

Notes to the Financial Statements

For the year ended 31 December 2006

1. GENERAL

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

On August 4, 2006, approved by the shareholders’ meeting, six bonus Shares for every ten shares issued by conversion from capital reserve is proposed based on the total issued shares of 3,074,000,000 (each share with a per value of RMB1). After the new issue of shares, the company has 4,918,400,000 shares in issue, including RMB2,672,000,000 state legal person shares (representing 54.33% of the total share capital); RMB1,958,400,000 H Shares and American Depositary Shares listed on overseas stock exchanges (representing 39.82% of the total share capital); and RMB288,000,000 A Shares (representing 5.85% of the total share capital) listed on domestic stock exchange.

The Company is one of the nineteenth batch of share reform companies designated by China Securities Regulatory Commission. As approved by the Lu State-owned Assets Ownership Letter [2006] No.32 issued by the State-owned Assets Supervision & Administration Commission (SASAC) of People’s Government of Shandong Province, as well as approved by the Company’s shareholder’s meeting regarding the share reform plan, the Company’s share reform plan is as follows: 2.5A shares for every existing 10 A shares would be offered by the non-tradable legal person shares on the share registration date (March 30, 2006) of share reform plan implemented. After the implementation of the plan, the Company’s total share capital as well as the Company’s financial indicators such as assets, liabilities, shareholder’s equity, earnings per share, etc. will remain unchanged, and the shares owned by Yankuang Group would then be converted to tradable shares in 4 years time according to formula. The Share Reform Plan was further approved by the Ministry of Commerce of the PRC on March 21, 2006 and was implemented by April 3, 2006. See note 31 for share capital after share reform.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Accounting system and accounting standards adopted

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

Basis of accounting and principle of measurement

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

Accounting year

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

Reporting currency

The recording currency of the Company is Renminbi.

Foreign currency translation

Transactions denominated in foreign currencies are translated into Renminbi at the applicable rates of exchange (“market exchange rate”) prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the market exchange rate prevailing at the balance sheet date. A fixed asset before the fixed assets are ready for use are capitalized as part of the cost of fixed asset; exchange gains or losses arising in the pre-operating period are recorded as long term deferred expenses; other exchange gains or losses are dealt with as finance expenses.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Cash equivalents

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

Accounting for bad debts

1) *Criteria for recognition of bad debts*

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

2) *Accounting treatment for bad debt losses*

Bad debt is accounted for using the allowance method and provided according to the recoverability of non-related party receivables at the year-end. The appropriate provision for bad debts relating to specific receivable accounts are made based on relevant information such as past experience, actual financial position and cash flows of the debtors, as well as other relevant information. General provision for the remaining receivables is estimated according to aging analysis. The percentages of the general provision are as follows:

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

Discount of bills receivable

The Company discounts the bills of acceptances to the financial institutions. If the risks and rewards adhering to the discounted bills have been transferred, the difference between the discounted receipt and the carrying amounts of the bills of acceptances deducting relevant taxes is recognized in the income statement during the year. If the risks and rewards adhering to the discounted bills have not been transferred, they are accounted for as bank loans pledged by bills.

Inventories

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

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

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

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

For the year ended 31 December 2006

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Provision for decline in value of inventories

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

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

Current investments

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

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

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

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

Designated deposit

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

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

Recoverable amount

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

Long-term investments

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

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

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

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

For the year ended 31 December 2006

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Long-term investments (Continued)

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

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

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

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

(2) *Impairment of long-term investments*

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

Fixed assets and depreciation

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

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Fixed assets and depreciation (Continued)

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

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

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

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

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

Impairment of fixed assets

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

Fixed assets under construction

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

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

Intangible assets

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

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

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

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Intangible assets (Continued)

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

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

Impairment loss on intangible assets

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

Long-term deferred expenses

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

Other long-term deferred expenses are evenly amortized over the beneficial periods of the relevant items

Borrowing costs

Borrowing costs comprise interest incurred on borrowings, amortization of discounts or premiums, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings. Borrowing costs incurred in pre-operating period are recognized as long-term deferred assets. Other borrowing costs are recognized as expenses and included as finance costs in the period in which they are incurred.

Wei Jian Fei

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

Work Safety Expense

Pursuant to "Method for Accrual and Usage of Work Safety Expense" Caijian [2004] No. 119, which was jointly issued by States Finance Bureau, National Development and Reform Commission and State Administration of Coal Mine Safety, Work Safety Expense is accrued at RMB8 per ton raw coal mined Since May 1, 2004 (RMB 15 per ton raw coal mined in He Shun Tian Chi) and recorded in cost of sales and long-term liability. Work Safety Expense is used for purchase of coal production equipment and safety expense of coal mining structure. Relevant expenditure should offset with long-term payable when actually incurs and related fixed assets should be fully depreciated and no further depreciation is provided afterwards.

Reform and Specific Development Fund

Pursuant to "Notice of setting up reform and specific Development Fund for province key corporations" Caiqi [2004] No.28, which was jointly issued by Shandong Province Finance Bureau, State-owned Assets Supervision and Administration Commission of Shandong Municipal Government, Shangdong Province Coal Mine Industry Bureau, Reform and Specific Development Fund is accrued at RMB5.00 per tonne raw coal mined and will be used for related expenditures on mine construction.

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

For the year ended 31 December 2006

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Revenue recognition

Revenue from sales of goods:

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

Revenue from rendering of services:

When the provision of services is started and completed within the same accounting year, revenue is recognized at the time of completion of the services. When the provision of services is started and completed in different accounting years and the outcome of a transaction involving the rendering of services can be estimated reliably, revenue is recognized at the balance sheet date by the use of the percentage of completion method.

Revenue is otherwise recognized at the balance sheet date only to the extent of the costs incurred that are recoverable and service costs are recognized as expenses in the period in which they are incurred. If the service costs incurred are not expected to be recovered, revenue is not recognized.

Interest income:

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

Subsidy Income

Subsidy income is recognized only when it is actually received.

Leasing

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. All other leases are classified as operating leases. Lease payments under operating leases are recognized as an expense in the income statement on a straight-line basis over the lease term.

The Company as lessor under operating leases

Lease income from operating leases is recognized as income using the straight-line method over the lease term.

The Company as lessee under operating leases

Lease payments under operating leases are recognized as an expense in the income statement on a straight-line basis over the lease term.

Income taxes

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

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

For the year ended 31 December 2006

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Basis of consolidation

(1) Principle for consolidation scope recognition

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

(2) Accounting for consolidation

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

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

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

Translation of Foreign Currency Financial Statements

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

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

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

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

3. TAXES

Value added tax

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

Pursuant to the "Notice of the adjustment of export refund rate"(Caishui [2003] No.222), which was jointly issued by the Ministry of Finance and the State Administration, all the tax refund rate of coal exported by the Company was reduced from 13% to 11% from January 1, 2004. Pursuant to the notice "Notice of the adjustment of export refund rate" (Caishui[2005] No.75) which was jointly issued by the Ministry of Finance and the State Administration, all the tax refund rate of coal exported by the Company was refund from 11% to 8% from May 1, 2005. Pursuant to Caishui[2006] No.139, for export contracts signed on or before September 14, 2006, if they can be filed for record before September 30, 2006 and the exports are made before 14 December 14, 2006 (inclusive), the business can claim refund from the authorities using the old export refund rates. Businesses that fail to file the export contracts before the prescribed date or fail to declare the export before 15 December 2006, must apply the new export refund rate.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

3. TAXES (Continued)

Income tax

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

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

Business tax

Business tax is paid at the 5% of the corresponding revenue, except for the business tax on revenue from coal transportation service is calculated at 3%.

Resource tax

Pursuant to the "Notice of the adjustment of resource tax amount of Shandong province" (Caishui [2005] No.86), which was jointly issued by the Ministry of Finance and the State Administration, resource tax of Shandong province is calculated and paid at the amount of RMB3.60 per tonne of raw coal sold and consumed in clean coal production from May 1, 2005. Meanwhile, pursuant to the "Notice of the adjustment of resource tax amount of Shanxi province" (Caishui [2004] No.187), which was jointly issued by the Ministry of Finance and the State Administration, resource tax of Shanxi province is calculated and paid at the amount of RMB3.20 per tonne of raw coal sold and consumed in clean coal production from July 1, 2004.

City construction tax & education fee

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

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

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

4. SCOPE OF CONSOLIDATION AND DETAILS OF SUBSIDIARIES

The Company owns the following subsidiaries:

Name of subsidiaries	Place of registration	Registered capital/ Paid-in capital	Equity indirectly held by the company		Type of enterprise	Consolidation not
			Directly	Indirectly		
Qingdao Free Trade Zone Zhongyan Trade Co., Ltd. ("Zhongyan Trade")	Qingdao, Shandong	RMB2,100,000	52.38%	-	Company limited	Yes
Shandong Yanmei Shipping Co., Ltd. ("Yanmei Shipping")	Jining, Shandong	RMB5,500,000	92%	-	Company limited	Yes
Yanzhou Coal Yulin Power Chemical Co., Ltd ("Yulin Power")	Yulin, Shanxi	RMB800,000,000	97%	-	Company limited	Yes
Yancoal Australia Pty Limited Zhongyan Trade Co., Ltd. ("Yanmei Australia")	Australia	AUD 30,000,000	100%	-	Company limited	Yes
Austar Coal Mine Pty Limited. ("Austar Coal Mine")	Australia	AUD 30,000,000	-	100%	Company limited	Yes
Yancoal Heze Power Chemical Co., Ltd. ("Heze Power")	Heze, Shandong	RMB600,000,000	95.67%	-	Company limited	Yes
Shanxi Power Co, Ltd ("Shanxi Power")	Jingzhong, Shanxi	RMB600,000,000	98%	-	Company limited	Yes
Heshun Tianchi Energy Co, Ltd ("Heshun Tianchi")	Jingzhong, Shanxi	RMB90,000,000	-	81.31%	Company limited	Yes
Shanxi Tianhao Chemical Co, Ltd ("Tianhao Chemical")	Xiaoyu, Shanxi	RMB150,000,000	-	99.85%	Company limited	Yes

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

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

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

Nature of business of Yanmei Australia: investment holding company.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

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

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

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

Nature of business of Shanxi Power: Investment in heat and electricity, manufacture and sale of mining machinery and engine products and the development of integrated coal technology.

Nature of business of Heshun Tianchi: Exploration and sale of coal from Tianchi Coal Mine.

Nature of business of Tianhao Chemical: Engagement in the production of methanol and other chemical products (except for those are restricted by the government), coke production, exploration and sales.

Approved by the State-owned Assets Supervision and Administration Commission of Shandong Province and the Shareholders' meeting of the Company, the Company acquired 98% equity interest in Shanxi Power from Yankuang Group in November 2006. As at December 31, 2006, the result of its operations and the cash flow for the period from the effect date of acquisition to the balance sheet date has been reflected in the Consolidated Income Statement and Consolidated Cash Flow Statement. The financial position of Shanxi Power at the effect date of acquisition and its result of operations for the period from the effect date of acquisition to the balance sheet date are set in note 49 to the financial statements.

As at December 31, 2006, Tianhao Chemical is still in pre-operating period.

5. BANK BALANCES AND CASH

	The Group At December 31, 2006			The Group At December 31, 2005		
	Foreign currency	Exchange rate	RMB equivalent	Foreign currency	Exchange rate	RMB equivalent
Cash on hand						
RMB	-	-	966,211	-	-	401,959
Cash in bank						
RMB	-	-	4,624,342,664	-	-	4,515,589,010
USD	102,675,776	7.8087	801,764,334	174,405,972	8.0702	1,407,491,075
EUR	6,676,043	10.2665	68,539,592	28,402,611	9.5797	272,088,493
AUD	11,401,669	6.1599	70,233,141	15,058,553	5.9119	89,024,659
HKD	455,405,431	1.0047	457,545,836	950,110,315	1.0403	988,399,761
GBP	184,695	15.3232	2,830,125	195,985	13.9122	2,726,583
Other monetary assets						
RMB	-	-	1,838,856	-	-	3,250,845
			<u>6,028,060,759</u>			<u>7,278,972,385</u>

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

6. CURRENT INVESTMENTS

	The Group At December 31, 2006			The Group At December 31, 2005		
	Cost	Provision	Net book	Cost	Provision	Net book
	RMB	RMB	value RMB	RMB	RMB	value RMB
Designated deposits						
Shandong Xinjia Industry Co., Ltd (Note1)	640,000,000	-	640,000,000	640,000,000	-	640,000,000
	The Company At December 31, 2006			The Company At December 31, 2005		
	Cost	Provision	Net book	Cost	Provision	Net book
	RMB	RMB	value RMB	RMB	RMB	value RMB
Designated deposits						
Shandong Xinjia Industry Co., Ltd (Note1)	640,000,000	-	640,000,000	640,000,000	-	640,000,000
To subsidiaries						
Yanmei Australia (Note2)	101,735,346	-	101,735,346	-	-	-
Heze Power (Note2)	213,000,000	-	213,000,000	-	-	-
	954,735,346	-	954,735,346	640,000,000	-	640,000,000

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

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

On December 4, 2006, Shan Dong Runhua Group ("Runhua Group") won in the lawsuit in which it implead Lianda Group and Huaxia Bank on stock ownership dispute. Lianda Group only retained 49,000,000 shares of Huaxia Bank total issued shares. However due to some obstacles related to the transfer of state-owned assets, the 240,000,000 shares could not be ultimately transferred to Runhua Group. Now the Company is actively seeking measures to retain the state-owned assets via certain administrative departments. A request on the case of designated deposit between the Company and Lianda Group is sent to the Supreme Court respectively by Shandong Provincial Government, State-owned Assets Supervision and Administration Commission of Shandong Municipal Government and the State Department. Given the current situation, the Company is confident of calling back the principal, interest and fined interest of the loan. So the Company does not recognize provision for impairment loss on this designated deposit this year.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

6. CURRENT INVESTMENTS (Continued)

Note 2: The designated deposit represents the instructed deposits with Bank of China Jining Branch to Yanmei Australia and Heze Power by the Company. The instructed deposit to Yanmei Australia, whose due date is in December 2007, is at interest rate of 6.31% to 6.96 % per annum. In addition, the instructed deposit to Heze Power will due in June 2007 at interest rate of 5.85% per annum.

7. NOTES RECEIVABLE

	The Group	
	At December 31,	
	2006	2005
	RMB	RMB
Bank acceptance bills	<u>2,061,620,338</u>	<u>2,100,443,880</u>

The discounted receipt amounts to RMB10,840 thousand during 2006. The carry amount of the bills that have been discounted but not yet mature as at Dec 31, 2006 is about RMB752,999 thousand.

See note 52 4(d) for notes receivable due from shareholders of the Company holding more than 5% of the total shares of the Company.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

8. ACCOUNTS RECEIVABLE

The aging analysis of accounts receivable is as follows:

The Group

Aging	At December 31, 2006				At December 31, 2005			
	Amount RMB	%	Bad debt provision RMB	Net book value RMB	Amount RMB	%	Bad debt provision RMB	Net book value RMB
Within 1 year	220,214,701	90	6,512,361	213,702,340	161,151,370	62	26,361,799	134,789,571
1 to 2 years	868,832	-	400,715	468,117	18,771	-	5,631	13,140
Over 3 years	24,533,988	10	24,533,988	-	100,332,879	38	100,332,879	-
Total	245,617,521	100	31,447,064	214,170,457	261,503,020	100	126,700,309	134,802,711

The Company

Aging	At December 31, 2006				At December 31, 2005			
	Amount RMB	%	Bad debt provision RMB	Net book value RMB	Amount RMB	%	Bad debt provision RMB	Net book value RMB
Within 1 year	187,865,506	88	6,482,172	181,383,334	161,151,370	62	26,361,799	134,789,571
1 to 2 years	868,832	-	400,715	468,117	18,771	-	5,631	13,140
Over 3 years	24,533,988	12	24,533,988	-	100,332,879	38	100,332,879	-
Total	213,268,326	100	31,416,875	181,851,451	261,503,020	100	126,700,309	134,802,711

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

Total balance of the 5 largest debtors RMB	Percentage in accounts receivable balance
176,361,500	72%

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

Total balance of the 5 largest debtors RMB	Percentage in accounts receivable balance
176,361,500	83%

See note 52 (4)d for accounts receivable due from shareholders of the Group and the Company holding more than 5% of the total shares of the Company.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

9. OTHER RECEIVABLES

Aging analysis of other receivables is as follows:

The Group

Aging	At December 31, 2006				At December 31, 2005			
	Amount RMB	%	Bad debt provision RMB	Net book value RMB	Amount RMB	%	Bad debt provision RMB	Net book value RMB
Within 1 year	135,977,544	60	6,387,178	129,590,366	143,236,071	80	14,317,977	128,918,094
1 to 2 years	55,197,068	25	2,719,717	52,477,351	11,086,622	6	1,612,650	9,473,972
2 to 3 years	9,444,907	4	1,447,336	7,997,571	6,818,719	4	2,055,759	4,762,960
Over 3 years	24,403,535	11	22,095,728	2,307,807	18,103,460	10	17,729,890	373,570
Total	225,023,054	100	32,649,959	192,373,095	179,244,872	100	35,716,276	143,528,596

The Company

Aging	At December 31, 2006				At December 31, 2005			
	Amount RMB	%	Bad debt provision RMB	Net book value RMB	Amount RMB	%	Bad debt provision RMB	Net book value RMB
Within 1 year	263,248,768	43	16,273,597	246,975,171	399,466,828	92	14,317,977	385,148,851
1 to 2 years	309,386,419	51	2,719,717	306,666,702	9,978,462	2	1,612,650	8,365,812
2 to 3 years	9,444,907	2	1,447,336	7,997,571	6,718,718	2	2,055,759	4,662,959
Over 3 years	24,111,440	4	22,095,728	2,015,712	17,729,890	4	17,729,890	-
Total	606,191,534	100	42,536,378	563,655,156	433,893,898	100	35,716,276	398,177,622

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

Total balance of the 5 largest debtors RMB	Percentage in other receivables balance
123,448,440	55%

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

Total balance of the 5 largest debtors RMB	Percentage in other receivables balance
123,448,440	20%

See note 52 (4)d for other receivables due from shareholders of the Group holding more than 5% of the total shares of the Company.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

10. PROVISION FOR BAD DEBTS

The Group

	1/1/2006 RMB	Provision RMB	Reversals RMB	Written-off RMB	31/12/2006 RMB
Provision for bad debts:					
Accounts receivables	126,700,309	1,270,725	(17,921,082)	(78,602,888)	31,447,064
Other receivables	35,716,276	1,202	(3,067,519)	–	32,649,959
Total	162,416,585	1,271,927	(20,988,601)	(78,602,888)	64,097,023

The Company

	1/1/2006 RMB	Provision RMB	Reversals RMB	Written-off RMB	31/12/2006 RMB
Provision for bad debts:					
Accounts receivables	126,700,309	1,240,537	(17,921,083)	(78,602,888)	31,416,875
Other receivables	35,716,276	9,887,620	(3,067,518)	–	42,536,378
Total	162,416,585	11,128,157	(20,988,601)	(78,602,888)	73,953,253

11. PREPAYMENTS

The aging analysis of prepayments is as follows:

Aging	The Group December 31, 2006		The Group December 31, 2005	
	RMB	%	RMB	%
Within 1 year	101,141,006	87	46,029,271	62
1 to 2 years	14,753,458	13	24,864,123	34
2 to 3 years	–	–	2,811,569	4
Total	115,894,464	100	73,704,963	100

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

Total balance of the 5 largest debtors RMB	Percentage in prepayments balance
41,111,507	35%

See note 52 (4)d for prepayments to shareholders of the Group holding more than 5% of the total shares of the Company.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

12. INVENTORIES AND PROVISION FOR DECLINE IN VALUE OF INVENTORIES

	The Group At December 31, 2006			The Group At December 31, 2005		
	Amount RMB	Provision RMB	Net book value RMB	Amount RMB	Provision RMB	Net book value RMB
Raw materials	265,122,102	-	265,122,102	256,755,014	-	256,755,014
Finished goods	314,438,645	-	314,438,645	213,746,115	-	213,746,115
	<u>579,560,747</u>	<u>-</u>	<u>579,560,747</u>	<u>470,501,129</u>	<u>-</u>	<u>470,501,129</u>

13. DEFERRED EXPENSES

	The Group At December 31	
	2006 RMB	2005 RMB
Harbour transportation fee	<u>27,286,945</u>	<u>62,444,803</u>

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

14. OTHER CURRENT ASSETS

Category	The Group			
	At January 1, 2006 RMB	Accrual for the year RMB	Payment for the year RMB	At December 31, 2006 RMB
Prepaid land subsidence, costs	<u>157,511,340</u>	<u>(731,795,747)</u>	<u>787,196,837</u>	<u>212,912,430</u>

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

Based on their past experiences, the management provides reserves according to the best estimation as they could make on the likely expenditures in the future, and reverse the accruals after payment. Considering the payment to those residents in the local mine is generally earlier than mining, if the accumulated payment is more than the accruals provided in a year, such excess of payment would be presented under current assets at the year end.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

15. LONG-TERM EQUITY INVESTMENTS

The Group		December 31, 2006 RMB	December 31, 2005 RMB
Other equity investments	(1)	62,180,693	62,180,693
Discrepancy on consolidation	(2)	231,473,839	18,936,910
		293,654,532	81,117,603
Less: Impairment loss on long-term equity investments		-	-
Long-term equity investments – net		293,654,532	81,117,603
The Company		December 31, 2006 RMB	December 31, 2005 RMB
Investment in subsidiaries	(3)	1,877,373,396	1,515,917,654
Other equity investments	(1)	62,180,693	62,180,693
Discrepancy on consolidation	(2)	231,473,839	18,936,910
Sub-total		2,171,027,928	1,597,035,257
Less: Impairment loss on long-term equity investments		-	-
Long-term equity investments – net		2,171,027,928	1,597,035,257

(1) Other equity investments

Name of investees	Investment period	Share in the registered capital of the investee (%) RMB	December 31, 2006 and December 31, 2005 RMB
Jiangsu Lianyungang Port Co., Ltd.	Infinity	0.3859%	1,760,419
Shenergy Company Limited (Note)	Infinity	0.83%	60,420,274
			62,180,693

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

15. LONG-TERM EQUITY INVESTMENTS (Continued)

(1) Other equity investments-continued

As the initial issuing shareholder of Shenneng legal person shares, the Company holds 22,323,900 non-tradable shares of Shenneng legal person shares (at a purchase price of RMB2.70 per share). Pursuant to the notice of Share Reform Plan and "Notice of Alteration in Share Construction of Shenneng Co., Ltd." issued by Shenneng Group on July 11, 2005, the non-tradable shares held by the Company would then be converted to tradable shares from August 17, 2006. As of December 31, 2006, the market value of Shenneng share is RMB7.31 per share. In the meantime the Company promised that the amount of shares it sold within 12 months since it got the tradable right would not exceed 1/3 of the total amount of its currently hold shares, while 2/3 within 24 months.

(2) Discrepancy on consolidation

Name of investees	Original cost	Amortization period	At January 1, 2006	Addition	Amortization for the year	At December 31, 2006	Arising from
		RMB	RMB	RMB	RMB	RMB	
Yanmei Shipping	11,161,512	10 years	8,929,210	-	(1,116,151)	7,813,059	Acquisition of subsidiary
Heze Power	10,007,700	10 years	10,007,700	-	(1,000,770)	9,006,930	Acquisition of subsidiary
Shanxi Power	214,653,850	10 years	-	214,653,850	-	214,653,850	Acquisition of subsidiary
	<u>235,823,062</u>		<u>18,936,910</u>	<u>214,653,850</u>	<u>(2,116,921)</u>	<u>231,473,839</u>	

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

Name of investees	Investment cost			Profit and loss adjustments			Other adjustments			Net book value		
	1/1/2006	Addition	31/12/2006	Addition/(reduce)		Cash dividend received	Addition/(reduce)		1/1/2006	31/12/2006	1/1/2006	31/12/2006
				of equity			of equity					
RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	
Zhongyan Trade	2,709,903	-	2,709,903	1,440,086	956,456	(298,581)	2,097,961	-	-	-	4,149,989	4,807,864
Yanmei Shipping	530,372	-	530,372	1,074,656	8,439,432	-	9,514,088	-	-	-	1,605,028	10,044,460
Yulin Power	776,000,000	-	776,000,000	-	-	-	-	-	-	-	776,000,000	776,000,000
Yanmei Australia	191,285,954	211,996,000	403,281,954	(31,123,317)	(372,158,637)	-	(403,281,954)	-	-	-	160,162,637	-
Heze Power	574,000,000	-	574,000,000	-	-	-	-	-	-	-	574,000,000	574,000,000
Shanxi Power	-	518,692,350	518,692,350	-	(6,738,844)	-	(6,738,844)	-	567,566	567,566	-	512,521,072
	<u>1,544,526,229</u>	<u>730,688,350</u>	<u>2,275,214,579</u>	<u>(28,608,575)</u>	<u>(369,501,593)</u>	<u>(298,581)</u>	<u>(398,408,749)</u>	<u>-</u>	<u>567,566</u>	<u>567,566</u>	<u>1,515,917,654</u>	<u>1,877,373,396</u>

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

16. LONG-TERM DEBT INVESTMENT

The Company	December 31, 2006 RMB	December 31, 2005 RMB
Designated deposit (Note)	<u>1,132,504,700</u>	<u>162,200,000</u>
Long-term debt investment due after one year	<u>1,132,504,700</u>	<u>162,000,000</u>

Note: Details of designated deposit are as follow:

Trustee	Borrower	Investment cost RMB	Annual interest	Maturity	Accumulated interest		Impairment RMB	Closing balance RMB
					Interest of this term RMB	receivable or interest received RMB		
Bank of China Co., Ltd. Jining Branch	Yancoal Australia	632,504,700	USD 12 months LIBOR+150BP	June 20, 2012	-	-	-	632,504,700
Bank of China Co., Ltd. Jining Branch	Yulin Power	500,000,000	6.30%	October 20, 2009	5,425,000	5,425,000	-	500,000,000

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

17. FIXED ASSETS AND ACCUMULATED DEPRECIATION

	The Group							Total RMB
	Lands (Note1) RMB	Buildings RMB	Mining structure RMB	Railway structure RMB	Harbor works and craft RMB	Plant, machinery and equipment RMB	Transportation equipment RMB	
Cost								
At January 1, 2006	53,029,742	2,199,529,833	3,908,554,834	879,685,419	250,230,769	8,340,253,411	347,237,996	15,978,522,004
Increasing resulting from								
acquisition of a subsidiary	-	91,908,034	129,703,255	-	-	190,374,674	26,128,554	438,114,517
Additions (Note 2)	-	15,724,775	15,377,909	-	-	257,147,401	2,139,549	290,389,634
Exchange realignment	2,224,560	279,978	-	-	-	7,802,553	22,171	10,329,262
Transfer from fixed								
assets under construction	-	196,575,530	-	5,011,503	118,120	1,238,710,215	10,102,083	1,450,517,451
Disposals	-	(47,599,938)	(31,762,634)	-	-	(878,537,922)	(17,246,519)	(975,147,013)
At December 31, 2006	55,254,302	2,456,418,212	4,021,873,364	884,696,922	250,348,889	9,155,750,332	368,383,834	17,192,725,855
Accumulated depreciation								
At January 1, 2006	-	1,049,086,669	1,597,017,499	365,865,571	12,136,192	4,660,376,579	218,239,951	7,902,722,461
Increasing resulting from								
acquisition of a subsidiary	-	-	337,190	-	-	828,508	405,635	1,571,333
Provided for the year	-	135,346,937	91,133,321	53,709,548	6,069,528	705,777,157	35,655,924	1,027,692,415
2006 transfer in (Note 2)	-	103,640,769	-	-	-	249,358,307	-	352,999,076
Eliminated on disposals	-	(41,411,146)	(475,583)	-	-	(828,954,226)	(16,608,955)	(887,449,910)
At December 31, 2006	-	1,246,663,229	1,688,012,427	419,575,119	18,205,720	4,787,386,325	237,692,555	8,397,535,375
Net book value								
At January 1, 2006	53,029,742	1,150,443,164	2,311,537,335	513,819,848	238,094,577	3,679,876,832	128,998,045	8,075,799,543
At December 31, 2006	55,254,302	1,209,754,983	2,333,860,937	465,121,803	232,143,169	4,368,364,007	130,691,279	8,795,190,480
Include:								
Fully depreciated F.A								
Cost	-	1,908,780	-	832,529	-	29,950,319	1,948,088	34,639,716

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

Note 2: The machinery and equipment, amount to RMB352,999,076, are purchased with Work Safety Expense by the Company in the current year to ensure the production safety according to the regulation of State Administration of Coal Mine Safety.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

18. MATERIALS HELD FOR CONSTRUCTION OF FIXED ASSETS

The Group

Category	December 31, 2006 RMB	December 31, 2005 RMB
Materials held for construction	<u>525,897,325</u>	<u>194,334,918</u>

19. FIXED ASSETS UNDER CONSTRUCTION

Category	The Group							Source of funds
	At January 1, 2006 RMB	Acquired on acquisition of subsidiary RMB	Additions RMB	Transfers upon completion RMB	At December 31, 2006 RMB	Budget RMB	Proportion to budget %	
Equipment to be installed	143,887,072	9,534,000	1,703,004,426	(1,188,672,307)	667,753,191	963,650,000	69	internally generated fund
Buildings under construction	453,552,789	59,563,016	1,021,551,115	(232,018,065)	1,302,648,855	1,648,230,000	79	internally generated fund
Others	113,796,980	16,510,377	126,639,161	(29,827,079)	227,119,439	326,670,000	70	internally generated fund
Total	<u>711,236,841</u>	<u>85,607,393</u>	<u>2,851,194,702</u>	<u>(1,450,517,451)</u>	<u>2,197,521,485</u>	<u>2,938,550,000</u>		

No interest was capitalized for the year.

20. INTANGIBLE ASSETS

Category	The Group								
	Original amount RMB	At January 1, 2006 RMB	Addition RMB	Addition resulted from acquisition of subsidiary RMB	Amortization for the year RMB	Exchange realignment RMB	Accumulated amortization RMB	At December 31, 2006 RMB	Remaining amortization period
Land use rights	310,242,143	259,882,454	1,404,860	-	(6,216,590)	-	(55,171,419)	255,070,724	40 years and 11 months
Land use rights of Jining III	88,928,996	80,036,096	-	-	(1,778,580)	-	(10,671,480)	78,257,516	44 years
Mining rights of Jining III	132,478,800	99,339,006	-	-	(6,623,940)	-	(39,743,734)	92,735,066	14 years
Land use rights of Railway Assets	259,378,500	238,628,220	-	-	(5,187,570)	-	(25,937,850)	233,440,650	45 years
Goodwill	120,000,000	83,350,000	-	-	(13,890,000)	-	(50,540,000)	69,460,000	5 years
Mining right of Southland	56,277,886	53,905,632	-	-	(4,940,480)	2,261,303	(5,051,431)	51,226,455	19 years
Land use right of Heshun Tianchi	11,378,132	-	-	11,378,132	(349,003)	-	(349,003)	11,029,129	45 years and 11 months
	<u>978,684,457</u>	<u>815,161,408</u>	<u>1,404,860</u>	<u>11,378,132</u>	<u>(38,986,163)</u>	<u>2,261,303</u>	<u>(187,464,917)</u>	<u>791,219,540</u>	

The original land use rights are injected by Yankuang Group. The land use rights of Jining III and Railway Assets and mining rights of Jining III were acquired from Yankuang Group at revaluated amount. On December 31, 2006, the registration process in respect of the land use rights of Railway Assets has not yet been completed.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

20. INTANGIBLE ASSETS (Continued)

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

Goodwill represents the excess of the purchase consideration of Railway Assets over the net assets of Railway Assets at the date of acquisition.

Austar acquired mining rights of Southland through Southland Coal Pty limited at market value.

The land use right of Heshun Tianchi is purchased from the local government.

21. LONG-TERM DEFERRED EXPENSES

	The Group				
	At January 1, 2006 RMB	Increase resulting from acquisition of a subsidiary RMB	Addition RMB	Amortization for the year RMB	At December 31, 2006 RMB
Pre-operation expense:					
Heze Power	26,818,597	-	17,474,816	-	44,293,413
Austar Coal Mine	121,801,480	-	261,819,067	(383,620,547)	-
Tianhao Chemical	-	20,931,019	2,322,281	-	23,253,300
Yulin Power	-	-	28,730,865	-	28,730,865
Prepayment for resource compensation fees of Heshun Tianchi(Note)	-	25,387,850	-	(320,522)	25,067,328
	<u>148,620,077</u>	<u>46,318,869</u>	<u>310,347,029</u>	<u>(383,941,069)</u>	<u>121,344,906</u>

Note: In accordance with the relevant regulations, Heshun Tianchi is required to pay resources compensation fees to the Heshun Municipal Coal Industry Bureau at a rate of RMB2.7 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.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

22. OTHER LONG-TERM ASSETS

Included in the group and company balance, there is a investment deposit amount to RMB97,425,900 relating to Yushuwan Coal Ming. Pursuant to agreements the Company entered into with other two parties, the three parties plan to establish Yushuwan Coal Mine in Yulin, Shanxi. Related formalities are still in progress as at December 31, 2006.

23. NOTES PAYABLE

	The Group At December 31	
	2006 RMB	2005 RMB
Commercial notes payable	137,843,036	136,779,128
Bank notes payable	31,102,018	-
	<u>168,945,054</u>	<u>136,779,128</u>

24. ACCOUNTS PAYABLE

See note 52 (4)d for accounts payable due to shareholders of the Group holding more than 5% of the total shares of the Company.

25. ADVANCES FROM CUSTOMERS

See note 52 (4)d for amounts advanced from shareholders of the Group holding more than 5% of the total shares of the Company.

26. SALARIES AND WAGES PAYABLE

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

27. TAXES PAYABLE

	December 31, 2006 RMB	December 31, 2005 RMB
Income tax	150,333,137	647,286,994
Value added tax	134,232,491	126,084,888
City construction tax	24,252,668	45,010,917
Resource Tax	22,909,986	40,456,209
Others	24,324,070	38,363,313
	<u>356,052,352</u>	<u>897,202,321</u>

28. OTHER PAYABLES

See note 52 (4)d for other payables due to shareholders of the Group holding more than 5% of the total shares of the Company.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

29. LONG-TERM LOAN

Lender	The Group At December 31, 2006 RMB	The Group At January 1, 2006 RMB	Annual Interest Period	Rate	Condition for Loan
Bank of China	-	200,000,000	From January 4, 2002 to August 25, 2006	5.76%	Guaranteed by Yankuang Group
China Minsheng Bank	160,000,000	-	From December 28, 2005 to December 22, 2009	Note1	Guaranteed by Yankuang Group
State Development Bank	220,000,000	-	From March 15, 2006 to February 19, 2018	Note2	Guaranteed by Yankuang Group
Less: Long-term loan due within one year	50,000,000	200,000,000			
Long-term loan due after one year	330,000,000	-			
	380,000,000	200,000,000			

Note1: The loan initially carries interest at 5.85% per annum and is subject to adjustment based on interest rate stipulated by the People Bank of China ("PBOC").

Note2: The loan carries interest at 6.21% per annum and subject to adjustment based on interest rate stipulated by the PBOC.

30. LONG-TERM PAYABLE

	The Group At December 31	
	2006 RMB	2005 RMB
Payable for acquisition of Jining III's mining rights (Note1)	52,991,760	66,239,560
Reform and Specific Development Fund (Note2)	447,372,175	269,945,150
Work Safety Expense (Note3)	22,345,810	91,461,646
Work Safety Expense of Shanxi (Note4)	7,861,986	-
	530,571,731	427,646,356
Less: Long-term payable due within one year	43,455,596	104,709,446
Long-term payable due after one year	487,116,135	322,936,910
	530,571,731	427,646,356

Note1: The amount represents the remaining balances of payable to Yankuang Group for acquisition of Jining III's mining rights, details of which are set out in note 52(4)a.

Note2: According to the joint regulation of Shandong Province Finance Bureau, State-owned Assets Supervision and Administration Commission of Shandong Municipal government, from July 1, 2004, Reform and Specific Development Fund is accrued at RMB 5 per ton raw coal mined and will be used for related expenditures on mine construction.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

30. LONG-TERM PAYABLE (Continued)

Note3: According to the relevant regulation of State Administration of Coal Mine Safety, from May 1, 2004, Work Safety Expense is accrued at RMB8 per ton raw coal mined, and will be used on work safety related expenditure for coal mines. The Company expects to fully use the remaining balance before the end of 2007.

Note4: Pursuant to "Administration of Coal Mine Safety" released by State-owned Assets Supervision and Administration Commission of Shanxi Municipal government according to the relevant regulations, Work Safety Expense is accrued at RMB15 per ton raw coal mined of Heshun Tianchi, and will be used on work safety related expenditure for coal mines. Heshun Tianchi expects to fully use the remaining balance before the end of 2007.

31. SHARE CAPITAL

Changes in share capital from January 1, 2006 to December 31, 2006 are as follow:

	January 1, 2006	Addition (Reduce) Share Reform	December 31, 2006
(1) Unlisted shares			
Initiation shares	2,672,000,000	(2,672,000,000)	–
Sub-total	2,672,000,000	(2,672,000,000)	–
(2) Listed shares with restricted trading condition			
Initiation shares	–	2,600,000,000	2,600,000,000
Sub-total	–	2,600,000,000	2,600,000,000
(3) Listed shares			
1.A-shares	288,000,000	72,000,000	360,000,000
2.H-shares	1,958,400,000	–	1,958,400,000
Total of listed shares	2,246,400,000	72,000,000	2,318,400,000
(4) Total share capital	4,918,400,000	–	4,918,400,000

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

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

31. SHARE CAPITAL (Continued)

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

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

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

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

Each share has a par value of RMB1.

32. CAPITAL RESERVES

Changes in capital reserves from January 1, 2006 to December 31, 2006 are as follows:

	The Group			At December 31, 2006 RMB
	At January 1, 1, 2006 RMB	Additions RMB	Reversals RMB	
Share premium	3,257,734,238	-	-	3,257,734,238
Transfer from Wei Jian Fei (Note)	1,607,746,553	213,479,995	-	1,821,226,548
Total	4,865,480,791	213,479,995	-	5,078,960,786

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

32. CAPITAL RESERVES (Continued)

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

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

Note: Wei Jian Fei is used for purchase of coal production equipment and refurbishment of coal mining structure and the corresponding amounts are transferred from other current liabilities to capital reserves when the construction facilities are put into use.

33. SURPLUS RESERVES

Changes in surplus reserves from January 1, 2006 to December 31, 2006 are as follows:

	The Group		Total RMB
	Statutory common reserve fund RMB	Statutory common welfare fund RMB	
At January 1, 2006	1,019,141,038	509,649,665	1,528,790,703
Additions	175,821,286	–	175,821,286
Transferred in (out)	509,649,665	(509,649,665)	–
At December 31, 2006	1,704,611,989	–	1,704,611,989

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

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

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

33. SURPLUS RESERVES (Continued)

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

According to the policy of "Solution of company financial problems after the implement of "Company Law"" which was released by the Ministry of Finance on March 15, 2006, the Company stopped appropriating the statutory common welfare fund from 2006, the remaining balance of the statutory common welfare fund was transferred to the statutory common reserve fund.

34. UNAPPROPRIATED PROFITS

		2006 RMB	2005 RMB
At January 1		5,843,971,924	4,522,052,692
Add: Net profit for the year		1,749,341,072	2,495,481,451
Less: Appropriations to:			
Statutory common reserve fund	Note1	175,821,286	249,548,146
Statutory common welfare fund	Note2	-	124,774,073
Profit available for distribution		7,417,491,710	6,643,211,924
Less: Dividend paid – cash dividend approved by the shareholders' meeting of last year	Note 3	1,082,048,000	799,240,000
At December 31		<u>6,335,443,710</u>	<u>5,843,971,924</u>
Including: cash dividend proposed after the balance sheet date	Note 4	<u>983,680,000</u>	<u>1,082,048,000</u>

Note 1: Appropriations to statutory common reserve fund

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

Note 2: Appropriations to statutory public welfare fund

The Company stopped appropriating the statutory common welfare fund from Jan 1, 2006.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

34. UNAPPROPRIATED PROFITS (Continued)

Note 3: Dividend paid – Cash dividend approved by the shareholders' meeting of last year

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

Note 4: Cash dividends proposed after the balance sheet date

According to the minute of Board of Directors date April 20, 2007, final dividend of RMB2.0 per ten shares for every ten shares issued by conversion from capital reserve is proposed based on the total issued shares of 4,918,400,000 (each share with a par value of RMB1). The declaration and payment of the final dividend are subject to the approval of the shareholders' meeting of the Company.

35. REVENUE FROM PRINCIPAL OPERATIONS

The Group

	2006 RMB	2005 RMB
Revenue from domestic sales of coal products	9,972,289,601	8,885,946,648
Revenue from export sales of coal products	3,086,518,268	3,650,541,278
Revenue from railway transportation services	165,487,803	169,041,979
	<u>13,224,295,672</u>	<u>12,705,529,905</u>

The Company

	2006 RMB	2005 RMB
Revenue from domestic sales of coal products	9,949,836,713	8,885,946,648
Revenue from export sales of coal products	2,972,108,821	3,650,541,278
Revenue from railway transportation services	165,487,803	169,041,979
	<u>13,087,433,337</u>	<u>12,705,529,905</u>

Total amount of the 5 largest customers is RMB2,930,630,158, which accounts for 22% in total revenue.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

35. REVENUE FROM PRINCIPAL OPERATIONS (Continued)

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

36. COST OF PRINCIPAL OPERATIONS

	The Group	
	For the period ended	
	December 31,	
	2006	2005
	RMB	RMB
Cost of sales of coal products (Note)	6,689,030,352	5,803,337,413
Cost of the railway transportation services	101,503,526	103,782,505
	<u>6,790,533,878</u>	<u>5,907,119,918</u>

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

	2006	2005
	RMB	RMB
Materials	1,317,418,286	1,134,166,366
Wages	1,317,070,060	1,087,878,740
Employee welfare	189,401,443	135,781,077
Electricity	334,581,508	279,990,861
Depreciation	855,889,777	862,793,619
Land subsidence, restoration, rehabilitation and environmental costs	738,107,613	636,589,854
Repairs	326,726,053	339,839,490
Safety Work Expense	283,883,240	277,241,872
Reform and Specific Development Fund	177,427,025	173,276,170
VAT input transfer out	152,339,033	152,762,677
Transportation fee	106,527,780	97,548,212
Others	676,033,832	417,537,071
Subtotal	<u>6,475,405,650</u>	<u>5,595,406,009</u>
Wei Jian Fei	213,624,702	207,931,404
Total	<u>6,689,030,352</u>	<u>5,803,337,413</u>

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

36. COST OF PRINCIPAL OPERATIONS (Continued)

	The Company	
	For the period ended	
	December 31,	
	2006	2005
	RMB	RMB
Coal cost	6,439,852,359	5,804,613,330
Transportation cost	101,503,526	103,782,505
	<u>6,541,355,885</u>	<u>5,908,395,835</u>

37. SALES TAXES AND SURCHARGES

	The Group	
	For the period ended	
	December 31,	
	2006	2005
	RMB	RMB
Business tax	4,964,634	5,071,259
City construction tax	93,188,839	90,570,153
Education fee	53,231,994	51,773,063
Resource tax	128,945,444	111,090,254
	<u>280,330,911</u>	<u>258,504,729</u>

38. PROFITS FROM OTHER OPERATIONS

	The Group	
	For the period ended	
	December 31,	
	2006	2005
	RMB	RMB
Sales of raw materials		
– Sales	1,187,200,798	810,909,188
– Cost of sales	1,137,577,616	774,159,646
	<u>49,623,182</u>	<u>36,749,542</u>
Others		
– Income	46,922,887	33,767,202
– Cost	24,245,159	26,842,615
	<u>22,677,728</u>	<u>6,924,587</u>
	<u>72,300,910</u>	<u>43,674,129</u>

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

39. OPERATING EXPENSES

	The Group	
	For the period	
	ended December 31,	
	2006	2005
	RMB	RMB
Selling expense of domestic sales of coal products	358,413,521	268,033,858
Selling expense of export sales of coal products	578,205,367	662,069,317
Others	101,379,018	67,273,865
	<u>1,037,997,906</u>	<u>997,377,040</u>

40. FINANCIAL EXPENSES

	The Group	
	For the period	
	ended December 31,	
	2006	2005
	RMB	RMB
Interest expenses	23,202,250	20,752,000
Less: interest income	78,055,613	85,970,245
Exchange loss(Less: gain)	8,731,147	98,680,918
Others	9,985,607	11,730,373
	<u>(36,136,609)</u>	<u>45,193,046</u>

41. INVESTMENT INCOME

	The Group	
	For the period	
	ended December 31,	
	2006	2005
	RMB	RMB
Short-term investment income		
– Interest income from designated deposits	–	5,743,756
Long-term investment income		
– Profits declared by investee under cost method	6,311,225	4,464,780
– Amortization of long-term equity investment difference	(2,116,921)	(1,116,151)
	<u>4,194,304</u>	<u>9,092,385</u>

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

41. INVESTMENT INCOME (Continued)

The Company	2006 RMB	2005 RMB
Short-term investment income		
– Interest income from designated deposits	40,328,833	5,743,756
Long-term investment income		
– Share of investees' profit recognized under equity method	(369,501,593)	(29,731,227)
– Profits declared by investee under cost method	6,311,225	4,464,780
– Amortization of long-term equity investment difference	(2,116,921)	(1,116,151)
	<u>(324,978,456)</u>	<u>(20,638,842)</u>

42. SUBSIDY INCOME

The subsidy income represents the subsidy of RMB 4,000,000, which is granted by Ministry of Commerce, according to the Announcement [2005] No.146, to used in foreign investment in resource industry and in supporting the prophase construction of the foreign economic cooperation.

43. NON-OPERATING INCOME

	The Group For the period ended December 31,	
	2006 RMB	2005 RMB
Gain on disposal of fixed assets	5,915,662	2,007,090
Others	5,193,462	389,944
	<u>11,109,124</u>	<u>2,397,034</u>

44. NON-OPERATING EXPENSES

	The Group For the period ended December 31,	
	2006 RMB	2005 RMB
Loss on disposal of fixed assets	79,439,311	2,533,695
Donations	543,000	4,002,788
Fines and Others	9,579,814	7,390,595
	<u>89,562,125</u>	<u>13,927,078</u>

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

45. INCOME TAXES

	The Group	
	For the period	
	ended December 31,	
	2006	2005
	RMB	RMB
Income tax of the Company (1)/(2)	1,284,833,595	1,371,716,644
Addition payment of income tax	–	42,462,677
Income tax of subsidiaries	716,405	682,511
	<u>1,285,550,000</u>	<u>1,414,861,832</u>

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

46. NET PROFIT AFTER NON-RECURRING PROFIT AND LOSS

	The Group	
	For the period	
	ended December 31,	
	2006	2005
	RMB	RMB
Net profit	1,749,341,072	2,495,481,451
Add/less: Extraordinary gain		
– Loss (gains) on disposal of fixed assets	73,523,649	526,605
– Other deductible non-operating expenditure	10,122,814	11,393,383
– Other deductible non-operating revenue	(5,193,462)	(389,944)
– Subsidiary income	(4,000,000)	–
– Entrust investment revenue	–	(5,743,756)
Income tax effect for non-recurring profit and loss	(24,160,067)	629,788
Net profit after non-recurring profit and loss	<u>1,799,634,006</u>	<u>2,501,897,527</u>

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

47. OTHER CASH RECEIVE RELATING TO OPERATING ACTIVITIES

	The Group For the period ended December 31,	
	2006 RMB	2005 RMB
Other operating income	394,798,307	102,929,417
Non operating income	5,193,463	389,944
Interest income	78,055,613	85,873,522
Subsidy income	4,000,000	-
Receive cash from funds paid for on other's behalf	454,220,837	399,645,497
Total	936,268,220	588,838,380

48. OTHER CASH PAID RELATING TO OPERATING ACTIVITIES

	The Group For the period ended December 31,	
	2006 RMB	2005 RMB
Other payments for operating and administrative expenses	1,539,814,212	1,495,050,267
Other operating expenses	362,956,628	94,318,481
Others	318,392,817	257,123,274
Total	2,221,163,657	1,846,492,022

49. ACQUISITION OF SUBSIDIARY

According to the equity transfer agreement and supplementary agreement between the Company and Yankuang Group, the Company would pay RMB733,346,200 for 98% equity interest in Yangkuang Shanxi Power Chemical Co., Ltd. As at December 31, 2006, the purchase price has been fully paid. The equity transfer is approved by State-owned Assets Supervision and Administration Commission of Shandong Province and the Shareholders' meeting of the Company in November, 2006. The Company has been renamed as Yankuang Shanxi Power Chemical Co., Ltd. The acquisition was completed in November 2006.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

49. ACQUISITION OF SUBSIDIARY (Continued)

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

	The effective date of acquisition RMB
Current assets	334,599,837
Fixed assets	436,543,184
Materials held for construction of fixed assets	106,824,635
Fixed assets under construction	85,607,393
Intangible assets	11,378,132
Long-term deferred expenses	46,318,869
Current liabilities	(152,240,050)
Long-term liabilities	(338,974,652)
Minority interests	(779,440)
Net assets	529,277,908
Minority interests	(10,585,558)
The Company's share of net assets	518,692,350
Discrepancy on consolidation	214,653,850
Total	<u>733,346,200</u>
Net cash flow from acquisition of subsidiary	
Cash Consideration	733,346,200
Less: Cash and bank balances of the acquired subsidiary	289,142,324
	<u>444,203,876</u>

The operating result of the subsidiary from the effect date of acquisition to the balance sheet date is as follows:

	From effective date of acquisition to December 31, 2006 RMB
Profit from principal operations	3,977,160
Less: Operating expenses	12,942,198
Operating loss	(8,965,038)
Add: Non operating income	964,304
Minority interest	1,124,363
Total loss	(6,876,371)
Minority interest	(137,527)
The Company's share of total loss	<u>(6,738,844)</u>

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

50. CASH AND CASH EQUIVALENTS

Group	December 31, 2006 RMB	December 31, 2005 RMB
Bank balances and cash	6,028,060,759	7,278,972,385
Less: Restricted cash (Note 1)	117,585,327	36,550,789
	<u>5,910,475,432</u>	<u>7,242,421,596</u>

Note 1: The amounts represent the deposits placed in banks secured for the future payment of land subsidence, restoration, rehabilitation and environmental costs of Austar under the request of Australia government; and for issuing letter of credit and bank acceptance.

Company	December 31, 2006 RMB	December 31, 2005 RMB
Bank balances and cash	5,615,399,136	6,297,641,649
Less: Restricted cash (Note 2)	15,503,032	–
	<u>5,599,896,104</u>	<u>6,297,641,649</u>

Note 2: The amounts represent the deposits placed in banks secured for issuing letter of credit.

51. SEGMENT INFORMATION

Item	Coal mining business RMB	Railway transportation business RMB	Inter-segment elimination RMB	Unallocated items RMB	Total RMB
1. Operating revenue					
External	14,292,931,554	165,487,803	–	–	14,458,419,357
Inter-segment	–	206,769,553	(206,769,553)	–	–
Total	<u>14,292,931,554</u>	<u>372,257,356</u>	<u>(206,769,553)</u>	<u>–</u>	<u>14,458,419,357</u>
2. Cost of sales					
External	8,131,184,038	101,503,526	–	–	8,232,687,564
Inter-segment	–	140,494,286	(140,494,286)	–	–
Total	<u>8,131,184,038</u>	<u>241,997,812</u>	<u>(140,494,286)</u>	<u>–</u>	<u>8,232,687,564</u>
3. Total operating expenses	<u>2,676,273,070</u>	<u>116,506,683</u>	<u>(66,275,267)</u>	<u>393,736,027</u>	<u>3,120,240,513</u>
4. Total operating profits	<u>3,485,474,446</u>	<u>13,752,861</u>	<u>–</u>	<u>(393,736,027)</u>	<u>3,105,491,280</u>
5. Total assets	<u>14,742,002,743</u>	<u>933,986,515</u>	<u>–</u>	<u>7,218,144,145</u>	<u>22,894,133,403</u>
6. Total liabilities	<u>3,786,555,051</u>	<u>20,367,522</u>	<u>–</u>	<u>994,701,756</u>	<u>4,801,624,329</u>

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

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

52. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

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

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

Name of related parties	At January 1,	Additions	December 31,
	2006		2006
	RMB	RMB	RMB
Yankuang Group	3,090,336,000	263,051,627	3,353,387,627
Zhongyan Trade	2,100,000	-	2,100,000
Yanmei Shipping	5,500,000	-	5,500,000
Yulin Power	800,000,000	-	800,000,000
Yanmei Australia	191,285,954	211,996,000	403,281,954
Austar Coal Mine	191,285,954	211,996,000	403,281,954
Heze Power	600,000,000	-	600,000,000
Shanxi Power	-	600,000,000	600,000,000
Heshun Tianchi	-	90,000,000	90,000,000
Tianhao Chemical	-	150,000,000	150,000,000

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

52. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

Name of related parties	January 1, 2006		Addition		Reversal		December 31, 2006	
	RMB	%	RMB	%	RMB	%	RMB	%
Yankuang Group	2,672,000,000	54.33	-	-	(72,000,000)	(1.47)	2,600,000,000	52.86
Zhongyan Trade	1,100,000	52.38	-	-	-	-	1,100,000	52.38
Yanmei Shipping	5,060,000	92.00	-	-	-	-	5,060,000	92.00
Yulin Power	776,000,000	97.00	-	-	-	-	776,000,000	97.00
Yanmei Australia	191,285,954	100.00	211,996,000	-	-	-	403,281,954	100.00
Austar Coal Mine	191,285,954	100.00	211,996,000	-	-	-	403,281,954	100.00
Heze Power	574,000,000	95.67	-	-	-	-	574,000,000	95.67
Shanxi Power	-	-	588,000,000	98	-	-	588,000,000	98.00
Heshun Tianchi	-	-	73,179,000	81.31	-	-	73,179,000	81.31
Tianhao Chemical	-	-	149,775,000	99.85	-	-	149,775,000	99.85

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

- (a) Acquisition of Jining III

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

By December 31, 2006, the Company had paid RMB2,530,390,000 to Yankuang Group for the above acquisition, including the consideration of RMB2,450,900,000 and the mining rights of RMB79,490,000. Included in the above payment, RMB13,248,000 was paid in current year for acquisition of the mining rights.

According to the agreement, the Company will pay the interest-free consideration for the cost of mining rights over ten years by equal installments before December 31 of each year commencing from year 2001. The Company is scheduled to pay for the mining rights of RMB13,248,000 as the seventh installment before December 31, 2007.

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

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

52. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

(b) Sales and purchases

	For the period ended December 31,	
	2006 RMB'000	2005 RMB'000
Sales and service provided		
Sales of coal – Yankuang Group and its affiliates	1,069,879	856,580
Public utilities and facilities income		
– Yankuang Group and its affiliates	–	29,000
Material and spare parts sales		
– Yankuang Group and its affiliates	496,221	369,855
	<u>1,566,100</u>	<u>1,255,435</u>
Purchases-Yankuang Group and its affiliates	<u>458,329</u>	<u>341,935</u>

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

(c) Construction services

	For the period ended December 31,	
	2006 RMB'000	2005 RMB'000
Mining construction for Zhaolou Mine	53,574	–
Construction of methane project in Yulin	161,149	–
YMC Rescue Center	52,060	–
YMC Nantun Coal Transportation System	39,875	–
	<u>306,658</u>	<u>–</u>

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

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

52. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

(d) Amount due to or from related parties

Account	Company	December 31, 2006 RMB	December 31, 2005 RMB
Notes receivable	Yankuang Group and its affiliates	57,195,006	7,495,158
Accounts receivable	Yankuang Group and its affiliates	9,655,076	2,915,543
Other receivables (Note)	Yankuang Group and its affiliates	39,919,268	49,153,257
Prepayments	Yankuang Group and its affiliates	1,570,374	4,100,645
		<u>108,339,724</u>	<u>63,664,603</u>
Accounts payable	Yankuang Group and its affiliates	76,620,248	20,637,078
Advances from customers	Yankuang Group and its affiliates	58,022,475	52,533,644
Other payables (Note)	Yankuang Group and its affiliates	955,249,117	473,671,303
Long-term payable due within one year (Note 30 and 52(4)a)	Yankuang Group and its affiliates	13,247,800	13,247,800
Long-term payables (Note 30 and 52(4)a)	Yankuang Group and its affiliates	39,743,960	52,991,760
		<u>1,142,883,600</u>	<u>613,081,585</u>

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

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

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

52. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

(e) Other transactions

- (1) Pursuant to an agreement signed between the Company and Yankuang Group, Yankuang Group manages the retirement benefits, medical benefits and other benefits of the two companies and makes combined payments of the total retirement benefits of the two companies to the government department in charge of the related funds. Amount charged to expenses of the Company for the year of 2006 and 2005 are RMB839,924,000 and RMB685,252,000 respectively.
- (2) Pursuant to an agreement signed by the Company and Yankuang Group, the department and subsidiaries of Yankuang Group provided the following services and charged related service fees during the year:

	2006 RMB'000	2005 RMB'000
Electricity	349,095	351,313
Repairs and maintenance	246,841	197,624
Technical support and training fee	20,000	15,130
Mining rights fees (Note)	12,980	12,980
Public utilities expenses	9,275	4,640
Road transportation fee	63,448	53,346
Gases and eructate expenses	26,000	11,020
Buildings management fee	86,200	37,200
Children tuition fee	40,800	16,600
Others	53,700	15,530
Total	<u>908,339</u>	<u>715,383</u>

Note: 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 February 1998, 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.

- (3) Total amount of salaries paid to key management, including salaries, welfare and subsidies paid in the form of cash, goods and others, for the year of 2006 and 2005 are RMB4,111,103 and RMB5,906,139 respectively.
- (4) During the years of 2005 and 2006, the Company and Yankuang Group have made payments or collected receipts to or from individual third party or government authorities on behalf of each other, in respect of goods purchased, services received, other expenses and insurances. These payments and receipts made on behalf of the other have been recorded in other payables.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2006

53. CAPITAL COMMITMENTS

	December 31, 2006 RMB'000	December 31, 2005 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
-Purchase of assets	<u>1,221,884</u>	<u>920,907</u>

54. SUBSEQUENT EVENTS

- Pursuant to No. 33 Notice of the Ministry of Finance and Caikuai [2006] No. 3, the Company will adopt the new Accounting Principles of Enterprises from January 1, 2007 and make certain adjustments to its balance sheet as of January 1, 2007 according to the requirements of "Chapter 38 of the Accounting Principles of Enterprises-for those who first adopt the Accounting Principles of Enterprises". Given the new accounting principles and the Company's current situation, the Company has already worked out appropriate accounting policies and also made reasonable accounting estimates which have been approved by the board of directors of the Company. As for the effects on the shareholder's equity as of January 1, 2007 brought by the changes in the accounting policies because of the adoption of the new accounting principles, the Company has already worked out reconciliation between the two versions of the accounting principles on shareholder's equity. This reconciliation is disclosed as the supplementary information to the financial statements.
- On January 11, 2007, the Company made an agreement with Yankuang Lunan Fertilizer Factory who held the remaining 2% of Shanxi Power share. In the agreement the Company would acquire that 2% shares at a price of RMB 14,966,200. The relevant procedures on property rights transfer completed on January 23, 2007. The Company holds 100% of Shanxi Power share.
- On March 16, 2007, "Enterprise Income Tax Law of People's Republic of China" (named "New Enterprise Income Tax Law" as follows) was issued on behalf of PRC President as the No. 63 Announcement. The new Enterprise Income Tax Law will come into effect from January 1, 2008. At that specific moment, the company and its subsidiaries will pay the enterprise income tax according to the new Enterprise Income Tax Law.

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

For the year ended 31 December 2006

55. OTHER IMPORTANT EVENTS

Pursuant to the supplementary agreement between Yankuang Group and the Company on the acquisition of Heze Power share, Yankuang Group made an irrevocable claim that as soon as it got the mining rights of Zhaolou Mine and Wanfu Mine, the Company had the rights to acquire the mining rights within 12 months from that specific date. Furthermore, if any of the following matters occurred before June 30, 2006: (1) Heze Power failed to obtain the land use rights of Zhaolou Mine and its coal cleaning factory; (2) Yankuang Group failed to obtain the mining rights of Zhaolou Mine; (3) Any other factors led to the Group's failure in acquiring Zhaolou Mine's mining rights; the Company had the rights to send back its 95.67% share of Heze Power to the Group. Yankuang Group should pay back the Company the acquisition price, the net capital investment made by the Company to Heze Power, and the interest at a rate of 10% per annum for a twelve-month period. As at March 5, 2007, Yankuang Group had already obtained certain approval from the government on the land use rights of Heze Power coal cleaning factory with some procedures still in the process. And the mining rights of Zhaolou Mine was also successfully obtained on June 28, 2006. The remaining procedures on transferring of the land use rights and mining rights will complete within the year 2007.

56. APPROVE OF FINANCIAL STATEMENTS

The Company and the Group financial statements have been approved by board of directors on April 20, 2007.