the agreement, the Company will pay the interest-free consideration for the cost of mining rights over ten years by equal instalments before December 31 of each year commencing from year 2001. The Company is scheduled to pay for the mining rights of RMB13,248,000 as the sixth instalment before December 31, 2006.

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

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

For the year ended December 31, 2005

51. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

(b) Sales and purchases

	For the year ended December 31,	
	2005 RMB'000	2004 RMB'000
Sales and service provided		
Sales of coal – Yankuang Group and its affiliates	856,580	523,015
Public utilities and facilities income – Yankuang Group and its affiliates	29,000	29,000
Material and spare parts sales – Yankuang Group and its affiliates	369,855	350,873
	<u>1,255,435</u>	<u>902,888</u>
Purchases – Yankuang Group and its affiliates	<u>341,935</u>	<u>303,549</u>

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

(c) Construction services

	For the year ended December 31,	
	2005 RMB'000	2004 RMB'000
Mining Equipment installation in Jining III		
Yankuang Group	–	123,294
Civil engineering in Jining III		
Yankuang Group	–	37,048
	<u>–</u>	<u>160,342</u>

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

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

For the year ended December 31, 2005

51. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

(d) Amount due to or from related parties

Account	Company	December 31, 2005 RMB	December 31, 2004 RMB
Notes receivable	Yankuang Group and its affiliates	7,495,158	8,419,139
Accounts receivable	Yankuang Group and its affiliates	2,915,543	7,106,878
Other receivables (Note)	Yankuang Group and its affiliates	49,153,257	333,289,930
Prepayments	Yankuang Group and its affiliates	4,100,645	3,342,400
Long-term equity investment (Note 14)	Yankuang Group and its affiliates	–	574,000,000
		63,664,603	926,158,347
Accounts payable	Yankuang Group and its affiliates	20,637,078	37,611,106
Advances from customers	Yankuang Group and its affiliates	52,533,644	31,161,331
Other payables (Note)	Yankuang Group and its affiliates	473,671,303	44,278,697
Long-term payable due within one year (Note 29 and 51(4)a)	Yankuang Group	13,247,800	13,247,800
Long-term payables (Note 29 and 51(4)a)	Yankuang Group	52,991,760	66,239,560
		613,081,585	192,538,494

Note: Other receivables due from Yankuang Group are interest free and receivable on demand.

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

(e) Other transactions

- (1) Pursuant to an agreement signed between the Company and Yankuang Group, Yankuang Group manages the retirement benefits, medical benefits and other benefits of the two companies and makes combined payments of the total retirement benefits of the two companies to the government department in charge of the related funds. Amount charged to expenses of the Company for the year of 2005 and 2004 are RMB685,252,000 and RMB535,648,000 respectively.

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

For the year ended December 31, 2005

51. SIGNIFICANT RELATED PARTY TRANSACTIONS – CONTINUED

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

(e) Other transactions (continued)

- (2) Pursuant to an agreement signed by the Company and Yankuang Group, the department and subsidiaries of Yankuang Group provided the following services and charged related service fees during the year:

	For the year ended December 31,	
	2005 RMB'000	2004 RMB'000
Electricity	351,313	354,044
Repairs and maintenance	197,624	222,949
Technical support and training fee	15,130	15,130
Mining rights fees (Note)	12,980	12,980
Public utilities expenses	4,640	380
Road transportation fee	53,346	63,478
Gases and eructate expenses	11,020	11,536
Buildings management fee	37,200	37,200
Children tuition fee	16,600	16,600
Others	15,530	14,539
Total	715,383	748,836

Note: Pursuant to the mining rights agreement between the Company and Yankuang Group, the Company pays annual mining rights fees to Yankuang Group at RMB12,980,000 in first ten years from February 1998, which is used to compensate the five coals' mining rights given up by Yankuang Group; after ten years, the fee will be recalculated. The payment will stop until the last year of the useful life of the 5 mining rights.

- (3) Total amount of salaries paid to key management, including salaries, welfare and subsidies paid in the form of cash, goods and others, for the year of 2005 and 2004 are RMB5,906,139 and RMB3,090,369 respectively.
- (4) During the years of 2004 and 2005, the Company and Yankuang Group have made payments or collected receipts to or from individual third party or government authorities on behalf of each other, in respect of goods purchased, services received, other expenses and insurances. These payments and receipts made on behalf of the other have been recorded in other payables.

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

For the year ended December 31, 2005

52. CAPITAL COMMITMENTS

	December 31, 2005 RMB'000	December 31, 2004 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– Purchase of assets	<u>920,907</u>	<u>12,872</u>

53. OTHER IMPORTANT EVENTS

- 1) At January 19, 2005, the designated deposit of RMB640,000,000 that the Company lent to Shandong Xinjia Industry Co., Ltd (“Shandong Xinjia”) through Bank of China, Jining Branch was overdue. Shandong Xinjia was not able to payoff the principal amount and interest. Lianda Group Co., Ltd (“Lianda Group”) takes on accompanying responsibility on the principal and interest, thus the Company has submitted an application to the High Court of the Shandong provincial Government in order to freeze the RMB289,000,000 of Huaxia Bank's shares held by Lianda Group and has applied for a public auction towards it. The auction was held on September 6, 2005 and the above shares were successfully sold. Up to the reporting date, related formalities are still in process. In the opinion of the management, the principal, interest and overdue interest can be recovered by the proceeds from sales in the public auction, and therefore no impairment of the overdue designated deposit has been provided at year end.
- 2) According to the supplemental agreement of the acquisition agreement between the Company and Yankuang Group, Yankuang Group irrevocably undertakes that the Company shall have the right to purchase the Zhaolou and Wanfu minging rights from the Yankuang Group within twelve months from the respective date on which the mining rights of such mines are obtained by the Yankuang Group. Moreover, the Company shall have the right to transfer the 95.67% equity interest in Heze back to the Parent Company by June 30, 2006 if (1) failure of Heze to obtain the land use rights of Zhaolou coal mine and its cleaning coal factory project; (2) failure of the Parent Company to obtain the mining rights of the Zhaolou coal mine; (3) any other factors which result in the Parent Company failing to complete the acquisition of Zhaolou coal mine mining rights. The Parent Company would be obligated to refund the purchase consideration, investment fund (if any) and cash occupied interest, calculated by 10% annual interest rate to the Company.
- 3) As approved by the Lu State-owned Assets Ownership Letter [2006] No. 32 issued by the State-owned Assets Supervision & Administration Commission (SASAC) of People's Government of Shandong Province, as well as approved by the Company's shareholder's meeting regarding the share reform plan, the Company's share reform plan is as follows: 2.5 A shares for every existing 10 A shares would be offered by the non-tradable legal person shares on the share registration date (March 30, 2006) of share reform plan implemented. After the implementation of the plan, the Company's total share capital as well as the Company's financial indicators such as assets, liabilities, shareholder's equity, earnings per share, etc. will remain unchanged, and the Yankuang Group would then be converted to tradable shares in 4 years time according to formula. The Share Reform Plan has been further approved by the Ministry of Commerce of the PRC on March 21, 2006.

54. APPROVE OF FINANCIAL STATEMENTS

The Company and the consolidated financial statements of the Company have been approved by board of directors on April 21, 2006.