Notes to the Consolidated Financial Statements

1. GENERAL

Organization and principal activities

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

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

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

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

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

Acquisitions and establishment of subsidiaries

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

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

1. GENERAL (Continued)

Acquisitions and establishment of subsidiaries (Continued)

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

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

In 2006, the Company acquired a 98% equity interest in Yankuang Shanxi Neng Hua Company Limited ("Shanxi Neng Hua") and its subsidiaries (collectively referred as the "Shanxi Group") from the Parent Company at cash consideration of RMB733,346,000. The principal activities of Shanxi Group are to invest in heat and electricity, manufacture and sale of mining machinery and engine products, coal mining and the development of integrated coal technology.

Shanxi Neng Hua is an investment holding company, which holds 81.31% equity interest in Shanxi Heshun Tianchi Energy Company Limited ("Shanxi Tianchi") and approximately 99.85% equity interest in Shanxi Tianhao Chemical Company Limited ("Shanxi Tianhao"). The principal activities of Shanxi Tianchi are to exploit and sale of coal from Tianchi Coal Mine, the principal asset of Shanxi Tianchi. Shanxi Tianchi has completed the construction of Tianchi Coal Mine and commenced production by the end of 2006. Shanxi Tianhao is established to engage in the production of methanol and other chemical products, coke production, exploration and sales. The construction of the methanol facilities by Shanxi Tianhao commenced in March 2006 and it has not yet commenced production as at December 31, 2006. Shanxi Group has no significant impact to the Group's results for the year. In 2007, the Company further acquired the remaining 2% equity interest in Shanxi Neng Hua at cash consideration of RMB14,966,000.

2. BASIS OF PRESENTATION

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

The financial statements reflect additional disclosures to conform with the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements are presented in Renminbi, which is also the functional currency of the Company.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("New IFRS") issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB which are either effective for accounting periods beginning on or after December 1, 2005 or January 1, 2006. The adoption of the new IFRS had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

In 2005, the Group had adopted all of the new and revised standards and interpretations issued by the IASB and IFRIC of the IASB that are relevant to its operations and effective for accounting periods beginning on January 1, 2005. The adoption of these new and revised standards and interpretations had resulted in changes to the Group's accounting policies in the following areas that had affected the amounts reported for the prior periods:

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

The impacts of these changes in accounting policies are as follow:

IFRS 3, "Business Combinations"

Goodwill

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

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

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

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

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

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

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

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

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

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]
IFRS 8	Operating Segments [2]
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies [3]
IFRIC 8	Scope of IFRS 2 [4]
IFRIC 9	Reassessment of Embedded Derivatives [5]
IFRIC 10	Interim Financial Reporting and Impairment [6]
IFRIC 11	IFRS 2-Group and Treasury Share Transactions [7]
IFRIC 12	Service Concession Arrangements [8]

[1] Effective for annual periods beginning on or after January 1, 2007.
[2] Effective for annual periods beginning on or after January 1, 2009.
[3] Effective for annual periods beginning on or after March 1, 2006.
[4] Effective for annual periods beginning on or after May 1, 2006.
[5] Effective for annual periods beginning on or after June 1, 2006.
[6] Effective for annual periods beginning on or after November 1, 2006.
[7] Effective for annual periods beginning on or after March 1, 2007.
[8] Effective for annual periods beginning on or after January 1, 2008.

The directors anticipate that adoption of these Standards and Interpretations will have no material impact on the results and the financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

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

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

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

Business combination

The acquisitions of subsidiaries and businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognized at their fair values at the acquisition date.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

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

Service income is recognized when services are provided.

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

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

Mining rights

Mining rights are stated at cost less accumulated amortization and are amortized on a straight line basis over the shorter of their useful life estimated based on the total proven and probable reserves of the coal mine or contractual period from the date of commencement of commercial production which approximates the date from which they are available for use.

Prepaid lease payments

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

Property, plant and equipment

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

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

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Notes to the Consolidated Financial Statements *(Cont'd)*

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Assets under construction are not depreciated until they are completed and are ready for their intended use.

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

Impairment other than goodwill

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

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

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

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after January 1, 2005, is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Previously capitalized goodwill arising on acquisitions after January 1, 2001 is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the acquisition. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit first and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment is recognized immediately in the consolidated income statement and is not subsequently reversed.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

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

Taxation

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development

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

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

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

No development expenditure has been deferred.

Land subsidence, restoration, rehabilitation and environmental costs

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

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

Borrowing costs

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

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

Foreign currencies

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

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

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as expenses when the employees render the services entitling them to the contributions.

Financial instruments

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

Loan and receivables

Loan and receivables (including bills and accounts receivable, other loan receivable) are initially measured at fair value and subsequently measured at amortized cost using the effective interest method. An impairment loss for estimated irrecoverable amounts are recognized in profit or loss when there is objective evidence that the asset is impaired. The impairment loss recognized is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Investments

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

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

Cash and cash equivalents

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

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

Bank borrowings

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

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

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

Equity instruments

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Depreciation

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

Mining rights

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

Estimated impairment on trade receivables

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

Provision for land subsidence, restoration, rehabilitation and environmental costs

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at December 31, 2006, the carrying amount of goodwill is RMB295,584,000.

Cash flow projections during the budget period for each of the above units are based on the budgeted revenue and expected gross margins during the budget period and the same raw materials price inflation during the budget period. Expected cash inflows/outflows, which include budgeted sales, gross margin and raw material price inflation have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of each of the above units to exceed the recoverable amount of each of the above units.

6. SEGMENT INFORMATION

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

Business segments

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

Principal activities are as follows:

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

Segment information about these businesses is presented below:

INCOME STATEMENT

	For the year ended December 31, 2006			
	Coal mining RMB'000	Coal railway transportation RMB'000	Eliminations RMB'000	Consolidated RMB'000
GROSS REVENUE				
External	12,783,567	160,399	–	12,943,966
Inter-segment	–	206,770	(206,770)	–
Total	12,783,567	367,169	(206,770)	12,943,966

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

6. SEGMENT INFORMATION (Continued)

	For the year ended December 31, 2006-continued			
	Coal mining RMB'000	Coal railway transportation RMB'000	Eliminations RMB'000	Consolidated RMB'000
RESULT				
Segment results	4,093,855	8,664	–	4,102,519
Unallocated corporate expenses				(461,760)
Unallocated corporate income				112,214
Interest expenses				(26,349)
Profit before income taxes				3,726,624
Income taxes				(1,354,656)
Profit for the year				2,371,968

BALANCE SHEET

	At December 31, 2006		
	Coal mining RMB'000	Coal railway transportation RMB'000	Consolidated RMB'000
ASSETS			
Segment assets	15,272,657	933,987	16,206,644
Unallocated corporate assets			7,252,105
			23,458,749
LIABILITIES			
Segment liabilities	3,048,669	20,368	3,069,037
Unallocated corporate liabilities			1,395,972
			4,465,009

Notes to the Consolidated Financial Statements *(Cont'd)*

6. SEGMENT INFORMATION (Continued)

OTHER INFORMATION

	For the year ended December 31, 2006			
	Coal mining RMB'000	Coal railway transportation RMB'000	Corporate and others RMB'000	Consolidated RMB'000
Capital additions	4,175,125	19,827	104,454	4,299,406
Amortization of mining rights	12,069	–	–	12,069
Amortization of prepaid lease payments	8,638	5,188	–	13,826
Depreciation of property, plant and equipment	976,306	77,704	7,966	1,061,976
Loss on disposal of property, plant and equipment	72,929	115	487	73,531
Impairment losses reversed on accounts receivable and other receivable	(19,717)	–	–	(19,717)

INCOME STATEMENT

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

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

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

6. SEGMENT INFORMATION (Continued)

BALANCE SHEET

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

OTHER INFORMATION

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

Notes to the Consolidated Financial Statements *(Cont'd)*

6. SEGMENT INFORMATION (Continued)

INCOME STATEMENT

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

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

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

BALANCE SHEET

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

6. SEGMENT INFORMATION (Continued)

OTHER INFORMATION

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

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

	At December 31,		
	2006	2005	2004
Coal mining	**39,132**	26,662	25,892
Coal railway transportation	**3,760**	3,401	3,374
	42,892	30,063	29,266

6. SEGMENT INFORMATION (Continued)

Geographical segment

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

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

	Additions to property, plant and equipment and intangible assets Year ended December 31,		
	2006	2005	2004
	RMB'000	RMB'000	RMB'000
The PRC	**3,582,427**	1,599,372	869,957
Australia	**716,979**	257,999	224,325
	4,299,406	1,857,371	1,094,282

7. NET SALES OF COAL

	Year ended December 31,		
	2006	2005	2004
	RMB'000	RMB'000	RMB'000
Domestic sales of coal, gross	**9,746,146**	8,689,496	7,841,328
Less: Transportation costs	**358,414**	268,034	434,340
Domestic sales of coal, net	**9,387,732**	8,421,462	7,406,988
Export sales of coal, gross	**3,037,421**	3,594,092	3,915,724
Less: Transportation costs	**578,205**	662,069	968,375
Export sales of coal, net	**2,459,216**	2,932,023	2,947,349
Net sales of coal	**11,846,948**	11,353,485	10,354,337

Net sales of coal represent the invoiced value of coal sold and are net of returns, discounts, sales taxes and transportation costs if the invoiced value includes transportation costs to the customers.

8. COST OF SALES AND SERVICE PROVIDED

	Year ended December 31,		
	2006	2005	2004
	RMB'000	RMB'000	RMB'000
Materials	**1,320,596**	1,147,572	1,088,683
Wages and employee benefits	**1,646,018**	1,258,333	1,022,614
Electricity	**336,284**	282,492	298,274
Depreciation	**962,963**	891,640	918,360
Land subsidence, restoration, rehabilitation and environmental costs	**742,985**	636,590	323,240
Repairs and maintenance	**327,151**	350,953	455,782
Annual fee and amortization of mining rights (note 24)	**25,049**	19,604	19,604
Transportation costs	**106,572**	98,787	119,737
Others	**722,451**	602,617	305,409
	6,190,069	5,288,588	4,551,703

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,		
	2006	2005	2004
	RMB'000	RMB'000	RMB'000
Wages and employee benefits	**1,001,783**	794,537	563,962
Additional medical insurance	**57,364**	46,458	35,912
Staff training costs	**44,037**	32,553	28,762
Depreciation	**112,839**	73,627	53,501
Amortization of goodwill	**–**	–	15,773
Distribution charges	**57,100**	35,626	43,639
Impairment loss on accounts receivables	**–**	–	49,104
Resource compensation fees (note)	**107,502**	117,228	110,959
Repairs and maintenance	**18,440**	17,012	18,753
Research and development	**45,979**	45,009	24,934
Freight charges	**20,741**	19,256	9,801
Loss on disposal of property, plant and equipment	**73,531**	527	104,597
Others	**690,826**	736,955	420,166
	2,230,142	1,918,788	1,479,863

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

Notes to the Consolidated Financial Statements *(Cont'd)*

10. OTHER INCOME

	Year ended December 31,		
	2006	2005	2004
	RMB'000	RMB'000	RMB'000
Dividend income	**6,311**	4,465	4,465
Gain on sales of auxiliary materials	**49,623**	36,749	33,878
Government grants	**4,000**	–	–
Interest income from bank deposits	**94,372**	85,971	70,885
Interest income on loan receivable	**–**	5,744	21,826
Release of negative goodwill to income	**–**	–	27,620
Others	**11,531**	2,109	7,058
	165,837	135,038	165,732

11. INTEREST EXPENSE

	Year ended December 31,		
	2006	2005	2004
	RMB'000	RMB'000	RMB'000
Interest expenses on:			
– bank borrowings wholly repayable within 5 years	**10,058**	20,753	31,392
– bank borrowings not wholly repayable within 5 years	**2,281**	–	–
– bills receivable discounted without recourse	**10,840**	–	–
– deemed interest expenses in respect of acquisition of Jining III	**3,170**	3,858	4,550
	26,349	24,611	35,942

No interest was capitalized during each of the years presented.

12. INCOME TAXES

	Year ended December 31,		
	2006	2005	2004
	RMB'000	RMB'000	RMB'000
Income taxes:			
Current taxes	**1,309,783**	1,372,398	1,390,767
(Over) underprovision in prior years	**(24,233)**	42,463	16,019
	1,285,550	1,414,861	1,406,786
Deferred tax charge (note 29)	**69,106**	123,175	111,976
	1,354,656	1,538,036	1,518,762

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

12. INCOME TAXES (Continued)

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

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

	Year ended December 31,		
	2006	2005	2004
	RMB'000	RMB'000	RMB'000
Standard income tax rate in the PRC	**33%**	33%	33%
Standard income tax rate applied to income before income taxes	**1,229,786**	1,458,591	1,542,200
Reconciling items:			
Transfer to future development fund deductible for tax purposes but not charged to income under IFRS	**(70,496)**	(68,618)	(109,411)
Release of negative goodwill not subject to tax	**–**	–	(9,115)
Deemed interest not deductible for tax purposes	**1,046**	1,273	1,502
Expenses not deductible for tax purposes	**117,447**	–	–
(Reversal) provision of impairment loss on doubtful debts not subject to tax	**(6,507)**	–	16,187
Loss on disposal of property, plant and equipment not deductible for tax purposes	**–**	836	8,273
Deemed interest income from subsidiaries subject to tax	**9,456**	–	–
Tax effect of tax losses not recognized	**94,807**	42,151	–
(Over) underprovision in prior years	**(24,233)**	42,463	16,019
Write off deferred tax asset	**–**	44,436	44,436
Others	**3,350**	16,904	8,671
Income taxes	**1,354,656**	1,538,036	1,518,762
Effective income tax rate	**36%**	35%	32%

Notes to the Consolidated Financial Statements *(Cont'd)*

13. PROFIT FOR THE YEAR

	Year ended December 31,		
	2006	2005	2004
	RMB'000	RMB'000	RMB'000
Profit for the year has been arrived at after charging:			
Amortization of mining rights	**12,069**	6,624	6,624
Amortization of goodwill	**–**	–	15,773
Amortization of prepaid lease payments	**13,826**	13,171	13,194
Depreciation of property, plant and equipment	**1,061,976**	952,096	958,667
Total depreciation and amortization	**1,087,871**	971,891	994,258
Auditors' remuneration	**10,406**	9,229	5,000
Staff costs, including directors' and supervisors' emoluments	**2,783,298**	2,164,616	1,682,240
Retirement benefit scheme contributions (included in staff costs above)	**641,633**	523,324	408,462
Cost of inventories	**6,089,185**	5,144,888	4,460,844
Exchange loss	**12,346**	98,681	–
and crediting:			
Reversal of impairment loss on accounts receivable and other receivables	**(19,717)**	–	–
Exchange gain	**–**	–	5,507

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

(a) Directors' and supervisors' emoluments

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

	For the year ended December 31, 2006				
	Fees	Salaries, allowance and other benefits in kind	Retirement benefit scheme contribution	Discretionary bonus	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Independent non-executive directors					
Pu Hongjiu	89	–	–	–	89
Cui Jianmin	89	–	–	–	89
Wang Xiaojun	106	–	–	–	106
Wang Quanxi	89	–	–	–	89
	373	–	–	–	373

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

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

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

	For the year ended December 31, 2006				
	Fees RMB'000	Salaries, allowance and other benefits in kind RMB'000	Retirement benefit scheme contribution RMB'000	Discretionary bonus RMB'000	Total RMB'000
Executive directors					
Wang Xin	–	–	–	–	–
Geng Jiahuai	–	–	–	–	–
Yang Deyu	–	–	–	–	–
Shi Xuerang	–	–	–	–	–
Chen Changchun	–	–	–	–	–
Wu Yuxiang	–	182	82	–	264
Wang Xinkun	–	238	107	–	345
Chen Guangshui	–	187	84	–	271
Zhang Baocai	–	170	77	–	247
Dong Yunqing	–	205	92	–	297
	–	982	442	–	1,424
Supervisors					
Meng Xianchang	–	–	–	–	–
Song Guo	–	–	–	–	–
Zhang Shengdong	–	–	–	–	–
Liu Weixin	–	–	–	–	–
Xu Bentai	–	218	98	–	316
	–	218	98	–	316
Other management team					
Jin Tai	–	–	–	–	–
Zhang Yingmin	–	–	–	–	–
He Ye	–	208	94	–	302
Tian fengze	–	202	91	–	293
Shi Chenzhong	–	229	103	–	332
Qu Tianzhi	–	232	104	–	336
Ni Xinghua	–	218	98	–	316
Lai Cunliang	–	421	–	–	421
	–	1,510	490	–	2,000

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

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

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

	For the year ended December 31, 2005				
	Fees	Salaries, allowance and other benefits in kind	Retirement benefit scheme contribution	Discretionary bonus	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Independent non-executive directors					
Pu Hongjiu	43	–	–	–	43
Cui Jianmin	81	–	–	–	81
Wang Xiaojun	98	–	–	–	98
Wang Quanxi	81	–	–	–	81
Fan Weitang	39	–	–	–	39
	342	–	–	–	342
Executive directors					
Wang Xin	–	–	–	–	–
Geng Jiahuai	–	–	–	–	–
Yang Deyu	–	–	–	–	–
Shi Xuerang	–	–	–	–	–
Chen Changchun	–	–	–	–	–
Wu Yuxiang	–	144	65	–	209
Wang Xinkun	–	144	65	–	209
Chen Guangshui	–	144	65	–	209
Dong Yunqing	–	144	65	–	209
	–	576	260	–	836
Supervisors					
Meng Xianchang	–	–	–	–	–
Song Guo	–	–	–	–	–
Zhang Sheng Dong	–	–	–	–	–
Liu Wei Xin	–	–	–	–	–
Xu Bentai	–	160	72	–	232
	–	160	72	–	232
Other management team					
Jin Tai	–	–	–	–	–
Zhang Yingmin	–	–	–	–	–
He Ye	–	144	65	–	209
Tian fengze	–	144	65	–	209
Shi Chenzhong	–	145	65	–	210
Lai Cunliang	–	190	86	–	276
Ni Xinghua	–	144	65	–	209
	–	767	346	–	1,113

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

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

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

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

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

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

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

No directors waived any emoluments in each of the year ended 31 December 2006, 2005 and 2004.

(b) Employees' emoluments

The five highest paid individuals in the Group included no director for the year ended December 31, 2006 (2005: one; 2004: four), details of whose emoluments are included in the disclosures in note 14(a) above. The emoluments of the five individuals for the year ended December 31, 2006 (2005: four; 2004: one) were as follows:

	Year ended December 31,		
	2006	2005	2004
	RMB'000	RMB'000	RMB'000
Salaries, allowance and other benefits in kind	**7,053**	3,690	224
Retirement benefit scheme contributions	**–**	365	101
Discretionary bonuses	**656**	–	–
	7,709	4,055	325

For the year ended December 31, 2006, the emoluments of four of these employees were within the band of HK$1,000,000 to HK$2,000,000 and one of these employees were within the band of HK$2,000,000 to HK$3,000,000. For the years ended December 31, 2005 and 2004, emoluments of each of these employees were all within the band of nil to HK$1,000,000.

15. DIVIDEND RECOGNIZED AS DISTRIBUTION DURING THE YEAR

	Year ended December 31,		
	2006	2005	2004
	RMB'000	RMB'000	RMB'000
2005 Final dividend, RMB0.220 per share (2005: 2004 final dividend RMB0.260; 2004: 2003 final dividend RMB0.114)	**1,082,048**	799,240	327,180
2004 Special dividend RMB0.050 per share	**–**	–	143,500
	1,082,048	799,240	470,680

15. DIVIDENDS RECOGNIZED AS DISTRIBUTION DURING THE YEAR–CONTINUED (Continued)

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

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

In the annual general meeting held on June 29, 2006, a final dividend in respect of the year ended December 31, 2005 was approved by the shareholders and paid to the shareholders of the Company.

The board of directors proposes to declare a final dividend and a special dividend of approximately RMB590,208,000 and RMB393,472,000 calculated based on a total number of 4,918,400,000 shares issued at RMB1 each, at RMB0.12 per share and RMB0.08 per share respectively, in respect of the year ended December 31, 2006. The declaration and payment of the final dividend needs to be approved by the shareholders of the Company by way of an ordinary resolution in accordance with the requirements of the Company's Articles of Association. A shareholders' general meeting will be held for the purpose of considering and, if thought fit, approving this ordinary resolution.

16. EARNINGS PER SHARE AND PER ADS

The calculation of the earnings per share attributable to the equity holders of the Company for the years ended December 31, 2006, 2005 and 2004 is based on the profit attributable to the equity holders of the Company for the year of RMB2,372,985,000, RMB2,881,461,000 and RMB3,154,317,000 and on the weighted average number of 4,918,400,000 shares, 4,918,400,000 shares and 4,743,606,557 shares in issue, respectively, during the years.

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

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

No diluted earning per share has been presented as there are no dilutive potential shares in issue during the years ended December 31, 2006, 2005 and 2004.

Notes to the Consolidated Financial Statements *(Cont'd)*

17. BANK BALANCES AND CASH/TERM DEPOSITS AND RESTRICTED CASH

Bank balances carry interest at market rates which ranged from 0.72% to 1.44%.

At the balance sheet dates, the short-term restricted cash represents the bank deposits pledged to certain banks to secure banking facilities granted to the Group. The long-term amount represents the bank deposits placed as guarantee for the future payments of rehabilitation costs of Southland as required by the Australian government. The long-term deposits carry interest rate of 5.31% (2005: 5.16%) per annum.

The term deposits carry fixed interest rate of 0.72% to 2.25% (2005: 0.72% to 2.70%) per annum. The fair value of term deposits and restricted cash at December 31, 2006 approximates to its carrying amount.

18. BILLS AND ACCOUNTS RECEIVABLE

	At December 31,	
	2006	2005
	RMB'000	RMB'000
Total bills receivable	**2,004,425**	2,092,949
Total accounts receivable	**238,931**	258,587
	2,243,356	2,351,536
Less: Impairment loss	**(31,447)**	(126,700)
Total bills and accounts receivable, net	**2,211,909**	2,224,836

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

The fair value of bills and accounts receivable at December 31, 2006 approximates to their carrying amount.

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

	2006	2005
	RMB'000	RMB'000
Balance at January 1	**126,700**	126,700
Written off	**(78,603)**	–
Reversal	**(16,650)**	–
Balance at December 31	**31,447**	126,700

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

18. BILLS AND ACCOUNTS RECEIVABLE (Continued)

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

	At December 31, **2006** RMB'000	2005 RMB'000
1-180 days	**2,216,935**	2,245,170
181-365 days	**1,018**	6,014
1-3 years	**869**	19
Over 3 years	**24,534**	100,333
	2,243,356	2,351,536

19. INVENTORIES

	At December 31, **2006** RMB'000	2005 RMB'000
COST		
Auxiliary materials, spare parts and small tools	**265,122**	256,755
Coal products	**314,439**	213,746
	579,561	470,501

20. OTHER LOANS RECEIVABLE

At the balance sheet dates, the amount represents loan granted to the an independent third party, which carries interest at 7.00% per annum and is guaranteed by other independent third parties. The loan (the "Default Loan") is secured by certain state legal person shares of a company listed on the SSE ("the Secured Shares") and certain equity interest in another unlisted company held by the guarantor. The Default Loan was defaulted in January 2005 and the Company had applied to the People's Supreme Court of the Shangdong province (the "Court") to freeze the Secured Shares. The Company has also applied to the Court to dispose the Secured Shares by way of a public auction and the proceeds would be applied to repay the Default Loan and the associated interests to the Company. The public auction was held successfully in September 2005. Up to the date of the report, the legal procedure for the transfer of ownership of the Secured Shares has not yet been completed.

In Decemeber 2006, Shandong Runhua Group Company Limited has also claimed for a portion of the Secured Shares. To protect the Company's priority rights in the Secured Shares to recover the Default Loan, the Company sought support from the Shandong provincial government and the State-owned Assets Supervision and Administrative Committee (the "SASAC"). In January 2007, these government authorities in Shandong province and the SASAC have rendered formal written request the Supreme Court to protect the Company's priority right on the Secured Shares.

After considering the advice from their legal counsel, the directors are in the opinion that, based on the result of the auction, the support from the government authorities in Shandong province and the SASAC and the fair value of the underlying Secured Shares, the amount to be recovered by the Company from the Secured Shares would be sufficient to cover the principal and interest of the Default Loan.

21. PREPAYMENTS AND OTHER CURRENT ASSETS

	At December 31,	
	2006	2005
	RMB'000	RMB'000
Advances to suppliers	**109,714**	69,605
Prepaid freight charges and related handling charges	**27,287**	62,445
Others	**94,504**	70,367
	231,505	202,417

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

Included in the above balances as of December 31, 2006 is an impairment loss of RMB32,650,000 (2005: RMB35,717,000). During the year ended December 31, 2006, the Group reversed impairment loss of RMB3,067,000. During the year ended December 31, 2005 the Group did not make any additional impairment for doubtful debts (2004: RMB23,031,000).

22. PREPAID LEASE PAYMENTS

	At December 31,	
	2006	2005
	RMB'000	RMB'000
Current portion	**13,746**	13,465
Non-current portion	**578,988**	579,773
	592,734	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 during the year ended December 31, 2002. The registration process in respect of the land use rights of the Railway Assets, with the carrying amount of RMB233,441,000, has not yet been completed at December 31, 2006.

23. PREPAYMENT FOR RESOURCES COMPENSATION FEES

In accordance with the relevant regulations, the Shanxi Group is required to pay resources compensation fees to the Heshun Municipal Coal Industry Bureau at a rate of RMB2.70 per tonne of raw coal mined. During the year, Shanxi Group was requested by the relevant government to prepay the fees based on production volume of 10 million tonnes. At the balance sheet date, the amount represented the prepayment for resources compensation fees. The current portion represents the amount to be utilized in the coming year which is estimated based on expected production volume.

24. MINING RIGHTS

	RMB'000
COST	
At January 1, 2005	165,113
Exchange re-alignment	(2,372)
Addition	23,644
At January 1, 2006	186,385
Exchange re-alignment	2,261
Acquisition of Shanxi Neng Hua	164,452
At December 31, 2006	353,098
AMORTIZATION	
At January 1, 2005	26,496
Provided for the year	6,624
At January 1, 2006	33,120
Provided for the year	12,069
At December 31, 2006	45,189
NET BOOK VALUES	
At December 31, 2006	307,909
At December 31, 2005	153,265

In addition, the Parent Company and the Company have entered into a mining rights agreement pursuant to which the Company has agreed to pay to the Parent Company, effective from September 25, 1997, an annual fee of RMB12,980,000 as compensation for the Parent Company's agreement to give up the mining rights associated with the Xinglongzhuang coal mine, Baodian coal mine, Nantun coal mine, Dongtan coal mine and Jining II. The annual fee is subject to change after a ten-year period, and the renegotiation has not yet started up to the date of this report.

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

The mining rights of the Shanxi Group are amortized, on a straight-line basis, over the remaining useful life of twenty-seven years from the date of acquisition. The mining right permit expires in January 2009 and can be renewed at a cost which is not significant to the Group as the Parent Company has undertaken to compensate the Group for 79.68% of the cost.

Notes to the Consolidated Financial Statements *(Cont'd)*

25. PROPERTY, PLANT AND EQUIPMENT

	Freehold land in Australia RMB'000	Buildings RMB'000	Harbor works and crafts RMB'000	Railway structures RMB'000	Mining structures RMB'000	Plant, machinery and equipment RMB'000	Transportation equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST									
At January 1, 2005	57,195	2,134,845	250,231	727,674	3,904,460	7,290,213	285,633	86,505	14,736,756
Exchange re-alignment	(4,164)	(392)				(9,381)	(21)	–	(13,958)
Acquisition of Heze	–	–	–	–	–	35,103	201	472,292	507,596
Additions	–	1,689	–	–	–	71,578	25,258	1,191,961	1,290,486
Transfers	–	34,447	–	2,115	–	823,315	–	(859,877)	–
Disposals	–	(597)	–	–	–	(20,175)	(8,115)	–	(28,887)
At December 31, 2005 and 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	2,224	280	–	–	–	7,803	22	6,958	17,287
Acquisition of Shanxi Group	–	95,347	–	–	129,366	186,107	25,723	192,433	628,976
Additions	–	15,725	–	–	15,378	257,147	2,139	3,073,042	3,363,431
Transfers	–	196,575	118	5,012	–	1,238,710	10,102	(1,450,517)	–
Disposals	–	(47,600)	–	–	(31,762)	(878,537)	(17,247)	–	(975,146)
At December 31, 2006	55,255	2,430,319	250,349	734,801	4,017,442	9,001,883	323,695	2,712,797	19,526,541
ACCUMULATED DEPRECIATION									
At January 1, 2005	–	895,723	6,068	161,401	1,506,284	3,491,102	139,028	–	6,199,606
Provided for the year	–	124,340	6,068	54,568	86,638	684,913	41,356	–	997,883
Eliminated on disposals	–	(511)	–	–	–	(17,046)	(6,425)	–	(23,982)
At December 31, 2005 and January 1, 2006	–	1,019,552	12,136	215,969	1,592,922	4,158,969	173,959	–	7,173,507
Exchange re-alignment	–	18	–	–	–	293	6	–	317
Provided for the year	–	132,648	6,070	53,710	90,921	781,231	35,648	–	1,100,228
Eliminated on disposals	–	(41,411)	–	–	(476)	(828,954)	(16,609)	–	(887,450)
At December 31, 2006	–	1,110,807	18,206	269,679	1,683,367	4,111,539	193,004	–	7,386,602
NET BOOK VALUES									
At December 31, 2006	55,255	1,319,512	232,143	465,122	2,334,075	4,890,344	130,691	2,712,797	12,139,939
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

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

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

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

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

Notes to the Consolidated Financial Statements *(Cont'd)*

26. GOODWILL

	2006 RMB'000	2005 RMB'000
COST		
At January 1	**153,037**	117,392
Acquisition of Heze (note 36)	**–**	35,645
Acquisition of Shanxi Group (note 35)	**142,547**	–
At December 31	**295,584**	153,037

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

	2006 RMB'000	2005 RMB'000
Coal Mining		
– Jining II	**10,106**	10,106
– Yanmei Shipping	**10,046**	10,046
– Heze	**35,645**	35,645
– Shanxi Group	**142,547**	–
Coal Railway Transportation		
– Railway Assets	**97,240**	97,240
	295,584	153,037

The recoverable amounts of goodwill from each of the above cash generating units has been determined on the basis of value in use calculations. The recoverable amounts are based on certain similar key assumptions on discount rates, growth rates and expected changes in selling prices and direct cost. All value in use calculations use cash flow projections based on financial budgets approved by management covering a 5-year period, and with a discount rate of 8%.

The cashflows beyond the 5-year period are extrapolated using a zero percent growth rate. Cash flow projections during the budget period for each of the above units are based on the budgeted revenue and expected gross margins during the budget period and the same raw materials price inflation during the budget period. Expected cash inflows/outflows, which include budgeted sales, gross margin and raw material price inflation have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of each of the above units to exceed the recoverable amount of each of the above units. During the year ended December 31, 2006, management of the Group determined that there are no impairments of any of its CGU containing goodwill.

27. INVESTMENTS IN SECURITIES

The investments in securities represent available-for-sale equity investments:

	At December 31,	
	2006	2005
	RMB'000	RMB'000
Equity securities listed on the SSE		
–Restricted portion stated at cost less impairment	**40,281**	–
– Unrestricted portion stated at fair value	**54,101**	–
Unlisted equity security in form of state legal person shares	**–**	60,421
Unlisted equity security	**1,760**	1,760
	96,142	62,181

The amount at December 31, 2005 principally includes an unlisted investment of RMB60,421,000 in the form of state legal person shares of Shenergy Company Limited, a company listed on the SSE. These shares were not tradable on the SSE as at December 31, 2005 and therefore, they were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors of the Company were of the opinion that their fair value cannot be measured reliably.

Pursuant to the share reform plan of Shenergy Company Limited, the non-tradable legal person shares held by the Company were converted into tradable shares on August 17, 2006. Under this share reform plan, the Company has committed that the Company will not sell more than one-third of the shares held as of August 17, 2005 within one year after August 17, 2006; and two-third of the shares held as of August 17, 2005 within two years after August 17, 2006. This investment is presented as listed securities as at December 31, 2006. The unrestricted portion is carried at fair value determined by reference to bid prices quoted in active markets.

The unlisted equity securities and the restricted portion of the shares of Shenergy Company Limited 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.

28. DEPOSIT MADE ON INVESTMENT

During 2006, the Company entered into a co-operative agreement with two independent third parties, to establish a company for the operation of a coal mine to be acquired in Shaanxi province. The Company will have to invest approximately RMB196.8 million in order to obtain 41% equity interest. As at December 31, 2006, the Company made a deposit of RMB97 million in relation to this acquisition. As at December 31, 2006, the relevant procedures to establish the new company are still in progress, and the acquisition has not yet been completed.

29. DEFERRED TAX LIABILITY

	Available-for-sale investment RMB'000	Provision for land subsidence, restoration, rehabilitation and environmental costs RMB'000	Accelerated tax depreciation RMB'000	Mining rights RMB'000	Total RMB'000
Balance at January 1, 2005	–	44,436	(67,540)	–	(23,104)
Charge the year (note 12)	–	(44,436)	(78,739)	–	(123,175)
Balance at January 1, 2006	–	–	(146,279)	–	(146,279)
Acquisition of Shanxi Group	–	–	(2,962)	(54,269)	(57,231)
Charge to reserve	(11,207)	–	–	–	(11,207)
(Charge) credit to income for the year (note 12)	–	–	(69,272)	166	(69,106)
Balance at December 31, 2006	(11,207)	–	(218,513)	(54,103)	(283,823)

At the balance sheet date, the Group has unused tax losses of RMB450 million (2005: RMB140 million) contributed by the subsidiaries available for offset against future profits. No deferred tax asset has been recognized in respect of such losses due to the unpredictability of future profit streams. Included in unrecognized tax losses are losses of RMB55 million that will expire in 2011. Other losses may be carried forward indefinitely.

30. BILLS AND ACCOUNTS PAYABLE

	At December 31, 2006 RMB'000	2005 RMB'000
Bills payable	**159,632**	136,779
Accounts payable	**586,053**	360,881
	745,685	497,660

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

	At December 31, 2006 RMB'000	2005 RMB'000
1-180 days	**564,995**	361,680
181-365 days	**139,974**	96,397
1-2 years	**40,716**	39,583
	745,685	497,660

The fair value of the Group's bills and accounts payable at December 31, 2006 approximates to their carrying amount.

Notes to the Consolidated Financial Statements *(Cont'd)*

31. OTHER PAYABLES AND ACCRUED EXPENSES

	At December 31, 2006 RMB'000	2005 RMB'000
Customers' deposits	**674,789**	475,333
Accrued wages	**210,751**	135,375
Other taxes payable	**205,720**	249,955
Payables in respect of purchases of property, plant and equipment and construction materials	**442,536**	216,250
Accrued freight charges	**15,963**	39,342
Accrued repairs and maintenance	**20,162**	22,829
Accrued utility expenses	**5,430**	4,120
Staff welfare payable	**72,748**	69,372
Resource compensation fees payable	**–**	100,886
Withholding tax payable	**8,645**	6,916
Deposits received from employees	**33,775**	20,908
Consideration payable on acquisition of Southland	**28,755**	47,299
Payable in respect of purchase of mining rights in Southland (note 37)	**–**	23,644
Others	**180,410**	163,640
	1,899,684	1,575,869

The fair value of the Group's other payables and accrued expenses at balance sheet date approximates to their carrying amount.

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

	2006 RMB'000	2005 RMB'000
Balance at January 1	**(157,511)**	(103,407)
Additional provision in the year	**731,796**	635,863
Utilization of provision	**(787,197)**	(689,967)
Balance at December 31	**(212,912)**	(157,511)

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

33. UNSECURED BANK BORROWINGS

The amounts are repayable as follows:

	At December 31, 2006 RMB'000	2005 RMB'000
Within one year	**50,000**	200,000
More than one year, but not exceeding two years	**72,000**	–
More than two years, but not more than five years	**126,000**	–
More than five years	**132,000**	–
	380,000	200,000
Less: Amounts due within one year and included in current liabilities	**(50,000)**	(200,000)
Amounts due after one year	**330,000**	–

The bank loan of RMB200,000,000 as at December 31, 2005 carried interest at 5.76% per annum. During the year ended December 31, 2006, this bank loan has been fully repaid.

The balances at of December 31, 2006 represent two borrowings obtained by Shanxi Tianchi before the Company acquired it. Included in the loans of RMB380,000,000 is an amount of RMB160,000,000 that initially carries interest at 5.85% per annum and is subject to adjustment based on the interest rate stipulated by the People Bank of China (the "PBOC"). The loan is repayable by 3 instalments over a period of 4 years, with the first instalment due in December 2007. the repayment is guaranteed by the Parent Company.

The remaining balance of RMB220,000,000 carries interest at 6.21% per annum and is subject to adjustment based on the interest rate stipulated by the PBOC. The loan is repayable by 20 instalments over a period of 12 years, with the first instalment due in May 2008. the amount is also guaranteed by the parent Company.

Notes to the Consolidated Financial Statements *(Cont'd)*

34. 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
Number of shares				
At January 1, 2005	1,670,000,000	180,000,000	1,224,000,000	3,074,000,000
Bonus issue of shares	1,002,000,000	108,000,000	734,400,000	1,844,400,000
At January 1, 2006	2,672,000,000	288,000,000	1,958,400,000	4,918,400,000
Share Reform Plan	(72,000,000)	72,000,000	–	–
December 31,2006	2,600,000,000	360,000,000	1,958,400,000	4,918,400,000

	Domestic invested shares		Foreign invested shares	
	State legal person shares (held by the Parent Company) RMB'000	A shares (Note 1) RMB'000	H shares (including H shares represented by ADS (Note 1)) RMB'000	Total RMB'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 January 1, 2006	2,672,000	288,000	1,958,400	4,918,400
Share Reform Plan	(72,000)	72,000	–	–
December 31, 2006	2,600,000	360,000	1,958,400	4,918,400

Each share has a par value of RMB1.

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

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 RMB 1 each held by the Parent Company is transferred as A shares pursuant to the Share Reform Plan.

34. SHAREHOLDERS' EQUITY (Continued)

Reserves

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 and is not distributable to shareholders.

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.

The Company has to set aside 10% of its profit 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 December 31, 2006 is the retained earnings computed under PRC GAAP which amounted to approximately RMB6,344,632,000 (At December 31, 2005: RMB5,844,289,000).

35. ACQUISITION OF SHANXI NENG HUA COMPANY LIMITED AND ITS SUBSIDIARIES

On August 18, 2006, the Company entered into an equity transfer agreement with the Parent Company and conditionally agreed to purchase the 98% equity interest in Shanxi Neng Hua from the Parent Company.

In November 2006, the acquisition was completed and the consideration of RMB733,346,000 was fully paid to the Parent Company. The net assets acquired were included in the coal mining segment.

This acquisition has been accounted for using the purchase method.

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

	Acquiree's carrying amount before combination RMB'000	**Fair value adjustments** RMB'000	**Fair value** RMB'000
Bank balances and cash	289,142		289,142
Bills and accounts receivable	10,950		10,950
Inventories	4,609		4,609
Prepayment for resources compensation fees	25,387		25,387
Prepayments and other currents assets	15,216		15,216
Property, plant and equipment	628,976		628,976
Mining rights	–	164,452	164,452
Deferred tax liability	(2,962)	(54,269)	(57,231)
Prepaid lease payments	11,378	11,378	
Accounts payable	(12,126)		(12,126)
Other payables and accrued expenses	(75,436)		(75,436)
Bank borrowings	(380,000)		(380,000)
Total net assets acquired	515,134		625,317
Minority interests			(34,518)
Goodwill arising on acquisition			142,547
			733,346
Total consideration satisfied by:			
Cash consideration paid on acquisition			733,346
Net cash outflow arising on acquisition:			
Cash paid on acquisition			(733,346)
Bank balances and cash acquired			289,142
			(444,204)

35. ACQUISITION OF SHANXI NENG HUA COMPANY LIMITED AND ITS SUBSIDIARIES (Continued)

Shanxi Group contributed RMB21,875,000 and RMB8,755,000 to the Group's turnover and loss respectively, for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on January 1, 2006, the Group's revenue for the period would have been RMB12,961,204,000, and the Group's profit for the period would have been RMB2,274,162,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2006, nor is it intended to be a projection of future results.

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

36. ACQUISITION OF HEZE

The net assets of Heze acquired in 2005, and the goodwill arising, are as follows:

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

36. ACQUISITION OF HEZE (Continued)

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

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

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

On June 28, 2005, a supplemental agreement (the "Supplemental Agreement") was entered into between the Company and the Parent Company. Under the Supplemental Agreement, the Parent Company provided an irrevocable undertaking that the Group shall have the right to purchase the mining rights of Zhaolou coal mine and Wanfu coal mine from the Parent Company within twelve months from the respective dates on which such mining rights are obtained by the Parent Company. In June 2006, the Parent Company has obtained the mining rights of Zhaolou coal mine. At December 31, 2006, the Company has not yet purchased the mining rights from the Parent Company.

37. ACQUISITION OF SOUTHLAND

In December 2004, the Group acquired a 100% interest in Southland for a cash consideration of RMB187,312,000, of which RMB136,302,000 was paid upon acquisition and RMB51,010,000 (equivalent to AUD8,000,000) was payable upon the production of the initial 4 million tonnes of saleable coal by the Group in Southland. Pursuant to the agreements in relation to the acquisition, the Company has an obligation to acquire further coal mines and land adjacent to Southland at AUD4,000,000 when the sellers obtain the exploration license under the Mining Act of Australia for such coal mines. During 2005, the Group successfully obtained the exploration licences for the adjacent mines. Accordingly, consideration amounted to RMB23,644,000 (equivalent to AUD4,000,000) was paid upon the completion of registration process in 2006.

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

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

If the acquisition had been completed on January 1, 2004, the Group's revenue and the Group's profit for the year ended December 31, 2004 would have been RMB 11,977,823,000 and RMB3,154,570,000, respectively.

38. RELATED PARTY BALANCES AND TRANSACTIONS

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

Related Party Balances

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

The amounts due to the Parent Company and its subsidiary companies as at December 31, 2006 included the present value of the outstanding balance that arose from the funding of the acquisition of the mining rights of Jining III as of January 1, 2001 discounted using the market rate of bank borrowings.

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

	At December 31,	
	2006	2005
	RMB'000	RMB'000
Amounts due to Parent Company and its subsidiary companies		
Within one year	**982,347**	508,254
More than one year, but not exceeding two years	**8,181**	8,689
More than two years, but not exceeding three years	**7,704**	8,181
More than three years, but no exceeding four years	**7,253**	7,704
More than four years, but not exceeding five years	**–**	7,253
Total	**1,005,485**	540,081
Less: amount due within one year	**(982,347)**	(508,254)
Amount due after one year	**23,138**	31,827

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

Notes to the Consolidated Financial Statements *(Cont'd)*

38. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

Related Party Transactions

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

	Year ended December 31,		
	2006	2005	2004
	RMB'000	RMB'000	RMB'000
Income			
Sales of coal	**1,069,879**	856,580	523,015
Sales of auxiliary materials	**496,221**	369,855	350,873
Utilities and facilities	**–**	29,000	29,000
Expenditure			
Utilities and facilities	**358,370**	355,953	354,424
Annual fee for mining rights	**12,980**	12,980	12,980
Purchases of supply materials and equipment	**458,329**	341,935	303,549
Repair and maintenance services	**246,841**	197,624	222,949
Social welfare and support services	**406,004**	242,952	207,062
Technical support and training	**20,000**	15,130	15,130
Road transportation services	**63,448**	53,346	63,478
Construction services	**306,658**	–	160,342

Certain expenditure for social welfare and support services (excluding medical and child care expenses) of RMB165,900,000, RMB63,361,000 and RMB63,275,000 for the years ended December 31, 2006, 2005 and 2004, respectively, and for technical support and training of RMB20,000,000, RMB15,130,000 and RMB15,130,000, have been charged by the Parent Company at a negotiated amount per annum, subject to changes every year.

During the year, the Company acquired Shanxi Neng Hua from the Parent Company. Details of this acquisition are set out in note 35.

During the year ended December 31, 2005, the Company acquired Heze from the Parent Company. Details of this acquisition are set out in note 36.

In addition to the above, the Company participates in a retirement benefit scheme of the Parent Company in respect of retirement benefits (note 40).

38. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

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

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

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

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

	Year ended December 31,		
	2006	2005	2004
	RMB'000	RMB'000	RMB'000
Trade sales	**4,600,606**	3,855,545	4,466,519
Trade purchases	**1,568,658**	1,607,729	1,541,147

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

	At December 31,	
	2006	2005
	RMB'000	RMB'000
Amounts due from other state-controlled entities	**345,914**	350,688
Amounts due to other state-controlled entities	**301,117**	270,559

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

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

38. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

Compensation of key management personnel

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

	Year ended December 31,		
	2006	2005	2004
	RMB'000	RMB'000	RMB'000
Directors' fee	**373**	342	324
Salaries, allowance and other benefit in kind	**2,710**	1,503	1,029
Retirement benefit scheme contribution	**1,030**	678	463
	4,113	2,523	1,816

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

39. COMMITMENTS

	At December 31,	
	2006	2005
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**1,221,884**	920,907
Capital expenditure authorized but not contracted for in respect of development of new coal mines	**600,000**	1,900,000
	1,821,884	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 tonne 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 unutilized Work Safety Cost at December 31, 2006 was RMB 30,208,000 (2005: RMB91,462,000).

During 2006, the Company entered into a co-operative agreement with two independent third parties, to establish a company for the operation of a coal mine to be acquired in Shaanxi province. In addition to the deposit referred to in note 28, the Company is committed to invest a further RMB99.8 million.

40. RETIREMENT BENEFITS

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

The amount of contributions paid to the Parent Company were RMB640,620,000, RMB522,650,000 and RMB408,462,000 for the years ended December 31, 2006, 2005, and 2004, respectively.

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

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

41. HOUSING SCHEME

The Parent Company is responsible for providing accommodation to its employees and the employees of the Company. The Company and the Parent Company share the incidental expenses relating to the accommodation at a negotiated amount for each of the three years ended December 31, 2006, 2005 and 2004. Such expenses, amounting to RMB86,200,000, RMB37,200,000 and RMB37,200,000 for each of the three years ended December 31, 2006, 2005 and 2004 respectively, have been included as part of the social welfare and support services expenses summarized in note 38.

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

42 FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of bank balances and cash, term deposits, restricted cash, other loans receivable, other payables, amounts due to Parent Company and its subsidiary companies and bank borrowings approximate their fair value because of the short maturity of these amounts or because they are stated at present value discounted using market rates. In addition, the carrying amount of bank borrowing approximates its fair value as the interest rate approximates the market rate.

Notes to the Consolidated Financial Statements *(Cont'd)*

43. CONCENTRATION OF CREDIT RISK

The Group maintains its cash and cash equivalents with reputable banks in the PRC, therefore the directors consider that the credit risk for such is minimal.

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

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

As the Group does not currently have direct export rights, all of its export sales must be made through National Coal Corporation, Shanxi Coal Corporation or Minmetals Trading. The quality, prices and final customer destination of the Group's export sales are determined by the Group, National Coal Corporation, Shanxi Coal Corporation or Minmetals Trading.

For the years ended December 31, 2006, 2005 and 2004, net sales to the Group's five largest domestic customers accounted for approximately 22.1%, 20.0% and 15.3%, respectively, of the Group's total net sales. Net sales to the Group's largest domestic customer accounted for 10.2%, 13.4% and 9.2% of the Group's net sales for the years ended December 31, 2006, 2005 and 2004, respectively. The Group's largest domestic customer was the Huadian Power International Corporation Limited ("Huadian") for the years ended December 31, 2006, 2005 and 2004.

Details of the amounts receivable from the five customers with the largest receivable balances at December 31, 2006 and 2005 are as follows:

	Percentage of accounts receivable At December 31,	
	2006	2005
Five largest receivable balances	**72%**	66%

As at 31 December 2006, the Group has exposure to credit risk in the event of the counterparties failure to perform their obligation in relation to the Default Loan (note 20). In order to minimize the credit risk, the management of the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of other loan receivables at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

44. INFORMATION OF THE COMPANY

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

	At December 31, 2006 RMB'000	At December 31, 2005 RMB'000
ASSETS		
CURRENT ASSETS		
Bank balances and cash	**4,405,364**	4,940,802
Term deposits	**1,194,531**	1,326,335
Restricted cash	**15,504**	30,505
Amounts due from subsidiaries	**259,178**	304,219
Bills and accounts receivable	**2,176,622**	2,224,636
Inventories	**417,816**	428,484
Other loans receivable	**640,000**	640,000
Loans to subsidiaries	**314,735**	–
Prepayments and other current assets	**178,751**	198,617
Prepaid lease payments	**13,199**	13,171
Prepayment for land subsidence, restoration, rehabilitation andenvironmental costs	**212,912**	157,511
TOTAL CURRENT ASSETS	**9,828,612**	10,264,280
MINING RIGHTS	**92,735**	99,359
Prepaid lease payments	**553,570**	565,376
PROPERTY, PLANT AND EQUIPMENT	**8,285,043**	8,271,361
GOODWILL	**107,346**	107,346
INVESTMENT IN SUBSIDIARIES (note a)	**2,511,038**	1,565,695
INVESTMENTS IN SECURITIES	**96,142**	62,181
LOAN TO SUBSIDIARIES	**1,132,505**	162,200
DEPOSIT MADE ON INVESTMENT	**97,426**	–
TOTAL ASSETS	**22,704,417**	21,097,798
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Bills and accounts payable	**613,835**	497,719
Other payables and accrued expenses	**1,390,959**	1,325,664
Amounts due to Parent Company and its subsidiary companies	**893,368**	463,942
Unsecured bank borrowing-due within one year	**–**	200,000
Taxes payable	**150,594**	647,247
TOTAL CURRENT LIABILITIES	**3,048,756**	3,134,572
AMOUNTS DUE TO PARENT COMPANY AND ITS SUBSIDIARY COMPANIES-DUE AFTER ONE YEAR	**23,138**	31,827
DEFERRED TAX LIABILITY	**226,171**	146,279
TOTAL LIABILITIES	**3,298,065**	3,312,678
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY (note b)	**19,406,352**	17,785,120
TOTAL LIABILITIES AND EQUITY	**22,704,417**	21,097,798

Notes to the Consolidated Financial Statements *(Cont'd)*

44. INFORMATION OF THE COMPANY (Continued)

Notes:

(a) Details of the Company's subsidiaries at December 31, 2006 are as follows:

Name of subsidiary	Country of incorporation/ registration and operation	Issued and fully paid capital/ registered capital	Proportion of registered capital/ issued share capital held by the Company Directly	Indirectly	Proportion of voting power held	Principal activities
Austar	Australia	AUD64,000,000	–	100%	100%	Coal mining business
Heze (note)	PRC	RMB600,000,000	95.67%	–	95.67%	Coal mining business
Yancoal	Australia	AUD64,000,000	100%	–	100%	Investment holding
Yanmei Shipping (note)	PRC	RMB5,500,000	92%	–	92%	Transportation via rivers and lakes and the sales of coal and construction materials
Yulin (note)	PRC	RMB800,000,000	97%	–	97%	Development of methanol project
Zhongyan Trade Co., Ltd. ("Zhongyan") (note)	PRC	RMB2,100,000	52.38%	–	52.38%	Trading and processing of mining machinery
Shanxi Neng Hua	PRC	RMB600,000,000	98%	–	98%	Investment holding
Shanxi Tianchi	PRC	RMB90,000,000	–	79.68%	78.09%	Coal mining business
Shanxi Tianhao	PRC	RMB150,000,000	–	97.85%	95.89%	Development of methanol project

Note: Yanmei Shipping, Yulin, Zhongyan, Heze, Shanxi Neng Hua, Shanxi Tianchi, Shanxi Tianhao are established in the PRC as limited liability companies.

44. INFORMATION OF THE COMPANY (Continued)

(b) The Company's equity is as follows:

	Share capital RMB'000	Share premium RMB'000	Future development fund RMB'000	Statutory common reserve fund RMB'000	Statutory common welfare fund RMB'000	Investment revaluation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at January 1, 2005	3,074,000	4,825,402	1,446,459	769,435	384,717	–	5,051,093	15,551,106
Profit and total income and expense recognized for the year	–	–	–	–	–	–	3,033,254	3,033,254
Appropriations to reserves	–	–	381,208	249,548	124,774	–	(755,530)	–
Dividends	–	–	–	–	–	–	(799,240)	(799,240)
Bonus issue of shares	1,844,400	(1,844,400)	–	–	–	–	–	–
Balance at December 31, 2005 and January 1, 2006	4,918,400	2,981,002	1,827,667	1,018,983	509,491	–	6,529,577	17,785,120
Gain on fair value change of available-for-sale investment	–	–	–	–	–	33,961	–	33,961
Deferred taxes on fair value change of available-for-sales investment	–	–	–	–	–	(11,207)	–	(11,207)
Net income recognized directly in equity	–	–	–	–	–	22,754	–	22,754
Profit for the year	–	–	–	–	–	–	2,680,526	2,680,526
Total recognized income and expenses for the year	–	–	–	–	–	22,754	2,680,526	2,703,280
Appropriations to reserves	–	–	390,340	175,821	–	–	(566,161)	–
Transfer	–	–	–	509,491	(509,491)	–	–	–
Dividends	–	–	–	–	–	–	(1,082,048)	(1,082,048)
Balance at December 31, 2006	4,918,400	2,981,002	2,218,007	1,704,295	–	22,754	7,561,894	19,406,352

Notes to the Consolidated Financial Statements *(Cont'd)*

45. SUBSEQUENT EVENTS

On January 11, 2007, the Company acquired the remaining 2% of the equity interest in Shanxi Neng Hua at a cash consideration of RMB14,966,000. The acquisition was completed on January 23, 2007.

On March 16, 2007, the People's Republic of China promulgated Law of the People's Republic of China on Enterprise Income Tax ("New Law") by Order No. 63 of the President of the People's Republic of China, which will be effective from January 1, 2008. The Company and its subsidiaries will then measure and pay Enterprise Income Tax pursuant to the New Law. This may result in a decrease of the December 31, 2006 deferred tax liability of approximately RMB69 million.