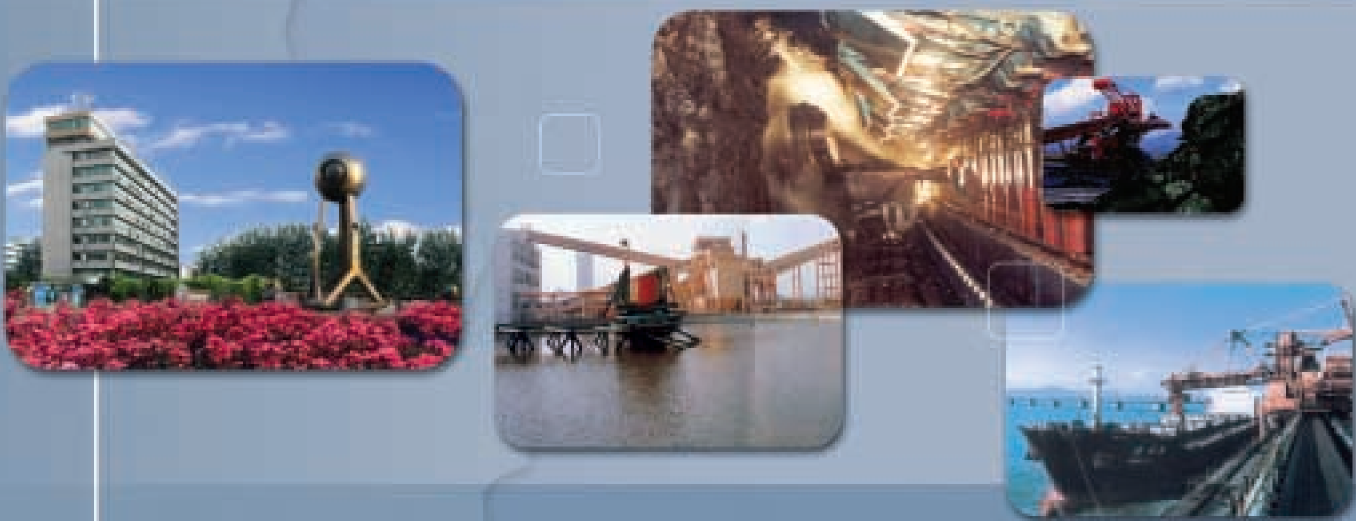
兖州煤业股份有限公司
Yanzhou Coal Mining Company Limited



2004 ANNUAL REPORT

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COMPANY PROFILE

Yanzhou Coal Mining Company Limited ("Yanzhou Coal", "the Company" or "Company") is located in Shandong Province, China. The Company is principally engaged in underground coal mining, preparation and processing, and sale and railway transportation of coal.

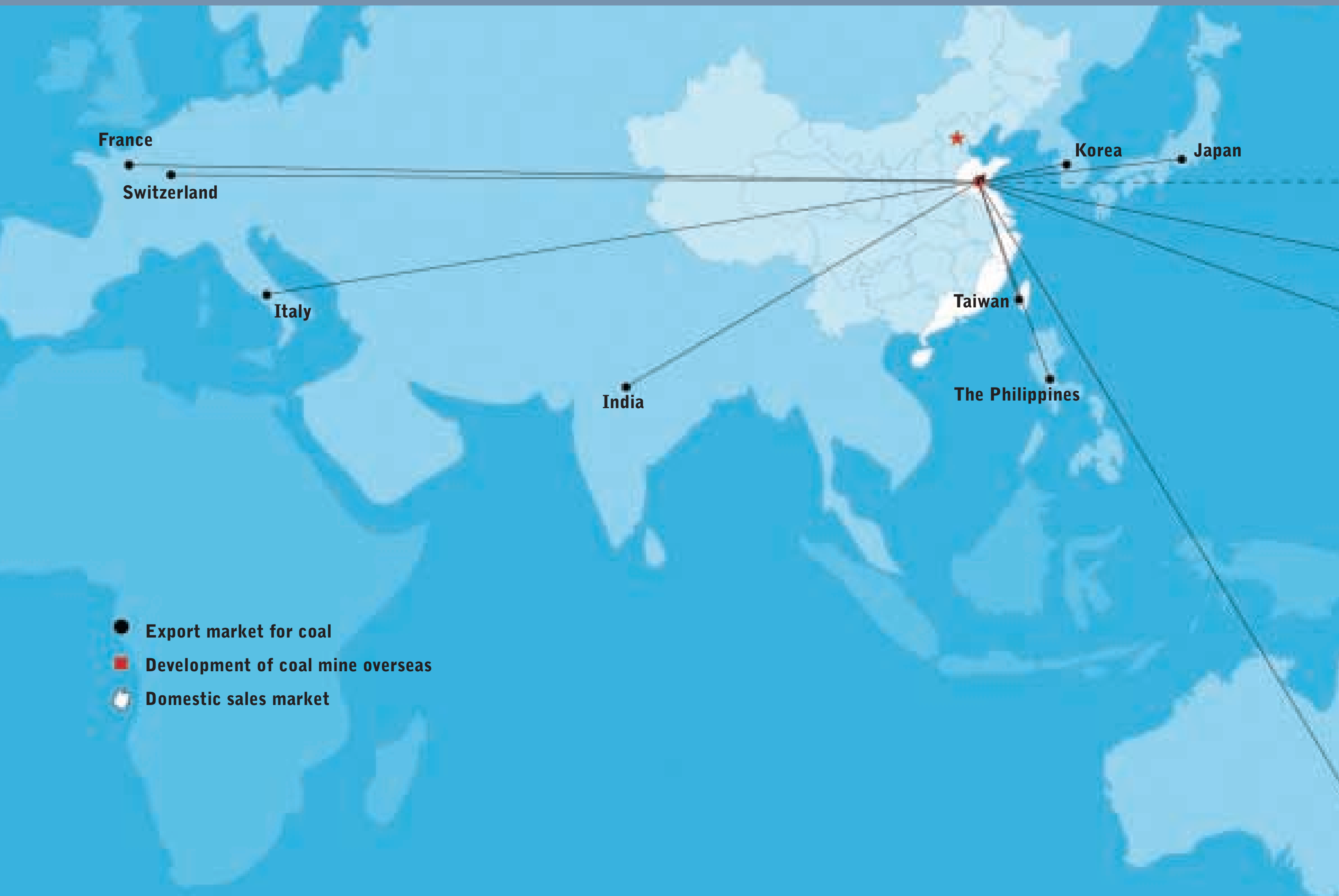
In 2004, the Company produced 39.15 million tonnes of raw coal, making it the largest coal producer in Eastern China; sold 38 million tonnes of saleable coal with an export sale volume of 10.02 million tonnes, making it one of the largest coal exporters in China; and realized a net profit of RMB3,154.3 million, making it one of the most profitable coal enterprises in China.

Products

The Company's products are mainly prime quality and low-sulphur coal, which is suitable for large-scale power plant as steam coal, metallurgical production as coal to be used with coking coal and for use in pulverized coal injection (PCI).

Customers

The customers of the Company are mainly located in countries or regions in East Asia such as Japan, Korea, Eastern China and South China.



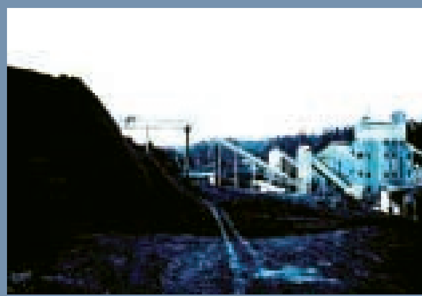
Major Prizes in 2004

- China Quality Award by China Association of Quality Management.
- No.4 of the China's Best Corporate Governance as rated by the magazine Asia Currency in Hong Kong.
- No. 2 of the Top 10 Best Resources Integration Listed Companies with Strongest Development Strength in China as rated by China Securities & Asian Business.
- One of the 2005 Global Well-Chosen Stocks of Standard & Poor's.

Important Events

- Successfully listed in New York, Hong Kong and Shanghai stock markets in 1998.
- Successfully issued 100 million new A shares and 170 million new H shares in 2001.
- Acquired Jining II coal mine, Jining III coal mine and railway assets specifically used for the transportation of coal (the "Railway Assets") in 1998, 2001 and 2002, respectively.
- Successfully placed 204 million new H shares in 2004.
- Successfully acquired Southland Coal Mine, which is the first successful purchase of overseas coal mine by Chinese enterprise.
- Started the preliminary preparation works for new coal mine projects in Shandong Province and Shaanxi Province and Methanol Project in Shaanxi Province in 2004.

China Quality Award



Australian Austar Coal Mine
(former Southland Coal Mine)

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

The financial highlights are prepared based on the financial information set out in the audited consolidated statement of income, consolidated balance sheet, and consolidated statement of cash flows in 2004, 2003, 2002 and 2001 and audited statement of income, balance sheet and cash flow in 2000.

OPERATING RESULTS

	Year ended 31st December				
	2004 (RMB'000)	2003 (RMB'000)	2002 (RMB'000)	2001 (RMB'000)	2000 (RMB'000)
Net Sales					
Net sales of coal	**10,354,337**	6,794,335	6,213,901	4,876,010	3,599,737
Domestic	**7,406,988**	4,337,089	3,413,955	2,599,812	2,090,758
Export	**2,947,349**	2,457,246	2,799,946	2,276,198	1,508,979
Net Income of Railway Transportation Service	**220,771**	154,585	142,471	–	–
Total Net Sales[1]	**10,575,108**	6,948,920	6,356,372	4,876,010	3,599,737
Gross Profit	**6,023,405**	3,193,897	2,993,471	2,063,427	1,616,217
Operating Income	**4,709,274**	2,034,884	1,866,141	1,421,692	1,040,664
Interest Expenses	**(35,942)**	(59,966)	(117,929)	(61,519)	(5,012)
Income Before Income Taxes	**4,673,332**	1,974,918	1,748,212	1,360,173	1,035,652
Net Income	**3,154,317**	1,386,686	1,221,999	970,945	748,360
Earnings per Share	**RMB1.06**	RMB0.48	RMB0.43	RMB0.35	RMB0.29
Dividend per Share[2]	**RMB0.260**	RMB0.164	RMB0.104	RMB0.100	RMB0.082

Notes (1): Total net sales in 2002 , 2003 and 2004 include net sales of coal and net income of railway transportation service.
(2): Dividend per share of year 2004 represents the dividend proposed.

ASSETS AND LIABILITIES

	31st December				
	2004 (RMB'000)	2003 (RMB'000)	2002 (RMB'000)	2001 (RMB'000)	2000 (RMB'000)
Net Current Assets	5,761,295	2,045,252	2,157,429	1,166,187	1,270,728
Land Use Right and Net Book Value of Property, Plant and Equipment	9,128,868	9,221,285	8,895,147	7,851,775	5,500,522
Total Assets	18,336,697	13,909,804	12,924,045	11,182,591	8,103,684
Total Borrowings	441,057	650,859	1,261,341	72,456	–
Shareholders' Equity	15,523,751	11,083,239	9,995,033	9,060,034	6,869,625
Net Asset Value per Share	RMB5.05	RMB3.86	RMB3.48	RMB3.16	RMB2.64
Return on Net Assets (%)	20.32	12.51	12.23	10.72	10.89

SUMMARY STATEMENT OF CASH FLOWS

	Year ended 31st December				
	2004 (RMB'000)	2003 (RMB'000)	2002 (RMB'000)	2001 (RMB'000)	2000 (RMB'000)
Net Cash from Operating Activities	4,418,381	2,701,236	2,239,712	1,610,239	1,023,152
Increase in Cash and Cash Equivalent	3,192,966	479,599	419,367	280,052	327,067
Net Cash Flow per Share from Operating Activities	RMB1.44	RMB0.94	RMB0.78	RMB0.56	RMB0.39

Notes: The above financial highlights of year 2004 represent the data resulting from the consolidation of the financial statements of Shandong Yanmei Shipping Co. Ltd. ("Yanmei Shipping"), Yanzhou Coal Yulin Power Chemical Co., Limited, Yancoal Australia Pty Limited and Austar Coal Mine Pty Limited.

The gross profit and the taxes and surcharges resulting from the principal businesses of Yanmei Shipping are calculated as the transportation cost of coal of the Company, reducing the total coal sales. As the sales income, operation results, and assets of Yanmei Shipping do not have significant impact on the Company, they are not separately set out and analyzed in this report.

Yanzhou Coal Yulin Power Chemical Co., Limited, Yancoal Australia Pty Limited Pty Limited and Austar Coal Mine Pty Limited are currently in the stage of preparation or in the construction stage and do not have significant impact on the results of the Company, and hence are not separately set out and analyzed in this report.

It is my pleasure to report that the Company has achieved significant growth in its performance in 2004.

Wang Xin
Chairman

Dear Shareholders,

It is my pleasure to report that the Company has achieved significant growth in its performance in 2004. Net income for the year 2004 was RMB3,154.3 million, representing a 127.5% increase over that of 2003.

The board of directors of the Company (the "Board") recommends, in addition to declaring a cash dividend to the shareholders of the Company (the "Shareholders") in accordance with the dividend policy persisted by the Company, a bonus issue of shares through the conversion of the capital reserve of the Company as a return to the long-term support of the Shareholders, that is a cash dividend of RMB0.26 (tax included) per share is recommended to be declared and 6 shares for every 10 shares are recommended to be issued to the Shareholders. The above proposed plans will be submitted for approval in the 2004 annual general meeting of the Company and, if approved, will be implemented within 2 months after the 2004 annual general meeting of the Company.

ACHIEVEMENTS IN 2004

In 2004, in both domestic and overseas coal markets, demand thrived but supply fell short of demand, prices recorded a significant increase.

The Company, by successfully stabilizing the production volume, balancing the sales in both domestic and overseas markets, optimizing product mix and use mix, optimizing transportation structure and port flow, continuously enhanced the product quality and strengthened a series of operating strategies such as cost controls, resulting in the significant growth of the Company's profits.

In 2004, the Company produced 39.15 million tonnes of raw coal, representing a 9.5% decrease from 2003 and sold 38.00 million tonnes of coal, representing a 3.6% decrease from 2003. The average coal price was RMB272.31/tonne, representing a 57.9% increase over 2003. The Company's net sales in 2004 were RMB10,575.1 million, representing a 52.2% increase over 2003 whereas its net income was RMB3,154.3 million in 2004, representing a 127.5% increase over 2003.

In December 2004, the Company acquired the Austar Coal Mine in Australia, which is the first successful acquisition of overseas coal mine assets by a Chinese coal mine company. This acquisition set up the platform for the Company's overseas development, which is beneficial to the Company's further development of overseas coal resources and the promotion of the capitalization of Longwall Top Coal Caving mining techniques.

In July 2004, the Company issued 204 million new H shares and raised net proceeds of RMB1,757 million. The proceeds were used in the development of the new coal mine projects in Shandong Province and Shaanxi Province and the methanol project in Shaanxi Province. The new projects is beneficial to enhance the scale of operation of the Company and its profitability and continuously increase the return to the Shareholders.

The Board is satisfied with the successful implementation of the operating strategies, the expansion of the business scale and the increase in profits in 2004.

OUTLOOK FOR 2005

In 2005, the demand for coal in both domestic and overseas markets is expected to be strong and the coal price is expected to maintain a high level.

Supply falls short of demand in the domestic coal market. The supply of certain types of coal products such as prime steam coal and coking coal falls short of demand and coal price is expected to be higher than the average price in 2004. The Chinese government estimated the economic growth of China will maintain at 8% in 2005. The increased demand in coal of certain coal-demanding industries such as power and metallurgical industries is expected to exceed 150 million tonnes for the whole year. The Chinese government will strengthen the safety and management of coal mines, control the over-capacity production of coal mine enterprises, continue to consolidate and close unqualified coal mines and maintain an equilibrium between the increase in coal demand and the increase in coal supply. The encouragement of large coal enterprises and the implementation of measures such as the linkage between coal and electricity prices by the State will be beneficial to the maintenance of the long-term development of the coal industry and the enhancement of the competitiveness of large coal enterprises.

The demand for coal in the international market will increase and the coal prices will maintain at a high level. The overall world's economy recovers, in particular, the continuous growth of the U.S.A., Europe and Japan, the demand of power in the international market increases, the coal prices maintain a high level, the demand for coal in metallurgical and power industries increases, the supply of coking coals falls short of supply and the demand for steam coals thrives. The lack of increase in export volume of the world's major coal producers and China's continued control in coal exports and the ever increasing sea freight will push up the coal prices in the Asian market, increasing the Company's competitiveness in the northeast Asian coal market.

In 2005, the Company has so far signed domestic coal sale contracts, letters of intent and made coal export plans, totaled 39.80 million tonnes, which is 4.7% higher than the actual sales volume in 2004, amongst which domestic sale contracts of 10.89 million tonnes have been signed, domestic letters of intent of 19.91 million tonnes have been signed. The coal export plan of the Company in 2005 is 9 million tones. Currently the coal export negotiations have not yet concluded.

The average sale prices of coal of the Company are expected to achieve a significant growth in 2005, compared to that of 2004. The consolidated average coal price of signed domestic sale contracts so far this year increased by approximately 32.7% over that of 2004. Certain coal prices of signed domestic letters of intent will fluctuate in response to market changes.

OPERATING STRATEGIES

The Company will use best endeavors to increase its profitability and Shareholders' return through its internal development and external expansion. In 2005, the Company will focus on the following two operating strategies:

i) **Speeding up the pace of the existing external resources development projects and continuing to look for new acquisition opportunities.** The Company will endeavour to accomplish the preparatory works for development and extraction prior to the commencement of production by Austar Coal Mine, creating the necessary conditions for operating the productions. The Company will also increase the pace of construction progress of the methanol project in Shaanxi Province, push forward the business negotiations of the two new coal mine projects in Shandong and Shaanxi Province and expedite the development and construction of new coal mine projects. . The Company will continue to look for new acquisition opportunities in coal and other relating industries, expand the scale of its coal mine assets, develop coal deep processing business, extend the coal industry chains and enhance the development potentials of the Company.

ii) **Improving operation and management and enhancing the profitability of the existing coal mines.** The Company aims to achieve growth in its results by stabilizing its existing coal output and sales volume, deepening the "Four Optimizations" for the sale of coal and strengthening cost control measures.

Firstly, stabilizing the existing coal output and sales volume. The Company aims to maintain the stability of the existing coal production volume by optimizing and adjusting mine production system, improving the Long-wall Top Coal Caving mining techniques and auxiliary facilities and improving the mining techniques for medium and thick coal seams by applying 2-legged shields. The Company will, pursuant to the trends in domestic and overseas markets, build up a reasonable coal sales network and complete its sale targets of 38 million tonnes for the whole year.

Secondly, deepening the "Four Optimizations" for sales of coal and increasing net product prices. The Company will continue to improve the quality of its products and to enhance the brand and market image of the Company. The Company will optimize its products mix and user mix to increase the sale price of its products and optimize the transportation structure and port flow structure to reduce sale cost and increase net product sale prices.

Thirdly, tightening the cost control measures. The Company will improve the financial control system and the budget management system, implement the budgeting management for its capital, costs and currency funds and control the risk in capital, aiming at reducing the increase in costs and expenses resulting from the increase in commodities prices.

I would like to express my sincere gratitude to the management and staff of the Company for their hard work as well as to all our Shareholders for their support. I am confident that the Company will attain great achievement in the development and construction of new projects in 2005 and that the Company's existing coal mines will achieve good economic efficiency and stronger competitiveness.

On behalf of the Board

Wang Xin
Chairman

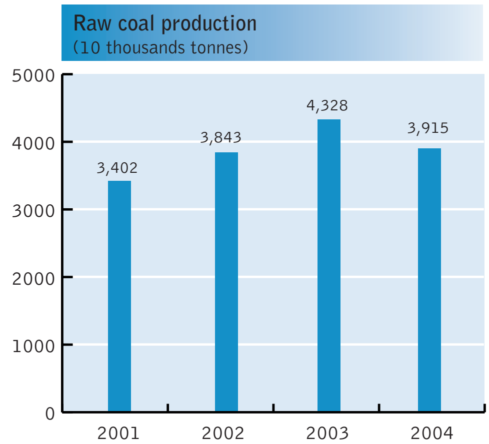
Zoucheng, PRC,
25th April, 2005

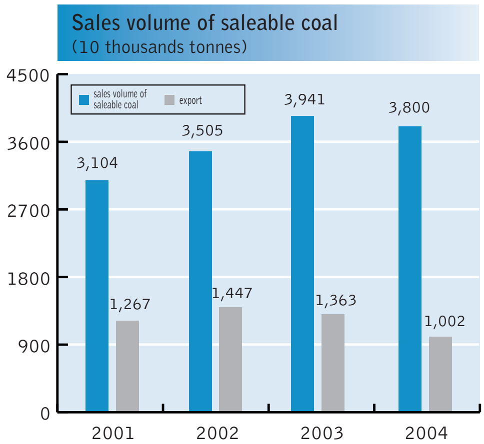
Yang Deyu
Vice Chairman, General Manager

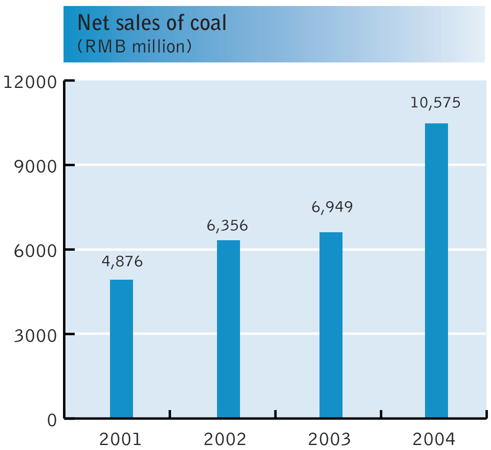
The following discussion is based on the Company's audited results of 2004 and 2003, which were prepared in accordance with International Financial Report Standards ("IFRS").

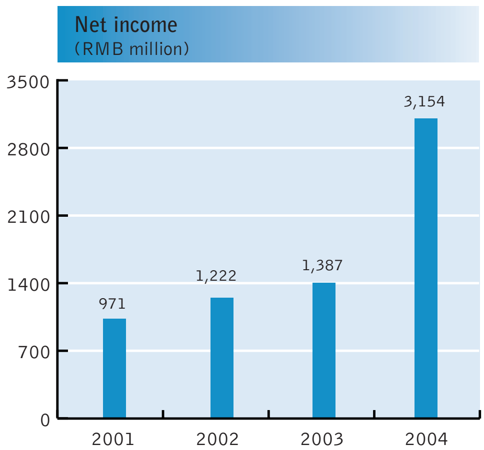
OVERVIEW

In 2004, the Company produced 39.15 million tonnes of raw coal, sold 38.00 million tonnes of coal and the railway transportation of coal achieved 30.28 million tonnes. In 2004, net sales of the Company was RMB10,575.1 million, among which net sales of coal was RMB10,354.3 million and net income of railway service was RMB220.8 million, and the net income of the Company was RMB3,154.3 million.









COAL PRODUCTION

The Company's raw coal production decreased by 4.13 million tonnes, or 9.5%, to 39.15 million tonnes in 2004 as compared with that of 2003. The decrease was mainly due to: the adjustment of coal mine production system layout and the frequent assembly and disassembly of workface in 2004 for the purpose of stabilizing the coal output in future, resulting in the decrease in the output of raw coal.

The output of salable coal was 36.75 million tonnes in 2004, representing a decrease of 3.14 million tonnes, or 7.9%, as compared with that of 2003.

PRODUCT PRICES AND SALES

The following table sets out the Company's net sales by product category for the years ended 31st December, 2004 and 2003:

	Year ended 31st December					
	2004			2003		
	Sales Volume ('000 Tonnes)	Net Sales of Coal (RMB'000)	% of Total Net Sales of Coal	Sales Volume ('000 Tonnes)	Net Sales of Coal (RMB'000)	% of Total Net Sales of Coal
Clean coal						
No. 1	631.3	220,480	2.1	513.8	128,216	1.9
No. 2	6,329.2	2,013,510	19.5	6,729.2	1,287,636	18.9
Domestic	2,326.7	805,435	7.8	636.5	151,823	2.2
Export	4,002.5	1,208,075	11.7	6,092.7	1,135,813	16.7
No. 3	11,861.9	3,484,026	33.7	11,952.7	2,126,320	31.3
Domestic	6,027.9	1,800,193	17.4	4,858.3	899,710	13.2
Export	5,834.0	1,683,833	16.3	7,094.4	1,226,610	18.1
Lump coal	752.3	284,314	2.7	583.4	130,257	1.9
Domestic	572.7	228,873	2.2	138.8	35,434	0.5
Export	179.6	55,441	0.5	444.6	94,823	1.4
Subtotal for clean coal	19,574.7	6,002,330	58.0	19,779.1	3,672,429	54.0
Domestic	9,558.6	3,054,981	29.5	6,147.4	1,215,183	17.8
Export	10,016.1	2,947,349	28.5	13,631.7	2,457,246	36.2
Screened raw coal	14,936.6	3,862,010	37.3	13,937.5	2,499,436	36.8
Mixed coal and others	3,492.6	484,479	4.7	5,690.9	622,470	9.2
Total	38,003.9	10,348,819	100.0	39,407.5	6,794,335	100.0
Including: Domestic	27,987.8	7,401,470	71.5	25,775.8	4,337,089	63.8

Notes: The net sales of coal of year 2004 are data before consolidating the financial statements of Yanmei Shipping.

The Company sold 38.00 million tonnes of coal in 2004, representing a decrease of 1.41 million tonnes, or 3.6%, as compared with that of 2003. Domestic sales were 27.99 million tonnes, representing an increase of 2.21 million tonnes, or 8.6%, as compared with that of 2003. Export sales were 10.01 million tonnes, representing a decrease of 3.62 million tonnes, or 26.5%, as compared with that of 2003.

The change in sale structure is principally due to the timely adjustment of product mix by the Company in light of the market needs.

The following table sets out the average coal prices of the Company for the years ended 31st December, 2004 and 2003:

	2004 (RMB per tonne)	2003 (RMB per tonne)
Cleaned coal		
No. 1	349.26	249.57
No. 2	318.13	191.35
Domestic	346.17	238.54
Export	301.83	186.42
No. 3	293.71	177.89
Domestic	298.64	185.19
Export	288.62	172.90
Lump coal	377.92	223.26
Domestic	399.60	255.15
Export	308.75	213.30
Subtotal for cleaned coal	306.64	185.67
Domestic	319.60	197.67
Export	294.26	180.26
Screened raw coal	258.56	179.33
Mixed coal and others	138.71	109.38
Average price	272.31	172.41
Including: Domestic	264.45	168.26

Note: 1. The average coal prices represent the invoice prices deducted by sale taxes, transportation cost from the Company to ports, port charges and miscellaneous fees for sales.

2. The average coal price of year 2004 is data before consolidating the financial statements of Yanmei Shipping.

The average coal price of the Company was RMB272.31/tonne in 2004, representing an increase of RMB99.90/tonne, or 57.9%, as compared with that of 2003. The average domestic coal price was RMB264.45/tonne, representing an increase of RMB96.19/tonne, or 57.2%, as compared with that of 2003. The average export coal price was RMB294.26/tonne, representing an increase of RMB114.00/tonne, or 63.2%, as compared with that of 2003.

The increase in average coal price of the Company was principally due to the increase of coal price in domestic and overseas markets and the increase of net sale price through the implementation of sales strategies such as the optimization of product mix and transportation structure.

The Company's coal products are mainly exported to East Asian countries, such as Japan and Korea. Net export sales of coal in 2004 accounted for 28.5% of the Company's total net sales of coal.

Most of the Company's coal products in the domestic market are sold to power plants, metallurgical producers, chemical companies and fuel companies etc..

The following table sets out the Company's net sales classified by industries for the year ended 31st December, 2004 and 2003:

	Year ended 31st December			
	2004		2003	
	Net Sales of Coal (RMB'000)	% of Total Net Sales of Coal	Net Sales of Coal (RMB'000)	% of Total Net Sales of Coal
Domestic				
Power plants	2,121,493	20.5	1,421,390	20.9
Metallurgical producers	656,895	6.3	294,909	4.3
Construction material companies/Coke chemical companies	784,063	7.6	329,815	4.9
Fuel trading companies/Others	3,839,019	37.1	2,290,975	33.7
Export				
Power plants	1,683,833	16.3	1,226,610	18.1
Metallurgical producers	1,208,075	11.7	1,135,812	16.7
Others	55,441	0.5	94,824	1.4
Total	10,348,819	100.0	6,794,335	100.0

Note: The net sales of coal classified by industries above for the year 2004 are data before consolidating the financial statements of Yanmei Shipping.

Domestic sales of the Company's coal products are concentrated in Eastern China, particularly in Shandong Province.

The following table sets out the Company's net sales classified by areas for the years ended 31st December, 2004 and 2003:

	Year ended 31st December			
	2004		2003	
	Net Sales of Coal (RMB'000)	% of Total Net Sales of Coal	Net Sales of Coal (RMB'000)	% of Total Net Sales of Coal
Eastern China				
Shandong Province	5,008,912	48.4	2,443,697	36.0
Jiangsu Province	738,088	7.1	546,622	8.0
Zhejiang Province	700,560	6.8	495,548	7.3
Shanghai Municipality	351,589	3.4	365,472	5.4
Other provinces in Eastern China	316,786	3.1	86,909	1.3
Subtotal	7,115,935	68.8	3,938,248	58.0
South China	285,535	2.7	398,841	5.8
Export	2,947,349	28.5	2,457,246	36.2
Total sales of coal	10,348,819	100.0	6,794,335	100.0

Note: (1) Other provinces in Eastern China include Anhui province, Fujian Province and Jiangxi Province whereas South China includes Guangdong Province, Hainan Province and Hunan Province.

(2) The net sales of coal classified by areas above for the year 2004 are data before consolidating the financial statements of Yanmei Shipping.

RAILWAY ASSETS

In 2004, railway transportation volume of the Company was 30.28 million tonnes, representing an increase of 2.02 million tonnes, or 7.1%, as compared with that of 2003. Net income from railway transportation service of the Company was RMB220.8 million in 2004, representing an increase of RMB66.186 million, or 42.8%, as compared with that of 2003.

JINING SIHE PORT

Jining Sihe Port was invested by the Company in 2003 and came into operation in January 2004. The coal handling volume was 1.47 million tonnes in 2004.

OPERATING EXPENSES AND COST CONTROL

The following table sets out the Company's principal operating expenses, which are also expressed as percentages of total net sales of the years ended 31st December, 2004 and 2003:

	Year ended 31st December			
	2004	2003	2004	2003
	(RMB'000)		(% of total net sales)	
Net sales				
Net sales of coal	10,354,337	6,794,335	97.9	97.8
Net income of railway transportation service	220,771	154,585	2.1	2.2
Total net sales	10,575,108	6,948,920	100.0	100.0
Costs of coal sales and railway transportation service				
Materials	1,088,683	899,602	10.3	12.9
Wages and employee welfare	1,022,614	863,707	9.7	12.4
Electric supply	298,274	278,507	2.8	4.0
Depreciation	918,360	836,120	8.7	12.0
Repairs and maintenance	455,782	374,855	4.3	5.4
Land subsidence, restoration, rehabilitation, and environmental costs	323,240	264,158	3.1	3.8
Mining right expenses	19,604	19,604	0.2	0.3
Other transportation fee	119,737	48,231	1.1	0.7
Other manufacturing costs	305,409	170,239	2.8	2.5
Total Cost of coal sales and railway transportation service	4,551,703	3,755,023	43.0	54.0
Sales, general and management expenses	1,479,863	1,264,858	14.0	18.2
Total operating expenses	6,031,566	5,019,881	57.0	72.2

In 2004, the total operating expenses of the Company were RMB6,031.6 million, representing an increase by RMB1,011.7 million, or 20.2%, as compared with that of 2003. Costs of coal sales and railway transportation service and sales, general and management expenses increased by 21.2% and 17.0%, as compared with that of 2003, respectively. Total operating expenses to total net sales reduced to 57.0% in 2004 from 72.2% in 2003.

The following discussion and analysis should be read in conjunction with the audited financial statements of the Company for 2003 and the notes thereto included elsewhere in this report. Such financial statements have been prepared in accordance with IFRS. For a discussion of certain differences between IFRS and US Generally Accepted Accounting Principles ("US GAAP"), please refer to note 46 to the financial statements contained herein or the Company's annual report on Form 20-F filed with the Securities and Exchange Commission of United States of America, which will be provided to any Shareholder upon written request.

YEAR ENDED 31ST DECEMBER, 2004 COMPARED WITH YEAR ENDED 31ST DECEMBER, 2003

Net sales of the Company in 2004 was 10,575.1 million. Putting aside the impact from the operation of Yanmei Shipping, net sales of the Company increased by RMB3,620.7 million, or 52.1%, to RMB10,569.6 million in 2004 from RMB6,948.9 million in 2003. Net sales of coal increased by RMB3,554.5 million, or 52.3%, to RMB10,348.8 million in 2004 from RMB6,794.3 million in 2003. The increase was mainly due to: an increase of average coal prices of 57.9%, which resulted in an increase of net sales of coal by RMB3,796.6 million; and a decrease of coal sales volume of 3.7%, which resulted in the decrease of net sales of coal by RMB242.1 million. Net income (income from coal transportation volume was calculated on the ex-mine basis and on the basis of transportation expenses being borne by the customers) of railway transportation service was RMB220.8 million, representing an increase of RMB66.186 million, or 42.8%, from RMB154.6 million in 2003. Such increase was principally due to the increase in the volume of coal deliveries made by Railway Assets where transportation expenses were calculated on ex-mine basis and were borne by the customers.

Cost of goods sold and railway transportation service of the Company increased by RMB796.7 million, or 21.2%, to RMB4,551.7 million in 2004, as compared to RMB3,755 million in 2003. The cost of coal sales was RMB4,462.3 million, representing an increase of RMB774.9 million, or 21.0%, as compared to RMB3,687.4 million in 2003, principally due to the increase in commodity prices, the increase in employees' wages, the reduction of the rate of export VAT rebate and the increase in the safety inputs. The unit cost of coal sales was RMB117.38, representing an increase of RMB23.81, or 25.4%, as compared to RMB93.57 of 2003. This was principally due to (1) the increase of unit cost of coal sales of RMB8.12 as a result of the objective factors resulting in an increase of expenses, of which, the reduction of the rate of export VAT rebate resulted in the increase of unit cost of coal sales by RMB2.1, the increase of prices of raw materials resulted in the increase of unit cost of coal sales by RMB4.21, the increase in subsidence fees as a result of the increase in commodity prices resulted in the increase of unit cost of coal sales by RMB1.81; (2) the increase of unit cost of coal sales by RMB4.12 as a result of the increase of employees' wages along with the increase in the Company's efficiency; (3) the increase of the unit coal sales by RMB4.05 as a result of the increase of expenses from the implementation of the "Four Optimizations" for sales of coal; (4) the increase of the unit coal sales by RMB4.90 as a result of the increase in safety inputs; (5) the increase of the unit cost of coal sales by RMB2.81 as a result of the increase in fixed costs resulting from the decrease of 141 million tonnes of sales when compared to the sales in the previous year; (6) the setting-off of part of the above-mentioned factors which resulted in the increase of unit cost of coal sales by the Company's strengthening of cost control measures.

Sales, general and management expenses of the Company were RMB1,479.9 million in 2004, increased by RMB215.0 million, or 17.0%, from RMB1,264.9 million of 2003. This increase was mainly due to: (1) an increase in retirement benefits scheme contributions of RMB59.085 million; (2) an increase in employee's wages and employee's benefits of RMB40.044 million; (3) an increase in resources compensation fees of RMB26.018 million; (4) a lose of RMB104.6 million from the sales of properties, machinery and equipment.

Other operating income of the Company increased by RMB59.887 million, or 56.6%, to RMB165.7 million in 2004 from RMB105.8 million in 2003. This was mainly due to the increase in the interest of bank deposits.

Operating income of the Company increased by RMB2,674.4 million, or 131.4%, to RMB4,709.3 million in 2004 from RMB2,034.9 million in 2003.

Interest expenses of the Company decreased by RMB24.024 million, or 40.1%, to RMB35.942 million in 2004 from RMB59.966 million in 2003. This was principally due to the partial repayment of certain bank loans.

Income before income taxes of the Company increased by RMB2,698.4 million, or 136.6%, to RMB4,673.3 million in 2004 from RMB1,974.9 million in 2003.

Net income of the Company increased by RMB1,767.6 million, or 127.5%, to RMB3,154.3 million in 2004 from RMB1,386.7 million in 2003.

Total assets increased by RMB4,426.9 million, or 31.8%, to RMB18,336.7 million as at 31st December, 2004 from RMB13,909.8 million as at 31st December, 2003. This was principally due to the increase in capital and the issue of shares and the appreciation of asset value from the Company's production and operation activities.

Total liabilities decreased by RMB13.553 million, or 0.5%, to RMB2,809.3 million as at 31st December, 2004 from RMB2,822.8 million as at 31st December, 2003.

Shareholder's equity increased by RMB4,440.6 million, or 40.1%, to RMB15,523.8 million as at 31st December, 2004 from RMB11,083.2 million as at 31st December, 2003. This was principally due to the increase in capital and the issue of shares and the increase in Shareholder's equity caused by the profit realized by operation activities .

LIQUIDITY AND CAPITAL RESOURCES

In 2004, the Company's principal source of capital was the cash income from operations and the placing of new H shares. The capital has been used primarily on operating activities expenditure, purchase of property, machinery and equipment, payment of Shareholders' dividends, repayment of certain long-term bank loans, and purchase of Australian Southland Coal Mine assets.

As at 31st December, 2004, the balance of bills and accounts receivable were RMB1,223.8 million, representing an decrease of RMB15.636 million, or 1.3%, from RMB1,239.4 million as at 31st December, 2003. Bills receivable increased by RMB232.9 million, or 35.4%, to RMB890.0 million as at 31st December, 2004 from the RMB657.1 million as at 31st December, 2003, principally due to the increase in bank bills of exchange from the sale of coal. Accounts receivable decreased by RMB248.6 million, or 42.7%, to RMB333.7 million as at 31st December, 2004 from RMB582.3 million as at 31st December, 2003, principally due to the reduction of newly occurred accounts receivable in this reporting period and the the Company's enhanced efforts of collecting the previous accounts receivable.

As at 31st December, 2004, inventories of the Company decreased by RMB16.599 million, or 3.3%, to RMB485.4 million as at 31st December, 2004 from RMB502.0 million as at 31st December, 2003. The decrease was due to the decrease in coal inventories.

Other loan receivable increased by RMB750 million, or 750%, to RMB850 million as at 31st December 2004, from RMB100 million as to 31st December 2003, principally due to the increase of entrusted loans during the reporting period.

Prepayment and other current assets decreased by RMB346.2 million, or 64.8%, to RMB188.3 million as at 31st December, 2004, from RMB534.5 million as at 31st December, 2003. The decrease was mainly due to the decrease of export VAT rebate receivable.

As at 31st December, 2004, total bills and accounts payable increased by RMB50.673 million, or 11.9%, to RMB478.3 million from RMB427.6 million as at 31st December, 2003.

Other accounts payable and provisions increased by RMB162.8 million, or 13.9%, to RMB1,337.6 million as at 31st December, 2004 from RMB1,174.8 million as at 31st December, 2003, principally due to increase of payables for the purchase of properties, machinery and equipment, amount payable for construction materials, resources compensation fees payable and the consideration in connection with the acquisition of the Australian Southland Coal Mine.

Long-term liabilities decreased by RMB186.7 million, or 41.4%, to RMB264.2 million as at 31st December 2004 from RMB450.9 million as at 31st December, 2003. This was principally due to the repayment of certain long-term bank loans.

The Company's capital expenditure for the purchase and construction of property, machinery and equipment was RMB1,288.1 million and RMB830.2 million in 2003 and 2004, respectively.

The capital investment of the Company in connection with the Company's acquisition of Australian Southland Coal Mine in 2004 was RMB187.3 million.

According to the Acquisition Agreement of Jining III Coal Mine, the Company has paid Yankuang Group Corporation Limited (the "Parent Company") RMB13.248 million for mining right during this reporting period.

According to the Acquisition Agreement of Railway Asset, the Company has paid the Parent Company RMB40 million during this reporting period. Details are set out in note 37 to the financial statements prepared in accordance with the IFRS of this annual report.

As at 31st December, 2004, the Company's debt to equity ratio was 2.8%, which was calculated based on the total Shareholder's equity and total amount of borrowings amounting to RMB15,523.8 million and RMB441.1 million, respectively.

Based on the total number of 3,074 million shares as at 31st December, 2004, the Board recommends, in addition to a cash dividend of RMB799.2 million (tax included) or RMB0.26 (tax included) per share in accordance with the dividend policy persisted by the Company, the issue of 6 shares for every 10 shares, by a bonus issue of shares through the conversion of the Company's capital reserve. The above proposed plans will be implemented after the approval by the Shareholders in the 2004 annual general meeting of the Company.

Taking into account the cash in hand and existing abundant capital sources, the Company believes that it will have sufficient capital for its operational and development needs.

TAXATION

The Company is still subject to an income tax rate of 33% on its taxable profits in 2004.

US GAAP RECONCILIATION

The Company's audited financial statements are prepared in compliance with IFRS, which differs in certain respects from US GAAP. Please refer to note 46 to the financial statements contained herein for a description of the differences between IFRS and US GAAP, and the adjusted net income for the year ended 31st December, 2004 and the Shareholders' equity as at 31st December, 2004 after reconciliation made in accordance with US GAAP.

The Board is pleased to submit the Report of the Directors of Year 2004 together with the audited financial statements of the Company for the year ended 31st December, 2004.

PRINCIPAL ACTIVITIES

The Company is principally engaged in underground coal mining, preparation and processing, and sales and railway transportation of coal.

FINANCIAL HIGHLIGHTS

A summary of the results of the Company, the assets and liabilities of the Company and the cash flow of the Company for each of the five years ended 31st December, 2004, 2003, 2002, 2001 and 2000, which are prepared in accordance with the International Financial Reporting Standards ("IFRS"), are set out in the section headed "Financial Highlights" of this report.

PROPOSED PROFIT APPROPRIATION

The profit appropriation of the Company for the year ended 31st December, 2004 as proposed by the Board is as follows:

Prepared in accordance with PRC GAAP	RMB'000
Net Income	2,707,785
Unappropriated profits at the beginning of year	2,220,501
Appropriation to statutory surplus reserve	270,811
Appropriation to statutory common welfare fund	135,422
Distributable profits	4,522,053
Proposed cash dividends after the date of the balance sheet	799,240
Unappropriated profits	3,722,813

The proposed profit appropriation will be presented to the Shareholders for approval at the 2004 annual general meeting of the Company .

Pursuant to the articles of association of the Company (the "Articles"), the Company's financial statements should be prepared according to the PRC GAAP as well as the IFRS or the accounting standards and regulations of the places in which its shares are listed.

For the purpose of determining the dividends payable to the Shareholders in a relevant year, the lower of the profits after taxation in these accounting standards will be applied for the relevant year. For this purpose, audited profits after taxation in accordance with the PRC GAAP will be applied to determine the proposed cash dividends after the date of balance sheet for the year 2004.

DIVIDENDS AND A BONUS ISSUE

The Board has decided to recommend at the 2004 annual general meeting of the Company, a declaration of cash dividend to the Shareholders in accordance with the dividend policy persisted by the Company and a bonus issue of shares through the conversion of the capital reserve of the Company, that is a cash dividend of RMB799.2 million (tax included) or RMB0.26 (tax included) per share is recommended to be declared and 6 shares for every 10 shares are recommended to be issued to the Shareholders. The above proposed plans will be implemented after the approval by the Shareholders in the 2004 annual general meeting of the Company.

Pursuant to the Articles, cash dividend payable to the Shareholders shall be calculated and declared in RMB. Cash dividend payable to holders of the Company's domestic shares shall be paid in RMB, while cash dividend payable to holders of the Company's H shares shall be paid in Hong Kong dollars.

MAJOR SUPPLIERS AND CUSTOMERS

The percentage of purchases attributable to the Company's five largest suppliers was less than 30% of the total purchase of its goods and services for 2004.

Net sales to the Company's five largest domestic customers accounted for less than 30% of the Company's net sales in 2004.

THE MUTUAL USE OF FUND BETWEEN THE COMPANY AND ITS AFFILIATES AND EXTERNAL GUARANTEES BY THE COMPANY

Pursuant to the "Notice on Several Issues Concerning the Regulation of the Flow of Funds Between Listed Companies and Their Affiliates and the Provision of External Guarantee by Listed Companies" issued by China Securities Regulatory Commission and the State-Owned Assets Supervision and Administration Commission of the State Council, Deloitte Touche Tohmatsu Certified Public Accountants Ltd. (the Company's domestic auditor) has issued a statement in respect of the use of fund by the controlling Shareholders and the Company's other affiliates. As at 31st December 2004, resulting from the daily operational transactions between the Company and the controlling shareholders, the accounts receivable, bills receivable and other receivables amounted to RMB349 million, the prepayments were RMB3.34 million, and the prepayment for long-term investments were RMB574 million.

As at 31st December, 2004, no external guarantees has been made by the Company, which has been confirmed by the Company's independent non-executive directors.

The above information concerning the mutual use of fund between the Company and its affiliates and the external guarantee by the Company constitute a disclosure under requirement by relevant laws of China (except Hong Kong).

ENTRUSTED LOANS

In the reporting period, the Company has undertaken entrusted loans as follows:

No.	Bank Entrusted	Borrower	Amount of Entrusted Loan (RMB'000)	Term of the Loan	Annual Interest	Whether through Statutory Process	Whether there is a provision for devaluation	Whether principals have been repaid	Interest Income RMB'000
1	Bank of China Jining Branch	Shandong Chuangye Investment and Development Co., Ltd.	100,000	From 7th April 2003 to 7th April 2004	6%	Yes	No	Yes	1,800
2	Bank of China Jining Branch	Shandong Xinjia Industrial Co., Ltd.	200,000	From 1st April 2004 to 25th June 2004	7%	Yes	No	Yes	11,868
3	Bank of China Jining Branch	Shandong Chuangye Investment and Development Co., Ltd.	100,000	From 9th April 2004 to 28th June 2004	6%	Yes	No	Yes	1,333
4	Bank of China Jining Branch	Shandong Chuangye Investment and Development Co., Ltd.	150,000	From 5th July 2004 to 20th December 2004	6%	Yes	No	Yes	2,150
5	The Industrial & Commercial Bank of China Linyi Branch	Shandong Xianglong Industrial Co., Ltd.	160,000	From 22nd September 2004 to 22nd September 2005	5.31%	Yes	No	No	4,248
6	Industrial Bank Co., Ltd. Jinan Branch	Shandong Cement Factory Co., Ltd	50,000	From 30th September 2004 to 20th September 2005	5.05%	Yes	No	No	427
7	Bank of China Jining Branch	Shandong Xinjia Industrial Co., Ltd.	640,000	From 20th December 2004 to 19th January 2005	7%	Yes	No	No	0

Besides the entrusted loans mentioned above, the Company has no other plan for entrusted loans. The disclosure of the above entrusted loans occurred during the reporting period is required under the relevant laws of China (except Hong Kong).

INTEREST CAPITALIZATION

No interest has been capitalized by the Company during the year ended 31st December 2004.

RESERVES

Details of movements in the reserves of the Company for the year ended 31st December, 2004 and details of the distributable reserves of the Company as at 31st December, 2004 are set out in note 34 to the financial statements prepared in accordance with the IFRS contained herein.

The amount proposed by the directors of the Company (the "Directors") to be carried to the reserve for the year 2004 was RMB737.7 million.

STATUTORY COMMON WELFARE FUND

Details of the statutory common welfare fund are set out in note 34 to the financial statements prepared in accordance with the IFRS contained herein.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company during the year ended 31st December, 2004 are set out in note 23 to the financial statements prepared in accordance with the IFRS contained herein.

EMPLOYEES' PENSION SCHEME

Details of the Company's employees' pension scheme are set out in note 40 to the financial statements prepared in accordance with the IFRS contained herein.

ON-GOING CONNECTED TRANSACTIONS

The on-going connected transaction between the Company and the Parent Company occurred for the year 2004 includes the following three aspects.

1. **On-going Supply of Materials and Services**

   The Materials and Services Supply Agreement entered into between the Company and the Parent Company on 17th October, 1997 and its supplemental agreement subsequently signed defined the connected transactions of on-going supply of materials and services between the Company and the Parent Company (details and terms of the Materials and Services Supply Agreement were published in the prospectus of the Company dated 24 March 1998, the Shareholders' circular dated 22 November 2001 and the Shareholders' circular dated 30 May 2003).

   The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") has granted a conditional waiver (the "Waiver") to the Company on 11th July, 2003 from strict compliance with the requirements of disclosure and approval as stipulated in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in respect of the connected transactions under the above agreements between the Company and the Parent Company for a period of three financial years ending 31st December 2005. The upper limits of the Waiver were as follows: the value of connected transactions relating to the provision of materials and services by the Company to the Parent Company shall not exceed 13% of the Company's audited consolidated net sales in the immediately preceding financial year, and the aggregate value of connected transactions relating to the provision of materials and services by the Parent Company to the Company shall not exceed 26% of the Company's audited consolidated net sales in the immediate preceding financial year.

   For the year ended 31st December, 2004, the value of connected transactions relating to the provision of materials and services by the Company to the Parent Company is RMB902.9 million and accounted for 12.99% of the Company's audited consolidated net sales in the year ended 31st December, 2003, and the value of connected transactions relating to the provision of materials and services by the Parent Company to the Company is RMB1,326.9 million and accounted for 19.1% of the Company's audited consolidated net sales in the year ended 31st December, 2003.

2. **Mining Rights Fee**

Pursuant to the Mining Rights Agreement dated 17th October, 1997 (as supplemented by a supplemental agreement dated 18th February, 1998) entered into between the Parent Company and the Company, the Company shall, every year within the ten years after its establishment, pay to the Parent Company the mining rights fees of five mines at RMB12.98 million. During this reporting period, the Company has paid RMB12.98 million to the Parent Company.

3. **Payment of Endowment Insurance Fund**

Pursuant to Agreement of Endowment Insurance Fund entered into between the Company and the Parent Company dated 17th October, 1997, the Company has, each month, withdrawn and remitted endowment insurance fund, amounting to 45% over the total monthly wages of the employees, to the special account for endowment insurance fund of the Parent Company, which manages the social endowment insurance fund and the expenses of the retirement benefits.

In this reporting period, the Company has paid endowment insurance fund of RMB408.5 million to the Parent Company.

The letter, as submitted by the auditors of the Company to the Board on 18th April, 2005, has confirmed that the above on-going connected transactions between the Company and the Parent Company (a) have received the approval by the Board; (b) are in accordance with the price policies of the Company; (c) have been entered into in accordance with the relevant agreement governing the connected transactions, and (d) have not exceeded the cap disclosed in the previous announcement.

The Company's independent non-executive Directors have reviewed the Company's on-going connected transaction with the Parent Company in the year 2004 and confirmed that: (1) all such connected transactions have been: (a) entered into by the Company in the ordinary and usual course of its business; (b) conducted either on normal commercial terms, or where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from independent third parties; and (c) entered into in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole; (2) the value of the connected transaction in respect of the on-going supply of materials and services has not exceeded the cap under the Waiver granted by the Hong Kong Stock Exchange on 11 July 2003.

EXPENSES IN RESPECT OF ASSETS ACQUIRED FROM THE PARENT COMPANY

Pursuant to the Jining III Coal Mine Acquisition Agreement entered into between the Company and the Parent Company, the consideration of the mining right of Jining III coal mine is approximately RMB132.5 million, which shall be paid to the Parent Company in ten equal annual interest free installments, commencing from 2001. As at 31st December, 2004, the Company has paid RMB52.992 million to the Parent Company as the mining right consideration of Jining III coal mine.

Pursuant to the Railway Assets Acquisition Agreement entered into between the Company and the Parent Company, when the annual transportation volume of the Railway Assets reaches the volume milestones targets of 25 million tonnes, 28 million tonnes and 30 million tonnes for the year 2002, 2003 and 2004, respectively, the Company will pay to the Parent Company an amount of RMB40 million each year before 30th June annually from 2003 for three consecutive years. Annual transportation volume of the Railway Assets during the year 2004 was 30.28 million tonnes and the Company, pursuant to the Railway Assets Acquisition Agreement, has paid RMB40 million to the Parent Company.

HOUSING SCHEME

According to the Materials and Services Supply Agreement (as amended by the supplemental agreements) entered into between the Company and the Parent Company, which is set out in the paragraph headed "On-going Supply of Materials and Services" of the section headed "On-going Connected Transactions", the Parent Company is responsible for providing accommodation to its employees and the employees of the Company. The Company and the Parent Company share the incidental expenses relating to the provision of such accommodation on a pro-rata basis based on their respective number of employees and mutual agreement. Such expenses amounted to RMB37.2 million and RMB37.2 million in 2003 and 2004, respectively.

Commencing from 2002, the Company paid to its employees a housing allowance, which is based on a fixed percentage of employees' wages, for their purchase of residential houses. During the year ended 31st December, 2004, the employees' housing allowances paid by the Company amounted to RMB137.3 million in total.

Details of the housing scheme are set out in note 41 to the financial statements prepared in accordance with the IFRS contained herein.

DISCLOSURE OF SIGNIFICANT EVENTS

Appointment of Additional Directors, Appointment of the Chairman and an Additional Vice Chairman of the Board and Engagement of Additional Deputy General Managers

At the 2003 annual general meeting of the Company held on 25th June, 2004, Mr. Wang Xin and Mr. Wang Xinkun were elected as the Company's additional Directors and Mr. Wang Quanxi was elected as the additional independent non-executive Director.

A meeting of the Board was held on 25th June, 2004, in which Mr. Wang Xin was elected to be the chairman of the Board and Mr. Geng Jiahuai was elected to be the vice chairman of the Board.

A meeting of the Board was held on 16th April, 2004, in which Mr. Jin Tai and Mr. He Ye were engaged as the additional deputy general managers.

Placing of New Shares

Pursuant to the authorization of the 2003 annual general meeting of the Company held on 25th June, 2004 and the approval of the meeting of the Board held on 7th July, 2004, the Company entered into the Placing and Underwriting Agreement with BNP Paribas Peregrine Capital Limited on 7th July, 2004, pursuant to which the Company placed 204,000,000 new H shares with a Renminbi-denominated par value of RMB1.00 each at a price of HK$8.30 per share (the "Placing"), the total nominal value of the new H shares is RMB204 million. The Company raised net proceeds of HK$1,656,335,800 (approximately RMB1,756,875,383) from the Placing, the net price of each Placing share was HK$8.12. As at 6 July 2004, the closing price of the H shares of the Company was HK$9.25 per share. The placees were not less than six in number and were located in countries and regions such as Hong Kong, Europe and the US. The proceeds from the Placing will be used for investments in two new coalmine projects in Shandong Province and Shaanxi Province, and the methanol project in Shaanxi Province.

The Placing shares were listed on the Hong Kong Stock Exchange on 15th July, 2004. The total share capital of the Company increased to 3,074 million shares from 2,870 million shares. The percentage of the listed share capital of the Company to the total share capital of the Company increased from the original 41.81% to 45.67%. The change of share capital structure of the Company after the Placing is shown in the table of the "Changes in Share Capital" under the section headed "Changes In Share Capital and Shareholding of Shareholders".

Details of the Placing were published in the domestic China Securities Journal and Shanghai Securities News and Wen Wei Po and South China Morning Post of Hong Kong on 8th July, 2004 and 9th July, 2004.

Amendments to the Articles

Pursuant to the approval of the 2003 annual general meeting of the Company held on 25th June, 2004, the Company amended the Articles in accordance with the new requirements of domestic and overseas supervising authorities and the needs of daily operations of the Company. Details of the amendments to the Articles were despatched to the Shareholders on 19th April 2004 and were published in the domestic China Securities Journal, Shanghai Securities News and Wen Wei Po, South China Morning Post of Hong Kong on 19th April, 2004.

After the Placing, the Board amended the Articles pursuant to the authorization granted in the 2003 annual general meeting of the Company so as to reflect the changes in the share capital structure of the Company after the Placing. Details of the amendments to the Articles were published in the domestic China Securities Journal, Shanghai Securities News and Wen Wei Po, South China Morning Post of Hong Kong on 8th July, 2004.

Acquisition of Australian Coal Asset

The Company entered into the Southland Coal Mine Asset Sale Agreement with the receivers and managers and the liquidators of Southland Coal Pty Limited in Australia, pursuant to which the Company would acquire the entire Southland Coal Mine owned by Southland Coal Pty Limited. The aggregate consideration for the agreement is AUD32 million.

The Company has completed the transfer of Southland Coal Mine asset by 24th December 2004, which is the first successful acquisition of overseas coal mine by Chinese coal mine company. Southland Coal Mine was renamed as Austar Coal Mine.

The Austar Coal Mine is situated at the mining area in Hunter Valley, New South Wales, Australia, with main coal products of hard coking coal and semi soft coking coal. Based on the standards of estimation of the reserves in Australia, it has recoverable reserves of approximately 41 million tones (the information regarding the reserve is extracted from the "Information Memorandum - Southland Coal Pty Ltd" provided by the vendor of the Southland Coal Mine). The Company believes that the acquisition of the Southland Coal Mine is beneficial to the Company's profit potential.

Establishment of Subsidiaries

During this reporting period, the Company invested RMB776 million in establishing a controlled subsidiary company, namely Yanzhou Coal Yulin Power Chemical Co. Ltd., in Yulin City of Shaanxi Province with a registered capital of RMB800 million, mainly engaged in the construction of the project of the production of 600,000 tonnes of methanol and 200,000 tonnes of acetic acid and its ancillary project.

During this reporting period, the Company has solely invested and set up Yancoal Australia Pty Limited in Sidney of Australia, mainly engaged in the management of the Company's investments in Australia. The current capital investment of the Company in Yancoal Australia Pty Limited is AUD30 million. Yancoal Australia Pty Limited has solely invested AUD30 million in establishing Austar Coal Mine Pty Limited, which is responsible for the production and operation of Austar Coal Mine.

MATERIAL CONTRACTS

Save as the disclosure regarding the Placing and Underwriting Agreement in the paragraph headed "Placing of New Shares" in the section headed "Disclosure of Significant Events" and the Entrusted Loan Agreement in the section headed "Material Litigation and Arbitration", the Company was not a party to any other material contract during this reporting period.

MATERIAL LITIGATION AND ARBITRATION

For the purpose of increasing the utilization rate of the Company's own capital, after the approval by the Board, the Company entered into the Entrusted Loan Agreement with Bank of China Jining Branch, Shandong Xin Jia Industrial Company Limited ("Shandong Xin Jia") and Lianda Group Limited ("Lianda Group") on 13 December 2004. The Company made an entrusted loan of RMB640 million to Shandong Xin Jia through the Bank of China Jining Branch, which was secured by a guarantee provided by Lianda Group. The annual interest of the entrusted loan is 7% per annum and the period of the entrusted loan is from 20 December 2004 to 19 January 2005.

To avoid risk and to ensure repayment of the principal and interest of the entrusted loan, the Company has applied and obtained an order from the People's High Court of Shandong Province to freeze 289 million shares held by Lianda Group in Huaxia Bank Company Limited ("Huaxia Bank Shares").

Since Shandong Xin Jia failed to duly repay the principal or the interests, the Company on 22 January 2005 lodged an application with the Higher People's Court of Shandong Province. The Higher People's Court of Shandong Province gave a verdict on 28 March 2005 allowing a lawful auction of the freezed Huaxia Bank Shares held by Lianda Group in order to receive the principal, the interest, the penalty interest and the related costs and expenses of the entrusted loan. As at the date of this report, the Higher People's Court of Shandong Province has not yet completed the procedure for the auction and the Company has not yet received the principal, the interest, the penalty interest and the related costs and expenses of the entrusted loan.

For details of the above entrusted loan, please refer to the announcement published in the domestic China Securities Journal and Shanghai Securities News on 28th December 2004, the announcement published in Wen Wei Po and South China Morning Post of Hong Kong on 29th December 2004 and the announcement published in the domestic China Securities Journal and Shanghai Securities News and Wen Wei Po and South China Morning Post of Hong Kong on 20th January 2005.

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

PRE-EMPTIVE RIGHTS

The Articles and the laws of the PRC contain no provision for any pre-emptive rights, requiring the Company to offer new shares to the Shareholders on a pro-rata basis to their shareholdings.

SHARE CAPITAL

Details of the share capital of the Company are set out in the note 34 to the financial statement prepared in accordance with the IFRS contained herein.

CHANGES IN SHARE CAPITAL AND SHAREHOLDING OF SHAREHOLDERS

Changes in Share Capital

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

		1st January 2004	Changes during the this reporting period (increase/decrease)	31st December 2004
A:	Shares not listed for public dealings			
	Subscriber shares			
	Of which: State legal person shares	1,670,000,000		1,670,000,000
	Total numbers of the shares not listed for public dealings	1,670,000,000		1,670,000,000
B:	Shares listed for public dealings			
	1. A shares	180,000,000		180,000,000
	2. H shares	1,020,000,000	204,000,000	1,224,000,000
	Total numbers of the shares listed for public dealings	1,200,000,000	204,000,000	1,404,000,000
C:	Total numbers of shares	2,870,000,000	204,000,000	3,074,000,000

As at 31st December, 2004, the Company had a total of 22,821 Shareholders, of which one was the holder of state legal person shares, 22,739 were holders of A shares and 81 were holders of H shares.

TOP TEN SHAREHOLDERS AND TOP TEN SHAREHOLDERS HOLDING LISTED SHARES OF THE COMPANY

According to the register of Shareholders as at 31st December, 2004, which was provided by the Shanghai Branch of China Securities Depository and Clearing Corporation Limited and Hong Kong Registrars Limited, the top ten Shareholders and the top ten Shareholders holding listed shares of the Company are as follows:

(as at 31st December, 2004)

Name	Class of shares held	Number of shares at the end of this reporting period (shares)	Percentage holding of the total capital of the Company (%)	Changes in the number of shares during the period under review (increase/ decrease) (shares)	Listing Status (listed /unlisted)
Yankuang Group Corporation Limited	State legal person share	1,670,000,000	54.33	–	Unlisted
HKSCC Nominees Limited	H Shares	1,222,493,999	39.77	204,510,100	Listed
Zhongxin Classic Allocation Securities Investment Fund	A Shares	11,478,184	0.37	11,478,184	Listed
Changsheng Dynamic Choiceness Securities Investment Fund	A Shares	10,987,203	0.36	10,987,203	Listed
Haifutong Returns Growth Securities Investment Fund	A Shares	7,361,391	0.24	7,361,391	Listed
Tongyi Securities Investment Fund	A Shares	5,468,890	0.18	5,468,890	Listed
Jutian Fundamental Industry Securities Investment Fund	A Shares	4,607,686	0.15	4,607,686	Listed
Dacheng Blue Chip Steadiness Securities Investment Fund	A Shares	4,600,000	0.15	4,600,000	Listed
Jinghong Securities Investment Fund	A Shares	4,568,058	0.15	3,368,057	Listed
Yanjiang Xizhilang Pudding Manufacturing Co., Ltd.	A Shares	4,128,653	0.13	4,128,653	Listed
Tongsheng Securities Investment Fund	A Shares	3,977,118	0.13	3,977,118	Listed

Save as disclosed above, no other Shareholder was recorded in the register kept pursuant to the Securities Law of the People's Republic of China as having an interest of 5% or more of the Company's public shares as at 31st December, 2004.

None of the shares held by Yankuang Group Corporation Limited were pledged or restricted or under any trust arrangement during the period under review. It is uncertain as to whether the shares held by the Shareholders other than those disclosed above were pledged or restricted or under any trust arrangement during the period.

The fund manager of the shareholders disclosed above, namely Changsheng Dynamic Choiceness Securities Investment Fund; Tongyi Securities Investment Fund; and Tongsheng Securities Investment Fund, is Changsheng Fund Management Company Limited. Related party relationships and concert actions amongst the other Shareholders are not known.

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

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 December 2004, no other person (other than the Directors, chief executive or supervisors of the Company) had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance (the "SFO").

Name of substantial shareholder	Class of shares	Number of shares held (shares)	Capacity	Type of interest	Percentage in the relevant class of share capital	Percentage in total share capital
Yankuang Group Corporation Limited	Domestic shares (State legal person shares)	1,670,000,000 (L)	Beneficial Owner	Corporate	90.27%	54.33%
J.P. Morgan Chase & Co. (Note 1)	H shares	132,319,983 (L) (including 72,150,783 (P)–Note 2) 22,916,000 (S)	Interest of controlled corporations	Corporate	12.68%	5.05%

Notes:

1. As at 31 December 2004, J.P. Morgan Chase & Co. was taken to be interested in 12.68% of the Company's total H shares or 5.05% of the Company's total share capital through the following companies:

   (a) 2,000,000 H shares (representing approximately 0.16% of the Company's total H shares) in a long position and 2,000,000 H shares (representing approximately 0.16% of the Company's total H shares) in a short position held by J.P. Morgan Securities Ltd., which is a controlled corporation of J.P. Morgan Chase & Co.

   (b) 48,560,000 H shares (representing approximately 3.97% of the Company's total H shares) in a long position held by JF Asset Management Limited, which is a controlled corporation of J.P. Morgan Chase & Co.

   (c) 9,609,200 H shares (representing approximately 0.79% of the Company's total H shares) in a long position and 20,000,000 H shares (representing approximately 1.63% of the Company's total H shares) in a short position by J.P. Morgan Whitefriars Inc., which is a controlled corporation of J.P. Morgan Chase & Co.

   (d) 916,000 H shares (representing approximately 0.08% of the Company's total H shares) in a short position held by J.P. Morgan International Derivatives Ltd., which is a controlled corporation of J.P. Morgan Chase & Co.

2. The total number of H shares held included interest in 72,150,783 H shares (representing approximately 5.89% of the Company's total H shares) held by JPMorgan Chase Bank, N.A. in a lending pool.

3. As at 31st December, 2004, State Street Corporation filed a corporate substantial shareholder notice on 23rd July, 2004 in which it was noted that State Street Corporation was, via its controlled corporation, State Street Bank & Trust Company, taken to be interested in 51,034,521 H shares in a long position or 5.00% of the Company's total H shares. The 5.00% mentioned store was calculated based on the total number of H shares prior to the listing of the Company's 204,000,000 Placing shares on 15th July 2004. The correct percentage interest taken to be held by State Street Corporation (of the Company's total H shares) as at 31st December, 2004 should be 4.17% (based on the enlarged number of 1,224,000,000 H shares after the placing of an additional 204,000,000 H shares by the Company in July 2004). As at 31st December, 2004, no corporate substantial shareholder notice had been filed, indicating that State Street Corporation had ceased to have an interest in at least 5% in the H shares.

4. The information disclosed is based on the information available on the website of the Hong Kong Stock Exchange.

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

LEGAL PERSON SHAREHOLDERS WITH SHAREHOLDING OF 10% OR MORE

As at 31st December, 2004, Yankuang Group Corporation Limited held 1,670,000,000 state legal person shares of the Company, without any changes during the reporting period, representing 54.33% of the total share capital of the Company.

Yankuang Group Corporation Limited, a state wholly-owed enterprise, is a controlling Shareholder of the Company. Its legal representative is Mr. Geng Jiahuai and its registered capital is RMB3,090.336 million. It is principally engaged in coal production, building and building materials, chemical and machinery processing businesses. Its actual controller is the State-owned Assets Supervision and Administration Commission of the People's Government of Shandong Province.

During the reporting period, the Company's controlling Shareholder or its actual controller remained unchanged.

As at 31st December, 2004, HKSCC Nominees Limited held 1,222,493,999 H shares of the Company, representing 39.77% of the total share capital of the Company.

HKSCC Nominees Limited is a participant of the Central Clearing and Settlement System and provides securities registrations and trustee services to its customers.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, the total share capital of the Company consisted of 3,074,000,000 shares, of which 1,404,000,000 shares were held by the public, representing 45.67% of the Company's total share capital. Among the 1,404,000,000 shares held by the public, 1,224,000,000 of them were H shares, representing 39.82% of the Company's total share capital; whereas 180,000,000 were A shares, representing 5.85% of the Company's total share capital.

SHAREHOLDING OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Save as disclosed below, as at 31st December, 2004, none of the Directors, chief executive or supervisors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) as recorded in the register required to be kept under section 352 of the SFO; or (ii) as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (which shall be deemed to apply to the Company's supervisors to the same extent as it applies to the Company's Directors).

Name	Capacity	Title	Number of domestic shares held at the beginning of this reporting period (shares)	Number of domestic shares held at the end of this reporting period (shares)	Reasons for changes
Wang Xin	–	Chairman of the Board	0	0	No change
Geng Jiahuai	–	Vice Chairman of the Board	0	0	No change
Yang Deyu	Beneficial owner	Vice Chairman of the Board and General Manager	10,000	10,000	No change
Mo Liqi	Beneficial owner	Director	10,000	10,000	No change
Wang Bangjun	Beneficial owner	Director	10,000	10,000	No change
Yang Jiachun	Beneficial owner	Director	10,000	10,000	No change
Wu Yuxiang	Beneficial owner	Director and Chief Financial Officer	10,000	10,000	No change
Wang Xinkun	–	Director and Vice General Manager	0	0	No change
Dong Yunqing	–	Director	0	0	No change
Fan Weitang	–	Independent Non-executive Director	0	0	No change
Cui Jianmin	–	Independent Non-executive Director	0	0	No change
Wang Xiaojun	–	Independent Non-executive Director	0	0	No change
Wang Quanxi	–	Independent Non-executive Director	0	0	No change
Meng Xianchang	Beneficial owner	Chairman of the Supervisory Committee	10,000	10,000	No change
Xiao Shuzhang	Beneficial owner	Supervisor	10,000	10,000	No change
Zhang Shengdong	–	Supervisor	0	0	No change
Liu Weixin	–	Supervisor	0	0	No change
Xu Bentai	–	Supervisor	0	0	No change
Jin Tai	–	Deputy General Manager	0	0	No Change
Zhang Yingmin	–	Executive Deputy General Manager	0	0	No Change
Tian Fengze	–	Deputy General Manager	0	0	No Change
Chen Guangshui	Beneficial owner	Secretary to the Board	1,000	1,000	No Change
Shi Chengzhang	–	Deputy General Manager	0	0	No Change
Ni Xinghua	–	Chief Engineer	0	0	No Change

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

As at 31st December, 2004, the total number of domestic shares of the Company held by the Directors, supervisors and senior management of the Company is 71,000, representing 0.0023% of the total share capital of the Company.

As at 31st December, 2004, none of the Directors, chief executive or supervisors of the Company or their spouses or children under the age of 18 was given the right to acquire shares or debentures of the Company or any associated corporation (within the meaning of the SFO) or had exercised any such right as at 31st December, 2004.

BRIEF BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

WANG Xin, aged 46, an engineering technique application researcher, doctor of engineering technology. Mr. Wang is the chairman of the Board and the vice chairman of the board of directors and the general manager of the Parent Company. Mr. Wang joined the predecessor of the Company (the "Predecessor") in 1982 and became the vice general manager of the Parent Company in 2000, a director and the deputy general manager of the Parent Company in 2002, and the vice chairman of the board of directors and the general manager of the Parent Company in 2003. In 2004, Mr. Wang became a director of the Company as well as the chairman of the Board and of Shandong Yankuang International Coking Limited. Mr. Wang graduated from China University of Mining and Technology.

GENG Jiahuai, aged 54, an engineering technique application researcher. Mr. Geng is the vice chairman of the Board and the chairman of the board of directors and the party committee secretary of the Parent Company. During the period from 1985 to 2002, Mr. Geng successively acted as the deputy director of Zibo Mining Bureau, the director of the Safety and Supervision Bureau and the director of Zibo Mining Bureau. Mr. Geng joined the Parent Company in 2002 and became the general manager, the vice chairman of the board of directors and the party committee deputy secretary of the Parent Company. Mr. Geng became the chairman of the board of directors and the party committee secretary of the Parent Company in 2003. Mr. Geng became a director of the Company in 2002 and became the vice chairman of the Board in 2004. Mr. Geng graduated from Shandong Mining Institute.

YANG Deyu, aged 55, an engineering technique application researcher. Mr. Yang is the vice chairman of the Board and the general manager of the Company. Mr. Yang joined the Predecessor in 1968 and became the deputy director of Yanzhou Mining Bureau in 1994 and the deputy general manager of the Predecessor and the director of the Safety and Supervision Bureau in 1996. Mr. Yang became the executive Director and the general manager of the Company in 1997 and the vice chairman of the Board and the general manager of the Company in 2002. Mr. Yang graduated from Shandong Mining Institute.

MO Liqi, aged 60, an engineering technique application researcher, is a Director and the counselor of the People's Government of Shandong Province. Mr. Mo joined the Predecessor in 1970, became the manager of Yanzhou Coal Infrastructure Company in 1985, respectively. Mr. Mo became the deputy director of Yanzhou Mining Bureau in 1987 the vice chairman of the board of directors and the deputy general manager of the Predecessor in 1996, and the general manager of the Predecessor in 1997. Mr. Mo became a Director in 1997. Mr. Mo was the vice chairman of the board of directors and the party committee secretary of the Parent Company from 2002 to December 2003. He was the chairman of the Board from 2002 to June 2004. He became the director of the Company in June 2004 and was appointed as the counselor of the People's Government of Shandong Province. He graduated from Shandong Mining Institute.

WANG Bangjun, aged 60, a senior engineer, is a Director and the researcher of the Parent Company. Mr. Wang joined the Predecessor in 1970, and became a deputy manager of Yanzhou Coal Infrastructure Company in 1983. Mr. Wang became the deputy director of Yanzhou Mining Bureau in 1987 and the vice chairman of the board of directors and a party committee secretary of the Predecessor in 1996. Mr. Wang became a Director in 1997. Mr. Wang was the vice chairman of the board of directors of the Parent Company from 2002 to December 2003 and became an investigator of the Parent Company in December 2003. He graduated from Shandong Mining Institute.

YANG Jiachun, aged 50, a senior economist, is a Director and a director of the Parent Company. Mr. Yang joined the Predecessor in 1988 and became a Director in 1997. Mr. Yang became the executive director of the Parent Company in 1999, and a director of the Parent Company and a vice chairman of the board of directors and party committee secretary of Yankuang Guizhou Energy and Chemicals Company Limited in 2002. He graduated from Yunnan Education University.

WU Yuxiang, aged 43, a senior accountant. Mr. Wu is a Director and the chief financial officer of the Company. Mr. Wu joined the Predecessor in 1981 and became the chief accountant of the finance department of the Predecessor in 1996. Mr. Wu became the head of the finance department of the Company in 1997 and a director of the Company and the chief financial officer of the Company in 2002. Mr. Wu graduated from Shandong TV University.

WANG Xinkun, aged 52, a senior economist. Mr. Wang is a Director and the deputy general manager of the Company. Mr. Wang joined the Predecessor in 1977. Mr. Wang became the manager of the coal transportation and sales department of the Company in 2000, the deputy general manager of the Company in 2002, and a Director in 2004. Mr. Wang graduated from Tianjin University.

DONG Yunqing, aged 49, a senior human relations coordinator. Mr. Dong is a director and the chairman of labor union of the Company. Mr. Dong joined the Predecessor in 1981 and was the vice chairman of labor union of the Parent Company from 2001 to April 2003. Mr. Dong became a director and the chairman of labor union of the Company in 2002. Mr. Dong graduated from Shandong Mining Institute.

Independent Non-executive Directors

FAN Weitang, aged 69, a member of the China Engineering Academy, an academician with foreign nationality of Sweden Royal Engineering Science Institute and an independent non-executive Director. Mr. Fan is the chairman of the China Coal Industry Association, the director of the China Energy Research Association, the vice chairman of International Organizing Committee of World Mining Convention. Mr. Fan once served as the deputy director of the Ministry of Coal Industry of China, a member of the presidium of the China Engineering Academy, head of the Energy and Mining Engineering Department and a committee member of the 8th and 9th Chinese People's Political Consultative Conference. Mr. Fan became an independent non-executive Director of the Company in 2002. He graduated from Beijing Steel Institution and was granted an associate doctorate in technology and science by Moscow Mining Institution of the former USSR.

CUI Jianmin, aged 72, a senior auditor and certified accountant. Mr. Cui is an independent non-executive director of the Company. Mr. Cui is also a consultant for China Tax Expert Association, and a part-time professor for colleges such as Central Finance and Economics University. Mr. Cui has been the deputy chief auditor of the National Audit Office of the PRC, the chairman of the Association of China Certified Accountant, and a committee member of the 8th Chinese People's Political Consultative Conference. Mr. Cui became an independent non-executive director of the Company in 2002. Mr. Cui graduated from People's University of China.

WANG Xiaojun, aged 50, admitted as a solicitor in England and Wales and Hong Kong. Mr. Wang is an independent non-executive director of the Company. Mr. Wang is a partner of Wang & Co., X. J. in Hong Kong. Mr. Wang was admitted in the PRC, Hong Kong and England and Wales in 1988, 1995 and 1996, respectively. Mr. Wang has worked as a legal adviser in the Hong Kong Stock Exchange and Richards Butler. Mr. Wang became an independent non-executive director of the Company in 2002. Mr. Wang graduated from the People's University of China and the Graduate School of the Chinese Academy of Social Sciences and holds a bachelor degree in laws and a master degree in laws. Mr. Wang is also an independent non-executive director of Euro-Asia Agricultural (Holdings) Company Limited.

WANG Quanxi, aged 49, professor of Nankai University. Mr. Wang is an independent non-executive director of the Company. Mr. Wang is also the chief of the financial management department of Nankai University, the chief of the enterprise research center of Nankai University, the deputy chief of the MBA center of Nankai University, and the secretary-general of the Association of the Study of Management of Tianjin City. Mr. Wang became the independent non-executive director of the Company in 2004. Mr. Wang graduated from Tianjin Finance and Economics University. Mr. Wang is also an independent non-executive director of Yinzuobohai Group Co., Ltd and Hainan Huandao Industrial Company Limited.

Supervisors

MENG Xianchang, aged 57, a senior human relations coordinator. Mr. Meng is the chairman of the supervisory committee of the Company and the party committee deputy secretary of the Parent Company. Mr. Meng joined the Predecessor in 1981 and became the party committee deputy secretary and a supervisor in 1996, and became the chairman of the supervisory committee of the Company in 1997. Mr. Meng graduated from Shandong Mining Institute.

XIAO Shuzhang, aged 61, a senior engineer, is a supervisor of the Company. Mr. Xiao joined the Predecessor in 1970, became the secretary of the disciplinary committee of Yanzhou Coal Infrastructure Company and the secretary of the disciplinary committee of Yanzhou Mining Bureau in 1986 and 1987, respectively. Mr. Xiao was a supervisor and disciplinary committee secretary of the Predecessor and a supervisor and the secretary of the disciplinary committee of the Parent Company from 1996 to November, 2003. Mr. Xiao became a supervisor of the Company in 1997. He graduated from Jiaozuo Mining Institute.

ZHANG Shengdong, aged 48, a senior accountant. Mr. Zhang is a supervisor of the Company and the deputy chief accountant of the Parent Company. Mr. Zhang joined the Predecessor in 1981 and became the deputy chief accountant of Parent Company in 1997. Mr. Zhang became a supervisor of the Company in 2002. Mr. Zhang graduated from China University of Mining and Technology.

LIU Weixin, aged 54, a senior accountant. Mr. Liu is a supervisor of the Company and the director of the audit department of the Parent Company. Mr. Liu joined the Predecessor in 1971, and became the deputy director of the audit office of the Parent Company in 2001. Mr. Liu became the director of audit division of the Parent Company in 2003, and became the deputy director of audit department of the Parent Company in 2005. Mr. Liu became a supervisor of the Company in 2002. Mr. Liu graduated from Shandong Youth Cadre Institute.

XU Bentai, aged 46, a senior human relations coordinator. Mr. Xu is an employee supervisor of the Company and the chairman of Jining III Coal Mine's labor union. Mr. Xu joined the Predecessor in 1978, became the chairman of Jining III Coal Mine's labor union in 1999, and became an employee supervisor of the Company in 2002. Mr. Xu graduated from the Central Communist Party School Correspondence Institute.

Senior Management

JIN Tai, aged 53, a senior engineer, is the deputy general manger of the Company. Mr. Jin joined the Predecessor in 1968. He became the director of the dispatching office of the Predecessor in 1996, and became the head of Xinglongzhuang Coal Mine in 1998, and became the deputy general manager of the Parent Company in 2000. He became the deputy general manager of the Company in 2004. He graduated from China University of Mining and Technology.

ZHANG Yingmin, aged 51, an engineering technology application researcher, is the executive deputy general manager of the Company. Mr. Zhang joined the Predecessor in 1971. He became the head of Baodian Coal Mine in 2000. Mr. Zhang became the executive deputy general manager of the Company in 2002. He graduated from Tianjin University.

HE Ye, aged 47, a senior engineer, is a deputy general manager of the Company. Mr. He joined the Predecessor in 1993. He became the head of Jining II Coal Mine in 1999, and became the executive deputy general manager of an industrial company subordinated to the Parent Company in 2002. Mr. He became a deputy general manager of the Company in 2002. He graduated from Guizhou Institute of Technology.

TIAN Fengze, aged 48, a senior economist, is a deputy general manager of the Company. Mr. Tian joined the Predecessor in 1976. He became the head of Beixu Coal Mine in 1991. Mr. Tian became a deputy general manager of the Company in 2002. He graduated from Beijing Coal Cadre Institute.

CHEN Guangshui, aged 39, a senior economist, is the secretary of the Board and the director of the secretariat of the Board . Mr. Chen joined the Predecessor in 1990 and become the secretary of the Board and the director of the secretariat of the Board in 1997. He graduated from Fuxin Mining Institute.

SHI Chengzhong, aged 42, an engineering technology application researcher, is a deputy general manager of the Company. Mr. Shi joined the Predecessor in 1983 and became vice chief engineer of the Parent Company in 2000 and became a deputy general manager of the Company in 2002. He graduated from Shandong Mining Institute.

NI Xinghua, aged 48, an engineering technology application researcher, is the chief engineer of the Company. Mr. Ni joined the Predecessor in 1975 and became vice chief engineer of the Parent Company in 2000 and became the chief engineer of the Company in 2002. He graduated from Tianjin University.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received the letter of annual confirmation issued by each of the independent non-executive Directors as to his/her independence pursuant to Rule 3.13 of the Listing Rules. All of the four independent non-executive Directors are considered by the Company as independent persons.

DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors and the supervisors of the Company and the five highest paid individuals of the Company are set out in note 12 to the financial statements prepared in accordance with the IFRS contained herein.

There were no arrangements under which a Director or supervisor of the Company had waived or agreed to waive any remuneration in respect of the year ended 31st December, 2004.

ARRANGEMENT TO PURCHASE EQUITY OR DEBT SECURITIES

At no time during the year ended 31st December, 2004, was the Company, its holding company, or any of its subsidiaries involved or a party to any arrangement to enable the Directors or supervisors of the Company to acquire benefits by means of the acquisition of equity or debt securities of the Company or any other body corporate with the exceptions of the A shares held by the Directors, supervisors and senior management of the Company. Details are set out in the paragraph headed "Shareholdings of Directors, Supervisors and Senior Management of the Company" of the section headed "Changes in Share Capital and Shareholdings of Shareholders".

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors and supervisors of the Company has entered into a service contract with the Company. Under such contracts, each Director will receive a salary and a discretionary year-end bonus, the amount of which shall be recommended by the Board and approved by the Shareholders in general meetings, provided that the discretionary year-end bonuses paid to the Directors and other employees of the Company (including but not limited to other Directors, supervisors and senior managements of the Company) does not exceed 1% of the aggregate of net profit after taxation and extraordinary losses but before extraordinary gains for that year.

No Director or supervisor of the Company has entered into any service contract with the Company, which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS

None of the Directors or supervisors of the Company had a material interest directly or indirectly in any contract of significance to which the Company was a party during the year ended 31st December, 2004.

REPURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

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

Details of placing 204,000,000 new H shares are set out in the paragraph headed "Placing of New Shares" in the section headed "Disclosure of Significant Events".

UNDERTAKING OF SHAREHOLDERS WITH SHAREHOLDINGS OF 5% OR MORE

Allowing the Company's auditors to view accounting records

Pursuant to the requirements of the Hong Kong Stock Exchange, the Company's auditors should confirm annually the condition of implementation of the on-going connected transactions in respect of the supply of materials and services between the Company and the Parent Company, and provide a report to the Board. The Parent Company undertook on 13th May, 2003 that it would allow the Company's auditors to have access to its appropriate financial statements and accounting records when the Company's auditors carry out its work on the confirmation in respect to the implementation of the said on-going connected transactions in respect of the supply of materials and services. In the reporting period, the Parent Company has honoured its obligation in accordance with its undertaking.

The exploitation of coal resources in Juye coalfield

Pursuant to the restructuring agreement and the non-competing undertakings entered into between the Parent Company and the Company, the Parent Company has undertaken to inform the Company all possible opportunities in respect of any future acquisition, merger, development, construction or other ways of operations of coal mines (which may result in competition with the Company) and to carry out such opportunities in accordance with the terms agreed by the Company.

In the prospectus dated 24th March, 1998 of the Company, the relevant arrangement as to the exploitation of resources in Juye coalfield by the Parent Company on behalf of the Company was disclosed as follows: the Parent Company has undertaken that if and when it enters into a definitive agreement which competes or is likely to compete, directly or indirectly, with the Company's business, its rights and obligations provided by such agreement will be assumed by the Company; and that if it enters into a joint venture project in exploiting the Juye coalfield which is or is likely to be in direct or indirect competition with the business of the Company, the Parent Company will, on behalf of and in consultation with the Company, continue to negotiate the terms of the joint venture project.

In view of the above undertakings, the Company and the Parent Company further agreed that the initial stage of exploitation of Zhaolou Coal Mine and Wanfu Coal Mine in Juye coalfield shall be conducted by the Parent Company, which includes obtaining the approvals for coal mine project; applying for the right to explore coal; and preparing for the construction work of the coal mines.

For the purpose of honouring the above undertakings, in October 2002, the Parent Company established Yankuang Heze Power Chemical Company Limited ("Heze"), with an investment capital of RMB574 million representing 95.67% of the total registered capital. As the principle responsible for the exploitation and construction of the Zhaolou Coal Mine, Heze has fundamentally completed preparing for the construction work of the coal mine. The Parent Company has already been granted the right to explore the Zhaolou Coal Mine and Wanfu Coal Mine.

For the purpose of obtaining the coal resources in Zhaolou Coal Mine and enhancing the profitability of the Company, the Company intends to acquire 95.67% equity interest in Heze owned by the Parent Company and to pay the Parent Company a down payment of RMB574 million for the transfer of such equity interest during the reporting period. The meeting of the Board has arranged for the relevant work in respect of the acquisition of equity interests in Heze and will carry out audit and valuation of the equity interest in Heze. The final consideration for the acquisition of equity interest will be based on the amount of RMB574 million and be adjusted according to the audited and valued financial indictor of Heze.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors is aware of any information, indicating that the Company was not, during this reporting period, in compliance with the Code of Best Practice set out in Appendix 14 of the Listing Rules (before the amendments made to Appendix 14 of the Listing Rules by the Hong Kong Stock Exchange).

COMPLIANCE WITH MODEL CODE

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

AUDIT COMMITTEE OF THE BOARD

The audit committee of the Board comprises three independent non-executive Directors, namely Mr. Cui Jianmin (being the Chairman of the audit committee of the Board), Mr. Fan Weitang and Mr. Wang Xiaojun, and two directors of the Company, namely Mr. Wang Bangjun and Mr. Dong Yunqing. The audit committee of the Board has reviewed the results of the Company for the year 2004.

IMPACT OF FLUCTUATIONS IN EXCHANGE RATES ON THE COMPANY

Coal exports of the Company are all settled in US dollars. China adopts a unified floating exchange rate under the State's supervision. Since 2004, exchange rate for RMB to US dollars varied slightly and basically has no main influence on the Company's business.

POLICY OF REMUNERATION

The Company adopts an examination and stimulating system, which is a combination of an annual remuneration and a safety risks pledge, for Directors and senior management of the Company. The annual remuneration consists of basic salary and benefit income: basic salary is determined according to the operational scale of the Company with reference to the market wages and the income of employees whereas benefit income is determined by the actual operational achievement of the Company. The annual remunerations for the Directors and senior management of the Company are pre-paid on monthly basis and are encashed after the examination to be carried out next year.

The remuneration for the Directors is to be approved in the Shareholders' general meeting while the remuneration for the senior management of the Company is to be approved by the Board.

The remuneration policy of the other employees of the Company is principally a position and skills remuneration system, which determines the remuneration of the employees on the basis of the positions and responsibilities and the examination results of the employees. Such system also interacts with the consolidated awards of the Company and the Company's overall economic efficiency.

EMPLOYEES

As at 31st December, 2004, the Company had 29,266 employees, of whom 2,055 were administrative personnel, 1,023 were technicians, 22,369 were directly involved in coal production and 3,819 were supporting staff.

AUDITORS

As for the year 2004, the Company retained Deloitte Touche Tohmatsu Certified Public Accountants Ltd. (certified public accountants in the PRC (excluding Hong Kong)) and Deloitte Touche Tohmatsu (certified public accountants in Hong Kong) as its domestic and international auditors, respectively. A resolution to reappoint Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants Ltd. as the Company's international and domestic auditors, respectively, for the year 2005 will be proposed at the 2004 annual general meeting of the Company.

The Company has paid a financial audit and review fees of HKD5 million to Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants Ltd. in 2004.

Auditors of the Company have not been changed for the last three years. Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants Ltd. have been the Company's international and domestic auditors for eight consecutive years. There was no registered accountant of Deloitte Touche Tohmatsu Certified Public Accountants Ltd. providing audit services to the Company for more than five years.

COMPLIANCE AND EXEMPTION OF CORPORATE GOVERNANCE STANDARDS IMPOSED BY THE NEW YORK STOCK EXCHANGE

As of the date of this Annual Report, 54.33% of the Company's voting rights are vested in the Parent Company. The Company therefore is exempt from certain requirements of Section 303A of the NYSE Listed Company Manual: (i) the Company is not required to comply with Section 303A.01's requirements to form a Board with the majority of independent directors, (ii) the Company is not required to comply with Section 303A.04's requirements to form a nominating/corporate governance committee entirely consisted of independent directors, and (iii) the Company is not required to comply with Section 303A.05's requirements to form a compensation committee entirely consisted of independent directors, and disclose herein.

The Company has established an audit committee pursuant to the requirements of Sections 303A.06 of the NYSE Listed Company Manual. The Company's audit committee is not in full compliance with the requirements of Sections 303A.06. The Company relies on the exemption under Section 303A of the NYSE Listed Company Manual which allows foreign private issuers until 31st July, 2005, to comply with the relevant audit committee standards set out in Section 303A.06.

As a foreign private issuer, the Company sets out below material differences between its corporate governance practices and the NYSE's corporate governance requirements as set out in Section 303A of the Listed Company Manual:

	NYSE Listed Company Manual Requirements on Corporate Governance	Company's Practices
Non-management directors must meet at regularly scheduled executive sessions without management	Section 303A.03 of the NYSE Listed Company Manual requires non-management directors of each listed company to meet at regularly scheduled executive sessions without management participation.	There is no identical corporate governance requirement in the PRC. The Company has established a reporting system to the Board to ensure that the directors are informed of the Company's business and operations. The Company believes that the convening of Board meetings on a regularly basis offers the non-management directors a well-established communication forum to voice their concerns and engage in full and open discussions regarding the Company's affairs.
Corporate Governance Guidelines	Section 303A.09 of the NYSE Listed Company Manual requires that a listed company must adopt and disclose corporate governance guidelines. In addition, Section 303A.09 lists out matters that must be addressed in the guidelines: • Director qualification standards; • Director responsibilities; • Director access to management and independent advisors; • Director compensation; • Director orientation and continuing education; • Management succession; and • Annual performance evaluation of the Board.	Although the Company has not adopted a separate set of corporate governance guidelines encompassing all corporate governance requirements required by the NYSE, the Company has however, drafted (i) the Rules of Procedures for the Shareholders' Meeting, the Rules of Procedures for the Board and the Rules of Procedures for the Supervisory Committee, all of which will be submitted for shareholders approval in the 2004 annual general meeting of the Company; and (ii) the Rules for the Work of the Independent Non-Executive Directors, the Rules for Disclosure of Information and the Rules for the Approval and the Disclosure of the Connected Transactions of the Company, all of which have been approved by the Board. The Company believes that collectively, the aforementioned rules and measures have adequately addressed the corporate governance requirements required by the NYSE and provide wider, more detailed corporate governance requirements that can further facilitate the effective operation of the Company.
Code of Business Conduct and Ethics	Section 303A.10 of the NYSE Listed Company Manual requires that a listed company must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.	The Company has adopted a Code of Ethics in compliance with PRC laws and regulations as well as the rules of the relevant listing stock exchanges. The Code of Ethics is published on the Company's website. Although the Code of Ethics adopted by the Company does not completely conform to the NYSE rules, the Company believes that the existing Code of Ethics can adequately protect the interests of both the Company and its Shareholders.

On behalf of the Board

WANG Xin

Chairman
Zoucheng, PRC, 25th April, 2005

During this reporting period, in accordance with the PRC Company Law and the Articles , all of the supervisors of the Company have fulfilled their supervising responsibilities, preserved the rights of the Company and the Shareholders, followed the principles of honesty and trustworthiness, and actively carried out their duties with care and diligence. The supervisory committee held two meetings and has independently carried out the following work during the period under review:

1. From 10th February to 10th March 2004, the supervisory committee has conducted a comprehensive review on the Company's financial report for 2003 and gave reasonable suggestions and advice in respect thereto in accordance with the PRC Company Law and the Articles.

2. A supervisory committee meeting was held at 8:00 a.m. on 16th April, 2004 at the conference room on the second floor of the Company's headquarters, at which the supervisory committee's report, the 2003 annual report, the audited financial report for 2003, the proposed allocation of the profits of 2003 and the policies for the allocation of the profits of 2004 and the "Resolution of the Board On the Provision of Assets Depreciation and the Provision of Verified Sale Assets Depreciation for the Year 2003" were considered, approved and passed.

3. From 13th July to 29th July 2004, the supervisory committee has conducted a comprehensive review on financial report for first half of 2004, and gave reasonable suggestions and advice in accordance with the PRC Company Law and the Articles.

4. A supervisory committee meeting was held on 20th August, 2004 at the Company's headquarters, at which the "2004 Interim Report of Yanzhou Coal Mining Company Limited" and the "Measures for the Management and Use of Raised Fund of Yanzhou Coal Mining Company Limited" were considered, approved and passed.

The Supervisory Committee gave independent opinion on the following:

1. Operations of the Company in 2004 were in compliance with laws

Pursuant to the relevant laws and regulations of the State, the supervisory committee, via sitting in the Board's meeting, has carried out investigation and supervision on maters such as the resolutions of and the procedures on convening the Shareholders and Directors' meetings, the implementation of the resolutions of the Shareholders' general meetings by the Board, the carrying out of duties by the senior management of the Company and the management system of the Company. No act against the law, regulations and the Articles has been found. No breach of laws and regulations of the Directors and managers of the Company has been found. The supervisory committee considered that the performance of the Board in 2004 was in compliance with relevant laws and regulations of the State and the Articles , and was serious and responsible and its decision procedures were systematic. The Company had also further upgraded the internal control systems and reached all the operating targets successfully.

2. **Inspection of the financial situation of the Company**

The supervisory committee carried out supervision and inspections on the financial system and financial conditions of the Company, and considered that the Company and its controlling Shareholders have, in accordance with the "Five Separations" principle, established independent financial accounts and had independent financial personnel. In the reporting period, the Company's auditors has issued an unqualified opinion on the relevant information such as the financial statements. The supervisory committee was of the view that the financial statements truly, accurately and objectively reflected the Company's financial situation and operating results. All costs, expenses and provisions were in accordance with the relevant laws, regulations, and the Articles and were in compliance with the relevant requirements of the "Enterprise Accounting Standard" and "Enterprise Accounting System".

3. **Connected transactions**

The connected transactions during the period of this report between the Company and the Parent Company and its subsidiaries were just, fair and lawful, and did not impair the interests of the Company.

4. **Fairness of Assets Acquisition**

In October 2004, the Company entered into the Southland Coal Mine Asset Sale Agreement with the receivers and managers and the liquidators of Southland Coal Pty Limited in Australia, pursuant to which the Company would acquire the entire Southland Coal Mine owned by Southland Coal Pty Limited. The aggregate consideration for the agreement is AUD32 million.

The Company has completed all asset transfer of Southland Coal Mine by 24th December, 2004. The consideration for the acquisition was objective and fair. The agreement is fair and reasonable, does not in contravention of the principles of integrity, fairness and equity and does not prejudice the interests of the Company and all the Shareholders.

5. **Usage of Raised Funds**

The explanation of the Board to the usage of the raised funds is objective and true. The usage of the raised funds is reasonable and normative. The projects actually invested by the funds are consistent with the projects undertaken to be invested.

Meng Xianchang
Chairman of the Supervisory Committee
Zoucheng, PRC, 25th April, 2005

Deloitte.
德勤

TO THE SHAREHOLDERS OF YANZHOU COAL MINING COMPANY LIMITED
兗州煤業股份有限公司
(A joint stock company with limited liability established in the People's Republic of China)

We have audited the financial statements on pages 43 to 102 which have been prepared in accordance with International Financial Reporting Standards.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of the Group's affairs as at December 31, 2004 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

April 25, 2005

	NOTES	2004 RMB'000	2003 RMB'000	2002 RMB'000
		Year ended December 31,		
GROSS SALES OF COAL		11,757,052	8,386,629	7,772,315
TRANSPORTATION COSTS OF COAL		(1,402,715)	(1,592,294)	(1,558,414)
NET SALES OF COAL	6	10,354,337	6,794,335	6,213,901
RAILWAY TRANSPORTATION SERVICE INCOME		220,771	154,585	142,471
		10,575,108	6,948,920	6,356,372
COST OF SALES AND SERVICE PROVIDED	7	(4,551,703)	(3,755,023)	(3,362,901)
GROSS PROFIT		6,023,405	3,193,897	2,993,471
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	8	(1,479,863)	(1,264,858)	(1,231,059)
OTHER OPERATING INCOME	9	165,732	105,845	103,729
OPERATING INCOME		4,709,274	2,034,884	1,866,141
INTEREST EXPENSES	10	(35,942)	(59,966)	(117,929)
INCOME BEFORE INCOME TAXES	11	4,673,332	1,974,918	1,748,212
INCOME TAXES	13	(1,518,762)	(587,710)	(523,148)
INCOME BEFORE MINORITY INTEREST		3,154,570	1,387,208	1,225,064
MINORITY INTEREST		(253)	(522)	(3,065)
NET INCOME		3,154,317	1,386,686	1,221,999
APPROPRIATIONS TO RESERVES		737,782	425,566	817,187
DIVIDEND	14	470,680	298,480	287,000
EARNINGS PER SHARE	15	RMB1.06	RMB0.48	RMB0.43
EARNINGS PER ADS	15	RMB53.20	RMB24.16	RMB21.29

	NOTES	At December 31, 2004 RMB'000	2003 RMB'000
ASSETS			
CURRENT ASSETS			
Bank balances and cash		5,216,738	2,023,772
Restricted cash	16	24,877	17,521
Bills and accounts receivable	17	1,223,788	1,239,424
Inventories	18	485,429	502,028
Other loans receivable	19	850,000	100,000
Amounts due from Parent Company and its subsidiary companies	38	213,871	–
Prepayments and other current assets	20	188,296	534,473
Prepayment for land subsidence, restoration, rehabilitation and environmental costs	32	103,407	–
TOTAL CURRENT ASSETS		8,306,406	4,417,218
MINING RIGHTS	21	138,617	112,607
LAND USE RIGHTS	22	591,718	604,912
PROPERTY, PLANT AND EQUIPMENT, NET	23	8,537,150	8,616,373
GOODWILL	24	117,392	93,165
NEGATIVE GOODWILL	25	(27,621)	(55,241)
INVESTMENTS IN SECURITIES	27	62,181	1,760
RESTRICTED CASH	16	36,854	–
DEPOSITS MADE ON INVESTMENTS	28	574,000	30,138
DEFERRED TAX ASSET	29	–	88,872
TOTAL ASSETS		18,336,697	13,909,804

	NOTES	At December 31, 2004 RMB'000	2003 RMB'000
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	30	478,281	427,608
Other payables and accrued expenses	31	1,337,565	1,174,813
Provision for land subsidence, restoration, rehabilitation and environmental costs	32	–	85,022
Amounts due to Parent Company and its subsidiary companies	38	–	369,620
Unsecured bank borrowing – due within one year	33	200,000	200,000
Taxes payable		529,265	114,903
TOTAL CURRENT LIABILITIES		2,545,111	2,371,966
AMOUNTS DUE TO PARENT COMPANY AND ITS SUBSIDIARY COMPANIES – DUE AFTER ONE YEAR	38	41,057	50,859
UNSECURED BANK BORROWING – DUE AFTER ONE YEAR	33	200,000	400,000
DEFERRED TAX LIABILITY	29	23,104	–
TOTAL LIABILITIES		2,809,272	2,822,825
COMMITMENTS	39		
SHAREHOLDERS' EQUITY		15,523,751	11,083,239
MINORITY INTEREST		3,674	3,740
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		18,336,697	13,909,804

The financial statements on pages 43 to 102 were approved and authorized for issue by the Board of Directors on April 25, 2005 and are signed on its behalf by:

Yang Deyu
Director

Wu Yuxiang
Director

	Share capital RMB'000	Share premium RMB'000	Future development fund RMB'000 (note)	Statutory common reserve fund RMB'000	Statutory common welfare fund RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at January 1, 2002	2,870,000	3,272,527	111,748	339,096	169,548	2,297,115	9,060,034
Net income	–	–	–	–	–	1,221,999	1,221,999
Appropriations to reserves, net of minority interests' share	–	–	743,489	49,105	24,593	(817,187)	–
Dividends	–	–	–	–	–	(287,000)	(287,000)
Balance at December 31, 2002	2,870,000	3,272,527	855,237	388,201	194,141	2,414,927	9,995,033
Balance at January 1, 2003	2,870,000	3,272,527	855,237	388,201	194,141	2,414,927	9,995,033
Net income	–	–	–	–	–	1,386,686	1,386,686
Appropriations to reserves, net of minority interests' share	–	–	259,674	110,580	55,312	(425,566)	–
Dividends	–	–	–	–	–	(298,480)	(298,480)
Balance at December 31, 2003	2,870,000	3,272,527	1,114,911	498,781	249,453	3,077,567	11,083,239
Balance at January 1, 2004	2,870,000	3,272,527	1,114,911	498,781	249,453	3,077,567	11,083,239
Share issued at a premium	204,000	1,591,977	–	–	–	–	1,795,977
Share issue expenses	–	(39,102)	–	–	–	–	(39,102)
Net income	–	–	–	–	–	3,154,317	3,154,317
Appropriations to reserves, net of minority interests' share	–	–	331,548	270,812	135,422	(737,782)	–
Dividends	–	–	–	–	–	(470,680)	(470,680)
Balance at December 31, 2004	3,074,000	4,825,402	1,446,459	769,593	384,875	5,023,422	15,523,751

Note:

Prior to 1999, Yanzhou Coal Mining Company Limited ("the Company") was required to contribute at RMB1.80 per tonne of raw coal mined to the National Coal Industry Bureau ("NCIB") and Shandong Coal Mining Industrial Bureau ("SCMIB") in aggregate and the amount was recognized as an expense. In addition, the Company was also required to transfer an annual amount to a future development fund at RMB4.2 per tonne of raw coal mined. The fund can only be used for the future development of the coal mining business and is not available for distribution to shareholders.

The contribution to NCIB has been cancelled since July 1, 1998 and the contribution to SCMIB has been cancelled since January 1, 1999.

According to a clarification of the relevant regulations obtained from the Ministry of Finance during 2002, the requirement for the Company to transfer an annual amount to the future development fund was not changed upon cancellation of the requirements for contributions to NCIB and SCMIB. Therefore, the Company is required to transfer annually an amount to the future development fund at RMB6 per tonne of raw coal mined.

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

	Year ended December 31, 2004 RMB'000	2003 RMB'000	2002 RMB'000
OPERATING ACTIVITIES			
Income before minority interest	3,154,570	1,387,208	1,225,064
Adjustments to reconcile income before minority interest to net cash from operating activities:			
Depreciation of property, plant and equipment and land use rights	971,861	933,827	851,119
Amortization of goodwill	15,773	9,657	777
Release of negative goodwill to income	(27,620)	(27,620)	(27,620)
Amortization of mining rights	6,624	6,624	6,624
Utilization (recognition) of deferred tax asset	44,436	(65)	(1,386)
Recognition of deferred tax liability	67,540	–	–
Allowance for doubtful debts	49,104	80,272	66,204
Loss (gain) on disposal of property, plant and equipment	104,597	(6,872)	1,093
Gain on disposal of investments in securities	–	(1,424)	(2,209)
(Increase) decrease in assets (net of acquisitions):			
Bills and accounts receivable	(10,437)	(506,885)	(168,695)
Inventories	27,129	93,153	(93,818)
Prepayments and other current assets	324,273	224,674	229,701
Amounts due from Parent Company and its subsidiary companies	(213,871)	–	–
Taxes receivable	–	–	21,674
Increase (decrease) in liabilities (net of acquisitions):			
Bills and accounts payable	50,673	(175,117)	(56,492)
Other payables and accrued expenses	(13,333)	569,651	90,973
Provision for land subsidence, restoration, rehabilitation and environmental costs	(178,361)	(2,194)	(43,419)
Amounts due to Parent Company and its subsidiary companies	(368,939)	58,794	84,048
Taxes payable	414,362	57,553	56,074
NET CASH FROM OPERATING ACTIVITIES	4,418,381	2,701,236	2,239,712

	NOTES	2004 RMB'000	2003 RMB'000	2002 RMB'000
		Year ended December 31,		
INVESTING ACTIVITIES				
Increase in other loans receivable		(750,000)	(100,000)	–
Purchase of property, plant and equipment		(743,022)	(1,317,856)	(842,471)
Deposit made on investments		(574,000)	–	(30,138)
Acquisition of Southland	35	(136,302)	–	–
(Increase) decrease in restricted cash		(44,210)	34,240	(21,761)
Acquisition of Railway Assets	37	(40,000)	(40,000)	(1,282,445)
Acquisition of investment in securities		(30,283)	–	(88,702)
Proceeds on disposal of property, plant and equipment		17,009	34,399	47,800
Acquisition of Yanmei Shipping	36	–	(11,186)	–
Proceeds on disposal of investments in securities		–	90,126	52,206
NET CASH FLOW USED IN INVESTING ACTIVITIES		(2,300,808)	(1,310,277)	(2,165,511)
FINANCING ACTIVITIES				
Issues of shares, net of share issue expenses		1,756,875	–	–
Dividend paid		(470,680)	(298,480)	(287,000)
Repayments of bank borrowings		(200,000)	(600,000)	(400,000)
Repayment to Parent Company and its subsidiary companies in respect of consideration for acquisition of Jining III		(10,483)	(11,115)	(567,242)
Dividend paid to a minority shareholder of a subsidiary		(319)	(1,765)	(592)
Bank borrowings raised		–	–	1,600,000
NET CASH FLOW FROM (USED IN) FINANCING ACTIVITIES		1,075,393	(911,360)	345,166
NET INCREASE IN CASH AND CASH EQUIVALENTS		3,192,966	479,599	419,367
CASH AND CASH EQUIVALENTS, BEGINNING		2,023,772	1,544,173	1,124,806
CASH AND CASH EQUIVALENTS, ENDING, REPRESENTED BY BANK BALANCES AND CASH		5,216,738	2,023,772	1,544,173
Additional cash flow information:				
Cash paid during the year for				
Interest		34,157	56,838	147,361
Income taxes		992,424	530,222	446,786

1. GENERAL

Organisation and principal activities

The Group represents the Company and its consolidated subsidiaries as set out in note 26.

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

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

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

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

Acquisitions

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

In 2004, the Company established Yanzhou Coal Yulin Power Chemical Co., Ltd. ("Yulin"), a 97% owned subsidiary, for the future development of the methanol projects of the Group in the Shaanxi Province in the PRC. At December 31, 2004, Yulin had not yet commenced business operations and had no significant impact on the Group's results for the year.

In addition, the Company acquired the entire interest in the Southland coal mine located in New South Wales, Australia ("Southland") from independent third parties in 2004 for aggregate cash consideration of AUD29,377,000 (equivalent to RMB187,312,000). See note 35 for further details. The Company has also established two wholly-owned subsidiaries in Australia, namely Yancoal Australia Pty Limited ("Yancoal") and Austar Coal Mine Pty Limited ("Austar"), in 2004 for the Group's future operations in Southland. Southland has not commenced production of saleable coal since the Company's acquisition and therefore it has had no significant impact on the Group' results for the year.

2. BASIS OF PRESENTATION

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Group also prepares a set of financial statements in accordance with the relevant accounting principles and regulations applicable to PRC enterprises ("PRC GAAP"). Differences between IFRS and PRC GAAP are stated in note 45.

The financial statements reflect additional disclosures to conform with the disclosure requirements of the Hong Kong Companies Ordinance and with presentations customary in the United States of America.

Differences between IFRS and accounting principles generally accepted in the United States of America ("US GAAP") are stated in note 46.

3. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the International Accounting Standards Board issued a number of new or revised IFRS which are effective for accounting periods beginning on or after January 1, 2005. The Group has not early adopted these new IFRS in the financial statements for the year ended December 31, 2004.

The Group has considered these new IFRS and identified a number of these new IFRS that may have a material effect on how the results of operations and financial position of the Group are prepared and presented as described below:

IFRS 3 "Business Combination"

IFRS 3 requires goodwill acquired in a business combination to be measured after initial recognition at cost less any accumulated impairment losses. Therefore, the goodwill is not amortized and instead must be tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Currently, the Group amortizes the goodwill capitalized on a straight line basis over its useful economic life.

IFRS 3 also requires negative goodwill to be recognized in the profit or loss immediately on acquisition. Currently, the Group presented the negative goodwill as a deduction from assets and released to income based on an analysis of the circumstance from which the balances resulted.

Accordingly, the Group estimates that the adoption of IFRS 3 in the annual period beginning on January 1, 2005 in relation to the discontinued goodwill amortization would result in an increase in the net profit the year ending December 31, 2005 of approximately RMB15.8 million.

In addition, the Group estimates that the adoption of IFRS 3 in the annual period beginning on January 1, 2005 in relation to the negative goodwill, would result in an increase in the opening balance of accumulated profits by approximately RMB27.6 million with the corresponding decrease in negative goodwill of the same amount.

In relation to other new IFRS the Group does not expect that the adoption will have a material effect on how the results of operation and financial position of the Group are prepared and presented.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of financial instruments.

In the current year, the Group has adopted, for the first time, the accounting treatment of IFRS 3 "Business combinations" for business combinations for which the agreement date is on or after March 31, 2004 and has also adopted, for the first time, International Accounting Standard ("IAS") 36 (Revised) "Impairment of assets" and IAS 38 (Revised) "Intangible assets" for goodwill and intangible assets acquired through business combinations for which the agreement date is on or after March 31, 2004. For business combinations for which the agreement date was before March 31, 2004, goodwill arising on those acquisitions is accounted for in accordance with IAS 22 "Business Combinations". Goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair value of identifiable assets and liabilities of a subsidiary at the date of acquisition and is stated at cost less accumulated amortisation and accumulated impairment losses. IFRS 3 requires goodwill arising from acquisitions to be determined as the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities on the date of acquisition and is measured after initial recognition of cost less accumulated impairment losses. Under IFRS 3, goodwill is not amortised and instead must be tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. The adoption of IFRS 3, IAS 36 (Revised) and IAS 38 (Revised) has had no material effect on the results for the current or prior accounting period. Accordingly, no prior period adjustment has been made.

The principal accounting policies which have been adopted in preparing these financial statements and which conform with IFRS are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries as of December 31 each year.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess (deficiency) of the cost of acquisition over (below) the fair values of the identifiable net assets acquired is recognised as goodwill (negative goodwill). The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognized.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in subsidiaries

Investments in subsidiaries in the Company's balance sheet are stated at cost, less any identified impairment loss.

Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

Revenue recognition

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

Service income is recognized when services are provided.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash accounts, interest bearing savings accounts and time deposits which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Mining rights

Mining rights of Jining III and Southland are stated at cost less accumulated amortization and are amortized on a straight line basis over their useful life estimated based on the total proven and probable reserves of the coal mine.

Property, plant and equipment and land use rights

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses. When assets are sold or retired, the gain or loss is determined as the difference between the sales proceeds and the carrying amount of the asset and the gain or loss is included in the statement of income.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and land use rights (Continued)

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, after taking into account their estimated residual value, using the straight line method. The estimated useful lives of property, plant and equipment are as follows:

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

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

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

Land use rights are amortized over the term of the relevant rights.

Assets under construction are not depreciated until they are completed and put into commercial operation.

Construction in progress

Construction in progress is stated at cost less any identified impairment loss. Cost comprises construction expenditures and other direct costs attributable to such projects, including borrowing costs, if the amount of capital expenditures and the time involved to complete the construction are significant. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policies as stated above.

Impairment other than goodwill

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on acquisition with the agreements dated prior to March 31, 2004 represented the excess of the purchase consideration paid over the Group's share in the fair value of the identifiable assets and liabilities of businesses or subsidiaries at the date of acquisition. Goodwill was then capitalized and amortized on a straight line basis over its useful economic life.

Goodwill arising on acquisition with agreements dated on or after March 31, 2004 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of businesses or subsidiaries at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in income and is not subsequently reversed.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually and whenever there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

Goodwill arising on the acquisition of businesses or subsidiaries is presented separately in the balance sheet.

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

Negative goodwill

Negative goodwill arising on acquisition of businesses or subsidiaries with agreement dated prior to March 31, 2004, representing the excess of the fair value ascribed to the Group's share of the identifiable assets and liabilities of businesses or subsidiaries at the date of acquisition over the purchase consideration, is presented as a deduction from the assets in the balance sheet. Negative goodwill is released to income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/ amortizable assets.

Negative goodwill arising on acquisition with the agreements dated on or after 31 March 2004 represents the excess of the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of businesses or subsidiaries at the date of acquisition over the purchase consideration. Such negative goodwill is recognized in income immediately.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in securities

Investments in securities are recognized on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortized cost, less any impairment loss recognized to reflect irrecoverable amounts. The annual amortization of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognized in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value, based on quoted market prices at the balance sheet date or at cost subject to impairment recognition where the fair value cannot be reliably determined. Where securities are held for trading purposes, unrealized gains and losses are included in net profit or loss for the period. For available-for-sale investments, unrealized gains and losses are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the net profit or loss for the period.

Loan receivables

For loans receivables, an allowance for doubtful receivables is recognized when it is probable that the companies will be unable to collect all amounts due according to the contractual terms of the agreement. The impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate (or, alternatively, at the observable market price of the receivable or the fair value of the underlying collateral).

Inventories

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development

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

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

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

No development expenditure has been deferred.

Land subsidence, restoration, rehabilitation and environmental costs

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

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

Capitalization of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. Capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowings costs are recognized as an expense in the period in which they are incurred.

Foreign currency translation

The Group maintains its books and records in Renminbi.

Transactions denominated in foreign currencies are translated into Renminbi at the applicable rates of exchange quoted by the People's Bank of China prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the applicable rates of exchange quoted by the People's Bank of China prevailing at the balance sheet date. Profits and losses arising on translation are recorded in the statement of income.

On consolidation, the assets ad liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange difference arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of .

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation (Continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Government grants

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

Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

5. SEGMENT INFORMATION

The Group is engaged primarily in the coal mining business and, commencing from January 1, 2002, the Group is also engaged in the coal railway transportation business. The Company does not currently have direct export rights in the PRC and all of its export sales must be made through China National Coal Industry Import and Export Corporation ("National Coal Corporation"), Minmetals Trading Co., Ltd. ("Minmetals Trading") or Shanxi Coal Imp. & Exp. Group Corp. ("Shanxi Coal Corporation"). The final customer destination of the Company's export sales is determined by the Company, National Coal Corporation, Minmetals Trading or Shanxi Coal Corporation. Certain of the Company's subsidiaries are engaged in trading and processing of mining machinery and the transportation business via rivers and lakes in the PRC. No separate segment information about these businesses is presented in these financial statements as the underlying gross sales, results and assets of these businesses, which are currently included in the coal mining business segment, are insignificant to the Group.

Business segments

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

Principal activities are as follows:

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

5. SEGMENT INFORMATION (Continued)

Segment information about these businesses is presented below:

INCOME STATEMENT

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

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

	Coal mining RMB'000	Coal railway transportation RMB'000	Eliminations RMB'000	Consolidated RMB'000
RESULT				
Segment results	4,642,234	284,147	–	4,926,381
Unallocated corporate expenses				(314,283)
				4,612,098
Unallocated corporate income				97,176
Operating income				4,709,274
Interest expenses				(35,942)
Income before income taxes				4,673,332
Income taxes				(1,518,762)
Income before minority interest				3,154,570

5. SEGMENT INFORMATION (Continued)

BALANCE SHEET

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

OTHER INFORMATION

	For the year ended December 31, 2004			
	Coal mining RMB'000	Coal railway transportation RMB'000	Corporate and others RMB'000	Consolidated RMB'000
Capital additions	1,009,788	66,036	18,458	1,094,282
Amortization of goodwill	777	13,880	1,116	15,773
Release of negative goodwill to income	(27,620)	–	–	(27,620)
Depreciation of property, plant and equipment and land use rights	887,266	79,823	4,772	971,861
Amortization of mining rights	6,624	–	–	6,624
Loss (gain) on disposal of property, plant and equipment	104,759	272	(434)	104,597
Allowance for doubtful debts	49,104	–	–	49,104

5. SEGMENT INFORMATION (Continued)

INCOME STATEMENT

	For the year ended December 31, 2003			
	Coal mining RMB'000	Coal railway transportation RMB'000	Eliminations RMB'000	Consolidated RMB'000
GROSS REVENUE				
External	8,386,629	154,585	–	8,541,214
Inter-segment	–	400,048	(400,048)	–
Total	8,386,629	554,633	(400,048)	8,541,214

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

RESULT				
Segment results	2,013,688	245,041	–	2,258,729
Unallocated corporate expenses				(246,469)
				2,012,260
Unallocated corporate income				22,624
Operating income				2,034,884
Interest expenses				(59,966)
Income before income taxes				1,974,918
Income taxes				(587,710)
Income before minority interest				1,387,208

5. SEGMENT INFORMATION (Continued)

BALANCE SHEET

	At December 31, 2003		
	Coal mining RMB'000	Coal railway transportation RMB'000	Consolidated RMB'000
ASSETS			
Segment assets	10,440,480	1,115,491	11,555,971
Unallocated corporate assets			2,353,833
			13,909,804
LIABILITIES			
Segment liabilities	1,818,585	11,929	1,830,514
Unallocated corporate liabilities			992,311
			2,822,825

OTHER INFORMATION

	For the year ended December 31, 2003			
	Coal mining RMB'000	Coal railway transportation RMB'000	Corporate and others RMB'000	Consolidated RMB'000
Capital additions	1,255,070	82,616	14,144	1,351,830
Amortization of goodwill	777	8,880	–	9,657
Release of negative goodwill to income	(27,620)	–	–	(27,620)
Depreciation of property, plant and equipment and land use rights	850,994	79,445	3,774	934,213
Amortization of mining rights	6,624	–	–	6,624
(Gain) loss on disposal of property, plant and equipment	(7,113)	185	56	(6,872)
Allowance for doubtful debts	80,272	–	–	80,272

5. SEGMENT INFORMATION (Continued)

INCOME STATEMENT

	For the year ended December 31, 2002			
	Coal mining RMB'000	Coal railway transportation RMB'000	Eliminations RMB'000	Consolidated RMB'000
GROSS REVENUE				
External	7,772,315	142,471	–	7,914,786
Inter-segment	–	386,823	(386,823)	–
Total	7,772,315	529,294	(386,823)	7,914,786

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

	Coal mining RMB'000	Coal railway transportation RMB'000	Eliminations RMB'000	Consolidated RMB'000
RESULT				
Segment results	1,791,446	271,272	–	2,062,718
Unallocated corporate expenses				(226,795)
				1,835,923
Unallocated corporate income				30,218
Operating income				1,866,141
Interest expenses				(117,929)
Income before income taxes				1,748,212
Income taxes				(523,148)
Income before minority interest				1,225,064

5. SEGMENT INFORMATION (Continued)

BALANCE SHEET

	At December 31, 2002		
	Coal mining RMB'000	Coal railway transportation RMB'000	Consolidated RMB'000
ASSETS			
Segment assets	9,861,375	1,162,372	11,023,747
Unallocated corporate assets			1,900,298
			12,924,045
LIABILITIES			
Segment liabilities	1,346,568	56,000	1,402,568
Unallocated corporate liabilities			1,521,507
			2,924,075

OTHER INFORMATION

	For the year ended December 31, 2002			
	Coal mining RMB'000	Coal railway transportation RMB'000	Corporate and others RMB'000	Consolidated RMB'000
Capital additions	802,090	1,206,898	5,547	2,014,535
Amortization of goodwill	777	–	–	777
Release of negative goodwill to income	(27,620)	–	–	(27,620)
Depreciation of property, plant and equipment and land use rights	764,470	75,519	11,130	851,119
Amortization of mining rights	6,624	–	–	6,624
Loss on disposal of property, plant and equipment	1,093	–	–	1,093
Allowance for doubtful debts	66,204	–	–	66,204

5. SEGMENT INFORMATION (Continued)

OTHER INFORMATION (Continued)

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

	At December 31,		
	2004	2003	2002
Coal mining	25,892	24,810	24,623
Coal railway transportation	3,374	3,151	3,249
	29,266	27,961	27,872

Geographical segment

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

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

	Year ended December 31,		
	2004	2003	2002
	RMB'000	RMB'000	RMB'000
The PRC	869,957	1,351,830	2,014,535
Australia	224,325	–	–
	1,094,282	1,351,830	2,014,535

6. NET SALES OF COAL

	Year ended December 31,		
	2004	2003	2002
	RMB'000	RMB'000	RMB'000
Domestic sales of coal, gross	7,841,328	4,840,317	3,939,953
Less: Transportation costs	434,340	503,228	525,998
Domestic sales of coal, net	7,406,988	4,337,089	3,413,955
Export sales of coal, gross	3,915,724	3,546,312	3,832,362
Less: Transportation costs	968,375	1,089,066	1,032,416
Export sales of coal, net	2,947,349	2,457,246	2,799,946
Net sales of coal	10,354,337	6,794,335	6,213,901

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

Sales taxes consist primarily of a resource tax calculated at the rate of RMB2.40 per metric tonne ("tonne") of the imputed quantity of raw coal sold and are paid to the local tax bureau. Prior to January 1, 2004, resource tax was charged at the rate of RMB1.20 per tonne of the imported quantity of raw coal sold. The resource tax for each of the three years ended December 31, 2004, 2003 and 2002 amounted to RMB97,613,000, RMB49,925,000 and RMB44,712,000, respectively.

7. COST OF SALES AND SERVICE PROVIDED

	Year ended December 31,		
	2004	2003	2002
	RMB'000	RMB'000	RMB'000
Materials	1,088,683	899,602	752,513
Wages and employee benefits	1,022,614	863,707	757,532
Electricity	298,274	278,507	278,407
Depreciation	918,360	836,120	813,761
Land subsidence, restoration, rehabilitation and environmental costs	323,240	264,158	232,030
Repairs and maintenance	455,782	374,855	346,290
Annual fee and amortization of mining rights (note)	19,604	19,604	19,604
Transportation costs	119,737	48,231	43,239
Others	305,409	170,239	119,525
	4,551,703	3,755,023	3,362,901

7. COST OF SALES AND SERVICE PROVIDED (Continued)

Note: The Parent Company and the Company have entered into a mining rights agreement pursuant to which the Company has agreed to pay to the Parent Company effective from September 25, 1997 an annual fee of RMB12,980,000 as compensation for the Parent Company's agreement to give up the mining rights associated with Xinglongzhuang coal mine, Baodian coal mine, Nantun coal mine, Dongtan coal mine and Jining II. The annual fee is subject to change after a ten-year period.

The cost of the mining rights of Jining III of approximately RMB132,479,000 acquired in 2001 is amortized on a straight line basis over twenty years.

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,		
	2004	2003	2002
	RMB'000	RMB'000	RMB'000
Retirement benefit scheme contributions (note 40)	408,462	349,377	334,120
Wages and employee benefits	155,500	115,456	164,549
Additional medical insurance	35,912	27,814	29,710
Depreciation	53,501	44,339	37,358
Amortization of goodwill	15,773	9,657	777
Distribution charges	43,639	37,779	54,524
Allowance for doubtful debts	49,104	80,272	66,204
Resource compensation fees (note)	110,959	84,941	73,762
Repairs and maintenance	18,753	13,918	8,668
Research and development	24,934	46,144	30,657
Staff training costs	28,762	26,780	26,272
Freight charges	9,801	14,862	14,016
Loss on disposal of property, plant and equipment	104,597	–	1,093
Others	420,166	413,519	389,349
	1,479,863	1,264,858	1,231,059

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

9. OTHER OPERATING INCOME

	Year ended December 31, 2004 RMB'000	2003 RMB'000	2002 RMB'000
Dividend income	4,465	4,810	–
Gain on sales of auxiliary materials	33,878	35,197	21,277
Gain on disposal of property, plant and equipment	–	6,872	–
Government grants (note)	–	8,194	20,157
Interest income from bank deposits	70,885	13,631	28,737
Interest income from investments in securities	–	–	1,481
Interest income on loan receivable	21,826	4,183	–
Release of negative goodwill to income	27,620	27,620	27,620
Others	7,058	5,338	4,457
	165,732	105,845	103,729

Note: Government grants represented the amount received by the Group in respect of its export sales activities.

10. INTEREST EXPENSES

	Year ended December 31, 2004 RMB'000	2003 RMB'000	2002 RMB'000
Interest expenses on:			
– bank borrowings wholly repayable within 5 years	31,392	53,682	3,666
– bank borrowings not wholly repayable within 5 years	–	–	72,072
– bills receivable discounted without recourse	–	1,023	2,235
Deemed interest expenses in respect of acquisition of Jining III	4,550	5,261	39,956
	35,942	59,966	117,929

No interest was capitalized during each of the years presented.

11. INCOME BEFORE INCOME TAXES

	Year ended December 31, 2004 RMB'000	2003 RMB'000	2002 RMB'000
Income before income taxes has been arrived at after charging:			
Amortization of mining rights	6,624	6,624	6,624
Auditors' remuneration	5,000	5,000	3,500
Staff costs, including directors' and supervisors' emoluments	1,682,240	1,437,682	1,354,251
and crediting:			
Gain on disposal of investments in securities	–	1,424	2,209

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

(a) Directors' and supervisors' emoluments

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

	Year ended December 31, 2004 RMB'000	2003 RMB'000	2002 RMB'000
Independent non-executive directors			
Fees	325	248	239
Executive directors			
Fees	–	–	–
Salaries, allowance and other benefits in kind	1,303	989	825
Retirement benefit scheme contributions (note 40)	586	445	371
Discretionary bonuses	–	–	–
	1,889	1,434	1,196
Supervisors			
Fees	–	–	–
Salaries, allowance and other benefits in kind	537	426	400
Retirement benefit scheme contributions (note 40)	242	191	180
Discretionary bonuses	–	–	–
	779	617	580

Emoluments of each of the directors and supervisors are all within the band of Nil to HK$1,000,000 for the years ended December 31, 2004, 2003 and 2002.

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

(b) Employees' emoluments

The five highest paid individuals in the Group in 2004 included four directors for the year ended December 31, 2004 (2003: five; 2002: three), details of whose emoluments are included in the disclosures in note 12(a) above. The emoluments of the remaining one individual for the year ended December 31, 2004 (2003: nil; 2002: two) were as follows:

	Year ended December 31,		
	2004	2003	2002
	RMB'000	RMB'000	RMB'000
Salaries, allowance and other benefits in kind	224	–	314
Retirement benefit scheme contributions (note 40)	101	–	141
Discretionary bonuses	–	–	–
	325	–	455

Emoluments of each of these employees were all within the band of Nil to HK$1,000,000 for the years ended December 31, 2004 and 2002.

13. INCOME TAXES

	Year ended December 31,		
	2004	2003	2002
	RMB'000	RMB'000	RMB'000
Income taxes:			
Current taxes	1,390,767	587,775	524,534
Underprovision in prior years	16,019	–	–
	1,406,786	587,775	524,534
Deferred tax (note 29)			
Charge (credit) for the current year	67,540	(65)	(1,386)
Overprovision in prior years	44,436	–	–
	111,976	(65)	(1,386)
	1,518,762	587,710	523,148

The Company is subject to a standard income tax rate of 33% on its taxable income.

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

13. INCOME TAXES (Continued)

A reconciliation between the provision for income taxes computed by applying the standard PRC income tax rate to income before income taxes and the actual provision for income taxes is as follows:

	Year ended December 31,		
	2004	2003	2002
	RMB'000	RMB'000	RMB'000
Standard income tax rate in the PRC	33%	33%	33%
Standard income tax rate applied to income before income taxes	1,542,200	651,723	576,910
Reconciling items:			
Transfer to future development fund deductible for tax purposes but not charged to income under IFRS	(109,411)	(85,692)	(76,101)
Release of negative goodwill not subject to tax	(9,115)	(9,115)	(9,115)
Deemed interest not deductible for tax purposes	1,502	1,736	13,185
Allowance for doubtful debts not deductible for tax purposes	16,187	25,731	23,681
Loss on disposal of property, plant and equipment not deductible for tax purposes	8,273	–	–
Government grants received not subject to tax	–	(2,704)	(6,652)
Overprovision of deferred tax asset in prior years	44,436	–	–
Underprovision in prior years	16,019	–	–
Others	8,671	6,031	1,240
Income taxes	1,518,762	587,710	523,148
Effective income tax rate	32%	30%	30%

Note: The relevant tax authorities have not yet assessed the cap for total wages of the Company that would be deductible under PRC income tax. Given a subsidiary of the Parent Company, the directors of the Company are of the opinion that the basis for determining the deductible wages cap applicable to the Parent Company that has been allowed by the tax authority would be equally applicable to the Company.

The subsidiaries acquired during the years ended December 31, 2004 and 2003 did not have any significant impact on the income taxes provided for the years ended December 31, 2004, 2003 and 2002.

14. DIVIDEND

	Year ended December 31,		
	2004	2003	2002
	RMB'000	RMB'000	RMB'000
Final dividend approved, RMB0.114 per share (2003: RMB0.104; 2002: RMB0.100)	327,180	298,480	287,000
Special dividend approved, RMB0.050 per share (2003 and 2002: nil)	143,500	–	–
	470,680	298,480	287,000

Pursuant to the annual general meeting held on June 7, 2002, a final dividend in respect of the year ended December 31, 2001 was approved and paid to the shareholders of the Company.

Pursuant to the annual general meeting held on June 27, 2003, a final dividend in respect of the year ended December 31, 2002 was approved and paid to the shareholders of the Company.

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

The board of directors proposes to declare a final dividend of approximately RMB799,240,000 calculated based on a total number of 3,074,000,000 shares in issue at RMB1 each, at RMB0.26 per share and a bonus issue on the basis of six bonus shares for every ten existing shares in respect of the year ended December 31, 2004. The declaration and payment of the final dividend and the bonus issue need to be approved by the shareholders of the Company by way of an ordinary resolution in accordance with the requirements of the Company's Articles of Association. A shareholders' general meeting will be held for the purpose of considering and, if thought fit, approving this ordinary resolution.

15. EARNINGS PER SHARE AND PER ADS

The calculation of the earnings per share for the years ended December 31, 2004, 2003 and 2002 is based on the net income for the year of RMB3,154,317,000, RMB1,386,686,000 and RMB1,221,999,000 and on the weighted average of 2,964,754,098 shares, 2,870,000,000 shares and 2,870,000,000 shares in issue, respectively, during the year.

The earnings per ADS have been calculated based on the net income for the relevant periods and on one ADS being equivalent to 50 shares.

16. RESTRICTED CASH

At the balance sheet date, the short-term restricted cash represents the bank deposits pledged to certain banks to secure banking facilities granted to the Group and the Company. The long-term amount represents the bank deposits placed as guarantee for the future payments of rehabilitation costs of Southland as required by the Australian government.

17. BILLS AND ACCOUNTS RECEIVABLE

	THE GROUP At December 31,		THE COMPANY At December 31,	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Total bills receivable	890,046	657,090	889,446	656,490
Total accounts receivable	460,442	682,961	460,442	682,826
Less: Allowance for doubtful debts	(126,700)	(100,627)	(126,700)	(100,627)
Total bills and accounts receivable, net	1,223,788	1,239,424	1,223,188	1,238,689

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

An analysis of the allowance for doubtful debts for 2004 and 2003 follows:

	THE GROUP AND THE COMPANY At December 31,	
	2004 RMB'000	2003 RMB'000
Balance at January 1	100,627	76,083
Additional allowance charged to income statement	26,073	71,125
Direct write-off charged against allowance	–	(46,581)
Balance at December 31	126,700	100,627

17. BILLS AND ACCOUNTS RECEIVABLE (Continued)

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

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

	THE GROUP		THE COMPANY	
	At December 31,		At December 31,	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
1 – 180 days	1,233,248	961,307	1,232,648	960,572
181 – 365 days	654	177,571	654	177,571
1 – 2 years	3,913	114,887	3,913	114,887
2 – 3 years	32,407	78,919	32,407	78,919
Over 3 years	80,266	7,367	80,266	7,367
	1,350,488	1,340,051	1,349,888	1,339,316

18. INVENTORIES

	THE GROUP		THE COMPANY	
	At December 31,		At December 31,	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
COST				
Auxiliary materials, spare parts and small tools	226,271	204,466	215,220	199,068
Coal products	259,158	297,562	259,158	297,562
	485,429	502,028	474,378	496,630

19. OTHER LOANS RECEIVABLE

At December 31, 2004, the amount consists of loans granted to independent third parties. The amounts are guaranteed by other independent third parties and bear interest at 5.04% – 7.00% per annum. Included in the total amount is a loan of RMB640,000,000 (the "Default Loan") which is secured by certain state legal person shares of a company listed on the SSE ("the Secured Shares") and certain equity interest in another unlisted company held by the guarantor. The Default Loan defaulted in January 2005 and the Company has applied to the People's Supreme Court of the Shandong Province (the "Court") to freeze the Secured Shares. The Company has also applied to the Court to dispose the Secured Shares by way of a public auction and the proceed will be applied to repay the Default Loan to the Company. In the opinion of the directors, based on the estimated fair market value of the Secured Shares, the proceeds from their sale should be sufficient to cover the principal and interest of the Default Loan.

At December 31, 2003, the amount represented a loan granted to a minority shareholder of a subsidiary of the Company. The amount was guaranteed by an independent third party, bore interest at 6% per annum and was secured by shares of a private PRC company (equivalent to approximately 16% of the share capital of that company) in which the borrower was a shareholder. The amount was fully settled during the year.

20. PREPAYMENTS AND OTHER CURRENT ASSETS

	THE GROUP At December 31,		THE COMPANY At December 31,	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Advances to suppliers	56,707	70,785	62,877	69,692
Prepaid freight charges and related handling charges	58,623	103,680	58,623	103,680
Value added tax ("VAT") refund	–	275,624	–	275,624
Prepayments for acquisition of property, plant and equipment	4,290	3,163	4,290	3,163
Prepaid land subsidence, restoration, rehabilitation and environmental costs	5,010	24,510	5,010	24,510
Receivables for utilities charges	3,264	6,838	3,264	6,838
Receivables for sales of auxiliary materials	13,689	15,057	13,689	15,057
Others	46,713	34,816	40,611	30,816
	188,296	534,473	188,364	529,380

Included in the above balances of the Group and of the Company as of December 31, 2004 and 2003 were allowances for doubtful debts of RMB35,717,000 and RMB12,686,000, respectively. During the year ended December 31, 2004, the Group and the Company made an allowance for doubtful debts of RMB23,031,000 (2003: RMB9,147,000).

21. MINING RIGHTS

	THE GROUP RMB'000	THE COMPANY RMB'000
COST		
At January 1, 2004	132,479	132,479
Acquisition of Southland (note 35)	32,634	–
At December 31, 2004	165,113	132,479
AMORTIZATION		
At January 1, 2004	19,872	19,872
Provided for the year	6,624	6,624
At December 31, 2004	26,496	26,496
NET BOOK VALUES		
At December 31, 2004	138,617	105,983
At December 31, 2003	112,607	112,607

In addition, the Parent Company and the Company have entered into a mining rights agreement pursuant to which the Company has agreed to pay to the Parent Company, effective from September 25, 1997, an annual fee of RMB12,980,000 as compensation for the Parent Company's agreement to give up the mining rights associated with the Xinglongzhuang coal mine, Baodian coal mine, Nantun coal mine, Dongtan coal mine and Jining II. The annual fee is subject to change after a ten-year period.

Mining rights is amortised, on a straight-line basis, over their useful life of twenty years.

22. LAND USE RIGHTS

	THE GROUP AND THE COMPANY RMB'000
COST	
At January 1, 2004 and December 31, 2004	658,549
DEPRECIATION	
At January 1, 2004	53,637
Provided for the year	13,194
At December 31,2004	66,831
NET BOOK VALUES	
At December 31, 2004	591,718
At December 31, 2003	604,912

The land use rights have a term of fifty years from the date of grant of land use rights certificates.

The land use rights of Railway Assets were acquired from the Parent Company during the year ended December 31, 2002. The registration process in respect of the land use rights of the Railway Assets has not yet been completed at December 31, 2004.

23. PROPERTY, PLANT AND EQUIPMENT, NET

THE GROUP

	Freehold land in Australia RMB'000	Buildings RMB'000	Habour works and crafts RMB'000	Railway structures RMB'000	Mining structures RMB'000	Plant, machinery and equipment RMB'000	Transportation equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST									
At January 1, 2004	–	2,052,927	250,231	720,484	3,904,460	7,314,574	281,744	85,748	14,610,168
Acquisition of Southland	57,195	5,377	–	–	–	128,833	–	–	191,405
Additions	–	–	–	–	–	18,791	5,922	805,530	830,243
Transfers	–	76,541	–	7,190	–	690,072	30,970	(804,773)	–
Disposals	–	–	–	–	–	(862,057)	(33,003)	–	(895,060)
At December 31, 2004	57,195	2,134,845	250,231	727,674	3,904,460	7,290,213	285,633	86,505	14,736,756
DEPRECIATION									
At January 1, 2004	–	797,845	–	106,903	1,408,418	3,545,719	134,910	–	5,993,795
Provided for the year	–	97,878	6,068	54,498	97,866	693,886	29,069	–	979,265
Eliminated on disposals	–	–	–	–	–	(748,503)	(24,951)	–	(773,454)
At December 31,2004	–	895,723	6,068	161,401	1,506,284	3,491,102	139,028	–	6,199,606
NET BOOK VALUES									
At December 31, 2004	57,195	1,239,122	244,163	566,273	2,398,176	3,799,111	146,605	86,505	8,537,150
At December 31, 2003	–	1,255,082	250,231	613,581	2,496,042	3,768,855	146,834	85,748	8,616,373

23. PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

THE COMPANY

	Buildings RMB'000	Habour works and crafts RMB'000	Railway structures RMB'000	Mining structures RMB'000	Plant, machinery and equipment RMB'000	Transportation equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST								
At January 1, 2004	2,052,927	250,231	720,484	3,904,460	7,312,623	270,471	85,748	14,596,944
Additions	–	–	–	–	18,729	5,402	802,613	826,744
Transfers	76,541	–	7,190	–	690,072	30,970	(804,773)	–
Disposals	–	–	–	–	(862,057)	(32,798)	–	(894,855)
At December 31, 2004	2,129,468	250,231	727,674	3,904,460	7,159,367	274,045	83,588	14,528,833
DEPRECIATION								
At January 1, 2004	797,845	–	106,903	1,408,418	3,545,633	134,804	–	5,993,603
Provided for the year	97,878	6,068	54,498	97,866	693,369	28,286	–	977,965
Eliminated on disposals	–	–	–	–	(748,503)	(24,799)	–	(773,302)
At December 31,2004	895,723	6,068	161,401	1,506,284	3,490,499	138,291	–	6,198,266
NET BOOK VALUES								
At December 31, 2004	1,233,745	244,163	566,273	2,398,176	3,668,868	135,754	83,588	8,330,567
At December 31, 2003	1,255,082	250,231	613,581	2,496,042	3,766,990	135,667	85,748	8,603,341

24. GOODWILL

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
COST				
At January 1	106,707	55,545	95,545	55,545
Subsequent adjustment to contingent consideration payment in respect of the acquisition of Railway Assets (note 37)	40,000	40,000	40,000	40,000
Acquisition of Yanmei Shipping (note 36)	–	11,162	–	–
At December 31	146,707	106,707	135,545	95,545
AMORTIZATION				
At January 1	13,542	3,885	13,542	3,885
Provided for the year	15,773	9,657	14,657	9,657
At December 31	29,315	13,542	28,199	13,542
NET BOOK VALUES				
At December 31	117,392	93,165	107,346	82,003

The amounts represent goodwill arising from acquisition of Jining II, Railway Assets and Yanmei Shipping. Goodwill is amortised on a straight line basis over a period of ten to twenty years.

Additional goodwill resulting from contingent consideration payments in respect of the acquisition of the Railway Assets is amortized on a straight line basis over the remaining life of the original period of ten years.

25. NEGATIVE GOODWILL

	THE GROUP AND THE COMPANY At December 31, 2004 RMB'000	2003 RMB'000
COST		
At January 1 and December 31	138,101	138,101
RELEASED TO INCOME		
At January 1	82,860	55,240
Released for the year	27,620	27,620
At December 31	110,480	82,860
NET BOOK VALUES		
At December 31	27,621	55,241

The amount represents negative goodwill arising from acquisition of Jining III and is released to income on a straight line basis over a period of five years.

26. INVESTMENT IN SUBSIDIARIES/AMOUNTS DUE FROM/TO SUBSIDIARIES

	THE COMPANY At December 31, 2004 RMB'000	2003 RMB'000
Unlisted investments, at cost	981,688	14,402
Amount due from a subsidiary (note)	350	–
Amounts due to subsidiaries (note)	571,449	–

Note: The amounts are non-interest bearing, unsecured and have no specific terms of repayment.

26. INVESTMENT IN SUBSIDIARIES/AMOUNTS DUE FROM/TO SUBSIDIARIES (Continued)

Details of the Company's subsidiaries at December 31, 2004 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid capital/ registered capital	Proportion of registered capital/ issued share capital held by the Company Directly	Indirectly	Principal activities
Austar	Australia	AUD30,000,000	–	100%	Coal mining business
Yancoal	Australia	AUD30,000,000	100%	–	Investment holding
Yanmei Shipping (note)	PRC	RMB5,500,000	92%	–	Transportation via rivers and lakes and the sales of coal and construction materials
Yulin (note)	PRC	RMB800,000,000	97%	–	Not yet commenced operations
Qingdao Free Trade Zone Zhongyan Trade Co., Ltd. ("Zhongyan") (note)	PRC	RMB2,100,000	52.38%	–	Trading and processing of mining machinery

Note: Yanmei Shipping, Yulin and Zhongyan are established in the PRC as limited liability companies.

27. INVESTMENTS IN SECURITIES

The amounts represent cost of available-for-sale equity investments of the Group and the Company.

The amount at December 31, 2004 principally includes an unlisted investment of RMB60,421,000 in the form of state legal person shares of Shenergy Company Limited, a company listed on the SSE. These shares are not tradable on the SSE.

In the opinion of directors, the carrying value of the Group's unlisted equity investments is approximate to their fair values.

28. DEPOSITS MADE ON INVESTMENTS

	Notes	THE GROUP AND THE COMPANY At December 31, 2004 RMB'000	2003 RMB'000
Deposits made on investments comprises:			
Acquisition of a subsidiary	(i)	574,000	–
Acquisition of investment in securities	(ii)	–	30,183
		574,000	30,183

(i) The amount represents the payment made by the Group and the Company to the Parent Company in relation to the transfer of a 95.67% equity interest in Yankuang Heze Power Chemical Co. Ltd., ("Heze"), a limited liability company established in the PRC with registered capital of RMB600,000,000, owned by the Parent Company. The principal activity of Heze is the development of ancillary projects of Wangfu Coal Mine and Zhaolou Coal Mine in Shangdon Province in the PRC. At December 31, 2004, the Company had not yet obtained all the approvals from the State-owned Assets Supervision and Administration Commission of the Shandong Province and the shareholders of the Company for such transfer and therefore, the amount is presented as a deposit on the balance sheet.

(ii) At December 31, 2003, the amount represented a deposit paid by the Group and the Company in connection with the acquisition of a less than 1 percent stake in Shenergy Company Limited, a company listed on the SSE. The acquisition of the shares was completed during the year.

29. DEFERRED TAX ASSET (LIABILITY)

THE GROUP AND THE COMPANY

	Provision for land subsidence, restoration, rehabilitation and environmental costs RMB'000	Provision for work safety costs RMB'000	Total RMB'000
Balance at January 1, 2003	88,807	–	88,807
Credit for the year (note 13)	65	–	65
Balance at January 1, 2004	88,872	–	88,872
Charge for the year (note 13)	(44,436)	(67,540)	(111,976)
Balance at December 31, 2004	44,436	(67,540)	(23,104)

There was no material unprovided deferred tax for the year or at the balance sheet date.

30. ACCOUNTS PAYABLE

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

	THE GROUP At December 31,		THE COMPANY At December 31,	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
1 – 180 days	360,684	239,593	360,684	239,756
181 – 365 days	85,714	135,942	85,714	135,942
1 – 2 years	31,883	52,073	31,883	52,073
	478,281	427,608	478,281	427,771

Included in the Company's accounts payable at December 31, 2003 was an amount due from its subsidiary of RMB1,206,000.

31. OTHER PAYABLES AND ACCRUED EXPENSES

	THE GROUP At December 31,		THE COMPANY At December 31,	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Customers' deposits	426,877	598,315	426,861	597,617
Accrued wages	80,242	70,633	80,223	70,633
Other taxes payable	255,711	211,474	255,708	211,285
Payables in respect of purchases of property, plant and equipment and construction materials	173,093	84,745	173,093	84,745
Accrued freight charges	51,685	60,093	51,685	60,093
Accrued repairs and maintenance	47,895	37,254	47,895	37,254
Accrued utility expenses	7,672	15,175	7,672	15,175
Staff welfare payable	41,376	39,512	41,376	39,512
Accrued land subsidence, restoration, rehabilitation and environmental costs	8,592	4,996	8,592	4,996
Resource compensation fees payable	83,658	–	83,658	–
Consideration payable on acquisition of Southland	51,010	–	–	–
Others	109,754	52,616	69,648	62,081
	1,337,565	1,174,813	1,246,411	1,183,391

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

	THE GROUP AND THE COMPANY	
	2004	2003
	RMB'000	RMB'000
Balance at January 1	85,022	83,044
Additional provision in the year	313,172	268,330
Transfers to prepayments and accrued expenses	(501,601)	(266,352)
Balance at December 31	(103,407)	85,022

The provision for land subsidence, restoration, rehabilitation and environmental costs has been determined by the directors based on their best estimates. The payments in 2004 include mainly rehabilitation costs paid on mining areas relating to mining activities in the future periods and therefore the balance is presented as a prepayment at December 31, 2004. However, in so far as the effect on the land and the environment from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to change in the near term.

33. UNSECURED BANK BORROWINGS

During the year ended December 31, 2002, the Group and the Company obtained a new bank loan in the amount of RMB1,200,000,000, of which the repayment is guaranteed by the Parent Company. The loan bears interest at 6.21% per annum and is repayable in instalments over a period of 7 years, the first instalment payment was due in August 2004. The proceeds were used to finance the acquisition of the Railway Assets (see note 1).

During the year ended December 31, 2003, the interest rate of the bank loan was adjusted to 5.76% per annum, pursuant to the terms of the loan agreement. The Company made a partial repayment of RMB600,000,000 during that year and according to the terms of the loan agreement, the remaining balance of the loan became repayable in annual instalments over the following 3 years, the first repayment instalment of which was due and paid in August 2004. Interests are repayable quarterly over the terms of the loan.

33. UNSECURED BANK BORROWINGS (Continued)

The above loan is repayable as follows:

	THE GROUP AND THE COMPANY	
	2004 RMB'000	2003 RMB'000
Within one year	200,000	200,000
More than one year, but not exceeding two years	200,000	200,000
More than two years, but not exceeding five years	–	200,000
	400,000	600,000
Less: Amount due within one year and included in current liabilities	(200,000)	(200,000)
Amount due after one year	200,000	400,000

34. SHAREHOLDERS' EQUITY

The movements during the year in the Company's shareholders' equity are as follows:

	Share capital RMB'000	Share premium RMB'000	Future development fund RMB'000	Statutory common reserve fund RMB'000	Statutory common welfare fund RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at January 1, 2003	2,870,000	3,272,527	855,237	388,120	194,060	2,412,369	9,992,313
Net income	–	–	–	–	–	1,388,054	1,388,054
Appropriations to reserves	–	–	259,674	110,536	55,268	(425,478)	–
Dividends	–	–	–	–	–	(298,480)	(298,480)
Balance at December 31, 2003	2,870,000	3,272,527	1,114,911	498,656	249,328	3,076,465	11,081,887
Balance at January 1, 2004	2,870,000	3,272,527	1,114,911	498,656	249,328	3,076,465	11,081,887
Share issued at premium (note)	204,000	1,591,977	–	–	–	–	1,795,977
Share issue expenses (note)	–	(39,102)	–	–	–	–	(39,102)
Net income	–	–	–	–	–	3,155,403	3,155,403
Appropriations to reserves	–	–	331,548	270,779	135,389	(737,716)	–
Dividends	–	–	–	–	–	(470,680)	(470,680)
Balance at December 31, 2004	3,074,000	4,825,402	1,446,459	769,435	384,717	5,023,472	15,523,485

34. SHAREHOLDERS' EQUITY (Continued)

Note: On July 15, 2004, the Company issued an aggregate of 204,000,000 H shares to independent investors upon private placement. The net proceeds of approximately RMB1,756,875,000 will be used for the investments in the proposed development of coal mines in Shandong Province and the coal-methanol project in Shaanxi Province. These new H shares were issued under the general mandate granted to the directors at the 2003 annual general meeting of the Company held on June 25, 2004 and these shares rank pari passu with other H shares in issue in all respects.

The Company's share capital structure at the balance sheet date is as follows:

Class of shares	Type of shares	Number of shares at December 31, 2004	2003
Domestic invested shares	– State legal person shares (held by the Parent Company)	1,670,000,000	1,670,000,000
	– A shares (note 1)	180,000,000	180,000,000
Foreign invested shares	– H shares (including H shares represented by ADS) (note 1)	1,224,000,000	1,020,000,000
	Total	3,074,000,000	2,870,000,000

Each share has a par value of RMB1.

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

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

The Company has to set aside 10% of its net income for the statutory common reserve fund (except where the fund has reached 50% of the Company's registered capital) and 5% to 10% of its net income for the statutory common welfare fund. The statutory common reserve fund can be used for the following purposes:

- to make good losses in previous years; or
- to convert into capital, provided such conversion is approved by a resolution at a shareholders' general meeting and the balance of the statutory common reserve fund does not fall below 25% of the registered capital.

34. SHAREHOLDERS' EQUITY (Continued)

The statutory common welfare fund, which is to be used for the welfare of the staff and workers of the Company, is of a capital nature.

In accordance with the Company's Articles of Association, the net income for the purpose of appropriation will be deemed to be the lesser of the amounts determined in accordance with (i) PRC accounting standards and regulations and (ii) IFRS or the accounting standards of the places in which its shares are listed.

The Company can also create a discretionary reserve in accordance with its Articles of Association or pursuant to resolutions which may be adopted at a meeting of shareholders.

The Company's reserve available for distribution as at December 31, 2004 is the retained earnings computed under PRC GAAP which amounted to approximately RMB4,522,369,000 (2003: RMB2,691,181,000).

35. ACQUISITION OF SOUTHLAND

In December 2004, the Group acquired a 100% interest in Southland for a cash consideration of RMB187,312,000, of which RMB136,302,000 was paid upon acquisition and RMB51,010,000 (equivalent to AUD8,000,000) is payable upon the production of the initial 4 million tonnes of saleable coal by the Group in Southland. Pursuant to the agreements in relation to the acquisition, the Company has an obligation to pay the sellers an addition of AUD4,000,000 (equivalent to RMB25,505,000) when the Company acquires further coal mines and land adjacent to Southland and obtains the exploration license under the Mining Act of Australia for such coal mines.

	2004 Book value and fair value RMB'000
The net assets of Southland at the date of acquisition were as follows:	
Mining rights	32,634
Property, plant and equipment	191,405
Other payables and accrued expenses	(36,727)
Total net assets acquired	187,312
Total consideration	187,312

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

If the acquisition had been completed on January 1, 2004, the Group's revenue and the Group's profit attributable to the equity holders of the Company for the year ended December 31, 2004 would have been RMB11,977,823,000 and RMB3,154,317,000, respectively.

36. ACQUISITION OF YANMEI SHIPPING

	2003 RMB'000
The net assets of Yanmei Shipping at the date of acquisition were as follows:	
Bank balances and cash	506
Bills and accounts receivable	735
Inventories	1,254
Prepayments and other current assets	16,423
Property, plant and equipment, net	12,551
Other payables and accrued expenses	(4,259)
Amounts due to Parent Company and its subsidiaries	(26,151)
Taxes payable	(483)
Minority interest	(46)
Total net assets acquired	530
Goodwill arising on acquisition	11,162
	11,692
Consideration:	
Satisfied by cash	11,692
Net cash outflow arising on acquisition:	
Cash paid	(11,692)
Bank balances and cash acquired	506
	(11,186)

During the year ended December 31, 2003, the Group acquired 92% of the issued share capital of Yanmei Shipping for a cash consideration of RMB11,692,000. The net assets acquired were included in the coal mining segment. Yanmei Shipping did not have any significant impact on the Group's results or cash flows for the year ended December 31, 2003.

37. ACQUISITION OF RAILWAY ASSETS

	2002 RMB'000
The net assets of Railway Assets at the date of acquisition were as follows:	
Bank balances and cash	141
Bills and accounts receivable	4,586
Prepayment and other current assets	132,633
Inventories	5,461
Land use rights	259,378
Property, plant and equipment, net	877,380
Bills and accounts payable	(22,830)
Other payables and accrued expenses	(14,163)
Net assets	1,242,586
Goodwill arising on subsequent adjustment to contingent consideration payment	120,000
	1,362,586
Satisfied by:	
Cash consideration paid on acquisition	1,242,586
Subsequent adjustment to contingent consideration payment	120,000
	1,362,586
Net cash outflow arising on acquisition:	
Cash paid on acquisition	(1,282,586)
Cash paid during the year ended December 31, 2003	(40,000)
Cash paid during the year ended December 31, 2004	(40,000)
Bank balances and cash acquired	141
	(1,362,445)

On January 1, 2002, the Company acquired the Railway Assets from its Parent Company for an original consideration of RMB1,242,586,000.

Pursuant to the terms of the acquisition agreement, the consideration was adjusted to RMB1,282,586,000, RMB1,322,586,000 and RMB1,362,586,000 as the annual transportation volume of the Railway Assets reached the volume milestone target of 25,000,000 tonnes, 28,000,000 tonnes and 30,000,000 tonnes, for the years ended December 31, 2002, 2003 and 2004, respectively.

38. RELATED PARTY BALANCES AND TRANSACTIONS

The amounts due from Parent Company and its subsidiary companies are non-interest bearing, unsecured and have no specific terms of repayments.

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

The amounts due to the Parent Company and its subsidiary companies as at December 31, 2004 included the present value of the outstanding balance that arose from the funding of the acquisition of the mining rights of Jining III as of January 1, 2001 discounted using the market rate of bank borrowings.

The consideration for the cost of the mining rights of approximately RMB132,479,000 is to be settled over ten years by equal annual installments before December 31 of each year, commencing from 2001. During the year ended December 31, 2004, the Company made a payment in a discounted amount of RMB10,483,000 (2003: RMB11,115,000; 2002: RMB11,805,000).

	THE GROUP At December 31,		THE COMPANY At December 31,	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Amounts due to Parent Company and its subsidiary companies				
Within one year	–	369,620	–	343,469
More than one year, but not exceeding two years	9,230	9,802	9,230	9,802
More than two years, but not exceeding five years	24,574	26,101	24,574	26,101
Exceeding five years	7,253	14,956	7,253	14,956
Total due	41,057	420,479	41,057	394,328
Less: amount due within one year	–	369,620	–	343,469
Amount due after one year	41,057	50,859	41,057	50,859

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

38. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

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

	Year ended December 31,		
	2004 RMB'000	2003 RMB'000	2002 RMB'000
Income			
Sales of coal	523,015	229,730	110,403
Sales of auxiliary materials	350,873	472,899	–
Gain on sales of anxiliary materials	–	–	12,385
Utilities and facilities	29,000	29,000	5,000
Railway transportation services	–	66	496
Expenditure			
Utilities and facilities	354,424	285,166	1,350
Annual fee for mining rights	12,980	12,980	12,980
Purchases of supply materials and equipment	303,549	373,710	409,117
Repair and maintenance services	222,949	225,408	239,297
Social welfare and support services	207,062	188,825	186,657
Technical support and training	15,130	15,130	15,130
Road transportation services	63,478	17,216	33,208
Construction services	160,342	507,824	–

During the periods, the Group had the following significant transactions with a related party, certain management members of which were also management members of the Group:

	Year ended December 31,		
	2004 RMB'000	2003 RMB'000	2002 RMB'000
Sales of coal by the Group	–	77,155	37,693
Transaction services provided to the Group	–	74,783	–

Certain expenditure for social welfare and support services (excluding medical and child care expenses) of RMB63,275,000, RMB63,530,000 and RMB66,500,000 for each of the three years ended December 31, 2004, 2003 and 2002, respectively, and for technical support and training of RMB15,130,000 for each of the three years ended December 31, 2004, 2003 and 2002, have been charged by the Parent Company at a negotiated amount per annum, subject to changes every year.

The above transactions were charged either at market prices or based on terms agreed by both parties.

In addition to the above, the Company participates in a multi-employer scheme of the Parent Company in respect of retirement benefits (see notes 8 and 40) and paid RMB574,000,000 to the Parent Company for its acquisition of equity interest in Heze (see note 28(i)).

39. COMMITMENTS

	THE GROUP AND THE COMPANY At December 31, 2004 RMB'000	2003 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– acquisition of property, plant and equipment	12,872	163,342
– acquisition of an equity investment	–	30,137
Capital expenditure authorised but not contracted for in respect of development of new coal mines	2,100,000	–
	2,112,872	193,479

In addition to the above, the Company is required to set aside an amount at RMB8 per tonne of raw coal mined beginning May 1, 2004 for the enhancement of safety production environment and facilities ("Work Safety Cost") pursuant to the regulations of the State Administration of Work Safety. The amount, which has been set aside for such purposes and has not yet been utilized, amounted to RMB5,484,000 as at December 31, 2004.

40. RETIREMENT BENEFITS

Qualifying employees of the Company are entitled to a pension, medical and other welfare benefits. The Company participates in a multi-employer scheme of the Parent Company and pays a monthly contribution to the Parent Company in respect of retirement benefits at an agreed contribution rate based on the monthly basic salaries and wages of the qualified employees. The Parent Company is responsible for the payment of all retirement benefits to the retired employees of the Company.

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

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

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

41. HOUSING SCHEME

The Parent Company is responsible for providing accommodation to its employees and the employees of the Company. The Company and the Parent Company share the incidental expenses relating to the accommodation at a negotiated amount for each of the three years ended December 31, 2004, 2003 and 2002. Such expenses, amounting to RMB37,200,000 for each of the three years ended December 31, 2004, 2003 and 2002, have been included as part of the social welfare and support services expenses summarized in note 38.

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

42. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of bills and accounts receivable, investments in securities, accounts payable and variable debt approximate their fair values because of the short maturity of these amounts or because of the variable rate return of the debt. In addition, the carrying amount of bank borrowings approximate their fair value as the interest rates approximate the market rate.

43. CONCENTRATION OF CREDIT RISK

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

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

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

As the Group does not currently have direct export rights, all of its export sales must be made through National Coal Corporation, Shanxi Coal Corporation or Minmetals Trading. The quality, prices and final customer destination of the Group's export sales are determined by the Group, National Coal Corporation, Shanxi Coal Corporation or Minmetals Trading. The Group intends to apply for direct export rights although there can be no assurance that such rights will be obtained on a timely basis.

43. CONCENTRATION OF CREDIT RISK (Continued)

For the years ended December 31, 2004, 2003 and 2002, net sales to the Group's five largest domestic customers accounted for approximately, 15.3%, 18.5% and 21.2%, respectively, of the Group's total net sales. Net sales to the Group's largest domestic customer accounted for 9.2%, 11.3% and 13.3% of the Group's net sales for the years ended December 31, 2004, 2003 and 2002, respectively. The Group's largest domestic customer was the Huadian Power International Corporation Limited for the year ended December 31, 2004 (2003 and 2002: the Shandong Power and Fuel Company). The Shandong Power and Fuel Company purchases coal on behalf of several power plants in Shangdong Province, the largest of which, the Zouxian Electric Power Plant, alone accounted for 9.6% and 12.6% of the Group's net sales for the years ended December 31, 2003 and 2002, respectively.

Details of the amounts receivable from the five customers with the largest receivable balances at December 31, 2004 and 2003 are as follows:

	Percentage of accounts receivable At December 31,	
	2004	2003
Five largest receivable balances	75%	46%

44. INFORMATION OF THE COMPANY

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

	NOTES	At December 31, 2004 RMB'000	2003 RMB'000
ASSETS			
CURRENT ASSETS			
Bank balances and cash		4,978,640	2,021,667
Restricted cash	16	24,877	17,521
Bills and accounts receivable	17	1,223,188	1,238,689
Inventories	18	474,378	496,630
Other loans receivable	19	850,000	100,000
Amount due from Parent Company and its subsidiaries	38	243,410	–
Prepayments and other current assets	20	188,364	529,380
Prepayment for land subsidence, restoration, rehabilitation and environmental costs	32	103,407	–
Amount due from a subsidiary	26	350	–
TOTAL CURRENT ASSETS		8,086,614	4,403,887
MINING RIGHTS	21	105,983	112,607
LAND USE RIGHTS	22	591,718	604,912
PROPERTY, PLANT AND EQUIPMENT, NET	23	8,330,567	8,603,341
GOODWILL	24	107,346	82,003
NEGATIVE GOODWILL	25	(27,621)	(55,241)
INVESTMENT IN SUBSIDIARIES	26	981,688	14,402
INVESTMENTS IN SECURITIES	27	62,181	1,760
DEPOSITS MADE ON INVESTMENTS	28	574,000	30,138
DEFERRED TAX ASSET	29	–	88,872
TOTAL ASSETS		18,812,476	13,886,681
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	30	478,281	427,771
Other payables and accrued expenses	31	1,246,411	1,183,391
Provision for land subsidence, restoration, rehabilitation and environmental costs	32	–	85,022
Amounts due to subsidiaries	26	571,449	–
Amounts due to Parent Company and its subsidiary companies	38	–	343,469
Unsecured bank borrowing – due within one year	33	200,000	200,000
Taxes payable		528,689	114,282
TOTAL CURRENT LIABILITIES		3,024,830	2,353,935
AMOUNTS DUE TO PARENT COMPANY AND ITS SUBSIDIARY COMPANIES – DUE AFTER ONE YEAR	38	41,057	50,859
UNSECURED BANK BORROWING – DUE AFTER ONE YEAR	33	200,000	400,000
DEFERRED TAX LIABILITY	29	23,104	–
TOTAL LIABILITIES		3,288,991	2,804,794
COMMITMENTS	39		
SHAREHOLDERS' EQUITY	34	15,523,485	11,081,887
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		18,812,476	13,886,681

45. SUMMARY OF DIFFERENCES BETWEEN IFRS AND PRC GAAP

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

(i) adjustment of future development fund (see note 34), which is charged to income before income taxes under PRC GAAP, to shareholders' equity;

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

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

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

(v) Reversal of the Work Safety Cost provided but not yet incurred (see note 39), which is charged as an expense when set aside under PRC GAAP.

45. SUMMARY OF DIFFERENCES BETWEEN IFRS AND PRC GAAP (Continued)

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

	Net income for the year ended December 31,			Net assets as at December 31,	
	2004 RMB'000	2003 RMB'000	2002 RMB'000	2004 RMB'000	2003 RMB'000
As per consolidated financial statements prepared under IFRS	3,154,317	1,386,686	1,221,999	15,523,751	11,083,239
Impact of IFRS adjustments in respect of:					
– transfer to future development fund which is charged to income before income taxes under PRC GAAP	(331,548)	(259,674)	(230,610)	(96,669)	–
– reversal of Work Safety Cost	(204,668)	–	–	(204,668)	–
– deferred tax effect on temporary differences not recognized under PRC GAAP	111,976	(65)	(1,386)	23,104	(88,872)
– release of negative goodwill to income	(27,620)	(27,620)	(27,620)	(110,480)	(82,860)
– deemed interest expenses	4,550	5,261	39,956	109,362	104,812
– others	778	777	777	8,071	7,292
As per consolidated financial statements prepared under PRC GAAP	2,707,785	1,105,365	1,003,116	15,252,471	11,023,611

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

46. SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP

The consolidated financial statements are prepared in accordance with IFRS, which differ in certain significant respects from US GAAP. The significant differences relate principally to the accounting for the acquisitions of Jining II, Jining III and Railway Assets, the cost bases of property, plant and equipment and land use rights and related adjustments to deferred taxation.

Under IFRS, the acquisitions of Jining II, Jining III and the Railway Assets have been accounted for using the purchase method which accounts for the assets and liabilities of Jining II, Jining III and the Railway Assets at their fair value at the date of acquisition. Any excess of the purchase consideration over the fair value of the net assets acquired is capitalized as goodwill and amortized over a period of ten to twenty years. Any excess of the fair value of the net assets acquired over the purchase consideration is recorded as negative goodwill, which is presented as a deduction from the assets of the Group in the consolidated balance sheet. The Group releases the negative goodwill to the statement of income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets.

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

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

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

Under IFRS, the acquisition of Yanmei Shipping has been accounted for using purchase method which accounted for the assets and liabilities of Yanmei Shipping at their fair value at the date of acquisition. The excess of the purchase consideration over the value of the net assets acquired is capitalized and amortized over a period of ten years. Under US GAAP, goodwill is not amortized but instead tested for impairment at least annually.

46. SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP (Continued)

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

	Year ended December 31,		
	2004 RMB'000	2003 RMB'000	2002 RMB'000
Net income as reported under IFRS	3,154,317	1,386,686	1,221,999
US GAAP adjustments:			
Additional depreciation charged on fair valued property, plant and equipment and land use rights	187,418	188,191	188,178
Additional deferred tax charge due to a higher tax base resulting from the difference in cost bases of property, plant and equipment and land use rights and capitalization of mining rights	(64,034)	(64,289)	(64,284)
Amortization of negative goodwill on acquisition of Jining III	(27,620)	(27,620)	(27,620)
Amortization of mining rights of Jining III	6,624	6,624	6,624
Amortization of goodwill arising on acquisition of Jining II	777	777	777
Amortization of goodwill arising on acquisition of the Railway Assets	13,880	8,880	–
Amortization of goodwill arising on acquisition of Yanmei Shipping	1,116	–	–
Net income under US GAAP	3,272,478	1,499,249	1,325,674
Earnings per share under US GAAP	RMB1.10	RMB0.52	RMB0.46
Earnings per ADS under US GAAP	RMB55.19	RMB26.12	RMB23.10

46. SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP (Continued)

	At December 31, 2004 RMB'000	2003 RMB'000
Shareholders' equity as reported under IFRS	15,523,751	11,083,239
US GAAP adjustments:		
Difference in cost bases of property, plant and equipment and land use rights	(2,561,032)	(2,561,032)
Additional depreciation charged on fair valued property, plant and equipment and land use rights	1,312,938	1,125,520
Additional deferred tax asset due to a higher tax base resulting from the difference in cost bases of property, plant and equipment and land use rights	411,871	473,719
Goodwill arising on acquisition of Jining II	(10,106)	(10,883)
Negative goodwill arising on acquisition of Jining III, net	27,621	55,241
Mining rights of Jining III	(105,983)	(112,607)
Additional deferred tax asset due to a higher tax base resulting from capitalization of mining rights	34,974	37,160
Goodwill arising on acquisition of Railway Assets	(97,240)	(71,120)
Amortization of goodwill on acquisition of Yanmei Shipping	1,116	–
Shareholders' equity under US GAAP	14,537,910	10,019,237

Under US GAAP, the Group's total assets would have been RMB17,327,752,000 and RMB12,845,802,000 at December 31, 2004 and 2003, respectively.

Details of effect of recent accounting pronouncements in the US GAAP are as follows:

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements" and provides guidance on the identification of entities for which control is achieved through means other than voting rights ("variable interest entities" or "VIEs") and how to determine when and which business enterprise should consolidate the VIEs. This new model for consolidation applies to an entity in which either: (1) the equity investors (if any) lack one or more characteristics deemed essential to a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. FIN 46 was applicable for periods ending December 15, 2003. In December 2004 the FASB issued FIN 46R which defers the implementation date to the end of the first reporting period after March 15, 2003 unless the Company has a special purpose entity in which case the provisions must be applied for fiscal years ending December 31, 2003. The Company does not have a special purpose entity and therefore the adoption of FIN 46 did not have a material impact on the Group's financial statements.

46. SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP (Continued)

In March 2004, the Emerging Issue Task Force ("EITF") reached a consensus in EITF 03-1 "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments". The consensus was that certain quantitative and qualitative disclosures should be required for debt and marketable equity securities classified as available-for-sale or held-to-maturity under SFAS Nos. 115 and 124, that are impaired at the balance sheet date but for which an other-than-temporary impairment has not been recognized. This EITF consensus is effective for fiscal years ending after June 15, 2004. Adoption of the EITF consensus did not result in an impact on the Group's financial position, results of operations or cash flows.

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德勤

YANZHOU COAL MINING COMPANY LIMITED
REPORT OF THE AUDITORS FOR THE YEAR ENDED DECEMBER 31, 2004
De Shi Bao(Shen)Zi(05) No. P0865 [Translation]

TO THE SHAREHOLDERS OF YANZHOU COAL MINING COMPANY LIMITED

We have audited the accompanying balance sheets of the Company and the Group as of December 31, 2004 and the related statements of income and cash flows of the Company and the Group for the year then ended. The preparation of these financial statements is the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We planned and performed our audit in accordance with China's Independent Auditing Standards to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant accounting estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements on pages 104 to 149 present fairly, in all material respects, the financial position of the Company and the Group as of December 31, 2004 and the results of their operations and cash flows for the year then ended in accordance with the requirements of the Accounting Standards for Business Enterprises and the "Accounting System for Business Enterprises" promulgated by the State.

Deloitte Touche Tohmatsu CPA Ltd.
Shanghai, China

Chinese Certified Public Accountants
Zeng Shun Fu   Zhou Kan Ying
April 25, 2005

BALANCE SHEET (Under PRC GAAP)

At December 31, 2004

	NOTES	The Group December 31, 2004 RMB	The Group December 31, 2003 RMB	The Company December 31, 2004 RMB	The Company December 31, 2003 RMB
ASSETS					
CURRENT ASSETS:					
Bank balances and cash	5	5,278,468,720	2,041,293,313	5,003,516,578	2,039,188,498
Current investments	6	850,000,000	100,000,000	850,000,000	100,000,000
Notes receivable	7	898,465,509	700,388,322	897,865,509	699,788,322
Dividends receivable		–	–	350,456	–
Accounts receivable	8	340,848,078	592,472,845	340,848,078	592,338,155
Other receivables	9	432,247,118	110,087,471	401,278,358	104,440,688
Prepayments	11	60,049,058	73,985,140	66,218,808	72,892,465
Subsidies receivable		–	275,624,031	–	275,624,031
Inventories	12	485,428,372	502,028,543	474,377,994	496,630,233
Deferred expenses	13	56,644,671	94,646,431	55,863,146	94,646,431
TOTAL CURRENT ASSETS		8,402,151,526	4,490,526,096	8,090,318,927	4,475,548,823
LONG-TERM EQUITY INVESTMENTS	14/48(1)	646,226,054	43,059,196	1,618,135,335	47,651,692
FIXED ASSETS:					
Fixed assets – cost	15	15,024,982,743	14,899,151,764	14,813,883,039	14,879,833,312
Less: Accumulated depreciation	15	6,773,521,923	6,368,525,737	6,766,087,913	6,362,240,000
Fixed assets – net book value	15	8,251,460,820	8,530,626,027	8,047,795,126	8,517,593,312
Materials held for construction of fixed assets	16	1,993,287	1,721,281	1,993,287	1,721,281
Fixed assets under construction	17	84,512,193	84,026,862	81,594,857	84,026,862
TOTAL FIXED ASSETS		8,337,966,300	8,616,374,170	8,131,383,270	8,603,341,455
INTANGIBLE ASSETS	18	827,575,090	788,638,696	794,940,709	788,638,696
TOTAL ASSETS		18,213,918,970	13,938,598,158	18,634,778,241	13,915,180,666

The accompanying notes are part of the financial statements.

	NOTES	The Group December 31, 2004 RMB	The Group December 31, 2003 RMB	The Company December 31, 2004 RMB	The Company December 31, 2003 RMB
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Accounts payable	19	515,892,192	454,719,215	515,892,192	454,882,230
Advances from customers	20	458,038,528	664,829,863	458,022,488	664,132,172
Salaries and wages payable		80,241,534	70,633,118	80,223,075	70,633,118
Taxes payable	21	784,731,685	326,377,720	784,396,963	325,566,923
Other payables	22	616,637,336	616,930,523	1,065,538,997	598,597,605
Provisions	23	(103,406,734)	85,022,022	(103,406,734)	85,022,022
Long-term payable due within one year	24/25	218,732,157	213,247,800	218,732,157	213,247,800
TOTAL CURRENT LIABILITIES		2,570,866,698	2,431,760,261	3,019,399,138	2,412,081,870
LONG-TERM LIABILITIES:					
Long-term loan	24	200,000,000	400,000,000	200,000,000	400,000,000
Long-term payable	25	162,908,540	79,487,360	162,908,540	79,487,360
TOTAL LONG-TERM LIABILITIES		362,908,540	479,487,360	362,908,540	479,487,360
TOTAL LIABILITIES		2,933,775,238	2,911,247,621	3,382,307,678	2,891,569,230
MINORITY INTERESTS		27,673,169	3,739,101	–	–
SHAREHOLDERS' EQUITY:					
Share capital	26	3,074,000,000	2,870,000,000	3,074,000,000	2,870,000,000
Capital reserves	27	6,501,949,387	4,714,195,106	6,501,949,387	4,714,195,106
Surplus reserves	28	1,154,468,484	748,235,658	1,154,151,900	747,984,174
Including: Statutory common welfare fund		384,875,592	249,453,800	384,717,300	249,328,058
Cash dividend proposed after the balance sheet date	29	799,240,000	470,680,000	799,240,000	470,680,000
Unappropriated profits	30	3,722,812,692	2,220,500,672	3,723,129,276	2,220,752,156
TOTAL SHAREHOLDERS' EQUITY		15,252,470,563	11,023,611,436	15,252,470,563	11,023,611,436
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		18,213,918,970	13,938,598,158	18,634,778,241	13,915,180,666

The accompanying notes are part of the financial statements.

The financial statements on pages 104 to 149 were signed by the following:

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

STATEMENT OF INCOME AND PROFITS APPROPRIATIONS (Under PRC GAAP)

For the year ended December 31, 2004

		The Group		The Company	
		2004	2003	2004	2003
	NOTES	RMB	RMB	RMB	RMB
Revenue from principal operations	31	12,209,163,529	8,665,232,204	12,209,163,529	8,665,232,204
Less: Cost of principal operations	32	5,086,472,309	4,014,696,200	5,087,919,186	4,014,947,339
Sales taxes and surcharges	33	231,340,630	124,018,200	231,340,630	124,018,200
Profit from principal operations		6,891,350,590	4,526,517,804	6,889,903,713	4,526,266,665
Add: Profits from other operations	34	39,031,783	43,020,336	37,812,551	39,238,342
Less: Operating expenses	35	1,473,128,158	1,659,074,791	1,477,900,400	1,658,240,768
General and administrative expenses		1,298,030,947	1,188,613,205	1,291,676,868	1,187,450,984
Financial expenses	36	(44,159,594)	41,370,419	(43,365,374)	41,388,488
Operating profit		4,203,382,862	1,680,479,725	4,201,504,370	1,678,424,767
Add: Investment income	37/48(2)	25,174,956	10,416,971	25,556,243	10,991,229
Subsidy income	38	–	8,194,472	–	8,194,472
Non-operating income	39	11,936,922	17,341,590	11,605,824	17,208,821
Less: Non-operating expenses	40	125,671,496	22,770,468	125,622,993	22,570,524
Total profit		4,114,823,244	1,693,662,290	4,113,043,444	1,692,248,765
Less: Income taxes	41	1,406,785,722	587,775,571	1,405,258,598	586,884,118
Minority interest		252,676	522,072	–	–
Net profit		2,707,784,846	1,105,364,647	2,707,784,846	1,105,364,647
Add: Unappropriated profits at the beginning of the year	30	2,220,500,672	1,751,708,336	2,220,752,156	1,751,872,206
Profits available for appropriation		4,928,285,518	2,857,072,983	4,928,537,002	2,857,236,853
Less: Appropriations to statutory common reserve fund	30	270,811,034	110,580,272	270,778,484	110,536,465
Appropriations to statutory common welfare fund	30	135,421,792	55,312,039	135,389,242	55,268,232
Profits available for appropriation to shareholders		4,522,052,692	2,691,180,672	4,522,369,276	2,691,432,156
Less: Cash dividend proposed after the balance sheet date	29	799,240,000	470,680,000	799,240,000	470,680,000
Unappropriated profits at the end of the year		3,722,812,692	2,220,500,672	3,723,129,276	2,220,752,156

The accompanying notes are part of the financial statements.

	NOTES	The Group 2004 RMB	The Group 2003 RMB	The Company 2004 RMB	The Company 2003 RMB
CASH FLOW FROM OPERATING ACTIVITIES:					
Cash received from sales of goods or rendering of services		13,189,914,376	9,384,648,816	13,188,950,880	9,364,599,916
Taxes refunded		275,624,031	66,971,847	275,624,031	66,971,847
Other cash received relating to operating activities	42	814,026,402	891,392,452	817,320,029	887,375,392
Sub-total of cash inflows		14,279,564,809	10,343,013,115	14,281,894,940	10,318,947,155
Cash paid for goods and services		3,039,788,508	2,502,187,312	3,054,325,824	2,484,814,422
Cash paid to and on behalf of employees		1,702,043,503	1,505,769,853	1,700,453,371	1,505,483,554
Taxes and surcharges paid		2,030,649,428	923,678,945	2,029,066,507	921,249,924
Other cash paid relating to operating activities	43	3,080,837,523	2,663,316,624	3,088,729,670	2,661,116,906
Sub-total of cash outflows		9,853,318,962	7,594,952,734	9,872,575,372	7,572,664,806
NET CASH FLOW FROM OPERATING ACTIVITIES		4,426,245,847	2,748,060,381	4,409,319,568	2,746,282,349
CASH FLOW FROM INVESTING ACTIVITIES:					
Cash received from the returns of investments		600,000,000	88,702,100	600,000,000	88,702,100
Net cash received from return on investment		26,291,107	10,416,971	26,291,107	12,358,990
Cash received from disposal of fixed assets and other long-term assets		17,008,924	34,398,163	16,967,165	34,398,163
Decrease in restricted cash		–	34,239,354	–	34,239,354
Sub-total of cash inflows		643,300,031	167,756,588	643,258,272	169,698,607
Cash paid to acquire fixed assets and other long-term assets		783,022,445	1,357,857,178	779,522,963	1,357,849,378
Cash paid for investments		1,954,283,009	100,000,000	2,350,282,380	100,000,000
Net cash paid for acquisition of a subsidiary		–	11,185,513	–	11,691,884
Cash paid for acquisition of Southland Assets	44	136,301,992	–	–	–
Increase in restricted cash		44,209,988	–	7,355,552	–
Sub-total of cash outflows		2,917,817,434	1,469,042,691	3,137,160,895	1,469,541,262
NET CASH FLOW USED IN INVESTING ACTIVITIES		(2,274,517,403)	(1,301,286,103)	(2,493,902,623)	(1,299,842,655)

	NOTES	The Group 2004 RMB	The Group 2003 RMB	The Company 2004 RMB	The Company 2003 RMB
CASH FLOW FROM FINANCING ACTIVITIES:					
Cash received from issue of share capital		1,756,875,383	–	1,756,875,383	–
Sub-total of cash inflows		1,756,875,383	–	1,756,875,383	–
Repayments of borrowings		200,000,000	600,000,000	200,000,000	600,000,000
Cash paid for acquisition of Jining III		13,247,800	13,247,800	13,247,800	13,247,800
Dividends paid		470,680,000	298,480,000	470,680,000	298,480,000
Dividends paid to minority shareholder of a subsidiary		318,608	1,765,539	–	–
Cash paid for interest expenses		31,392,000	53,682,000	31,392,000	53,682,000
Sub-total of cash outflows		715,638,408	967,175,339	715,319,800	965,409,800
NET CASH FLOW FROM (USED IN) FINANCING ACTIVITIES		1,041,236,975	(967,175,339)	1,041,555,583	(965,409,800)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH		–	–	–	–
NET INCREASE IN CASH AND CASH EQUIVALENTS		3,192,965,419	479,598,939	2,956,972,528	481,029,894

		The Group		The Company	
	NOTES	2004 RMB	2003 RMB	2004 RMB	2003 RMB
SUPPLEMENTAL INFORMATION:					
RECONCILIATION OF NET PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES:					
Net profit		2,707,784,846	1,105,364,647	2,707,784,846	1,105,364,647
Add: Minority interest		252,676	522,072	–	–
Impairment losses on assets		49,104,445	80,271,568	49,104,445	80,271,568
Depreciation of fixed assets		979,265,775	933,708,954	977,965,985	933,584,803
Provision for Wei Jian Fei		234,878,898	259,673,766	234,878,898	259,673,766
Provision for Work Safety Expense		204,668,160	–	204,668,160	–
Provision for Reform and Specific Development Fund		96,668,980	–	96,668,980	–
Amortization of intangible assets and other assets		33,697,987	28,797,933	33,697,987	28,797,933
Losses (gains) on disposal of fixed assets and other long-term assets		104,597,336	(6,871,511)	104,585,195	(6,871,511)
Decrease in deferred expenses		38,001,760	15,914,457	38,783,285	15,914,457
Financial expenses		31,392,000	53,682,000	31,392,000	53,682,000
Gain arising from investments		(25,174,956)	(10,416,971)	(25,556,243)	(10,991,229)
Decrease in inventories		16,600,171	75,804,726	22,252,239	72,866,711
Increase in receivables under operating activities		(3,029,399)	(292,674,819)	(9,104,537)	(304,976,022)
Increase (Decrease) in payables under operating activities		(42,462,832)	504,283,559	(57,801,672)	518,965,226
NET CASH FLOW FROM OPERATING ACTIVITIES		4,426,245,847	2,748,060,381	4,409,319,568	2,746,282,349
NET INCREASE IN CASH AND CASH EQUIVALENTS:					
Cash at the end of the year	45/48 (3)	5,216,737,490	2,023,772,071	4,978,639,784	2,021,667,256
Less: Cash at the beginning of the year		2,023,772,071	1,544,173,132	2,021,667,256	1,540,637,362
NET INCREASE IN CASH AND CASH EQUIVALENTS		3,192,965,419	479,598,939	2,956,972,528	481,029,894

The accompanying notes are part of the financial statements.

1. GENERAL

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

In July 2004, the company placed an aggregate of 204,000,000 H shares to independent investors. Each share has a par value of RMB1. After the new issue of shares, the company has 3,074,000,000 shares in issue, including RMB1,670,000,000 state legal person shares (representing 54.33% of the total share capital); RMB1,224,000,000 H Shares and American Depository Shares listed on overseas stock exchanges (representing 39.82% of the total share capital); and RMB180,000,000 A Shares (representing 5.85% of the total share capital) listed on domestic stock exchange. Details of the Company's share capital are set out in note 26 to the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Accounting system and accounting standards adopted

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

Basis of accounting and principle of measurement

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

Accounting year

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

Reporting currency

The recording currency of the Company is Renminbi.

Foreign currency translation

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Cash equivalents

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

Accounting for bad debts

1) Criteria for recognition of bad debts

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

2) Accounting treatment for bad debt losses

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

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

Inventories

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

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

Provision for decline in value of inventories

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Current investments

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

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

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

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

Designated deposit

Designated deposit represents an instructed deposit with an authorized lending institution which lends the deposit to a third party and is accounted for at the actual amount lent out. Interest income from such loans is accrued at the interest rate specified in the loan agreement and recognized in the income statement on a time basis. Accruing interest is stopped if that interest cannot be collected on due dates, and any interest that has previously been accrued is reversed. Designated deposit is carried at the lower of cost and recoverable amount at the end of each period. Where the recoverable amount is lower than the principal amount of a designated deposit, the difference is recognized as a provision for impairment loss.

Recoverable amount

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

Long-term investments

(1) Accounting treatment for long-term investments

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Long-term investments (Continued)

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

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

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

(2) Impairment of long-term investments

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

Fixed assets and depreciation

Fixed assets are tangible assets that (a) are held for use in the production of goods or supply of services, for rental to others, or for administrative purposes; (b) have useful life more than one year; and (c) have relatively high unit price.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Fixed assets and depreciation (Continued)

Fixed assets are stated at cost or valuation upon the restructuring. Except for the permanently owned lands for which no depreciation is provided, and mining structures, which are depreciated using the estimated production volume method, depreciation is provided over their estimated useful lives from the month after they have reached the working condition for their intended use using the straight-line method with estimated residual value of 3% on cost. The useful life and annual depreciation rate of each category of fixed assets are as follows:

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

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

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

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

Impairment of fixed assets

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

Fixed assets under construction

Fixed assets under construction are recorded at the actual cost incurred for the construction.

Cost includes all expenditures incurred for construction projects, capitalized borrowing costs incurred on a specific borrowing for the construction of fixed assets incurred before it has reached the working condition for its intended use, and other related expenses. A fixed asset under construction is transferred to fixed assets when it has reached the working condition for its intended use. No depreciation is provided for fixed assets under construction.

Where the work on a fixed asset under construction has been suspended for a long period of time and is not expected to re-commence within three years; or it is technically and physically obsolete and its economic benefits to the Company is uncertain; or there is other evidence indicating a decline in value on the fixed asset under construction, an impairment loss is recognized for the shortfall of the recoverable amount of the fixed asset under construction below its carrying amount.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Intangible assets

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

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

Mining rights are evenly amortized over the useful life of 20 years since the mining rights are obtained. The useful life is estimated based on the total proven and probable reserves of the coal mine.

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

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

Impairment loss on intangible assets

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

Provisions

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

(1) the obligation is a present obligation of the Company; and

(2) it is probable that an outflow of economic benefits from the Company will be required to settle the obligation; and

(3) a reliable estimate can be made of the amount of the obligation.

Borrowing costs

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Wei Jian Fei

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

Work Safety Expense

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

Revenue recognition

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

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

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

Subsidy income

Subsidy income is recognized when grants are actually received.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Income taxes

Income taxes is provided under the tax payable method.

The income tax provision is calculated based on the accounting profit for the period as adjusted in accordance with the relevant tax laws.

Basis of consolidation

(1) Principle for consolidation scope recognition

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

(2) Accounting for consolidation

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

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

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

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

(3) Translation of Foreign Currency Financial Statements

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

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

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

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

3. TAXES

Value added tax

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

The calculation method of "Payment first and refund afterwards" was adopted for calculating of the VAT refund on coal products export before January 1, 2002. From January 1, 2002 onwards, the calculation method has been changed to "Exemption, counteract and refund" in accordance with Caishui [2002] No.7. Pursuant to the "Notice of the adjustment of export refund rate" (Caishui [2003] No.222), which was jointly issued by the Ministry of Finance and the State Administration, all the tax refund rate of coal exported by the Company was reduced from 13% to 11% from January 1,2004.

Business tax

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

Resource tax

Pursuant to the "Notice of the adjustment of resource tax amount applied by some enterprises in ZaoZhuang of ShanDong province" (Caishui [2004] No.117), which was jointly issued by the Ministry of Finance and the State Administration, resource tax is calculated and paid at the amount of RMB2.40 per tone of raw coal sold and consumed in clean coal production from 1 January, 2004.

City construction tax & education fee

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

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

Income tax

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

4. SCOPE OF CONSOLIDATION AND DETAILS OF SUBSIDIARIES

The Company owns the following subsidiaries:

Name of subsidiaries	Registered capital/ Paid-in capital	Amount invested by the Company percentage of equity interest		Amount invested by subsidiary percentage of equity interest		Consolidated or not
Qingdao Free Trade Zone Zhongyan Trade Co., Ltd. ("Zhongyan Trade")	RMB 2,100,000	RMB 2,710,000	52.38%	–		Yes
Shangdong Yanmei Shipping Co., Ltd. ("Yanmei Shipping")	RMB 5,500,000	RMB 11,690,000	92%	–		Yes
Yanzhou Coal Yulin Power Chemical Co., Ltd ("Yulin Power")	RMB 800,000,000	RMB 776,000,000	97%	–		Yes
Yancoal Australia Pty Limited Zhongyan Trade Co., Ltd. ("Yanmei Australia")	AUD 30,000,000	AUD 30,000,000	100%	–		Yes
Austar Coal Mine Pty Limited. ("Austar Coal Mine")	–	–	–	AUD 30,000,000	100%	Yes

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

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

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

Nature of business of Yanmei Australia: investment holding company.

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

In 2004, the Company established Yanzhou Coal Yulin Power Chemical Co. Ltd, with Shandong Investment & Development Co., Ltd. and Hualu Engineering & Technology Co., Ltd.. The registered capital of Yulin Power is RMB800,000,000 and the Company invested RMB776,000,000 and holds 97% equity interest. The principal activity of Yulin Power is development of methanol and acetic acid construction for 600,000 ton methanol, 200,000 ton acetic acid and coal mine, electric project.

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

In 2004, the Company established Yancoal Australia Pty Limited with paid-in capital of AUD30,000,000. The Company holds 100% equity interest in Yanmei Australia. The principal activity of Yanmei Australia is managing all the investment projects in Australia.

In 2004, Yanmei Australia established Austar Coal Mine Pty Limited. Yanmei Australia holds 100% equity interest with paid-in capital of AUD30,000,000. The principal activity of Austar Coal Mine is coal mining and sales of coal.

All the notes to the financial statement are applicable to consolidated financial statement, except for note 48 which is only applicable to the Company.

5. BANK BALANCES AND CASH

	December 31, 2004			December 31, 2003		
	Foreign currency	Exchange rate	RMB equivalent	Foreign currency	Exchange rate	RMB equivalent
Cash on hand						
RMB	–	–	704,897	–	–	406,196
AUD	19,000	6.3762	121,148	–	–	–
Cash in bank						
RMB	–	–	2,249,701,801	–	–	1,253,549,388
USD	144,320,499	8.2765	1,194,468,610	87,703,457	8.2767	725,895,203
EUR	78,186	11.2627	880,585	78,107	10.3383	807,494
AUD	8,605,137	6.3762	54,868,075	–	–	–
HKD	1,671,032,794	1.0637	1,777,477,583	56,663,540	1.0657	60,386,335
Other monetary assets						
RMB	–	–	246,021	–	–	248,697
			5,278,468,720			2,041,293,313

6. CURRENT INVESTMENTS

	December 31, 2004			December 31, 2003		
	Cost RMB	Provision RMB	Net book value RMB	Cost RMB	Provision RMB	Net book value RMB
DESIGNATED DEPOSITS						
Shandong Xinjia Industry Co., Ltd (Note 1)	640,000,000	–	640,000,000	–	–	–
Shandong Xianglong Industry Co., Ltd (Note 2)	160,000,000	–	160,000,000	–	–	–
Shandong Cement Plant Co., Ltd (Note 3)	50,000,000	–	50,000,000	–	–	–
Shandong Chuangye Investment Co., Ltd	–	–	–	100,000,000	–	100,000,000
	850,000,000	–	850,000,000	100,000,000	–	100,000,000

Note 1: The designated deposit represents an instructed deposit of RMB640,000,000 with Bank of China Jining Branch to Shandong Xinjia Industry Co., Ltd. at interest rate of 7% per annum for one month period from December 20, 2004. Related obligations are secured by Lianda Group Co., Ltd ("Lianda Group") with its 170 million state legal person shares of Huaxia bank and its 66.7% of interest in Xi'an international golf club Co., Ltd.. Details of the subsequent claims of the designated deposit are set out in note 50.

Note 2: The designated deposit represents an instructed deposit of RMB160,000,000 with Industrial and Commercial Bank of China Linyi Branch to Shandong Xianglong Industry Co., Ltd. at interest rate of 5.31% per annum for a twelve month period. Related obligations are guaranteeds by Shandong Three Dimensional Grease Group Co., Ltd..

Note 3: The designated deposit represents an instructed deposit of RMB50,000,000 with Xinye Bank Jinan Branch to Shandong Cement Plant Co., Ltd. at interest rate of 5.04% per annum for a twelve month period. Related obligations are guaranteed by Xingye Bank Jinan Branch.

7. NOTES RECEIVABLE

	December 31, 2004 RMB	December 31, 2003 RMB
Bank acceptance bills	838,465,509	700,388,322
Commercial acceptance bills	60,000,000	–
	898,465,509	700,388,322

See note 47 for notes receivable due from shareholders of the Company holding more than 5% of the total shares of the Company.

8. ACCOUNTS RECEIVABLE

The aging analysis of accounts receivable is as follows:

Aging	December 31, 2004				December 31, 2003			
	Amount RMB	%	Bad debt provision RMB	Net book value RMB	Amount RMB	%	Bad debt provision RMB	Net book value RMB
Within 1 year	353,366,220	75	14,470,095	338,896,125	491,927,103	71	19,334,770	472,592,333
1 to 2 years	2,788,505	1	836,552	1,951,953	114,886,911	17	34,466,073	80,420,838
2 to 3 years	31,127,732	7	31,127,732	–	78,919,348	11	39,459,674	39,459,674
Over 3 years	80,265,930	17	80,265,930	–	7,366,106	1	7,366,106	–
Total	467,548,387	100	126,700,309	340,848,078	693,099,468	100	100,626,623	592,472,845

Balance of the 5 largest debtors is as follows:

Total amount of the 5 largest debtors RMB	Percentage in accounts receivable balance
344,298,420	74%

See note 47 for accounts receivable due from shareholders of the Company holding more than 5% of the total shares of the Company.

9. OTHER RECEIVABLES

Aging analysis of other receivables is as follows:

Aging	December 31, 2004				December 31, 2003			
	Amount RMB	%	Bad debt provision RMB	Net book value RMB	Amount RMB	%	Bad debt provision RMB	Net book value RMB
Within 1 year	437,979,999	93	14,942,023	423,037,976	71,508,302	58	2,336,498	69,171,804
1 to 2 years	11,879,935	3	3,432,184	8,447,751	26,979,729	22	2,786,432	24,193,297
2 to 3 years	9,547,752	2	9,159,871	387,881	14,376,386	12	4,162,587	10,213,799
Over 3 years	8,555,708	2	8,182,198	373,510	9,908,571	8	3,400,000	6,508,571
Total	467,963,394	100	35,716,276	432,247,118	122,772,988	100	12,685,517	110,087,471

9. OTHER RECEIVABLES (Continued)

Balance of the 5 largest debtors is as follows:

Total amount of the 5 largest debtors RMB	Percentage in accounts receivable balance
364,137,243	78%

See note 47 for other receivables due from shareholders of the Company holding more than 5% of the total shares of the Company.

10. PROVISION FOR BAD DEBTS

	January 1, 2004 RMB	Addition RMB	Reversal RMB	Other transfer out RMB	December 31, 2004 RMB
Bad debt provision:					
Accounts receivable	100,626,623	26,073,686	–	–	126,700,309
Other receivables	12,685,517	23,030,759	–	–	35,716,276
Total	113,312,140	49,104,445	–	–	162,416,585

11. PREPAYMENTS

The aging analysis of prepayments is as follows:

Aging	December 31, 2004 RMB	%	December 31, 2003 RMB	%
Within 1 year	48,658,293	81	53,175,910	72
1 to 2 years	10,191,741	17	18,904,541	26
2 to 3 years	1,199,024	2	1,904,689	2
Total	60,049,058	100	73,985,140	100

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

11. PREPAYMENTS (Continued)

Balances of the 5 largest debtors are as follows:

Total amount of the 5 largest debtors RMB	Percentage in prepayments balance
37,382,708	62%

See note 47 for prepayments to shareholders of the Company holding more than 5% of the total shares of the Company.

12. INVENTORIES

	December 31, 2004			December 31, 2003		
	Amount RMB	Provision RMB	Net book value RMB	Amount RMB	Provision RMB	Net book value RMB
Raw materials	226,270,860	–	226,270,860	204,466,522	–	204,466,522
Finished goods	259,157,512	–	259,157,512	297,562,021	–	297,562,021
	485,428,372	–	485,428,372	502,028,543	–	502,028,543

13. DEFERRED EXPENSES

	December 31, 2004 RMB	December 31, 2003 RMB
Harbour transportation fee	56,644,671	94,646,431

14. LONG-TERM EQUITY INVESTMENTS

		December 31, 2004 RMB	December 31, 2003 RMB
Other equity investments	(1)	62,180,693	31,897,684
Discrepancy on consolidation	(2)	10,045,361	11,161,512
Prepayment for an investment	(3)	574,000,000	–
Total		646,226,054	43,059,196
Less: Impairment loss on long-term equity investments		–	–
Long-term equity investments – net		646,226,054	43,059,196

(1) Other equity investments

Name of investees	Share in the registered capital of the investee (%)	December 31, 2004 RMB	December 31, 2003 RMB
Jiangsu Lianyungang Port Co., Ltd.	1%	1,760,419	1,760,419
Shenergy Company Limited (Note)	0.83%	60,420,274	30,137,265
		62,180,693	31,897,684

Note: The Company acquired 14,882,600 state legal person shares of Shenergy Company Limited at RMB4.05 per share with the total consideration of RMB60,274,530. In year 2002, the Company paid RMB30,137,265 in advance, which represented 50% of the total consideration. In 2004, the Company has completed the procedure of equity transfer and settled the remaining amount and the relevant commission charge. At December 31, 2004, the Company holds the legal shares representing 0.83% of the total share capital of Shenergy Company Limited.

(2) Discrepancy on consolidation

Name of investee	Original amount	Amortization period	Amortization for the year	At December 31, 2004	Arising from
Yanmei Shipping	11,161,512	10 years	1,116,151	10,045,361	Acquisition of subsidiary

(3) Prepayment for an investment

According to the equity transfer agreement between the Company and Yankuang Group, the Company would pay RMB574,000,000 for 95.67% equity interest in Yankuang Heze Power Chemical Co., Ltd.. As at December 31, 2004, the amount has been fully paid. But the equity transfer has not been completed as at the year end, as the approvals from the State-owned Assets Supervision and Administration Commission of Shandong Province and the shareholders' meeting of the Company have not yet been obtained.

15. FIXED ASSETS AND ACCUMULATED DEPRECIATION

	Lands (Note 1) RMB	Buildings RMB	Mining structure RMB	Railway structure RMB	Harbor works and craft RMB	Plant, machinery and equipment RMB	Transportation equipment RMB	Total RMB
COST								
At January 1, 2004	–	2,082,464,801	3,908,554,834	870,381,181	250,230,769	7,461,700,147	325,820,032	14,899,151,764
Additions	36,374,971	3,419,735	–	–	–	170,400,698	5,922,746	216,118,150
Transfer from fixed assets under construction	–	76,541,020	–	7,189,611	–	690,072,033	30,969,817	804,772,481
Disposals	–	–	–	–	–	(862,056,543)	(33,003,109)	(895,059,652)
At December 31, 2004	36,374,971	2,162,425,556	3,908,554,834	877,570,792	250,230,769	7,460,116,335	329,709,486	15,024,982,743
ACCUMULATED DEPRECIATION								
At January 1, 2004	–	827,379,904	1,412,513,207	256,799,917	–	3,692,845,454	178,987,255	6,368,525,737
Provided for the year	–	97,878,380	97,866,208	54,498,058	6,068,096	693,886,489	29,068,544	979,265,775
2004 transfer in (Note 2)	–	–	–	–	–	199,183,803	–	199,183,803
Eliminated on disposals	–	–	–	–	–	(748,503,084)	(24,950,308)	(773,453,392)
At December 31, 2004	–	925,258,284	1,510,379,415	311,297,975	6,068,096	3,837,412,662	183,105,491	6,773,521,923
NET BOOK VALUE								
At January 1, 2004	–	1,255,084,897	2,496,041,627	613,581,264	250,230,769	3,768,854,693	146,832,777	8,530,626,027
At December 31, 2004	36,374,971	1,237,167,272	2,398,175,419	566,272,817	244,162,673	3,622,703,673	146,603,995	8,251,460,820
Include:								
Fully depreciated F.A Cost (Note 3)	–	62,385,481	–	2,628,634	–	1,291,596,330	71,724,088	1,428,334,533

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

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

Note 3: No fixed assets are pledged and leased out at December 31, 2004. The fully depreciated fixed assets include those fixed assets acquired for work-safety purpose by using the Work Safety Expense provided. Such fixed assets should be fully depreciated at the date of acquisition according to the relevant regulation from Ministry of Finance. Details are set out in Note 2.

16. MATERIALS HELD FOR CONSTRUCTION OF FIXED ASSETS

Category	December 31, 2004 RMB	December 31, 2003 RMB
Materials held for construction	1,993,287	1,721,281

17. FIXED ASSETS UNDER CONSTRUCTION

Category	At January 1, 2004 RMB	Additions RMB	Transfers upon completion RMB	At December 31, 2004 RMB	Budget RMB	Proportion to budget %	Source of funds
Equipment to be installed	59,881,127	688,163,025	(692,908,897)	55,135,255	95,889,144	57.50	internally generated fund
Buildings under construction	6,922,926	94,156,020	(88,766,621)	12,312,325	14,427,253	85.34	internally generated fund
Others	17,222,809	22,938,767	(23,096,963)	17,064,613	22,983,636	74.25	internally generated fund
Total	84,026,862	805,257,812	(804,772,481)	84,512,193	133,300,033		

No interest was capitalized for the year.

18. INTANGIBLE ASSETS

Category	Original amount RMB	At January 1, 2004 RMB	Addition RMB	Amortization for the year RMB	Accumulated amortization RMB	At December 31, 2004 RMB	Remaining amortization period
Land use rights	310,242,143	272,315,194	–	(6,227,897)	(44,154,846)	266,087,297	42 years and 11 months
Land use rights of Jining III	88,928,996	83,593,256	–	(1,778,580)	(7,114,320)	81,814,676	46 years
Mining rights of Jining III	132,478,800	112,606,886	–	(6,623,940)	(26,495,854)	105,982,946	16 years
Land use rights of Railway Assets	259,378,500	249,003,360	–	(5,187,570)	(15,562,710)	243,815,790	47 years
Goodwill	120,000,000	71,120,000	40,000,000	(13,880,000)	(22,760,000)	97,240,000	7 years
Exploration of Nantian	32,634,381	–	32,634,381	–	–	32,634,381	20 years
	943,662,820	788,638,696	72,634,381	(33,697,987)	(116,087,730)	827,575,090	

The original land use rights are injected by Yankuang Group. The land use rights of Jining III and Railway Assets and mining rights of Jining III were acquired from Yankuang Group at revaluated amount. At December 31, 2004, the registration process in respect of the land use rights of Railway Assets has not yet been completed.

18. INTANGIBLE ASSETS (Continued)

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

Goodwill represents the excess of the purchase consideration of Railway Assets over the net assets of Railway Assets at the date of acquisition. According to the "Railway Assets Acquisition Agreement", when the Railway Assets' actual transportation volume reached 25,000,000 tonnes for the year 2002, the Company should pay an extra RMB40,000,000. According to the above agreement, when the Railway Assets' actual transportation volume reaches 28,000,000 tonnes for the year 2003, the Company should pay an extra RMB40,000,000. According to the above agreement, when the Railway Assets' actual transportation volume reaches 30,000,000 tonnes for the year 2004, the Company should pay an extra RMB40,000,000, details of which are set out in note 47(4)(b).

19. ACCOUNTS PAYABLE

See note 47 for accounts payable due to shareholders of the Company holding more than 5% of the total shares of the Company.

20. ADVANCES FROM CUSTOMERS

See note 47 for amounts advanced from shareholders of the Company holding more than 5% of the total shares of the Company.

21. TAXES PAYABLE

	December 31, 2004 RMB	December 31, 2003 RMB
Income tax	**529,020,219**	114,903,415
Value added tax	**107,018,240**	97,297,037
City construction tax	**32,468,286**	50,940,509
Others	**116,224,940**	63,236,759
	784,731,685	326,377,720

22. OTHER PAYABLES

See note 47 for other payables due to shareholders of the Company holding more than 5% of the total shares of the Company.

23. PROVISIONS

Category	At January 1, 2004 RMB	Accrual for the year RMB	Payment for the year RMB	At December 31, 2004 RMB
Land subsidence, restoration, rehabilitation and environmental costs	85,022,022	313,171,864	(501,600,620)	(103,406,734)

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

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

24. LONG-TERM LOAN

Lender	December 31, 2004 RMB	January 1, 2004 RMB	Period	Annual Interest Rate	Condition for Loan
Bank of China	400,000,000	600,000,000	96 months	5.76%	Guaranteed by Yankuang Group
Less: Long-term loan due within one year	200,000,000	200,000,000			
Long-term loan due after one year	200,000,000	400,000,000			
	400,000,000	600,000,000			

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

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

25. LONG-TERM PAYABLE

	December 31, 2004 RMB	December 31, 2003 RMB
Payable for acquisition of Jining III's mining rights (Note 1)	79,487,360	92,735,160
Reform and Specific Development Fund (Note 2)	96,668,980	–
Work Safety Expense (Note 3)	5,484,357	–
	181,640,697	92,735,160
Less: Long-term payable due within one year	18,732,157	13,247,800
Long-term payable due after one year	162,908,540	79,487,360
	181,640,697	92,735,160

25. LONG-TERM PAYABLE (Continued)

Note 1: The amount represents the remaining balances of payable to Yankuang Group for acquisition of Jining III's mining rights, details of which are set out in note 47(4)(c).

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

Note 3: According to the relevant regulation of State Administration of Coal Mine Safety, from May 1, 2004, Work Safety Expense is accrued at RMB8 per ton raw coal mined, and will be used on work safety related expenditure for coal mines. In 2004, the Company has accrued RMB204, 668,160, of which RMB199,183,803 was used. The Company expects to fully use the remaining balance before the end of 2005.

26. SHARE CAPITAL

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

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

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

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

There is no change in share capital from January 1, 2003 to December 31, 2003.

Each share has a par value of RMB1.

27. CAPITAL RESERVES

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

	Share premium (Note 26) RMB	Transfer from Wei Jian Fei (Note) RMB	Total RMB
At January 1, 2004	3,549,258,855	1,164,936,251	4,714,195,106
Additions	1,552,875,383	234,878,898	1,787,754,281
At December 31, 2004	**5,102,134,238**	**1,399,815,149**	**6,501,949,387**

Changes in capital reserves from January 1, 2003 to December 31, 2003 are as follows:

	Share premium RMB	Transfer from Wei Jian Fei (Note) RMB	Total RMB
At January 1, 2003	3,549,258,855	905,262,485	4,454,521,340
Additions	–	259,673,766	259,673,766
At December 31, 2003	3,549,258,855	1,164,936,251	4,714,195,106

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

28. SURPLUS RESERVES

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

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

28. SURPLUS RESERVES (Continued)

Changes in surplus reserves from January 1, 2003 to December 31, 2003 are as follows:

	Statutory common reserve fund RMB	Statutory common welfare fund RMB	Total RMB
At January 1, 2004	388,201,586	194,141,761	582,343,347
Additions	110,580,272	55,312,039	165,892,311
At December 31, 2004	498,781,858	249,453,800	748,235,658

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

29. CASH DIVIDEND PROPOSED AFTER THE BALANCE SHEET DATE

	2004 RMB	2003 RMB
At January 1	470,680,000	298,480,000
Less: Transferred to dividends payable	470,680,000	298,480,000
Add: Cash dividend proposed after the balance sheet date (Note)	799,240,000	470,680,000
At December 31	799,240,000	470,680,000

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

According to the minute of Board of Directors date April 25, 2005, final dividend of RMB2.6 per ten shares and six bonus shares for every ten shares issued by conversion from capital reserve is proposed based on the total issued shares of 3,074,000,000 (each share with a par value of RMB1). The declaration and payment of the final dividend are subject to the approval of the shareholders' meeting of the Company.

30. UNAPPROPRIATED PROFITS

	2004 RMB	2003 RMB
At January 1	2,220,500,672	1,751,708,336
Add: Net profit for the year	2,707,784,846	1,105,364,647
Less: Appropriations to:		
Statutory common reserve fund (Note 1)	270,778,484	110,536,465
Statutory common welfare fund (Note 2)	135,389,242	55,268,232
Statutory common reserve fund of the subsidiary (Note 3)	32,550	43,807
Statutory common welfare fund of the subsidiary (Note 3)	32,550	43,807
Profit available for distribution	4,522,052,692	2,691,180,672
Less: Cash dividend proposed after the balance sheet date	799,240,000	470,680,000
At December 31	3,722,812,692	2,220,500,672

Note 1: Appropriations to statutory common reserve fund

Pursuant to the Provision 177 of Company Law and the Company's Article of Association, 10% of its net profit is appropriated as statutory common reserve fund. Such appropriations can be ceased when the accumulated amount of the fund reaches 50% of the Company's registered capital.

Note 2: Appropriations to statutory public welfare fund

Pursuant to the Provision 177 of Company Law and the Company's Article of Association, the Board of Directors proposed to appropriate 5% of current year's net profit as statutory common welfare fund.

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

Statutory common reserve fund and statutory common welfare fund of the subsidiary are appropriated at the preparation of consolidation financial statements.

31. REVENUE FROM PRINCIPAL OPERATIONS

	2004 RMB	2003 RMB
Revenue from domestic sales of coal products	8,006,149,560	4,918,043,729
Revenue from export sales of coal products	3,974,708,964	3,587,417,218
Revenue from railway transportation services	228,305,005	159,771,257
	12,209,163,529	8,665,232,204

Total amount of the 5 largest customers RMB	Percentage in total revenue %
1,761,660,602	14.4

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

32. COST OF PRINCIPAL OPERATIONS

	2004 RMB	2003 RMB
Cost of sales of coal products	4,997,059,461	3,947,107,054
Cost of the railway transportation services	89,412,848	67,589,146
	5,086,472,309	4,014,696,200

32. COST OF PRINCIPAL OPERATIONS (Continued)

Analysis of cost of sales of coal products is as follows:

	2004 RMB	2003 RMB
Materials	1,073,406,704	885,333,208
Wages	887,026,192	754,893,943
Employee welfare	108,630,007	89,909,331
Electricity	295,972,040	275,856,678
Depreciation	893,724,053	817,768,904
Land subsidence, restoration, rehabilitation and environmental costs	323,240,377	264,158,442
Repairs	443,507,344	364,692,980
Safety Work Expense	204,668,160	–
Reform and Specific Development Fund	96,668,980	–
VAT input transfer out	79,872,642	–
Others	355,464,064	234,819,802
Subtotal	4,762,180,563	3,687,433,288
Wei Jian Fei	234,878,898	259,673,766
Total	4,997,059,461	3,947,107,054

33. SALES TAXES AND SURCHARGES

	2004 RMB	2003 RMB
Business tax	6,849,150	5,184,955
City construction tax	88,814,898	48,235,735
Education fee	38,063,529	20,672,458
Resource tax	97,613,053	49,925,052
	231,340,630	124,018,200

34. PROFITS FROM OTHER OPERATIONS

	2004 RMB	2003 RMB
Sales of raw materials		
– Sales	678,791,759	626,746,635
– Cost of sales	644,913,325	591,550,143
	33,878,434	35,196,492
Others		
– Income	24,306,862	28,348,624
– Cost	19,153,513	20,524,780
	5,153,349	7,823,844
	39,031,783	43,020,336

35. OPERATING EXPENSES

	2004 RMB	2003 RMB
Selling expense of domestic sales of coal products	434,340,116	503,228,749
Selling expense of export sales of coal products	968,375,436	1,089,065,698
Others	70,412,606	66,780,344
	1,473,128,158	1,659,074,791

36. FINANCIAL EXPENSES

	2004 RMB	2003 RMB
Interest expenses	31,392,000	53,682,000
Less: interest income	70,885,565	13,631,237
Exchange loss(Less: gain)	(5,507,225)	(116,242)
Others	841,196	1,435,898
	(44,159,594)	41,370,419

37. INVESTMENT INCOME

	2004 RMB	2003 RMB
Short-term investment income		
–Interest income from designated deposits	21,826,327	4,183,333
–Gains on debt investment	–	1,423,858
Long-term investment income		
–Profits declared by investee under cost method	4,464,780	4,809,780
–Amortization of long-term equity investment difference	(1,116,151)	–
	25,174,956	10,416,971

38. SUBSIDY INCOME

The amount represents subsidies granted to the Company on its export sales received during the year.

39. NON-OPERATING INCOME

	2004 RMB	2003 RMB
Gain on disposal of fixed assets	9,896,466	13,050,762
Others	2,040,456	4,290,828
	11,936,922	17,341,590

40. NON-OPERATING EXPENSES

	2004 RMB	2003 RMB
Loss on disposal of fixed assets (Note)	114,493,802	6,179,251
Donations	4,168,000	338,570
Fines and Others	7,009,694	16,252,647
	125,671,496	22,770,468

Note: In 2004, the Company has disposed certain fixed assets which are enclosed underground and have no repairable value after long usage lives.

41. INCOME TAXES

		2004 RMB	2003 RMB
Income tax of the Company	(1)	1,389,239,198	586,884,118
Addition payment of income tax	(2)	16,019,400	–
Income tax of subsidiaries		1,527,124	891,453
		1,406,785,722	587,775,571

(1) Income tax is provided at 33% of the taxable income which is calculated by adjusting the accounting profits before tax for the year in accordance with the relevant tax laws.

(2) This represents additional income tax payment for the year of 2002 and 2003 according to the tax verification report Ji Di Shui Ji Chu [2004] No.042003 issued by the local tax bureau.

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

42. OTHER CASH RECEIVED RELATING TO OPERATING ACTIVITIES

	2004 RMB
Other operating income	703,098,621
Non operating income	2,040,456
Interest income	70,885,565
Others	38,001,760
Total	814,026,402

43. OTHER CASH PAID RELATING TO OPERATING ACTIVITIES

	2004 RMB
Cash payments for operating expenses and administrative expenses	1,909,739,371
Other operating expenses	664,066,838
Others	507,031,314
Total	3,080,837,523

44. CASH PAID FOR ACQUISITION OF NANTIAN COAL MINE

	2004 RMB
Fixed assets	191,404,523
Intangible assets	32,634,381
Other payable	(36,726,912)
Total	187,311,992
Considerations	
Cash paid	136,301,992
Amount unpaid	51,010,000
Total	187,311,992

In 2004, Austar acquired coal mine assets of Southland through the company for a cash consideration of RMB187,311,992, among which RMB136,301,992 has been paid up to December 31, 2004.

Under the Asset Purchase Agreement between Austar and Southland/Thiessa further AUD4,000,000 is payable when an Exploration License is granted to Austar cover potential coal reserves to the west and south of CML2, adjoining the existing lease area.

45. CASH AND CASH EQUIVALENTS

	December 31, 2004 RMB	December 31, 2003 RMB
Bank balances and cash	5,278,468,720	2,041,293,313
Less: Restricted cash (Note)	61,731,230	17,521,242
	5,216,737,490	2,023,772,071

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

46. SEGMENT INFORMATION

Item	Coal mining business RMB	Railway transportation business RMB	Inter-segment elimination RMB	Unallocated items RMB	Total RMB
1. Operating revenue					
External	11,980,858,524	228,305,005	–	–	12,209,163,529
Inter-segment	–	380,535,120	(380,535,120)	–	–
Total	11,980,858,524	608,840,125	(380,535,120)	–	12,209,163,529
2. Cost of sales					
External	4,997,059,461	89,412,848	–	–	5,086,472,309
Inter-segment	–	155,158,883	(155,158,883)	–	–
Total	4,997,059,461	244,571,731	(155,158,883)	–	5,086,472,309
3. Total operating expenses	2,790,805,522	80,121,660	(225,376,237)	273,757,413	2,919,308,358
4. Total operating profits	4,192,993,541	284,146,734	–	(273,757,413)	4,203,382,862
5. Total assets	10,859,956,946	1,083,502,461	–	6,270,459,563	18,213,918,970
6. Total liabilities	1,812,675,043	23,746,527	–	1,097,353,668	2,933,775,238

47. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

Name of related parties	Registration address	Major business	Relationship	Quality	Status representative
Yankuang Group	298 Fu Shan Nan Road, Zoucheng, Shandong	Industry processing	Major shareholder	State-owned	Geng Jia Huai
Zhongyan Trade	No.1 Industrial Zone, Qingdao Free Trade Zone	International trade	Subsidiary	Limited company	Shao Hua Zhen
Yanmei Shipping	Shiqiao town Rencheng district, Jining	Transportation service via river and lakes	Subsidiary	Limited company	Wang Xin Kun
Yulin Power	West Renmin Road, YuYang District, Heze	Prepare for construction	Subsidiary	Limited company	Wang Xin
Yanmei Australia	Australia	Coal mining and sales of coal	Subsidiary	Limited company	–
Austar Coal Mine	Australia	Coal exploitation And sales of coal	Subsidiary's subsidiary	Limited company	–

47. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

Name of related parties	January 1,2004 RMB	Additions RMB	Reductions RMB	December 31, 2004 RMB
Yankuang Group	3,090,336,000	–	–	3,090,336,000
Zhongyan Trade	2,100,000	–	–	2,100,000
Yanmei Shipping	5,500,000	–	–	5,500,000
Yulin Power	–	800,000,000	–	800,000,000
Yanmei Australia	–	191,285,954	–	191,285,954
Austar Coal Mine	–	191,285,954	–	191,285,954

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

Name of related parties	January 1, 2004 RMB	%	Addition RMB	%	December 31, 2004 RMB	%
Yankuang Group	1,670,000,000	58.19	–	–	1,670,000,000	54.33
Zhongyan Trade	1,100,000	52.38	–	–	1,100,000	52.38
Yanmei Shipping	5,060,000	92.00	–	–	5,060,000	92.00
Yulin Power	–	–	776,000,000	97.00	776,000,000	97.00
Yanmei Australia	–	–	191,285,954	100.00	191,285,954	100.00
Austar Coal Mine	–	–	191,285,954	100.00	191,285,954	100.00

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

(a) The transactions after acquisition date between the Company and the subsidiaries which the Company can exercise control over and whose financial statements are included in the consolidated financial statements were eliminated.

(b) Acquisition of railway transportation business

On January 1, 2002, the Company acquired from Yankuang Group the assets of the special purpose coal railway transportation business ("Railway Assets") at the consideration of approximately RMB1,242,590,000 according to "Railway Assets Acquisition Agreement" signed with Yankuang Group. When the Railway Assets' actual volume reaches the targets quoted in the agreement, the additional payment would be as follows:

47. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

(b) **Acquisition of railway transportation business** – (Continued)

A. If the Railway Assets' actual transportation volume reaches 25,000,000 tonnes for the year ended December 31, 2002, the Company will pay an extra RMB40,000,000;

B. If the Railway Assets' actual transportation volume reaches 28,000,000 tonnes for the year ended December 31, 2003, the Company will pay an extra RMB40,000,000;

C. If the Railway Assets' actual transportation volume reaches 30,000,000 tonnes for the year ended December 31, 2004, the Company will pay an extra RMB40,000,000.

The total consideration for acquiring Railway Assets should be paid in cash in the following five instalments:

1) The amount of RMB1,159,560,000 has been paid by the Company to Yankuang Group at acquisition date;

2) The remaining balance of RMB83,030,000 has been paid before June 30, 2002;

3) The amount of RMB40,000,000 as mentioned in term A should be paid before June 30, 2003;

4) The amount of RMB40,000,000 as mentioned in term B should be paid before June 30, 2004;

5) The amount of RMB40,000,000 as mentioned in term C should be paid before June 30, 2005.

The Company had paid off the above consideration of RMB1,242,590,000 at acquisition date. In addition, the Railway Assets' actual capacity reached approximately 25,000,000 tonnes, 28,000,000 tonnes and 30,000,000 tonnes for the year ended December 31, 2002, 2003 and 2004 respectively, an extra RMB40,000,000, RMB40,000,000 and RMB40,000,000 were paid to Yankuang Group according to the agreement mentioned in term A, B and C.

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

47. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

(c) **Acquisition of Jining III**

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

By December 31, 2004, the Company had paid RMB2,503,892,000 to Yankaung Group for the above acquisition, including the consideration of RMB2,450,900,000 and the mining rights of RMB52,992,000. Included in the above payment, RMB13,248,000 was paid in current year for acquisition of the mining rights.

According to the agreement, the Company will pay the interest-free consideration for the cost of mining rights over ten years by equal instalments before December 31 of each year commencing from year 2001. The Company is scheduled to pay for the mining rights of RMB13,248,000 as the fifth instalment before December 31, 2005.

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

(d) **Sales and purchases**

	2004 RMB'000	2003 RMB'000
Sales and service provided		
Sales of coal – Yanmei Shipping	–	77,155
– Yankuang Group	523,015	229,730
Subtotal	523,015	306,885
Railway transportation services income – Yankuang Group	–	66
Public utilities and facilities income – Yankuang Group	29,000	29,000
Material and spare parts sales (Note) – Yankuang Group	350,873	472,899
	902,888	808,850
Purchases – Yankuang Group	303,549	373,710

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

47. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

(e) Construction services

		2004 RMB'000	2003 RMB'000
Mining structure of Jining III	Yankuang Group	–	257,593
Harbour works in Sihekou	Yankuang Group	–	250,231
Equipment installation in Jining III	Yankuang Group	123,294	–
Civil engineering in Jining III	Yankuang Group	37,048	–
		160,342	507,824

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

(f) Amount due to or from related parties

Account	Company	December 31, 2004 RMB'000	December 31, 2003 RMB'000
Notes receivable	Yankuang Group	8,419,139	43,298,758
Accounts receivable	Yankuang Group	7,106,878	10,139,098
Other receivables (Note a)	Yankuang Group	333,289,930	16,662,382
Prepayments	Yankuang Group	3,342,400	3,200,170
Long-term equity investment (Note 14)	Yankuang Group	574,000,000	–
		926,158,347	73,300,408
Accounts payable	Yankuang Group	37,611,106	27,111,232
Advances from customers	Yankuang Group	31,161,331	66,515,176
Other payables (Note b)	Yankuang Group	44,278,697	325,162,158
Long-term payable due within one year (Note 25 and 47(4)c)	Yankuang Group	13,247,800	13,247,800
Long-term payables (Note 25)	Yankuang Group	66,239,560	79,487,360
		192,538,494	511,523,726

47. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

(f) **Amount due to or from related parties** (Continued)

Note a: The RMB298,174,116 included above is the construction expense of Heze Power Co. Ltd., which paid by the company to Yankuang Group. All the other receivables due from Yankuang Group are interest free.

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

(g) **Other transactions**

(1) Pursuant to an agreement signed between the Company and Yankuang Group, Yankuang Group manages the retirement benefits, medical benefits and other benefits of the two companies and makes combined payments of the total retirement benefits of the two companies to the government department in charge of the related funds. Amount charged to expenses of the Company for the year of 2004 and 2003 are RMB535,648,000 and RMB458,072,000 respectively.

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

	2004 RMB'000	2003 RMB'000
Electricity	354,044	284,786
Repairs and maintenance	222,949	225,408
Technical support and training fee	15,130	15,130
Mining rights fees	12,980	12,980
Public utilities expenses	380	380
Road transportation fee	63,478	17,216
Gases and eructate expenses	11,536	10,800
Buildings management fee	37,200	37,200
Children tuition fee	16,600	16,600
Others	14,539	15,530
Total	748,836	636,030

(3) Total amount of salaries paid to key management, including salaries, welfare and subsidies paid in the form of cash, goods and others, for the year of 2004 and 2003 are RMB3,090,369 and RMB1,845,645, respectively.

47. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

(g) **Other transactions** (Continued)

(4) During the years of 2003 and 2004, the Company and Yankuang Group have made payments or collected receipts to or from individual third party or government authorities on behalf of each other, in respect of goods purchased, services received and other expenses. These payments and receipts made on behalf of the other have been recorded in other payables.

48. NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Long-term equity investments – The Company

	December 31, 2004 RMB	December 31, 2003 RMB
Investments in subsidiaries (a)	971,909,281	4,592,496
Other equity investments (b)	62,180,693	31,897,684
Equity investment difference (b)	10,045,361	11,161,512
Prepayment for an investment (b)	574,000,000	–
	1,618,135,335	47,651,692
Less: Impairment loss on long-term equity investments	–	–
Long-term equity investments – net	1,618,135,335	47,651,692

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

	Investment cost			Profit and loss adjustment				Net book value	
Name of investees	January 1, 2004 RMB	Addition RMB	December 31, 2004 RMB	January 1, 2004 RMB	Addition of equity RMB	Cash dividend for the year RMB	December 31, 2004 RMB	January 1, 2004 RMB	December 31, 2004 RMB
Zhangyan Trade	2,709,903	–	2,709,903	1,352,221	325,494	(350,456)	1,327,259	4,062,124	4,037,162
Yanmei Shipping	530,372	–	530,372	–	(497,247)	–	(497,247)	530,372	33,125
Yulin Power	–	776,000,000	776,000,000	–	–	–	–	–	776,000,000
Yanmei Australia	–	191,285,954	191,285,954	–	553,040	–	553,040	–	191,838,994
	3,240,275	967,285,954	970,526,229	1,352,221	381,287	(350,456)	1,383,052	4,592,496	971,909,281

(b) For details of other equity investments, equity investment difference and prepayment for an investment, see note 14.

48. NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(2) Investment income – The Company

	2004 RMB	2003 RMB
Short-term investment income		
–Interest income from designated deposits	21,826,327	4,183,333
–Gains on debt investment	–	1,423,858
Long-term investment income		
–Share of investees' profit recognized under equity method	381,287	574,258
–Profits declared by investees under cost method	4,464,780	4,809,780
–Amortization of long-term equity investment difference	(1,116,151)	–
	25,556,243	10,991,229

(3) Cash and cash equivalents – The Company

	December 31, 2004 RMB	December 31, 2003 RMB
Bank balances and cash	5,003,516,578	2,039,188,498
Less: Restricted cash (Note)	24,876,794	17,521,242
	4,978,639,784	2,021,667,256

Note: At the balance sheet date, the amount represents the bank deposits pledged to certain banks to secure letters of credit.

49. CAPITAL COMMITMENTS

	December 31, 2004 RMB'000	December 31, 2003 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– Purchase of assets	12,872	163,342
– Investments	–	30,137
	12,872	193,479

50. SUBSEQUENT EVENTS

At January 19, 2005, the instructed deposit of RMB640,000,000 that the company lent to Shandong Xinjia Industry Co., Ltd ("Shandong Xinjia") through Bank of China, Jining Branch was overdue. Shandong Xinjia was not able to payoff the principal amount and interest. Lianda Group Co., Ltd (Lianda Group) takes on accompanying responsibility on the principal and interest, thus the Company has submitted an application to the High Court of the Shandong provincial Government in order to freeze the RMB289,000,000 of Huaxia Bank's shares held by Lianda Group and has applied for a public auction towards it. Up to the reporting date, the above-mentioned public auction has not been held yet. In the opinion of the management, the principal, interest and overdue interest can be recovered by the proceeds from sales in the public auction, and therefore no impairment of the overdue designated deposit has been provided at year end.

1. SUMMARY OF DIFFERENCES BETWEEN IFRS AND PRC GAAP

The financial statements are prepared in accordance with PRC GAAP, which differs from that under IFRS. For the year ended December 31, 2004, under PRC GAAP net profit is 2,707,785 (RMB'000) and shareholders' equity is 15,252,471 (RMB'000). The summary of differences of net profit and shareholder's equity between PRC GAAP and IFRS in this year are as follows:

	Net profit for the year RMB'000	Net assets at December 31, 2004 RMB'000
As per the financial statements prepared under PRC GAAP	2,707,785	15,252,471
Adjustments under IFRS:		
– Reversal of Wei Jian Fei	234,879	–
– Reversal of Work Safety Expense	204,668	204,668
– Reversal of Reform and Specific Development Fund	96,669	96,669
– Deferred tax effect	(111,976)	(23,104)
– Release of negative goodwill to income	27,620	110,480
– Deemed interest expenses	(4,550)	(109,362)
– Others	(778)	(8,071)
As per financial statements prepared under IFRS	3,154,317	15,523,751

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

Profit for the reporting period	Return on shareholders' equity %		Earnings per share RMB	
	Diluted	Weighted average	Diluted	Weighted average
Income from principal operations	45.18	52.70	2.24	2.32
Operating profits	27.56	32.15	1.37	1.42
Net profit	17.75	20.71	0.88	0.91
Net profit excluding extraordinary gain (loss)	18.23	21.26	0.90	0.94

Note: Net profit excluding extraordinary gain (loss)

	2004 RMB
Net profit	2,707,784,846
Add:	
Non-operating expenses	125,671,496
Less:	
Non-operating income	11,936,922
Subsidy income	–
Interest on designated deposit	21,826,327
Tax effect on extraordinary gain (loss)	19,338,211
Net profit excluding extraordinary gain (loss)	2,780,354,882

3. LIST OF PROVISION FOR IMPAIRMENT LOSS ON ASSETS

Unit: RMB Yuan

Item	2004.1.1		Provision		Reversal		Other transfer out		2004.12.31	
	The Group	The Company	The Group	The Company	The Group	The Company	The Group	The Company	The Group	The Company
1. Total provision for bad debts	113,312,140	113,312,140	49,104,445	49,104,445	–	–			162,416,585	162,416,585
– Accounts receivable	100,626,623	100,626,623	26,073,686	26,073,686	–	–			126,700,309	126,700,309
– Other receivables	12,685,517	12,685,517	23,030,759	23,030,759	–	–			35,716,276	35,716,276
2. Total provision for loss on current investment	–	–	–	–	–	–	–	–	–	–
– Bond investment	–	–	–	–	–	–	–	–	–	–
3. Total provision for loss on inventory	–	–	–	–	–	–	–	–	–	–
– Raw material	–	–	–	–	–	–	–	–	–	–
– Finished goods	–	–	–	–	–	–	–	–	–	–
4. Total provision for loss on long-term investment	–	–	–	–	–	–	–	–	–	–
– Long-term equity investment	–	–	–	–	–	–	–	–	–	–
5. Total provision for loss on fixed assets	–	–	–	–	–	–	–	–	–	–
– Buildings	–	–	–	–	–	–	–	–	–	–
– Mining structure	–	–	–	–	–	–	–	–	–	–
– Railway structure	–	–	–	–	–	–	–	–	–	–
– Habour works and craft	–	–	–	–	–	–	–	–	–	–
– Plant, machinery and equipment	–	–	–	–	–	–	–	–	–	–
– Transportation equipment	–	–	–	–	–	–	–	–	–	–
6. Total provision for loss on intangible assets	–	–	–	–	–	–	–	–	–	–
– Land use rights	–	–	–	–	–	–	–	–	–	–
– Mining rights	–	–	–	–	–	–	–	–	–	–
– Goodwill	–	–	–	–	–	–	–	–	–	–
7. Provision for loss on fixed assets under construction	–	–	–	–	–	–	–	–	–	–
8. Provision for loss on designated deposit	–	–	–	–	–	–	–	–	–	–

4. ANALYSIS OF ITEMS WHICH FLUCTUATED OVER 30% (INCLUDING 30%), AND ACCOUNTING FOR 5% (INCLUDING 5%) OF THE TOTAL ASSETS ON THE BALANCE SHEET DATE OR 10% (INCLUDING 10%) OF THE TOTAL PROFITS FOR THE REPORTING YEAR:

Unit: RMB-Yuan

Items in balance sheet	December 31, 2004 Amount	Percentage in total assets	December 31, 2003	Fluctuation	Reason
Bank balance and cash	5,278,468,720	29%	2,041,293,313	159%	Note 1
Capital reserves	6,501,949,387	36%	4,714,195,106	38%	Note 2

Note 1: In 2004, as the demand and supply in coal market are high, the price of coal increased sharply and the sales by means of cash increased a lot, which caused significant increase in cash balance.

Note 2: In 2004, the capital premium arose from the new issue of H shares were recorded in capital reserve.

Unit: RMB-Yuan

Items in statement of income and profits appropriation	2004 Amount	Percentage in total profits	2003	Fluctuation	Reason
Revenue from principal operations	12,209,163,529	297%	8,665,232,204	41%	Note 3
Income tax	1,406,785,722	34%	587,775,571	139%	Note 4

Note 3: Due to the great demand of coal, the price of coal increased sharply, which caused the significant increase of sales.

Note 4: The company's total profit increased significantly compared with last year.

Registered Name	兗州煤業股份有限公司
English Name	Yanzhou Coal Mining Company Limited
Registered Address	Yanzhou Coal Mining Company Limited 40 Fushan Road Zoucheng Shandong Province 273500 PRC
Place of Business in Hong Kong	Rooms 805-808 Alexandra House 16-20 Chater Road Hong Kong Tel: (852) 2136 6185 Fax: (852) 2136 6068 Contact Person: Tam Po Ying
Company Secretary	Chen Guangshui
Authorized Representatives	Yang Jiachun Chen Guangshui
Auditors	
International:	Deloitte Touche Tohmatsu Certified Public Accountants, 26th Floor, Wing On Centre 111 Connaught Road Central Hong Kong
Domestic:	Deloitte Touche Tohmatsu Certified Public Accountants Ltd. Certified Public Accountants in the PRC (excluding Hong Kong) 30th Floor, Bund Center 222 Yan'an Road East Shanghai 200002 PRC
Legal Advisors	
As to Hong Kong law and United States law:	Baker & McKenzie 14th Floor, Hutchison House 10 Harcourt Road Hong Kong
As to PRC law:	31st Floor, Tower A Jianwai SOHO 39 Dong-sanhuan Zhonglu Chaoyang District Beijing 100022. China

Principal Bankers	The Industrial & Commercial Bank of China Zoucheng Branch Tie Xi Office 51 Fushan Road Zoucheng Shandong Province 273500 PRC
	China Construction Bank Yanzhou Coal Mining District Special Branch 6 Kuangjian Road Zoucheng Shandong Province 273500 PRC
	Bank of China Zoucheng Branch 205 Pingyang Road Zoucheng Shandong Province 273500 PRC
Hong Kong Share Registrar	Hong Kong Share Registrar Hong Kong Registrars Limited 46th Floor, Hopewell Center 183 Queen's Road East Hong Kong
Shanghai Share Registrar	Shanghai Share Registrar China Securities Depository and Clearing Corporation Limited Shanghai Branch 166 Lujiazui East Road Pudong Shanghai PRC
Depositary	The Bank of New York American Depositary Receipts Division 101 Barclay Street 22W, New York, NY 10286 USA

Places of listing

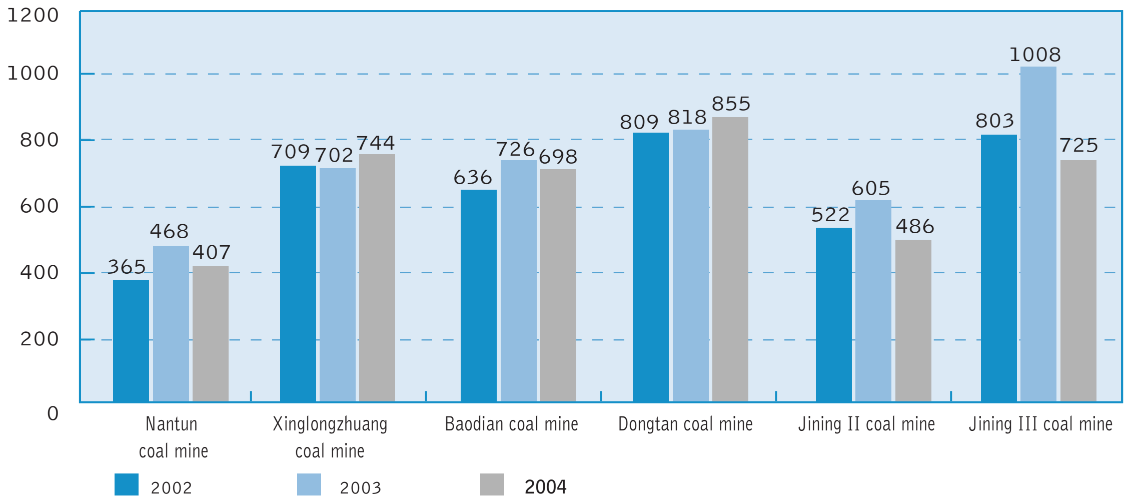
H shares:	The Stock Exchange of Hong Kong Limited Stock Code: 1171
ADSs:	The New York Stock Exchange, Inc. Tick Symbol: YZC
A shares:	The Shanghai Securities Exchanges Stock Abbreviation: Yanzhou Mei Ye Stock Code: 600188

Publications:

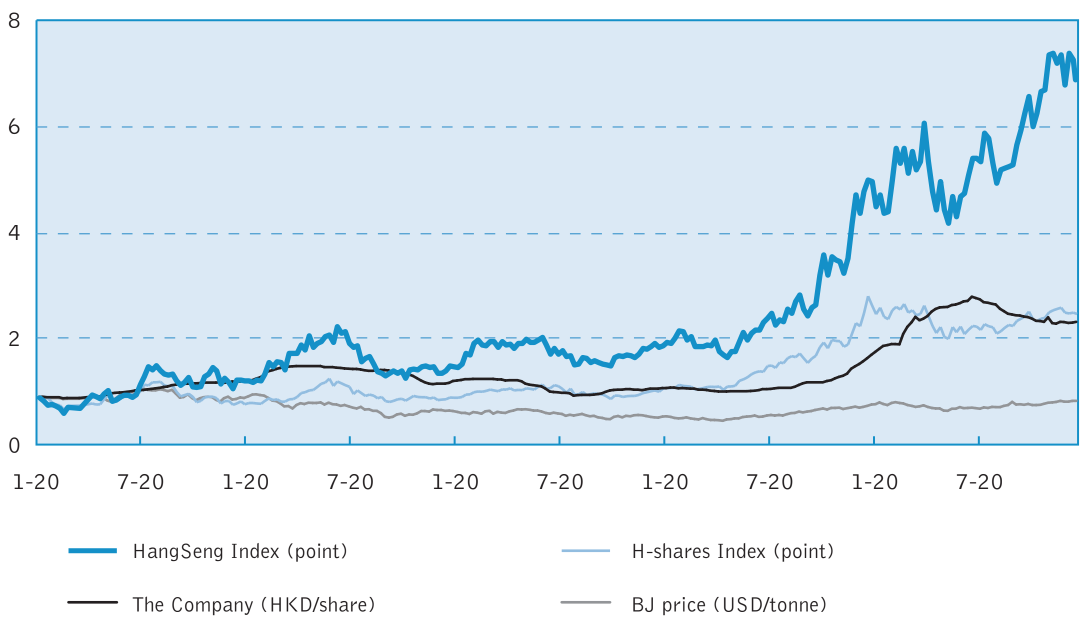
As required by the United States securities laws, the Company will file an annual report on from 20-F with the United States Securities and Exchange Commission on or before 30th June, 2005. Copies of the annual report as well as the Form 20-F, once filed, will be available at:

The PRC:	Yanzhou Coal Mining Company Limited Office of the Secretary of the Board 40 Fushan Road Zoucheng Shangdong Province 273500 PRC Tel: (86-537) 538-2319 Fax: (86-537) 538-3311 Website: http://www.yanzhoucoal.com.cn e-mail: yzc@yanzhoucoal.com.cn
Hong Kong/Outside PRC	iPR ASIA LTD Rooms 805-808 Alexandra House 16-20 Chater Road Hong Kong Tel: (852) 2136 6185 Fax: (852) 2136 6068

Raw coal output of the Company's coal mines *(10 thousands tonnes)*



Share price graph of the Company *(2001 to 2004)*



兖州煤业股份有限公司
Yanzhou Coal Mining Company Limited
(a joint stock limited company incorporated in the People's Republic of China with limited liability)