YANZHOU COAL MINING COMPANY LIMITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

The board of directors (the "Board") of Yanzhou Coal Mining Company Limited (the "Company") is pleased to present the Company's unaudited interim operating results for the six months ended 30th June, 2006, which have been reviewed by the audit committee of the Board.

In the first half of 2006, raw coal production was 17.85 million tonnes, representing a decrease of 0.59 million tonnes or 3.2% as compared to the same period last year; coal sales was 16.86 million tonnes, representing an increase of 0.22 million tonnes or 1.3% as compared to the same period last year. Total net sales were RMB5,923.4 million, representing a decrease of RMB126.8 million or 2.1 % as compared to the same period last year. Net income attributable to the equity holders of the Company was RMB1,433.6 million, representing a decrease of RMB450.5 million or 23.9% as compared to the same period last year.

SUMMARY OF UNAUDITED FINANCIAL INFORMATION

(prepared in accordance with International Financial Reporting Standards ("IFRS"))

	For the six months ended 30th June			For the year ended 31st December
	2006 (RMB'000) (unaudited)	2005 (RMB'000) (unaudited)	change as compared to the same period of last year (+/-) %	2005 (RMB'000) (audited)
Net sales				
Net sales of coal	**5,851,598**	5,958,168	-1.8	11,353,485
Domestic	**4,447,290**	4,537,474	-2.0	8,421,462
Exports	**1,342,907**	1,420,694	-5.5	2,932,023
Yancoal Australia Pty	**61,401**	–	–	–
Net income of railway transportation service	**71,754**	92,064	-22.1	163,437
Total net sales	**5,923,352**	6,050,232	-2.1	11,516,922
Gross profit	**3,276,428**	3,621,172	-9.5	6,228,334
Interest expenses	**(7,780)**	(14,250)	-45.4	(24,611)
Income before income taxes	**2,152,912**	2,759,518	-22.0	4,419,973
Net income attributable to the equity holders of the Company	**1,433,612**	1,884,054	-23.9	2,881,461
Net cash from operating activities	**383,018**	2,620,952	-85.4	3,939,274
Earnings per share (RMB/share)	**0.291**	0.383	-23.9	0.586

	30th June 2006 (RMB'000) (unaudited)	30th June 2005 (RMB'000) (unaudited)	31st December 2005 (RMB'000) (audited)
Current assets	**11,187,124**	10,851,724	10,951,151
Current liabilities	**3,755,948**	3,620,216	3,429,030
Total assets	**21,989,295**	20,575,746	21,254,444
Equity attributable to equity holders of the Company	**17,971,378**	16,634,419	17,618,577
Return on net assets (%)	**7.98**	11.33	16.35
Net asset value per share (RMB/share)	**3.65**	3.38	3.58

REVIEW OF OPERATIONS

The following discussion is based on the Company's unaudited financial results for the first half of 2006 and 2005 respectively, which were prepared in accordance with IFRS.

Coal Production

In the first half of 2006, the raw coal production of the Company was 17.85 million tonnes, representing a decrease of 0.59 million tonnes or 3.2% as compared to the same period last year. Among which, (1) the raw coal production of the Company's six coal mines in the headquarters area were 17.74 million tonnes, representing a decrease of 0.70 million tonnes or 3.8%, as compared to the same period last year. The decrease in raw coal production was due to the delay in resettlement schedule of the villages above coal reserves; (2) raw coal production of the Yanzhou Coal Australia Pty Limited ("Yancoal Australia Pty") was 0.11 million tonnes. Austar Coal Mine of Yancoal Australia Pty is currently in preparation to resume production and has not yet commenced commercial operation, the raw coal produced was development coal formed during the development of a laneway prior to the commencement of production of the relevant mine.

In the first half of 2006, salable coal production of the Company was 17.20 million tonnes, which was kept at the same level as the same period last year. Of this amount, salable coal production of Yancoal Australia Pty was 0.10 million tonnes.

Coal Sales

In the first half of 2006, coal sales of the Company were 16.86 million tonnes, representing an increase of 0.22 million tonnes or 1.3% as compared to the same period last year. Of this total amount, (1) domestic sales were 13.55 million tonnes, representing an increase of 0.61 million tonnes or 4.7% as compared to the same period last year; (2) export sales were 3.20 million tonnes, representing a decrease of 0.50 million tonnes or 13.4% as compared to the same period last year; and (3) sales of Yancoal Australia Pty were 0.11 million tonnes.

In the first half of 2006, the Company implemented measures to optimize the sale product mix. The percentage of clean coal sales to total sales of the Company's six coal mines in the headquarters area increased to 56.1% from 53.7% as compared to the same period last year.

Coal Sales Prices

The following table sets out the selling prices of the Company's products for the six months ended 30th June, 2006, 30th June, 2005, 31st December, 2005 and for the year ended 31st December, 2005 respectively *(prepared in accordance with IFRS)*:

	For the six months ended 30th June		For the six months ended 31st December	For the year ended 31st December,
	2006	2005	2005	2005
	Average price of coal products (RMB per tonne)	Average price of coal products (RMB per tonne)	Average price of coal products (RMB per tonne)	Average price of coal products (RMB per tonne)
1. Headquarters				
Clean Coal				
No. 1 Clean Coal	**506.55**	500.99	528.61	514.20
No. 2 Clean Coal	**493.41**	479.66	508.62	491.51
Domestic	**489.32**	522.30	501.04	513.67
Exports	**500.55**	418.39	519.16	460.09
No. 3 Clean Coal	**380.75**	367.07	373.68	370.54
Domestic	**379.01**	367.65	355.64	361.30
Exports	**383.66**	366.39	395.27	381.51
Lump Coal	**422.29**	446.34	418.43	432.26
Domestic	**422.29**	454.14	418.43	434.66
Exports	**–**	395.21	–	397.53
Subtotal for Clean Coal	**420.61**	413.07	414.33	413.69
Domestic	**421.35**	433.63	406.36	420.26
Exports	**419.19**	383.97	425.63	404.37
Screened Raw Coal	**296.71**	333.82	306.61	321.88
Mixed Coal and others	**156.94**	147.35	152.47	150.45
Average coal price	**345.62**	358.08	340.50	349.50
Domestic	**328.23**	350.68	315.91	333.74
2. Yancoal Australia Pty	**558.34**	–	–	–

Notes:

1. The Company's average price of coal products is the invoice price minus sales taxes, transportation cost from the Company to the ports, port charges and various miscellaneous fees.

2. The historic average price per tonne of each type of coal products for the six months ended 31st December, 2005, was calculated based on the following formula:

$$\frac{\text{(Net sales of each type of coal products for the year ended 31st December, 2005) less (Net sales of each type of coal products for the six months ended 30th June 2005)}}{\text{(Sales volume of each type of coal products for the year ended 31st December 2005) less (Sales volume of each type of coal products for the six months ended 30th June 2005)}}$$

The Company's average coal price of products in the headquarters area for the first half of 2006 was RMB345.62/tonne, representing a decrease of RMB12.46/tonne or 3.5%, as compared to the same period last year. The average domestic coal price was RMB328.23/tonne, representing a decrease of RMB22.45/tonne or 6.4%, as compared to the same period last year; while the average export coal price was RMB419.19/tonne, representing an increase of RMB 35.23/tonne or 9.2%, as compared to the same period last year. Decrease in average coal price of the Company was mainly due to the decrease in domestic coal price.

Average coal price of the coal of Yancoal Australia Pty was RMB558.34/tonne.

Net Sales of Coal

Net sales of coal of the Company were RMB5,851.6 million in the first half of 2006, representing a decrease of RMB106.6million or 1.8%, as compared to the same period last year. Of the total net sales (1) net domestic sales were RMB4,447.3 million representing a decrease of RMB90.184 million or 2.0% as compared to the same period last year; (2) net export sales were RMB1,342.9 million, representing a decrease of RMB77.787 million or 5.5% as compared to the same period last year; and (3) net sales of Yancoal Australia Pty were RMB61.401 million.

The following table sets out the sales volume and net sales in coal by product category for the six months ended 30th June, 2006 and 30th June, 2005 respectively *(prepared in accordance with IFRS)*:

		For the six months ended 30th June, 2006 (unaudited)			For the six months ended 30th June, 2005 (unaudited)		
		Sales volume '000 tonnes	**Net sales RMB'000**	**% to total net sales (%)**	Sales volume '000 tonnes	Net sales RMB'000	% to total net sales (%)
1.	**Headquarters**						
	Clean Coal						
	No. 1 Clean Coal	**494.0**	**250,253**	**4.3**	403.9	202,361	3.4
	No. 2 Clean Coal	**2,671.7**	**1,318,267**	**22.5**	3,004.4	1,441,087	24.2
	Domestic	**1,697.8**	**830,759**	**14.2**	1,771.5	925,247	15.5
	Exports	**973.9**	**487,508**	**8.3**	1,232.9	515,840	8.7
	No. 3 Clean Coal	**5,955.3**	**2,267,452**	**38.7**	5,293.0	1,942,915	32.6
	Domestic	**3,725.7**	**1,412,053**	**24.1**	2,857.3	1,050,494	17.6
	Exports	**2,229.6**	**855,399**	**14.6**	2,435.7	892,421	15.0
	Lump Coal	**272.1**	**114,892**	**2.0**	237.8	106,158	1.8
	Domestic	**272.1**	**114,892**	**2.0**	206.4	93,725	1.6
	Exports	**0.0**	**0.0**	**0.0**	31.4	12,433	0.2
	Subtotal for Clean Coal	**9,393.1**	**3,950,865**	**67.5**	8,939.1	3,692,521	62.0
	Domestic	**6,189.6**	**2,607,957**	**44.6**	5,239.1	2,271,827	38.1
	Exports	**3,203.5**	**1,342,907**	**22.9**	3,700.0	1,420,694	23.8
	Screened Raw Coal	**4,895.6**	**1,452,611**	**24.8**	6,065.6	2,024,798	34.0
	Mixed Coal and others	**2,464.2**	**386,722**	**6.6**	1,634.5	240,849	4.0
	Subtotal	**16,752.9**	**5,790,197**	**99.0**	16,639.2	5,958,168	100.0
	Domestic	**13,549.4**	**4,447,290**	**76.0**	12,939.2	4,537,474	76.2
2.	**Yancoal Australia Pty**	**110.0**	**61,401**	**1.0**	–	–	–
3.	**Total**	**16,862.9**	**5,851,598**	**100.0**	16,639.2	5,958,168	100.0

Railway Assets Specifically Used for Coal Transportation

In the first half of 2006, Coal delivered by the railway assets of the Company ("Railway Assets") in the first half of 2006 were 9.42 million tonnes, representing a decrease of 1.58 million tonnes or 14.4% as compared to the same period last year. Net income from railway transportation service of the Company was RMB71.754 million, representing a decrease of RMB20.310 million or 22.1% as compared to the same period last year.

Costs and Expenses

The following table sets out the Company's operating expenses, which are also expressed as percentages to total net sales, for each of the six months ended 30th June, 2006 and 2005 respectively:

	For the six months ended 30th June			
	2006	2005	**2006**	2005
	(RMB'000)		(% to total net sales)	
Net sales				
Net sales of coal	**5,851,598**	5,958,168	**98.8**	98.5
Net income of railway transportation service	**71,754**	92,064	**1.2**	1.5
Total net sales	**5,923,352**	6,050,232	**100.0**	100.0
Cost of sales and railway transportation service				
Materials	**587,966**	526,848	**9.9**	8.7
Wages and employee benefits	**707,753**	524,367	**11.9**	8.7
Electricity	**163,435**	140,938	**2.8**	2.3
Depreciation	**469,837**	431,605	**7.9**	7.1
Expenses for land subsidence, restoring, recovery and environmental protection	**209,264**	359,694	**3.5**	5.9
Repairs and maintenance	**157,698**	171,166	**2.7**	2.8
Mining rights expenses	**9,920**	9,806	**0.2**	0.2
Transportation fees	**50,729**	53,530	**0.9**	0.9
Other expenses	**290,322**	211,106	**4.9**	3.5
Total cost of sales and railway transportation service	**2,646,924**	2,429,060	**44.7**	40.1
Selling, general and administration expenses	**1,202,070**	905,663	**20.3**	15.0
Total operating expenses	**3,848,994**	3,334,723	**65.0**	55.1

Total operating expenses of the Company for the first half of 2006 were RMB3,849.0 million, representing an increase of RMB514.3 million or 15.4% as compared to the same period last year. Of these expenses, cost of sales and railway transportation service increased by 9.0%, while selling, general and administration expenses increased by 32.7%.

The percentage of total operating expenses to total net sales increased from 55.1% in the same period last year to 65.0% in this reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis are based on the Company's unaudited interim financial reports of 2006 and 2005 respectively. These financial reports have been prepared in accordance with IFRS. In respect of the differences between IFRS and accounting principles generally accepted in the United States of America (the "US GAAP"), please refer to supplement II to the financial information prepared in accordance with IFRS contained herein.

In the first half of 2006, total net sales of the Company were RMB 5,923.4 million, representing a decrease of RMB126.8 million or 2.1%, from RMB6,050.2 million over the same period in 2005. Of these sales, (1) the Company's net realized sales of coal were RMB5,790.2 million, representing a decrease of RMB168.0 million or 2.8%, as compared to RMB5,958.2 million over the same period in 2005. The decrease was the result of a decrease of RMB208.7 million attributable to the decrease in coal price, and an increase of RMB 40.702 million attributable to the increase in coal sales volume; and (2) net income generated from railway transportation service was RMB71.754 million, representing a decrease of RMB20.310 million or 22.1%, from RMB92.064 million of the same period last year. The decrease was primarily due to the decrease in transportation fees, which are calculated on an ex-mine basis and paid exclusively by the customers, resulting from the decrease of 1.21 million tonnes in the coal transportation volume, as compared with the same period last year; and net sales of Yancoal Australia Pty were RMB61.401million

In the first half of 2006, cost of sales and railway transportation service were RMB 2,646.9 million, representing an increase of RMB217.8 million or 9.0%, as compared to RMB2,429.1 million over the same period in 2005. Of these, the Company's coal sales cost was RMB2,599.7 million representing an increase of RMB223.0 million or 9.4%, as compared to RMB2,376.7 million for the same period last year; while the unit cost of coal sales was RMB155.18, representing an increase of RMB12.34 or 8.6%, compared to RMB142.84 for the same period last year. This was mainly because (1) an increase in raw materials price and an increase in raw material consumption caused by more frequent relocation of longwall faces resulting in an increase in the unit cost of coal sales by RMB3.54; (2) an increase in the wages of employees resulting in the increase in unit cost of coal sales by RMB10.18; (3) reduction of the rate of export tax rebates increased the unit cost of coal sales by RMB1.97; and (4) effective cost control of the Company partially offset the impact of the abovementioned increased sales cost.

In the first half of 2006, selling, general and administration expenses of the Company were RMB1,202.1 million, representing an increase of RMB296.4 million or 32.7%, from RMB905.7 million over the same period in 2005. The increase was mainly due to: (1) an increase of RMB5.99 million in selling, general and administration expenses by the Company's headquarters; (2) additional selling, general and administrative expenses of Yancoal Australian Pty of RMB236.5 million in this reporting period, which include ① materials expenses of RMB30.655 million; ② employees' remuneration of RMB90.485 million; ③ depreciation expenses of RMB10.218 million; ④ repair and maintenance expenses of RMB32.618 million; ⑤ equipment rental expenses of RMB18.458 million; ⑥ other expenses of RMB43.318 million.

In the first half of 2006, interest expenses of the Company were RMB7.780 million, representing a decrease of RMB6.470 million or 45.4%, compared to RMB14.250 million over the same period in 2005. This was primarily due to the decrease in long-term bank loan balance as compared to the same period last year.

In the first half of 2006, income before tax of the Company was RMB2,152.9 million, representing a decrease of RMB606.6 million or 22.0%, compared to RMB2,759.5 million over the same period in 2005.

In the first half of 2006, net income attributable to the equity holders of the Company was RMB1,433.6 million, representing a decrease of RMB 450.5 million or 23.9 %, compared to RMB1,884.1 million for the same period in 2005.

Total assets of the Company increased from RMB21,254.4 million as at 31st December, 2005 to RMB21,989.3 million as at 30th June, 2006, representing an increase of RMB734.9 million or 3.5%. The increase was primarily due to the increase in assets' value resulting from the Company's operating activities.

Total liabilities of the Company increased from RMB3,607.1 million as at 31st December, 2005 by RMB382.5 million or 10.6%, to RMB3,989.6 million as at 30th June, 2006. The increase in the Company's total liabilities was primarily due to: (1) an increase in dividends payable of RMB510.0 million; (2) an increase in amounts due to Yankuang Group Corporation Limited ("Yankuang Group" or the "Controlling Shareholder") and its other subsidiaries of RMB123.8 million ; (3) a decrease in account payables of RMB91.798 million; (4) a decrease in taxation payable of RMB119.1 million; (5) a decrease in other account payables and payments in advance of RMB74.827 million.

Equity attributable to equity holders of the Company increased from RMB 17,618.6 million as at 31st December to RMB17,971.4 million as at 30th June 2006, representing an increase of RMB352.8 million or 2.0%. The increase was principally attributable to the profits generated from the Company's operating activities.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations was the Company's major source of capital during the first half of 2006. The Company's principal use of the capital was expenditure for operating activities, and the purchase of property, plant and equipment.

As at 30th June, 2006, the balance of the Company's bills and accounts receivable were RMB2,770.6 million, representing an increase of RMB 545.8 million or 24.5% from RMB2,224.8 million as at 31st December, 2005. Of this amount, bills receivable accounted for RMB2,517.7 million, representing an increase of RMB296.4 million or 20.3%, as compared to RMB2,092.9 million as at 31st December, 2005. Increase in bills receivable was primarily due to the increase in documentary acceptance bill from coal sales. Accounts receivable increased from RMB131.9 million as at 31st December, 2005 by RMB121.0 million or 91.7%, to RMB252.9 million as at 30th June, 2006. The increase was due to the increase in accounts receivables of the Company.

The Company verified and cancelled its provision for doubtful accounts debts of RMB 70.180 million during the reporting period.

As at 30th June, 2006, inventories of the Company increased from RMB 470.5 million as at 31st December, 2005 by RMB42.323 million or 9.0%, to RMB512.8 million. The increase was mainly due to the increase in the cost of coal inventory.

Prepayments and other current assets increased from RMB202.4 million as at 31st December, 2005 by RMB109.8 million or 54.2%, to RMB312.2 million as at 30th June, 2006. The increase was mainly due to the increase in the prepayments for equipments and materials.

Total account payables decreased from RMB497.7 million as at 31st December, 2005 by RMB91.798 million or 18.4%, to RMB405.9 million as at 30th June, 2006.

Other payables and accrued expenses decreased from RMB1,575.9 million as at 31st December, 2005 by RMB74,827 million or 4.7%, to RMB1,501.0 million as at 30th June, 2006.

In the first half of 2006, the Company's capital expenditure was RMB1,044.8 million. This was mainly used for the purchase and refurbishment of properties, machinery and equipment.

As at 30th June, 2006, the Company's debt to equity ratio was 1.3%, which was calculated based on equity attributable to equity holders of the Company and total liabilities amounting to RMB17,971.4 million and RMB231.8 million respectively.

Taking into account the cash in hand and the abundant capital sources, the Company believes that it will have sufficient operating capital to meet its current needs.

TAXATION

The Company is subject to an income tax rate of 33% on its taxable profits for the reporting period.

US GAAP RECONCILIATION

The Company's unaudited interim financial statements are prepared in accordance with IFRS, which differs in certain aspects from the US GAAP. In respect of these differences, please refer to supplement II to the financial statements of this reporting period prepared in accordance with IFRS contained herein.

OUTLOOK FOR THE SECOND HALF OF 2006

In the second half of 2006, the demand and supply in the domestic and overseas coal markets is expected to achieve an equilibrium.

The demand and supply in the domestic coal market is generally expected to achieve an equilibrium. High quality coal price is expected to hover at a high level whilst poor quality coal price is expected to face downward pressure. The steady growth of demand of certain coal-consuming industries, such as power, metallurgical industries, chemicals and construction materials, etc. which are driven by the growth of the PRC's economy, slows down under macroeconomic control measures taken by the government. The commencement of production from new coal mines and the decreased net export volume of coal will increase the domestic supply of coal. The increase in coal transportation capacity will partially ease the tight domestic coal transportation capacity. The demand and supply in the domestic market is generally expected to maintain an equilibrium and coal price is generally expected to remain stable in the second half of 2006. The price of good quality coal is expected to maintain at a high level, while the prices of poor quality coal is expected to fall. Measures such as the PRC Government's continuous effort in closing down sub-standard coal mines, strengthening the structure of the coal industry, implementing protective mining of coal resources, etc. are beneficial to the sustainable development of the coal industry and enhance the competitive capacities of the large-scale coal enterprises.

The demand for coal in the international market is expected to be strong, and coal price is expected to be at high level. The steady growth of world economy and growing hot issue relating to international energy drive the strong demand for coal in the international market, and the growth in demand for coal is the fastest among all energy resources. The coal demand in the Asia-Pacific region is expected to maintain a strong growth due to the increasing import of coal by U.S.A., China, India, South Korea and other countries. However, the increasing export of coal by Indonesia, tight supply of coal export by Australia and reduction of coal export by China, lead to a generally stable supply of coal in the Asia-Pacific region. It is expected that the international coal market will hover at a high price level in the second half of 2006. The continuous rise in coal price in the European coal market, the high prices of international oil and natural gas, and the continuous rebound in international shipping freight rate will be beneficial to sustain high prices in the East Asian coal market.

The volume of domestic sales and coal export of the Company for year 2006 is projected to be 34 million tonnes, representing an increase in sales volume of 1.52 million tonnes or 4.7% compared to the same period for year 2005. Of this amount, the domestic sales volume is projected to be 27 million tonnes, representing an increase of 1.77 million tonnes or 7.0% over the domestic sales volume for year 2005; and coal export volume is projected to be 7 million tonnes, which would be 0.25 million tonnes or 3.4% less than the export volume for year 2005.

The Company has entered into contracts and letters of intent for domestic sales and coal exports in 2006 for a total of 28.1 million tonnes, of which the volume of coal sold by signed contract amounted to 11.42 million tonnes, with an increase in contract price of 2.8% as compared with the average contract price of domestic coal sales for year 2005. The volume of coal sold by letter of intent for domestic sales amounted to 16.68 million tonnes, with the coal price fluctuating with market changes. The contracts the Company has already entered into for steam coal export in year 2006 amounted to 4.93 million tonnes, with a decrease in contract price of 7% as compared with the contract price of steam coal export in year 2005.

Operating Strategies in the Second Half of 2006

The Company will continue to improve its profitability and shareholders' return through internal development and external expansion. In the second half of 2006, the Company will continue to implement the following operating strategies:

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

Firstly, the Company will stabilize the output and sales volume of its existing coal mines. The Company will optimize and adjust the production system of its coal mines so that the output of raw coal will start to increase again to achieve a sales target of 34.0 million tones for the year.

Secondly, the Company will continue to implement its "Three Nil Project" to improve product quality and reputation in the market, and to continuously implement its "Four Optimizations" to optimize the Company's product mix, user mix, transportation structure and port flow structure so as to reduce the cost of sales and increase net sales price of products.

Thirdly, the Company will strengthen its management and implement cost control measures. The Company will improve its financial control system and control the capital risk. The Company will fully implement the policy of "increasing income, reducing cost, reducing material consumption and increasing efficiency".

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

The Company will accomplish revamping the production system, installation of mining equipment, and endeavors to put the Austar Coal Mine in Australia into full operation in the third quarter of 2006. The Company will complete the commercial negotiation for the new coal mine project in Shaanxi Province, and endeavors to complete construction of the coal mine by the end of 2006. The Company will speed up the construction pace of Zhaolou Coal Mine in Shandong Province and the methanol project in Shaanxi province, and endeavors to complete the construction of these two projects and commence their operations by the end of year 2007. The Company will continue to look for new acquisition opportunities in coal and other related industries both in China and overseas so as to expand the scale of its coal mine assets and develop coal further processing business.

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

The Company will acquire 98% of the equity interest in Yankuang Shanxi Neng Hua Company, Limited. ("Shanxi Neng Hua") in the third quarter of year 2006. The acquisition is expected to offer a platform for the Company's participation in coal resource exploitation and coal further processing business in Shanxi province. The Tianchi coal mine of Shanxi Neng Hua is expected to put into full operation by the end of year 2006.

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

Firstly, in accordance with the requirements of Sarbanes-Oxley Act, the Company will complete the establishment of its internal control systems before the end of year 2006. The Company has already completed the design, testings and rectifying works of its internal control system. The Company's internal system will be formally implemented in October 2006, and issue the Internal Control Report by the end of the year 2006.

Secondly, pursuant to the requirements of domestic and foreign supervising and regulating authorities, the Company will arrange for its Directors, Supervisors, senior management and the other employees to attend regular training to strengthen their awareness of self-discipline and responsibility. The Company will also improve its corporate governance to promote the operational compliance of the Company.

Thirdly, The Company will strengthen the management of its external investments, control its investment risks and improve the quality and returns of its investments.

CHANGES IN SHARE CAPITAL AND SUBSTANTIAL SHAREHOLDERS

Changes in Share Capital during this Reporting Period

In this reporting period, there was no change in the total number of shares of the Company, but the capital structure changed after the Share Reform Plan.

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

Unit: shares
(Par value per share: RMB1.00)

	Before 31st March, 2006	**Changes (+ /-)**	**As at 31st March, 2006**
Domestic tradable shares with trading moratorium	2,672,000,000	-72,000,000	2,600,000,000
Domestic tradable shares without trading moratorium	288,000,000	+72,000,000	360,000,000
H shares	1,958,400,000	0	1,958,400,000
Total number of shares	4,918,400,000	0	4,918,400,000

For details of the Share Reform Plan please refer to the section headed "Share Reform Plan" in "Disclosure of Significant Events".

Number of Shareholders as at the End of this Reporting Period

As at 30th June 2006, the Company had 80,758 shareholders, of which one was holder of domestic tradable shares subject to a trading moratorium, 80,623 were holders of domestic tradable shares without trading moratorium and 134 were holders of H shares.

Substantial Shareholders

As at 30th June 2006, the top 10 shareholders and the top 10 shareholders holding tradable shares without trading moratorium are as follows:

Name of Shareholder	Class of Shares	Number of Holding Shares at the end of the reporting period (shares)	Percentage holding of the total shares of the Company as at June 30, 2006 (%)
Shareholders holding tradable shares subject to a trading moratorium			
Yankuang Group Corporation Limited	A shares	2,600,000,000	52.86
Shareholders holding tradable shares without trading moratorium			
HKSCC Nominees Limited	H shares	1,954,851,596	39.75
SITICO-JP Morgan Double-Interest-Balanced Combined Security Investment Fund	A shares	7,170,250	0.15
CREDIT SUISSE (HONG KONG) LIMITED	A shares	6,607,896	0.13
Haitong Securities Company Limited	A shares	5,000,000	0.10
Shanghai Stock Exchange 50 Exchange Traded Open-End Index Securities Investment Fund	A shares	4,888,188	0.10
DongFeng Automobile Co., Ltd.	A shares	3,559,496	0.07
National Social Security Fund 002 Group	A shares	2,810,025	0.06
Desheng Small Cap Selective Securities Investment Fund of GTJA Allianz Fund	A shares	2,500,000	0.05
CITIGROUP GLOBAL MARKETS LIMITED	A shares	2,258,468	0.05
SITICO-JP Morgan China Advantageous Security Investment Fund	A shares	2,220,588	0.04

Note: The above number of shareholders as at the end of this reporting period and shareholding information of substantial shareholders were prepared according to the registers of shareholders of the Company as at 30th June, 2006 which were provided by Shanghai Branch of China Securities Depository and Clearing Corporation Limited and Hong Kong Registrars Limited.

Pursuant to the Securities Law of the People's Republic of China, save as disclosed above, no other shareholders were recorded in the register as at 30th June, 2006 as having an interest of 5% or more of the Company's public shares.

None of the shares held by the Yankuang Group were pledged, locked up or held under trust during this reporting period. It is uncertain as to whether the shares held by the other Shareholders as disclosed above were pledged, locked up or held under trust.

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

Among the shareholders as disclosed above, SITICO-JP Morgan Double-Interest-Balanced Combined Security Investment Fund and SITICO-JP Morgan China Advantageous Security Investment Fund are both under the management of China International Fund Management Co., Ltd. Related party relationships and concert actions among the other shareholders are not known.

During this reporting period, there was no change in the controlling shareholders or actual controlling person of the Company.

Save as disclosed below, as at 30th June, 2006, no other person (other than the Director, chief executive or supervisor of the Company) had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance (the "SFO").

Name of Substantial Shareholders	Class of Shares	Number of shares held (shares)	Capacity	Type of Interest	Percentage in relevant class of share capital as at the end of this reporting period	Percentage in total share capital as at the end of this reporting period
Yankuang Group Corporation Limited (Note 1)	Domestic Shares (state-owned legal person shares)	2,600,000,000(L)	Beneficial Owner	Corporate	87.84%	52.86%
J.P. Morgan Chase & Co.	H shares	218,049,706(L) (including 82,615,699 (P))	Beneficial Owner, Investment Manager and Custodian Corporation / Approved Lending Agent	Corporate	11.14%	4.43%
Credit Suisse Group	H shares	160,567,327(L) (including 3,950,100 (P)) 32,939,359(S)	Interest of Controlled Corporations	Corporate	9.88%	3.93%

Notes:

1. Upon the implementation of the Share Reform Plan and on 3 April 2006, the shareholding of Yankuang Group changed from 2,672,000,000 Domestic Shares to 2,600,000,000 Domestic Shares, representing 87.84% of the Company's total Domestic Shares and 52.86% of the Company's total share capital. Details of the Share Reform Plan are set out in the paragraph headed "Share Reform Plan".

2. The letter Note: "L" denotes a long position. The letter "S" denotes a short position. The letter "P" denotes interest in a lending pool.

SHAREHOLDINGS OF DIRECTORS AND SUPERVISORS OF THE COMPANY

Save as disclosed below, as at 30th June, 2006, none of the directors, chief executive or supervisors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) as recorded in the register required to be kept under section 352 of the SFO; or (ii) as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (which shall be deemed to apply to the Company's supervisors to the same extent as it applies to the Company's directors).

Name	Capacity	Title	Number of domestic shares held at the beginning of this reporting period (shares)	Number of domestic shares held at the end of this reporting period (shares)	Reasons for changes
Wang Xin	–	Chairman of the Board	0	0	No change
Geng Jiahuai	–	Vice Chairman of the Board	0	0	No change
Yang Deyu	Beneficial owner	Vice Chairman of the Board and General Manager	16,000	20,000	Share Reform Plan
Shi Xuerang	–	Director	0	0	No change
Chen Changchun	–	Director	0	0	No change
Wu Yuxiang	Beneficial owner	Director and Chief Financial Officer	16,000	20,000	Share Reform Plan
Wang Xinkun	–	Director and Vice General Manager	0	0	No change
Chen Guangshui	Beneficial owner	Director and Secretary of the Board	1,600	2,000	Share Reform Plan
Dong Yunqing	–	Director	0	0	No change
Pu Hongjiu	–	Independent Non-executive Director	0	0	No change
Cui Jianmin	–	Independent Non-executive Director	0	0	No change
Wang Xiao Jun	–	Independent Non-executive Director	0	0	No change
Wang Quanxi	–	Independent Non-executive Director	0	0	No change
Meng Xianchang	Beneficial owner	Chairman of the Supervisor Committee	16,000	20,000	Share Reform Plan
Song Guo	–	Vice Chairman of the Supervisor Committee	0	0	No change
Zhang Shengdong	–	Supervisor	0	0	No change
Liu Weixin	–	Supervisor	0	0	No change
Xu Bentai	–	Supervisor	0	0	No change

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

As at 30th June, 2006, total number of domestic shares of the Company held by the directors and supervisors of the Company was 62,000 shares, representing 0.001% of the total share capital of the Company.

As at 30th June, 2006, none of the directors, chief executive or supervisors of the Company or their spouses or children under the age of 18 was given the right to acquire shares or debentures of the Company or any associated corporation.

DISCLOSURE OF SIGNIFICANT EVENTS

Final Dividends Distribution for Year 2005

At the 2005 annual general meeting of the Company held on 28th June, 2006, the shareholders of the Company approved the final dividends of RMB1,082 million (tax included), or RMB2.2 (tax included) per share to be declared and paid to the shareholders of the Company, which include (1) cash dividends of RMB737.7 million (tax included) or RMB0.150 (before tax) per share for the year ended 2005 in accordance with the Company's consistent dividend policy; and (2) 2005 special cash dividends of RMB344.3 million (tax included) or RMB0.070 (tax included) per share.

Payment of the 2005 final cash dividends to the shareholders of the Company was completed on 20th July, 2006.

Interim Dividends Distribution

There will be no payment of interim dividends nor issue of bonus shares for the first half-year of 2006.

Appointment of Senior Management

At the fifth meeting of the third session of the Board held on 21st April, 2006, Mr. Qu Tianzhi was appointed as the vice general manager of the Company.

Amendments to the Articles of Association of the Company

Pursuant to the approval of the 2005 annual general meeting, the Company amended the articles of association of the Company (the "Articles of Association") in accordance with the new requirements of domestic and overseas supervising authorities and the requirements of daily operations of the Company. Details of the amendments to the Articles of Association were posted to the shareholders of the Company on 9th May, 2006 and were published on the websites of Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited, respectively.

Acquisition of Mining Right of Zhaolou Coal mine

The Company acquired 95.67% equity interest in Yanmei Heze Neng Hua Company Limited (" Heze Neng Hua") from Yankuang Group in December 2005.

Yankuang Group has been granted the mining right certificate of Zhaolou Coal Mine by the Ministry of Land and Resources on 28th June, 2006. Pursuant to the related acquisition agreements, Heze Neng Hua has the right to purchase such mining rights from Yankuang Group at any time within 12 months from the grant of the mining rights of Zhaolou coal mine to Yankuang Group.

Construction works of Zhaolou coal mine are proceeding according to the plan, and are expected to be completed by the end of year 2007. The company will undertake acquisition of the mining rights of Zhaolou coal mine pursuant to the terms of the relevant agreements, as and when appropriate.

Acquisition of Equity Interest of Yankuang Shanxi Neng Hua Co., Ltd.

On 18th August, 2006, an agreement was entered into between the Company and Yankuang Group in relation to the acquisition of 98% equity interest of Yankuang Shanxi Nenghua Company Limited by the Company from Yankuang Group. Please refer to the "Announcement On Connected Transaction of Yanzhou Coal Mining Company Limited" published by the Company on 21st August, 2006 for details of the acquisition.

Material Litigation and Arbitration

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

The successful bidder of Huaxia Shares is going through qualification approval procedures of China Banking Regulatory Commission. Upon completing the qualification approval, the bidder will make payment of the auction amount and transferring procedures of Huaxia Shares, and the Company can call back the principal, interest, penalty interest and relevant expenses of the Entrusted Loan. As at this reporting date, the bidder is still undergoing the process of qualification approval. The Company and relevant parties are endeavoring to confirm the results of the qualification approval as soon as possible.

In view of the possibility that the bidder may not obtain the qualification approval by China Banking Regulatory Commission, the Company and the relevant parties have studied corresponding measures to call back the principal, interest, penalty interest and relevant expenses of the Entrusted Loan. Any significant progress concerning the entrusted loan will be promptly disclosed by the Company.

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

Share Reform Plan

The share reform plan proposed by Yankuang Group was implemented (the "Share Reform Plan") on 31st March, 2006. Yankuang Group has paid a consideration of 2.5 non-tradable shares for every 10 shares held by each holder of A shares whose name appeared on the register of members of A share on 30th March, 2006 in exchange for the right to list and trade the non-tradable shares of Yankuang Group on the Shanghai Stock Exchange. The non-tradable shares held by the Yankuang Group were granted the right to list and trade on the Shanghai Stock Exchange since 3rd April, 2006.

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

MATERIAL CONTRACTS

Besides the relevant agreements disclosed in the sections headed "Acquisition of Equity Interest of Yankuang Shanxi Neng Hua Co., Ltd." and "On-going Connected Transactions", the Company was not a party to any material contract during this reporting period.

Use of Funds and External Guarantees by the Company

As at 30th June, 2006, no external guarantees have been made by the Company. As at 30th June, 2006, the Company's controlling shareholders and the Company's subsidiaries have not used the Company's funds for non-operating items.

The above information concerning the use of funds and external guarantee by the Company constitutes a disclosure required under the relevant laws of China (excluding Hong Kong).

Entrusted Loans

Entrusted loans that occurred in previous years and continued into this reporting period are as follows:

No.	Bank Entrusted	Borrower	Amount of Entrusted Loan	Term of Loan	Annual Interest	Whether through statutory process	Whether there is a provision for devaluation	Whether principal has been repaid	Accumulated interest income in this reporting period
1	Bank of China Jining Branch	Shandong Xinjia Industrial Co., Ltd	RMB640 million	From 20th December, 2004 to 19th January, 2005	7%	Yes	No	No	0
2	Bank of China Jining Branch	Yanzhou Coal Australia Pty Limited	US$20 million	From 7th November, 2005 to 7th November, 2007	6.31%	Yes	No	No	US$631,800
3	Bank of China Jining Branch	Yanzhou Coal Australia Pty Limited	US$20 million	From 13th February, 2006 to 7th November, 2007	6.57938%	Yes	No	No	US$469,800
4	Bank of China Jining Branch	Yanzhou Coal Australia Pty Limited	US$20 million	From 6th June, 2006 to 7th November, 2007	6.89438%	Yes	No	No	US$91,000
5	Bank of China Jining Branch	Yanmei Heze Neng Hua Company Limited	RMB30 million	From 3rd July, 2006 to 26th June, 2007	5.85%	Yes	No	No	0

Upon approval of the board meeting held on 28th June, 2005, the Company intends to extend an entrusted loan of AUD121 million (or US$90 million) to the Company's wholly owned subsidiary, Yanzhou Coal Australia Pty Limited. The entrusted loan is yet to be completely effected.

Upon approval of the daily operation meeting by the general managers held on 26th June, 2006, the Company intends to extend an entrusted loan of RMB300 million to the Company's wholly owned subsidiary, Yanmei Heze Neng Hua Company Limited. The entrusted loan is yet to be completely effected.

During the reporting period, the Company did not incur other entrusted loan items. Save as disclosed above, the Company currently has no plans to make other entrusted loans.

The above information concerning entrusted loans is subject to disclosure requirement under the relevant laws of China (excluding Hong Kong).

ON-GOING CONNECTED TRANSACTIONS

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

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

Details of the connected transactions for the first half year of 2006 are set out in note 50 to the financial statements prepared in accordance with the PRC GAAP contained herein.

BORROWINGS

Details of the borrowings are set out in note 24 to the financial statements prepared in accordance with the IFRS contained herein.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

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

COMPLIANCE WITH MODEL CODE

Having made specific enquiry of all directors of the Company, during this reporting period, the directors of the Company have strictly complied with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). The Company has not adopted a code of conduct regarding the securities transactions of the directors of the Company on terms no less exacting than the required standard set out in the Model Code.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

During this reporting period, the Company has complied with the code provisions in the Code On Corporate Governance Practices set out in Appendix 14 of the Listing Rules (the "Code Provision").

Save as disclosed below, there is no significant difference between the compliance with the Code Provision by the company during this reporting period and that disclosed in the Company's 2005 Annual Report.

"Code for Securities Transactions by the Management of Yanzhou Coal Mining Company Limited" was established by the board of the Company on 21st April, 2006, which stipulates written guidelines for transactions in the securities of the Company for the directors, supervisors and senior management of the Company and any other person who may be aware of non-published price sensitive information. The code has combined the requirements of the relevant domestic laws and regulations and those of Hong Kong.

IMPACT OF FLUCTUATIONS IN EXCHANGE RATES ON THE COMPANY

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

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

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

EMPLOYEES

As at 30th June, 2006, the Company had 31,716 employees in total, of whom 2,026 were administrative personnel, 1,082 were technicians, 24,459 were directly involved in coal production and 4,149 were supporting staff.

POLICY OF REMUNERATION

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

The remuneration for the directors has to be approved in the shareholders' general meeting while the remuneration for the senior management has to be approved by the Board.

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

AUDITORS

The Company retained Deloitte Touche Tohmatsu Certified Public Accountants Ltd. (certified public accountants in the PRC (excluding Hong Kong)) and Deloitte Touche Tohmatsu (certified public accountants in Hong Kong) as its domestic and international auditors, respectively.

DOCUMENTS AVAILABLE FOR INSPECTION

The following documents are available for inspection in the office of the secretary to the Board at 298 Fushan South Road, Zoucheng, Shandong Province, PRC:

- the full text of the interim report signed by the Chairman;
- financial statements having the chop of the Company and signed by corporate representative, responsible person of the accounting work and responsible person of the accounts department;

- all documents which were published during the reporting period in newspapers designated by the China Securities Regulatory Commission;
- the Articles of Association of the Company;
- the full text of the interim report released in other securities markets.

On behalf of the Board
Wang Xin
Chairman

18th August, 2006
Zoucheng, People's Republic of China

BALANCE SHEET

AT JUNE 30, 2006

	NOTES	The Group At June 30, 2006 RMB (unaudited)	The Group At December 31, 2005 RMB (audited)	The Company At June 30, 2006 RMB (unaudited)	The Company At December 31, 2005 RMB (audited)
ASSETS					
CURRENT ASSETS:					
Bank balances and cash	5	**6,581,697,367**	7,278,972,385	**6,043,266,234**	6,297,641,649
Current investments	6	**640,000,000**	640,000,000	**640,000,000**	640,000,000
Notes receivable	7	**2,534,524,775**	2,100,443,880	**2,534,524,775**	2,100,243,880
Dividends receivable		**–**	–	**298,582**	–
Interest receivable		**14,890,799**	–	**24,549,713**	–
Accounts receivable	8	**260,064,230**	134,802,711	**260,064,230**	134,802,711
Other receivables	9	**237,290,500**	143,528,596	**750,801,599**	398,177,622
Prepayments	11	**125,343,346**	73,704,963	**126,301,629**	78,776,194
Inventories	12	**512,824,585**	470,501,129	**469,923,400**	428,483,999
Deferred expenses	13	**34,694,742**	62,444,803	**34,309,167**	62,346,044
Other current assets	14	**405,942,317**	157,511,340	**405,942,317**	157,511,340
TOTAL CURRENT ASSETS		**11,347,272,661**	11,061,909,807	**11,289,981,646**	10,297,983,439
LONG-TERM EQUITY INVESTMENTS					
Long-term equity investments	15	**80,059,142**	81,117,603	**1,586,824,146**	1,597,035,257
Including: Discrepancy on consolidation	15	**17,878,449**	18,936,910	**–**	–
Long-term debt investments	16	**–**	–	**479,736,000**	162,200,000
		80,059,142	81,117,603	**2,066,560,146**	1,759,235,257
FIXED ASSETS:					
Fixed assets – cost	17	**16,010,689,964**	15,978,522,004	**15,666,520,472**	15,669,699,268
Less: Accumulated depreciation	17	**8,404,805,792**	7,902,722,461	**8,373,312,277**	7,883,750,808
Fixed assets – net book value	17	**7,605,884,172**	8,075,799,543	**7,293,208,195**	7,785,948,460
Materials held for construction of fixed assets	18	**890,966,922**	194,334,918	**91,478,730**	8,926,618
Fixed assets under construction	19	**1,018,021,927**	711,236,841	**228,635,652**	124,679,186
TOTAL FIXED ASSETS		**9,514,873,021**	8,981,371,302	**7,613,322,577**	7,919,554,264
INTANGIBLE ASSETS					
Intangible assets	20	**798,379,594**	815,161,408	**744,403,753**	761,255,776
Long-term deferred expenses	21	**334,395,776**	148,620,077	**–**	–
TOTAL INTANGIBLE ASSETS AND OTHER ASSETS		**1,132,775,370**	963,781,485	**744,403,753**	761,225,776
TOTAL ASSETS		**22,074,980,194**	21,088,180,197	**21,714,268,122**	20,738,028,736

The accompanying notes are part of the financial statements.

BALANCE SHEET – CONTINUED

AT JUNE 30, 2006

	NOTES	The Group At June 30, 2006 RMB (Unaudited)	The Group At December 31, 2005 RMB (Audited)	The Company At June 30, 2006 RMB (Unaudited)	The Company At December 31, 2005 RMB (Audited)
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Notes payable	22	**99,353,231**	136,779,128	**85,843,231**	136,779,128
Accounts payable	23	**337,555,413**	381,517,651	**337,658,176**	381,517,651
Advances from customers	24	**453,611,058**	527,865,895	**453,273,067**	527,793,426
Salaries and wages payable	25	**144,183,855**	127,539,246	**143,180,497**	126,888,680
Taxes payable	26	**713,843,307**	897,202,321	**715,065,667**	895,394,930
Dividend payable	27	**510,048,000**	–	**510,048,000**	–
Other payables	28	**1,389,200,990**	1,194,089,906	**1,082,118,628**	885,365,147
Long-term payable due within one year	29/30	**446,661,494**	304,709,446	**446,661,494**	304,709,446
TOTAL CURRENT LIABILITIES		**4,094,457,348**	3,569,703,593	**3,773,848,760**	3,258,448,408
LONG-TERM LIABILITIES:					
Long-term payable	30	**411,656,940**	322,936,910	**411,656,940**	322,936,910
TOTAL LONG-TERM LIABILITIES		**411,656,940**	322,936,910	**411,656,940**	322,936,910
TOTAL LIABILITIES		**4,506,114,288**	3,892,640,503	**4,185,505,700**	3,581,385,318
MINORITY INTERESTS		**53,882,296**	53,912,439	**–**	–
SHAREHOLDERS' EQUITY:					
Share capital	31	**4,918,400,000**	4,918,400,000	**4,918,400,000**	4,918,400,000
Capital reserves	32	**4,971,944,827**	4,865,480,791	**4,971,944,827**	4,865,480,791
Surplus reserves	33	**1,528,790,703**	1,528,790,703	**1,528,474,119**	1,528,474,119
Including: Statutory common welfare fund	33	**–**	509,649,665	**–**	509,491,373
Cash dividend proposed after the balance sheet date	34	**–**	1,082,048,000	**–**	1,082,048,000
Unappropriated profits	35	**6,109,626,892**	4,761,923,924	**6,109,943,476**	4,762,240,508
Translation reserve		**(13,778,812)**	(15,016,163)	**–**	–
TOTAL SHAREHOLDERS' EQUITY		**17,514,983,610**	17,141,627,255	**17,528,762,422**	17,156,643,418
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**22,074,980,194**	21,088,180,197	**21,714,268,122**	20,738,028,736

The accompanying notes are part of the financial statements.

The financial statements on pages 20 to 63 were signed by the following:

Head of the Company:	Chief Financial Officer:	Head of Accounting Department:
Wang Xin	**Wu Yu Xiang**	**Zhang Bao Cai**

STATEMENT OF INCOME AND PROFITS APPROPRIATION

FOR THE PERIOD FROM JANUARY 1, 2006 TO JUNE 30, 2006

	NOTES	The Group Six months ended June 30, 2006 RMB (unaudited)	 2005 RMB (unaudited)	The Company Six months ended June 30, 2006 RMB (unaudited)	 2005 RMB (unaudited)
Revenue from principal operations	36	**6,486,152,242**	6,676,644,921	**6,486,152,242**	6,676,644,921
Less: Cost of principal operations	37	**2,940,473,641**	2,758,267,900	**2,941,998,508**	2,759,543,817
Sales taxes and surcharges	38	**138,120,360**	125,034,009	**138,120,360**	125,034,009
Profit from principal operations		**3,407,558,241**	3,793,343,012	**3,406,033,374**	3,792,067,095
Add: Profits from other operations	39	**41,283,862**	23,891,613	**36,415,895**	23,530,900
Less: Operating expenses	40	**519,847,693**	538,394,458	**521,726,223**	540,467,066
General and administrative expenses		**919,559,240**	805,420,279	**906,498,163**	794,341,205
Financial expenses	41	**(22,588,101)**	(4,424,385)	**(16,540,560)**	(7,015,528)
Operating profit		**2,032,023,271**	2,477,844,273	**2,030,765,443**	2,487,805,252
Add: Investment income	42	**(1,058,461)**	2,818,654	**(253,614)**	(7,775,735)
Non-operating income	43	**4,625,033**	277,296	**4,622,533**	257,296
Less: Non-operating expenses	44	**2,584,664**	2,076,971	**2,584,664**	1,904,251
Total profits		**2,033,005,179**	2,478,863,252	**2,032,549,698**	2,478,382,562
Less: Income taxes	45	**685,060,906**	821,951,620	**684,846,730**	821,759,469
Minority interest		**241,305**	288,539	**–**	–
Net profit		**1,347,702,968**	1,656,623,093	**1,347,702,968**	1,656,623,093
Add: Unappropriated profits at the beginning of the period	35	**4,761,923,924**	3,722,812,692	**4,762,240,508**	3,723,129,276
Profits available for appropriation		**6,109,626,892**	5,379,435,785	**6,109,943,476**	5,379,752,369
Less: Appropriations to statutory common reserve fund	35	**–**	–	**–**	–
Profits available for appropriation to shareholders		**6,109,626,892**	5,379,435,785	**6,109,943,476**	5,379,752,369
Less: Cash dividend proposed after the balance sheet date	34	**–**	–	**–**	–
Unappropriated profits at the end of the period		**6,109,626,892**	5,379,435,785	**6,109,943,476**	5,379,752,369

The accompanying notes are part of the financial statements.

CASH FLOW STATEMENT

FOR THE PERIOD FROM JANUARY 1, 2006 TO JUNE 30, 2006

	NOTES	The Group Six months ended June 30, 2006 RMB (unaudited)	2005 RMB (unaudited)	The Company Six months ended June 30, 2006 RMB (unaudited)	2005 RMB (unaudited)
1. CASH FLOW FROM OPERATING ACTIVITIES:					
Cash received from sales of goods or rendering of services		**7,031,662,818**	7,449,828,676	**7,031,197,296**	7,466,990,532
Other cash received relating to operating activities	46	**142,179,712**	535,409,548	**140,400,103**	170,411,032
Sub-total of cash inflows		**7,173,842,530**	7,985,238,224	**7,171,597,399**	7,637,401,564
Cash paid for goods and services		**2,540,971,941**	2,481,236,525	**2,541,579,149**	2,479,041,117
Cash paid to and on behalf of employees		**1,067,737,643**	763,767,925	**1,033,273,832**	697,097,367
Taxes payments		**1,588,484,781**	1,250,507,252	**1,585,240,853**	1,249,407,949
Cash paid relating to operating activities	47	**1,586,264,360**	804,527,792	**1,730,582,253**	1,258,364,289
Sub-total of cash outflows		**6,783,458,725**	5,300,039,494	**6,890,676,087**	5,683,910,722
NET CASH FLOW FROM OPERATING ACTIVITIES		**390,383,805**	2,685,198,730	**280,921,312**	1,953,490,842
2. CASH FLOW FROM INVESTING ACTIVITIES:					
Cash received from return on investments		**–**	3,376,730	**–**	3,727,186
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**4,382,496**	2,280,519	**4,377,463**	2,280,521
Sub-total of cash inflows		**4,382,496**	5,657,249	**4,377,463**	6,007,707
Cash paid to acquire fixed assets, intangible assets and other long-term assets		**1,085,581,870**	231,068,000	**211,886,190**	86,556,913
Cash paid for investments		**–**	–	**321,600,000**	–
Increase in restricted cash and term deposits	48	**13,086,665**	242,306,033	**–**	241,689,647
Sub-total of cash outflows		**1,098,668,535**	473,374,033	**533,486,190**	328,246,560
NET CASH FLOW USED IN INVESTING ACTIVITIES		**(1,094,286,039)**	(467,716,784)	**(529,108,727)**	(322,238,853)
3. CASH FLOW FROM FINANCING ACTIVITIES:					
Dividends paid, profit distributed or interest paid		**6,459,449**	12,556,727	**6,188,000**	12,320,000
Include: Dividends paid to minority shareholders of a subsidiary		**271,449**	236,727	**–**	–
Sub-total of cash outflows		**6,459,449**	12,556,727	**6,188,000**	12,320,000
NET CASH FLOW USED IN FINANCING ACTIVITIES		**(6,459,449)**	(12,556,727)	**(6,188,000)**	(12,320,000)
4. EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**–**	–	**–**	–
5. NET INCREASE IN CASH AND CASH EQUIVALENTS		**(710,361,683)**	2,204,925,219	**(254,375,415)**	1,618,931,989

	NOTES	The Group Six months ended June 30, 2006 RMB (unaudited)	The Group Six months ended June 30, 2005 RMB (unaudited)	The Company Six months ended June 30, 2006 RMB (unaudited)	The Company Six months ended June 30, 2005 RMB (unaudited)
SUPPLEMENTAL INFORMATION:					
1. RECONCILIATION OF NET PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES:					
Net profit		**1,347,702,968**	1,656,623,093	**1,347,702,968**	1,656,623,093
Add: Minority interest		**241,305**	288,539	**–**	–
Depreciation of fixed assets		**507,492,918**	480,287,180	**494,971,057**	479,488,064
Provision for Wei Jian Fei		**106,464,036**	110,653,170	**106,464,036**	110,653,170
Provision for Work Safety Expense		**141,952,048**	147,537,560	**141,952,048**	147,537,560
Provision for Reform and Specific Development Fund		**88,720,030**	92,210,975	**88,720,030**	92,210,975
Amortization of intangible assets		**16,852,024**	16,307,020	**16,852,024**	16,307,020
Increase (decrease) in deferred expenses		**27,750,061**	(21,177,412)	**28,036,877**	(20,845,572)
Increase in long-term deferred expenses		**(185,775,699)**	–	**–**	–
Losses (gains) on disposal of fixed assets, intangible assets and other long-term assets		**(249,263)**	692,866	**(249,263)**	528,354
Financial expenses		**6,188,000**	12,320,000	**6,188,000**	12,320,000
Gains (losses) arising from investments		**1,058,461**	(2,818,654)	**253,614**	7,775,735
Increase in inventories		**(42,323,456)**	(112,034,422)	**(41,439,401)**	(117,180,297)
Decrease (increase) in receivables under operating activities		**(968,064,477)**	57,851,947	**(1,218,949,603)**	(100,215,408)
Increase (decrease) in payables under operating activities		**(657,625,151)**	246,456,868	**(689,581,075)**	(331,711,852)
NET CASH FLOW FROM OPERATING ACTIVITIES		**390,383,805**	2,685,198,730	**280,921,312**	1,953,490,842
2. NET INCREASE IN CASH AND CASH EQUIVALENTS:					
Cash and cash equivalents at the end of the Period	48	**6,532,059,913**	7,421,662,709	**6,043,266,234**	6,597,571,773
Less: Cash and cash equivalents at the beginning of the Period		**7,242,421,596**	5,216,737,490	**6,297,641,649**	4,978,639,784
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(710,361,683)**	2,204,925,219	**(254,375,415)**	1,618,931,989

The accompanying notes are part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM JANUARY 1, 2006 TO JUNE 30, 2006

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.

The Company is one of the nineteenth batch of share reform companies designated by China Securities Regulatory Commission. 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: 2.5A 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 shares owned by Yankuang Group would then be converted to tradable shares in 4 years time according to formula. The Share Reform Plan was further approved by the Ministry of Commerce of the PRC on March 21, 2006 and was implemented by April 3, 2006. See note 31 for share capital after share reform.

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.

The period of this financial statement is from January 1, 2006 to June 30, 2006.

Reporting currency

The recording currency of the Company is Renminbi.

Foreign currency translation

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES – continued

Cash equivalents

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

Accounting for bad debts

1) *Criteria for recognition of bad debts*

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

2) *Accounting treatment for bad debt losses*

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

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

Inventories

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

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.

Long-term investments

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES – continued

Long-term investments – continued

(1) Accounting treatment for long-term investments – continued

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

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

(2) Impairment of long-term investments

At the end of each period, the Company determines whether an impairment loss should be recognized for a long-term investment by considering the indications that such loss may be occurred. 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%
Harbour 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%

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES – continued

Fixed assets and depreciation – continued

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

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

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

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. Where the recoverable amount of any fixed asset is lower than its carrying amount, an impairment loss on fixed asset is recognized for the difference.

Fixed assets under construction

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

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 mining rights are obtained. The useful life is estimated based on the total proven and probable reserves of the coal mine.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES – continued

Impairment loss on intangible assets

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

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.

Where some or all of the expenditure required settling 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 the construction facilities are put into use. Pursuant to the relevant regulations, the capital reserve can only be used for the future development of the coal mining business.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES – continued

Work Safety Expense

Pursuant to "Method for Accrual and Usage of Work Safety Expense" Caijian [2004] No. 119, which was jointly issued by States Finance Bureau, National Development and Reform Commission and State Administration of Coal Mine Safety, Work Safety Expense is accrued at RMB8 per ton raw coal mined and recorded in cost of sales and long-term liability 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 provincial 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, Shandong Province Coal Mine Industry Bureau, Reform and Specific Development Fund is accrued at RMB5.00 per tonne of raw coal mined from July 1, 2004 and is used for related expenditures on mine construction.

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 are 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.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES – continued

Basis of consolidation

(1) *Principle for consolidation scope recognition*

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

(2) *Accounting for consolidation*

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

The effective date of acquisition is recognized when the company has transferred the related risk and rewards of ownership of the stock equity. The operating results of subsidiaries during the period are included in the consolidated income statement from the effective date of acquisition appropriately.

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

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

(3) *Translation of Foreign Currency Financial Statements*

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

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

Cash flows of a foreign subsidiary are translated at average exchange rates for the year. The effect of changes in exchange rates on cash and cash equivalents is presented separately as a reconciling item which is called "Effect of foreign exchange rate on cash and cash equivalents" 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 [2005] No.75) which was jointly issued by the Ministry of Finance and the State Taxes Bureau, all tax refund rates of coal exported by the Company was reduced from 11% to 8% since May 1, 2005.

Business tax

Business tax is paid at the applicable tax rate of 5% 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 Tax Bureau, resource tax of Shandong province has increased from RMB2.40 per tonne to RMB3.60 per tonne of raw coal sold and consumed in clean coal production from May 1, 2005. The resource tax is calculated at the sum of the actual raw coal sold and clean coal consumed multiplies the applicable tax rate.

City construction tax & education surcharge

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 surcharge 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 surcharge 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 surcharge 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 companies.

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	Consolidated Yes/No
Qingdao Free Trade Zone Zhongyan Trade Co., Ltd. ("Zhongyan Trade")	Qingdao, Shandong	RMB2,100,000	52.38%	–	Limited Company	Yes
Shandong Yanmei Shipping Co., Ltd. ("Yanmei Shipping")	Jining, Shandong	RMB5,500,000	92%	–	Limited Company	Yes
Yanzhou Coal Yulin Power Chemical Co., Ltd ("Yulin Power")	Yulin, Shanxi	RMB800,000,000	97%	–	Limited Company	Yes
Yancoal Australia Pty Limited Zhongyan Trade Co., Ltd. ("Yanmei Australia")	Australia	AUD 30,000,000	100%	–	Limited Company	Yes
Austar Coal Mine Pty Limited. ("Austar Coal Mine")	Australia	AUD 30,000,000	–	100%	Limited Company	Yes
Yancoal Heze Power Chemical Co., Ltd. ("Heze Power")	Heze, Shandong	RMB600,000,000	95.67%	–	Limited Company	Yes

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

Nature of business of Yanmei Shipping: Coal 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 tonne methanol, 200,000 tonne acetic acid and coal mine, electric project.

Nature of business of Yanmei Australia: investment holding company.

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

Nature of business of Yancoal Heze Power Chemical: third industry and preparation of exploration and construction of Juye coal mine.

5. BANK BALANCES AND CASH

	The Group At June 30, 2006 Foreign currency	Exchange rate	RMB equivalent	The Group At December 31, 2005 Foreign currency	Exchange rate	RMB equivalent
Cash on hand						
RMB	–	–	443,372	–	–	401,959
Cash in bank						
RMB	–	–	4,415,524,274	–	–	4,515,589,010
USD	111,962,125	7.9956	895,204,367	174,405,972	8.0702	1,407,491,075
EUR	10,514,882	10.1313	106,529,424	28,402,611	9.5797	272,088,493
AUD	30,700,919	5.9196	181,737,160	15,058,553	5.9119	89,024,659
HKD	948,726,958	1.0294	976,619,531	950,110,315	1.0403	988,399,761
GBP	336,518	12.6332	4,251,299	195,985	13.9122	2,726,583
Other monetary assets						
RMB	–	–	1,387,940	–	–	3,250,845
			6,581,697,367			7,278,972,385

6. CURRENT INVESTMENTS

	The Group At June 30, 2006 Cost RMB	Provision RMB	Net book value RMB	The Group At December 31, 2005 Cost RMB	Provision RMB	Net book value RMB
Designated deposits						
Shandong Xinjia Industry Co., Ltd ("Shandong Xinjia")	640,000,000	–	640,000,000	640,000,000	–	640,000,000

The designated deposit represents an instructed loan of RMB640, 000,000 lent through Bank of China Jining Branch to Shandong Xinjia at interest rate of 7% per annum for one month period from December 20, 2004. Related obligations are secured by Lianda Group Co., Ltd ("Lianda Group") with its 170 million state legal person shares of Huaxia Bank and its 66.7% of interest in Xi'an International Golf Club Co., Ltd.

The above designated deposits were due on January 19, 2005. Shandong Xinjia failed to pay off the principal and interest. As Linda Group bore the security responsibility of the designated deposits, an auction on the frozen 289,000,000 shares of Huaxia Bank owned by Linda Group was held on March 28, 2005 by the Supreme Court of Shandong Province and completed successfully on September 6, 2005 according to relevant laws. After the completion of the auction, the buyer applied to the China Banking Regulatory Commission for its eligibility of investing in China domestic commercial bank. Up to the financial statement signing date, related formalities are still in process. The Supreme Court of Shandong Province extended the freeze of shares mentioned above on December 22, 2005 and June 18, 2006 respectively. In the opinion of the management, the principal, interest and overdue penalty 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 period end.

7. NOTES RECEIVABLE

	The Group At June 30 2006 RMB	The Group At December 31 2005 RMB
Bank acceptance bills	**2,534,524,775**	2,100,443,880

See note 50 4(d) for notes receivable due from shareholders of the Company holding more than 5% of the total shares of the Company.

8. ACCOUNTS RECEIVABLE

The aging analysis of accounts receivable is as follows:

The Group and the Company

Aging	**At June 30, 2006**				At December 31, 2005			
	Amount RMB	**%**	**Bad debt provision RMB**	**Net book value RMB**	Amount RMB	%	Bad debt provision RMB	Net book value RMB
Within 1 year	**280,641,873**	**89**	**24,729,999**	**255,911,874**	161,151,370	62	26,361,799	134,789,571
1 to 2 years	**5,919,006**	**2**	**1,775,702**	**4,143,304**	18,771	–	5,631	13,140
2 to 3 years	**18,104**	**–**	**9,052**	**9,052**	–	–	–	–
Over 3 years	**30,005,628**	**9**	**30,005,628**	**–**	100,332,879	38	100,332,879	–
Total	**316,584,611**	**100**	**56,520,381**	**260,064,230**	261,503,020	100	126,700,309	134,802,711

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**
234,579,363	74%

See note 50 4(d) for accounts receivable due from shareholders of the Group and the Company holding more than 5% of the total shares of the Company.

9. OTHER RECEIVABLES

Aging analysis of other receivables is as follows:

The Group

Aging	At June 30, 2006				At December 31, 2005			
	Amount RMB	%	Bad debt provision RMB	Net book value RMB	Amount RMB	%	Bad debt provision RMB	Net book value RMB
Within 1 year	212,234,713	78	10,493,033	201,741,680	143,236,071	80	14,317,977	128,918,094
1 to 2 years	34,905,423	12	1,803,098	33,102,325	11,086,622	6	1,612,650	9,473,972
2 to 3 years	8,096,749	3	5,650,254	2,446,495	6,818,719	4	2,055,759	4,762,960
Over 3 years	17,769,891	7	17,769,891	–	18,103,460	10	17,729,890	373,570
Total	273,006,776	100	35,716,276	237,290,500	179,244,872	100	35,716,276	143,528,596

The Company

Aging	At June 30, 2006				At December 31, 2005			
	Amount RMB	%	Bad debt provision RMB	Net book value RMB	Amount RMB	%	Bad debt provision RMB	Net book value RMB
Within 1 year	592,268,865	75	10,493,033	581,775,832	399,466,828	92	14,317,977	385,148,851
1 to 2 years	168,477,370	22	1,803,098	166,674,272	9,978,462	2	1,612,650	8,365,812
2 to 3 years	8,001,749	1	5,650,254	2,351,495	6,718,718	2	2,055,759	4,662,959
Over 3 years	17,769,891	2	17,769,891	–	17,729,890	4	17,729,890	–
Total	786,517,875	100	35,716,276	750,801,599	433,893,898	100	35,716,276	398,177,622

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

Total balance of the 5 largest debtors RMB	Percentage in other receivables balance
102,648,888	38%

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

Total balance of the 5 largest debtors RMB	Percentage in other receivables balance
693,334,227	88%

See note 50 4(d) for other receivables due from shareholders of the Group holding more than 5% of the total shares of the Company.

10. PROVISION FOR BAD DEBTS

The Group and the Company

	At 1 January 2006 RMB	**Reversal** RMB	**June 30, 2006** **RMB**
Bad debt provision:			
Accounts receivable	126,700,309	(70,179,928)	**56,520,381**
Other receivables	35,716,276	–	**35,716,276**
Total	162,416,585	(70,179,928)	**92,236,657**

11. PREPAYMENTS

The aging analysis of prepayments is as follows:

Aging	**The Group** **June 30, 2006** **RMB**	**%**	The Group December 31, 2005 RMB	%
Within 1 year	**76,714,815**	**61**	46,029,271	62
1 to 2 years	**40,590,442**	**32**	24,864,123	34
2 to 3 years	**8,038,089**	**7**	2,811,569	4
Total	**125,343,346**	**100**	73,704,963	100

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**
58,533,572	47%

See note 50 4(d) for prepayments to shareholders of the Group holding more than 5% of the total shares of the Company.

12. INVENTORIES

	The Group At June 30, 2006			The Group At December 31, 2005		
	Amount RMB	Provision RMB	Net book value RMB	Net book Amount RMB	Provision RMB	value RMB
Raw materials	242,905,589	–	242,905,589	256,755,014	–	256,755,014
Finished goods	269,918,996	–	269,918,996	213,746,115	–	213,746,115
	512,824,585	–	512,824,585	470,501,129	–	470,501,129

13. DEFERRED EXPENSES

	The Group At June 30 2006 RMB	The Group At December 31 2005 RMB
Harbour transportation fee	34,694,742	62,444,803

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

14. OTHER CURRENT ASSETS

	The Group			
Category	At January 1, 2006 RMB	Accrual for the year RMB	Payment for the year RMB	At June 30, 2006 RMB
Prepaid land subsidence, restoration, rehabilitation and environmental costs	157,511,340	(212,928,072)	461,359,049	405,942,317

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.

15. LONG-TERM EQUITY INVESTMENTS

The Group

		June 30, 2006 RMB	December 31, 2005 RMB
Other equity investments	(1)	**62,180,693**	62,180,693
Discrepancy on consolidation	(2)	**17,878,449**	18,936,910
		80,059,142	81,117,603
Less: Impairment loss on long-term equity investments		**–**	–
Long-term equity investments – net		**80,059,142**	81,117,603

The Company

		June 30, 2006 RMB	December 31, 2005 RMB
Investment in subsidiaries	(3)	**1,506,765,004**	1,515,917,654
Other equity investments	(1)	**62,180,693**	62,180,693
Discrepancy on consolidation	(2)	**17,878,449**	18,936,910
		1,586,824,146	1,597,035,257
Less: Impairment loss on long-term equity investments		**–**	–
Long-term equity investments – net		**1,586,824,146**	1,597,035,257

(1) Other equity investments

Name of investees	Investment period	Share in the registered capital of the investee (%)	June 30, 2006 and December 31, 2005 RMB
Jiangsu Lianyungang Port Co., Ltd.	Infinity	1%	1,760,419
Shenergy Company Limited	Infinity	0.83%	60,420,274
			62,180,693

(2) Discrepancy on consolidation

Name of investees	Original amount RMB	Amortization period	At January 1, 2006 RMB	Amortization for the year RMB	At June 30, 2006 RMB	Arising from
Yanmei Shipping	11,161,512	10 years	8,929,210	(558,076)	**8,371,134**	Acquisition of subsidiary
Heze Power	10,007,700	10 years	10,007,700	(500,385)	**9,507,315**	Acquisition of subsidiary
	21,169,212		18,936,910	(1,058,461)	**17,878,449**	

15. LONG-TERM EQUITY INVESTMENTS – continued

(3) 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, 2006 and at June 30, 2006	At January 1, 2006	Addition of equity	Cash dividend from the period	At June 30, 2006	At January 1, 2006	At June 30, 2006
	RMB	RMB	RMB	RMB	RMB	**RMB**	RMB	**RMB**
Zhongyan Trade	2,709,903	2,709,903	1,440,086	227,771	298,582	**1,369,275**	4,149,989	**4,079,178**
Yanmei Shipping	530,372	530,372	1,074,656	393,677	–	**1,468,333**	1,605,028	**1,998,705**
Yulin Power	776,000,000	776,000,000	–	–	–	**–**	776,000,000	**776,000,000**
Yanmei Australia	191,285,954	191,285,954	(31,123,317)	(9,475,516)	–	**(40,598,833)**	160,162,637	**150,687,121**
Heze Power Chemical	574,000,000	574,000,000	–	–	–	**–**	574,000,000	**574,000,000**
Total	1,544,526,229	1,544,526,229	(28,608,575)	(8,854,068)	298,582	**(37,761,225)**	1,515,917,654	**1,506,765,004**

16. LONG-TERM DEBT INVESTMENT

The Company

	June 30, 2006	December 31, 2005
	RMB	RMB
Designated deposit (Note)	**479,736,000**	162,200,000
Long-term debt investment within one year	**479,736,000**	162,000,000

Note: Details of designated deposit are as follow:

Trustee	Borrower	Investment cost	Annual interest	Maturity	Interest of this term	Accumulated interest receivable or interest received	Impairment	Closing balance
		RMB			RMB	RMB	RMB	RMB
Bank of China Co., ltd. jining branch	Yoncoal Australia	479,736,000	12 month USD. LIBOR+150 BP	November 7, 2007	9,658,915	9,658,915	–	479,736,000

17. FIXED ASSETS AND ACCUMULATED DEPRECIATION

	Lands (Note) RMB	Buildings RMB	Mining structure RMB	Railway structure RMB	Harbour works and craft RMB	Plant, machinery and equipment RMB	Transportation equipment RMB	Total RMB
COST								
At January 1, 2006	53,029,742	2,199,529,833	3,908,554,834	879,685,419	250,230,769	8,340,253,411	347,237,996	15,928,522,004
Additions	–	551,114	–	–	–	36,686,973	399,300	37,637,387
Exchange realignment	69,069	8,693	–	–	–	242,257	688	320,707
Transfer from fixed assets under construction	–	1,186,518	–	–	118,210	2,448,048	–	3,752,686
Disposals	–	–	–	–	–	(8,868,450)	(674,370)	(9,542,820)
At June 30, 2006	53,098,811	2,201,276,158	3,908,554,834	879,685,419	250,348,889	8,370,762,239	346,963,614	16,010,689,964
ACCUMULATED DEPRECIATION								
At January 1, 2006	–	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
Provided for the period	–	57,864,531	44,360,015	27,170,858	3,034,048	357,399,850	17,663,616	507,492,918
Eliminated on disposals	–	–	–	–	–	(5,096,673)	(312,914)	(5,409,587)
At June 30, 2006	–	1,106,951,200	1,641,377,514	393,036,429	15,170,240	5,012,679,756	235,590,653	8,404,805,792
NET BOOK VALUE								
At January 1, 2006	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
At June 30, 2006	53,098,811	1,094,324,958	2,267,177,320	486,648,990	235,178,649	3,358,082,483	111,372,961	7,605,884,172
INCLUDE:								
Fully depreciated F.A Cost	–	–	–	–	–	57,725,642	–	57,725,642

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

18. MATERIALS HELD FOR CONSTRUCTION OF FIXED ASSETS

The Group

Category	**June 30, 2006** **RMB**	**December 31, 2005** RMB
Materials held for construction	**890,966,922**	194,334,918

19. FIXED ASSETS UNDER CONSTRUCTION

Category	At January 1, 2006	Additions	Transfers upon completion	At June 30, 2006	Budget	Proportion to budget	Source of funds
	RMB	RMB	RMB	RMB	RMB	%	
Equipment to be installed	143,887,072	91,226,817	(3,377,417)	**231,736,472**	174,090,000	14	internally generated fund
Buildings under construction	453,552,788	216,392,152	(262,688)	**669,682,252**	2,366,880,000	28	internally generated fund
Others	113,796,981	2,918,803	(112,581)	**116,603,203**	467,700,000	25	internally generated fund
Total	711,236,841	310,537,772	(3,752,686)	**1,018,021,927**			

No interest was capitalized for the period.

20. INTANGIBLE ASSETS

Category	Original amount	At January 1, 2006	Addition	Amortization for the period	Accumulated amortization	Exchange realignment	At June 30, 2006	Remaining amortization period
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	
Land use rights	310,242,143	259,882,454	–	(3,111,979)	(53,471,668)	–	**256,770,475**	41 years and 5 months
Land use rights of Jining III	88,928,996	80,036,096	–	(889,290)	(9,782,190)	–	**79,146,806**	44 years and 6 months
Mining rights of Jining III	132,478,800	99,359,006	–	(3,311,970)	(36,431,764)	–	**96,047,036**	14 years and 6 months
Land use rights of Railway Assets	259,378,500	238,628,220	–	(2,593,785)	(23,344,065)	–	**236,034,435**	45 years and 6 months
Goodwill	120,000,000	83,350,000	–	(6,945,000)	(43,595,000)	–	**76,405,000**	5 years and 6 months
Exploration of Nantian	53,905,632	53,905,632	–	–	–	70,210	**53,975,842**	20 years
	964,934,071	815,161,408	–	(16,852,024)	(166,624,687)	70,210	**798,379,594**	

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 June 30, 2006, 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 Centre 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 cash flow. 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.

20. INTANGIBLE ASSETS – continued

Austar acquired mining rights of Southland through Southland Coal Pty limited at market value. On June 30, 2006, Australian Southland Coal mine was in pre-operational coal mine development period, exploration has not started yet, hence the mining rights of southland Coal mine have not started to amortise.

21. LONG-TERM DEFERRED EXPENSES

	The Group		
	At January 1, 2006 RMB	**Addition** RMB	**At June 30, 2006 RMB**
Pre-operating expenses of Heze Power	26,818,597	8,036,244	**34,854,841**
Pre-operating expenses of Austar Coal Mine	121,801,480	177,739,455	**299,540,935**
	148,620,077	185,775,699	**334,395,776**

22. NOTES PAYABLE

	The Group	
	June 30, 2006 RMB	December 31, 2005 RMB
Commercial notes payable	**99,353,231**	136,779,128

23. ACCOUNTS PAYABLE

See note 50 (4) (d) for accounts payable due to shareholders of the Group holding more than 5% of the total shares of the Company.

24. ADVANCES FROM CUSTOMERS

See note 50(4)(d) for amounts advanced from shareholders of the Group holding more than 5% of the total shares of the Company.

25. SALARIES AND WAGES PAYABLE

The balance of unpaid salary at gear end is calculated according to group ergonomic salary. See note 45 (2).

26. TAXES PAYABLE

	The Group	
	June 30, 2006	December 31, 2005
	RMB	RMB
Income tax	**528,657,421**	647,286,994
Value added tax	**152,266,692**	126,084,888
City construction tax	**10,449,117**	45,010,917
Resource Tax	**13,244,734**	40,456,209
Others	**9,225,343**	38,363,313
	713,843,307	897,202,321

27. DIVIDEND PAYABLE

	The Group	
	June 30, 2006	December 31, 2005
	RMB	RMB
A Shareholders	**79,200,000**	–
B shareholders	**430,848,000**	–
	510,048,000	–

28. OTHER PAYABLES

See note 50 (4) (d) for other payables due to shareholders of the Group holding more than 5% of the total shares of the Company.

29. LONG-TERM LOAN

The Group

Lender	**At June 30, 2006**	**At January 1, 2006**	**Period**	**Annual Interest Rate**	**Guarantee**
	RMB	RMB			
Bank of China	**200,000,000**	200,000,000	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			

29. LONG-TERM LOAN – continued

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 are 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, i.e. on August 25, of each year from year 2004 to 2006.

30. LONG-TERM PAYABLE

	The Group	
	June 30, 2006	December 31, 2005
	RMB	RMB
Payable for acquisition of Jining III's mining rights (Note 1)	**66,239,560**	66,239,560
Reform and Specific Development Fund (Note 2)	**358,665,180**	269,945,150
Work Safety Expense (Note 3)	**233,413,694**	91,461,646
	658,318,434	427,646,356
Less: Long-term payable due within one year	**246,661,494**	104,709,446
Long-term payable due after one year	**411,656,940**	322,936,910
	658,318,434	427,646,356

Note 1: The amount represents the remaining balances of payable to Yankuang Group for acquisition of Jining III's mining rights, details of which are set out in note 50 (4)(a) .

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

Note 3: According to the relevant regulation of State Administration of Coal Mine Safety, from May 1, 2004, Work Safety Expense is accrued at RMB8 per ton of 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.

31. SHARE CAPITAL

Changes in share capital from January 1, 2006 to June 30, 2006 are as follow:

		January 1, 2006	Addition (Reduce) Share Reform	June 30, 2006
(1)	Unlisted shares			
	Initiation shares	2,672,000,000	(2,672,000,000)	–
(2)	Listed shares with restricted trading condition			
	Initiation shares	–	2,600,000,000	**2,600,000,000**
(3)	Listed shares			
	1. A-shares	288,000,000	72,000,000	**360,000,000**
	2. H-shares	1,958,400,000	–	**1,958,400,000**
	Total of listed shares	2,246,400,000	72,000,000	**2,318,400,000**
(4)	Total shares	4,918,400,000	–	**4,918,400,000**

The share reform plan has been implemented by April 3, 2006. On the first trading day after the completion of the share reform, the shares owned by Yankuang Group, the sole unlisted share holder of the Company, became tradable. However, Yankuang Group committed that it will not sell these shares in 48 months after the implementation of the reform.

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

		January 1, 2005	Addition	June 30, 2005
(1)	Unlisted shares			
	1. 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	3,074,000,000	1,844,400,000	**4,918,400,000**

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

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.

32. CAPITAL RESERVES

Changes in capital reserves from January 1, 2006 to June 30, 2006 are as follows:

	The Group		
	Share premium	Transfer from Wei Jian Fei (Note)	Total
	RMB	RMB	RMB
At January 1, 2006	3,257,734,238	1,607,746,553	4,865,480,791
Additions	–	106,464,036	106,464,036
At June 30, 2006	3,257,734,238	1,714,210,589	4,971,944,827

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

	The Group		
	Share Premium (note 31)	Transfer from Wei Jian Fei (Note)	Total
	RMB	RMB	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	3,257,734,238	1,607,746,553	4,865,480,791

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

33. SURPLUS RESERVES

Changes in surplus reserves from January 1, 2006 to June 30, 2006 are as follows:

	The Group		
	Statutory common reserve fund	Statutory common welfare fund	Total
	RMB	RMB	RMB
At January 1, 2006	1,019,141,038	509,649,665	1,528,790,703
Transfer in (out)	509,649,665	(509,649,665)	–
At June 30, 2006	1,528,790,703	–	1,528,790,703

33. SURPLUS RESERVES – continued

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

	The Group		
	Statutory common reserve fund	**Statutory common welfare fund**	**Total**
	RMB	RMB	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	1,019,141,038	509,649,665	1,528,790,703

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, the Company stopped appropriating the statutory common welfare fund from 2006, the remaining balance of the statutory common welfare fund was transferred to the statutory common reserve fund.

34. CASH DIVIDEND PROPOSED AFTER THE BALANCE SHEET DATE

	The Group	
	2006	2005
	RMB	RMB
Opening Balance	**1,082,048,000**	799,240,000
Less: Transferred to dividends payable	**1,082,048,000**	799,240,000
Add: Cash dividend proposed after the balance sheet date (Note)	–	1,082,048,000
Ending Balance	–	1,082,048,000

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 RMB1.5 and special cash dividend of RMB0.7, 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 has been approved in the shareholders' meeting of the Company on June 28, 2006.

35. UNAPPROPRIATED PROFITS

	The Group	
	From January 1, 2006 to June 30, 2006 RMB	From January 1, 2005 to December 31, 2005 RMB
Opening Balance	**4,761,923,924**	3,722,812,692
Add: Net profit for the period/year	**1,347,702,968**	2,495,481,451
Less: Appropriations to:		
Statutory common reserve fund (Note 1)	**–**	249,548,146
Statutory common welfare fund (Note 2)	**–**	124,774,073
Profit available for distribution	**6,109,626,892**	5,843,971,924
Less: Cash dividend proposed after the balance sheet date	**–**	1,082,048,000
Ending Balance	**6,109,626,892**	4,761,923,924

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.

Note 2: 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. According to the policy of "solution of Company financial problems after the implement of Company Law" which was released by the Ministry of Finance, the Company stopped appropriating the statutory common welfare fund from 2006, the remaining balance of statutory common welfare fund was transferred to the statutory common reserve fund.

36. REVENUE FROM PRINCIPAL OPERATIONS

	The Group	
	From January 1, 2006 to June 30, 2006 RMB	From January 1, 2005 to June 30, 2005 RMB
Revenue from domestic sales of coal products	**4,739,805,484**	4,785,467,601
Revenue from export sales of coal products	**1,672,245,859**	1,795,905,562
Revenue from railway transportation services	**74,100,899**	95,271,758
	6,486,152,242	6,676,644,921

36. REVENUE FROM PRINCIPAL OPERATIONS – continued

Total amount of the 5 largest customers RMB	Percentage in total revenue
1,399,537,787	22%

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.

37. COST OF PRINCIPAL OPERATIONS

	The Group	
	From January 1, 2006 to June 30, 2006 RMB	From January 1, 2005 to June 30, 2005 RMB
Cost of sales of coal products	**2,898,982,011**	2,705,948,082
Cost of the railway transportation services	**41,491,630**	52,319,818
	2,940,473,641	2,758,267,900

37. COST OF PRINCIPAL OPERATIONS – continued

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

	The Group	
	From January 1, 2006 to June 30, 2006	From January 1, 2005 to June 30, 2005
	RMB	RMB
Materials	**582,757,785**	519,968,301
Wages	**543,170,988**	452,327,012
Employee welfare	**76,043,938**	54,874,961
Electricity	**162,131,930**	139,296,896
Depreciation	**376,004,244**	396,260,205
Land subsidence, restoration, rehabilitation and environmental costs	**209,264,082**	359,694,305
Repairs	**154,639,160**	165,922,707
Safety Work Expense	**141,952,048**	147,537,560
Reform and Specific Development Fund	**88,720,030**	92,210,975
VAT input transfer out	**83,612,293**	50,310,010
Transport	**50,272,615**	52,902,170
Warming	**31,511,928**	19,267,566
Messing allowance	**12,091,609**	9,341,190
Others	**280,345,325**	135,381,054
Subtotal	**2,792,517,975**	2,595,294,912
Wei Jian Fei	**106,464,036**	110,653,170
Total	**2,898,982,011**	2,705,948,082

38. SALES TAXES AND SURCHARGES

	The Group	
	From January 1, 2006 to June 30, 2006	From January 1, 2005 to June 30, 2005
	RMB	RMB
Business tax	**2,005,990**	2,916,375
City construction tax	**46,627,104**	47,772,946
Education surcharge	**26,662,824**	27,274,495
Resource tax	**62,824,442**	47,070,193
	138,120,360	125,034,009

39. PROFITS FROM OTHER OPERATIONS

	The Group	
	From January 1, 2006 to June 30, 2006 RMB	From January 1, 2005 to June 30, 2005 RMB
Sales of raw materials		
– Sales	**517,465,838**	436,050,280
– Cost of sales	**492,856,724**	415,291,624
	24,609,114	20,758,656
Others		
– Income	**28,085,778**	13,523,204
– Cost	**11,411,030**	10,390,247
	16,674,748	3,132,957
	41,283,862	23,891,613

40. OPERATING EXPENSES

	The Group	
	From January 1, 2006 to June 30, 2006 RMB	From January 1, 2005 to June 30, 2005 RMB
Selling expense of domestic sales of coal products	**182,705,320**	153,266,375
Selling expense of export sales of coal products	**303,375,568**	348,112,142
Others	**33,766,805**	37,015,941
	519,847,693	538,394,458

41. FINANCIAL EXPENSES

	The Group	
	From January 1, 2006 to June 30, 2006 RMB	From January 1, 2005 to June 30, 2005 RMB
Interest expenses	**6,188,000**	12,320,000
Less: interest income	**54,884,200**	33,840,934
Exchange loss	**20,300,604**	16,855,911
Others	**5,807,495**	240,638
	(22,588,101)	(4,424,385)

42. INVESTMENT INCOME

The Group

	From January 1, 2006 to June 30, 2006 RMB	From January 1, 2005 to June 30, 2005 RMB
Short-term investment income		
– Interest income from designated deposits	–	3,376,730
Long-term investment income		
– Amortization of long-term equity investment difference	(1,058,461)	(558,076)
	(1,058,461)	2,818,654

The Company

	From January 1, 2006 to June 30, 2006 RMB	From January 1, 2005 to June 30, 2005 RMB
Short-term investment income		
– Interest income from designated deposits	9,658,915	3,376,730
Long-term investment income		
– Share of investees' profit recognized under equity method	(8,854,068)	(10,594,389)
– Amortization of long-term equity investment difference	(1,058,461)	(558,076)
	(253,614)	(7,775,735)

43. NON-OPERATING INCOME

	The Group	
	From January 1, 2006 to June 30, 2006 RMB	From January 1, 2005 to June 30, 2005 RMB
Gain on disposal of fixed assets	939,003	220,660
Others	3,686,030	56,636
	4,625,033	277,296

44. NON-OPERATING EXPENSES

	The Group	
	From January 1, 2006 to June 30, 2006 RMB	From January 1, 2005 to June 30, 2005 RMB
Loss on disposal of fixed assets	**689,740**	913,526
Donations	**130,000**	13,000
Fines and others	**1,764,924**	1,150,445
	2,584,664	2,076,971

45. INCOME TAXES

	The Group	
	From January 1, 2006 to June 30, 2006 RMB	From January 1, 2005 to June 30, 2005 RMB
Income tax of the Company (1)/(2)	**684,846,730**	821,759,470
Income tax of subsidiaries	**214,176**	192,150
	685,060,906	821,951,620

(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) The relevant tax authorities have not yet assessed the cap for total wages of the Company that would be deductible under PRC income tax. As a subsidiary of the Parent Company, the directors of the Company are in the opinion that the same basis for determining the deductible wages cap applicable to the Parent Company and assessed by the tax authority would be equally applicable to the Company.

46. OTHER CASH RECEIVED RELATING TO OPERATING ACTIVITIES

	The Group From January 1, 2006 to June 30, 2006 RMB
Other operating income	**70,750,220**
Non operating income	**3,686,030**
Interest income	**39,993,401**
Others	**27,750,061**
Total	**142,179,712**

47. OTHER CASH PAID RELATING TO OPERATING ACTIVITIES

	The Group From January 1, 2006 to June 30, 2006 RMB
Cash payments for operating and administrative expenses	**934,242,836**
Cash payment for subsidiaries' new additional pre-operating expenses	**150,959,096**
Other operating expenses	**53,568,690**
Others	**447,493,738**
Total	**1,586,264,360**

48. CASH AND CASH EQUIVALENTS

Group	**At June 30, 2006 RMB**	At December 31, 2005 RMB
Bank balances and cash	**6,581,697,367**	7,278,972,385
Less: Restricted cash (Note)	**49,637,454**	36,550,789
	6,532,059,913	7,242,421,596

Company	**At June 30, 2006 RMB**	At June 30, 2005 RMB
Bank balances and cash	**6,043,266,234**	6,297,641,649

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

49. SEGMENT INFORMATION

Item	Coal mining business RMB	Railway transportation business RMB	Inter-segment elimination RMB	Unallocated items RMB	Total RMB
1. Operating revenue					
External	6,957,602,960	74,100,899	–	–	7,031,703,859
Inter-segment	–	110,554,075	(110,554,075)	–	–
Total	6,957,602,960	184,654,974	(110,554,075)	–	7,031,703,859
2. Cost of sales					
External	3,541,370,126	41,491,630	–	–	3,582,861,752
Inter-segment	–	75,499,682	(75,499,682)	–	–
Total	3,541,370,126	116,991,312	(75,499,682)	–	3,582,861,752
3. Total operating expenses	1,229,877,705	52,015,664	(35,054,393)	169,979,856	1,416,818,832
4. Total operating profits	2,186,355,129	15,647,998	–	(169,979,856)	2,032,023,271
5. Total assets	13,315,898,665	887,237,853	–	7,871,843,676	22,074,980,194
6. Total liabilities	3,166,125,645	21,168,813	–	1,318,819,830	4,506,114,288

Over 90% assets of Company are located in China.

50. 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's 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, 2006 and June 30, 2006 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**

50. 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, 2006 RMB	%	Addition RMB	%	June 30, 2006 RMB	%
Yankuang Group	2,672,000,000	54.33	(72,000,000)	(1.47)	**2,600,000,000**	**52.86**
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.

According to the agreement, the Company will pay the interest-free consideration for the cost of mining rights over ten years by equal installments 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 installment before December 31, 2006.

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

50. SIGNIFICANT RELATED PARTY TRANSACTIONS – continued

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

(b) Sales and purchases

	From January 1, 2006 To June 30, 2006 RMB'000	From January 1, 2005 to June 30, 2005 RMB'000
Sales and service provided		
Sales of coal – Yankuang Group and its affiliates	**448,703**	390,037
Public utilities and facilities income – Yankuang Group and its affiliates	**–**	14,500
Material and spare parts sales – Yankuang Group and its affiliates	**232,521**	226,496
	681,224	631,033
Purchases – Yankuang Group and its affiliates	**214,235**	142,414

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

(c) Construction services

	From January 1, 2006 To June 30, 2006 RMB'000	From January 1, 2005 to June 30, 2005 RMB'000
Mining Equipment installation in Heze Power	**37,918**	–
Mining Equipment installation in Yulin power	**19,288**	–
Others	**23,436**	–
	80,642	–

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

50. SIGNIFICANT RELATED PARTY TRANSACTIONS – continued

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

(d) Amount due to or from related parties

Account	Company	At June 31, 2006 RMB	At December 31, 2005 RMB
Notes receivable	Yankuang Group and its affiliates	**16,870,000**	7,495,158
Accounts receivable	Yankuang Group and its affiliates	**7,119,998**	2,915,543
Other receivables (Note)	Yankuang Group and its affiliates	**74,690,097**	49,153,257
Prepayments	Yankuang Group and its affiliates	**1,034,444**	4,100,645
		99,714,539	63,664,603
Accounts payable	Yankuang Group and its affiliates	**31,046,268**	20,637,078
Advances from customers	Yankuang Group and its affiliates	**65,682,506**	52,533,644
Other payables (Note)	Yankuang Group and its affiliates	**608,346,027**	473,671,303
Long-term payable due within one year (Note 30 and 50(4)a)	Yankuang Group and its affiliates	**13,247,800**	13,247,800
Long-term payables (Note 30 and 50(4)a)	Yankuang Group and its affiliates	**52,991,760**	52,991,760
		771,314,361	613,081,585

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.

50. SIGNIFICANT RELATED PARTY TRANSACTIONS – continued

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

(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 first 6 months of 2006 and 2005 are RMB400,593,000 and RMB299,181,000 respectively.

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

	2006	2005
	RMB'000	RMB'000
Electricity	**156,463**	174,531
Repairs and maintenance	**81,847**	55,635
Technical support and training fee	**10,000**	7,565
Mining rights fees	**6,490**	6,490
Public utilities expenses	**6,131**	190
Road transportation fee	**32,915**	20,583
Gases and eructate expenses	**13,000**	5,510
Buildings management fee	**43,100**	18,600
Children tuition fee	**20,400**	8,300
Others	**26,850**	7,765
Total	**397,196**	305,169

(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 first 6 months of 2006 and 2005 are RMB2,245,065 and RMB1,481,014 respectively.

(4) During the first 6 months of 2006 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.

51. CAPITAL COMMITMENTS

	The Group	
	June 30, 2006	At December 31, 2005
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– Purchase of assets	**1,692,204**	920,907

52. OTHER IMPORTANT EVENTS

On August 18, 2006, the Company signed an equity transfer agreement with its holding company, Yankuang Group, to acquire of 98% of interest in Yankuang Shanxi Power Chemical Co., Ltd owned by Yankuang Group with the consideration of RMB733,340,000. The transaction is to be approved by Shareholders' meeting and government department.

SUPPLEMENT

FOR THE PERIOD FROM JANUARY 1, 2006 TO JUNE 30, 2006

1. SUMMARY OF DIFFERENCES BETWEEN IFRS AND PRC GAAP

For the period ended June 30, 2006, under PRC GAAP net profit is RMB1,347,703 thousand and shareholders' equity is RMB17,514,984 thousand. The summary of differences of net profit and shareholder's equity between PRC GAAP and IFRS in this year are as follows:

	Net profit for the period RMB'000	Net assets Ended in June 30, 2006 RMB'000
As per the financial statements prepared under PRC GAAP	1,347,703	17,514,984
Adjustments under IFRS:		
– Reversal of Wei Jian Fei	106,464	–
– Reversal of Reform and Specific Development Fund	88,720	358,665
– Reversal of Work Safety Expense	104,079	547,347
– Deferred tax effect	(34,345)	(180,624)
– Release of negative goodwill to income	6,945	138,101
– Deemed interest expenses	(1,585)	(114,807)
– Release goodwill prepared	1,058	23,011
– Yanmei Australia pre-operating expenses	(185,427)	(307,229)
– Minority interest	(107)	28,353
– Others	–	(8,070)
As per financial statements prepared under IFRS	1,433,505	17,999,731

2. RETURN ON SHAREHOLDERS' EQUITY AND EARNINGS PER SHARE CALCULATED BY DILUTED METHOD AND WEIGHTED AVERAGE METHOD

	Return on shareholders' equity %		Earnings per share RMB	
Profit for the reporting period	Diluted	Weighted average	Diluted	Weighted average
Income from principal operations	19.46%	19.66%	0.69	0.69
Operating profits	11.60%	11.73%	0.41	0.41
Net profit	7.69%	7.78%	0.27	0.27
Net profit excluding extraordinary gain (loss)	7.69%	7.77%	0.27	0.27

3. LIST OF PROVISION FOR IMPAIRMENT LOSS ON ASSETS

Unit: RMB

Item	2006.1.1 The Group	2006.1.1 The Company	Provision The Group	Provision The Company	Reversal The Group	Reversal The Company	Other transfer out The Group	Other transfer out The Company	2006.6.30 The Group	2006.6.30 The Company
1. Total provision for bad debts	162,416,585	162,416,585	–	–	70,179,928	70,179,928	–	–	92,236,657	92,236,657
– Accounts receivable	126,700,309	126,700,309	–	–	70,179,928	70,179,928	–	–	56,520,381	56,520,381
– Other receivables	35,716,276	35,716,276	–	–	–	–	–	–	35,716,276	35,716,276
2. Total provision for loss on current investment	–	–	–	–	–	–	–	–	–	–
– Bond investment	–	–	–	–	–	–	–	–	–	–
3. Total provision for loss on inventory	–	–	–	–	–	–	–	–	–	–
– Raw material	–	–	–	–	–	–	–	–	–	–
– Finished goods	–	–	–	–	–	–	–	–	–	–
4. Total provision for loss on long-term investment	–	–	–	–	–	–	–	–	–	–
– Long-term equity investment	–	–	–	–	–	–	–	–	–	–
5. Total provision for loss on fixed assets	–	–	–	–	–	–	–	–	–	–
– Buildings	–	–	–	–	–	–	–	–	–	–
– Mining structure	–	–	–	–	–	–	–	–	–	–
– Railway structure	–	–	–	–	–	–	–	–	–	–
– Harbour works and craft	–	–	–	–	–	–	–	–	–	–
– Plant, machinery and equipment	–	–	–	–	–	–	–	–	–	–
– Transportation equipment	–	–	–	–	–	–	–	–	–	–
6. Total provision for loss on intangible assets	–	–	–	–	–	–	–	–	–	–
– Land use rights	–	–	–	–	–	–	–	–	–	–
– Mining rights	–	–	–	–	–	–	–	–	–	–
– Goodwill	–	–	–	–	–	–	–	–	–	–
7. Provision for loss on fixed assets under construction	–	–	–	–	–	–	–	–	–	–
8. Provision for loss on designated deposit	–	–	–	–	–	–	–	–	–	–

4. There are no items which fluctuated over 30% (including 30%), and accounting for 5% (including 5%) of the total assets on the balance sheet date or 10% (including 10%) of the total profits for the reporting period.

CONDENSED CONSOLIDATED STATEMENT OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2006

	Notes	Six months ended June 30, 2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)
Gross sales of coal	5	**6,337,679**	6,459,547
Railway transportation service income		**71,754**	92,064
Total revenue		**6,409,433**	6,551,611
Transportation costs of coal	5	**(486,081)**	(501,379)
Cost of sales and service provided	6	**(2,646,924)**	(2,429,060)
Gross profit		**3,276,428**	3,621,172
Selling, general and administrative expenses	7	**(1,202,070)**	(905,663)
Other income	8	**86,334**	58,259
Interest expenses	9	**(7,780)**	(14,250)
Profit before income taxes	10	**2,152,912**	2,759,518
Income taxes	11	**(719,407)**	(875,175)
Profit for the period		**1,433,505**	1,884,343
Attributable to:			
Equity holders of the Company		**1,433,612**	1,884,054
Minority interest		**(107)**	289
		1,433,505	1,884,343
Appropriations to reserve		**195,184**	202,864
Dividends declared	12	**1,082,048**	799,240
Earnings per share	13	**RMB0.29**	RMB0.38
Earnings per ADS	13	**RMB14.57**	RMB19.15

CONDENSED CONSOLIDATED BALANCE SHEET

AT JUNE 30, 2006

	Notes	At June 30, 2006 RMB'000 (unaudited)	At December 31, 2005 RMB'000 (audited)
ASSETS			
CURRENT ASSETS			
Bank balances and cash		**3,335,179**	5,885,581
Term deposits		**3,158,164**	1,326,335
Restricted cash	14	**38,716**	30,505
Bills and accounts receivable	15	**2,770,599**	2,224,836
Inventories	16	**512,824**	470,501
Other loan receivable	17	**640,000**	640,000
Prepayments and other current assets		**312,235**	202,417
Prepaid lease payments	18	**13,465**	13,465
Prepayment for land subsidence, restoration, rehabilitation and environmental costs	19	**405,942**	157,511
TOTAL CURRENT ASSETS		**11,187,124**	10,951,151
MINING RIGHTS	20	**150,023**	153,265
PREPAID LEASE PAYMENTS	18	**573,178**	579,773
PROPERTY, PLANT AND EQUIPMENT	21	**9,814,115**	9,318,486
GOODWILL		**153,037**	153,037
INVESTMENTS IN SECURITIES	22	**62,181**	62,181
RESTRICTED CASH	14	**49,637**	36,551
TOTAL ASSETS		**21,989,295**	21,254,444
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Bills and accounts payable	23	**405,862**	497,660
Other payables and accrued expenses		**1,501,042**	1,575,869
Dividend payable		**510,048**	–
Amounts due to Parent Company and its subsidiary companies	27	**632,023**	508,254
Unsecured bank loan	24	**200,000**	200,000
Taxes payable		**528,138**	647,247
TOTAL CURRENT LIABILITIES		**3,777,113**	3,429,030
AMOUNTS DUE TO PARENT COMPANY AND ITS SUBSIDIARY COMPANIES – DUE AFTER ONE YEAR	27	**31,827**	31,827
DEFERRED TAX LIABILITY	25	**180,624**	146,279
TOTAL LIABILITIES		**3,989,564**	3,607,136
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**17,971,378**	17,618,577
MINORITY INTEREST		**28,353**	28,731
TOTAL EQUITY		**17,999,731**	17,647,308
TOTAL LIABILITIES AND EQUITY		**21,989,295**	21,254,444

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2006

	Attributable to equity holders of the Company									
	Share capital RMB'000	Share premium RMB'000	Future development fund RMB'000 (note)	Statutory common reserve fund RMB'000	Statutory common welfare fund RMB'000	Translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interest RMB'000	Total RMB'000
Balance at January 1, 2005	3,074,000	4,825,402	1,446,459	769,593	384,875	–	5,051,043	15,551,372	3,674	15,555,046
Exchange difference arising on translation of foreign operations recognised directly in equity (unaudited)	–	–	–	–	–	(1,767)	–	(1,767)	–	(1,767)
Profit for the period (unaudited)	–	–	–	–	–	–	1,884,054	1,884,054	289	1,884,343
Total recognised income and expense for the period (unaudited)	–	–	–	–	–	(1,767)	1,884,054	1,882,287	289	1,882,576
Appropriation to reserve (unaudited)	–	–	202,864	–	–	–	(202,864)	–	–	–
Dividend (unaudited)	–	–	–	–	–	–	(799,240)	(799,240)	(237)	(799,477)
Balance at June 30, 2005 (unaudited)	3,074,000	4,825,402	1,649,323	769,593	384,875	(1,767)	5,932,993	16,634,419	3,726	16,638,145
Balance at July 1, 2005 (unaudited)	3,074,000	4,825,402	1,649,323	769,593	384,875	(1,767)	5,932,993	16,634,419	3,726	16,638,145
Exchange difference arising on translation of foreign operations recognised directly in equity (unaudited)	–	–	–	–	–	(13,249)	–	(13,249)	–	(13,249)
Profit for the period (unaudited)	–	–	–	–	–	–	997,407	997,407	187	997,594
Total recognised income and expense for the period (unaudited)	–	–	–	–	–	(13,249)	997,407	984,158	187	984,345
Appropriation to reserve (unaudited)	–	–	178,344	249,548	124,774	–	(552,666)	–	–	–
Bonus issue of shares (unaudited)	1,844,400	(1,844,400)	–	–	–	–	–	–	–	–
Acquisition of subsidiary (unaudited)	–	–	–	–	–	–	–	–	24,818	24,818
Balance at December 31, 2005	4,918,400	2,981,002	1,827,667	1,019,141	509,649	(15,016)	6,377,734	17,618,577	28,731	17,647,308
Balance at January 1, 2006	4,918,400	2,981,002	1,827,667	1,019,141	509,649	(15,016)	6,377,734	17,618,577	28,731	17,647,308
Exchange difference arising on translation of foreign operations recognised directly in equity (unaudited)	–	–	–	–	–	1,237	–	1,237	–	1,237
Profit for the period (unaudited)	–	–	–	–	–	–	1,433,612	1,433,612	(107)	1,433,505
Total recognised income and expense for the period (unaudited)	–	–	–	–	–	1,237	1,433,612	1,434,849	(107)	1,434,742
Appropriation to reserve (unaudited)	–	–	195,184	–	–	–	(195,184)	–	–	–
Transfer	–	–	–	509,649	(509,649)	–	–	–	–	–
Dividend (unaudited)	–	–	–	–	–	–	(1,082,048)	(1,082,048)	(271)	(1,082,319)
Balance at June 30, 2006 (unaudited)	4,918,400	2,981,002	2,022,851	1,528,790	–	(13,779)	6,534,114	17,971,378	28,353	17,999,731

Note:

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

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

Pursuant to the relevant regulations from the Ministry of Finance, the Company is no longer required to set aside profit to the statutory common welfare fund effective from January 1, 2006 and the balance of statutory common welfare fund as at January 1, 2006 is transferred to statutory common reserve fund.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2006

	Six months ended June 30,	
	2006	2005
	RMB'000	RMB'000
	(unaudited)	(unaudited)
NET CASH FROM OPERATING ACTIVITIES	**383,018**	2,620,952
NET CASH USED IN INVESTING ACTIVITIES	**(2,934,005)**	(416,236)
CASH USED IN FINANCING	**(271)**	(237)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENT	**(2,551,258)**	2,204,479
CASH AND CASH EQUIVALENTS, BEGINNING	**5,885,581**	5,216,738
Effect of foreign exchange rate changes	**856**	446
CASH AND CASH EQUIVALENTS, ENDING, REPRESENTED BY BANK BALANCES AND CASH	**3,335,179**	7,421,663

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2006

1. GENERAL

Organisation and principal activities

The Group represents the Company and its consolidated subsidiaries.

The Company is established as a joint stock company with limited liability in the People's Republic of China (the "PRC") and operates six coal mines, namely the Xinglongzhuang coal mine, Baodian coal mine, Nantun coal mine, Dongtan coal mine, Jining II coal mine ("Jining II") and Jining III coal mine ("Jining III") as well as a regional railway network that links these mines with the national railway 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 Limited (the "SEHK"), and its American Depositary Shares ("ADS", one ADS represents 50 H shares) are listed on the New York Stock Exchange, Inc.

The Company holds a 52.38% interest in the registered capital of Qingdao Free Trade Zone Zhongyan Trade Co., Ltd. ("Zhongyan"), a limited liability company established and operated in the PRC. Zhongyan is engaged in the trading and processing of mining machinery.

The Company holds a 92% interest in the registered capital of Shandong Yanmei Shipping Co., Ltd. (formerly known as Zoucheng Nanmei Shipping Co., Ltd.) ("Yanmei Shipping"), a limited liability company established and operated in the PRC which 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, Australia ("Southland") from independent third parties in 2004 for aggregate cash consideration of AUD29,377,000 (equivalent to RMB187,312,000 then). The Company has also established two wholly-owned subsidiaries in Australia, namely Yancoal Australia Pty Limited ("Yancoal") and Austar Coal Mine Pty Limited ("Austar"), in 2004 for the Group's future operations in Southland. Southland has not yet commenced production of saleable coal since the Company's acquisition.

1. GENERAL – continued

Organisation and principal activities – continued

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. 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 June 30, 2006, Heze has commenced construction works for the Zhaolou coal mine and it has no significant impact on the Group's results for the period.

2. BASIS OF PRESENTATION

The interim financial report has been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" and with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the SEHK.

3. SIGNIFICANT ACCOUNTING POLICIES

The interim financial report has been prepared on the historical cost basis.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2005.

In the current period, the Group has adopted, for its first time, all of the new standards, amendment 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, 2006.

IAS 19 (Amendment)	Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures
IAS 39 (Amendment)	Financial Instruments: Recognition and Measurement: Amendment for hedges of forecast intragroup transactions
IAS 39 (Amendment)	Financial Instruments: Recognition and Measurement Amendment for fair value option
IAS 39 (Amendment) & IFRS 4	Financial Instruments: Recognition and Measurement Amendment for financial guarantee contracts
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRIC 4	Determining whether an Arrangement Contains a Lease
IFRIC 5	Rights to Interests Arising from Decommissing, Restoration and Environmental Rehabilitation Funds

The directors of the Company consider that the adoption of the new and revised standards has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment is required.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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 Capital Disclosures [1]
IFRS 7	Financial Instruments: Disclosures [1]
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies [2]
IFRIC 8	Scope of IFRS 2 [3]
IFRIC 9	Reassessment of Embedded Derivatives [4]
IFRIC 10	Interim Financial Reporting and Impairment [5]

[1] Effective for annual periods beginning on or after January 1, 2007.
[2] Effective for annual periods beginning on or after March 1, 2006.
[3] Effective for annual periods beginning on or after May 1, 2006.
[4] Effective for annual periods beginning on or after June 1, 2006.
[5] Effective for annual periods beginning on or after November 1, 2006

The Group has commenced considering the potential impact of these standards and interpretations and does not expect them to have a significant impact on the results of operations and financial position. However, more disclosure will be required in respect of the Group's financial instructions and the Group's objectives, policies and processes for managing capital.

4. SEGMENT INFORMATION

The Group is engaged primarily in the coal mining business and 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 organised 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 for railway transportation services

4. SEGMENT INFORMATION – continued

Business segments – continued

Segment information about these businesses is presented below:

INCOME STATEMENT

	For the six months ended June 30, 2006			
	Coal mining RMB'000	Coal railway transportation RMB'000	Eliminations RMB'000	Consolidated RMB'000
GROSS REVENUE				
External	6,337,679	71,754	–	6,409,433
Inter-segment	–	110,554	(110,554)	–
Total	6,337,679	182,308	(110,554)	6,409,433

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

RESULT				
Segment results	2,309,592	13,300	–	2,322,892
Unallocated corporate expenses				(223,600)
Unallocated corporate income				61,400
Interest expenses				(7,780)
Profit before income taxes				2,152,912

	For the six months ended June 30, 2005			
	Coal mining RMB'000	Coal railway transportation RMB'000	Eliminations RMB'000	Consolidated RMB'000
GROSS REVENUE				
External	6,459,547	92,064	–	6,551,611
Inter-segment	–	116,740	(116,740)	–
Total	6,459,547	208,804	(116,740)	6,551,611

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

RESULT				
Segment results	2,892,250	59,721	–	2,951,971
Unallocated corporate expenses				(214,978)
Unallocated corporate income				36,775
Interest expenses				(14,250)
Profit before income taxes				2,759,518

5. SALES OF COAL AND TRANSPORTATION COSTS OF COAL

	Six months ended June 30, 2006 RMB'000	2005 RMB'000
Domestic sales of coal, gross	**4,629,995**	4,690,741
Less: Transportation costs	**182,705**	153,267
Domestic sales of coal, net	**4,447,290**	4,537,474
Export sales of coal, gross	**1,707,684**	1,768,806
Less: Transportation costs	**303,376**	348,112
Export sales of coal, net	**1,404,308**	1,420,694
Net sales of coal	**5,851,598**	5,958,168

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.

6. COST OF SALES AND SERVICE PROVIDED

	Six months ended June 30, 2006 RMB'000	2005 RMB'000
Materials	**587,966**	526,848
Wages and employee benefits	**707,753**	524,367
Electricity	**163,435**	140,938
Depreciation	**469,837**	431,605
Land subsidence, restoration, rehabilitation and environmental costs	**209,264**	359,694
Repairs and maintenance	**157,698**	171,166
Annual fee and amortization of mining rights	**9,920**	9,806
Transportation costs of materials	**50,729**	53,530
Others	**290,322**	211,106
	2,646,924	2,429,060

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended June 30, 2006 RMB'000	2005 RMB'000
Retirement benefits scheme contributions (note 29)	**305,845**	228,395
Wages and employee benefits	**254,353**	130,837
Additional medical insurance	**26,922**	20,212
Depreciation	**48,202**	30,749
Distribution charges	**25,797**	20,179
Resource compensation fees	**51,866**	62,925
Repairs and maintenance	**37,549**	70,100
Research and development	**19,960**	25,155
Staff training costs	**20,185**	15,153
Freight charges	**9,772**	10,746
Materials and consumables	**37,476**	9,754
Property management	**43,135**	18,603
Education	**20,402**	8,302
Exchange loss	**20,301**	14,174
Others	**280,305**	240,379
	1,202,070	905,663

8. OTHER INCOME

	Six months ended June 30, 2006 RMB'000	2005 RMB'000
Gain on sales of auxiliary materials	**23,406**	20,759
Interest income from bank deposits	**61,400**	33,841
Interest income on loan receivable	**–**	3,377
Others	**1,528**	282
	86,334	58,259

9. INTEREST EXPENSES

	Six months ended June 30, 2006 RMB'000	2005 RMB'000
Interest expenses on bank borrowing wholly repayable within 5 years	**6,196**	12,320
Deemed interest expenses in respect of acquisition of Jining III	**1,584**	1,930
	7,780	14,250

No interest was capitalized during the relevant periods.

10. PROFIT BEFORE INCOME TAXES

	Six months ended June 30, 2006 RMB'000	2005 RMB'000
Profit before income taxes has been arrived at after charging (crediting):		
Amortization of mining rights (included in cost of sales and services provided)	**3,312**	3,312
(Gain) loss on disposal of property, plant and equipment	**(249)**	692

11. INCOME TAXES

	Six months ended June 30, 2006 RMB'000	2005 RMB'000
Income taxes	**685,062**	821,951
Deferred tax charge (note 25)	**34,345**	53,224
	719,407	875,175

The Group is subject to a standard income tax rate of 33%. The effective income tax rate of the Group for the current period is 33% (six months ended June 30, 2005: 32%). The major reconciling items are the amount claimed on the appropriation to a future development fund for which a tax deduction is granted and expenses which are not deductible for tax purposes.

12. DIVIDENDS

	Six months ended June 30, 2006 RMB'000	2005 RMB'000
2005 Final dividend approved, RMB0.150 per share (2005: 2004 final dividend approved RMB0.1625, adjusted for the bonus issue)	**737,760**	799,240
2005 Special dividend approved, RMB0.070 per share (2005: Nil)	**344,288**	–
	1,082,048	799,240

Pursuant to the annual general meeting held on June 28, 2006, a final dividend and special dividend in respect of the year ended December 31, 2005 were approved.

Pursuant to the annual general meeting held on June 28, 2005, a final dividend and a bonus issue on the basis of six bonus shares for every ten existing shares in respect of the year ended December 31, 2004 were approved.

13. EARNINGS PER SHARE AND PER ADS

The calculation of the earnings per share attributable to equity holders of the Company for the six months ended June 30, 2006 and 2005 is based on the profit for the period of RMB1,433,612,000 and RMB1,884,054,000 and on 4,918,400,000 shares in issue (adjusted for the bonus issue, as appropriate), during both periods.

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.

14. RESTRICTED CASH

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

15. BILLS AND ACCOUNTS RECEIVABLE

	At June 30, 2006 RMB'000	At December 31, 2005 RMB'000
Total bills receivable	**2,517,655**	2,092,949
Total accounts receivable	**309,464**	258,587
	2,827,119	2,351,536
Less: Allowance for doubtful debts	**(56,520)**	(126,700)
Total bills and accounts receivable, net	**2,770,599**	2,224,836

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

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 June 30, 2006 RMB'000	At December 31, 2005 RMB'000
1 – 180 days	**2,785,729**	2,245,170
181 – 365 days	**5,447**	6,014
1 – 2 years	**5,919**	19
2 – 3 years	**18**	–
Over 3 years	**30,006**	100,333
	2,827,119	2,351,536

16. INVENTORIES

	At June 30, 2006 RMB'000	At December 31, 2005 RMB'000
COST		
Auxiliary materials, spare parts and small tools	**210,523**	256,755
Coal products	**302,301**	213,746
	512,824	470,501

17. OTHER LOAN RECEIVABLE

The amount represents a loan granted to an independent third party and carries interest at 7.00% per annum. The loan (the "Default Loan") is secured by certain state legal person shares of a company listed on the SSE ("the Secured Shares") and a certain equity interest in another unlisted company held by a 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 will be applied to repay the Default Loan and the associated interests to the Company. The public auction was held successfully in September 2005. After the completion of the auction, the buyer applied to the China Banking Regulatory Commission for its eligibility of investing in China domestic commercial bank. Up to the date of this report, the legal procedures for the transfer of ownership of the Secured Shares have not yet been completed. The Court further extended the freeze of the Secured Shares on June 18, 2006. In the opinion of the management, the principal, penalty and overdue interest can be recovered by the proceeds from the public auction, and therefore no impairment on the loan receivable has been made.

18. PREPAID LEASE PAYMENTS

	RMB'000
COST	
At January 1, 2006 and at June 30, 2006	673,240
AMORTIZATION	
At January 1, 2006	80,002
Provided for the period	6,595
At June 30, 2006	86,597
NET BOOK VALUES	
At June 30, 2006	586,643
At December 31, 2005	593,238

18. PREPAID LEASE PAYMENTS – continued

	At June 30, 2006 RMB'000	At December 31, 2005 RMB'000
Current portion	**13,465**	13,465
Non-current portion	**573,178**	579,773
	586,643	593,238

The amounts represent prepaid lease payments 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 in 2002. The registration process in respect of such land use rights has not yet been completed as at June 30, 2006.

19. PREPAYMENT FOR LAND SUBSIDENCE, RESTORATION, REHABILITATION AND ENVIRONMENTAL COSTS

	RMB'000
At January 1, 2006	157,511
Additional provision in the period	(212,928)
Transfers to prepayments and accrued expenses	461,359
At June 30, 2006	405,942

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

20. MINING RIGHTS

	RMB'000
COST	
At January 1, 2006	186,385
Exchange re-alignment	70
At June 30, 2006	186,455
AMORTIZATION	
At January 1, 2006	33,120
Provided for the period	3,312
At June 30, 2006	36,432
NET BOOK VALUES	
At June 30, 2006	150,023
At December 31, 2005	153,265

Mining rights are amortized, on a straight-line basis, over their useful lives of twenty years from the date of commencement of commercial operation.

21. PROPERTY, PLANT AND EQUIPMENT

	Freehold land in Australia	Buildings	Harbour works and crafts	Railway structures	Mining structures	Plant, machinery and equipment	Transportation equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST									
At January 1, 2006	53,031	2,169,992	250,231	729,789	3,904,460	8,190,653	302,956	890,881	16,491,993
Exchange re-alignment	69	9	–	–	–	242	1	–	321
Additions	–	551	–	–	–	36,687	399	1,007,168	1,044,805
Transfers	–	1,187	118	–	–	2,448	–	(3,753)	–
Disposals	–	–	–	–	–	(8,868)	(674)	–	(9,542)
At June 30, 2006	53,100	2,171,739	250,349	729,789	3,904,460	8,221,162	302,682	1,894,296	17,527,577
DEPRECIATION									
At January 1, 2006	–	1,019,552	12,136	215,969	1,592,922	4,158,969	173,959	–	7,173,507
Exchange re-alignment	–	–	–	–	–	10	–	–	10
Provided for the period	–	57,864	3,034	27,171	44,360	395,263	17,663	–	545,355
Eliminated on disposals	–	–	–	–	–	(5,097)	(313)	–	(5,410)
At June 30, 2006	–	1,077,416	15,170	243,140	1,637,282	4,549,145	191,309	–	7,713,462
NET BOOK VALUES									
At June 30, 2006	53,100	1,094,323	235,179	486,649	2,267,178	3,672,017	111,373	1,894,296	9,814,115
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

22. INVESTMENTS IN SECURITIES

The amount represents the cost of available-for-sale equity investments of the Group which 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.

23. BILLS AND ACCOUNTS PAYABLE

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

	At June 30, 2006 RMB'000	At December 31, 2005 RMB'000
1 – 180 days	**240,289**	361,680
181 – 365 days	**125,336**	96,397
Over 1 year	**40,237**	39,583
	405,862	497,660

24. UNSECURED BANK LOAN

The loan is interest bearing at 5.76% per annum and is repayable in August 2006.

25. DEFERRED TAX LIABILITY

	Land subsidence, restoration, rehabilitation and environmental costs RMB'000	**Work safety costs** RMB'000	**Total** RMB'000
Balance at January 1, 2005	44,436	(67,540)	(23,104)
Charge for the year	(44,436)	(78,739)	(123,175)
Balance at December 31, 2005 and January 1, 2006	–	(146,279)	(146,279)
Charge for the period (note 11)	–	(34,345)	(34,345)
Balance at June 30, 2006	–	(180,624)	(180,624)

There was no material unprovided deferred tax for the period/year or at the balance sheet dates.

26. 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 shares represented by ADS) (Note 1)	Total
	'000	'000	'000	'000
Number of shares				
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 December 31, 2005 and January 1, 2006	2,672,000	288,000	1,958,400	4,918,400
Share Reform Plan	(72,000)	72,000	–	–
At June 30, 2006	2,600,000	360,000	1,958,400	4,918,400

	Domestic invested shares		Foreign invested shares	
	State legal person Shares (held by the Parent Company)	A shares	H shares (including H shares represented by ADS)	Total
	'000	'000	'000	'000
REGISTERED, ISSUED AND FULLY PAID				
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 December 31, 2005 and January 1, 2006	2,672,000	288,000	1,958,400	4,918,400
Share Reform Plan	(72,000)	72,000	–	–
At June 30, 2006	2,600,000	360,000	1,958,400	4,918,400

26. SHAREHOLDERS' EQUITY – continued

Share capital – continued

Each share has a par value of RMB1.

Pursuant to a meeting for the holders of A shares of the Company held on March 6, 2006, a 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. An aggregate of 72,000,000 state legal person shares of RMB1 each held by the Parent Company is transferred as A shares pursuant to the Share Reform Plan.

Pursuant to regulation in the PRC, the Company is required to transfer an annual amount to a future development fund at RMB6 per tonne of raw coal mined. The fund can only be used for the future development of the coal mining business and is not available for distribution to shareholders.

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

The Company has to set aside 10% of its net income for the statutory common reserve fund (except where the fund has reached 50% of the Company's registered capital). 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.

In accordance with the Company's Articles of Association, the profit 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 June 30, 2006 is the retained earnings computed under PRC GAAP which amounted to approximately RMB5,379,436,000 (as at December 31, 2005: RMB5,844,289,000).

27. RELATED PARTY TRANSACTIONS

The amounts due to 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 June 30, 2006 included the present value of an outstanding balance that arose from the funding of the acquisition of the mining rights of Jining III as of January 1, 2001 discounted using the market rate of bank borrowings.

The consideration for the cost of the mining rights of approximately RMB132,479,000 is to be settled over ten years by equal annual instalments before December 31 of each year, commencing from 2001.

	At June 30, 2006 RMB'000	At December 31, 2005 RMB'000
Amounts due to Parent Company and its subsidiary companies:		
Within one year	**632,023**	508,254
More than one year, but not exceeding two years	**8,689**	8,689
More than two years, but not exceeding five years	**23,138**	23,138
Total due	**663,850**	540,081
Less: amount due within one year	**(632,023)**	(508,254)
Amount due after one year	**31,827**	31,827

Except for the outstanding consideration as described above, the amounts due to Parent Company and/or its subsidiary companies have no specific terms of repayment but is expected to be repaid within one year.

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

	Six months ended June 30,	
	2006 RMB'000	2005 RMB'000
Income		
Sales of coal	**448,702**	390,037
Sales of auxiliary materials	**232,521**	226,496
Utilities and facilities	**–**	14,500
Expenditure		
Utilities and facilities	**162,594**	174,721
Annual fee for mining rights	**6,490**	6,490
Purchases of supply materials and equipment	**214,230**	142,414
Repairs and maintenance services	**81,847**	55,635
Social welfare and support services	**198,406**	110,961
Technical support and training	**10,000**	7,565
Road transportation services	**32,915**	20,583
Construction services	**80,642**	–

27. RELATED PARTY TRANSACTIONS – continued

Certain expenditures for social welfare and support services (excluding medical and child care expenses) of RMB31,875,000 for each of the six months ended June 30, 2006 and 2005, and for technical support and training of RMB7,565,000 for each of the six months ended June 30, 2006 and 2005, have been charged by the Parent Company at a negotiated amount per annum, subject to changes every year.

In addition to the above, the Company participates in a scheme of the Parent Company in respect of retirement benefits (note 29).

Transactions/balance 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:

	Six months ended June 30,	
	2006	2005
	RMB'000	RMB'000
Trade sales	**681,224**	631,033
Trade purchases	**214,235**	142,414

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

	At June 30, 2006	At December 31, 2005
	RMB'000	RMB'000
Amounts due from other state-controlled entities	**99,714**	63,645
Amounts due to other state-controlled entities	**771,314**	613,082

In addition, the Group has entered into various transactions, including deposit 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.

27. RELATED PARTY TRANSACTIONS – continued

Compensation of key management personnel

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

	Six months ended June 30,	
	2006	2005
	RMB'000	RMB'000
Directors' fee	**179**	–
Salaries, allowance and other benefits in kind	**828**	569
Retirement benefit scheme contribution	**373**	256
	1,380	825

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

28. COMMITMENTS

	At June 30, 2006 RMB'000	At December 31, 2005 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**1,692,204**	920,907
Capital expenditure authorised but not contracted for in respect of development of new coal mines	**600,000**	1,900,000
	2,292,204	2,820,907

In accordance with the regulations of the State Administration of Work Safety, the Group has a commitment to set aside RMB8 for each tone of raw coal mined from May 1, 2004 which will be used for enhancement of safety production environment and improvement of facilities ("Work Safety Cost"). The unitized Work Safety Cost at June 30, 2006 was RMB233,414,000 (2005: RMB91,462,000).

29. RETIREMENT BENEFITS

Qualifying employees of the Company are entitled to pension, medical and other welfare benefits. The Company participates in a 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 has been 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.

29. RETIREMENT BENEFITS – continued

The Company's subsidiaries are participants in a state-managed retirement scheme pursuant to which the subsidiaries pay a fixed percentage of the 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 period, contributions payable by the subsidiaries pursuant to this arrangement were insignificant to the Group.

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

30. 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 six months ended June 30, 2006 and 2005. Such expenses, amounting to RMB43,100,000 and RMB18,600,000 for the six months ended June 30, 2006 and 2005, respectively, have been included as part of the social welfare and support services expenses summarized in note 27.

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.

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of bank balances and cash, term deposit, restricted 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 preset 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.

32. CONCENTRATION OF CREDIT RISK

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

The Group generally grants 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 size 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, Minmetals Trading or Shanxi Coal Corporation. The quality, prices and final customer destination of the Group's export sales are determined by the Group, National Coal Corporation, Minmetals Trading or Shanxi Coal Corporation. 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.

32. CONCENTRATION OF CREDIT RISK – continued

For the six months ended June 30, 2006 and 2005, net sales to the Group's five largest domestic customers accounted for approximately, 22% and 21%, respectively, of the Group's total net sales. Net sales to the Group's largest domestic customer, Huadian Power International Corporation Limited, accounted for 9% (2005: 13%) of the Group's net sales for the six months ended June 30, 2005.

Details of the amounts receivable from the five customers with the largest receivable balances at June 30, 2005 and December 31, 2004 are as follows:

	Percentage of accounts receivable	
	At June 30, 2006	At December 31, 2005
Five largest receivable balances	**75.80%**	66.00%

33. POST BALANCE SHEET EVENT

On August 18, 2006, the Company signed an equity transfer agreement with its Parent Company to acquire a 98% interest in Yankuang Shanxi Power Chemical Co., Ltd from the Parent Company at consideration of RMB733,340,000. The transaction still has to be approved by shareholders in the shareholders' meeting and relevant government authority.

SUPPLEMENTAL INFORMATION

I. SUMMARY OF DIFFERENCES BETWEEN IFRS AND PRC GAAP

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

(i) adjustment of future development fund, which is charged to income before income taxes under PRC GAAP, but recognized as an appropriation of shareholders' equity under IFRS;

(ii) reversal of the Work Safety Cost provided but not yet utilized for the enhancement of safety production environment and facilities under IFRS, which is charged as an expense immediately when set aside under PRC GAAP;

(iii) negative goodwill arising under IFRS for the acquisition of Jining III is recognized as income in the statement of income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets prior to January 1, 2005. No negative goodwill arose from the above transaction under PRC GAAP;

(iv) the installments payable to the Parent Company for the acquisition of Jining III have been stated at present value discounted using market rates under IFRS while under PRC GAAP, the installments payable are stated at gross amount. Accordingly, deemed interest expense arises on the installments payable to the Parent Company under IFRS and no such interest expenses are recognized under PRC GAAP;

(v) pre-operating expenses written off in terms of IFRS are capitalized in subsidiaries of the Company as a long term asset under PRC GAAP;

(vi) recognition of amortization of goodwill under PRC GAAP, which is not amortized but instead tested for impairment at least annually under IFRS from January 1, 2005 onwards; and

(vii) recognition of a deferred tax asset/liability under IFRS for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities, which are not recognized under PRC GAAP.

I. SUMMARY OF DIFFERENCES BETWEEN IFRS AND PRC GAAP – continued

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

	Profit attributable to equity holders of the Company for six months ended June 30,		Equity attributable to equity holders of the Company as at	
	2006	2005	**June 30, 2006**	December 31, 2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
As per interim financial report prepared under IFRS	**1,433,612**	1,884,054	**17,971,378**	17,618,577
Impact of IFRS adjustments in respect of:				
– transfer to future development fund which is charged to profit before income taxes under PRC GAAP	**(195,185)**	(202,864)	**(358,665)**	(269,945)
– reversal of Work Safety Cost	**(104,079)**	(127,619)	**(547,347)**	(443,268)
– release of negative goodwill to income	**–**	–	**(138,101)**	(138,101)
– deemed interest expenses	**1,587**	1,930	**114,807**	113,220
– write-off of pre-operating expenses of subsidiaries	**185,428**	54,856	**307,229**	121,801
– recognition of goodwill amortization	**(8,005)**	(6,958)	**(23,011)**	(15,006)
– deferred tax effect on temporary differences not recognized under PRC GAAP	**34,345**	53,224	**180,624**	146,279
– others	**–**	–	**8,070**	8,070
As per interim financial report prepared under PRC GAAP	**1,347,703**	1,656,623	**17,514,984**	17,141,627

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

II. SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP

The interim financial report is prepared in accordance with IFRS ("IFRS Interim Financial Report"), which differs in certain significant respects from US GAAP. The significant differences relate principally to the accounting for the acquisitions of Jining II, Jining III and Railway Assets, the cost bases of property, plant and equipment and land use rights and related adjustments to deferred taxation.

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

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

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

In the IFRS Interim Financial Report, property, plant and equipment and land use rights are stated at their respective fair values at the date of acquisition including those arising from transactions between entities under common control. The fair value amount becomes the new cost basis of the assets of the Company formed from the reorganization and depreciation is based on such new basis. Under US GAAP, when accounting for a transfer of assets or exchange of shares between entities under common control, the entity that receives the net assets or equity interests shall initially recognize the assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity at the date of transfer. Accordingly, property, plant and equipment and land use rights are restated at the historical cost and no additional depreciation on the fair value amounts will be recognized under US GAAP. However, a deferred tax asset relating to the difference in cost bases between the fair value at the date of acquisition and historical cost is required to be recognized under US GAAP as the tax base of the assets is the fair value amount at the date of acquisition.

II. SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP – continued

In the IFRS Interim Financial Report, the acquisition of Yanmei Shipping has been accounted for using purchase method which accounted for the assets and liabilities of Yanmei Shipping at their fair value at the date of acquisition. The excess of the purchase consideration over the value of the net assets acquired is capitalized as a goodwill and was, prior to January 1, 2005, amortized over a period of ten years. After January 1, 2005, such goodwill is tested for impairment at least annually. Under US GAAP, goodwill is not amortized but instead tested for impairment at least annually starting from the initial recognition of goodwill in 2003, when Yanmei Shipping was acquired by the Group.

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

	Six months ended June 30,	
	2006	2005
	RMB'000	RMB'000
Profit for the period attributable to equity holders of the Company as reported under IFRS	**1,433,612**	1,884,054
US GAAP adjustments:		
Additional depreciation charged on fair valued property, plant and equipment and prepaid lease payments	**93,925**	94,064
Additional deferred tax charge due to a higher tax base resulting from the difference in cost bases of property, plant and equipment and prepaid lease payments and capitalization of mining rights	**(32,088)**	(32,134)
Amortization of mining rights of Jining III	**3,312**	3,312
Loss of Heze included in the Group using the pooling of interest method	**–**	(681)
Income under US GAAP	**1,498,761**	1,948,615
Earnings per share under US GAAP	**RMB0.30**	RMB0.40
Earnings per ADS under US GAAP	**RMB15.24**	RMB19.82

II. SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP – continued

	At June 30, 2006 RMB'000	At December 31, 2005 RMB'000
Equity attributable to the equity holders of the Company as reported under IFRS	**17,971,378**	17,618,577
US GAAP adjustments:		
Difference in cost bases of property, plant and equipment and prepaid lease payments	**(2,561,032)**	(2,561,032)
Additional depreciation/amortization charged on fair valued property, plant and equipment and prepaid lease payments	**1,594,748**	1,500,823
Additional deferred tax asset due to a higher tax base resulting from the difference in cost bases of property, plant and equipment and prepaid lease payments	**318,874**	349,869
Goodwill arising on acquisition of Jining II	**(10,106)**	(10,106)
Mining rights of Jining III	**(96,047)**	(99,359)
Additional deferred tax asset due to a higher tax base resulting from capitalization of mining rights	**31,696**	32,788
Goodwill arising on acquisition of Railway Assets	**(97,240)**	(97,240)
Amortization of goodwill on acquisition of Yanmei Shipping	**1,116**	1,116
Goodwill arising on acquisition of Heze	**(35,645)**	(35,645)
Shareholders' equity under US GAAP	**17,117,742**	16,699,791

Under US GAAP, the Group's total assets would have been RMB20,955,035,000 and RMB20,189,379,000 at June 30, 2006 and December 31, 2005, respectively.

Details of recent accounting pronouncement are as follows:

In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statement No. 133 and 140", which simplifies accounting for certain hybrid financial instruments by permitting fair value re-measurement for any hybrid instrument that contains an embedded derivative that otherwise would require bifurcation and eliminates a restriction on the passive derivative instruments acquired, issued or subject to re-measurement (new basis) event occurring after the beginning of an entity's fiscal year that begins after September 15, 2006. The Company is currently evaluating the impact of SFAS No.155 on its consolidated financial statements.

II. SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP – continued

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations, an Interpretation of FASB Statement No. 143" (FIN 47). Under the Interpretation, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Any uncertainty about the amount and/or timing of future liability should be factored into the calculation of the liability when sufficient information is available. FIN 47 further clarifies when an entity would have sufficient information to reasonably estimate the fair value. The Company must be in compliance no later than the end of the fiscal year ending after December 15, 2005, although early adoption is encouraged. The Group does not anticipate that the adoption of this interpretation will have a material effect on the Group's financial position or results of operations.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109" (FIN 48). This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006, although earlier application is encouraged. The Group does not anticipate that the adoption of this interpretation will have a material effect on the Group's financial position or results of operations.

COMPANY INFORMATION

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Company Secretary:	Chen Guangshui
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Places of Listing:	A shares: Shanghai Stock Exchange Ticker Symbol: 600188 Stock Abbreviation: G Yanmei H shares: The Stock Exchange of Hong Kong Limited Share Code: 1171 ADS: The New York Stock Exchange, Inc. Ticker Symbol: YZC