Notes to the Consolidated Financial Statements

For the year ended 31 December 2006
(Amounts expressed in thousands of RMB except per share data or unless otherwise stated)

1 ORGANISATION AND PRINCIPAL ACTIVITIES

China Coal Energy Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 22 August 2006 as a joint stock company with limited liability under the Company Law of the PRC as a result of a group restructuring of China National Coal Group Corporation ("China Coal Group" or the " Parent Company") in preparing for a listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Restructuring"). The Company and its subsidiaries (collectively the "Group") is principally engaged in mining and processing of coal, sales of coal and coke products and manufacturing and sales of coal mining machinery. The address of the Company's registered office is 1 Huang Si Da Jie, Chaoyang District, Beijing, the PRC.

China Coal Group is a state-owned enterprise established in the PRC in December 1981. Prior to the establishment of the Company, the Group's principal activities were carried out by companies wholly owned or controlled by China Coal Group (the "Predecessor Operations").

Pursuant to the Restructuring, the Company issued 8 billion domestic ordinary shares of RMB1.00 per share to China Coal Group in exchange for all subsidiaries now comprising the Group as well as certain assets, liabilities and operations (collectively referred to as the "Transferred Businesses") previously owned by China Coal Group. The Transferred Businesses comprised mainly operations in relation to:

(i) Coal and coke production, including the operating mines and planned mines as well as China Coal Group's equity interest in certain mining companies and coking companies;
(ii) Trading of coal and coke to customers in the PRC and overseas;
(iii) Manufacturing and sales of coal mining machinery ; and
(iv) Others (including, among others, power plants, a primary aluminium factory and coal mine design institutes).

In connection with the Restructuring, certain assets, liabilities and interests historically associated with the Predecessor Operations were not transferred to the Company and were retained by China Coal Group. These assets, liabilities and interests are principally related to: (i) coal business of certain overseas trading companies; (ii) non-coal related businesses; (iii) ownership of certain assets and liabilities including schools, hospitals, office buildings, staff quarters, bank balances, investments in securities and tax liabilities, and (iv) provisions of other social welfare and the operations that provided ancillary support services.

The H shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited in December 2006.

Notes to the Consolidated Financial Statements

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2 BASIC OF PRESENTATION

Prior to and following the Restructuring, the Transferred Businesses were and are directly or indirectly controlled by China Coal Group. Accordingly, the Restructuring has been accounted for as a reorganisation of businesses under common control in a manner similar to a uniting of interests.

The consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2006 including comparative figures, have been prepared on the merger basis as if the Company had been the holding company of those companies comprising the Group throughout the two years ended 31 December 2005 and 2006 presented, or since their respective dates of incorporation/ establishment or from the effective dates of acquisition/ up to the effective dates of disposal.

In addition to the Transferred Businesses, the consolidated financial statements also include the assets, liabilities and results of operations of the Retained Businesses that are relevant to the operations of the Transferred Businesses (the "Retained Businesses"). Although these Retained Businesses were not transferred to the Company, the results of these Retained Businesses are combined with the Transferred Businesses up to the date of Restructuring. This is because the Retained Businesses and the Transferred Businesses are under common control and management of China Coal Group and their businesses together with the assets and liabilities are closely related to those of the Group.

The following are the combined financial position and results of operations of these Retained Businesses that are included in the consolidated financial statements:

(i) Assets and liabilities

	As at 22 August 2006 (date of Restructuring)	As at 31 December 2005
Property, plant and equipment	420,765	445,952
Land use rights	6,008	6,117
Intangible assets	225	95
Investments in associates	164,053	75,775
Available-for-sale financial assets	68,245	—
Deferred tax assets	1,269	—
Inventories	122,131	139,373
Trade and other receivables	864,392	1,186,733
Financial asset at fair value through profit or loss	15,260	—
Cash and cash equivalents	40,133	107,327
Trade and other payables	(808,557)	(1,012,405)
Borrowings	(80,500)	(32,000)
Provision for employee benefits	(791)	—
	812,633	916,967

(Amounts expressed in thousands of RMB except per share data or unless otherwise stated)

2 BASIC OF PRESENTATION (continued)

(ii) Results of operations

	For the period from 1 January 2006 to 22 August 2006 (date of Restructuring)	Year ended 31 December 2005
Revenue	3,867,308	7,629,281
Others gains	689	9,303
Profit from operations	85,525	94,405
Finance costs	(6,112)	(2,302)
Income tax expense	(11,945)	(25,898)
Profit for the year/period	67,468	66,205

As a result of the segregation and separate management of the Retained Businesses by China Coal Group effective on 22 August 2006, the above assets and liabilities retained by China Coal Group were reflected as a distribution to the Parent Company in the consolidated statement of changes in equity for the year ended 31 December 2006.

In September 2006, the Company obtained approval from the PRC government to acquire the remaining 20% equity interests in Shanxi China Coal Pingshuo Antaibao Coal Company Limited ("Antaibao"), a jointly controlled entity, from China Coal Group and another joint venture partner at aggregate consideration of approximately RMB247,653,000. Upon completion of such acquisition in September 2006, Antaibao became a wholly owned subsidiary of the Group.

The acquisition is a combination of businesses under common control since the Company, China Coal Group and the other joint venture partner are under the common control of the PRC government. As a result, the Company accounted for the acquisition in a manner similar to a uniting of interests, and consolidated financial statements for the year ended 31 December 2006 have been prepared to give effect to the acquisition at the beginning of the year presented as if the operations of the Group and Antaibao had been combined since 1 January 2006. The difference between the consideration paid of RMB247,653,000 and the net assets of Antaibao as at 1 January 2006 amounting to RMB263,997,000 has been reflected as a deemed contribution.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006
(Amounts expressed in thousands of RMB except per share data or unless otherwise stated)

2 BASIC OF PRESENTATION (continued)

(ii) Results of operations (continued)

As the financial impact of the acquisition is not material to the consolidated financial statements for the year ended 31 December 2005, the Directors have not restated the previously reported results of operations and assets and liabilities of the Group for that year. The summarised results of operations and the financial position for the 20% interest in Antaibao as at 31 December 2005 and for the year then ended are set out below:

Result of operations:

	For the year ended 31 December 2005
Revenue	424,926
Profit for the year attributable to equity holders of the Company	72,313
Basic and diluted earnings per share for profit attributable to the equity holders of the Company (RMB)	0.01

Financial positions:

	As at 31 December 2005
Total assets	409,050
Total liabilities	(145,053)
Net assets	263,997

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain investments at fair value as disclosed in the accounting policies below.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 5.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied throughout the years presented, unless otherwise stated.

Standards, interpretations and amendments to published standards effective in 2006 and relevant to the operations of the Group are summarised as follows:

- IFRIC Interpretation 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC Interpretation 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (i) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the "asset"); and (ii) the arrangement conveys a right to use the asset. Based on management's assessment, there was no material impact from the adoption of IFRIC Interpretation 4 to the consolidated financial statements of the Group.

- IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006): IFRS 6 introduces the recognition, measurement and disclosure requirement of exploration for and evaluation of mineral resources. IFRS 6 specifies the circumstances in which entities that recognise exploration and evaluation assets should test for impairment. Since the exploration and evaluation activities of coal mines currently undertaken by the Group are not significant, management considered no material impact from implementation of IFRS 6 on the consolidated financial statements of the Group.

Standards, interpretations and amendments to published standards effective in 2006 but not relevant to the operations of the Group are summarised as follows:

• IAS 19 (Amendment)	Employee Benefits;
• IAS 21 (Amendment)	Net Investment in a Foreign Operation;
• IAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
• IAS 39 (Amendment)	The Fair Value Option;
• IAS 39 and IFRS 4 (Amendment)	Financial Guarantee Contracts;
• IFRS 1 (Amendment)	First-time Adoption of International Financial Reporting Standards;
• IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;
• IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006
(Amounts expressed in thousands of RMB except per share data or unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Certain new standards, interpretations and amendments to published standards have been published, that are relevant to the operations of the Group, but not yet effective and have not been early adopted are summarised as follows:

- IFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from annual periods beginning on or after 1 January 2007). IFRS 7 introduces new disclosures relating to financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from 1 January 2007.

- IFRS 8, Operating Segments (effective from annual periods beginning on or after 1 January 2009). IFRS 8 replaces IAS 14, Segment Reporting and specifies how an entity should report information about its operating segments in annual financial statements and, as a consequential amendment to IAS 34, Interim Financial Reporting, requires an entity to report selected information about its operating segments in interim financial reports. This standard also sets out requirements for related disclosures about products and services, geographical areas and major customers. Management is currently assessing the impact of this IFRS on the accounting policies of the Group.

- IFRIC Interpretation 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. Management considered there will be no significant impact from adopting IFRIC Interpretation 10 on the consolidated financial statements of the Group. The Group will apply IFRIC Interpretation 10 from 1 January 2007.

- IAS 23 (revised 2007), Borrowing Costs (effective from 1 January 2009). The current version of IAS 23 provides management with a policy choice. Management can opt to capitalise borrowing costs relating to qualifying assets or expense the borrowing costs. IAS 23 (revised 2007) removes this option and requires management to capitalise borrowing costs attributable to qualifying assets. Qualifying assets are assets that take a substantial time to get ready for their intended use or sale. Management considered there will be no significant impact from adopting IAS 23 (revised 2007) on the consolidated financial statements of the Group. The Group will apply the IAS 23 (revised 2007) from 1 January 2009.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Group accounting

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions among group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 3(k)). The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in equity. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(iii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses are recognised in the income statement, and its share of post-acquisition movements in reserves are recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006
(Amounts expressed in thousands of RMB except per share data or unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Group accounting (continued)

(iii) Associates (continued)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses (Note 3(k)). The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

(iv) Jointly controlled entities

A jointly controlled entity is a joint venture in respect of which a contractual arrangement is established among the participating venturers and whereby the Group together with the other venturers undertake an economic activity which is subject to joint control and none of the venturers has unilateral control over the economic activity. The Group's interest in jointly controlled entities is accounted for by proportionate consolidation. Under this method, the Group includes its share of the jointly controlled entities' individual income and expenses, assets and liabilities and cash flows in the relevant components of the financial statements on a line-by-line basis.

The Group recognises the portion of gains or losses on the sale of assets to jointly controlled entities that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from jointly controlled entities that result from the purchase of assets by the Group from jointly controlled entities until the Group resells the assets to an independent party. However, if a loss on the transaction provides evidence of a reduction in the net realisable value of current assets, or an impairment loss, the loss is recognised immediately.

In the Company's balance sheet the investments in jointly controlled entities are stated at cost less provision for impairment losses (Note 3(k)). The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

(b) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns different from those of segments operating in other economic environments.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "Functional Currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the Functional Currency using the applicable exchange rates quoted by the People's Bank of China prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, other than those capitalised as construction in progress, are recognised in the income statement.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit and loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the fair value reserve in equity.

(iii) Group companies

The results and financial positions of all the group entities (none of which has the currency of a hyperinflationary economy) that have a Functional Currency different from the presentation currency are translated into the presentation currency as follows:

(1) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(2) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(3) All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings, are taken to equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

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(Amounts expressed in thousands of RMB except per share data or unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Exploration and evaluation expenditure

Exploration and evaluation expenditure comprises costs which are directly attributable to: researching and analysing existing exploration data; conducting geological studies, exploratory drilling and sampling; examining and testing extraction and treatment methods; and compiling pre-feasibility and feasibility studies. Exploration and evaluation expenditure also includes the costs incurred in acquiring mining rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

During the initial stage of a project, exploration and evaluation costs are expensed as incurred. Expenditure on a project after it has reached a stage at which there is a high degree of confidence in its viability is capitalised and transferred to property, plant and equipment if the project proceeds. If a project does not prove viable, all irrecoverable costs associated with the project are expensed in the income statement.

(e) Property, plant and equipment

Property, plant and equipment, which consist of buildings, mining structures, plant, machinery and equipment, railway structures and motor vehicles, fixtures and others, are stated at historical cost, less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Repairs and maintenance are charged to the income statement in the period incurred.

Other than mining structures, depreciation of each asset is calculated using the straight-line method to allocate its cost less its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Buildings	10-50 years
Plant, machinery and equipment	8-18 years
Railway structures	25-30 years
Motor vehicles, fixtures and others	5-15 years

Mining structures (including the main and auxiliary mine shafts and underground tunnels) are depreciated on the units of production method utilising only proved coal reserves in the depletion base.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3(k)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the consolidated income statement.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Deferred overburden removal costs

Stripping ratios are determined by comparing the quantity of coal mined to the quantity of overburden, or waste removed to access the coal. Costs are deferred to the balance sheet, where appropriate, when the actual stripping ratios vary from the planned mine average stripping ratios. Deferral of costs to the balance sheet is not made where the actual stripping ratio is expected to be evenly distributed. Costs, which have previously been deferred to the balance sheet (deferred overburden removal costs), are included in the income statement on a units of production basis utilising average stripping ratios. Changes in estimates of average stripping ratios are accounted for prospectively from the date of the change.

(g) Construction in progress

Construction in progress represents property, plant and equipment under construction or pending installation, and is stated at cost less impairment losses. Cost comprises direct costs of construction including borrowing costs attributable to the construction during the period of construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use.

(h) Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods varying from 20 to 50 years. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use right.

(i) Mining rights

Mining rights are stated at cost less accumulated amortisation and impairment losses and are amortised on the units of production method utilising only proved and probable coal reserves in the depletion base.

(j) Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years. Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(l) Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in "trade receivables", "prepayments and other receivables" and "long-term receivables" in the balance sheet.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Financial assets (continued)

(iii) Available-for-sale financial assets (continued)

Regular purchases and sales of investments are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payment is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available for sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss, and translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustment recognised in equity is included in the income statement as "gains or losses from investment securities". Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payment is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on equity specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Notes to the Consolidated Financial Statements

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads based on normal operating capacity. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion and the applicable variable selling expenses.

(n) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtors, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within "selling, general and administrative expenses". When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against selling, general and administrative expenses in the income statement.

(o) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(r) Employee benefits

(i) Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement benefit plans administered by the PRC government. The relevant government agencies undertake to assume the retirement benefit obligation payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

(ii) Early retirement benefits

Employee early retirement benefits are recognised in the period in which the Group enters into an agreement with the employee specifying the terms of early retirement or after the individual employee has been advised of the specific terms. The specific terms vary among the early retired employees depending on various factors including position, length of services and district of the employee concerned. Early retirement benefits falling due more than 12 months after the balance sheet date are discounted to present value.

(iii) Housing benefits

All full-time employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre – tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(t) Provisions for close down, restoration and environmental costs

One consequence of coal mining is land subsidence caused by the resettlement of the land at the mining sites. Depending on the circumstances, the Group may relocate inhabitants from the mining sites prior to conducting mining activities or the Group may compensate the inhabitants for losses or damage from close down and land subsidence after the sites have been mined. The Group may also be required to make payments for restoration, rehabilitation or environmental protection of the land after the sites have been mined.

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Close down and restoration costs are provided in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during mine development or during the production phase, based on the net present value of estimated future costs. The cost is capitalised where it gives rise to future benefits, whether the rehabilitation activity is expected to occur over the life of the operation or at the time of close down. The capitalised cost is amortised over the life of the operation and the increase in the net present value of the provision is included in borrowing costs. Where there is a change in the expected decommissioning and restoration costs, an adjustment is recorded against the carrying value of the provision and related assets, and the effect is then recognised in the income statement on a prospective basis over the remaining life of the operation. Provisions for close down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The cost estimates are reviewed and revised at each balance sheet date to reflect changes in conditions.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sales of goods

Revenue associated with the sale of coal, coke, mining machinery and ancillary materials and other goods is recognised when the goods have been delivered to the customer and there is no unfulfilled obligation that could affect the customer’s acceptance of the goods.

(ii) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered.

(iii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(iv) Dividend income

Dividend income is recognised when the right to receive payment is established.

(v) Borrowing costs

Borrowing costs comprise interest incurred on borrowings, amortisation of discounts or premiums, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset. Other borrowing costs are recognised as expenses and included as finance costs in the period in which they are incurred.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(x) Dividend distributions

Dividends are recognised as a liability in the period in which they are approved by the Company's shareholders.

(y) Government grants

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants related to costs are deferred and recognised in the income statement over the periods necessary to match them with the related costs that they are intended to compensate.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk, cash flow and fair value interest-rate risk. In addition, the Group's operations are affected by certain commodity price fluctuations. The Group historically has not used derivative instruments for hedging or trading purposes. The majority of the financial instruments held by the Group are for purposes other than trading.

(a) Market risk

(i) Foreign exchange risk

The Group's operations (such as export sales, imports of machinery and equipment, and foreign currency borrowings (Note 23(i)) expose it to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar and Japanese Yen. In addition, the RMB is not freely convertible into other foreign currencies and conversion of the RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. The Group historically has not used any forward contracts or other means to hedge the potential fluctuations in foreign exchange rates.

(ii) Commodity price risk

The Group is principally engaged in the production and sale of coal and coke. The coal and coke markets are influenced by global as well as regional supply and demand conditions. A decline in prices of coal or coke could adversely affect the Group's financial performance. The Group historically has not used any commodity derivative instruments to hedge the potential price fluctuations of coal or coke.

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents, time deposits, trade and notes receivable and other current assets except for prepayments included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Group's historical experience in collection of trade and other receivables falls within the recorded allowance and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the financial statements.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities (Note 23(j)). Due to the dynamic nature of the underlying businesses, the Group maintains a reasonable level of cash and cash equivalents, and further supplements this by keeping committed credit lines available.

The Group's primary cash requirements have been for purchases of materials, machinery and equipment and payment of related debts. The Group finances its working capital requirements through a combination of funds generated from operations, bank loans and the net proceeds from the initial public offering.

(d) Cash flow and fair value interest risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk mainly arises from borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The Group historically has not used any financial instruments to hedge potential fluctuations in interest rates.

4.2 Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, deposits in approved financial institutions, trade and other receivables; and financial liabilities including trade and other payables and short-term borrowings, approximate their fair values due to their short maturities. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year, if any, are assumed to approximate their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair values of long-term borrowings are disclosed in Note 23(h).

Notes to the Consolidated Financial Statements

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5 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Carrying value of non-current assets

Non-current assets, including property, plant and equipment, land use rights, mining rights and intangible assets, are carried at cost less accumulated amortisation. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

(ii) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or it will write – off or write – down technically obsolete or non – strategic assets that have been abandoned or sold.

(iii) Trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the provision at each balance sheet date.

(iv) Income taxes

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. In addition, the realisation of future income tax assets is dependent on the Group's ability to generate sufficient taxable income in future years to utilise income tax benefits and income tax loss carry-forwards. Deviations of future profitability from estimates or in the income tax rate would result in adjustments to the value of future income tax assets and liabilities that could have a significant effect on earnings.

5 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

(v) Provision for close down, restoration and environmental costs

The provision for close down, restoration and environmental costs is determined by management based on their past experience and best estimation of future expenditures, after taking into account existing relevant PRC regulations. However, in so far as the effect on the land and the environment from current mining activities becomes apparent in future years, the estimate of the associated costs may be subject to revision from time to time.

6 REVENUE AND SEGMENT INFORMATION

(a) Primary reporting format – business segments

The Group organises its business into four main business segments:

- Coal - Production and sales of coal;
- Coke - Production and sales of coke;
- Machinery - Manufacturing and sales of mining machinery; and
- Others, including design of mining structures, trading of other products, generation and sales of electric power, production and sale of primary aluminium, transportation services and agency services. None of these constitutes a separately reportable segment.

Segment assets and liabilities are those assets and liabilities as disclosed in the consolidated balance sheets.

Capital expenditure comprises additions to property, plant and equipment (Note 7), land use rights (Note 8), mining rights (Note 9) and intangible assets (Note 10).

Notes to the Consolidated Financial Statements

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6 REVENUE AND SEGMENT INFORMATION (continued)

(a) Primary reporting format – business segments (continued)

	2006					
	Coal	Coke	Machinery	Others	Inter-segment eliminations	Total
Segment results						
Revenue						
– External	23,831,884	2,034,821	2,346,222	2,013,578	—	30,226,505
– Inter-segment	211,864	—	392,611	261,876	(866,351)	—
	24,043,748	2,034,821	2,738,833	2,275,454	(866,351)	30,226,505
Profit from operations	4,620,162	76,956	214,484	294,522	(33,231)	5,172,893
Finance costs (Note 29)						(480,764)
Share of profits of associates						32,637
Profit before income tax						4,724,766
Income tax expense						(1,340,918)
Profit for the year						3,383,848
Segment assets and liabilities						
Assets						
Segment assets	16,380,852	2,670,682	2,103,269	4,212,791	(1,039,035)	24,328,559
Unallocated assets						20,785,178
Total assets						45,113,737
Liabilities						
Segment liabilities	6,902,945	422,726	1,273,462	3,035,600	(941,098)	10,693,635
Unallocated liabilities						11,782,349
Total liabilities						22,475,984
Other segment information						
Depreciation	867,077	59,861	43,749	161,378	—	1,132,065
Amortisation	6,845	2,920	2,089	2,314	—	14,168
(Reversal of)/provision for impairment of receivables	(2,503)	973	(5,941)	(1,690)	—	(9,161)
Capital expenditure	3,150,652	207,486	319,466	134,071	—	3,811,675

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6 REVENUE AND SEGMENT INFORMATION (continued)

(a) Primary reporting format – business segments (continued)

2005	Coal	Coke	Machinery	Others	Inter-segment eliminations	Total
Segment results						
Revenue						
– External	25,147,700	1,591,275	1,891,185	1,431,115	—	30,061,275
– Inter-segment	226,661	—	120,230	195,177	(542,068)	—
	25,374,361	1,591,275	2,011,415	1,626,292	(542,068)	30,061,275
Profit from operations	4,107,506	112,161	94,222	102,387	12,351	4,428,627
Finance costs (Note 29)						(112,340)
Share of losses of associates						(6,070)
Profit before income tax						4,310,217
Income tax expense						(758,772)
Profit for the year						3,551,445
Segment assets and liabilities						
Assets						
Segment assets	16,454,877	2,354,372	1,901,072	3,185,395	(735,553)	23,160,163
Unallocated assets						3,601,950
Total assets						26,762,113
Liabilities						
Segment liabilities	8,401,806	627,303	1,171,971	1,044,719	(383,898)	10,861,901
Unallocated liabilities						11,306,295
Total liabilities						22,168,196
Other segment information						
Depreciation	796,614	32,520	34,970	128,364	—	992,468
Amortisation	3,894	594	515	30	—	5,033
Provision for impairment of receivables	22,781	—	1,818	2,855	—	27,454
Capital expenditure	1,662,917	718,252	159,669	557,354	—	3,098,192

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6 REVENUE AND SEGMENT INFORMATION (continued)

(b) Secondary reporting format – geographical segments

The Group's three geographical segments by location of customers are as follows:

— Domestic markets - Customers who are located in the PRC.
— Asia Pacific markets - Export sales to customers who are located outside the PRC, principally in Korea, Japan and Taiwan.
— Other markets - Export sales to customers who are located outside the PRC and the Asia Pacific region.

The Group's production or service facilities and other assets are principally located in the PRC. Accordingly, only geographical analysis of revenue is presented.

Revenue is based on the country in which the customer is located.

Analysis of revenue by geographical segment	2006	2005
Domestic markets	22,937,176	21,780,547
Export sales – Asia Pacific markets	6,633,081	7,725,304
Export sales – other markets	656,248	555,424
	30,226,505	30,061,275

Analysis of revenue by category	2006	2005
Sales of goods	29,559,631	29,326,023
Revenue from services	666,874	735,252
	30,226,505	30,061,275

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7 PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Mining structures	Plant, machinery and equipment	Railway structures	Motor vehicles, fixtures and others	Construction in progress	Total
At 1 January 2005							
Cost	3,423,459	2,723,911	6,810,121	638,837	402,642	2,773,677	16,772,647
Accumulated depreciation	(1,025,405)	(738,498)	(2,984,540)	(227,295)	(156,596)	—	(5,132,334)
Net book value	2,398,054	1,985,413	3,825,581	411,542	246,046	2,773,677	11,640,313
Year ended 31 December 2005							
Beginning of the year	2,398,054	1,985,413	3,825,581	411,542	246,046	2,773,677	11,640,313
Additions	126,255	42,083	310,610	—	51,181	2,490,708	3,020,837
Transfer upon completion	920,257	248,371	1,916,781	2,719	27,338	(3,115,466)	—
Disposals	(15,300)	—	(14,989)	—	(5,317)	(14,570)	(50,176)
Depreciation	(181,312)	(193,348)	(559,049)	(24,586)	(34,173)	—	(992,468)
End of the year	3,247,954	2,082,519	5,478,934	389,675	285,075	2,134,349	13,618,506
At 31 December 2005							
Cost	4,448,468	3,014,365	8,876,677	641,556	461,291	2,134,349	19,576,706
Accumulated depreciation	(1,200,514)	(931,846)	(3,397,743)	(251,881)	(176,216)	—	(5,958,200)
Net book value	3,247,954	2,082,519	5,478,934	389,675	285,075	2,134,349	13,618,506
Year ended 31 December 2006							
Beginning of the year	3,247,954	2,082,519	5,478,934	389,675	285,075	2,134,349	13,618,506
Additions	124,638	209,409	704,791	—	71,848	2,690,711	3,801,397
Transfer upon completion	1,032,619	8,050	1,596,096	21,904	2,415	(2,661,084)	—
Acquisition of 20% shares of Antaibao	34,419	42,444	146,126	3,372	5,213	4,344	235,918
Disposals	(10,658)	(61,601)	(70,207)	—	(3,644)	(2,049)	(148,159)
Distribution to Parent Company in connection with the Restructuring	(255,622)	—	(96,131)	—	(28,841)	(40,171)	(420,765)
Depreciation	(165,004)	(180,796)	(688,995)	(27,075)	(70,195)	—	(1,132,065)
End of the year	4,008,346	2,100,025	7,070,614	387,876	261,871	2,126,100	15,954,832
At 31 December 2006							
Cost	5,326,586	3,214,969	11,320,069	685,385	473,165	2,126,100	23,146,274
Accumulated depreciation	(1,318,240)	(1,114,944)	(4,249,455)	(297,509)	(211,294)	—	(7,191,442)
Net book value	4,008,346	2,100,025	7,070,614	387,876	261,871	2,126,100	15,954,832

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7 PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Buildings	Plant, machinery and equipment	Motor vehicles, fixtures and others	Construction in progress	Total
Year ended 31 December 2006					
Beginning of the year	—	—	—	—	—
Additions	963,641	566,866	97,145	632,916	2,260,568
Depreciation	(182,455)	(93,849)	(38,721)	—	(315,025)
End of the year	781,186	473,017	58,424	632,916	1,945,543
At 31 December 2006					
Cost	963,641	566,866	97,145	632,916	2,260,568
Accumulated depreciation	(182,455)	(93,849)	(38,721)	—	(315,025)
Net book value	781,186	473,017	58,424	632,916	1,945,543

Notes:

(a) As at 31 December 2006, bank borrowings of the Group were secured by certain property, plant and equipment with a net book value of RMB157,427,000 (31 December 2005: RMB133,068,000) (Note 23(j)).

(b) As at 31 December 2006, certain buildings of the Group with a carrying value totalling RMB153,936,000 were without title certificates. The Group is in the process of applying for the title certificates for these buildings.

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8 LAND USE RIGHTS

	Group	Company
At 1 January 2005		
Cost	105,399	—
Accumulated amortisation	(10,227)	—
Net book value	95,172	—
Year ended 31 December 2005		
Beginning of the year	95,172	—
Additions	65,929	—
Disposals	(29)	—
Amortisation charge	(2,026)	—
End of the year	159,046	—
At 31 December 2005		
Cost	171,299	—
Accumulated amortisation	(12,253)	—
Net book value	159,046	—
Year ended 31 December 2006		
Beginning of the year	159,046	—
Additions	5,165	50,878
Disposals	(8,583)	—
Distribution to Parent Company in connection with the Restructuring	(6,008)	—
Amortisation charge	(7,615)	(3,282)
End of the year	142,005	47,596
At 31 December 2006		
Cost	153,608	50,878
Accumulated amortisation	(11,603)	(3,282)
Net book value	142,005	47,596

The Group's land use rights represent prepaid operating lease payments for leasehold land located in the PRC with lease periods of between 20 to 50 years.

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9 MINING RIGHTS

	Group
At 1 January 2005	
Cost	80,285
Accumulated amortisation	(5,288)
Net book value	74,997
Year ended 31 December 2005	
Beginning of the year	74,997
Amortisation charge	(1,752)
End of the year	73,245
At 31 December 2005	
Cost	80,285
Accumulated amortisation	(7,040)
Net book value	73,245
Year ended 31 December 2006	
Beginning of the year	73,245
Amortisation charge	(3,158)
End of the year	70,087
At 31 December 2006	
Cost	80,285
Accumulated amortisation	(10,198)
Net book value	70,087

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10 INTANGIBLE ASSETS

	Group	Company
At 1January 2005		
Cost	8,571	—
Accumulated amortisation	(3,927)	—
Net book value	4,644	—
Year ended 31 December 2005		
Beginning of the year	4,644	—
Additions	11,426	—
Amortisation charge	(1,255)	—
End of the year	14,815	—
At 31 December 2005		
Cost	19,997	—
Accumulated amortisation	(5,182)	—
Net book value	14,815	—
Year ended 31 December 2006		
Beginning of the year	14,815	—
Additions	5,113	11,698
Disposals	(919)	—
Distribution to Parent Company in connection with the Restructuring	(225)	—
Amortisation charge	(3,395)	(1,686)
End of the year	15,389	10,012
At 31 December 2006		
Cost	22,196	11,698
Accumulated amortisation	(6,807)	(1,686)
Net book value	15,389	10,012

Intangible assets mainly represent computer software.

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11 INVESTMENTS IN SUBSIDIARIES

	2006
Investments, at cost:	
Shares listed in the PRC	2,197,058
Unlisted shares	19,505,545
	21,702,603
Market value of listed shares	3,253,090

12 INVESTMENTS IN ASSOCIATES

	Group		Company
	2006	2005	2006
Beginning of the year	98,911	96,518	—
Additions	630,866	15,059	478,060
Disposals	(8,771)	(6,596)	—
Distribution to Parent Company in connection with the Restructuring	(164,053)	—	—
Share of profits/(losses)	32,637	(6,070)	—
End of the year	589,590	98,911	478,060

Summary of the Group's interest in its associates, all of which are unlisted, is as follows:

	Group	
	2006	2005
Total assets	2,454,155	678,114
Total liabilities	(1,864,565)	(579,203)
Revenue	600,100	350,795
Net profits/(losses)	32,637	(6,070)

Particulars of the Group's associates are set out in Note 40(iii).

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13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company
	2006	2005	2006
Beginning of the year	125,749	93,480	—
Additions	109,850	35,272	2,070
Disposals	(30,800)	(3,003)	—
Distributed to Parent Company in connection with the Restructuring	(68,245)	—	—
End of the year	136,554	125,749	2,070

Available-for-sale financial assets comprising principally unlisted equity securities, are classified as non-current assets unless they are expected to be realised within twelve months of the balance sheet date.

Dividend income from available-for-sale investments was RMB7,514,000 in 2006 (2005: RMB12,612,000).

14 LOANS TO SUBSIDIARIES

The Company borrowed bank loans from PRC banks and on-lend such loans to its subsidiaries at interest rates ranging from 5.18% to 6.39% with maturities from 5 years to 13 years. Such balances and interest have been eliminated in the consolidated balance sheet and income statement.

15 LONG-TERM RECEIVABLE

Long-term receivable represents amounts advanced to certain jointly controlled entities (31 December 2006: RMB172,600,000, 31 December 2005: nil) and third parties (31 December 2006: RMB201,907,000, 31 December 2005: nil) to ensure stable supply of raw materials. The amounts are unsecured, bearing interest at 0% to 5.51% per annum during the year and repayable in 2 to 4 years time.

16 INVENTORIES

	Group		Company
	2006	2005	2006
Coal	614,506	800,305	71,544
Coke	239,757	98,766	—
Machinery for sale	530,788	443,048	—
Auxiliary materials, spare parts and tools	1,095,106	1,224,068	10,202
	2,480,157	2,566,187	81,746

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17 TRADE AND NOTES RECEIVABLE

	Group		Company
	2006	2005	2006
Trade receivables, net (note (a))	2,393,402	2,947,409	706,873
Notes receivable (note (b))	358,520	439,275	1,440
	2,751,922	3,386,684	708,313

Notes:

(a) Trade receivables are analysed as follows:

	Group		Company
	2006	2005	2006
Trade receivables			
– Parent Company	—	16,036	—
– Fellow subsidiaries	—	47,108	—
– Jointly controlled entities	—	52,787	—
– Associates	6,088	29,639	—
– Other related parties	133,426	71,189	—
– Other state-owned enterprises	1,370,982	1,636,019	370,634
– Others	882,906	1,094,631	336,239
Trade receivables, net	2,393,402	2,947,409	706,873

Aging analysis of trade receivables on each balance sheet date is as follows:

	Group		Company
	2006	2005	2006
1 - 6 months	1,996,423	2,454,100	696,400
7 - 12 months	202,096	302,725	466
1 - 2 years	147,149	118,496	2
2 - 3 years	70,202	84,738	44
Over 3 years	153,236	228,212	26,504
Trade receivables, gross	2,569,106	3,188,271	723,416
Less: Impairment of receivables	(175,704)	(240,862)	(16,543)
Trade receivables, net	2,393,402	2,947,409	706,873

The credit period of trade receivables is generally from 3 months to 6 months.

Trade receivables from related parties are unsecured, interest free and repayable in accordance with the relevant contract entered into between the Group and the related parties.

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, domestically and internationally dispersed.

(Amounts expressed in thousands of RMB except per share data or unless otherwise stated)

17 TRADE AND NOTES RECEIVABLE (continued)

Notes: (continued)

(b) Notes receivable are bills of exchange with maturity of less than one year.

(c) The carrying amounts of trade and notes receivable are denominated in the following currencies:

	Group		Company
	2006	2005	2006
RMB	2,227,907	2,604,123	708,313
US Dollar	524,015	576,580	—
Japanese Yen	—	81,000	—
Euro	—	812	—
HK Dollar	—	124,169	—
	2,751,922	3,386,684	708,313

(d) The carrying amounts of trade and notes receivable approximate their fair values.

18 PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company
	2006	2005	2006
Advances to suppliers (note (a))	1,234,394	1,302,186	166,035
Amounts due from related parties, gross (note (b))	128,844	1,050,149	2,133,499
Loan to associates (note (c))	149,500	174,872	—
Other receivables	292,764	572,025	77,758
	1,805,502	3,099,232	2,377,292

Notes:

(a) Advances to suppliers are analysed as follows:

	Group		Company
	2006	2005	2006
Advances to suppliers			
– Fellow subsidiaries	—	5,155	—
– Associates	3,280	—	—
– Other related parties	3,377	—	3,377
– Other state-owned enterprises	520,360	604,783	105,887
– Others	707,377	692,248	56,771
	1,234,394	1,302,186	166,035

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18 PREPAYMENTS AND OTHER RECEIVABLES (continued)

Notes: (continued)

(b) Amounts due from related parties are analysed as follows:

	Group		Company
	2006	2005	2006
Amounts due from related parties, gross			
– Parent Company	—	380,741	—
– Subsidiaries	—	—	2,096,425
– Fellow subsidiaries	—	16,094	—
– Jointly controlled entities	—	176,877	—
– Associates	24,356	18,560	21,734
– Other related parties	23,540	263,249	—
– Other state-owned enterprises	80,948	194,628	15,340
	128,844	1,050,149	2,133,499

Amounts due from related parties are unsecured, interest free and have no fixed repayment term.

(c) The loan to associates represents amounts lent to associates to finance their operations. The amounts are unsecured, bear interest of 6.90% per annum during the year (2005: 5.58% to 6.90%) and repayable in one year.

(d) The carrying amounts of prepayments and other receivables approximate their fair values.

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise primarily investments in PRC listed debt and equity securities.

20 BANK DEPOSITS

	Group		Company
	2006	2005	2006
Restricted bank deposits (note (a))	27,280	15,949	12,760
Term deposits with initial terms of over three months	136,562	46,377	—
Cash and cash equivalents			
– Cash on hand	1,864	1,471	43
– Deposits with banks and other financial institutions	18,222,385	3,138,846	15,722,624
	18,388,091	3,202,643	15,735,427

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20 BANK DEPOSITS (continued)

Notes:

(a) Restricted bank deposits mainly include deposits held as security for the letters of credit of the Group.

(b) For the years ended 31 December 2006, the weighted average effective interest rate range on deposits was 0.71% to 3.80%, (2005: 0.71% to 1.33%) per annum.

(c) Deposits and cash and cash equivalents are denominated in the following currencies:

	Group		Company
	2006	2005	2006
RMB	4,291,258	2,663,254	2,365,741
US Dollar	643,026	520,797	16,528
HK Dollar	13,419,236	82	13,353,158
Euro	33,192	3,738	—
Japanese Yen	1,252	576	—
Other currencies	127	14,196	—
	18,388,091	3,202,643	15,735,427

Cash and cash equivalents are principally HK Dollar-denominated and RMB-denominated deposits placed with banks and non-bank financial institutions in the PRC. The conversion of RMB-denominated deposits into foreign currencies and remittance out of the PRC are subject to certain PRC rules and regulations of foreign exchange control promulgated by the PRC government. Also, the exchange rates are determined by the PRC government.

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21 SHARE CAPITAL

	Number of shares (thousands)	Nominal Value
Registered, issued and fully paid		
Domestic shares of RMB1.00 each	7,626,667	7,626,667
H shares of RMB1.00 each	4,106,663	4,106,663
As at 31 December 2006	11,733,330	11,733,330

A summary of the movement in the Company's issued share capital for the period from 22 August 2006 (date of incorporation of the Company) to 31 December 2006 is as follows:

	Domestic shares	H shares	Total
Incorporation on 22 August 2006 (note (a))	8,000,000	—	8,000,000
Issue of new shares upon listing (note (b))	(373,333)	4,106,663	3,733,330
At 31 December 2006	7,626,667	4,106,663	11,733,330

Notes:

(a) The Company was incorporated on 22 August 2006, with an initial registered share capital of RMB8 billion divided into 8 billion shares with a nominal value of RMB1.00 each. The entire registered capital ("the Domestic Shares") were issued, credited as fully paid to China Coal Group, the Parent Company, in consideration for the transfer of the assets, liabilities and operations of the Transferred Businesses to the Company pursuant to the Restructuring as referred to in Note 1 to the consolidated financial statements.

The Domestic shares rank pari passu, in all material respects, with the H shares. However, the transfer of Domestic shares is subject to certain restrictions imposed by the PRC law from time to time.

(b) In December 2006, the Company issued 3,733,330,000 H shares of RMB1.00 each at HK$4.05 (equivalent to RMB4.09) per share pursuant to the initial public offering and listing of the Company's H shares on the Main Board of The Stock Exchange of Hong Kong Limited. Net proceeds from such issue amounted to RMB14,465,576,000, out of which RMB3,733,330,000 was recorded in share capital and RMB10,732,246,000 was recorded in capital reserve.

In addition, pursuant to the "Provisional Measures Concerning the Sale of State-owned Shares to Finance Social Welfare Funds", upon the completion of the H share listing, China Coal Group converted 373,333,000 shares of the Company into H shares. The H shares were then transferred to the National Social Security Fund of the PRC.

For the year ended 31 December 2006
(Amounts expressed in thousands of RMB except per share data or unless otherwise stated)

22 RESERVES

	Capital reserve	Statutory reserve funds	Future development fund	Safety fund	Other reserves	Retained Earnings/ Shareholders' equity	Total
Group							
Balance at 1 January 2005	—	—	—	—	—	1,951,687	1,951,687
Profit for the year	—	—	—	—	—	3,343,473	3,343,473
Contribution	—	—	—	—	—	66,132	66,132
Net cash outflow in funding certain Retained Businesses	—	—	—	—	—	(92,100)	(92,100)
Deemed distribution to Parent Company arising from the acquisition of nine power generators	—	—	—	—	—	(392,160)	(392,160)
Other distributions	—	—	—	—	—	(49,878)	(49,878)
Purchase of equity from minority shareholders	—	—	—	—	—	155,213	155,213
Dividends (Note 34)	—	—	—	—	—	(1,052,864)	(1,052,864)
As at 31 December 2005	—	—	—	—	—	3,929,503	3,929,503
Profit for the year	—	—	—	—	—	3,172,109	3,172,109
Transfer of equity to minority shareholders	—	—	—	—	—	(159,004)	(159,004)
Contributions	—	—	—	—	—	55,000	55,000
Dividends (Note 34)	—	—	—	—	—	(100,265)	(100,265)
Net assets distributed to Parent Company in connection with the Restructuring (Note 2)	—	—	—	—	—	(810,034)	(810,034)
Recognition of deferred tax assets (Note 24(a))	—	—	—	—	—	2,079,633	2,079,633
Distribution for Pre-establishment Period (Note 34)	—	—	—	—	—	(54,264)	(54,264)
Capitalisation upon incorporation of the Company	(4,009,087)	—	57,486	600,249	2,079,633	(6,728,281)	(8,000,000)
Deemed contribution for the acquisition of 20% shares of Antaibao (Note 2)	—	—	—	—	16,344	—	16,344
Share premium (Note 21(b))	11,485,272	—	—	—	—	—	11,485,272
Share issue expenses (Note 21(b))	(753,026)	—	—	—	—	—	(753,026)
Appropriations	2,637	129,949	19,910	160,535	—	(313,031)	—
Special dividends for the Subsequent Profit Period (Note 34)	—	—	—	—	—	(1,021,210)	(1,021,210)
As at 31 December 2006	6,725,796	129,949	77,396	760,784	2,095,977	50,156	9,840,058

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006
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22 RESERVES (continued)

	Capital reserve	Statutory reserve funds	Other reserves	Retained Earnings/ (Accumulated loss)	Total
Company					
Capitalisation upon incorporation of the Company	11,357,414	—	657,305	—	12,014,719
Profit for the period from 22 August 2006 to 31 December 2006	—	—	—	601,501	601,501
Special dividends (Note 34)	—	—	—	(1,021,210)	(1,021,210)
Share premium arising from issuance of H shares	11,485,272	—	—	—	11,485,272
Share issue expenses	(753,026)	—	—	—	(753,026)
Deemed contribution for the acquisition of 20% shares of Antaibao (Note 2)	—	—	16,344	—	16,344
Appropriations	—	129,949	—	(129,949)	—
At 31 December 2006	22,089,660	129,949	673,649	(549,658)	22,343,600

(a) As described in Note 2 to the consolidated financial statements, the financial statements of the Group for the years ended 31 December 2006 and 2005 have been prepared on the basis of merger accounting as if the Company had been the holding company of the companies comprising the Group throughout the two years ended 31 December 2005 and 2006, or since the respective dates of incorporation/ establishment or from the effective dates of acquisition/ up to the effective dates of disposal, which ever is a shorter period. Upon the incorporation of the Company on 22 August 2006, 8,000,000,000 shares were issued to China Coal Group at RMB1.00 per share, in return for the net value of the Transferred Businesses.

(b) Statutory reserve funds

In accordance with the PRC Company Law and the Company's articles of association, the Company is required to allocate 10% of its profit after tax as determined in accordance with the relevant accounting principles and financial regulations applicable to PRC companies ("PRC GAAP"), to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the Company. The appropriation to the reserve must be made before any distribution of dividends to equity holders. The statutory surplus reserve can be used to offset previous year's losses, if any, and part of the statutory surplus reserve can be capitalised as the Company's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the Company.

For the year ended 31 December 2006, the Company appropriated RMB129,949,000 to the statutory surplus reserve fund, representing 10% of the Company's profit after tax for the period from 22 August 2006 to 31 December 2006, as determined in accordance with the PRC GAAP.

(c) Future development fund

Pursuant to the relevant PRC regulations, the Group is required to set aside an amount to a future development fund at RMB6 to RMB8.5 per ton of raw coal mined. The fund can be used for future development of the coal mining operations, and is not available for distribution to shareholders. Upon incurring qualifying development expenditure, an equivalent amount is transferred from future development fund to capital surplus.

22 RESERVES (continued)

(d) Safety fund

Pursuant to certain regulations issued by the State Administration of Work Safety, the Group is required to set aside an amount to a safety fund at RMB6 to RMB35 per ton of raw coal mined. The fund can be used for improvements of safety at the mines.

(e) During the year ended 31 December 2005, the Group acquired nine power generators businesses from an 88.57% subsidiary of China Coal Group at consideration of RMB626,253,000. As the nine power generators businesses acquired were under the control of China Coal Group prior to their acquisition by the Group, this acquisition was considered to be transfers of businesses under common control and the acquired assets and liabilities have been accounted for at historical costs in a manner similar to the uniting of interests method. Accordingly, the consolidated financial statements for the year ended 31 December 2005 have been stated as if the current structure and operations resulting from the acquisition had been in existence since the beginning of the year, with financial information of previously separated entities combined. The cash consideration paid (or to be paid) by the Group is treated as a deemed distribution to China Coal Group.

(f) During the year ended 31 December 2005, China Coal Group acquired a 7.78% equity interest in a subsidiary from the minority shareholders. The carrying amount of the additional 7.78% equity interest acquired is reflected in equity as a transaction between the minority interest and China Coal Group which provided the consideration for the purchase.

(g) During the year ended 31 December 2006, in accordance with a share reform proposal for the conversion of all the unlisted shares in a subsidiary to listed shares, China Coal Group offered to transfer three unlisted shares in that subsidiary for every ten listed shares in consideration for such holders of listed shares agreeing that all the subsidiary's unlisted shares be converted into listed shares. As a result of the share reform proposal, China Coal Group transferred a 7.97% equity interest in the subsidiary to the subsidiary's minority shareholders. Such transfer was accounted for as a decrease in the Group's equity interest by China Coal Group.

(h) In September 2006, the Company obtained approval from the PRC government to acquire the remaining 20% equity interest in Antaibao, a jointly controlled entity, from China Coal Group and another joint venture partner at aggregate consideration of RMB247,653,000. Upon completion of such acquisition in September 2006, Antaibao became a wholly owned subsidiary of the Group.

The acquisition is a combination of businesses under common control since the Company, China Coal Group and the other joint venture partner are under the common control of the PRC government. As a result, the Company accounted for the acquisition in a manner similar to a uniting of interests, whereby the assets and liabilities acquired were accounted for at historical cost. The consolidated financial statements for the year ended 31 December 2006 have been prepared to give effect to the acquisition at the beginning of the year as if the operations of the Group and Antaibao had been combined since 1 January 2006. The difference between the consideration of RMB247,653,000 paid and the net assets of RMB263,997,000 acquired has been reflected as a deemed distribution.

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23 BORROWINGS AND BANKING FACILITIES

	Group		Company
	2006	2005	2006
Long-term borrowings			
Banks loans and loans from other financial institutions			
– Secured (note (j))	456,628	259,938	—
– Unsecured	8,313,502	5,432,560	4,361,000
	8,770,130	5,692,498	4,361,000
Unsecured loans from Parent Company			
– Re-lent loans (note (c))	—	2,950,000	—
	—	2,950,000	—
	8,770,130	8,642,498	4,361,000
Less: Amount due within one year under current liabilities	(500,539)	(265,521)	—
	8,269,591	8,376,977	4,361,000
Short-term borrowings			
Bank loans			
– Secured (note (j))	173,842	195,035	—
– Unsecured	1,646,533	1,641,778	552,720
	1,820,375	1,836,813	552,720
Other unsecured loans from			
– Parent Company (note (d))	—	219,500	—
– Minority shareholders of certain subsidiaries (note (e))	39,452	47,452	—
	39,452	266,952	—
	1,859,827	2,103,765	552,720

(Amounts expressed in thousands of RMB except per share data or unless otherwise stated)

23 BORROWINGS AND BANKING FACILITIES (continued)

Notes:

(a) Repayment terms of long-term borrowings are analysed below:

	Group		Company
	2006	2005	2006
Wholly repayable within five years			
Banks loans and loans from other financial institutions	2,698,982	1,470,124	—
Unsecured loans from Parent Company			
– Re-lent loans	—	924,200	—
	2,698,982	2,394,324	—
Not wholly repayable within five years			
Banks loans and loans from other financial institutions	6,071,148	4,222,374	4,361,000
Unsecured loans from Parent Company			
– Re-lent loans	—	2,025,800	—
	6,071,148	6,248,174	4,361,000
	8,770,130	8,642,498	4,361,000

(b) Maturities of the Group's long-term borrowings are analysed below:

	Group		Company
	2006	2005	2006
Banks loans and loans from other financial institutions			
– Within one year	500,539	265,521	—
– In the second year	319,539	545,684	—
– In the third to fifth year	2,019,904	2,045,195	141,000
– After the fifth year	5,930,148	2,836,098	4,220,000
	8,770,130	5,692,498	4,361,000
Loans from Parent Company			
– Within one year	—	—	—
– In the second year	—	—	—
– In the third to fifth year	—	924,200	—
– After the fifth year	—	2,025,800	—
	—	2,950,000	—
	8,770,130	8,642,498	4,361,000

(c) The amounts represent funds borrowed by the Parent Company from the relevant banks for onward lending to the Group. The amounts have been replaced by the Company's bank borrowings in 2006.

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23 BORROWINGS AND BANKING FACILITIES (continued)

Notes: (continued)

(d) Other loans from the Parent Company have been fully settled in 2006.

(e) Unsecured loans from minority shareholders of certain subsidiaries are fully repayable within one year.

(f) The exposure of the long-term borrowings to interest rate changes and the contractual repricing dates at the balance sheet date are as follows:

	Group		Company
	2006	2005	2006
Long-term borrowings			
6 months or less	6,050,715	6,542,338	4,361,000
7 to 12 months	—	—	—
1 to 5 years	—	—	—
Over 5 years	2,719,415	2,100,160	—
	8,770,130	8,642,498	4,361,000

(g) The effective interest rates per annum at the respective balance sheet dates are as follows:

	Group		Company
	2006	2005	2006
Banks loans and loans from other financial institutions	4.68%-6.39%	4.66%-7.89%	5.18%-6.39%
Loans from:			
– Parent Company	—	5.12%-5.94%	—
– Minority shareholders of certain subsidiaries	5.32%-5.89%	5.60%-5.89%	—

(h) The Directors are of the opinion that all of the Group's borrowings approximate their respective fair values.

(i) The total borrowings are denominated in the following currencies:

	Group		Company
	2006	2005	2006
Long-term borrowings:			
RMB	6,765,815	6,543,938	4,361,000
Japanese Yen	2,004,315	2,098,560	—
	8,770,130	8,642,498	4,361,000
Short-term borrowings:			
RMB	1,859,827	2,103,765	552,720
	10,629,957	10,746,263	4,913,720

(Amounts expressed in thousands of RMB except per share data or unless otherwise stated)

23 BORROWINGS AND BANKING FACILITIES (continued)

Notes: (continued)

(j) The borrowing facilities are analysed as follows:

	Group	
	2006	2005
Secured by:		
– Property, plant and equipment	173,842	177,220
– Accounts receivable	—	17,815
– Equity interest in a jointly controlled entity	456,628	259,938
	630,470	454,973
Guaranteed by:		
– Parent Company	—	4,007,560
– Fellow subsidiaries	—	2,066,324
– Third parties	—	15,000
– Other state-owned enterprises	343,314	697,589
	343,314	6,786,473

All guarantees provided by the Parent Company and fellow subsidiaries have been released or withdrawn in 2006.

All the borrowings of the Company are unsecured bank loans.

As at the respective balance sheet dates, the Group had the following undrawn borrowing facilities:

	Group		Company
	2006	2005	2006
Floating rates			
– Expiring within one year	17,639,000	5,796,747	17,639,000
– Expiring beyond one year	65,000	19,065,000	—
	17,704,000	24,861,747	17,639,000

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24 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	Group		Company
	2006	2005	2006
Deferred tax assets:			
Deferred tax assets to be recovered after more than 12 months	2,369,210	207,682	664,256
Deferred tax assets to be recovered within 12 months	27,877	191,625	—
	2,397,087	399,307	664,256
Deferred tax liabilities:			
Deferred tax liabilities to be settled after more than 12 months	(419,836)	(110,932)	—
Deferred tax liabilities to be settled within 12 months	(75,980)	(121,578)	(10,323)
	(495,816)	(232,510)	(10,323)
	1,901,271	166,797	653,933

The gross movements on the deferred tax account are as follows:

	Group		Company
	2006	2005	2006
At beginning of the year	166,797	270,923	—
Charged to income statement (Note 32)	(318,614)	(104,126)	(3,484)
Credited to equity	2,079,633	—	657,417
Acquisition of 20% shares of Antaibao	(25,276)	—	—
Distribution to Parent Company in connection with the Restructuring	(1,269)	—	—
At end of the year	1,901,271	166,797	653,933

Deferred income tax assets are recognised for tax losses carried-forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group has not recognised deferred income tax assets of RMB16,993,000 (2005: RMB7,765,000), in respect of accumulated tax losses of RMB51,493,000 (2005: RMB23,529,000) as at 31 December 2006, that can be carried forward against future taxable income and will expire between 2008 and 2012.

(Amounts expressed in thousands of RMB except per share data or unless otherwise stated)

24 DEFERRED INCOME TAX (continued)

The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred tax assets (Group):

	Group						
	Revaluation surplus (note(a))	Tax losses	Pre-operating expenses	Provision for employee benefits	Impairment of assets	Others	Total
At 1 January 2005	—	166,373	52,391	53,930	56,897	80,121	409,712
Credited/(charged) to income statement	91,268	(98,961)	(9,591)	(1,584)	(1,842)	10,305	(10,405)
At 31 December 2005	91,268	67,412	42,800	52,346	55,055	90,426	399,307
Credited/(charged) to income statement	(35,306)	8,307	(13,776)	(16,552)	387	(24,124)	(81,064)
Acquisition of 20% shares of Antaibao	—	—	—	—	—	480	480
Distribution to Parent Company in connection with the Restructuring	—	—	—	—	(1,269)	—	(1,269)
Credited to equity	2,079,633	—	—	—	—	—	2,079,633
At 31 December 2006	2,135,595	75,719	29,024	35,794	54,173	66,782	2,397,087

Deferred tax liabilities (Group):

	Group			
	Accelerated tax depreciation	Safety funds (note (b))	Others	Total
At 1 January 2005	(52,364)	(68,418)	(18,007)	(138,789)
Credited/(charged) to income statement	7,608	(114,428)	13,099	(93,721)
At 31 December 2005	(44,756)	(182,846)	(4,908)	(232,510)
Charged to income statement	(35,482)	(193,483)	(8,585)	(237,550)
Acquisition of 20% shares of Antaibao	(9,927)	(15,829)	—	(25,756)
At 31 December 2006	(90,165)	(392,158)	(13,493)	(495,816)

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24 DEFERRED INCOME TAX (continued)

Deferred tax assets (Company):

	Company		
	Revaluation surplus (note(a))	Provision for employee benefits	Total
At 31 December 2005	—	—	—
Credited/(charged) to income statement	(7,550)	14,389	6,839
Credited to equity	657,417	—	657,417
At 31 December 2006	649,867	14,389	664,256

Deferred tax liabilities (Company):

	Company	
	Others	Total
At 31 December 2005	—	—
Charged to income statement	(10,323)	(10,323)
At 31 December 2006	(10,323)	(10,323)

(a) The deferred tax asset relating to the revaluation surplus consists of two parts:

(i) During the year ended 31 December 2005, the Group acquired nine power generators from a subsidiary of China Coal Group (Note 22(f)). The valuation amounts of the nine power generators, as determined by a qualified valuer in the PRC, served as the tax bases. Such valuation surpluses were not recorded for financial reporting purposes under IFRS and accordingly, a deferred tax asset of RMB91,268,000 was recorded.

(ii) In connection with the Restructuring , the Group recorded, on the date of establishment, the surplus on valuation of property, plant and equipment, mining rights and land use rights in the statutory financial statements, as determined as at 30 September 2005 by a qualified valuer in the PRC. For the Company's wholly owned subsidiaries, the revalued amounts will serve as the tax bases for future years. These valuation surpluses were not recorded for financial reporting purposes under IFRS and accordingly, a deferred tax asset of RMB2,079,633,000 resulted with a corresponding increase in shareholders' equity. Based upon the level of historical taxable income and projections of future taxable income, management believes it is probable the Group will realise the benefit of the deferred tax assets.

(b) Pursuant to the regulations of the State Administration of Work Safety, the Group is required to set aside amounts varying from RMB6 to RMB10 per ton of raw coal mined beginning 1 April 2004 for the enhancement of a safe production environment and facilities ("safety funds", for the coal mines of a jointly controlled entity, safety funds set aside were increased to RMB35 per ton of raw coal mined beginning 1 January 2006). Such amounts are deductible for tax purposes when they are set aside. However, such expenditures are expensed for accounting purposes when they are incurred. Accordingly, a deferred tax liability is recorded for the temporary differences in respect of excess funds set aside for tax purposes.

For the year ended 31 December 2006
(Amounts expressed in thousands of RMB except per share data or unless otherwise stated)

25 TRADE AND NOTES PAYABLE

	Group		Company
	2006	2005	2006
Trade payables (note (a))	3,403,255	4,053,607	1,678,896
Notes payable	349,557	177,599	—
	3,752,812	4,231,206	1,678,896

Notes:

(a) Trade payables are analysed as follows:

	Group		Company
	2006	2005	2006
Trade payables			
– Parent Company	—	57,021	—
– Fellow subsidiaries	—	147,860	—
– Jointly controlled entities	5,911	143,648	11,769
– Associates	7,990	—	68
– Other related parties	133,722	339,938	—
– Other state-owned enterprises	961,125	1,616,739	151,635
– Others	2,294,507	1,748,401	1,515,424
	3,403,255	4,053,607	1,678,896

Ageing analysis of trade payables on each balance sheet date is as follows:

	Group		Company
	2006	2005	2006
less than 1 year	2,996,748	3,811,236	1,564,624
1 - 2 years	254,774	96,283	73,177
2 - 3 years	57,202	18,329	426
Over 3 years	94,531	127,759	40,669
	3,403,255	4,053,607	1,678,896

Notes to the Consolidated Financial Statements

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(Amounts expressed in thousands of RMB except per share data or unless otherwise stated)

25 TRADE AND NOTES PAYABLE (continued)

Notes: (continued)

(b) The carrying amounts of trade and notes payable are denominated in the following currencies:

	Group		Company
	2006	2005	2006
RMB	3,589,128	4,196,150	1,678,896
US Dollar	163,684	35,056	—
	3,752,812	4,231,206	1,678,896

(c) The carrying amounts of trade and notes payable approximate their fair values.

26 ACCRUALS AND OTHER PAYABLES

	Group		Company
	2006	2005	2006
Customer deposits and receipts in advance (note (a))	791,811	943,278	30,240
Amounts due to related parties (note (b))	1,096,322	897,807	3,521,836
Amount due to a former joint venture partner (note (c))	1,252,005	1,002,176	—
Dividends payable (Note 34)	1,087,466	1,030,914	1,075,474
Payable for site restoration	172,038	213,201	—
Coal mine resource compensation payable	136,492	5,455	—
Salaries and staff welfare payable	211,711	241,263	35,251
Payable for share issue expenses	182,701	—	—
Interest payable	122,339	139,387	—
Others	631,627	814,230	492,535
	5,684,512	5,287,711	5,155,336

Notes:

(a) Customer deposits and receipts in advances are analysed as follows:

	Group		Company
	2006	2005	2006
Customer deposits and receipts in advances			
– Fellow subsidiaries	—	1,212	—
– Jointly controlled entities	—	10,325	—
– Other related parties	803	26,434	—
– Other state-owned enterprises	328,195	232,524	22,662
– Others	462,813	672,783	7,578
	791,811	943,278	30,240

Customer deposits and receipts in advances from related parties are unsecured and interest free.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006
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26 ACCRUALS AND OTHER PAYABLES (continued)

Notes: (continued)

(b) Amounts due to related parties are analysed below:

	Group		Company
	2006	2005	2006
Amounts due to related parties, gross			
– Parent Company	447,132	92,924	379,141
– Subsidiaries	—	—	2,712,287
– Fellow subsidiaries	272,744	484,097	71,039
– Associate	6,317	7,309	—
– Jointly controlled entities	172,600	1,296	350,000
– Other related parties	9,380	170,927	—
– Other state-owned enterprises	188,149	141,254	9,369
	1,096,322	897,807	3,521,836

Amounts due to related parties are unsecured and interest free.

(c) This amount represents consideration payable to a former joint venture partner in respect of an acquisition of a 52.49% interest in a coal mine. Such balance is denominated in US Dollars and bears interest at the London Inter-Bank Offered Rate. It is expected to be settled within one year.

(d) The carrying amounts of accruals and other payables approximate their fair values.

27 PROVISION FOR CLOSE DOWN, RESTORATION AND ENVIRONMENTAL COSTS

	Group	
	2006	2005
Beginning of the year	711,283	769,574
Acquisition of 20% shares of Antaibao	28,409	—
Interest charge on unwinding of discount on provision (Note 29)	36,464	39,238
Reverse	(66,959)	—
Payments	(58,855)	(97,529)
End of the year	650,342	711,283
Less: current portion	(66,390)	(27,237)
	583,952	684,046

Mining activities may result in land subsidence, which could lead to losses to the residents of the mining areas. Pursuant to the relevant PRC regulations, the Group is required to make compensation payments to the residents for their losses resulting from land subsidence, or to restore the mining areas back to certain acceptable conditions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006
(Amounts expressed in thousands of RMB except per share data or unless otherwise stated)

27 PROVISION FOR CLOSE DOWN, RESTORATION AND ENVIRONMENTAL COSTS (continued)

Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or results of operations of the Group. The PRC government, however, has moved and may move further towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainty which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include: (i) the exact nature and extent of the contamination at various sites including, but not limited to, coal mines and land development areas, whether operating, closed or sold, (ii) the extent of required cleanup efforts, (iii) varying costs of alternative remediation strategies, (iv) changes in environmental remediation requirements, and (v) the identification of new remediation sites.

The provision for close down, restoration and environmental clean up costs has been determined by management based on their past experience and best estimate of future expenditure by discounting the expected expenditures to their net present value. However, in so far as the effect of the land and the environment from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to revision in the future. The amounts provided in relation to close down, restoration and environmental clean up costs are reviewed at least annually based upon the facts and circumstances available at the time and the provisions are updated accordingly.

28 EXPENSE BY NATURE

Expenses included in cost of sales and selling, general and administrative expenses are analysed as follows:

	2006	2005
Depreciation (note (a))	1,076,338	1,000,498
Amortisation (note (b))	14,168	5,033
Cost of inventories sold	12,589,144	16,237,688
Transportation costs	5,447,934	4,055,441
Sales tax and surcharges	420,949	288,170
Auditors' remuneration	17,850	10,889
Losses on disposal of property, plant and equipment	2,542	4,507
Repairs and maintenance	425,171	240,199
Operating lease rentals	52,158	69,032
(Reversal of)/provision for impairment of receivables	(9,161)	27,454
Staff costs (including directors' emoluments) (Note 31(c))	2,238,686	1,847,502
Resource compensation fees (note (d))	195,214	23,230
Other expenses	3,020,741	2,111,941
Total cost of sales, selling, general and administrative expenses	25,491,734	25,921,584

(Amounts expressed in thousands of RMB except per share data or unless otherwise stated)

28 EXPENSE BY NATURE (continued)

Notes:

(a) Depreciation charged to the income statement is analysed as follows:

	2006	2005
Depreciation for the year (Note 7)	1,132,065	992,468
Less/Add: Amount capitalised as/(released from) cost of inventories which remained unsold as at year end	(55,727)	8,030
Amount charged to income statement	1,076,338	1,000,498

Charged to:

	2006	2005
Cost of sales	1,003,753	913,010
Selling, general and administrative expenses	72,585	87,488
	1,076,338	1,000,498

(b) Amortisation charged to selling, general and administrative expenses is analysed as follows:

	2006	2005
Amortisation of:		
Land use rights (Note 8)	7,615	2,026
Mining rights (Note 9)	3,158	1,752
Intangible assets (Note 10)	3,395	1,255
	14,168	5,033

(c) Staff costs charged to the income statement are analysed as follows:

	2006	2005
Charged to:		
Cost of sales	1,401,721	1,156,495
Selling, general and administrative expenses	836,965	691,007
	2,238,686	1,847,502

(d) The resource compensation fee represents amounts paid to the PRC government to compensate for the mineral resources mined.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006
(Amounts expressed in thousands of RMB except per share data or unless otherwise stated)

29 FINANCE COSTS, NET

	2006	2005
Interest expense:		
– Bank loans and loans from other financial institutions		
wholly repayable within five years	283,776	352,854
not wholly repayable within five years	222,023	105,257
– loans from related parties		
wholly repayable within five years	55,751	38,662
not wholly repayable within five years	17,679	46,324
	579,229	543,097
Less: Amounts capitalised in construction in progress (note (a))	(102,291)	(92,677)
	476,938	450,420
Interest charge on unwinding of discounts (Note 27)	36,464	39,238
Other incidental borrowing costs and charges	15,431	14,204
Net foreign exchange transaction gains	(48,069)	(391,522)
	480,764	112,340

Notes:

(a) Finance costs capitalised in construction in progress are related to funds borrowed specifically for the purpose of obtaining a qualifying asset. Interest rates on such borrowings were as follows:

	2006	2005
Annual interest rates on the borrowings at which the relevant finance costs were capitalised	4.99%-6.12%	4.71%-5.89%

30 OTHER INCOME

	2006	2005
Dividend income - unlisted investments	7,514	12,612
Gains on disposal of investments	1,135	275
Interest income	108,828	71,659
Subscription interest (note(a))	78,947	—
Government grants and subsidies	32,362	42,028
	228,786	126,574

Notes:

(a) The subscription interest is the interest income generated from the over subscription proceeds during the subscription period before the listing of the Company on the Main Board of the Stock Exchange of Hong Kong Limited.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006
(Amounts expressed in thousands of RMB except per share data or unless otherwise stated)

31 STAFF COSTS

	2006	2005
Wages, salaries and allowances	1,527,248	1,277,801
Housing subsidies (note (a))	145,959	92,451
Contributions to pension plans (note (b))	234,455	186,233
Early retirement benefits (note (c))	11,485	2,565
Welfare and other expenses	319,539	288,452
	2,238,686	1,847,502

Notes:

(a) These mainly include the Group's contributions to government-sponsored housing funds at rates ranging from 8% to 10% of the employees' basic salaries.

(b) The Group participates in various pension plans organised by the relevant municipal and provincial governments under which the Group is required to make monthly defined contributions to these plans at rates ranging from 5% to 20% of the employees basic salaries depending on the applicable local regulations.

(c) Certain employees of the Group were required to retire early during the years ended 31 December 2006 and 2005. Early retirement benefits are recognised in the income statement in the period in which the Group enters into agreements specifying the terms of early retirement or after the individual employees have been advised of the specific terms. These specific terms vary among the early retired employees depending on factors such as position, length of service and district of the employee concerned.

The Group has no other obligations for the payment of pensions and other post-retirement benefits of employees or retirees other than those disclosed above.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006
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32 INCOME TAX EXPENSE

	2006	2005
PRC enterprise income tax (note(a))	1,011,622	631,255
Hong Kong profits tax (note(b))	8,832	17,051
Overseas taxation (note(c))	1,850	6,340
Deferred income tax (Note 24)	318,614	104,126
	1,340,918	758,772

Notes:

(a) The provision for PRC enterprise income tax ("EIT") is calculated based on the statutory income tax rate of 33% of the assessable income of each of the companies now comprising the Group determined in accordance with the relevant PRC income tax rules and regulations, except for certain subsidiaries and jointly controlled entities which are taxed at preferential tax rates ranging from 0% to 30% based on the relevant PRC tax laws and regulations.

(b) During the years ended 31 December 2006 and 2005, Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit derived from or arising in Hong Kong.

(c) Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

(d) The taxation of the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average of the rates prevailing in the jurisdictions in which the Group operates.

	2006	2005
Profit before income tax	4,724,766	4,310,217
Tax calculated at applicable tax rates	1,538,894	1,422,372
Preferential tax rates on the income of certain subsidiaries and jointly controlled entities	(206,994)	(534,243)
Income not subject to taxation	(42,485)	(30,534)
Tax benefit related to restatement of tax base of assets	—	(91,268)
Expenses not deductible for taxation purposes	85,329	50,860
Utilisation of previously unrecognised tax losses	(3,341)	—
Tax losses for which no deferred income tax asset was recognised	12,569	5,702
Additional expenses allowable for tax purposes	(43,054)	(64,117)
Income tax expense	1,340,918	758,772

(Amounts expressed in thousands of RMB except per share data or unless otherwise stated)

33 EARNINGS PER SHARE

Basic earnings per share for the year ended 31 December 2006 is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of approximately 8,110 million ordinary shares in issue during the year.

The comparative basic earnings per share is calculated based on the profit attributable to the equity holders of the Company and on the assumption that 8 billion Domestic shares issued upon the incorporation the Company in connection with the Restructuring were deemed to have been in issue since 1 January 2005.

	2006	2005
Profit attributable to equity holders of the Company	3,172,109	3,343,473
Weighted average number of ordinary shares in issue (thousands)	8,109,398	8,000,000
Basic earnings per share	RMB0.39	RMB0.42

As the Company had no dilutive instruments for the year ended 31 December 2006, no diluted earnings per share is presented.

34 DIVIDENDS

	2006	2005
Dividends		
– interim, paid (note (a))	160,605	874,584
– final, proposed (note (a))	—	286,845
Distribution for Pre-establishment period (note (b))	54,264	—
Special dividend for the Subsequent profit (note (c))	1,021,210	—
	1,236,079	1,161,429

Notes:

(a) The dividends were declared by or proposed by the subsidiaries of the Group to their then shareholders prior to the completion of the Restructuring.

(b) In accordance with the "Provisional Regulation Relating to Corporate Reorganisation of Enterprises and Related Management of State-owned Capital and Financial Treatment" issued by the Ministry of Finance, which became effective on 27 August 2002, after the Company's incorporation, the Company is required to make a mandatory distribution to China Coal Group in an amount equal to the difference between the Company's net asset value as at 1 October 2005, and the value as at 21 August 2006 (the date immediately before the date of incorporation of the Company) (the "Pre-establishment Period"), based on the audited financial statements prepared in accordance with the PRC GAAP during the Pre-establishment Period. The difference in the Company's net asset value during the Pre-establishment Period, RMB54,264,000, was recorded in the balance sheet as at 31 December 2006 as a liability to China Coal Group.

(c) Pursuant to the resolution of a shareholders' meeting dated 23 August 2006, the shareholders had resolved to declare special dividend to China Coal Group in the amount of the balance of the net profit after deducting 10% set aside for the statutory common reserve fund in the respect of the period from 22 August 2006 to 30 November 2006 (the "Subsequent Profit Period"). Based on the audited financial statements of the Company which are prepared in accordance with the PRC GAAP, the special dividend, amounting to RMB1,021,210,000, has been recorded in the balance sheet as at 31 December 2006 as a dividend payable to China Coal Group.

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35 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND FIVE HIGHEST PAID INDIVIDUALS

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

	2006					2005
Name	Fee for directors and supervisors	Salary, allowances and other benefits	Discretionary bonuses	Contribution to pension scheme	Total	Total
Chairman						
Mr. JING Tianliang	—	—	—	—	—	—
Vice Chairman						
Mr. ZHANG Baoshan	—	—	—	—	—	375
Executive directors:						
Mr. YANG Lieke	—	496	—	20	516	560
Mr. PENG Yi	—	123	—	7	130	—
	—	619	—	27	646	935
Non-executive directors:						
Mr. GAO Shangquan	113	—	—	—	113	—
Mr. ZHANG Ke	113	—	—	—	113	—
Mr. PENG Ruchuan	113	—	—	—	113	—
Mr. WU Rongkang	50	—	—	—	50	—
Mr. LI Yanmeng	50	—	—	—	50	—
	439	—	—	—	439	—
Supervisors:						
Mr. DU Ji'an	—	—	—	—	—	—
Mr. ZHOU Litao	—	—	—	—	—	—
Mr. CHEN Xiangshan	—	51	—	7	58	—
	—	51	—	7	58	—
	439	670	—	34	1,143	935

Mr. Jing Tianliang received emoluments from China Coal Group, which amounted to approximately RMB595,000 and RMB492,000 for the years ended 31 December 2005 and 2006 respectively. Mr. Zhang Baoshan received emoluments from China Coal Group, which amounted to approximately RMB333,000 for the year ended 31 December 2006. Part of those emoluments is in relation to their services to the Company. No apportionment has been made as the directors consider that it is impractical to apportion this amount between their services to the Company and their service to the Parent Company.

During the year, the emoluments paid to each of the directors did not exceed HK$1,000,000 (equivalent to RMB1,001,900).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006
(Amounts expressed in thousands of RMB except per share data or unless otherwise stated)

35 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND FIVE HIGHEST PAID INDIVIDUALS (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year are as follows:

	2006	2005
Directors	1	2
Non-director individuals	4	3
	5	5

The details of emoluments paid to the five highest paid individuals who were directors of the Company during the year have been included in Note 35(a) above. Details of emoluments paid to the remaining non-director individuals are as follows:

	2006	2005
Basic, salaries, housing allowances, other allowances and benefits-in-kind	600	514
Contributions to pension schemes	244	39
Discretionary bonuses	1,107	1,125
	1,951	1,678

During the year, the emoluments paid to each of the highest paid non-director individuals did not exceed HK$1,000,000 (equivalent to RMB1,001,900).

(c) During the year, no directors, supervisors of the Company or the five highest paid individuals of the Group waived any emoluments and no emoluments were paid by the Group to any of the directors and supervisors of the Company or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Consolidated Financial Statements

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36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

(a) Reconciliation of profit for the year to net cash inflows generated from operations

	2006	2005
Profit for the year	3,383,848	3,551,445
Adjustments for:		
Property, plant and equipment		
– depreciation charge (Note 28)	1,076,338	1,000,498
– net losses on disposals	2,542	4,507
Land use rights, mining rights and intangible assets		
– amortisation charge (Note 28)	14,168	5,033
– net losses on disposals	—	29
Provision for /(reversal of) impairment of receivables	(9,161)	27,454
Share of (profits)/losses of associates	(32,637)	6,070
Net foreign exchange transaction gains	(48,069)	(391,522)
Fair value (gains)/losses (including gains/losses on disposal) on other financial assets at fair value through profit or loss	(5,486)	4,293
Interest income	(108,828)	(71,659)
Subscription interest	(78,947)	—
Interest expense	513,402	489,658
Dividend income	(7,514)	(12,612)
Income tax expense	1,340,918	758,772
Changes in working capital:		
Inventories	186,557	(483,772)
Trade receivables	(224,359)	(918,888)
Prepayments and other receivables	(526,491)	(684,844)
Trade payables	(75,125)	522,920
Accruals and other payables	1,032,705	123,848
Decrease in provision for employee benefits	(55,232)	(8,356)
Decrease in provision for close down, restoration, and environmental costs	(125,814)	(97,531)
NET CASH INFLOWS GENERATED FROM OPERATIONS	6,252,815	3,825,343

(Amounts expressed in thousands of RMB except per share data or unless otherwise stated)

36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS (continued)

(b) Major non-cash transactions

(i) During the year ended 31 December 2005, the Parent Company injected plant and equipment, with a net book value of RMB14,939,000, into a subsidiary as a capital contribution.

(ii) During the year ended 31 December 2006, a loan from China Coal Group amounting to RMB50,000,000 was waived and recorded as a capital contribution.

37 CONTINGENT LIABILITIES

(a) Bank and other guarantees

As at 31 December 2005 and 2006, the undiscounted maximum amount of potential future payments under guarantees given to banks in respect of banking facilities granted to the parties below were as follows:

	2006	2005
Jointly controlled entities of the Group (after elimination of the Group's proportionate interest in those jointly controlled entities)	—	15,138
Third parties	—	6,280

All guarantees to third parties have been released or withdrawn in 2006.

(b) Lawsuits and other proceedings

The Group is a defendant in certain lawsuits as well as the plaintiff in other proceedings arising in the ordinary course of business. While the outcomes of such lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

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38 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	2006	2005
Property, plant and equipment	1,399,962	1,295,071
Others	755,612	110,000

(b) Operating lease commitments – where the Group is the lessee

The Group has commitments to make the following future minimum lease payments under non-cancelable operating leases:

	2006	2005
Land and buildings:		
– Within 1 year	95,963	78,963
– From 1 year to 5 years	6,786	6,786
– Over 5 years	29,178	29,856
	131,927	115,605

	2006	2005
Plant and machinery:		
– Within 1 year	3,600	3,600
– From 1 year to 5 years	18,000	14,400
– Over 5 years	45,000	44,250
	66,600	62,250

39 SIGNIFICANT RELATED PARTY TRANSACTIONS

China Coal Group, the immediate parent of the Company, is controlled by the PRC government. The PRC government is the Company's ultimate controlling party. In accordance with IAS 24 (revised 2003), "Related Party Disclosures", enterprises directly or indirectly controlled by the PRC government ("state-owned enterprises") and their subsidiaries, together with the China Coal Group companies, are all related parties of the Group. Neither China Coal Group nor the PRC government publishes financial statements available for public use.

The Group has extensive transactions with China Coal Group and other state-owned enterprises. For the purpose of disclosures of related party transactions, to the extent possible, the Group has in place procedures to assist the identification of the immediate ownership structure of its customers and suppliers as to whether they are state-owned enterprises. Many state-owned enterprises have multi-layered corporate structures and the ownership structures change over time as a result of transfers or privatisation programs. However, management believes that all material related party transactions and balances, of which it is aware, have been adequately disclosed.

Sales of goods and provision of services to state-owned enterprises are at state-prescribed prices or prices which are also available to other customers. The Group considers that these sales are activities in the ordinary course of business.

In addition to the related party transactions undertaken in connection with the Restructuring described in Note 1 above, the Group enters into various other related party transactions. Set out below is a summary of significant related party transactions and balances in the year ended 31 December 2006 and 2005.

Notes to the Consolidated Financial Statements

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39 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(a) Related party transactions

	2006	2005
Transactions with the Parent Company and fellow subsidiaries		
Coal export and Sales (i)		
Charges paid for agency services of coal export	37,096	—
Integrated Material and Services Mutual Provision (ii)		
Charges paid for production material and ancillary services	443,641	229,373
Charges paid for social and support services	24,425	23,382
Revenue received from supply of production material and ancillary services	34,808	19,881
Revenue received from provision of coal export-related services	49,414	4,825
Mine Construction and Design (iii)		
Charges paid for construction services	520,704	197,334
Property Leasing (iv)		
Rental charge paid	52,109	78,150
Land Use Right (v)		
Rental charge paid	8,823	—

	2006	2005
Guarantees from Parent Company and fellow subsidiaries	—	6,073,884

(i) Under PRC law and regulations, coal exports shall only be made through one of four authorized PRC enterprises including China Coal Group. The Company appointed China Coal Group as its coal export sales agent under a Coal Export and Sales Agency Framework Agreement entered into on 5 September 2006. Pursuant to the agreement, the agency fee for coal exports to countries and territories other than the China Taiwan market is 0.7% of the FOB price in respect of each ton of coal products exported; and the agency fee for the coal exports and sales to the China Taiwan markets is 0.7% of the FOB price, plus USD0.5 per ton of coal products sold. The agency fees are payable on a monthly basis, effective from 22 August 2006.

(ii) The Company and China Coal Group entered into Integrated Materials and Services Mutual Provision Framework Agreement on 5 September 2006, under which the Company provides to China Coal Group and China Coal Group provides to the Company production material supplies and ancillary services, and the Company also provides to China Coal Group export-related services.

(iii) The Company and China Coal Group entered into a Mine Construction and Design Framework Agreement on 5 September 2006, under which the Company provides coal mine design services to China Coal Group and China Coal Group provides construction services to the Company.

(iv) The Company and China Coal Group entered into a Property Leasing Framework Agreement on 5 September 2006, under which the Company leases from China Coal Group certain buildings and properties in the PRC for general business and ancillary purposes.

(v) The Company and China Coal Group entered into a Land Use Rights Leasing Framework Agreement on 5 September 2006, under which the Company leases certain land use rights in the PRC from China Coal Group for general business and ancillary purposes.

(Amounts expressed in thousands of RMB except per share data or unless otherwise stated)

39 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(a) Related party transactions (continued)

	2006	2005
Transactions with jointly controlled entities (after elimination of the Group's proportionate interest in those jointly controlled entities)		
Sales and services provided:		
Sales of coal	—	396,339
Sales of materials and spare parts	—	14,233
Agency income	9,298	18,211
Purchases of goods and services:		
Purchases of coal	599,024	955,414
Transactions with associates:		
Sales and services provided:		
Sales of machinery and equipment	36,624	14,531
Income from renting property, plant and equipment	98,678	70,179
Interest Income	9,075	2,876
Purchases of goods and services:		
Purchases of coal	14,846	13,411
Purchases of materials and spare parts	19,034	517
Transportation services	240,790	187,145
Transactions with minority shareholders of subsidiaries:		
Sales and services provided:		
Sales of coal	34,671	91,312
Purchase of goods and services:		
Purchases of coal	9,752	—
Transactions with joint venture partners in jointly controlled entities (attributable to the Group's interest in those jointly controlled entities):		
Sales and services provided:		
Sales of coal	2,259,086	546,662
Agency income	1,820	58,830
Sales of machinery and equipment	34,714	—
Purchases of goods and services		
Purchases of coal	1,108,862	776,713
Purchases of machinery and equipment	—	12,845

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39 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(a) Related party transactions (continued)

	2006	2005
Transactions with other state-owned enterprises		
Sales and services provided:		
Sales of coal	11,278,394	11,823,466
Sales of machinery and equipment	1,989,628	1,431,269
Sales of materials and spare parts	350,820	311,905
Sales of design services	183,701	133,321
Railway transportation services income	39,337	41,657
Income from construction and technical services	92,745	41,508
Public utilities and facilities income	233,229	231,894
Agency income	95,864	144,082
Interest income	13,031	63,555
Purchases of goods and services:		
Purchases of coal	1,056,502	2,015,424
Purchases of machinery and equipment	138,997	277,561
Purchases of labour services	154,251	46,944
Purchases of materials and spare parts	1,073,333	1,060,067
Construction and technical services	108,953	88,897
Ancillary and social services	67,487	79,176
Transportation services	3,250,698	2,662,982
Interest expense	188,873	458,111
Key management compensation		
Fees for key management personnel		
– Directors and supervisors	439	—
Salary, allowances and other benefits		
– Directors and supervisors	670	919
– Other key management	419	410
Pension costs-defined contribution plans		
– Directors and supervisors	34	16
– Other key management	33	16

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39 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(b) Related party balances

Other than those disclosed elsewhere in the consolidated financial statements, the outstanding balances with related parties as at 31 December 2006 and 2005 are as follows:

Balances with state-owned enterprises:

	2006	2005
Deposits placed with banks and non-bank financial institutions	18,233,730	3,080,756
Loans from banks and non-bank financial institutions	10,590,504	7,529,311

Movements on loans from state-owned banks or non-bank financial institutions :

	2006	2005
At beginning of the year	7,529,311	8,284,447
Acquisition of 20% shares of Antaibao	59,800	—
Additions	7,150,953	3,209,795
Payments	(3,988,242)	(3,543,439)
Exchange gains	(94,245)	(376,196)
Interest expense paid	(67,073)	(45,296)
At end of the year	10,590,504	7,529,311

Details of deposits placed with, and loans from banks and non-bank financial institutions are disclosed in Notes 20 and 23.

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40 PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

As at 31 December 2006, the Company has interests in the following principal subsidiaries, jointly controlled entities and associates, which in the opinion of the directors, were significant to the results of 2006 or formed a substantial portion of the Group at the balance sheet date:

(i) Principal subsidiaries

Company name	Country/Place of operation and date of incorporation	Paid up capital	Attributable equity interest held by the Company	Attributable equity interest held by the Group	Principal activities	Type of legal entity
Shanghai Datun Energy Resources Co., Limited (上海大屯能源股份有限公司)	Shanghai, the PRC 29 December 1999	RMB 722,718,000	62.43%	62.43%	Coal mining	Joint stock with limited liability; Listed on the Shanghai Stock Exchange
China Coal & Coke Holdings Limited (中煤焦化控股有限責任公司)	Beijing, the PRC 15 August 2003	RMB 100,000,000	95%	100%	Manufacture and sale of coke	Limited liability company
China Coal Tendering Company Limited (中煤招標有限責任公司)	Beijing, the PRC 28 December 2001	RMB 10,000,000	60%	100%	Tendering services	Limited liability company
China National Coal Development Company Limited (中國煤炭開發有限責任公司)	Beijing, the PRC 17 February 1981	RMB 52,929,916	100%	100%	Sale of mining equipment	Limited liability company
China Coal Xi'an Design Engineering Company Limited (中煤西安設計工程有限責任公司)	Xian, the PRC 1 September 1954	RMB 192,263,476	100%	100%	Coal mining related design services	Limited liability company

(Amounts expressed in thousands of RMB except per share data or unless otherwise stated)

40 PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

(i) Principal subsidiaries (continued)

Company name	Country/Place of operation and date of incorporation	Paid up capital	Attributable equity interest held by the Company	Group	Principal activities	Type of legal entity
Shanxi Pingshuo AnJialing Surface Mine Company Limited (山西平朔安家岭露天煤炭有限公司)	Pingshuo, the PRC 27 November 1997	RMB 538,747,400	100%	100%	Coal mining	Limited liability company
Shuozhou Pingmu Coal Processing Company Limited (朔州平木煤炭加工有限公司)	Shuozhou, the PRC 4 July 2003	RMB 31,300,000	0.32%	100%	Coal processing	Limited liability company
Shanxi China Coal Pingshuo Antaibao Coal Company Limited (formly Ping Shuo First Coal Company Limited) (山西中煤平朔安太堡煤炭有限責任公司) (前稱平朔第一煤炭有限公司)	Shuozhou, the PRC 8 July 1991	RMB 983,329,000	100%	100%	Coal mining	Limited liability company
China National Coal Industry Import and Export Group (Heilongjiang) Company Limited (中國煤炭工業進出口集團黑龍江有限公司)	Harbin, the PRC 26 May 1999	RMB 5,000,000	92.6%	100%	Sale of machinery, mineral and chemical products	Limited liability company

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40 PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

(i) Principal subsidiaries (continued)

Company name	Country/Place of operation and date of incorporation	Paid up capital	Attributable equity interest held by the Company	Attributable equity interest held by the Group	Principal activities	Type of legal entity
China National Coal Industry Import and Export Group (Rizhao) Company Limited (中國煤炭工業進出口集團日照有限公司)	Rizhao, the PRC 18 May 1999	RMB 10,000,000	90%	100%	Sale of machinery, mineral and chemical products	Limited liability company
Lianyungang China Coal Huanneng Coal Processing Company Limited (連雲港中煤環能煤炭加工有限公司)	Lianyungang, the PRC 27 December 1999	RMB 5,000,000	75%	75%	Coal processing	Sino-foreign limited liability company
China Coal Lianyungang Import and Export Company Limited (中煤連雲港進出口有限公司)	Lianyungang, the PRC 5 July 1991	RMB 75,000,000	100%	100%	Sale of machinery, Coal and chemical products	Limited liability company
Shanghai Chinacoal East China Company Limited (上海中煤華東有限公司)	Shanghai, the PRC 26 May 2005	RMB 100,000,000	100%	100%	Sale of machinery, minerals and chemical products	Limited liability company
China National Coal Industry Import and Export Group (Qingdao) Company Limited (中國煤炭工業進出口集團青島有限公司)	Qingdao, the PRC 2 June 1999	RMB 10,000,000	100%	100%	Importing and exporting of machinery, mineral products, and other related services	Limited liability company

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40 PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

(i) Principal subsidiaries (continued)

Company name	Country/Place of operation and date of incorporation	Paid up capital	Attributable equity interest held by the Company	Attributable equity interest held by the Group	Principal activities	Type of legal entity
China National Coal Import and Export Group (Tianjin) Company Limited (天津中煤進出口有限公司)	Tianjin, the PRC 30 April 1999	RMB 10,000,000	90%	100%	Sale of coal products and other related products	Limited liability company
China National Coal Industry Qinhuangdao Import and Export Company Limited (中國煤炭工業秦皇島進出口有限公司)	Qinghuangdao, the PRC 18 May 1999	RMB 15,000,000	95%	95%	Sale of coal and related products	Limited liability company
Sunfield Resources Pty. Limited (華光資源有限公司)	Sydney, Australia 18 June 1997	AUD 500,000	100%	100%	Investment management, trade of coal and coke	Limited liability company
Qinhuangdao China Coal Warehousing and Transportation Company Limited (秦皇島中煤儲運有限公司)	Qinhuangdao, the PRC 1 January 1985	RMB 40,902,985	78.43%	78.43%	Warehousing and freight forwarding of coal	Limited liability company
Qinhuangdao Zhongmei Gangneng Coal Purifying Company Limited (秦皇島中煤港能煤炭加工有限公司)	Qinhuangdao, the PRC 25 August 1999	USD 3,545,200	75%	75%	Coal processing	Sino-foreign Limited liability company

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40 PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

(i) Principal subsidiaries (continued)

Company name	Country/Place of operation and date of incorporation	Paid up capital	Attributable equity interest held by the Company	Attributable equity interest held by the Group	Principal activities	Type of legal entity
China Coal Sales and Transporting Corporation (中國煤炭銷售運輸總公司)	Beijing , the PRC 15 March 1983	RMB 44,662,306	100%	100%	Sale of coal and related products	Limited liability company
China Coal and Coke Longquan Limited (汾陽市中煤龍泉焦化有限責任公司)	Fenyang, the PRC 29 September 2003	RMB 50,000,000	—	60%	Manufacture, processing and washing of coke	Limited liability company
China Coal and Coke Mudanjiang Limited (中煤牡丹江焦化有限責任公司)	Mudanjiang, the PRC 21 April 2003	RMB 15,000,000	—	100%	Manufacture, processing and sale of coke	Limited liability company
China Coal and Coke Jingda Limited (山西省太谷縣中煤京達焦化有限公司)	Taigu, the PRC 29 October 2003	RMB 14,920,000	—	70%	Manufacture and sale of coke	Limited liability company
China Coal and Coke Jiuxin Limited (靈石縣中煤九鑫焦化有限責任公司)	Lingshi, the PRC 2 January 2004	RMB 50,000,000	—	75%	Manufacture and sale of coke	Limited liability company
North Coke (Hong Kong) Company Limited (北方焦化(香港)有限公司)	Hongkong 31 March 2003	USD 100,000	—	100%	Sale of coke and related products	Limited liability company

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40 PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

(i) Principal subsidiaries (continued)

Company name	Country/Place of operation and date of incorporation	Paid up capital	Attributable equity interest held by the Company	Group	Principal activities	Type of legal entity
China National Coal Mining Equipment Company Limited (中國煤礦機械裝備有限責任公司)	Beijing, the PRC 26 April 1988	RMB 513,726,087	100%	100%	Design, manufacture and sale of machinery and equipment for coal industry	Limited liability company
China Coal Handan Coal Mining Machinery Company Limited (中煤邯鄲煤礦機械有限公司)	Handan, the PRC August 1969	RMB 148,217,680	—	100%	Manufacture of mining equipment, export and import services	Limited liability company
Beijing China Coal Zhongzhuang Machinery Materials Company Limited (北京中煤中裝機械物資有限公司)	Beijing, the PRC 9 September 1993	RMB 5,190,624	—	100%	Sale of mining steel and equipment	Limited liability company
China Coal Beijing Coal Mining Machinery Company Limited (中煤北京煤礦機械有限責任公司)	Beijing, the PRC August 1958	RMB 145,250,237	—	100%	Manufacture of mining machinery and equipment	Limited liability company
China Coal Zhangjiakou Coal Mining Machinery Company Limited (中煤張家口煤礦機械有限責任公司)	Zhangjiakou, the PRC 16 May 1925	RMB 255,361,463	—	100%	Manufacture of mining machinery and equipment	Limited liability company

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40 PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

(i) Principal subsidiaries (continued)

Company name	Country/Place of operation and date of incorporation	Paid up capital	Attributable equity interest held by the Company	Attributable equity interest held by the Group	Principal activities	Type of legal entity
China Coal Overseas Development Company Limited (中國煤炭海外開發有限公司)	Beijing, the PRC 4 April 1981	RMB 4,167,204	—	100%	Import and export services	Limited liability company
China Mineral Equipment Group Import and Export Company Limited (中礦機集團進出口有限責公司)	Beijing, the PRC 19 March 1996	RMB 5,527,860	—	81.91%	Sale of mining machinery and equipment	Limited liability company
Tianjin China Coal Mining Equipment and Electronic Company Limited (天津中煤煤礦機電有限公司)	Tianjing, the PRC 7 January 1991	RMB 10,109,290	—	100%	Manufacture of mining equipment and electronic products	Limited liability company
Jiangsu Datun Aluminium Company Limited (江蘇大屯鋁業有限公司)	Xuzhou, the PRC 18 April 2002	USD 29,670,000	—	46.82%	Manufacture of aluminium products	Sino-foreign limited liability company
China Coal Shaanxi Zhong'an project Management Company Limited (中煤陝西中安項目管理有限責任公司)	Xi'an, the PRC 17 July 1993	RMB 3,841,238	—	100%	Project Management services	Limited liability company

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40 PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

(i) Principal subsidiaries (continued)

Company name	Country/Place of operation and date of incorporation	Paid up capital	Attributable equity interest held by the Company	Attributable equity interest held by the Group	Principal activities	Type of legal entity
Xi'an Zhong'an Rock Soil Engineering Company Limited (西安中安岩土工程有限責任公司)	Xi'an, the PRC 20 June 1993	RMB 1,783,353	—	100%	Surveying services	Limited liability company
Xi'an Meilong Control Engineering Company Limited (西安梅隆控制工程有限責任公司)	Xi'an, the PRC 28 January 1997	RMB 3,000,000	—	100%	Telecom engineering	Limited liability company
Xi'an Zhong'an Printing Co., Ltd (西安中安印務有限責任公司)	Xi'an, the PRC 27 September 1995	RMB 807,700	—	100%	Sale of publishing and Photocopying equipment and provision of related services	Limited liability company
China Coal Handan Design Engineering Company Limited (中煤邯鄲設計工程有限責任公司)	Handan, the PRC 7 October 1975	RMB 55,362,789	100%	100%	Design and survey of construction projects	Limited liability company
China Coal Handan Mining Machinery Company Limited (中煤邯鄲礦山機械有限責任公司)	Handan, the PRC 13 January 1996	RMB 500,000	—	100%	Manufacture of mining machinery	Limited liability company

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40 PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

(i) Principal subsidiaries (continued)

Company name	Country/Place of operation and date of incorporation	Paid up capital	Attributable equity interest held by the Company	Attributable equity interest held by the Group	Principal activities	Type of legal entity
Handan City Guoning Engineering Design Company Limited (邯鄲市國寧工程設計咨詢有限公司)	Handan, the RPC 8 July 2000	RMB 1,000,000	—	100%	Construction design and consulting services	Limited liability company
Handan City Qibin Engineering Design and Consulting Company Limited (邯鄲市奇斌工程設計咨詢有限公司)	Handan, the RPC 30 July 2003	RMB 500,000	—	100%	Provision of construction design and consulting services	Limited liability company
China Coal Handan Zhongyuan Construction Supervision and Consulting Company Limited (中煤邯鄲中原建設監理咨詢有限責任公司)	Handan, the PRC 18 October 1989	RMB 1,000,000	—	100%	Provision of project management services	Limited liability company
China Coal Handan Xinhua Technology Development Company Limited (中煤邯鄲信華技術開發有限責任公司)	Handan, the PRC 26 March 1993	RMB 1,000,000	—	100%	Provision of telecommunication and computer engineering services	Limited liability company

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40 PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

(i) Principal subsidiaries (continued)

Company name	Country/Place of operation and date of incorporation	Paid up capital	Attributable equity interest held by the Company	Attributable equity interest held by the Group	Principal activities	Type of legal entity
China Coal Handan Rock Soil Engineering Technology Company Limited (中煤邯鄲岩土工程有限責任公司	Handan, the PRC 10 October 1993	RMB 1,000,000	—	100%	Provision of land surveying services	Limited liability company
Handan City Zhongyuan Engineering Quality Testing Company Limited (邯鄲市中遠工程質量檢測有限公司)	Handan, the PRC 24 September 2004	RMB 1,000,000	—	100%	Provision of project quality testing services	Limited liability company
China Coal International Technical Consulting Company Limited (中國煤炭工業國際技術咨詢開發有限責任公司)	Beijing, the PRC 1 July 1988	RMB 21,197,783	—	100%	Consulting services	Limited liability company

Except for Sunfield Resources Pty. Limited which has adopted 30 June as its financial year end date, all subsidiaries have adopted 31 December as their financial year end date.

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40 PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

(ii) Principal jointly controlled entities

Company name	Country/Place of operation and date of incorporation	Paid up capital	Attributable equity interest held by the Company	Attributable equity interest held by the Group	Principal activities	Type of legal entity
Huajin Coking Coal Company Limited (華晉焦煤有限責任公司)	Shanxi, the PRC 23 February 2001	RMB 519,876,510	50%	50%	Coal mining	Limited liability company
Lingshi China Coal & Coke Gas Power Limited (靈石縣中煤焦化煤氣發電有限責任公司)	Lingshi, the PRC 11 November 2004	RMB 1,000,000	—	51% *	Power generation	Limited liability company
Shuozhou China Coal Pingshuo Energy Company Limited (朔州中煤平朔能源有限公司)	Shuozhou, the PRC 21 March 2004	RMB 150,000,000	51%	51% *	Manufacture and processing of coal	Limited liability company
Shanxi Nanliang Coal Company Limited (陝西南梁礦業有限公司)	Fugu, the PRC 5 February 1999	RMB 68,750,000	23%	55% *	Manufacture and processing of coal	Sino-foreign limited liability company
Datong China Coal Export Base Development Company Limited (大同中煤出口煤基地建設有限公司)	Datong, the PRC 8 August 2000	RMB 125,000,000	19%	60% *	Manufacture and processing of coal	Sino-foreign limited liability company

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40 PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

(ii) Principal jointly controlled entities (continued)

Company name	Country/Place of operation and date of incorporation	Paid up capital	Attributable equity interest held by the Company	Attributable equity interest held by the Group	Principal activities	Type of legal entity
Datong Zhongxin Energy Company Limited (大同中新能源有限公司)	Datong, the PRC 27 August 2001	RMB 161,000,000	5%	42%	Manufacture and processing of coal	Sino-foreign limited liability company
China Coal Complete Equipment Company Limited (中煤設備成套有限公司)	Beijing, the PRC 8 December 1993	RMB 4,308,261	—	65.73% *	Provision of maintenance services	Limited liability company

* Though the Group holds more than half of the equity interest in these entities, the Group shares control over the financial and operating decisions of these entities with other venturers, therefore, they are considered as jointhy controlled entities.

The aggregate amounts of assets, liabilities, revenues and expenses, and capital commitments attributable to the Group's interests in the jointly controlled entities are summarised as follows:

	2006	2005
Assets:		
Non-current assets	1,323,148	3,383,604
Current assets	883,666	2,374,031
Liabilities:		
Long-term liabilities	(1,124,615)	(922,316)
Current liabilities	(915,401)	(2,738,737)

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40 PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

(ii) Principal jointly controlled entities (continued)

	2006	2005
Revenue	1,971,703	6,688,488
Expenses	(1,829,130)	(6,334,064)
Net profit	142,573	354,424
Capital commitments	55,000	110,000

There are no contingent liabilities relating to the Group's interest in the jointly controlled entities.

The English names of certain subsidiaries, jointly controlled entities and associated companies referred to herein represent management's best effort at translating the Chinese names of these companies as no English names have been registered.

(iii) Principal associates

Company name	Country/Place of operation and date of incorporation	Paid up capital	Attributable equity interest held by the Company	Attributable equity interest held by the Group	Principal activities	Type of legal entity
China Coal and Coke Xuyang Limited (河北中煤旭陽焦化有限公司)	Hebei, the PRC 21 November 2003	RMB 100,000,000	—	45%	Manufacture and sale of coal and other related products	Limited liability company
Tianjin Tanjin Energy Technology Company Limited (天津炭金能源技術有限公司)	Tianjin, the RPC 28 August 2001	RMB 2,000,000	—	40%	Coal washing and other related services	Limited liability company
Beijing Zhongshuichang Solid and Liquid Separation Technology Company Limited (北京中水長固液分離技術有限公司)	Beijing, the PRC 20 September 2001	RMB 5,800,000	—	25.86%	Manufacture and sale of environmentally friendly equipment	Limited liability company

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40 PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

(iii) Principal associates (continued)

Company name	Country/Place of operation and date of incorporation	Paid up capital	Attributable equity interest held by the Company	Attributable equity interest held by the Group	Principal activities	Type of legal entity
Zhangjiakou Hengyang Appliance Company Limited (張家口恒洋電器有限公司)	Zhangjiakou, the PRC 26 April 2001	RMB 4,939,505	—	45.55%	Manufacture of electrical applicances	Sino-foreign limited liability company
Shuozhou City Pinglu District Ping'an Fertilizer Company Limited (朔州市平魯區平安化肥有限責任公司)	Shanxi, the PRC 31July 1996	RMB 134,640,000	—	29.71%	Sale of fertilizer and other chemical products	Limited liability company
Taiyuan Coal Gasification Longquan Energy Development Company Limited (太原煤氣化龍泉能源發展有限公司)	Taiyuan, the PRC 8 September 2006	RMB 300,000,000	40%	40%	Manufacture and sale of coke, coal and related products	Limited liability company
Beijing Tianhua Zhongrui Machinery Technology Development Company Limited (北京天華中瑞機械科技發展有限責任公司)	Beijing, the PRC 16 September 2004	RMB 4,641,000	—	49%	Manufacture of spare parts for motor vehicles	Limited liability company
Shanxi Pingshuo Gangue-fired Power Generation Co., Ltd. (山西平朔煤矸石發電有限責任公司)	Shanxi, the PRC 10 December 2002	RMB 129,250,000	30%	30%	Power generation and related products	Limited liability company

For the year ended 31 December 2006
(Amounts expressed in thousands of RMB except per share data or unless otherwise stated)

40 PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

(iii) Principal associates (continued)

Company name	Country/Place of operation and date of incorporation	Paid up capital	Attributable equity interest held by the Company	Attributable equity interest held by the Group	Principal activities	Type of legal entity
Shuozhou Pingshuo Luda Railway Transportation Company Limited (朔州平朔路達鐵路運輸有限公司)	Shanxi, the PRC 19 May 2004	RMB 10,000,000	37.5%	37.5%	Railway transportation	Limited liability company
Guotou Zhongmei Tongmei Jingtang Port Company Limited (國投中煤同煤京唐港口有限公司)	Tianjin, the PRC 16 June 2005	RMB 860,400,000	21%	21%	Coal Quay Construction	Limited liability company
Fukai (Zhangjiakou) Mineral Equipment Company Limited (富凱(張家口)礦業設備有限公司)	Zhangjiakou, the PRC 18 November 2004	RMB 1,650,000	—	49%	Manufacture of mining vehicles and provision of technical services	Sino-foreign limited liability company

41 ULTIMATE HOLDING COMPANY

The Company's directors regard China Coal Group, a company established in the PRC, as the ultimate holding company of the Company.

42 SUBSEQUENT EVENTS

Unified Corporate Income Tax

On 16 March 2007, the National People's Congress approved the Unified Corporate Income Tax Law (the "Unified CIT Law"). The tax rate will be unified for both domestic and foreign invested entities at 25%, with certain grandfathering provisions and preferential provisions. The Unified CIT Law will be effective from 1 January 2008.

At 31 December 2006, the deferred tax assets and liabilities are determined using the current tax rates, as the new tax law was neither enacted nor substantially enacted by 31 December 2006. Management is awaiting further guidance from the State Council to assess the impact of the change in tax rate on its financial statements for the year ending 31 December 2007.