



As filed with Securities and Exchange Commission on June 24, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

Commission file number: 001-14714

兖州煤业股份有限公司

(Exact name of Registrant as specified in its charter)

Yanzhou Coal Mining Company Limited

(Translation of Registrant's name into English)

People's Republic of China
(Jurisdiction of incorporation or organization)

298 Fushan South Road
Zoucheng, Shandong Province
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Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
American Depositary Shares	New York Stock Exchange
Class H Ordinary Shares	New York Stock Exchange*

* Not for trading in the United States, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None
(Title of class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None
(Title of class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

2,960,000,000 Domestic Shares, par value RMB1.00 per share
1,958,400,000 H Shares, par value RMB1.00 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No



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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report includes statements of our expectations, intentions, plans and beliefs that constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and are intended to come within the safe harbor protection provided by those sections. The statements relate to future events or our financial performance, including, but not limited to, projections and estimates concerning the timing and success of specific projects and acquisitions. We use words such as “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “will” and the negatives of such terms or other similar expressions to identify forward-looking statements.

Without limiting the foregoing, all statements relating to our future operating results and anticipated capital expenditures, borrowings and sources of funding are forward-looking statements and speak only as of the date of this annual report. These statements are based on numerous assumptions that we believe are reasonable, but are subject to a wide range of risks, uncertainties and contingencies, which may cause actual results to differ materially from those discussed in these statements. Among the factors that could cause actual results to differ materially are:

- price volatility for our coal and other products;
- demand for coal in the PRC and overseas markets;
- difficulty in managing our rapid growth, business diversification, geographic expansion and integrating our acquisitions;
- changes in legislation, regulations and policies;
- the recovery of the methanol industry and methanol prices;
- our ability to reduce costs and compete effectively;
- our need for, and ability to obtain, capital to finance our future expansion plans and capital expenditures;
- expected increases in production capacity and utilization of new facilities;
- intensity of competition;
- uncertainties in estimating our proven and probable coal reserves and our ability to replace and develop coal reserves;
- effects of land reclamation and other liabilities;
- geologic, equipment and operational risks related to mining;
- changes in economic strength and political stability of countries in which we have operations or serve customers;
- our ability to realize the anticipated benefits of our acquisition of equity interests or assets of coal mines;
- obtaining governmental permits and approvals for our operations;
- proximity of our coal resources to end-markets and cost of transportation;
- availability, timing of delivery and cost of key supplies;
- impacts of natural disasters, epidemics and safety accidents; and
- other factors, including, but not limited to, those discussed in the section headed Risk Factors, set forth in Part D of Item 3 of this annual report.

All of the forward-looking statements made in this annual report are qualified by this cautionary statement. We cannot assure you that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected effect on us, our business or our operations. We caution you not to place undue reliance on any such forward-looking statements. Unless we are required to do so under U.S. federal securities laws or other applicable laws, we do not intend to update or revise any forward-looking statements.

DEFINITIONS AND SUPPLEMENTAL INFORMATION

As used in this annual report, references to “Yanzhou Coal,” “we,” “our,” “our Company,” “the Group” or “us” refer to Yanzhou Coal Mining Company Limited and its subsidiaries, which have been consolidated into its accounts for the purpose of the consolidated financial statements, unless the context indicates otherwise. References to “the Company” refer to Yanzhou Coal as a stand-alone statutory entity.

“A Shares” refers to domestic shares in the ordinary share capital of the Company, with nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange.

“Articles of Association” refers to our Articles of Association, as amended from time to time.



“Austar Company” refers to Austar Coal Mine Pty Limited, a wholly owned subsidiary of Yancoal Australia Limited incorporated in Australia, which mainly engages in the mining, processing and sale of coal in Australia.

“CASs” refers to Accounting Standard for Business Enterprises (2006) and the relevant regulations and explanations issued by the Ministry of Finance of the PRC.

“CBRC” refers to China Banking Regulatory Committee.

“Directors” as used herein refer to our directors as discussed in Item 6 herein.

“Felix” refers to Felix Resources Limited, a wholly owned subsidiary of Yancoal Australia Limited incorporated in Australia, which mainly engages in the exploration, mining and sale of coal in Australia.

“Grant Thornton” refers to a registered firm of certified public accountants in the People’s Republic of China and is the principal auditor for the purpose of reporting to the United States Securities and Exchange Commission and other relevant U.S. regulatory bodies.

“Grant Thornton Hong Kong” refers to a firm of certified public accountants in Hong Kong Special Administrative Region which was a former member firm of Grant Thornton International Ltd and has since changed its name to JBPB & Co as of December 10, 2010. (original official name in Hong Kong: Grant Thornton)

“Grant Thornton Jingdu Tianhua” refers to a firm of certified public accountants in Hong Kong Special Administrative Region, which has been a member firm of Grant Thornton International Ltd since November 2010. This firm is the auditor for the purpose of the Hong Kong H Share listing only.

“H Shares” refers to overseas listed foreign invested shares in the ordinary share capital of the Company, with nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange.

“Haosheng Company” refers to Inner Mongolia Haosheng Coal Mining Company Limited, a 61% owned subsidiary of the Company, which engages in applying for project development and mining rights for Shilawusu Coal Field in the Inner Mongolia Autonomous Region.

“Heze Nenghua” refers to Yanmei Heze Nenghua Company Limited, a 98.33% owned subsidiary of the Company that manages our exploration for coal resources at the Juye Mine in Heze City, Shandong Province.

“Hong Kong Stock Exchange” refers to The Stock Exchange of Hong Kong Limited.

“Hua Ju Energy” refers to Shangdong Hua Ju Energy Co., Limited, a 95.14% owned subsidiary of the Company that engages in the generation of electric power from coal gangue and coal slurry, which are by-products of our coal mining process.

“IFRS” refers to International Financial Reporting Standards as issued by the International Accounting Standard Board.

“JBPB” refers to JBPB & Co., a firm of certified public accountants in Hong Kong Special Administrative Region formerly known as Grant Thornton in Hong Kong.

“NDRC” refers to the National Development and Reform Commission of the PRC.

“NYSE” refers to New York Stock Exchange.

“Ordos Neng Hua” refers to Yanzhou Coal Ordos Neng Hua Company Limited, a wholly owned subsidiary of the Company that mainly engages in the construction of a 600,000-tonne methanol project in Ordos City and the development of coal resources in the Inner Mongolia Autonomous Region.

“PBOC” refers to the People’s Bank of China.

“PRC” refers to the People’s Republic of China.

“Promoter Shares” refers to the domestic legal person shares held by Yankuang Group.

“Shanxi Nenghua” refers to Yanzhou Coal Shanxi Nenghua Company Limited, a wholly owned subsidiary of the Company that manages our investment projects in Shanxi Province.

“Shares” refers collectively to our (i) domestic invested shares listed on the Shanghai Stock Exchange, par value RMB1.00 each (the “Domestic Shares” or “A Shares”), (ii) foreign-invested shares issued and traded in HK dollars and listed on the Hong Kong Stock Exchange, par value RMB1.00 each (the “H Shares”) and (iii) American Depositary Shares (the “ADSs”), each of which represents ten H Shares.

“Tianhao Chemicals” refers to Shanxi Tianhao Chemicals Company Limited, a 99.89% owned subsidiary of Shanxi Nenghua that mainly engages in the operation of a 100,000 tonne methanol project in Shanxi Province.



“Tianchi Energy” refers to Shanxi Heshun Tianchi Energy Company Limited, an 81.31% owned subsidiary of Shanxi Nenghua that mainly engages in the operation of Tianchi Coal Mine.

“Tonne” means metric tonne, which is equivalent to 1,000 kilograms or approximately 2,205 pounds.

“Twelfth Five-Year Plan” refers to the Twelfth Five-Year Plan (2011 to 2015) for National Economic and Social Development in the PRC.

“Yancoal Australia” refers to Yancoal Australia Limited, a wholly owned subsidiary of the Company that manages our investment projects in Australia.

“Yankuang Group” or “Controlling Shareholder” refers to Yankuang Group Corporation Limited (formerly known as Yanzhou Mining (Group) Corporation Limited).

“Yulin Nenghua” refers to Yanzhou Coal Yulin Nenghua Company Limited, a wholly owned subsidiary of the Company that mainly engages in the operation of a 600,000-tonne methanol project in Shaanxi Province.

“Yushuwan Coal Mine Company” refers to Shaanxi Yushuwan Coal Mine Company Limited, a joint venture among the Company, Chia Tai Energy & Chemicals Company Limited and Yushen Coal Company Limited, of which we will hold a 41% equity interest. As of the date of this annual report, the establishment of Yushuwan Coal Mine Company is still pending regulatory approval.

For purpose of this annual report, “Eastern China” refers collectively to Shandong Province, Jiangsu Province, Anhui Province, Zhejiang Province, Fujian Province, Jiangxi Province and Shanghai Municipality; “Southern China” refers to Guangdong Province and Hunan Province and Guangxi Autonomous Region; and “Northern China” refers to Beijing Municipality, Tianjin Municipality, Hebei Province, Shanxi Province and the Inner Mongolia Autonomous Region.

Certain mining terms used in this annual report are defined in the “Glossary of Mining Terms”, which was included as Appendix B to our registration statement on Form F-1 that we filed with the U.S. Securities and Exchange Commission. A copy of the “Glossary of Mining Terms” may be obtained upon written request to the Company.

CONVENTIONS

Unless otherwise specified, references in this annual report to “U.S. dollars”, “USD” or “US\$” are to United States dollars, references to “HK dollars”, “HKD” or “HK\$” are to Hong Kong dollars, references to “A\$” are to Australian dollars and references to “RMB” are to Renminbi, the lawful currency of the PRC. Our financial statements are denominated in RMB and, except as otherwise stated, all monetary amounts in this annual report are presented in RMB.

Solely for your convenience, certain items in this annual report contain translations of Renminbi amounts into U.S. dollars, which have been made at the rate of RMB6.6000 to US\$1.00, the certified exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board for December 30, 2010. No representation is made that the Renminbi amounts could have been or could be converted into U.S. dollars at that rate, or at all.

In this annual report, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, the amounts identified as total amounts in tables may not be equal to the apparent sum of the amounts listed therein.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

**ITEM 3. KEY INFORMATION****A. Selected Financial Data****Historical Financial Data**

The following table sets forth selected financial data as of and for the years ended December 31, 2006, 2007, 2008, 2009 and 2010. The selected income statement and cash flow data for the years ended December 31, 2008, 2009 and 2010 and the selected balance sheet data as of December 31, 2009 and 2010 have been derived from our audited consolidated financial statements included elsewhere in this annual report and should be read in conjunction with those financial statements and the accompanying notes. Unless otherwise indicated, the financial statements have been prepared and presented in accordance with IFRS, as issued by the International Accounting Standards Board. Our selected income statement and cash flow data for the years ended December 31, 2006 and 2007 and our selected balance sheet data as of December 31, 2006, 2007 and 2008 have been derived from our audited consolidated financial statements for those periods and dates, which are not included in this annual report.

	As of and for the Year Ended December 31,					
	2006	2007	2008	2009	2010	2010
	RMB	RMB	RMB	RMB	RMB	US\$
(in millions except per Share and per ADS data)						
INCOME STATEMENT DATA						
Total revenue ⁽¹⁾	13,224.3	15,403.7	25,287.4	20,677.1	33,944.3	5,143.1
Gross sales of coal	13,058.8	15,193.0	24,933.3	19,947.8	32,590.9	4,938.0
Railway transportation services income	165.5	210.7	255.7	267.3	513.3	77.8
Gross sales of electricity power	—	—	59.8	187.5	185.5	28.1
Gross sales of methanol	—	—	38.6	258.9	629.3	95.3
Gross sales of heat supply	—	—	—	15.6	25.2	3.8
Transportation costs of coal	(936.6)	(549.8)	(508.7)	(403.3)	(1,160.5)	(175.8)
Cost of sales and service provided ⁽¹⁾	(6,470.4)	(7,625.2)	(12,201.1)	(10,590.0)	(16,801.3)	(2,545.7)
Cost of electricity power	—	—	(88.3)	(190.8)	(195.5)	(29.6)
Cost of methanol	—	—	(37.8)	(352.9)	(716.8)	(108.6)
Cost of heat supply	—	—	—	(9.7)	(12.5)	(1.9)
Gross profit	5,817.3	7,228.7	12,451.5	9,130.4	15,057.6	2,281.5
Selling, general and administrative expenses	(2,230.1)	(2,854.7)	(3,832.0)	(3,820.2)	(5,093.9)	(771.8)
Share of income (loss) of an associate	—	(2.4)	(67.4)	109.8	8.9	1.3
Other income	165.8	198.9	351.5	311.0	3,108.1	470.9
Interest expense	(26.3)	(27.2)	(38.4)	(45.1)	(603.3)	(91.4)
Profit before income taxes	3,726.7	4,543.3	8,865.2	5,685.8	12,477.3	1,890.5
Income taxes	(1,354.7)	(1,315.5)	(2,385.6)	(1,553.3)	(3,171.0)	(480.5)
Profit for the year	2,372.0	3,227.8	6,479.6	4,132.5	9,306.3	1,410.0
Profit attributable to our equity holders	2,373.0	3,230.5	6,488.9	4,117.3	9,281.4	1,406.3
Earnings per Share	0.48	0.66	1.32	0.84	1.89	0.3
Earnings per ADS	4.82	6.56	13.19	8.37	18.87	2.9
Operating income per Share before income tax	0.76	0.92	1.80	1.16	2.54	0.4
Profit from continuing operation per ADS before income tax	7.58	9.24	18.02	11.56	25.37	3.8
CASH FLOW DATA						
Net cash from operating activities	3,767.2	4,558.6	7,095.5	6,520.1	5,399.8	818.2
Net cash from (used in) investing activities	(3,625.5)	(3,790.9)	(2,091.5)	(24,842.9)	(5,884.4)	(891.6)
Net cash from (used in) financing activities	(1,291.5)	(1,018.7)	(921.7)	18,503.7	1,360.5	206.1
BALANCE SHEET DATA						
Total current assets	9,871.9	9,908.2	14,994.4	20,000.9	24,281.4	3,679.0
Total current liabilities	3,828.0	4,099.5	5,297.0	10,410.4	10,133.9	1,535.4
Net current assets	6,043.9	5,808.7	9,697.4	9,590.5	14,147.5	2,143.6
Property, plant and equipment	12,139.9	13,524.6	14,149.4	18,877.1	19,874.6	3,011.3
Total assets	23,458.7	26,187.4	32,338.6	62,432.6	72,755.9	11,023.6
Long-term bank borrowing	330.0	258.0	176.0	20,911.7	22,400.8	3,394.1
Equity attributable to our equity holders	18,931.8	21,417.5	26,755.1	29,151.8	37,331.9	5,656.3
DIVIDEND DECLARED PER SHARE						
A and H Shares	0.22	0.20	0.17	0.40	0.59	0.09
ADSs	2.20	2.00	1.70	4.00	5.9	0.9



(1) In this annual report, business taxes and surcharges have been reclassified as corresponding costs of each category of revenue to provide a more appropriate presentation. The same adjustments have been made to the corresponding prior year. The reclassification has no impact on the overall results of the Group. The attention of Shareholders and potential investors is drawn to such adjustments. For details, please see Note 2 of the consolidated financial statements attached to this annual report.

Number of Shares Outstanding

The following table sets forth the number of our A Shares, H Shares and ADSs outstanding as of the dates indicated.

	As of December 31,				
	2006	2007	2008	2009	2010
A Shares	2,960,000,000	2,960,000,000	2,960,000,000	2,960,000,000	2,960,000,000
H Shares	1,958,400,000	1,958,400,000	1,958,400,000	1,958,400,000	1,958,400,000
ADSs	5,461,179	3,338,368	18,919,105	19,403,533	19,744,158

**Exchange Rate Information**

The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we use in this annual report or will use in the preparation of our periodic reports or any other information to be provided to you. The source of these rates is the Federal Reserve H.10 Statistical Release.

<u>Period</u>	<u>Period End</u>	<u>Average⁽¹⁾</u>	<u>High</u>	<u>Low</u>
	(expressed in RMB per US\$)			
2005	8.0702	8.1826	8.2765	8.0702
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9193	7.2946	6.7800
2009	6.8259	6.8295	6.8470	6.8176
2010	6.6000	6.7603	6.8330	6.6000
October	6.6707	6.6678	6.6912	6.6397
November	6.6670	6.6538	6.6892	6.6330
December	6.6000	6.6497	6.6745	6.6000
2011				
January	6.6017	6.5964	6.6364	6.5809
February	6.5713	6.5761	6.5965	6.5520
March	6.5483	6.5645	6.5743	6.5483
April	6.4900	6.5224	6.5477	6.4900
May	6.4786	6.4957	6.5073	6.4786
June (through June 17, 2011)	6.4700	6.4785	6.4830	6.4700

(1) Determined by averaging the rates on the last business day of each month during the respective period, except for monthly averages, which are determined by averaging the rates on each business day of the month.

On June 17, 2011, the noon buying rate was US\$1.00 = RMB6.4700.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Our business, financial condition and results of operations are subject to various changing business, competitive, economic, political and social conditions in China and worldwide. In addition to the factors discussed elsewhere in this annual report, the following are some of the important factors that could cause our actual results to differ materially from those projected in any forward-looking statements.

Our business and profitability are affected by global economic conditions.

The coal industry depends on general economic conditions, including the strength of global and local economies. In 2008 and 2009, the economies of the United States, Europe and certain countries in Asia experienced a severe and prolonged recession and China experienced a slowdown in overall economic growth, which led to a reduction in economic activity. In 2010, the average selling price of coal in the PRC experienced fluctuations due to global and local economic conditions. In spite of certain policies and initiatives implemented by the PRC government to alternately stimulate, and then moderate economic conditions, we cannot assure you that another recession would not occur or that a decline in overall economic conditions would not recur in the future. In the event of such a recession or decline in economic conditions, whether globally, locally in the PRC or in our major markets, our business and profitability may be adversely affected. We cannot assure you that the PRC government will not implement tightening policies to manage the growth of the economy or to control an overheated economy in the future, which may in turn affect coal prices. In the event that this occurs, our business and profitability may be materially and adversely affected.



Our business and results of operations depend on the volatile domestic and international coal markets.

As we derive a substantial portion of our revenue from sales of coal, our business and operating results depend upon supply and demand for coal in the domestic and international coal markets. The prices of coal have been historically volatile and fluctuate in response to general economic conditions, supply and demand and the level of global inventories. From the fourth quarter of 2008 through early 2009, the demand for coal decreased significantly as a result of the global financial crisis. Since 2009, demand for coal in China and worldwide, along with coal prices, has substantially recovered. The average selling price of our coal products was RMB663.9, RMB529.2 and RMB663.5 per tonne in 2008, 2009 and 2010, respectively. However, we cannot assure you that demand for and prices of coal will not decline again, the occurrence of which may adversely affect our results of operations.

Global coal demand correlates strongly with the global economy and the performance of coal-consuming industries, including the power generation, chemical, metallurgy and construction materials industries. In addition, the availability and prices of alternative energy sources to coal, as well as international shipping costs, also affect coal demand. Coal supply, on the other hand, is primarily affected by the geographical location of coal reserves, transportation capacity, the level of domestic and international coal supplies and the type, quality and price of coal from other producers. Developments in the international coal market may adversely affect our overseas sales, which we expect to increase following the expansion of our Australian operations. A significant increase in global coal supply or reduction in demand for coal from key consuming industries may decrease coal prices, which in turn may reduce our profitability and adversely affect our business and results of operations.

Our business is dependent on short-term sales contracts and letters of intent.

In 2008, 2009 and 2010, the majority of our sales income (the invoiced amount of coal sold net of returns and discounts) of coal was derived from short-term sales contracts or letters of intent. These sales contracts and letters of intent generally specify the quantity and delivery schedule of purchases for a term generally not exceeding one year. If we experience a weak coal pricing environment that results in a decline in coal prices at the time of actual sale, our revenue and profitability would be reduced.

Historically, our customers have performed a significant majority of their purchase obligations under the sales contracts and letters of intent with us. However, a significant increase in the proportion of unperformed sales contracts and letters of intent or unrealized sales could have a material adverse impact on our results of operations if we are not able to locate alternative purchasers at the similar level of profitability. Furthermore, any changes in the cost or availability of labor, raw materials or transportation or volatility in foreign exchange rates during the period between the formation and performance of these sales contracts and letters of intent may adversely affect our ability to perform our contractual obligations or our profitability.

Our products may be subject to governmental price control measures, which may adversely affect our profitability.

Although the PRC government has implemented measures to overhaul historical price and supply controls and continues to support the development of a market-orientated PRC coal market, it may intervene in the domestic coal market from time to time through the use of macroeconomic measures to stabilize the market and achieve national social and economic goals. For example, the State Council of China and the NDRC published announcements in November and December 2010, respectively, imposing price caps on coal sold pursuant to key thermal coal supply agreements imposed with reference to the coal prices of the agreements entered into by the relevant enterprises in 2010. Such price caps were reemphasized by the NDRC in announcements issued in April 2011. These price-intervention measures may limit the degree of control we have over certain aspects of our business and may have a negative impact on our operations, pricing and profitability.

We rely on the PRC national railway system to deliver our products.

We rely on the PRC national railway system, as well as our railway network, to deliver coal to customers. We generated approximately 33.6%, 32.1% and 22.7% of our sales income (the invoiced amount of coal sold net of returns and discounts) of coal products sold and transported on the PRC state-owned railway system (exclusive of coal transported on our own railway network) in 2008, 2009 and 2010, respectively. Although the PRC government has taken steps to upgrade and expand the national railway system, its current capacity is not sufficient to meet the entire domestic coal transportation requirement. Even though our domestic customers are mainly located in Eastern China, where the railway system is relatively more developed than other regions of China, our ability to deliver coal is still restricted by the transportation capacity. In addition to railway transportation, we use major coal shipping ports along the coast of China to deliver coal to customers located along the coastal regions of China. However, we cannot assure you that we will be able to continue securing sufficient railway and port capacity to deliver our coal or that we will not experience any material delivery delays or substantial increases in transportation costs as a result of insufficient railway capacity. For details about our sales income of coal, please refer to "Item 5. Operating and Financial Review and Prospects — Coal Business".



The coal reserve data in this annual report are only estimates, which may differ materially from actual results.

Our coal reserve data are only estimates, which may differ materially from actual reserves. Our reserve estimates may change substantially if new information becomes available. There are inherent uncertainties in estimating reserves, which require the consideration of a number of factors, assumptions and variables, many of which may be beyond our control and cannot be ascertained despite due investigation. Our actual results of operations may differ materially from our long-term business and operational plans, which are based on our coal reserve estimates. We cannot assure you that we will not adjust our coal reserve estimates downward in the future, and in such event, our long-term production and the useful life of our mines may be materially and adversely affected.

Competition in the PRC and the international coal industry is intensifying, and we may not be able to maintain our competitiveness.

We face competition in all aspects of our business, including pricing, production capacity, coal quality and specifications, transportation capacity, cost structure and brand recognition. Our coal business competes in the domestic and international markets with other large domestic and international coal producers. Ongoing consolidation in the PRC coal industry has increased the level of competition in China. Our competitors may have higher production capacities, stronger brand names and more financial, marketing, distribution and other resources than we do.

We may not be able to maintain our competitiveness if changes or developments in the market weaken our existing competitive advantages. We cannot assure you that efforts taken by our competitors to improve the quality of their coal will not erode the quality advantage we have over them. Continual improvements in China's transportation infrastructure, particularly the national railway transportation network, may diminish our proximity advantage of being located in Eastern China, the region with the highest coal demand in the PRC. Our principal competitors are located predominately in Shanxi Province, Shaanxi Province and the Inner Mongolia Autonomous Region, where there have been occasional rail capacity shortages and the costs of transporting coal to Eastern China are more significant. However, the PRC government has constructed and plans to continue constructing additional railways to transport coal from northern and northwestern China to Eastern China. The completion of these railway projects may increase the supply of coal to customers in Eastern China, increasing the effective supply of coal, which may have a material adverse impact on our results of operations.

Our results of operations depend on our ability to continue acquiring or developing suitable coal reserves.

The recoverable coal reserves in our existing mines decline as we produce coal. Due to the limitation on our ability to significantly increase our production capacity at existing mines, such as Jining II Coal Mine, Jining III Coal Mine and Tianchi Coal Mine, the increase in our coal production depends on the coal reserves we developed recently or will develop in the future, as well as our newly acquired coal resources.

We acquired the mining rights of Zhaolou Coal Mine through Heze Nenghua in May 2008, and commenced production at Zhaolou Coal Mine in December 2009. On December 23, 2009, we completed the acquisition of the entire equity interest in Felix, which had an equity interest in three operational mines and three exploratory mines. In December 2009, we established Ordos Neng Hua to manage our investments in the Inner Mongolia Autonomous Region, including a coal mining project. In 2010, Ordos Neng Hua acquired a 100% equity interest in a 600,000 tonnes methanol project. We acquired the entire assets of Anyuan Coal Mine in December 2010, which has commenced production in early 2011. We also obtained a 61% equity interest in Haosheng Company as of the date of this annual report. We are also in the process of establishing an associate company for a coal mining project in Yushuan, Shaanxi Province. For more information about the development and acquisition of our coal resources, please refer to "Item 4. Information on the Company — History and Development of Our Company" in this annual report.

The acquisition of new mines by PRC coal companies, either within China or overseas, and the procurement of related licenses and permits are subject to PRC government approval. Delays in securing or failure to secure relevant PRC government approvals, licenses or permits, as well as any adverse change in government policies may hinder our expansion plans, which may materially and adversely affect our profitability and growth prospects. In connection with overseas acquisitions and expansion, we may encounter challenges due to our unfamiliarity with local laws and regulations, suffer foreign exchange losses on overseas investments or face political or regulatory obstacles to acquisitions. We cannot assure you that our overseas expansion plans and investments will be successful.

We cannot assure you that we will be able to continue to identify suitable acquisition targets or acquire these targets on competitive terms and in a timely manner. We may not be able to successfully develop new coal mines or expand our existing ones in accordance with our development plans, or at all. Failure to successfully acquire suitable targets on competitive terms, develop new coal mines or expand our existing coal mines could have an adverse effect on our competitiveness and growth prospects.



Our operations may be affected by uncertain mining conditions.

Our operations are subject to certain risks inherent in underground mining, which may affect the safety of our workforce or cost of producing coal, including, without limitation, roof collapses, deterioration in the quality or variations in the thickness of coal seams, minewater discharge, explosions from methane gas or coal dust, ground falls and other mining hazards. Additionally, we are exposed to operational risks associated with industrial or engineering activities, such as maintenance problems or equipment failures. Although we conduct geological assessments on mining conditions and adapt our mining plans to the mining conditions at each mine, we cannot assure you that adverse mining conditions would not endanger our workforce, increase our production costs, reduce our coal output or temporarily suspend our operations. The occurrence of any of the foregoing events or conditions would have a material adverse impact on our business and results of operations.

We may suffer losses resulting from mining safety incidents.

Our coal mines and operating facilities may be damaged by water, gas, fire or cave-ins due to unstable geological structures. Like other coal mining companies, we have experienced accidents that have resulted in property damage and personal injuries. Although we have implemented safety measures at our mining sites, trained our employees on occupational safety and maintain liability insurance for personal injuries as well as limited property damage for certain of our operations, we cannot assure you that safety incidents will not occur. Any significant accident, business disruption or safety incident could result in substantial uninsured costs and the diversion of our resources, which could materially and adversely affect our business operations and financial condition.

We may be required to allocate additional funds for land subsidence.

Underground mining may cause the land above mining sites to subside. We may compensate inhabitants in areas surrounding our mining sites for their relocation expenses or for any property loss or damage as a result of our mining activities. PRC regulations require us to set aside provisions to cover the costs associated with land subsidence, restoration, rehabilitation and environmental protection. An estimated provision is deducted as an expense in our income statement based on the amount of coal actually extracted.

In 2010, approximately RMB693.7 million of our provisions for land subsidence, restoration, rehabilitation and environmental protection was expensed. The provision for land subsidence, restoration, rehabilitation and environmental costs is determined by our Directors based on estimations on various factors, including past occurrences of land subsidence. However, the provisions that we make are only estimates and may be adjusted to reflect the actual effects of our mining activities on the land above and surrounding our mining sites. Therefore, there can be no assurance that such estimates will be accurate or that our land subsidence, restoration, rehabilitation and environmental costs will not substantially increase in the future or that the PRC government will not impose new fees or change the basis of calculating compensation and reclamation costs in respect of land subsidence, the occurrence of any of which could increase our costs and have a material adverse effect on our results of operations.

PRC quotas for coal exports may adversely affect the level of our coal export sales.

Our export sales conducted from China (not including the sales by Yancoal Australia) accounted for approximately 0.9%, 0.3% and 0.03% of our sales income of coal in 2008, 2009 and 2010, respectively. The NDRC and the Ministry of Commerce set an annual export quota for domestic coal producers and allocate the quota among authorized coal exporters. Our export agents have historically received sufficient export quota to satisfy our export requirements. However, we are unable to predict what impact, if any, the national export quota may have on the level of our future export sales. If the national quota for coal exports is further reduced, our future export sales could be limited, which in turn could adversely affect our results of operations.

We do not have an export permit and cannot directly export our coal. All of our export sales must be made through intermediary export agents such as China National Coal Industry Import and Export Corporation, China National Minerals Import and Export Company Limited and Shanxi Coal Import and Export Group Company. The terms of our export sales are determined collectively by us, the export agents and our overseas customers. Although we have applied to the PRC central government for direct export rights with the assistance of the Shandong provincial government, we may not obtain such rights and may have to continue relying on export agents to export our coal from China.

***Our business operations may be adversely affected by present or future environmental regulations.***

As a PRC coal producer, we are subject to extensive and increasingly stringent environmental protection laws and regulations. These laws and regulations:

- impose fees for the discharge of waste substances;
- require provisions for land reclamation and rehabilitation;
- impose fines and other penalties for serious environmental offenses; and
- authorize the PRC government to close any facility that fails to comply with environmental regulations and suspend any coal operation that causes excessive environmental damage.

Our coal mining operations produce waste water, gas emissions and solid waste materials. The PRC government has tightened its enforcement of applicable laws and regulations and adopted more stringent environmental standards. Similarly, our Australian operations are subject to Australia's stringent environmental regulations. Our budgeted amount for environmental regulatory compliance may not be sufficient, and we may need to allocate additional funds for this purpose. If we fail to comply with current or future environmental laws and regulations, we may be required to pay penalties or fines or take corrective actions, any of which may have a material adverse effect on our business, results of operations and financial condition.

In March 2011, the NDRC promulgated the main targets of resources conservation and environment protection for 2011, which set the goals to decrease the amount of energy consumed per unit of GDP by 3.5% and to reduce the emission of certain major pollutants by 1.5% in 2011 compared with that in 2010. If efforts to increase energy efficiency, control greenhouse gas emissions and enhance environmental protection result in a decrease in coal consumption, our revenue may decrease and our business may be adversely affected.

We face pricing volatility and intense competition in our methanol operations.

We entered the PRC methanol market and commenced production of coal-based methanol at Tianhao Chemicals and Yulin Nenghua in September 2008 and August 2009, respectively. The methanol business is a cyclical and competitive commodity industry with dynamic supply and demand fundamentals. From 2006 to 2010, the domestic methanol industry suffered from significant overcapacity following a period of rapid expansion and increased investment, which were stimulated by speculation on the development of methanol downstream applications and the overheated coal chemical industry. Stagnation in market demand for methanol as a result of difficulty in promoting the utilization of methanol downstream products caused the over capacity issue to further deteriorate. We expect methanol prices in domestic market to remain sluggish due to the above mentioned conditions. In March 2011, the PRC benchmark methanol price increased to RMB2,670 per tonne from RMB2,590 per tonne in March 2010, representing a 3.1% increase.

We expect our methanol prices to be affected by a number of factors, including, without limitation:

- global and domestic methanol production;
- global energy prices;
- methanol plant utilization rates, capacity additions and shut downs;
- global economic conditions;
- our cost structure, product quality, availability of raw materials and utilization of our methanol plants;
- compliance costs and environmental risks; and
- foreign competition from low cost methanol producers which may have greater resources.

As of the end of 2010, we had a total methanol production capacity of 700,000 tonnes. As with developing any new business, we may not optimize the utilization of our new facilities as planned. For example, Tianhao Chemicals has not been able to procure a steady supply of key raw material from its sole supplier of coke oven waste gas and has not been able to maintain steady operations as of the date of this annual report, which significantly curtailed its production in 2010.

If our projections for the domestic methanol market prove incorrect or if we are unable to otherwise compete effectively, we may not recover the capital and resources we have invested in our methanol operations and realize the intended benefits of our business expansion. In either event, our business and profitability will be adversely affected.

Our electric power business is heavily regulated, which may affect our results of operations.

We generated RMB185.5 million of revenue from electric power sales, which represented approximately 0.5% of our total revenue in 2010. The majority of electricity that we produced was for our internal use and we sold the remaining portion to external customers. To the extent that we do sell electricity, any decrease in the government-set grid power prices, the price at which power grid operators purchase electricity from power plants, including our power plants, may reduce our profitability and adversely affect our results of operations.



The operation of coal-fired power plants is subject to increasingly stringent emission standards of the PRC government, in particular, the resources conservation and environmental protection standards for 2011 set forth by the NDRC, which stipulated the standards for air pollutant emissions for the power plants. As a result, our compliance costs will likely increase and the profitability of our electric power business may be reduced.

We are exposed to fluctuations in exchange rates and interest rates.

We mainly face risks relating to RMB fluctuations and risks stemming from exchange rate fluctuations between the Australian dollar and U.S. dollar. China has adopted a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand with reference to a basket of currencies. The primary effect of exchange rate fluctuations on us is due to our exports denominated in U.S. dollars and Australian dollars. As a result, exchange rate fluctuations can affect our export sales. In addition, exchange rate fluctuations can result in exchange losses on our foreign currency deposits and loans. As of December 31, 2010, the exchange rate for the Australian dollar against the U.S. dollar was 1.0163 (A\$1.00 = US\$1.0163), compared with A\$1.00 = US\$0.8985 as of December 31, 2009. Yancoal Australia recorded an exchange gain of RMB2,688.2 million during the reporting period. Exchange rate fluctuations can affect our cost of imported equipment and components.

To manage uncertainty in our revenue stream and capital expenditures caused by exchange rate fluctuations, we have entered into forward foreign exchange contracts to sell or purchase specified amounts of foreign currencies at stipulated exchange rates. We have also entered into interest rate swap contracts with banks to hedge a portion of our variable interest rate borrowings. As of December 31, 2010, the fair value of our derivative assets in respect of our foreign exchange contracts was RMB239.5 million, compared with the fair value of our derivative liabilities in respect of our forward contracts and interest rate swap contracts of approximately RMB166.2 million. See "Item 11. Quantitative and Qualitative Disclosures about Market Risks — Foreign Currency Exchange Rate Risk" for details on our hedging activities. We cannot assure you that our hedging arrangements will remain effective or that our results of operations will be not negatively affected by fluctuations in exchange rates or interest rates.

Our substantial indebtedness could adversely affect our business, financial condition and results of operations.

As of December 31, 2010, we had approximately RMB23,015.8 million in bank borrowings, of which approximately RMB614.9 million is due within a year, approximately RMB22,356.8 million is due after one year but within five years and approximately RMB44.0 million is due after more than five years. This level of debt could have significant consequences on our operations, including:

- reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes as a result of our debt servicing obligations;
- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, our industry and the general economy; and
- potentially limiting our ability to obtain or increasing the cost of any additional financing.

In addition, Yancoal Australia obtained a syndicated loan amounting to approximately US\$3,040.0 million attributable to the Felix acquisition in December 2009, which is guaranteed by us and secured by a counter guarantee from Yankuang Group. Failure by us to satisfy our repayment obligations could result in an event of a default that, if not cured or waived, could have a material adverse effect on us.

If we are not able to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, our results of operations and financial condition may be materially and adversely affected.

The operations of our Controlling Shareholder have a significant impact on us.

As of December 31, 2010, our Controlling Shareholder, the Yankuang Group, owned 52.86% of our outstanding shares and exerts significant influence over us. We may continue to enter into a number of connected transactions with the Yankuang Group. Pursuant to the regulations of the Hong Kong Stock Exchange and the Shanghai Stock Exchange on continuing connected transactions, we complete the necessary review and approval procedures before entering into continuing connected transactions. We have entered into five continuing connected transaction agreements with the Yankuang Group, namely the Materials Supply Agreement, Supply of Labor and Services Agreement, Pension Fund Management Agreement, Coal Products and Materials Supply Agreement and Electricity and Heat Energy Supply Agreement, each of which has a term from 2009 to 2011. In the fourth quarter of 2008, our shareholders approved the amendment and renewal of the five foregoing continuing connected agreements. On April 23, 2011, we also entered into the Finance Services Agreement with Yankuang Group Finance Company Limited, a joint venture established by the Yankuang Group, China Credit Trust Co., Ltd and us. Any material financial or operational developments experienced by the Yankuang Group that lead to the disruption of its operations or impairs its ability to perform its obligations under the agreements could materially affect our operations and future prospects.



As our Controlling Shareholder, the Yankuang Group has the ability to exercise control over the Company's business and affairs, including, but not limited to, decisions with respect to:

- mergers or other business combinations;
- the acquisition or disposition of assets;
- the issuance of any additional shares or other equity securities;
- the timing and amount of dividend payments; and
- the management of our Company.



Our operations are affected by a number of risks relating to the PRC.

Because a significant majority of our assets and operations are located in China, we are subject to a number of risks relating to conducting business in China, including, but not limited to, the following:

- The central and local governments of the PRC have historically supported the development of the PRC coal industry and the continued operation of selected coal producers. A change in current policies that are favorable to us may adversely affect our ability to expand our business operations or increase our profitability.
- Under current PRC regulatory requirements, we must obtain approval from relevant administrative authorities of the PRC government for any material capital expenditure project. Failure to obtain timely approvals for our projects may adversely affect our business plans and operating results.
- China is still in the process of developing a comprehensive legal system. The enforcement of certain laws in China may still be subject to uncertainty. For instance, under current PRC tax laws, dividends payable to a non-PRC individual holders of shares outside the PRC are no longer exempted from PRC individual income tax and are subject to 20% individual income tax. However, this rate is still subject to adjustment in accordance with the applicable tax treaties or arrangement, pending on further confirmation from the relevant PRC authorities. Please refer to “Item 10. Additional Information — E. Taxation” for more details about this tax treatment.
- The PRC government’s ongoing reform of the PRC economic system may increase the uncertainties in our business as a number of reforms are unprecedented or experimental and may be subject to refinement and adjustments. We may be directly affected by these reforms or indirectly affected by changes in political, economic and social factors that result from these reform measures. Our operating results may be adversely affected by changes in economic and social conditions in China and changes in the PRC government policies related, but not limited, to inflation control, economic stimulus policies, tax policies and rates, currency conversion restrictions and tariffs and other import restrictions.

Our coal operations are extensively regulated by the PRC and Australian government and government regulations may limit our activities and adversely affect our business operations.

Our coal operations in China are subject to extensive regulation by the PRC government. National governmental authorities, such as the NDRC, the Ministry of Environmental Protection, the Ministry of Land and Resources, the State Administration of Coal Mine Safety and the State Bureau of Taxation, as well as corresponding provincial and local authorities and agencies, exercise extensive control over the mining and transportation (including rail and sea transport) of coal within China.

Our operations in Australia are subject to similar laws and regulations of general application governing mining and processing, land tenure and use, environmental requirements, including site specific environmental licenses, permits and statutory authorizations, workplace health and safety, trade and export, competition, access to infrastructure, foreign investment and taxation. These regulations may be implemented by various federal and state government departments and authorities including the Department of Resources, Energy and Tourism, the Department of Environment, Water, Heritage and the Arts and the National Native Title Tribunal.

Regulatory oversight from these authorities and agencies may affect the following, among others, aspects of our operations:

- the use and grant of mining rights;
- rehabilitation of mining sites and surrounding areas;
- mining recovery rates;
- pricing of our transportation services for coal in China;
- taxes, levies and fees on our business;
- application of capital investments;
- export quotas and procedures;
- pension fund contributions;
- preferential tax treatment; and
- environmental and safety standards.

As a result of the foregoing regulation, our ability to execute our business strategies or to carry out or expand our business operations may be restricted. We may experience substantial delays in obtaining regulatory approvals, permits and licenses for our business operations. Our business may also be adversely affected by future changes in PRC or Australian regulations and policies that affect the coal industry. The adoption of new legislation or regulations, or the new interpretation of existing legislation or regulations, may materially and adversely affect our operations, our cost structure or product demand. The occurrence of any of the foregoing may cause us to substantially change our existing operations or incur significant compliance costs. For example, the Australia federal



government announced proposals to implement a 40% Resource Super Profits Tax generated from non-renewable resources by mining companies, which is currently scheduled to come into effect on July 1, 2012. The tax payable of coal producers will increase substantially should this tax proposal become effective. The newly elected prime minister of Australia, Julia Gillard, later announced certain modifications to the Resource Super Profits Tax proposal, including, without limitation, reducing the number of affected companies, decreasing the applicable tax rate and increasing the range of tax credit available to mining companies. Notwithstanding the substantial modifications, the new tax proposal will still increase the taxation obligation of coal producers. In addition, we are subject to various uncertainties in relation to the foregoing tax proposal which has not yet been approved by the Australian government, including, without limitation, the final arrangement and the time of implementation. We expect the implementation of the foregoing tax proposal will have a material adverse effect to the profitability of our operations in Australia.



ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of our Company

Yanzhou Coal Mining Company Limited was established on September 25, 1997 as a joint stock company with limited liability under the Company Law of the PRC (the “Company Law”). The predecessor of our Company, Yanzhou Mining Bureau, was established in 1976. With the approval of the former State Economic and Trade Commission and the former Ministry of Coal Industry in 1996, the predecessor was incorporated under the name Yanzhou Mining (Group) Corporation Limited and subsequently renamed Yankuang Group Corporation Limited after undergoing a reorganization in 1999.

In 1999, the Minister of Foreign Trade and Economic Cooperation, the predecessor of the Ministry of Commerce, approved our conversion into a Sino-foreign joint stock company with limited liability under the Company Law and the Sino-Foreign Joint Venture Law of the PRC.

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Establishment of Ordos Neng Hua and Acquisition of Coal Chemical Project

We established Ordos Neng Hua in the Inner Mongolia Autonomous Region in December, 2009. Ordos Neng Hua will act as our investment management platform for coal mining, coal chemicals and a coal power project in Inner Mongolia. As of the date of this annual report, the registered capital of Ordos Neng Hua was RMB3.1 billion.

Subsequently, the Company and Ordos Neng Hua successively completed the following related acquisitions: acquisition of 100% of the equity interests in a 600,000-tonne methanol project, the acquisition of a 61% equity interest in Haosheng Company, the acquisition of the entire assets of Anyuan Coal Mine and obtaining the mining rights of Zhuan Longwan coal mine field through public bidding. These acquisitions should assist us in acquiring coal resources in Ordos City, further participating in coal resources development in the Inner Mongolia Autonomous Region and enhancing the sustainable development ability and core competitiveness of the Company.

**Acquisition of 100% equity interest in the 600,000-tonne methanol project**

Pursuant to approval granted at the general manager working meeting held on December 1, 2009, Ordos Neng Hua acquired 100% of the equity interests held by Kingboard Chemical Holdings Limited in Inner Mongolia Rongxin Chemicals Co., Ltd, Inner Mongolia Daxin Industrial Gas Co., Ltd and Inner Mongolia Yize Mining Investment Co., Ltd, for a consideration of RMB190 million out of its own resources. The relevant procedures for the share ownership transfer procedures were completed on April 16, 2010. The above companies are responsible for the establishment of the first phase of the 600,000-tonne methanol project.

Acquisition of Inner Mongolia Haosheng Coal Mining Company Limited

Currently, Haosheng Company is primarily responsible for the approval application for the mining project and the grant of the mining rights of Shilawusu Coal Mine field Project in the Inner Mongolia Dongsheng Coal Field.

Pursuant to approval granted at the fifteenth meeting of the fourth session of the Board held on August 20, 2010, we entered into the equity transfer agreement of Haosheng Company and its supplementary agreement on September 6, 2010 and October 19, 2010, respectively. Under such agreements, we acquired 51% of equity interests in Haosheng Company originally held by Shanghai Huayi (Group) Company ("Huayi"), Ordos Jinchengtai Chemical Co., Ltd ("Jinchengtai") and Shandong Jiutai Chemical Industrial Technology Company Limited ("Jiutai Technology") in Haosheng Company for a consideration of approximately RMB6,649 million. The Company and other shareholders of Haosheng Company are obligated to inject further capital on a pro-rata basis in order to increase the registered capital from RMB50 million to RMB150 million.

The initial payment of the consideration and capital increase in Haosheng Company in a total amount of approximately RMB2,045.8 million was paid by us on October 20, 2010 and the share ownership transfer procedures were completed on November 4, 2010. We are obligated to pay a second installment of approximately RMB2,659.6 million within 15 working days when any of the following requirements has been met: (i) Haosheng Company obtains the exploration rights license of Shilawusu Coal Mine field; (ii) the mining zone delineation of Shilawusu Coal Mine Zone or other applications related to mining rights have been approved by the Ministry of Land and Resources (the main body to have obtained the mining zone delineation or other mining rights must be Haosheng Company). The third installment of approximately RMB1,994.7 million shall be paid within 10 months after completion of the second payment.

As of March 31, 2011, we entered into an equity transfer agreement of Haosheng Company with Ordos City Jiutaimanlai Coal Mining Company Limited ("Jiutaimanlai") and Jiutai Technology to acquire 10% of the equity interests in Haosheng Company held by Jiutaimanlai and Jiutai Technology for a consideration of approximately RMB1,313.8 million. We paid the initial payment of approximately RMB394.1 million (representing 30% of the total amount) on April 7, 2011. Currently, we are processing the share ownership transfer procedures. Upon completion of the transfer, we will hold 61% of the equity interests in Haosheng Company. We are obligated to pay the second and third installments upon the same conditions as the payment arrangements in our acquisition of 51% of the equity interests.

Acquisition of Anyuan Coal Mine

Pursuant to approval granted at the general manager working meeting held on November 12, 2010, Ordos Neng Hua entered into Anyuan Coal Mine Transfer Agreement and its supplementary agreement on November 20, 2010 and January 20, 2011, respectively, to acquire the total assets of Anyuan Coal Mine for a consideration of approximately RMB1,435 million. Pursuant to the transfer agreement, Ordos Neng Hua acquired the Anyuan Coal Mine on December 1, 2010, but still subject to relevant governmental approval. Since December 1, 2010, Ordos Neng Hua owns all the coal produced and earnings derived from Anyuan Coal Mine. As of the date of this annual report, approximately RMB1,290 million has been paid by Ordos Neng Hua, and the balance of the consideration is expected to be paid in July 2011.

Anyuan Coal Mine, located in Ejina Banner of Ordos City, is an underground coal mine. Anyuan Coal Mine covers an area of 9.26 km² and with coal reserves of 40.51 million tonnes and recoverable coal reserves of 20.47 million tonnes. Its designed annual production capacity is 600,000 tonnes of raw coal. The Department of Coal Industry of Inner Mongolia Autonomous Region has approved the increase in annual production capacity of the mine to 1.2 million tonnes. Currently, its expansion and acceptance inspection procedures are in progress.

**Bidding for Mining Rights of Zhuan Longwan Coal Mine Field**

Pursuant to approval granted at the nineteenth meeting of the fourth session of the Board held on January 28, 2011, Ordos Neng Hua successfully bid for the mining rights of Zhuan Longwan coal mine field of Dongsheng Coal Field in Inner Mongolia Autonomous Region for a consideration of RMB7,800 million. Ordos Neng Hua paid the first installment of RMB3,120 million (representing 40% of the total consideration) on February 25, 2011. Ordos Neng Hua is obligated to pay the second installment of RMB2,340 million (representing 30% of the total consideration) in full by November 30, 2011 and the third installment of RMB2,340 million (representing 30% of the total consideration) in full by November 30, 2012.

Pursuant to the Announcement in relation to Public Auction of the Mining Rights of Zhuan Longwan Coal Mine Field of Dongsheng Coal Field issued by the Department of Land and Resources of the Inner Mongolia Autonomous Region, the coal mining field of Zhuan Longwan coal mine covers an area of 43.50 km² and with reserves of 548 million tonnes. Extra large mines with a designed production capacity of 5 million tonnes per year can be constructed in the coal mine field.

The Department of Land and Resources of the Inner Mongolia Autonomous Region was entrusted by the Ministry of Land and Resources of the PRC to conduct the auction. At present, Ordos Neng Hua is undertaking the application procedure for the mining rights of Zhuan Longwan coal mine zone. The bidding was approved at the 2010 annual general meeting of the Company held on May 20, 2011.

Acquisition of Ashton Coal Mine Joint Venture in Australia

Pursuant to approval granted at the seventeenth meeting of the fourth session of the Board held on December 30, 2010, White Mining (NSW) Pty Limited, a wholly-owned subsidiary of Yancoal Australia, started the process of acquiring 30% of the equity interests in the Ashton Coal Mine Joint Venture originally held by Austral-Asia Coal Holdings Pty Ltd, a wholly-owned subsidiary of Singapore IMC Group, for a consideration of US\$250 million. Upon the completion of this acquisition in May 2011, our ownership in the Ashton Coal Mine Joint Venture increased from 60% to 90%.

Ashton Coal Mine, located in Hunter Valley, New South Wales, Australia, consists of an open-cut coal mine and an underground coal mine, with annual designed production capacity of 5.20 million tonnes of raw coal. According to an assessment based on the Australian JORC Code, the aggregate coal reserves of Ashton Coal Mine amounted to 96.50 million tonnes. The types of coal are semi-soft coking coal and premium thermal coal with characteristics of low ash and high calorific value.

Disposal of equity interests in Minerva Coal Mine Joint Venture in Australia

Pursuant to approval granted at the seventeenth meeting of the fourth session of the Board held on December 30, 2010, Felix, a wholly-owned subsidiary of Yancoal Australia, disposed its 51% equity interests in the Minerva Coal Mine Joint Venture to Sojitz Coal Resources Pty Ltd, a wholly-owned subsidiary of Sojitz Corporation in Australia, for a consideration of A\$201 million. Upon completion of the disposal, we have no interest in the Minerva Mine Coal Joint Venture.

Minerva Coal Mine, located in Bowen Basin, Queensland, is an open-cut coal mine, with annual production capacity of 2.80 million tonnes of raw coal. According to an assessment based on the Australia JORC Code, the aggregate coal resources of Minerva Coal Mine amounted to 76 million tones, with reserves of 23.6 million tonnes. The type of coal is thermal coal.

Establishment of Yankuang Group Finance Company Limited

Pursuant to approval granted at the thirteenth meeting of the third session of the Board held on August 3, 2007, we established a joint venture company, Yankuang Group Finance Company Limited (“Yankuang Finance”) on September 13, 2010, jointly with Yankuang Group and China Credit Trust Co., Ltd. The registered capital of Yankuang Finance is RMB500.0 million, of which we have contributed cash of RMB125.0 million representing 25% of the equity interest. Yankuang Finance commenced operation on November 1, 2010, with its principal business including making the bill acceptance and discount for the members and accepting deposits from and lending funds to members.

At the fourteenth meeting of the fourth session of the Board held on April 23, 2010, we entered into the Financial Services Agreement with Yankuang Finance on January 7, 2011. Under the financial service agreement, Yankuang Finance agreed to provide deposit service, loan service and miscellaneous financial services to us with transaction caps for 2010 and 2011. Pursuant to the agreement, the fees charged by Yankuang Finance for the financial services to be provided to us shall be in accordance with the relevant benchmark rates determined by the PBOC or the CBRC (if any), which shall not exceed those charged by the major commercial banks in the PRC for the same kind of financial services provided to us. The agreement also provided risk control measures on funds for both parties to secure the safety of funds.

***Establishment of Shaanxi Future Energy Chemical Corp. Ltd***

Pursuant to approval granted at the seventeenth meeting of the fourth session of the Board held on December 30, 2010, we established Shaanxi Future Energy Chemical Corp. Ltd (“Future Energy”) jointly with Yankuang Group and Shaanxi Yanchang Petroleum (Group) Corp. Ltd on February 25, 2011. The registered capital of Future Energy is RMB5,400 million, of which we will contribute RMB1,350 million in cash, representing an equity interest of 25%. The registered capital will be paid in full in three installments by August 2012. Future Energy will mainly engage in investment and participation in the coal liquefaction project in Shaanxi Province as well as the preparation for development of ancillary coal mines.

Increasing Investments in Ordos Neng Hua

Pursuant to approval granted at the eighteenth meeting of the fourth session of the Board held on January 17, 2011, we increased our capital investment in Ordos Neng Hua by RMB2,600 million with our own funds. On January 24, 2011, the registered capital of Ordos Neng Hua increased from RMB500 million to RMB3,100 million.

Increasing Investments in Yancoal Australia

Pursuant to approval granted at the seventeenth meeting of the fourth session of the Board held on December 30, 2010, we increased the capital investment in Yancoal Australia by A\$909 million (approximately RMB5,900 million) with our own funds. Upon completion of the capital injection, our capital investment in Yancoal Australia increased from A\$64 million to A\$973 million. The capital increase has been approved by the Foreign Investment Review Board of Australia and the NDRC and the procedures for remitting the capital increase are currently in progress.

Capital Expenditures

Our principal source of cash in 2010 was cash generated from our operating activities and bank borrowings. Our capital expenditures in 2010 were primarily for operational capital expenditures, purchase of properties, machinery and equipment, payment of dividends, the acquisition of 51% equity interests in Haosheng Company, the acquisition of Anyuan Coal Mine and investment in Yankuang Finance.

The following table sets forth a summary of our capital expenditures in the periods indicated:

	Year Ended December 31,			
	2008	2009	2010	2010
	RMB	RMB	RMB	US\$
	(in millions)			
Coal mining	1,925.3	24,086.5	3,298.0	486.5
Coal railway transportation	29.2	11.4	34.5	5.1
Electricity power and methanol	925.1	1,220.0	452.8	66.8
Undistributed items	—	—	—	—
Corporate	2.1	7.0	—	—
Total	<u>2,881.7</u>	<u>25,324.9</u>	<u>3,785.3</u>	<u>558.4</u>

Our planned capital expenditures for 2011 is approximately RMB5,103.1 million. For more information, see “Item 5. Operating and Financial Review and Prospects — B. Liquidity and Capital Resources — Capital Expenditures” in this annual report.

Potential Takeovers by Third Parties

There were no indications of any public takeover offers by third parties in respect of our common shares in 2010.



B. Business Overview

The Company is one of the primary coal producers in China with rapidly growing coal mining operations in Australia. We primarily engage in the mining, preparation and sale of coal as well as the railway transportation of coal. In recent years, we have expanded our operations to include the production of coal chemicals and generation of electricity and heat.

The Company directly owns and operates six coal mines: Nantun, Xinglongzhuang, Baodian, Dongtan, Jining II and Jining III (collectively, the “Six Coal Mines”), which produce a substantial majority of our total coal output. As of December 31, 2010, the Six Coal Mines had an estimated collective in-place proven and probable reserve base of approximately 1,797.3 million tonnes.

Through our subsidiaries, we also hold equity interests in a number of coal mines in China and Australia. Yancoal Australia operates Astar Coal Mine, Yarrabee Coal Mine, Minerva Coal Mine, Ashton Coal Mine and Moolarben Coal Mine, which collectively hold approximately 547.3 million tonnes of recoverable coal reserves. Shanxi Nenghua operates Tianchi Coal Mine, which holds approximately 26.7 million tonnes of recoverable reserves, and Heze Nenghua operates Zhaolou Coal Mine, which holds approximately 105.0 million tonnes of recoverable reserves. Since December 1, 2010, Ordos Neng Hua operates Anyuan Coal Mine, which holds approximately 20.5 million tonnes of recoverable coal reserves.

Our main products in our coal business are thermal coal, semi-hard coking coal, semi-soft coking coal, PCI coal and 1/3 coking coal which are sold to power plants, metallurgical mills, chemical manufacturers, construction material manufacturers and fuel trading companies in Eastern China and countries such as Japan and Korea.

Coal Business

Our products consist principally of thermal coal, semi-soft coking coal and semi-hard coking coal, which are suitable for power generation and metallurgical production, respectively. The following table sets forth the specifications and principal applications of our coal products.

	<u>Sulfur Content</u>	<u>Range of and Average Ash Content</u>	<u>Calorific Value</u>	<u>Washed</u>	<u>Principal Applications</u>
	<u>%</u>	<u>%</u>	<u>(megajoule/kilogram)</u>		
The Company					
No. 1 clean coal	0.44	7-8 average 7.79	26-28 average 27.84	Yes	High quality metallurgical production
No. 2 clean coal	0.49	8-9 average 8.57	26-28 average 27.57	Yes	Metallurgical production, construction, liquified coal production
No. 3 clean coal	0.53	10-11 average 10.43	26.3-26.9 average 26.63	Yes	Electricity generation and coal chemical production
Lump coal	0.48	9-14 average 9.81	25-28 average 27.86	Yes	Construction, power generation, coal for oven application
Screened raw coal	0.6	18-27 average 25.7	20-23.5 average 21.36	No	Power generation
Mixed coal	0.6	22-30 average 29.3	18-22 average 20.1	Yes	Power generation
Shanxi Nenghua					
Screened raw coal	1.06	27-30, average 29	21-23, average 22.05	No	Power generation
Heze Nenghua					
No. 2 clean coal	0.49	8-9, average 8.43	29.85	Yes	Metallurgical production, construction, coal slurry
Mixed coal and others	0.51	average 25.69	average 22.25	Yes	Power generation
Yancoal Australia					
Semi-hard coking coal	1.30	5.0	average 33.18	Yes	Metallurgical production
Semi-soft coking coal	0.65	9.5	average 29.82	Yes	Metallurgical production, construction
PCI coal	0.7	9.5-10.5	average 30.66	Yes	Metallurgical production
Thermal coal	0.5-0.6	13.5-17.0	27.30-27.93	No	Power generation

In 2010, we produced approximately 49.4 million tonnes of raw coal, including approximately 34.3 million tonnes by the Company, approximately 12.0 million tonnes by Yancoal Australia, approximately 1.5 million tonnes by Shanxi Nenghua and approximately 1.6 million tonnes by Heze Nenghua.



We sold approximately 49.6 million tonnes of coal in 2010, which consisted of approximately 1.4 million tonnes of internal sales and approximately 48.2 million tonnes of external sales, consisting of approximately 5.4 million tonnes that we had purchased from other coal producers for resale. Our coal sales volume in 2010 increased approximately 11.6 million tonnes, or 30.6%, from 2009 primarily due to the expansion of our Australian operations. We sold approximately 44.3 million tonnes of self-produced coal, representing an increase of approximately 8.3 million tonnes or 23.1%, compared to 2009. The Company sold approximately 33.7 million tonnes of coal, representing an increase of approximately 0.3 million tonnes, or 1.0%, from 2009. Shanxi Nenghua and Heze Nenghua sold approximately 1.5 million and approximately 1.1 million tonnes of coal, respectively. Yancoal Australia sold approximately 8.0 million tonnes of coal, representing an increase of approximately 6.4 million tonnes, or 392.0%, in sales volume from 2009.

The following table sets forth our principal coal products by sales volume and sales income of coal in the indicated periods. For the purposes of the table below, the figures of sales income and sales volume include inter-segment sales.

	Year Ended December 31,					
	2008		2009		2010	
	Sales volume ('000 tonnes)	Sales income (RMB in millions)	Sales volume ('000 tonnes)	Sales income (RMB in millions)	Sales volume ('000 tonnes)	Sales income (RMB in millions)
The Company	32,402	21,094	33,330	17,507.3	33,657	21,324.8
No. 1 clean coal	363	407	694	526.6	691	677.2
No. 2 clean coal	7,431	7,800	8,362	6,414.4	9,002	8,771.2
No. 3 clean coal	2,916	2,654	1,717	1,156	1,560	1,293.7
Lump coal	1,161	1,159	1,402	1,036.8	1,297	1,206
Screened raw coal	17,934	8,669	17,100	7,359.6	16,726	8,085.5
Mixed coal and others	2,597	404	4,055	1,013.4	4,381	1,290.7
Shanxi Nenghua	1,099	298	986	289.5	1,498	572.3
Screened raw coal	1,099	298	986	289.5	1,498	572.3
Heze Nenghua	—	—	16	8.3	1,079	833.0
No. 2 clean coal	—	—	5	4.9	546	603.2
Screened raw coal	—	—	2	1.2	119	62.6
Mixed coal and others	—	—	9	2.2	414	167.2
Yancoal Australia	1,484	1,636	1,627	1,199.3	8,022	6,210.2
Semi-hard coking coal	1,484	1,636	1,627	1,199.3	1,146	1,043.3
Semi-soft coking coal	—	—	—	—	1,279	1,202.3
PCI	—	—	—	—	2,046	1,893.8
Thermal coal	—	—	—	—	3,551	2,070.8
Externally purchased coal	2,577	1,910	2,058	1,112.5	5,378	3,990.0
Total	37,562	24,938	38,017	20,116.9	49,634	32,930.3

Sales and Marketing

A significant portion of our domestic sales in 2010 was made on the spot market, while the remainder of our coal sales were made pursuant to sales contracts. Our customers may also sign letters of intent from time to time. These sales contracts and letters of intent generally specify the quantity and delivery schedule of the coal to be purchased, generally for a term not exceeding one year. The contract price in sales contracts are the result of market-based negotiations between the contracting parties, while the contract prices for letters of intent are generally determined at the time of sale to reflect prevailing market prices.

We have a flexible credit policy, and credit terms may vary from customer to customer depending on each customer's creditworthiness and the credit amount involved. We may allow open accounts, require acceptance bills or require cash on delivery. We rely on data from our ERP system to determine the appropriate payment arrangement and credit terms for each customer, which



generally do not exceed 180 days. We evaluate the creditworthiness of potential new customers before entering into a sales contract with them and reassess the creditworthiness of all of our customers on an annual basis. For customers without a strong credit history, we require them to settle their accounts upon delivery. A majority of our domestic coal sales is made to power plants, metallurgical mills, chemical manufacturers and construction material manufacturers with whom we have established long-standing and stable relationships.



Sales taxes include resource taxes imposed by Shandong and Shanxi Provinces. The applicable resource tax rate is RMB3.6 per tonne for our coal mines located in Shandong Province and RMB3.2 per tonne for our coal mines in Shanxi Province. These taxes are paid to the local tax bureau. The following table sets forth a breakdown of our sales income, which represents the invoiced amount of products sold net of returns and discounts of coal by the industry of our customers for the periods indicated. For the purposes of the table below, the figures of sales income include inter-segment sales.

	Year Ended December 31,					
	2008		2009		2010	
	Sales income (RMB in millions)	% of sales income	Sales income (RMB in millions)	% of sales income	Sales income (RMB in millions)	% of sales income
Power plants	7,641.1	30.6	5,845.4	29.1	7,493.8	22.8
Metallurgical mills	3,574.7	14.3	2,085.3	10.4	5,200.2	15.8
Chemical manufacturers	4,526.5	18.2	2,764.3	13.7	1,405.3	4.3
Others	9,195.6	36.9	9,421.9	46.8	18,831.0	57.2
Total	24,937.9	100.0	20,116.9	100.0	32,930.3	100.0

Our domestic coal sales are concentrated in Eastern China, particularly in Shandong Province. The following table sets forth a breakdown of sales income of coal by geographical region for the periods indicated. For the purposes of the table below, the figures of sales income include inter-segment sales.

	Year Ended December 31,					
	2008		2009		2010	
	Sales income (RMB in millions)	% of sales income	Sales income (RMB in millions)	% of sales income	Sales income (RMB in millions)	% of sales income
China	23,066.5	92.5	19,081.7	94.9	27,619.7	83.9
Eastern China	19,819.4	79.5	14,573.1	72.4	21,861.5	66.4
Southern China	1,246.4	5.0	340.8	1.7	251.1	0.8
Northern China	496.5	2.0	254.3	1.3	511.9	1.6
Other regions	1,504.2	6.0	3,913.4	19.5	4,995.2	15.2
Japan	1,476.1	5.9	479.8	2.4	1,920.0	5.8
South Korea	312.4	1.3	235.2	1.2	2,349.0	7.1
Australia	16.9	0.1	44.8	0.2	482.2	1.5
Others	66.0	0.3	275.4	1.4	559.3	1.7
Total	24,937.9	100.0	20,116.9	100.0	32,930.3	100.0

As of December 31, 2010, our major customers were Huadian International, Baoshan Iron & Steel Co., Ltd., Posco, Yankuang Meihua Gongxiao Co., Ltd. and Linyi Yehua Coking Co., Ltd., among which Huadian International was our largest customer. In 2008, 2009 and 2010, we sold approximately 8.8 million, 7.5 million and 9.2 million tonnes of coal, respectively, to Huadian International, which represented approximately 23.3%, 19.8% and 18.5% of our sales volume, respectively, in those years. A substantial portion of Huadian International's coal purchases was, in turn, supplied to Zouxian Power Plant.

As of the date of this annual report, we have entered into domestic sales contracts and letters of intent to provide a total of approximately 32.4 million tonnes of coal, including contracts to sell approximately 9.0 million tonnes of coal at a tax-inclusive price of RMB571.3 per tonne, representing a decrease of approximately RMB7.0 per tonne, or 1.2%, from our average selling price in 2009. The sales price under the letters of intent will be determined at the time of sale. Yancoal Australia has entered into agreements to sell approximately 2.7 million tonnes of coal in the first quarter of 2011.



Our Company’s sales income, which represents the invoiced amount of products sold net of returns and discounts, generated from export sales (including the export sales of Yancoal Australia) as a percentage of total sales increased significantly from 6.3% in 2009 to 19.1% in 2010, reflecting the expansion of our Australian operations, whose coal is primarily destined for overseas markets. Our major overseas markets include South Korea, Japan, Australia, India and Mexico. The majority of our overseas customers are located in Asia, and South Korea is our biggest market in this region. Even though we conduct all of our export sales from the PRC through export agents, we maintain close relationships with our overseas customers.

Our sales and marketing department conducts routine customer visits and customer surveys of keep abreast of market developments, maintain customer relationships and continually improve our business. In addition, we regularly collect market information about Eastern China and other regions, which we use for business planning and execution.

Pricing

The pricing for our coal products is generally based on negotiations between the contracting parties that reflect market conditions. However, a portion of our thermal coal sales may be affected by pricing guidelines announced by the PRC government from time to time or subject to temporary price controls. See “Item 3. Key Information — D. Risk Factors — Our products may be subject to governmental price control measures, which may adversely affect our profitability.”

To price our coal products, we consider the prevailing prices in the relevant local coal markets, the grade and quality of the coal and our relationship with the purchaser. Our sales and marketing department monitors domestic and international market information, enabling us to keep abreast of pricing developments in our principal markets.

Transportation

Most of our major coal customers are located in Eastern China and our remaining domestic customers are located in Southern and Northern China. We primarily use railways and highways to transport coal and, to a lesser extent, we also ship our coal on domestic and international shipping lanes. With our private railway network, we are able to connect to the national railway system or deliver coal directly to our largest end-user customer, Zouxian Power Plant.

We also transport coal on the national railway system to ports, such as Rizhao, Qingdao and Lianyungang, from which we ship coal to customers. Rizhao port is our main port for shipping coal. We also use the Beijing-Hangzhou Grand Canal to ship coal on barges to customers located in the area serviced by the canal. In Shanxi Province, we rely on the Yangshe Railway, which intersects the Tianchi Coal Mine, and trucks to deliver coal to Hebei Province, Shandong Province and other nearby areas.

We plan to construct a privately operated railway to connect Zhaolou Coal Mine with the national railway system. Before the completion of such plan, we will rely on trucks to deliver coal from Zhaolou Coal Mine to the national railway and customers.

To transport Yancoal Australia’s coal products to Newcastle Port and Gladstone Port in Australia, we use Australia’s state railway network and private railway networks.

Mining Process

The geological characteristics of our reserves largely determine the coal mining method that we employ. We use two primary methods of mining coal: underground mining and open-pit mining.

Domestic Underground Mining Operations. Our domestic underground mining operations consist of four main steps: tunneling, coal extraction, transportation and coal preparation. The tunneling process is necessary for the construction of underground roadways, which are required for the installation of mining equipment. We conduct a majority of our tunneling using high powered headers and use this method whenever geological conditions permit. When the use of headers is not feasible, we use explosives to excavate tunnels. Coal extracted during tunneling is carried by conveyor adhesive tapes to our underground storage bunkers to be stored together with other extracted coal. Rock and other minerals produced during the excavation of roadways are separated and transported out of the mine.

The extraction process is completed by a standardized and fully mechanized longwall operation, which includes shearers that work in conjunction with conveyers to cut and transport the coal away from the longwall work-face. For coal seams up to 4.5 meters thick, we use a fully mechanized method to extract coal. Generally, for coal seams that are thicker than 4.5 meters, we add a caving method to the fully mechanized longwall mining operation, whereby coal that is beyond the reach of our shearers collapse in a controlled manner onto our conveyers as the coal support underneath it is removed by our shearers. Coal is then transported away from a longwall work-face by a series of conveyors positioned in front of and behind the system of roof supports. Roof supports provide continuous support for and protection along the length of the long-wall work-face and they also move the conveyors and shearers forward after each pass of the shearers along the work-face using horizontal hydraulic rams positioned at the base of each support. Our hydraulic roof supports are manufactured in China.



The shaft hoist system equipment that we use at most of our mines is imported. Coal is transported from the coal shaft either to a surface storage or directly to a coal preparation plant. In addition to the main coal shaft, our mines also have a service shaft and supplemental roadways and rail systems within the mines that provide a means of underground transportation for workers and equipment.

After raw coal is carried to the surface, it undergoes a mechanized selection process that separates coal from other mineral materials. A small portion of such selected coal is directly sold to customers as raw coal, and the remainder is transported to our coal preparation plants for further processing and classification. Each of the Six Coal Mines, Heze Nenghua Zhaolou Coal Mine, Austar Coal Mine, Yarrabee Coal Mine and Ashton Coal Mine has a coal preparation plant. In general, the coal-washing conducted in our coal preparation plants include a water bed washing and separation process by jig machines, a sink-and-float separation process and a final floating separation process. Most of the equipment used in our coal preparation plants is automated, enabling us to control the ash content and grade of our processed coal. The aggregate recovery rate of our coal preparation plants was 66.6%, 69.1% and 69.5% in 2008, 2009 and 2010, respectively.

Australian Mining operations. With respect to underground mines in our Yancoal Australia mining operations, we conduct continuous tunneling, longwall operation and coal extraction by fully mechanized caving method. Open-pit mining is used when coal is found relatively close to the surface. This method involves the removal of topsoil and overburden (earth and rock covering the coal), tunneling and extraction of coal from coal seams. The extracted coal undergoes selection and is then transported to treatment facilities for preparation. After coal is removed, we restore the affected land by replacing the overburden and topsoil.

Materials, Water and Energy Supply

The primary materials we use to conduct our coal mining and processing operations are steel to support work-faces and underground tunnels, cement for the construction of underground tunnels and ground structures and water used in our production process. We primarily procure steel principally from Jinan Iron and Steel Company Ltd., Laiwu Iron & Steel Group Corp. Ltd. and Shandong Shiheng Special Steel Group Co. Ltd. and cement from Shandong Lucheng Cement Company, Ltd. and China United Cement Taishan Co. Ltd. We procure water primarily from Yankuang Group pursuant to the Materials Supply Agreement and its supplemental agreements, and to a lesser extent, from local water companies. The price of materials is set at market rates or determined through negotiation. We believe that we have well-established, cooperative relationships with our suppliers, enabling us to secure reliable supplies of materials required in our production process. We believe that a number of alternative suppliers exist for our key materials in our coal operations and, therefore, we do not foresee any difficulty in obtaining adequate supplies.

We use significant amounts of electricity in our operations. Electricity prices in China are regulated by the government. Even though we have not experienced any material disruptions to our electricity supply in the past three years, we acquired Hua Ju Energy to secure a stable supply of energy for our Six Coal Mines and to reduce our electricity costs. In 2010, Hua Ju Energy supplied approximately 726.7 million kWh of electricity to our operations.

Quality Control

We have implemented a quality assurance program at each of our PRC coal mines to control quality throughout our coal operations from production to transportation. Utilizing advanced processing technology and management techniques, our coal preparation plants are able to separate both metal and non-metal impurities from coal. Our quality inspection division within our sales and marketing department conducts spot inspections on our coal production to maintain high quality standards.

Each of Nantun Coal Mine, Xinglongzhuang Coal Mine, Baodian Coal Mine, Dongtan Coal Mine, Jining II Coal Mine and Jining III Coal Mine has obtained ISO 9002 quality and ISO 14000 environmental management certification. Tianchi Coal Mine has obtained ISO 9000 quality and ISO 14000 environmental management certification, and Zhaolou Coal Mine has obtained ISO 9001 quality and ISO 14001 environmental management certification.

Yancoal Australia has hired Bureau Veritas, Societe Generale De Surveillance and ALS Laboratory Group to supervise and inspect the quality of the coal produced from the respective mines in Australia to ensure quality control and suggest quality improvement measures.



Safety Control

In our PRC operations, we have implemented a safety control program to achieve the targets set in our internal guidelines for safety and risk control management and to maintain compliance with the Coal Law and the National Mining Safety Law in China. In Australia, our operations in New South Wales comply with the Coal Mine Health and Safety Act 2002 (NSW) and Occupational Health and Safety Act 2000 (NSW) and our operations in Queensland comply with the Coal Mining Safety and Health Act 1999 (QLD).

Our safety control program combines close supervision and routine inspection of mining conditions with continual implementation of safety features and procedures at our mines and safety training for our production team. Moreover, in our PRC operations, the compensation of the officers and managers of each division reflects the division's safety record. Each of our mines has a safety inspection unit which is responsible for the supervision and inspection of our mining activities. We reward employees who report unsafe mining conditions to encourage accident prevention.

As a result of our safety control program, we have been able to maintain a zero fatality rate in our PRC operations since 2007 compared with the national average of 0.749 fatalities per million tonnes of coal produced in 2010 according to the State Administration of Work Safety of the PRC. In 2010, we produced approximately 37.4 million tonnes of coal and did not experience any production accidents that involved serious work injuries or death in our PRC operations. Following our acquisition of Felix in December 2009, we have been continuously reviewing and evaluating its safety control and performance. With respect to our Australian operations (inclusive of Felix) in 2010, our lost time injury frequency rate ("LTIFR"), measured as the number of lost time injuries per million man-hours worked, was 6.4 for open cut mines and 13.4 for underground mines. We had no fatalities in our Australian operations in 2010.

Environmental Protection

We are subject to PRC environmental protection laws and regulations which impose fees for the discharge of waste substances and require the payment of fines for serious pollution. PRC regulations also authorize government agencies to close any facility that fails to comply with orders to cease, or bring into compliance with relevant laws and regulations, operations that cause environmental damage. In addition, the operations of Yancoal Australia must comply with relevant Australian environmental protection laws and regulations.

According to the Provision of Labor and Services Supply Agreement that we entered into with Yankuang Group, it will provide us environmental protection services. In 2010, we paid Yankuang Group a total of RMB41.7 million for such services to reduce the effects of our operations on the environment.

Competition

The development of the PRC coal industry is characterized by a large number of small-scale enterprises and a wide geographical distribution of coal reserves. There are relatively few large-scale coal production enterprises in China.

Our primary market, the PRC domestic coal market, is characterized by numerous small-scale coal suppliers. The domestic coal market is segmented principally by geographical region, as a result of the wide geographical distribution of coal reserves. However, there are a number of large-scale coal production enterprises that dominate the domestic market. We compete principally on the basis of the availability and cost of transportation, coal quality and reliability of deliveries.

Our domestic competitors primarily include a number of coal mines located in Shanxi Province, Shaanxi Province and the Inner Mongolia Autonomous Region. Certain of our competitors from these regions have substantial reserves and favorable geological conditions. However, these competitors incur significant transportation costs when they supply to end-user customers located in Eastern China. In addition to coal mines located in Shanxi Province, Shaanxi Province and the Inner Mongolia Autonomous Region, we also compete to a certain extent with local mines located close to our customers. In addition, Shandong Energy Group Co. Ltd ("Shandong Energy"), which was established in March 2011, is our sole competitor in Shandong Province. Shandong Energy has a large-scale production capacity and marketing capability. Although we have strengths in the quality of our coal product and our sales network, we may not be able to compete effectively with Shandong Energy in this region. Our failure to compete effectively may in turn materially and adversely affect our results of operations.

We export coal mainly to South Korea, Japan, Australia, India and Mexico. With respect to export sales, we compete with certain major overseas coal mining companies, most of which are located in Australia and Indonesia.

Seasonality

Our coal business is not affected by seasonality.



Railway Transportation Business

We own and operate a railway transportation network in Jining City of Shandong Province that connects our coal mines to the national railway system and Zouxian Power Plant. As of the date of this annual report, our railway network spanned a total length of 204 kilometers. Our railway network provides us a greater degree of control over a major mode of transportation for our key product, allowing us to benefit from the synergies of having a consolidated coal operation that comprises coal production, sales and transportation.

In addition to transporting coal to support our own operations, we also offer railway transportation services to customers, including Yankuang Group. Our transport volume has remained steady in recent years. In 2010, we transported 19.7 million tonnes of coal on our railway network, representing a slight decrease of 0.16 million tonnes, or 0.8%, from 2009. We generated approximately RMB513.3 million from railway transportation services in 2010, representing an increase of RMB245.9 million, or 92.0%, from 2010 mainly due to the increase in the rates we charge to customers for railway transportation.

We have obtained ISO 9001 quality accreditation, ISO 14001 environmental management certification and GB/T19022-2003 management certification for the operation of our railway network.

Our railway network connects us to the national railway system via the Jinghu railway and Yanshi railway and provides us direct access to Huadian Power International Corporation Limited, our largest end customer. We use our railway network to provide railway transportation services for our own internal use as well as to Yankuang Group and other customers. We do not face significant competition from other railway operators. However, we compete with other ground transportation services that serve the same region as our railway network.

Coal Chemical Business

Our coal chemical business focuses on the production of methanol, a liquid commodity that can be produced from coal or natural gas. In 2010, we produced 367,000 tonnes of methanol and sold 376,000 tonnes, including inventory from the prior year. Yulin Nenghua completed its first full year of operations and produced 311,000 tonnes and sold 319,000 tonnes. Tianhao Chemicals increased production to 56,000 tonnes of methanol and sold 57,000 tonnes. As a result, we generated total revenues of approximately RMB629.3 million from our coal chemical business.

Sales and Marketing

Our coal chemical sales are made pursuant to sales contracts that we enter into from time to time with customers. We sell our methanol exclusively in China, and predominately to chemical producers in Northern and Eastern China and methanol distributors, relying on regional highways to deliver our products.

Pricing

The pricing for our methanol product is generally based on negotiation between the contracting parties, taking into consideration prevailing market prices, market conditions and the customer's creditworthiness.

Production Process

Yulin Nenghua. Yulin Nenghua is primarily responsible for the operation of the 600,000 tonne methanol project using coal as raw material. Coal is pulverized, cleaned and then fed to a gasifier bed where it reacts with oxygen and steam. The product is synthesized into crude methanol and then purified through distillation.

Tianhao Chemicals. Tianhao Chemicals is primarily responsible for the operation of the 100,000 tonne methanol project using coke oven waste gas as the primary raw material. We reduce the sulphur contained in coke oven waste gas and then convert the treated gas into synthesis gas. The synthesis gas is further processed into crude methanol and then purified through distillation.

Materials, Water and Energy Supply

Coal and coke oven waste gas are the primary materials in our methanol production. Production at Yulin Nenghua is reliant on thermal coal, which it currently sourced from local coal mines because our adjoining Yushuwan Coal Mine has not yet been registered. We plan to source thermal coal internally once Yushuwan Coal Mine commences operations. Yulin Nenghua sources water from a local reservoir.

Production at Tianhao Chemicals is dependent on receiving coke oven waste gas from one supplier whose facility is connected to Tianhao Chemicals' plant through transmission pipelines. This supplier was not able to provide sufficient coke oven waste gas, which in turn disrupted production at Tianhao Chemicals twice in 2010. As of the date of this annual report, we have not been able to find an alternative supplier.



Quality Control

We have implemented a series of quality control measures for our coal chemical operations to ensure product quality and have obtained AAA measurement management system, ISO 9001 quality accreditation and ISO 14001 environmental management certification in November 2009. We perform regular inspections and maintenance on our methanol plants.

Tianhao Chemicals has implemented a series of management measures in 2010, covering various areas like evaluation on quality control, environmental protection and occupational health and safety. As of the date of this annual report, the relevant certification regarding the foregoing management systems was under process.

Safety Control

For our coal chemical operations, we have implemented safety control measures in compliance with the People's Republic of China Production Safety Law, the People's Republic of China Regulations on the Safety Administration of Dangerous Chemicals and other safety guidelines for chemical manufacturers.

Competition

We compete with domestic methanol manufacturers in Shanxi and Shaanxi Provinces and the Inner Mongolia Autonomous Region. We expect to benefit from economies of scale as Yulin Nenghua's 600,000 tonne methanol project achieves optimal utilization of its facilities and we further expand our coal chemical operations with the construction of Ordos Neng Hua's methanol plant.

Seasonality

Our coal chemical operations are not affected by seasonality.

Electric Power and Heat Supply Business

As of the date of this annual report, we owned and operated eight power plants, which generate electricity for internal use and external sales. In addition, we have one power plant currently under construction. In 2010, we generated a total of 1,369.8 million kWh of electricity, of which we sold 526.6 million kWh externally and generated RMB185.6 million in revenue.

Hua Ju Energy operates coal-fired power plants whose main facilities consist of energy conversion CFB boilers and extraction and condensing steam turbines. The power plants at Hua Ju Energy have an aggregate installed capacity of 114 megawatts. In 2010, Hua Ju Energy generated 1,090.4 million kWh, of which 469.6 million kWh was sold externally.

The power plants at Yulin Nenghua and Tianhao Chemicals were established with the intention to satisfy the power demand of the methanol projects of these two entities and had an aggregate installed capacity of 84 megawatts as of the date of this annual report. With effect from January 1, 2010, the power plant at Tianhao Chemicals started to supply the electricity for our methanol projects directly. In 2010, the power plants operated by Yulin Nenghua and Tianhao Chemicals generated 212.6 million kWh and 66.86 kWh, respectively, of which, we made external sale of 49.59 million kWh and 7.44 million kWh, respectively.

We commenced construction of the Zhaolou Coal Mine power plants for Heze Nenghua Zhaolou Coal Mine in March 2010. The integrated power plants have two phases with designed capacity of 300,000 kWh for each phase. As of the date of this annual report, only phase I was under construction. For details about Zhaolou Coal Mine power plants, please see "— D. Property, Plants and Equipment — Methanol and Cogeneration Power Plants — Zhaolou Coal Mine Power Plants".

We commenced heat supply operations, which consist of the production and sale of heat supply following our acquisition of Hua Ju Energy. In 2010, Hua Ju Energy generated 1.27 million steam tonnes of heat energy. Although the substantial majority of heat energy produced by Hua Ju Energy is intended to be consumed internally by our coal mines, we generated net sales of RMB25.23 million from selling 0.19 million steam tonnes of heat externally.

Sales and Marketing

Although the majority of the electric power generated by our power plants is intended for our own use, in 2010 we sold 38.4% of the electric power we produced to other end-users through power grids. We consume most of the heat generated by our power plants and to a lesser extent, sell to Yankuang Group.



Pricing

The pricing and adjustments for the on-grid tariff are determined by the PRC government. The pricing of our heat products is determined in accordance with regulations set by price administration authorities.

Production Process

Yulin Nenghua. We select, break, grind and transport coal to a boiler where the coal is burned to generate steam, which is converted by steam turbines into electricity.

Tianhao Chemical. Middling is carried by belts and fuel feeding devices to fluidized-bed boiler, where the coal is burned to generate steam, which is converted by steam turbines into electricity. Tianhao Chemical owns two power plants with an installed capacity of 12MW each to satisfy the electricity demand for methanol production or even the electricity demand for the whole factory.

Hua Ju Energy. We recycle by-products of our coal mining operations, such as coal gangue and coal slurry to generate electricity. Coal gangue and coal slurry, through the conveyer belt and fuel feeding device, are fed to a CFB boiler where they are burned to generate steam, which is converted by steam turbines into electricity. The power plants of Hua Ju Energy are cogeneration systems that are able to produce heat simultaneously with power generation. Part of the steam produced in power generation is extracted from the steam turbines and via the heat supply system provided to the mining operations.

In both processes, we filter the exhaust gas that we produce and recycle the cinder for future use.

Materials, Water and Energy Supply

Our power plants are all coal-fired power plants. The power plants of Hua Ju Energy generate electricity by recycling coal gangue and coal slurry. Tianhao Chemicals and Yulin Nenghua currently source thermal coal from local coal mines.

Quality Control

Hua Ju Energy has obtained ISO 9001 quality accreditation and ISO 14001 environmental management certification since November 2003. Yulin Nenghua obtained AAA measurement management system, ISO 9001 quality accreditation and ISO 14001 environmental management certification in November 2009. Tianhao Chemicals implemented a series of internal evaluation systems and management measurement systems for quality control, environmental management and health and safety control in 2010. The management measurement system certification is being processed.

Safety Control

Safety measures for our electric power and heat supply operations were designed to meet the requirement of the Electricity Law and other related laws.

Seasonality

Our electric power operations are not affected by seasonality. Our heat supply operations are affected by seasonality and experience higher demand during winter.

Regulatory Oversight of Our Group

Coal Industry — PRC Regulatory Matters

To establish a coal mining enterprise under the Coal Law of the PRC (the “Coal Law”), the applicant must submit an application to the relevant department in charge of the coal industry. After obtaining approval to establish a coal mining enterprise, the applicant will be granted a mining permit by the Ministry of Land and Resources. Thereafter, the applicant must obtain a coal production permit before it commences coal production. Coal mining enterprises that have legally obtained coal production licenses will have the right to sell coal that they produce. For establishment of a coal trading enterprise, an applicant must apply for a different business license and may engage in coal trading only after it obtains a trading license from the administrative department of industry and commerce.

Mining activities in the PRC are also subject to the Mineral Resources Law of the People’s Republic of China (the “Mineral Resources Law”). The Mineral Resources Law regulates any matters relating to the planning or the exploration, exploitation and mining of mineral resources. According to the Mineral Resources Law, all mineral resources in China, including coal, are owned by the State. Any enterprise planning to engage in the exploration, development and mining of mineral resources must obtain exploration rights and mining rights before commencing the relevant activities. The transfer of exploration and exploitation rights shall be subject to governmental approval pursuant to the Coal Law, the Mineral Resources Law and other relevant regulations.



We are principally subject to supervision and regulation by the following agencies of the PRC government:

- the State Council, the highest level of the executive branch, which is responsible for the examination and approval of major investment projects specified in the Catalogue of Investment Projects released by the PRC government in 2004 and as amended from time to time;
- the NDRC, which formulates and implements major policies concerning China’s economic and social development, examines and approves investment projects exceeding certain capital expenditure amounts or in specified industry sectors, including the examination and approval of foreign investment projects and formulates industrial policies and investment guidelines for natural resource industries, such as the coal industry. In addition, the NDRC administers coal export activities and export quotas jointly with the Ministry of Commerce. The NDRC is also responsible for the evaluation and implementation of the pricing mechanism that links the prices of coal and power;
- the Ministry of Land and Resources (“MLR”), which has the authority to grant land use licenses and mining right permits, approve the transfer and lease of mining rights, and review the transfer price of mining rights and reserve estimates;
- the State Administration of Coal Mine Safety (“SACMS”), which is responsible for the implementation and supervision of the relevant safety laws and regulations applicable to coal mines and coal mining operations;
- the Ministry of Railways (“MOR”), which supervises China’s railway operations and provides strategic development plans for railway transportation. The MOR, together with the NDRC, reviews all applications for railway construction plans, including railways designated or used for coal transportation; and
- the State Environmental Protection Administration of China (“SEPA”), which supervises and controls environmental protection and monitors China’s environmental system at the national level.

The following is a summary of the principal laws, regulations, policies and administrative directives to which we are subject.

Pricing

Until 2002, the production and pricing of coal have generally been subject to close control and supervision by the PRC government, which centrally manages the production and pricing of coal. To transition from a planned economy to market economy practices, the PRC government eliminated the state guideline for coal prices on January 1, 2002 and aimed to establish a pricing mechanism to reflect market demand.

Under the Price Law of the People’s Republic of China, the PRC government reserves the right to intervene in price fluctuations of important commodities such as coal. The State Council and the provincial governments, autonomous regions and municipalities directly under the PRC government may adopt intervention measures, such as restricting margins or profits, and imposing price limits. Since 2002, NDRC has executed temporary measures several times to prevent and control unusual fluctuations in thermal coal prices.

To ensure the stable supply of thermal coal and reduce pricing pressure on electric power companies, NDRC issued Announcement No. 46 on June 19, 2008 to implement, from such date until December 31, 2008, temporary price caps on thermal coal. On December 3, 2008, NDRC issued the Notice Relating to the Good Preparation for Inter Provincial Coal Production Transportation Works (Fa Gai Yun Xing [2008] No. 3294), which announced the elimination of the price control measures implemented in June 2008. On December 30, 2008, NDRC issued an announcement (No. 67) to abolish the temporary price intervention measures on thermal coal, which became effective on January 1, 2009. On December 14, 2009, NDRC published the Guidance on the Improvement of Linking Up Coal Manufacture, Transportation and Demand, by allowing enterprises to choose the manner in which they transport coal. The Guidance reiterates the government’s support for the market orientation of the coal industry.

We sell our coal both on the spot market and under sales contracts and letters of intent. We set the purchase volume and schedule in a period of time (generally, within one year) in the sales contracts and letters of intent with our customers. The purchase price in the contract is set at the time of execution of contract, however, the purchase price in the letter of intent is set at the time of actual sales.

Fees and Taxes

The table below sets forth material taxes and fees that are imposed upon coal producers in China, as well as reserves which we are required to set aside.

Item	Base	Rate
Corporate income tax	Taxable income	25%
VAT	Sales revenue	17%
Business tax	Revenue from service	3% or 5%



City construction tax	Amount of VAT and business tax	7%
Education surcharge	Amount of VAT and business tax	3%
Local education surcharge	Amount of VAT and business tax	2%
Resource tax	Aggregate volume of raw coal sold or used ⁽¹⁾	RMB3.6 per tonne (Shandong Province)



Item	Base	Rate
Compensation for the depletion of coal resources	Revenue from coal produced by us	RMB3.2 per tonne (Shanxi Province) 1%
Price adjustment fund	Volume of raw coal produced or sales volume of merchantable coal	1. Jining City, Shandong Province: RMB8 per tonne based on volume of raw coal produced; 2. Heze City, Shandong Province: (1) RMB1.5 per tonne for 20% of the sales volume of clean coal and RMB20 per tonne for 80% of the sales volume of clean coal; (2) RMB1 per tonne for 20% of the sales volume of other types of coal and RMB15 per tonne for 80% of the sales volume of other types of coal.

(1) The resource tax applicable to our coal operation in Shandong and Shanxi Provinces is calculated by multiplying the aggregate volume of raw coal sold and raw coal consumed in the production of clean coal by the applicable per tonne resource tax in the respective province.

Coal producers may be fined if they damage the environment, arable land, grasslands or forest areas. Under the Mineral Resources Law, if a mining enterprise's mining activities result in damage to arable land, grasslands or forest areas, the mining enterprise must return the land to an arable state or plant trees or grass or take other restorative measures. The Mineral Resources Law and other applicable laws and regulations also state that anyone who causes others to suffer loss in terms of production or living standards is liable for the loss and must compensate the affected persons and remedy the situation.

Additionally, all coal producers are subject to PRC environmental protection laws and regulations which currently impose fees for the discharge of waste substances, require the payment of fines for serious pollution and provide for the discretion of the PRC government to close any facility which fails to comply with orders requiring it to cease or cure operations causing environmental damage.

Imports and Exports

According to the Foreign Trade Law, the Cargo Import and Export Ordinance and the Administrative Measures of Coal Export Quota, coal exports remain subject to State control and require governmental approval.

Our company has not been authorized as a PRC coal exporter. Our coal exports are conducted through two export agents, including China National Coal Industry Import and Export Corporation, Minmetals Trading Co., Ltd.

Pursuant to the Administrative Measures of Coal Export Quota, the NDRC and the Ministry of Commerce are responsible for determining China's national coal export quota and allocating the quota among authorized coal exporters. Upon receiving a quota approval, authorized coal exporters may apply for coal export permits to the relevant authority designated by the MOFCOM. Authorized coal exporters are also required to report their monthly quota usage to the NDRC.

The regulations provide that quotas may be adjusted in the event of:

- a major change in the international market;
- a major change in domestic coal resources;
- an imbalance in the usage of the coal export quota by an authorized coal exporter compared to its allocation of the coal export quota; and
- other circumstances which require an adjustment to the coal export quotas.

The total national quotas approved for coal exports in 2009 and 2010 was 51.0 million and 25.5 million tonnes, respectively. The total national quota approved for coal export in 2011 is 38.0 million tonnes with the first 18.0 million tonnes' quota already granted to exporters.

According to the Notice of the Customs Tariff Committee of the State Council on Revising the Tariff Rates on the Export of Aluminum Alloy, Coke and Coal (Shui Wei Hui 2008 No. 25), beginning August 20, 2008, the provisional tariff rate of coke, coking coal and soft coal will be 40%, 10%, and 10%, respectively. Export tariffs are generally passed to the purchaser. Therefore, changes in export tariffs do not directly affect us.



Domestic Trading of Coal

Pursuant to the Measures for the Regulation of Coal Operations promulgated by the NDRC on December 27, 2004, the State implemented a system to examine the qualifications of an entity to engage in coal operations, including the wholesale and retail of raw coal and processed coal products and the processing and distribution of coal for civilian use. Before an entity can engage in coal operations, it must obtain a coal operation qualification certificate. A coal production enterprise that deals in coal products produced and processed by a third party is required to obtain a coal operation qualification.

Environmental Protection

Pursuant to the Environmental Protection Law, the State Environmental Protection Administration is authorized to formulate national environmental quality and discharge standards and to monitor China's environmental system at the national level to protect the environment. Environmental protection bureaus at the county level and above are responsible for environmental protection within their respective jurisdiction.

China has promulgated a series of laws and regulations. Through these laws and regulations, China has established national and local environmental protection legal frameworks and issued standards applicable to emission controls, discharges of wastes and pollutants to the environment, generation, handling, storage, transportation, treatment and disposal of waste materials by production facilities, land rehabilitation and reforestation.

The Environmental Protection Law requires any entity operating a facility that produces pollutants or may create a hazard to incorporate environmental protection measures into its operations and to establish an environmental protection responsibility system, which must adopt effective measures to control and properly dispose waste materials.

In the environmental impact statement of a construction project, the project operator must assess the pollution and environmental hazards the project is likely to produce and its impact on the ecosystem and measures for their prevention and control. The statement shall, after initial examination by the authorities in charge of the construction project, be submitted by a specified procedure to the competent department of environmental protection administration for approval. Facilities for the prevention and control of pollution must be designed, constructed and implemented simultaneously with the primary construction contemplated by a project. These facilities must be inspected by the competent environmental protection authority and determined to conform with specified requirements before they can be implemented.

Enterprises that discharge pollutants must report to and register with the relevant authorities in accordance with the provisions of a department of environmental protection administration under the State Council. Enterprises that discharge pollutants in excess of the prescribed national or local standards will be fined for excessive discharge according to State provisions and will be responsible for eliminating and controlling the pollution.

According to the Law on Prevention and Control of Water Pollution of the People's Republic of China, and the Administrative Regulations on the Levy and Use of Discharge Fees, any new construction projects, which directly or indirectly discharge pollutants to water, such as coal mines and coking plants, must conduct an environmental impact assessment. Every new production facility must be equipped with waste water processing facilities which must be put in use together with the production facilities. Construction projects that discharge pollutants into water shall pay a pollutant discharge fee in accordance with state regulations.

Violators of the Environmental Protection Law and various environmental regulations may be subject to warnings, payment of damages and fines. Any entity undertaking construction work or manufacturing activities before the pollution and waste control and processing facilities are inspected and approved by the environmental protection department may be ordered to suspend production or operations and may be fined. The violators of relevant environment protection laws and regulations may be exposed to criminal liability if violations resulted in severe loss of property, personal injuries or death.

The rehabilitation of mining sites is another priority of the PRC government. Under the Law of Land Administration of the People's Republic of China and the Land Rehabilitation Regulations, issued by the State Council in 1988, coal producers must undertake measures to restore a mining site to its original state within a prescribed time frame if their mining activities result in damage to arable land, grassland or forest. The rehabilitated land must meet rehabilitation standards, as required by law from time to time, and may only be subsequently used upon examination and approval by the land authorities. A coal producer's failure to comply with this requirement or its failure to return the mining site to its original state will result in the imposition of fines, rehabilitation fees and/or rejection of applications for land use rights by the local bureau of land and resources.

In addition to the PRC environmental laws and regulations, China is a signatory to the 1992 United Nations Framework Convention on Climate Change and the 1998 Kyoto Protocol, which propose emission targets to reduce greenhouse gas emissions. The Kyoto Protocol came into force in 2005. At present, the Kyoto Protocol has not set any specific emission targets for certain countries, including China.



Mining safety

On June 7, 2005, the State Council promulgated Several Opinions on Promoting the Healthy Development of the Coal Industry (“Opinions”), announcing the PRC government’s policies with respect to the development and restructuring of the coal industry. The Opinions reiterated the PRC government’s policies with respect to the administration of coal reserves, enhancement of coal mine safety, encouragement of industry consolidation among coal producers, acceleration of the construction of large coal production bases, improvement of mining techniques and equipment for coal production and the organization and regulation of small coal mines.

According to the Measures for Implementing Work Safety Permits in Coal Mine Enterprises issued by the State Administration of Work Safety and the SACMS, a coal mine enterprise without a work safety permit may not engage in coal production activities. Coal mining enterprises and their mines that do not satisfy the safety conditions set forth in these documents, or those that violate the provisions of this document, will be punished accordingly. Coal mine enterprises that remain compliant with the requirements set in these documents may apply for administrative approval to extend the validity period of their Work Safety Permits.

The Special Regulations by the State Council on Preventing Work Safety Related Accidents in Coal Mines were promulgated and entered into effect on September 3, 2005. This regulation specifies that coal mine enterprises are responsible for preventing coal mine work safety-related accidents. If a coal mine has not obtained, in accordance with the law, a mining right permit, work safety permit, coal production permit or business license and if the mine manager has not obtained, in accordance with the law, a mine manager qualification certificate and a mine manager safety qualification certificate, the coal mine may not engage in production. Coal mining enterprises should establish a sound system for the detection, elimination, treatment and reporting of latent work safety-related dangers. If a major latent work safety-related danger as specified exists in a coal mine, the enterprise should immediately suspend production and eliminate the latent danger. Coal mining enterprises should provide their personnel working underground and their special operation personnel with safety education and training in accordance with relevant state regulations. The person in charge of a coal mine and the production and operation management personnel should go into mines and act as foremen on a rotating basis in accordance with state regulations, while a file recording their entry into the mine should be maintained.

In addition, the State Administration of Work Safety issued five sets of supplemental measures: (i) the Measures for Determining Major Latent Work Safety Related Dangers in Coal Mines (for Trial Implementation); (ii) the Implementing Measures for the Detection and Elimination of Latent Dangers in Coal Mines and the Rectification and Closure of Such Mines (for Trial Implementation); (iii) the Measures for the Supervision and Inspection of Coal Mine Safety Training (for Trial Implementation); (iv) the Guiding Opinions on Persons in Charge of Coal Mines and Production and Operation Management Personnel Going into Mines as Foremen; and (v) the Measures for Rewarding the Reporting of Major Latent Work Safety Related Dangers in, and Violations of the Law by, Coal Mines (for Trial Implementation).

Coal Industry — Australian Regulatory Matters

Our mining operations in Australia are regulated by Australian federal and state governments with respect to environmental issues such as water quality, air quality, dust impacts, noise impacts, planning issues (such as approvals to expand existing mines or to develop new mines), and health and safety issues. Industrial relations are regulated under both federal and state laws. Australian state governments also require coal companies to post deposits or give other security against land which is being used for mining and exploration, with those deposits being returned or security released after satisfactory reclamation is completed.

Environmental

Each state and territory in Australia has its own legal regime regarding environment and planning and there is a Commonwealth environment regime in respect of matters of national environmental significance. In addition, each state and territory also has a legal regime dealing with mining in particular. The mining legislation in each state and territory generally operates concurrently with environment and planning legislation. The mining legislation governs exploration and mining licenses, including the restoration of land following the completion of mining activities.

The particular provisions of the various state and territory environment and planning legal regimes vary depending upon the jurisdiction. Despite variation in details, each state and territory has a system involving broadly at least two major phases. First, obtaining major environment/planning developmental approval addressing planning and significant environmental issues; and second, obtaining pollution control approvals, regarding pollution control issues such as emissions to the atmosphere; emissions in waters; noise impacts, impacts from blasting; dust impacts; the generation, handling, storage and transportation of waste.

The Commonwealth environment regime will apply if matters of national environmental significance are likely to be significantly impacted. If so, Commonwealth approval will be required.



Occupational Health and Safety

The combined effect of various state and federal statutes requires an employer to ensure that persons employed in a mine are safe from injury by providing a safe working environment and systems of work; safety machinery; equipment, plant and substances; and appropriate information, instruction, training and supervision.

In recognition of the specialized nature of mining and mining activities, specific occupational health and safety obligations have been mandated under law and legislation that deals specifically with the coal mining industry. Mining employers, owners, directors and managers, persons in control of work places, mine managers, supervisors and employees are all subject to these duties. The Australian federal government is currently conducting a review of health and safety legislation with a view to harmonizing requirements across the country.

It is mandatory for an employer to have insurance coverage with respect to the compensation of injured workers. Similar coverage is in effect throughout Australia which is of a no fault nature and which provides for benefits up to a prescribed level. The specific benefits vary by jurisdiction, but generally include the payment of weekly compensation to an injured employee, together with payment of medical, hospital and related expenses. The injured employee may have a right to sue his or her employer for further damages if a case of negligence can be established (but on the condition that the injured employee waives his or her right to the insurance coverage).

Carbon Pollution Reduction Scheme

The Federal Labor government ratified the Kyoto Protocol in December 2007. Under the treaty, Australia has a target of restricting greenhouse gas emissions to 108% of 1990 levels during the 2008 to 2012 commitment period. The government has also committed to a 60% reduction in emissions by 2050, from 2000 levels. To assist in meeting these targets, the Australian Federal government has announced that it intends to establish a cap and emissions trading scheme by 2013, named the Carbon Pollution Reduction Scheme. This scheme will impose costs on greenhouse gas emissions that will affect our business. However, the Australian government is likely to provide some support for the coal industry for the first few years of the scheme. If the Carbon Pollution Reduction Scheme is implemented and we need to buy the credits for volume of energy greenhouse gas emissions, our revenue may decrease and our business may be adversely affected.

Foreign Investment

No specific restrictions apply in relation to foreign investment in Australia's coal industry. However, under Australian law and the Australian government's foreign investment policy, certain acquisitions must be notified to obtain the prior approval of the Treasurer before proceeding. These include acquisitions of substantial interests in an Australian business where the value of the business' total assets is, or the proposal value is, above US\$100.0 million. It also includes (a) proposals to establish new businesses involving a total investment of US\$10.0 million or more; (b) offshore takeovers of a foreign company whose Australian subsidiaries or assets are valued at more than US\$200.0 million and account for less than 50% of the target company's global assets (different thresholds apply to U.S. investors); (c) acquisition of shares in a company or trust which holds more than 50% of its assets in Australian urban land (regardless of the value of that acquisition); and (d) all direct investments in an Australian foreign business by foreign governments or their agencies (irrespective of the size of that Australian business or value of that acquisition and made either directly or through a company that is owned 15% or more by a foreign government).

Power Generation Industry

The Electric Power Law and the Electric Power Regulatory Ordinance

The Electric Power Law of the People's Republic of China (the "Electric Power Law") sets out the regulatory framework of the power industry. The Electric Power Law encourages power plant operators to focus on environmental protection and adopt new technology to decrease waste discharge.

In 2005, the State Council promulgated the Electric Power Regulatory Ordinance. The Electric Power Regulatory Ordinance sets forth regulatory requirements for many aspects of the power industry, including, among others, the issuance of electric power business permit, the regulatory inspections of power generators and grid companies and the legal liabilities from violations of the regulatory requirements.

Approvals and Licenses for Power Plants

Applications for all new coal-fired power plants are required to be submitted to the NDRC for approval, as well as the State Council for significant power plant projects. According to the Provisions on the Administration of Electric Power Business Licenses, applicants are also required to obtain requisite permits, including an Electric Power Business for Power Generation and approvals related to plant site, land use rights, construction and the environment.



Pricing

Since 1996, the Electric Power Law has set forth general principles for determining power tariffs. The Interim Provisions for the Administration of Grid Power Price promulgated by NDRC states that tariffs are to be formulated to provide reasonable compensation for costs and a reasonable return on investment, to share expenses fairly and to promote the construction of power projects. With the exception of grid power prices set by governmental bids or power plans that produce alternative energy, grid power prices of new power plants within the same region should be uniform. The on-grid tariffs for planned output and excess output are subject to a review and approval process involving the NDRC and the provincial price bureaus. In 2004, the NDRC, with the approval of the State Council, issued a policy to link thermal coal and power prices. This policy allows on-grid tariffs to increase if the average price of coal increases by more than 5% within a six-month period.

Safety

In accordance with the Measures for Supervising the Safety Production of Electricity, issued by the SERC, power plants are responsible for maintaining their safety operations in accordance with requirements set by the regional grid in which they are located. Power plants are required to report to the SERC and relevant local government authorities worker fatalities or serious or extraordinary accidents.

Coal Chemical Processing Industry

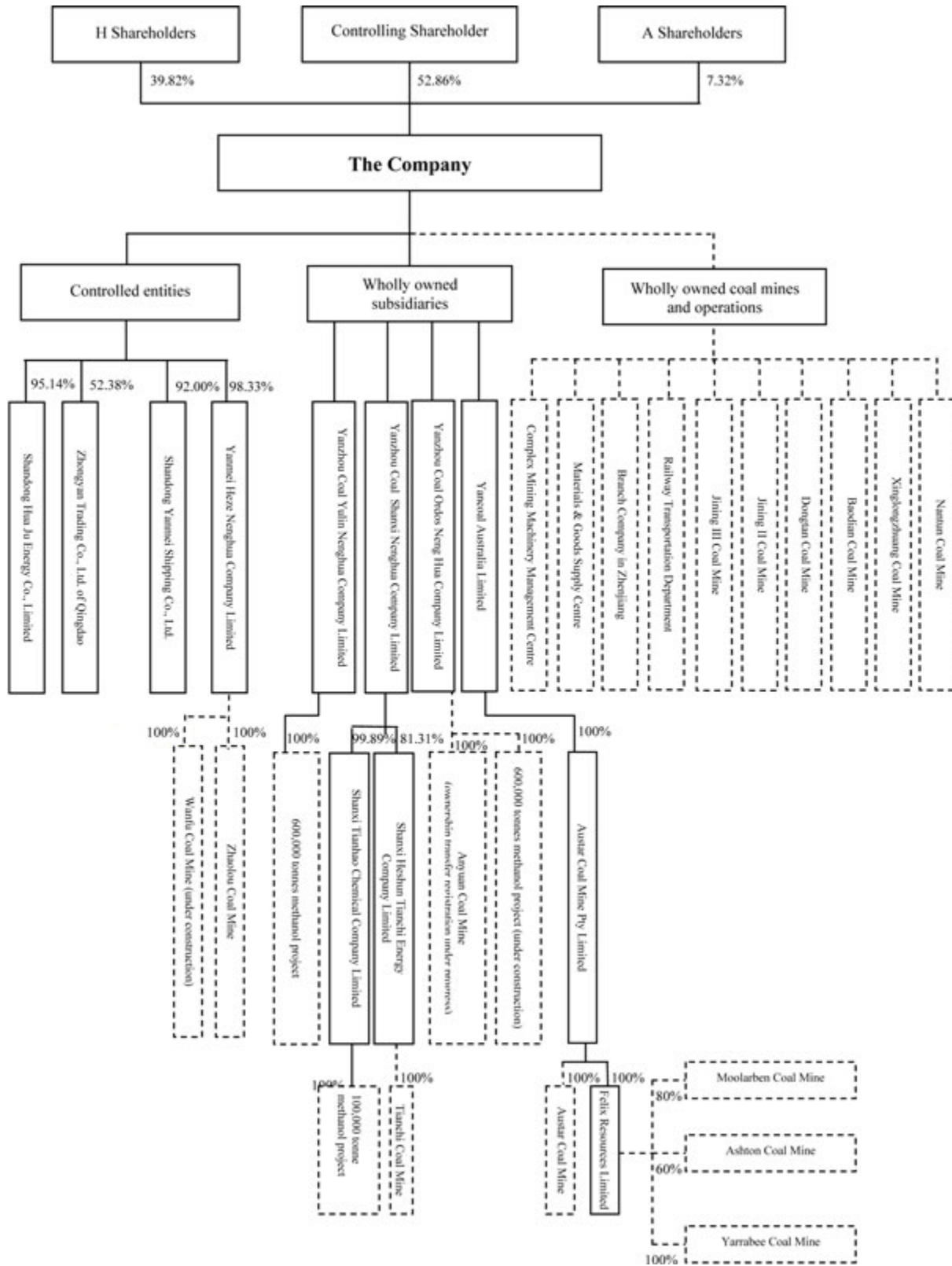
The State announced in the Coal Law its encouragement and support for coal mining enterprises and other enterprises to produce both coal and electricity, coking coal and coal chemicals. The NDRC issued the Notice of Strengthening the Administration of Coal Chemical Processing Industry and Improving the Healthy Development of the Industry, which was aimed at strengthening the coal chemical processing industry through the promotion of transportation safety, risk prevention and management standardization. According to the Enterprise Income Tax Law and its implementation regulations, enterprises that produce products using resources encouraged by industrial policies of the State are eligible for preferential tax treatment. If an enterprise uses any of the materials that are listed in the Catalogue of Income Tax Preference for Enterprises of Comprehensive Utilization of Resources as a major raw material in its product, the total income derived from such product for tax purposes will be reduced by 90%. Coke oven waste gas, one of the primary raw materials at one of our methanol production facilities, is one of the materials listed in the catalogue.

C. Organizational Structure

As of December 31, 2010, our Company consisted of 18 departments, namely the Secretariat of the Board of Directors, Audit Department of the Board of Directors, Department of Coordination, Department of Human Resources, Department of Financial, Planning and Management Department, Information Management Department, Enterprise Development Department, Risk Management Department, General Control Center, Department of Production Technology, Department of Safety Inspection, Electrical Engineering and Power Department, Ventilation and Dust Elimination Department, Geological Survey Department, Office of Community Relationship, Technical Center and Overseas Management Department.



The diagram below sets forth our organizational structure as of December 31, 2010:



——— shareholdings
- - - - - production units



D. Property, Plant and Equipment

Real Property and Leasehold Property

As of December 31, 2010, the net book value of our property, plant and equipment was RMB19,874.6 million. The properties for which we own land use rights in China occupy an area of approximately 7.2 million square meters, while the coalfields to which we possess mining rights in Australia occupy an area of approximately 1,035.7 million square meters. Under PRC law, our land use rights for properties in China are granted for 50 years commencing from the respective grant dates of such land use rights and are freely transferable. In addition, the land ownership rights held by Yancoal Australia are held in perpetuity pursuant to Australian law.

Coal Mines and Coal Production Facilities

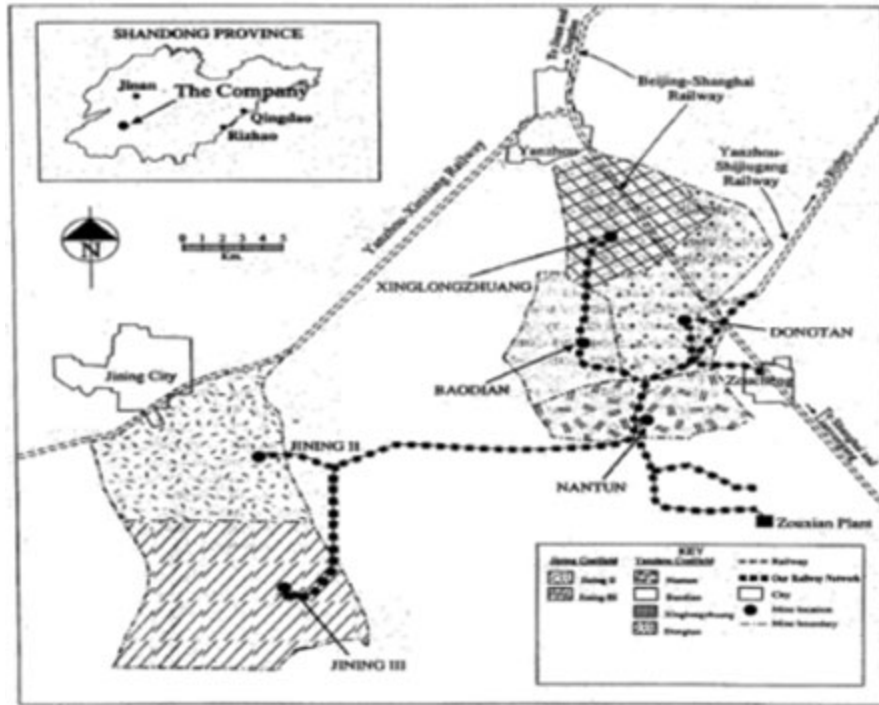
The Six Coal Mines currently operated by us are all located in the southwestern part of Shandong Province. All of these mines are connected by our railway network, which provides direct access to our customers or indirectly through the PRC national railway or highway system. We acquired Austar Coal Mine in 2004 and subsequently acquired Shanxi Nenghua, which operates Tianchi Coal Mine, in 2006. As of the date of the annual report, we owned 98.33% of the equity interests of Heze Nenghua.

In December 2009, we acquired the entire equity interest in Felix through Yancoal Australia. Felix is a company incorporated in Australia whose principal activities include the mining, sales and exploration of coal. The major coal assets currently owned by Felix are located in New South Wales and Queensland. As of the date of this annual report, Felix had an ownership interest in the following operational coal mines: Ashton Coal Mine (consisting of an underground coal mine and an open-pit coal mine), Minerva Coal Mine, Yarrabee Coal Mine and Moolarben Coal Mine (consisting of an underground coal mine and an open-pit coal mine). Felix also holds ownership interests in three exploratory mine projects and a 15.4% equity interest in Newcastle Coal Infrastructure Group, a joint venture that is responsible for constructing and operating the third export terminal at Newcastle Port. Pursuant to approval granted the seventeenth meeting of the fourth session of the Board held on December 30, 2010, we acquired another 30% equity interest in the Ashton Coal Mine Joint Venture and disposed of a 51% equity interest in the Minerva Coal Mine Joint Venture. As of the date of the annual report, we held 90% of the equity interests in the Ashton Coal Mine Joint Venture in aggregate and held no interest in the Minerva Coal Mine Joint Venture.

Our wholly-owned subsidiary, Ordos Neng Hua, acquired Anyuan Coal Mine in December 2010. As of the date of the annual report, we were in the process of transferring the relevant certificates and registrations of Anyuan Coal Mine.

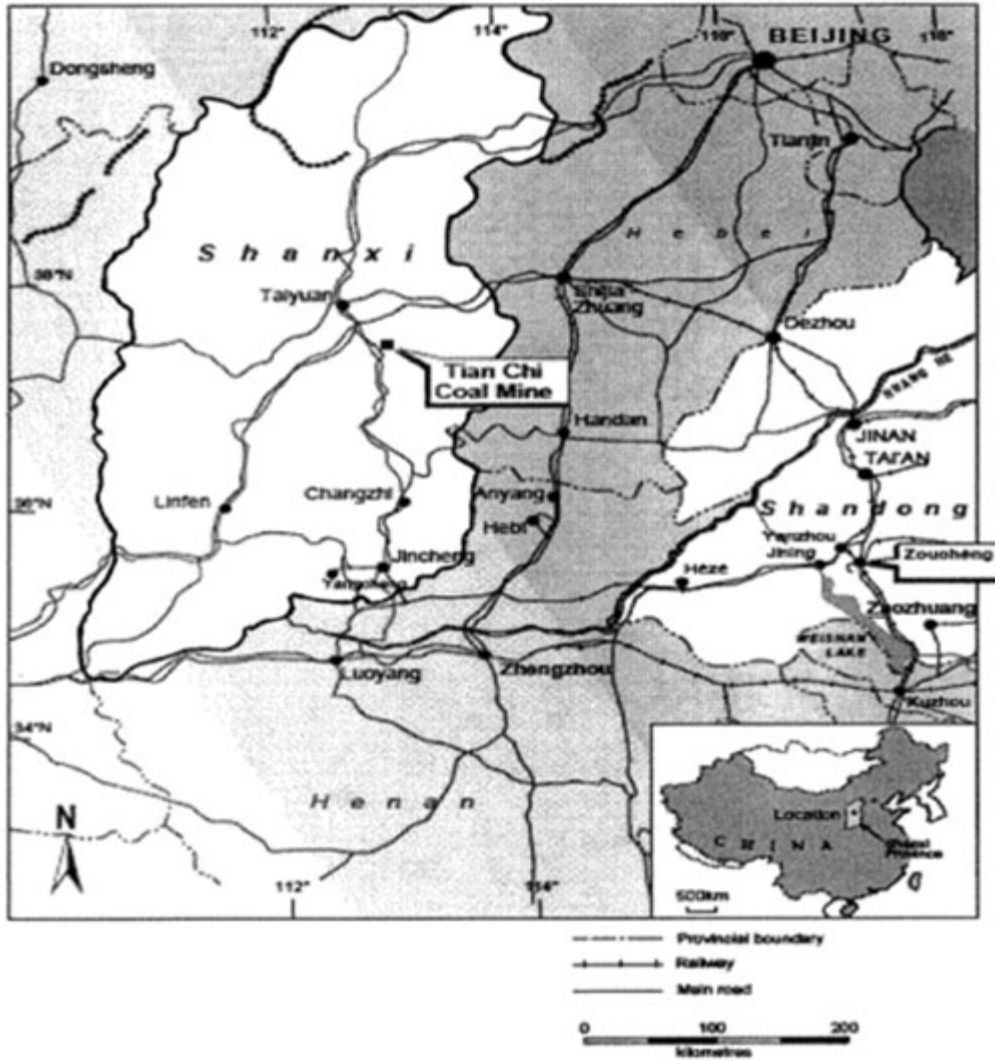


The map below shows the location of the Six Coal Mines in Shandong Province and our railway system:





The map below shows the location of Tianchi Coal Mine:





The map below shows the location of Zhaolou Coal Mine:



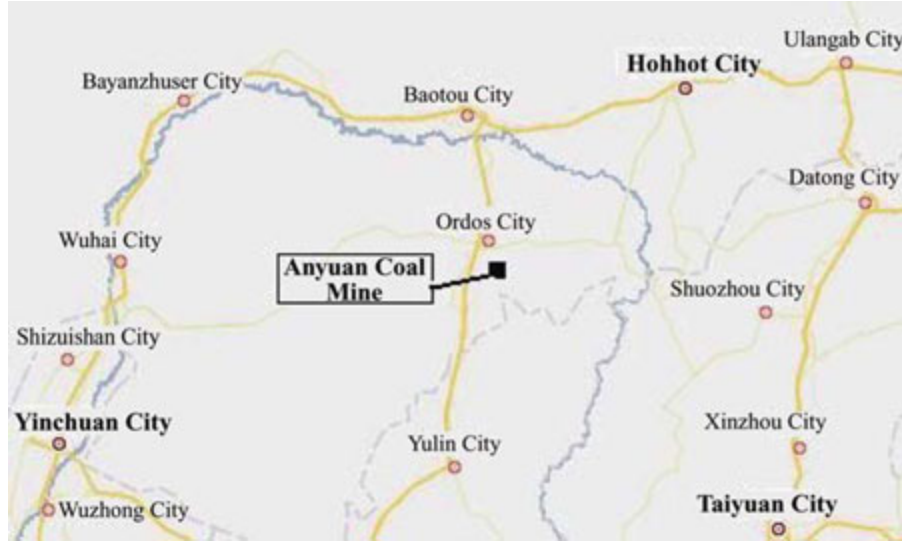


The map below shows the location of Astar Coal Mine and coal mines owned by Felix:





The map below shows the location of Anyuan Coal Mine owned by Ordos Neng Hua:



The following table sets forth information about each of the Six Coal Mines, which are directly owned and operated by the Company:

	Nantun	Xinglong-zhuang	Baodian	Dongtan	Jining II	Jining III	Total
Background data:							
Commencement of construction	1966	1975	1977	1979	1989	1993	N/A
Commencement of commercial production	1973	1981	1986	1989	1997	2000	N/A
Coalfield area (square kilometers)	35.2	59.81	36.4	60.0	87.1	105.1	383.61
Reserve data:⁽¹⁾ (millions tonnes as of December 31, 2010)							
Total in-place proven and probable reserves ⁽¹⁾	114.74	319.13	282.41	450.57	408.87	221.60	1,797.32
Mining recovery rate (%)	80.39	80.50	80.99	83.78	71.12	80.49	N/A
Coal preparation plant recovery rate (%) ⁽²⁾	67.59	87.40	62.12	60.96	69.43	62.55	69.52
Depth of mine (meters underground)	397.0	429.2	474.7	710.0	593.0	556.0	N/A
Average thickness of main coal seam (meters)	8.60	8.29	8.81	8.41	6.78	6.20	N/A
Type of coal	thermal coal	thermal coal	thermal coal	thermal coal	thermal coal	thermal coal	N/A
Leased/owned	owned	owned	owned	owned	owned	owned	N/A
Assigned/unassigned ⁽³⁾	assigned	assigned	assigned	assigned	assigned	assigned	N/A
Average calorific value (Kcal/kg)	5,572	5,881	5,890	5,586	5,467	5,412	N/A
Sulfur content (%)	0.60	0.47	0.52	0.60	0.56	0.52	N/A
Production data:(million tonnes)							



Designed raw coal production capacity	2.4	3.0	3.0	4.0	4.0	5.0	21.4
Designed washing capacity	1.8	3.0	3.0	4.0	3.0	5.0	19.8
Raw coal production							
2000	4.5	6.2	5.3	6.7	4.8	—	27.5
2001	4.9	6.6	6.2	7.1	4.1	5.1	34.0
2002	3.6	7.1	6.4	8.1	5.2	8.0	38.4
2003	4.7	7.0	7.3	8.2	6.0	10.1	43.3
2004	4.1	7.4	7.0	8.5	4.9	7.3	39.2
2005	4.0	6.6	5.0	7.5	4.5	7.0	34.6
2006	3.9	7.2	5.6	8.0	4.0	6.8	35.5
2007	3.9	6.8	5.8	7.6	3.4	5.3	32.8
2008	3.5	6.6	6.0	7.0	3.9	6.1	33.1
2009	3.8	6.6	5.7	7.5	3.6	6.2	33.4
2010	3.6	6.8	6.1	7.4	4.2	6.2	34.3
Cumulative raw coal production as of December 31, 2010	67.1	101.8	90.4	112.2	55.0	68.1	494.6



- (1) The above reserve data is based on the relevant information from the report of independent mining consultants and/or the operating data derived from the Company's record. Recoverable reserves are reported after deduction of actual production volume and non-accessible reserves up to December 31, 2010. In-place reserves refer to coal in-situ prior to the deduction of pillars of support, barriers or constraints for longwall mining. Non-accessible reserves are defined as the portion of identified resources estimated to be not accessible by application of one or more accessibility factors within an area.
- (2) Coal preparation plant recovery rate refers to the wash plant recovery rate of raw coal used during the production of our clean coal products.
- (3) "Assigned" reserves refer to coal which has been committed to a particular mining complex (mine shafts, mining equipment, and plant facilities), and all coal which has been leased by the company to others. "Unassigned" reserves refer to coal which has not been committed, and which would require new mineshafts, mining equipment, or plant facilities before operations could begin on the property.

Nantun Coal Mine. Nantun is located in the southern portion of our coalfield, with coalfield area of approximately 35.2 square kilometers. Nantun began commercial production initially in 1973 with a designed annual raw coal production capacity of 2.4 million tonnes of coal. The main coal seam of Nantun is divided into two leaves. The thickness of the upper leaf averages 5.35 meters and the thickness of the lower leaf averages 3.21 meters. As of December 31, 2010, the total in-place proven and probable reserves on the main coal layer were approximately 114.7 million tonnes. At this mine, we generally use the fully-mechanized sublevel caving mining method to extract coal from the upper layer of the coal seam and use a fully-mechanized longwall system to mine the lower layer of the coal seam. As of December 31, 2010, Nantun produced coal from three work-faces.

Nantun's coal preparation plant produces mainly No. 2 Clean Coal and employs movable-sieve jig machines and jig machines. Most of the equipment used in the Nantun coal preparation plant was manufactured in the PRC.

Xinglongzhuang Coal Mine. Xinglongzhuang is located in the northern portion of our coalfield, with coalfield area of approximately 59.8 square kilometers. Xinglongzhuang began commercial production initially in 1986 with a designed annual raw coal production capacity of 3.0 million tonnes of coal. The main coal seam of Xinglongzhuang is concentrated in one leaf with an average thickness of 8.3 meters. As of December 31, 2010, the total in-place proven and probable reserves on the main coal layer were approximately 319.1 million tonnes. At this mine, we principally use the fully-mechanized sublevel caving method to extract coal from the coal seam of Xinglongzhuang Coal Mine. Xinglongzhuang produced coal from two work-faces as of December 31, 2010.

The Xinglongzhuang coal preparation plant produces No. 1, No. 2 Clean Coal and block coal. The majority of equipment in the Xinglongzhuang coal preparation plant, including its jig machines and movable-sieve jig machines, were manufactured in the PRC while a small portion of the equipment was imported.

Baodian Coal Mine. Baodian is located in the central western portion of our coalfield, with coalfield area of approximately 36.4 square kilometers. Baodian began commercial production initially in 1986 with a designed annual raw coal production capacity of 3.0 million tonnes of coal. Certain sections of the main coal seam of Baodian are concentrated in one leaf, with an average thickness of 8.81 meters. The remaining sections are divided into two leaves with an average thickness of 5.74 meters for the upper leaf and 3.38 meters for the lower leaf. As of December 31, 2010, the total in-place proven and probable reserves on the main coal layer were approximately 282.4 million tonnes. At this mine, we generally use the fully-mechanized sublevel caving method to extract coal from the upper layer of the coal seam and use mechanized longwall faces to mine the lower layer of the coal seam. Baodian Coal Mine maintained two work-face as of December 31, 2010.

The Baodian coal preparation plant produces No. 2 Clean Coal and block coal. The majority of equipment in the Baodian coal preparation plant, including its slanted wheel, cyclones and jig machines were manufactured in the PRC.

Dongtan Coal Mine. Dongtan is located in the central eastern portion of our coalfield, with coalfield area of approximately 60.0 square kilometers. Baodian began commercial production initially in 1989 with a designed annual raw coal production capacity of 4.0 million tonnes of coal. Certain sections of the main coal seam consist of one layer with an average thickness of 8.41 meters, and the remaining sections are divided into two layers, with an average thickness of 5.38 meters for the upper layer and 3.22 meters for the lower layer. As of December 31, 2010, the main coal layer held approximately 450.6 million tonnes of in-place proven and probable reserves. At this mine, we generally use the fully-mechanized sublevel caving method to extract coal from the sections of the coal seam with one layer of coal and the upper layer in the sections with two layers of coal. Dongtan Coal Mine maintained two work-faces as of December 31, 2010.

The Baodian coal preparation plant produces No. 2, No. 3 Clean Coal and block coal. The principal pieces of equipment in the Baodian coal preparation plant, including its slanted wheel, cyclones and jig machines were manufactured in the PRC.

Jining II Coal Mine. Jining II is located in the northern portion of the Jining coalfield, with coalfield area of approximately 87.1 square kilometers. Baodian began commercial production initially in 1997 with a designed annual raw coal production capacity of 4.0 million tonnes of coal. Certain sections of the main coal seam of Jining II are concentrated in one layer, with an average thickness of 6.78 meters. The remaining sections are divided into two layers, with an average thickness of 2.1 meters for the upper leaf and an average thickness of 4.68 meters for the lower leaf. As of December 31, 2010, the total in-place proven and probable reserves on the main coal layer were approximately 408.9 million tonnes. At this coal mine, we use mainly the fully-mechanized sublevel caving method to extract coal from the upper layer of the coal seam and use mechanized longwall faces to mine the lower layer of the coal seam. Jining II Coal Mine produced coal from three work-faces as of December 31, 2010.



The main equipment used in Jining II is movable-sieve jig machines and jig machines, most of which are manufactured in the PRC. The principal products of the coal preparation plant of Jining II are No. 2 Clean Coal.

Jining III Coal Mine. Jining III is located in the southern portion of the Jining coalfield and covers an area of 105.0 square kilometers. Jining III had a designed annual raw coal production capacity of 5 million tonnes in 2000. The average thickness of the main coal seam of Jining III is 6.2 meters. As of December 31, 2010, the total in-place proven and probable reserves on the main coal layer were approximately 221.6 million tonnes. The average thickness of the main coal seam of Jining III is 6.2 meters. We mainly rely on the fully-mechanized sublevel caving method to extract coal from two work-faces in Jining III Coal Mine as of December 31, 2010.

The main pieces of equipment used in Jining III are slanted wheel, cyclones and movable-sieve jig machines, which were manufactured in the PRC. The principal products of the coal preparation plant of Jining III are No. 2 and No. 3 Clean Coal. In 2010, Jining III implemented washing capacity through technical improvement.

The following table sets forth information about Tianchi Coal Mine and Zhaolou Coal Mine, our coal mines in China that are operated by subsidiaries of the Company:

	<u>Tianchi</u>	<u>Zhaolou</u>	<u>Total</u>
Background data:			
Commencement of construction ⁽¹⁾	2004	2004	N/A
Commencement of commercial production ⁽¹⁾	2006	2009	N/A
Coalfield area (<i>square kilometers</i>)	20.0	143.36	163.36
Reserve data: (<i>millions tonnes as of December 31, 2010</i>)			
Recoverable reserves ⁽²⁾	26.71	105.00	131.71
Mining recovery rate (%)	80.04	78.71	N/A
Coal preparation plant recovery rate (%) ⁽³⁾	N/A	69.18	N/A
Depth of mine (<i>meters underground</i>)	225	905	N/A
Average thickness of main coal seam (<i>meters</i>)	4.56	5.15	N/A
Type of coal	thermal	1/3 coking coal	N/A
Leased/owned	owned	owned	N/A
Assigned/unassigned ⁽⁴⁾	assigned	assigned	N/A
Average calorific value (<i>Kcal/kg</i>)	5,177	6,937	N/A
Sulfur content (%)	0.90	0.53	N/A
Production data: (<i>million tonnes</i>)			
Designed raw coal production capacity	1.2	3.0	4.2
Designed coal preparation input washing capacity	—	3.0	3.0
Raw coal production			
2006	0.1	—	0.1
2007	1.2	—	1.2
2008	1.1	—	1.1
2009	1.0	0.04	1.04
2010	1.5	1.6	3.1
Cumulative raw coal production as of December 31, 2010	4.9	1.64	6.54

(1) With respect to Tianchi Coal Mine, the “commencement of construction” refers to capacity expansion and technology upgrade undertaken after our 2006 acquisition; the “commencement of commercial production” refers to the resumption of production after completion of the foregoing expansion and upgrade.

(2) Recoverable reserves refer to the amount of proven and probable reserves that can be recovered after taking into account all mining and preparation losses that occur during the processing of coal after it is mined. Our estimates of recoverable reserves are reported after deduction of actual production volume and non-accessible reserves



up to December 31, 2010. Non-accessible reserves are defined as the portion of identified resources estimated to be not accessible by application of one or more accessibility factors within an area.

- (3) "Coal preparation plant recovery rate" refers to the wash plant recovery rate of raw coal used during the production of our coal products.
- (4) "Assigned" reserves refer to coal which has been committed to a particular mining complex (mine shafts, mining equipment, and plant facilities), and all coal which has been leased by the company to others. "Unassigned" reserve refers to coal which has not been committed, and which would require new mineshafts, mining equipment, or plant facilities before operations could begin on the property.

Tianchi Coal Mine. Tianchi Coal Mine is an underground mine located in Heshun County of Shanxi Province, with an area of approximately 20 square kilometers. Tianchi Coal Mine commenced commercial production in 2006 and the designed production capacity of Tianchi Coal Mine was increased to 1.2 million tonnes per annum in the same year.

Tianchi Coal Mine is operated by inclined shaft development, and it produces mostly thermal coal. The average thickness of this target coal seam is 4.56 meters. As of December 31, 2010, the total recoverable reserves of Tianchi Coal Mine were approximately 26.71 million tonnes. We principally used the longwall caving mining method to extract coal from one work-face at Tianchi Coal Mine as of December 31, 2010.

The primary piece of equipment in this system is slanted wheel, which is manufactured in China. Tianchi Coal Mine primarily produces thermal coal and block coal.

We do not employ mining contractors at Tianchi Coal Mine. The operations at Tianchi Coal Mine are powered by electricity from local power grids. We ship coal products from the Tianchi Coal Mine to Hebei Province and surrounding areas on the Yangshe Railway, the national railway network, as well as the highway network.

Zhaolou Coal Mine. Zhaolou Coal Mine is an underground longwall mine located in the central portion of Juye Coal Field in Shandong Province. Zhaolou Coal Mine covers an area of approximately 143.4 square kilometers, and is accessible by roadway and railway.

Zhaolou Coal Mine commenced commercial production in December 2009 and has a designed annual raw coal production capacity of three million tonnes. Zhaolou Coal Mine produces 1/3 coking coal. The average thickness of the main coal seam of Zhaolou Coal Mine is 5.15 meters. The total recoverable reserves of Zhaolou Coal Mine were approximately 105.0 million tonnes as of December 31, 2010. We principally used the longwall caving mining method to extract coal from the one work-face at Zhaolou Coal Mine as of December 31, 2010.

The coal preparation plant at Zhaolou Coal Mine commenced commercial production in September 2009. The main equipment used in the coal preparation plant are slanted wheel, cyclone machines and TBS separators, which are mainly produced in China. The main product of Zhaolou's coal preparation plant is No. 2 Clean Coal.

We do not employ mining contractors at Zhaolou Coal Mine. The operations at Zhaolou Coal Mine are powered by electricity from local power grids. We ship coal products to Hebei Province and surrounding areas by trucks.

Anyuan Coal Mine. Anyuan Coal Mine is an underground longwall mine located in Yijinhuluoqi of Ordos City in Inner Mongolia. Anyuan Coal Mine covers an area of approximately 9.26 km² with coal reserves of approximately 41.8 million tonnes and recoverable coal reserves of approximately 24.6 million tonnes. The original designed annual raw coal production capacity of Anyuan Coal Mine was 600,000 tonnes. As of the date of the annual report, we received approval from Inner Mongolia Coal Administrative Bureau to increase the annual production capacity of Anyuan Coal Mine to 1.2 million tonnes and we were still in the process of completing the relevant administration procedures.

The transportation condition of Anyuan Coal Mine is convenient. The 213 provincial traffic way and Baoshen railway are six kilometers away in the west of the coal field. There is a road for coal transportation from east to west across the central coal field.

We acquired 100% of the equity interests of the Anyuan Coal Mine pursuant to the approval granted at the general manager working meeting held on November 12, 2010. Anyuan Coal Mine was taken over by Ordos Neng Hua on December 1, 2010. As of the date of the annual report, we were in the process of transferring the relevant certificates and registrations of Anyuan Coal Mine.

The following table sets forth information about our operational and exploratory coal mines in Australia, which are held directly or indirectly by Yancoal Australia:

	Austar	Yarrabee	Minerva	Ashton	Moolarben	Athens	Harry-brandt	Wilpeena	Total
Background data:									
Commencement of construction ⁽¹⁾	1998	1981	2004	2003	2009	N/A	N/A	N/A	N/A
Commencement of commercial production ⁽¹⁾	2000	1982	2005	2004	2010	N/A	N/A	N/A	N/A
Coalfield area ⁽²⁾ (square kilometers)	63	62.71	15.6	19.21	17.4	782.73	40.4	34.65	1,035.7
Reserve data: (millions tonnes as of December 31, 2010)									
Resources	167	171.16	76.04	437.27	701.3	53.7	97.2	27.2	1,730.87
Recoverable reserves ⁽³⁾	50.9	60.29	23.61	60.8	351.7	N/A	N/A	N/A	547.3
Depth of mine ⁽⁴⁾ (meters)	300	N/A	N/A	190-280	N/A	N/A	N/A	N/A	N/A



underground)

Type of coal	semi-hard coking coal	PCI coal	thermal coal	semi-soft coking coal	thermal coal	thermal coal	anthracite coal	PCI coal	N/A
Leased/owned	owned	owned	owned	owned	owned	owned	owned	owned	N/A



Assigned/unassigned ⁽⁵⁾	assigned	assigned	assigned	assigned	assigned	unassigned	unassigned	unassigned	N/A
Average calorific value (Kcal/kg)	6,196	7,300	6,500	7,100	6,650	N/A	N/A	N/A	N/A
Sulfur content (%)	1.30	0.70	0.60	0.65	0.50	N/A	N/A	N/A	N/A
Production data: (million tonnes)									
Designed raw coal production capacity	3.6	3.2	2.8	5.2	16.0	N/A	N/A	N/A	30.6
Designed coal preparation input washing capacity	3.3	2.4	N/A	6.5	16.0	N/A	N/A	N/A	28.2
Raw coal production									
2006	0.4	—	—	—	—	—	—	—	0.4
2007	1.6	—	—	—	—	—	—	—	1.6
2008	1.9	—	—	—	—	—	—	—	1.9
2009	1.9	—	—	—	—	—	—	—	1.9
2010	1.7	2.3	1.4	2.7	3.9	—	—	—	12.0
Cumulative raw coal production as of December 31,									
2010	7.5	2.3	1.4	2.7	3.9	—	—	—	17.8

- (1) Austar Coal Mine was closed in 2003 as the result of an underground fire. We acquired Austar Coal Mine in 2004 and implemented a production expansion and technology upgrade in 2005. Austar Coal Mine resumed part or its operations in October 2006. Each of Ashton Coal Mine and Moolarben Coal Mine has an open-pit coal mine and an underground coal mine, and the “commencement of commercial production” indicates the time when the open-pit mines, the earlier of the two types of mines, commenced commercial production.
- (2) The coalfield area refers to the area of current leased land for mining, excluding the area which we own rights of prospecting on. The coalfield area of Athena, Harry-brandt and Wilpeena refer to the area which we own rights of prospecting on.
- (3) Recoverable reserves refer to the amount of proven and probable reserves that can be recovered after taking into account all mining and preparation losses that occur during the processing of coal after it is mined. Our estimates of recoverable reserves are reported after deduction of actual production volume and non-accessible reserves up to December 31, 2010. Non-accessible reserves are defined as the portion of identified resources estimated to be not accessible by application of one or more accessibility factors within an area.
- (4) Ashton Coal Mine and Moolarben Coal Mine have both the open-pit coal mine and underground coal mine. The depth of mine indicates the depth of the underground mines.
- (5) “Assigned” reserves refer to coal which has been committed to a particular mining complex (mine shafts, mining equipment, and plant facilities), and all coal which has been leased by the company to others. “Unassigned” reserve refers to coal which has not been committed, and which would require new mineshafts, mining equipment, or plant facilities before operations could begin on the property.

Austar Coal Mine. Austar Coal Mine is an underground mine located in Hunter Valley, New South Wales, Australia and is accessible by railway. Austar Coal Mine covers an area of 63.0 square kilometers. Austar Coal Mine was constructed in 1998 and commenced commercial production in 2000.

In 2003, an underground fire occurred at Austar Coal Mine when it was still owned by Southland Coal Pty Limited, resulting in the closure of the mine. On December 24, 2004, we acquired the entire interest in the Austar Coal Mine for approximately A\$32.0 million from Southland Coal Pty Limited, an independent third party.

We invested approximately A\$230.3 million in the reconstruction, capacity expansion and technology upgrade of Austar Coal Mine in 2005, which included funding for equipment and machinery. After we completed the foregoing investment in Austar Coal Mine, the mine resumed commercial production in October 2006.

Austar Coal Mine produces semi-hard coking coal. The average thickness of the main coal seam of Austar Coal Mine is 5.30 meters. As of December 31, 2010, the mine’s total recoverable reserves were approximately 50.9 million tonnes. We principally use the fully-mechanized caving method to extract coal from one work-face.

The main equipment used in Austar Coal Mine is the heavy-medium cyclone machine. These heavy-medium cyclone machines are manufactured in Australia.



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We have not contracted the mining operations at Austar to a third-party mining contractor. The operations at Austar Coal Mine are powered by electricity from local power grids. We ship the coal products from the Austar Coal Mine to Newcastle Port via railway.

Yarrabee Coal Mine. Yarrabee Coal Mine is an open pit mine located in Bowen Basin, Queensland, Australia and is accessible by railway. Yarrabee Coal Mine covers an area of 62.7 square kilometers. The construction of Yarrabee Coal Mine started in 1981 and it commenced commercial production in 1982.

Felix wholly owns Yarrabee Coal Mine. Currently, the designed annual capacity of Yarrabee Coal Mine is 3.2 million tonnes. Yarrabee Coal Mine mainly produces PCI. The average thickness of the main coal seam of Yarrabee Coal Mine is 3.2 to 4 meters. As of December 31, 2010, the mine's total recoverable reserves were approximately 60.29 million tonnes. We use shearers to conduct surface mining at Yarrabee Coal Mines.



Yarrabee Coal Mine has a coal preparation plant. The main pieces of equipment used in the coal preparation plant are heavy-medium cyclone machines and floating separation machines, which are manufactured in Australia.

We have not contracted the mining operations at Yarrabee Coal Mine to third-party mining contractors. The operations at Yarrabee Coal Mine are powered by electricity from local power grids. We ship the coal products from the Yarrabee Coal Mine to Gladstone Port via railway.

Minerva Coal Mine. Minerva Coal Mine is an open pit mine located in Bowen Basin, Queensland, Australia and is accessible by railway. Minerva Coal Mine covers an area of approximately 15.6 square kilometers. The construction of Minerva Coal Mine started in 2004 and it commenced commercial production in 2005.

Felix holds 51% of the equity interests in Minerva Coal Mine through Proserpina Coal Pty Ltd. The designed annual capacity of Minerva Coal Mine is 2.8 million tonnes. Minerva Coal Mine mainly produces thermal coal. The average thickness of the main coal seam of Minerva Coal Mine is 0.6 to 3.2 meters. As of December 31, 2010, the mine's total recoverable reserves were approximately 23.6 million tonnes. Pursuant to approval granted at the seventeenth meeting of the fourth session of the Board held on December 30, 2010, we disposed of 51% of the equity interests in Minerva Coal Mine Joint Venture. As of the date of the annual report, we no longer held any interest in Minerva Coal Mine.

Ashton Coal Mine. Ashton Coal Mine has both an underground mine and an open pit mine located in Hunter Valley, New South Wales, Australia and is accessible by railway. Ashton Coal Mine covers an area of approximately 19.2 square kilometers. The construction of the open-pit and underground mines of Ashton Coal Mine started in 2003 and their commercial production commenced in 2004.

Pursuant to approval granted at the seventeenth meeting of the fourth session of the Board held on December 30, 2010, we commenced the process of acquiring 30% of the equity interests in the Ashton Coal Mine Joint Venture originally held by Austral-Asia Coal Holdings Pty Ltd, a wholly-owned subsidiary of Singapore IMC Group, for a consideration of US\$250 million. Upon completion of this acquisition in May 2011, our equity interests in the Ashton Coal Mine Joint Venture increased to 90% from 60%. The designed annual capacity of Ashton Coal Mine is 5.2 million tonnes. Ashton Coal Mine mainly produces semi-soft coking coal. The average thickness of the main coal seam of the open-pit mine and the underground mine of Ashton Coal Mine are 2.14 to 2.26 meters and 1.7 to 2.4 meters, respectively. As of December 31, 2010, the mine's total recoverable reserves were approximately 60.8 million tonnes. We principally use the longwall operation to extract coal from the underground coal seam and shearers to conduct surface mining at the open-pit mine of Ashton Coal Mine.

The main pieces of equipment used in the coal preparation plant of Ashton Coal Mine are heavy-medium cyclone machines and floating separation machines, which are manufactured in Australia. We have not contracted the mining operations at Ashton Coal Mine to a third-party mining contractor. The operations at Ashton Coal Mine are powered by electricity from local power grids. We ship the coal products from the Ashton Coal Mine to Newcastle Port via railway.

Moolarben Coal Mine. Moolarben Coal Mine has both an underground mine and an open pit mine located in Hunter Valley, New South Wales, Australia and is accessible by railway. Moolarben Coal Mine covers an area of 17.4 square kilometers. The open-pit mine of Moolarben Coal Mine was constructed in 2009 and commenced commercial production in May 2010, while the construction of the underground mine of Moolarben Coal Mine will be completed in 2012 and commence commercial production in 2013.

Felix holds 80% of the equity interest in Moolarben Coal Mine through its subsidiary, Moolarben Coal Mines Pty Limited. The designed annual capacity of Moolarben Coal Mine is 16.0 million tonnes, of which the annual capacity of the underground mine is 4.0 million tonnes and the annual capacity of the open-pit mine is 12.0 million tonnes. Moolarben Coal Mine mainly produces thermal coal. The average thickness of the main coal seam of the open-pit mine of Moolarben Coal Mine is 5.5 to 11.66 meters. As of December 31, 2010, the mine's total recoverable reserves were approximately 351.7 million tonnes. We principally use the longwall operation to extract coal from the underground coal seam and shearers to conduct surface mining at the open-pit mine of Moolarben Coal Mine.

Moolarben Coal Mine has a coal preparation plant. The main pieces of equipment used in the coal preparation plant are heavy-medium cyclone machines and floating separation machines, which are manufactured in Australia.

We have not contracted the mining operations at Moolarben Coal Mine to a third-party mining contractor. The operations at Moolarben Coal Mine are powered by electricity from local power grids. We ship the coal products from the Moolarben Coal Mine to Newcastle Port via railway.



Mining Rights

Mining Rights for Nantun, Xinglongzhuang, Baodian, Dongtan and Jining II

According to the approval from the State-owned Supervision Department and the Coal Industry Supervision Department that was obtained at the establishment of the Company, the Mining Agreement entered into with Yankuang Group in 1997 and its supplemental agreement, we undertook to make ten annual payments of approximately RMB13.0 million to Yankuang Group beginning 1997 as compensation for the depletion of the coal resources at the coal mines at Nantun, Xinglongzhuang, Baodian, Dongtan and Jining II. If the State implements new regulations after the initial ten years, the compensation would be adjusted accordingly. By 2007, we had made total payments of RMB130.0 million.

In September 2006, the State Council approved the Implementation Plan for the Compensation System Reform Testing in relation to Deepening Coal Resources as jointly promulgated by the Finance Department, Ministry of Land and Resources and the NDRC. According to the implementation plan, enterprises that obtain mining rights as a result of state-funded exploration must pay mining right fees based on the valuation of the remaining reserves. Shandong Province is subject to this mining right fee. As of the date of this annual report, there remains uncertainty on the detailed rules of the implementation plan regarding the use of mining rights in Shandong Province. Since 2008, we have made provisions of RMB5.0 per tonne of coal extracted to cover any resource compensation fees that may arise from the mining rights of the five foregoing coal mines, in anticipation of Shandong Province's implementation of detailed rules for resource compensation fees. For the year ended December 31, 2010, our provisions for resource compensation fees for the five mines were approximately RMB140.7 million.

Jining III Coal Mine

Pursuant to the Jining III Coal Mine Acquisition Agreement dated August 4, 2000 that we entered into with Yankuang Group, the consideration for the mining right of Jining III Coal Mine is approximately RMB132.5 million, which will be paid to Yankuang Group in ten equal interest-free annual installments commencing from 2001. During 2010, we paid RMB13.2 million to Yankuang Group. As of December 31, 2010, we had paid an aggregate of RMB132.5 million in full for the mining rights of Jining III Coal Mine.

Austar Coal Mine

We obtained an exploration license for Austar Coal Mine from the NSW Department of Primary Industries in 2005. Pursuant to the underlying Asset Sale Agreement, we are obligated to pay A\$4.0 million after obtaining the exploration license to the new exploration site adjacent to the Austar Coal Mine.

Tianchi Coal Mine

We acquired Shanxi Nenghua for RMB748.3 million, of which RMB136.6 million was consideration for the mining right of Tianchi Coal Mine.

Zhaolou Coal Mine

We purchased the mining rights of Zhaolou Coal Mine for RMB747.3 million in 2008.

Anyuan Coal Mines

We acquired the entire equity interest in Anyuan Coal Mines for the consideration of approximately RMB143.5 million upon approval at the general manager working meeting held on November 12, 2010. The evaluation of the mining right for Anyuan Coal Mine is approximately RMB131.3 million.



Zhuan Longwan Coal Mine Field

Pursuant to approval granted at the nineteenth meeting of the fourth session of the Board held on January 28, 2011, Ordos Neng Hua successfully bid for the mining rights of Zhuan Longwan coal mine field of Dongsheng Coal Field in Inner Mongolia Autonomous Region for a consideration of RMB7,800 million. Ordos Neng Hua paid the first installment of RMB3,120 million (representing 40% of the total consideration) on February 25, 2011. Ordos Neng Hua is obligated to pay the second installment of RMB2,340 million (representing 30% of the total consideration) in full by November 30, 2011 and the third installment of RMB2,340 million (representing 30% of the total consideration) in full by November 30, 2012.

Felix Coal Mines

We acquired the entire equity interest in Felix for A\$3,333 million in 2009. The fair market value of our attributable reserves and attributable resources was A\$2,845.2 million.

Pursuant to approval granted at the seventeenth meeting of the fourth session of the Board held on December 30, 2010, Felix, a wholly-owned subsidiary of Yancoal Australia sold its 51% equity interests in Minerva Coal Mine Joint Venture to Sojitz Coal Resources Pty Ltd, an independent third party. The value of the 51% equity interest in this joint venture is estimated to be between approximately A\$188.0 million to A\$201.0 million according to an evaluation report issued by an independent evaluator dated September 9, 2010.

Railway Assets

The assets in our railway transportation business consist of 13 diesel locomotives, 18 steam locomotives, 362 rail cars, and approximately 204 kilometers of railway tracks constructed for coal transportation that connect most of our coal mines with Yankuang Group and Zouxian Power Plant, which is located in Jining City, Shandong Province. The railway network also connects two major national railways, namely, the Beijing-Shanghai Railway and Yanzhou-Shijiang Railway. As of December 31, 2010, our railway transportation business had approximately 3,838 employees.

Methanol and Cogeneration Power Plants

Yulin Nenghua. Yulin Nenghua, located in Yunlin City of Shanxi Province, is primarily responsible for the operation of a 600,000-tonne methanol plant and a supporting power plant with an installed capacity of 60 megawatts. The primary pieces of equipment at the methanol plant include boilers, steam turbines, air compressors and booster set, GEA air-cooler exchangers, gasifiers and gasification compressors, synthetic compressors, methanol synthetic gas cold reactor, methanol synthetic water cold reactor and propylene refrigeration compressors.

Tianhao Chemicals. Tianhao Chemicals, located in Xiaoyi City of Shanxi Province, is primarily responsible for the operation of a 100,000-tonne methanol plant and a supporting power plant. The primary pieces of equipment in the methanol plant include low pressure wet type spiral gas cabinets, coke oven gas compressors, reformers and converters.

Hua Ju Energy. Hua Ju Energy is headquartered in Zoucheng City, Shandong Province. Hua Ju Energy owns and operates six cogeneration power plants, each of which is able to supply electric power and heat to our coal mine in its proximity. The power plants consist of Nantun power plant, Xinglongzhuang power plant, Baodian power plant, Dongtan power plant, Jining II power plant and Jidongxincun power plant. The aggregate installed capacity of these six power plants is 144 megawatts and the annual power generation capacity and heat supply capacity are 1.0 to 1.1 billion kilowatt-hours and 1.0 to 1.2 million steam tonnes, respectively. The main pieces of equipment used at Hua Ju Energy includes energy conversion CFB boilers and extraction and condensing steam turbines.

Zhaolou Coal Mine Power Plants. Zhaolou Coal Mine power plants are the integrated power plants for Heze Nenghua Zhaolou Coal Mine, located in Heze city of Shandong Province. The power plants have two phases with designed capacity of 300,000 kWh for each phase. We commenced construction of phase I of the power plants in March 2010, which utilize a power generator of 300,000 kWh and a circulating fluidized bed boiler with capacity of 1,025 tonnes per hour. The main pieces of equipment used at Zhaolou Coal Mine power plants include extraction and condensing steam turbines, water hydrogen generators and CFB boilers.

ITEM 4A. UNRESOLVED STAFF COMMENTS

There are no unresolved staff comments from the Securities Exchange Commission.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis should be read in conjunction with the information set forth in our consolidated financial statements, together with the related notes, included in this annual report.



A. Operating Results

During the period covered by this annual report, our five business segments consist of:

- coal business;
- railway transportation business;
- coal chemical business;
- electric power business; and
- heat supply business.

Coal Business

We are primarily engaged in the production of coal, which involves the mining, preparation and processing of coal. Historically, our coal operations were primarily based in the PRC, but we have rapidly expanded our Australian coal operations since the fourth quarter of 2009. Our high quality coal products primarily include steam coal, which is used by power plants, and coking and pulverized coal, which is used at metallurgical mills for blast furnace injections. Our domestic customers are predominately power plants, metallurgical mills and chemical manufacturers located in the economically more developed region of Eastern China. We also export a portion of our coal from our Australian operations to international customers located in Japan, South Korea and other countries.

In 2010, we produced approximately 49.4 million tonnes of raw coal and sold approximately 49.6 million tonnes of coal, which included approximately 5.4 millions tonnes of coal that was purchased externally from third parties for trading. In 2008, 2009 and 2010, our sales income of coal was approximately RMB24,933.3 million, RMB19,947.7 million and RMB32,590.9 million, respectively, representing approximately 98.6%, 96.5% and 96.0% respectively of our total sales income. Domestic sales income of coal (excluding coal purchased externally) accounted for 83.8%, 85.9% and 66.9% and overseas sales income of coal conducted by Yancoal Australia or through export agents in China accounted for 7.3%, 6.0%, and 18.3% of our total sales income of coal during 2008, 2009 and 2010, respectively. In 2010, our inter-segment coal sales amounted to RMB339.4 million, which primarily consisted of sales to our power plants. For more information on our segment revenues, inter-segment eliminations and segment balance sheet items, see Note 6 to our financial statements.

Our invoiced amount of coal sold includes returns, discounts, sales related taxes, port fees and other fees and, in certain cases, transportation costs payable by customers. Gross sales, or sales income as used elsewhere in this annual report, of coal equals the invoiced amount of coal sold less returns and discounts. Sales taxes and other fees consist primarily of business tax paid at 5% of our revenue and city construction tax and education surcharge calculated at 7% and 3%, respectively, on the total amount of our VAT payable and business tax payable. We also pay a local resource tax based on our coal consumption at the rate of RMB3.6 per tonne in Shandong Province and RMB3.2 per tonne in Shanxi Province to the local tax bureau. For more information on our sales income of coal, see Note 7 to our financial statements.

Railway Transportation Business

We own a railway network spanning over 200 kilometers, which we use primarily to transport coal, as well as other goods upon the request of our railway transportation customers. To facilitate our production and sales of coal, we provide railway transportation services to our coal customers and Yankuang Group. The annual transport volume on our railway network has remained steady in recent years. In 2010, we transported a total of approximately 19.7 million tonnes of goods on our railway network, compared to approximately 19.9 million tonnes in 2009 and approximately 19.2 million tonnes in 2008.

We derive our railway transportation services income from the delivery of (i) coal purchased from us on an ex-mine basis, an arrangement where customers separately bear the cost of transporting the coal they purchase to a designated location, and (ii) goods other than coal that we deliver on behalf of customers who engage us exclusively for our railway transportation services. In 2010, income from our railway transportation services totaled approximately RMB513.3 million, of which inter-segment sales to our coal mining segment amounted to approximately RMB36.1 million.



Coal Chemical Business

Our coal chemical operations consist primarily of the production and sale of methanol. Yulin Nenghua's 600,000-tonne methanol plant commenced commercial operations in August 2009. In 2010, Yulin Nenghua produced 311,000 tonnes and sold 319,000 tonnes of methanol, including inventory from the prior year, generating sales income¹ of RMB523.5 million.

Production at Tianhao Chemicals' 100,000-tonne methanol plant was adversely affected by the insufficient supply of coke oven waste gas, a key raw material that is supplied via transmission pipelines connected to the plant by its exclusive third-party supplier, which continued up to the date of the annual report. In 2010, Tianhao Chemicals produced 56,000 tonnes and sold 57,000 tonnes of methanol, including inventory from the prior year, generating sales of RMB105.8 million.

Electric Power Business

We own and operate eight power plants, which generate electric power primarily for internal use and, to a lesser extent, external sales. The cogeneration power plants operated by Hua Ju Energy are able to generate both electric power and heat. In 2010, Hua Ju Energy, Yulin Nenghua and Shanxi Nenghua generated a total of approximately 1,369.8 million kWh of electricity, of which, approximately 526.6 million kWh was sold externally. In 2010, our electric power business generated approximately RMB185.5 million in revenue.

Heat Supply Business

In 2010, Hua Ju Energy produced approximately 1.27 million steam tonnes of heat, of which we sold approximately 0.19 steam tonnes, generating sales revenue of RMB25.2 million.

The following table sets forth our income statement and the percentage of each line item to our total revenue for the periods indicated:

	2008		2009		2010	
	RMB (million)	%	RMB (million)	%	RMB (million)	%
Total revenue ⁽¹⁾	25,287.4	100.0	20,677.1	100.0	33,944.3	100.0
Gross sales of coal	24,933.3	98.6	19,947.7	96.5	32,590.9	96.0
Railway transportation service income	255	1.0	266	1.3	513.3	1.5
Gross sales of electric power	59.8	0.2	187.5	0.9	185.6	0.5
Gross sales of methanol	38.6	0.2	258.9	1.3	629.3	1.9
Gross sale of heat supply	—	—	15.6	0.1	25.2	0.1
Transportation costs of coal	(508.7)	(2.0)	(403.3)	(2.0)	(1,160.5)	(3.4)
Cost of sales and service provided ⁽¹⁾	(12,201.1)	(48.2)	(10,590.0)	(51.2)	(16,801.3)	(49.5)
Cost of electric power	(88.3)	(0.3)	(190.8)	(0.9)	(195.5)	(0.6)
Cost of methanol	(37.8)	(0.1)	(352.9)	(1.7)	(716.8)	(2.1)
Cost of heat supply	—	—	(9.7)	0.0	(12)	0.0
Gross profit	12,451	49.2	9,130.4	44.2	15,057.6	44.4
Selling, general and administrative expenses	(3,832.0)	(15.2)	(3,820.3)	(18.5)	(5,093.9)	(15.0)
Share of income (loss) of an associate	(67.4)	(0.3)	109.8	0.5	8.9	0.0
Other income	351	1.4	311.0	1.5	3,108.0	9.2
Interest expense	(38.4)	(0.2)	(45.1)	(0.2)	(603.3)	(1.8)
Profit before income taxes	8,865.2	35.1	5,685.8	27.5	12,477.3	36.8
Income taxes	(2,385.6)	(9.4)	(1,553.3)	(7.5)	(3,171.0)	(9.3)
Profit for the year	6,479.6	25.6	4,132	20.0	9,306.3	27.4
Attributable to:						
Equity holders of the Company	6,488.9	25.7	4,117.3	19.9	9,281.4	27.3
Non-controlling interests	(9.3)	(0.1)	15.2	0.1	24.9	0.1

¹ In this annual report, business taxes and surcharges have been reclassified as corresponding costs of each category of revenue to provide a more appropriate presentation. The same adjustments have been made to the corresponding year prior. The reclassification has no impact on the overall results of the Group. The attention of Shareholders and potential investors is drawn to such adjustments. For details, please see Note 2 of the consolidated financial statements attached to this annual report.

Year Ended December 31, 2010 Compared with Year Ended December 31, 2009

Total revenue

Our total revenue in 2010 increased RMB13,267.2 million, or 64.2%, to approximately RMB33,944.3 million. Our gross sales of coal, which accounted for 96.0% of our total revenue in 2010, increased RMB12,643.2 million, or 63.4%, to approximately RMB32,590.9 million in 2010. The increase in gross sales of coal was primarily due to the increase in the average selling price and



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the sales volume of our coal products driven by rapidly growing market demand in 2010. In 2010, our average selling price of coal products increased approximately RMB134.3 per tonne to RMB663.5 per tonne, representing a 25.4% increase from 2009. Our sales volume of coal products increased 30.5% from approximately 38.0 million tonnes in 2009 to 49.6 million tonnes in 2010.



In 2010, the transportation volume of our railway assets was approximately 19.7 million tonnes, representing a decrease of approximately 0.16 million tonnes, or 0.8%, from 2009, primarily caused by the decrease in our internal transportation volume where we bear the transportation costs by ourselves, and partly offset by an approximate 0.98 million tonnes increase in the volume of goods to which our customers bear the transportation fees, or external transportation volume. Our railway transportation services income (income from transported volume settled on the basis of off-mine prices and special purpose railway transportation fees borne by customers) was approximately RMB513.3 million in 2010, representing an increase of RMB246.0 million, or 92.0%, from that in 2009, primarily due to an increase in the standard transportation fee from RMB0.32 per tonne kilometer to RMB0.57 per tonne kilometer, which became effective from January 1, 2010. The increase in the railway transportation services income was also attributable to an increase of 0.98 million tonnes, or 5.7%, in 2010 in the volume of goods to which our customers bear the transportation fees.

We ramped up production in our coal chemical operations and generated gross sales of methanol of approximately RMB629.3 million in 2010, representing an increase of approximately RMB370.4 million, or 143.1%, from RMB258.9 million in 2009. The increase in gross sales of methanol was mainly attributable to the increased production at Yulin Nenghua's methanol plant, which completed its first full year of operations in 2010.

In 2010, our gross sales of electric power amounted to approximately RMB185.5 million, representing a slight decrease of approximately RMB2.0 million, or 1.1%, from 2009. Our gross sales of heat supply increased to approximately RMB25.2 million, representing an increase of approximately RMB9.6 million, or 61.3%, from 2009, mainly attributable to an increase in the sales volume.

Transportation costs of coal

Transportation costs of coal primarily consist of railway, waterway and roadway transportation costs charged by carriers who deliver our coal products to our customers. Our coal transportation costs increased by RMB757.2 million, or 187.8%, to approximately RMB1,160.5 million in 2010. The increase was primarily due to our acquisition of Felix.

Cost of sales and services provided

Our cost of sales and railway transportation services provided consists of the costs of our coal business and railway transportation business, which primarily consist of wages and employee benefits, purchases of coal from third parties for trading purposes, materials, land subsidence, restoration, rehabilitation and environmental costs, depreciation and amortization expenses and business tax and surcharges. In 2010, our total cost of sales and services provided increased RMB6,211.3 million, or 58.7%, to approximately RMB16,801.3 million.

The increase was primarily due to a RMB2,878.1 million increase in the cost of traded coal, as a result of the increase in the volume and price of coal we purchased from third parties for trading purposes. Cost of sales and service provided also increased due to a RMB1,413.4 million increase in wages and employee benefits in line with the increase in our employee headcount, and partly offset by a RMB192.8 million decrease in land subsidence, restoration, rehabilitation and environmental costs.

Cost of electric power

Our cost of electric power operations primarily consists of raw material and labor costs incurred to generate electric power. Our cost of electric power increased by RMB4.7 million to approximately RMB195.5 million in 2010, from approximately RMB190.8 million in 2009.

Cost of methanol

Our cost of methanol primarily consists of raw materials, labor costs, depreciation and other manufacturing overhead. Our production costs increased significantly from approximately RMB352.9 million in 2009 to approximately RMB716.8 million in 2010, mainly attributable to the increased production at Yulin Nenghua's methanol plant, which completed its first full year of operations in 2010.

Cost of heat supply

The costs in our heating business primarily consist of raw materials and labor. We incurred approximately RMB12.5 million in costs for our heat supply business in 2010, representing an increase of approximately RMB2.8 million compared to approximately RMB9.7 million in 2009, reflecting the significant growth in our production volume of 50,000 steam tonnes.



Selling, general and administrative expenses

Our selling, general and administrative expenses were approximately RMB5,093.9 million in 2010, representing an increase of RMB1,273.7 million, or 33.3%, from approximately RMB3,820.2 million in 2009. Our selling, general and administrative expenses increased primarily due to a RMB687.3 million increase in distribution charges mainly caused by the increase of our operations in Australia after the acquisition of Felix. The increase in our selling, general and administrative expenses was also attributable to the increase in depreciation, repair and maintenance expenses and utilities relating to administrative buildings.

Share of income of an associate

Our share of income from our investment in Huadian Zouxian Power Generation Company Limited and Yankuang Group Finance Company Limited was approximately RMB8.9 million in 2010, compared to RMB109.8 million in 2009. This decrease was primarily a result of the decreased income of Huadian Zouxian Power Generation Company Limited due to increased thermal coal prices in 2010.

Other income

Our other income increased significantly by RMB2,797.1 million from RMB311.0 million in 2009 to RMB3,108.1 million in 2010. Our increase in other income in 2010 was primarily attributable to an exchange gain of RMB2,688.2 million mainly resulting from the appreciation of the Australian dollar against the U.S. dollar.

Interest expenses

Our interest expenses increased significantly by RMB558.2 million, from approximately RMB45.1 million in 2009 to approximately RMB603.3 million in 2010. This increase was primarily due to an increase in interest expenses on bank borrowings wholly repayable within five years from approximately RMB18.8 million in 2009 to approximately RMB594.6 million in 2010, mainly attributable to an increase of approximately RMB575.2 million of interest expense in relation to the bank loans of Yancoal Australia in relation to the acquisition of Felix in late 2009. The increase in interest expenses was partially offset by a decrease of approximately RMB11.0 million in the bills receivable discounted without recourse in 2010.

Profit before income tax

As a result of the foregoing, our profit before income taxes increased by approximately RMB6,791.5 million, or 119.4%, from approximately RMB5,685.8 million in 2009 to approximately RMB12,477.3 million in 2010.

Income tax expenses

Our income tax expenses increased by RMB1,617.7 million, or 104.2%, to approximately RMB3,171.0 million in 2010. The increase primarily reflected an increase in our taxable income.

Profit for the year

As a result, our profit for the year increased by RMB5,173.8 million, or 125.2%, from approximately RMB4,132.5 million in 2009 to approximately RMB9,306.3 million in 2010. The profit attributable to equity holders of the Company increased by RMB5,164.1 million, or 125.4%, from approximately RMB4,117.3 million in 2009 to approximately RMB9,281.4 million in 2010.

Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

Total revenue

Our total revenue in 2009 decreased RMB4,610.3 million, or 18.2%, to approximately RMB20,677.1 million. Our gross sales of coal, which accounted for 96.5% of our revenue in 2009, decreased RMB4,985.6 million, or 20.0%, to approximately RMB19,947.7 million in 2009. The decrease in gross sales of coal was primarily due to a decrease in the average selling price of our coal products partly offset by a slight increase in sales volume. The average price of our Company's coal products decreased 20.3% in 2009 compared with our average price in 2008 as a result of weak market conditions in China and worldwide. Our gross sales of coal decreased approximately RMB4,985.5 million, from approximately RMB24,933.3 million in 2008 to approximately RMB19,947.8 million in 2009 primarily due to the decrease in average selling price of coal in 2009. Our sales volume of coal products increased 1.2% from approximately 37.6 million tonnes in 2008 to approximately 38.0 million tonnes in 2009.



Our railway transportation services income was approximately RMB267.3 million in 2009, representing an increase of RMB11.6 million, or 4.5%, reflecting a 0.7 million tonne, or 3.7%, increase in the volume of goods transported.

We ramped up production significantly in our coal chemical operations and electric power and generated approximately RMB258.9 million and approximately RMB187.5 million from these businesses, respectively, in 2009. The increase in coal chemical sales was attributable to Yulin Nenghua's methanol plant, which commenced production in August 2009 and generated sales income¹ of approximately RMB239.6 million. The acquisition of Hua Ju Energy significantly increased our external sales of electricity, which generated revenue of approximately RMB152.1 million in 2009. We also began the production and sale of heat supply in 2009 and generated revenue of approximately 15.6 million from this new business in the same year.

Transportation costs of coal

Transportation costs of coal primarily consist of railway, waterway and roadway transportation costs charged by carriers who deliver our coal products to our customers. Our transportation costs of coal decreased RMB105.4 million, or 20.7%, to RMB403.3 million in 2009. The decrease was primarily due to a decrease in the volume of coal that was shipped through ports to domestic and overseas customers, both of which involve the incurrence of port fees and railway transportation costs for using the PRC national railway network to deliver coal to ports.

Cost of sales and services provided

Our cost of sales and railway transportation services provided consists of the costs of our coal business and railway transportation business, which primarily consist of wages and employee benefits, purchases of coal from third parties for trading purposes, materials, land subsidence, restoration, rehabilitation and environmental costs, depreciation and amortization expenses and business tax and surcharges. In 2009, our total cost of sales and services provided decreased RMB1,611.1 million, or 13.2%, to approximately RMB10,590.0 million.

The decrease was primarily due to a decrease in land subsidence, restoration, rehabilitation and environmental costs of RMB1,541.4 million and a RMB732.8 million decrease in the amount of coal that we purchased for trading purposes, partly offset by a RMB656.8 million increase in wages and employee benefits and a RMB379.0 million increase in depreciation expenses, which is in line with our increase in plant, property and equipment.

Cost of electric power

Our cost of electric power operations primarily consists of raw material and labor costs. The year 2009 marked the first full year of operations of our electric power business, which commenced operations in September 2008. Our cost of power generation increased significantly from approximately RMB88.3 million in 2008 to approximately RMB190.8 million in 2009, primarily due to costs of RMB121.5 million associated with Hua Ju Energy's external sales of electric power.

Cost of methanol

Our cost of methanol primarily consists of raw materials, labor costs and other manufacturing overhead. We commenced production at a 600,000-tonne methanol plant in August 2009, which increased our production capacity and volume significantly. Our cost of methanol production increased more than eightfold from approximately RMB37.8 million in 2008 to approximately RMB352.9 million in 2009, reflecting the significant growth in our production volume.

Cost of heat supply

The primary costs in our heating business consist of raw materials and labor. We incurred RMB9.7 million in costs for our heat supply business.

Selling, general and administrative expenses

Our selling, general and administrative expenses were approximately RMB3,820.2 million in 2009, representing a decrease of RMB11.8 million, or 0.3%, from approximately RMB3,832.0 million in 2008. Our selling, general and administrative expenses were reduced because we did not have any foreign exchange losses in 2009, the effects of which were offset by (i) an increase in property management fees of RMB91.7 million, (ii) an increase in depreciation of RMB53.9 million and (iii) an increase in repair and maintenance of RMB49.5 million.



Share of income of an associate

Our share of income from our investment in Huadian Zouxian Power Generation Company Limited was approximately RMB109.8 million in 2009, compared with our share of loss of approximately RMB67.4 million in 2008. Our associated company's profitability was primarily the result of a decrease in steam coal prices in 2009.

Other income

Our other income decreased by RMB40.5 million, or 11.5%, to approximately RMB311.0 million in 2009. In 2008, we had a one-off recovery of approximately RMB132.2 million in interest income from a legal proceeding. Our decrease in other income in 2009 was partly offset by an increase in interest income from bank deposits of approximately RMB44.6 million and an increase in government grants of approximately RMB26.3 million.

Interest expenses

Our interest expenses increased by RMB6.8 million, or 17.4%, from approximately RMB38.4 million in 2008 to approximately RMB45.1 million in 2009. The increase was primarily due to an increase in interest expenses of approximately RMB13.6 million on discounted bills receivable and a decrease in interest expenses of approximately RMB6.2 million on bank borrowings.

Profit before income tax

As a result of the foregoing, our profit before income taxes decreased by RMB3,179.4 million, or 35.9%, from approximately RMB8,865.2 million in 2008 to approximately RMB5,685.8 million in 2009.

Income tax expenses

Our income tax expenses decreased by RMB832.3 million, or 34.9%, to approximately RMB1,553.3 million in 2009. The decrease primarily reflected a decrease in our taxable income.

Profit for the year

As a result, our profit for the year decreased by RMB2,347.1 million, or 36.2%, from approximately RMB6,479.6 million in 2008 to approximately RMB4,132.5 million in 2009. The profit attributable to equity holders of the Company decreased by RMB2,371.6 million, or 36.5%, from approximately RMB6,488.9 million in 2008 to approximately RMB4,117.3 million in 2009.

B. Liquidity and Capital Resources

Our principal sources of liquidity in 2010 were bank borrowings and the cash generated from our operating activities. In 2010, we primarily utilized cash to fund the acquisition of Haosheng Company and Anyuan coal mine, investment in Yankuang Group Finance Company Limited, the payment of operating expenses, purchase of property, machinery and equipment and payment of dividends to the Shareholders.

Cash Flows

The following table sets forth a summary of our cash flow for the periods indicated:

	Year Ended December 31,		
	2008	2009	2010
		(RMB'000)	
Net cash from operating activities	7,095,477	6,520,131	5,399,804
Net cash used in investing activities	(2,091,489)	(24,842,938)	(5,884,355)
Net cash from (used in) financing activities	(921,668)	18,503,741	(1,360,523)
Net increase/ (decrease) in cash and cash equivalents	4,082,320	180,934	(1,845,074)
Cash and cash equivalents as of end of year	8,439,578	8,522,399	6,771,314

Cash Flow From Operating Activities

Net cash from operating activities represents cash generated from operations after income taxes, interest and dividend income. Cash generated from operations consisted of profit before income taxes adjusted for certain non-cash items, including depreciation, certain interest expenses and income, amortization and our share of investment in an associate company and cash generated from other activities.



Net cash from operating activities was approximately RMB5,399.8 million in 2010 and consisted of profit before income taxes of approximately RMB12,477.3 million and adjustments for non-cash items of approximately RMB1,018.2 million, offset by negative adjustments to working capital and other activities of approximately RMB5,646.5 million. Positive adjustment for non-cash items primarily consisted of depreciation of property, plant and equipment of approximately RMB2,426.6 million, partially offset by net unrealized foreign exchange gains of approximately RMB2,180.3 million and interest income of approximately RMB187.2 million. Negative changes in working capital activities primarily consisted of (i) an increase in bills and accounts receivable of approximately RMB5,286.1 million and (ii) an increase in inventories of approximately RMB728.0 million. These decreases were partially offset by (i) an increase in movement in land subsidence, restoration, rehabilitation and environmental cost of approximately RMB838.5 million and (ii) an increase in movement in overburden cost of approximately RMB224.5 million.

Net cash from operating activities was approximately RMB6,520.1 million in 2009 and consisted of profit before income taxes of approximately RMB5,685.8 million, adjustments for non-cash items of approximately RMB1,652.3 million and positive adjustments to working capital and other activities of approximately RMB620.8 million. Positive adjustment for non-cash items primarily consisted of depreciation of property, plant and equipment of approximately RMB1,793.3 million, partially offset by interest income of approximately RMB187.6 million and our share of income of an associate of approximately RMB109.8 million. Positive changes in working capital activities primarily consisted of (i) an increase in movement in land subsidence, restoration, rehabilitation and environmental cost of approximately RMB1,109.7 million and (ii) an increase in other payables and accrued expenses of approximately RMB622.1 million. These increases were partially offset by an increase in bills and accounts receivable of approximately RMB1,416.6 million due to an increase in coal purchases settled through acceptance bills.

Net cash from operating activities was approximately RMB7,095.5 million in 2008 and consisted of profit before income taxes of approximately RMB8,865.2 million, adjustments for non-cash items of approximately RMB1,285.3 million, offset by negative adjustments to working capital and other activities of approximately RMB1,093.9 million. Positive adjustments for non-cash items primarily consisted of depreciation of property, plant and equipment of approximately RMB1,140.8 million, partially offset by interest income of approximately RMB275.2 million. Negative changes in working capital activities primarily consisted of (i) an increase in prepayments and other current assets of approximately RMB1,242.0 million, (ii) an increase in inventories of approximately RMB405.2 million, and (iii) an increase in bills and accounts receivable of approximately RMB217.0 million. These decreases were partially offset by an increase in movement in land subsidence, restoration, rehabilitation and environmental cost of approximately RMB431.3 million and an increase in bills and account payable of approximately RMB263.8 million.

Cash Flows Used in Investing Activities

Net cash used in investing activities was approximately RMB5,884.4 million in 2010. Net cash used in investing activities primarily consisted of (i) our payment of approximately RMB2,045.8 million and approximately RMB1,080.0 million as partial payments for our acquisition of Haosheng Company and Anyuan Coal Mine, (ii) our purchase of property, plant and equipment of approximately RMB3,576.1 million, (iii) an increase in restricted cash of approximately RMB874.6 million, (iv) our investment of approximately RMB125.0 million to establish Yankuang Group Finance Company Limited, partially offset by equity transfer income of approximately RMB1,147.8 million from disposal of Minerva Coal Mine.

Net cash used in investing activities was approximately RMB24,842.9 million in 2009. Net cash used in investing activities primarily consisted of (i) our acquisition of Felix for cash of approximately RMB19,558.5 million, (ii) capital expenditures of approximately RMB2,133.7 million in property, plant and equipment, (iii) an increase in term deposits of approximately RMB1,971.4 million and (iv) our purchase of equity interest in Hua Ju Energy for approximately RMB761.7 million.

Net cash used in investing activities was approximately RMB2,091.5 million in 2008. Net cash used in investing activities primarily consisted of capital expenditures of approximately RMB2,027.0 million for property, plant and equipment and approximately RMB747.3 million for our acquisition of mining rights in Zhaolou Coal Mine. Cash used in investing activities was partially offset by a decrease in other loan receivables of approximately RMB640.0 million resulting from our recovery of the principal amount of the entrusted loan that was in default and a decrease in term deposits of approximately RMB141.6 million.

Cash Flows From (Used in) Financing Activities

Net cash used in financing activities in 2010 was approximately RMB1,360.5 million and primarily consisted of cash dividend payment of approximately RMB1,229.6 million and repayments of bank borrowings of approximately RMB655.5 million, partially offset by bank borrowings of approximately RMB1,111.0 million.

Net cash from financing activities in 2009 was approximately RMB18,503.7 million and primarily consisted of bank borrowings of approximately RMB20,757.7 million that we obtained to fund the acquisition of Felix, partially offset by cash dividend payments of approximately RMB1,967.4 million.

Net cash used in financing activities in 2008 was approximately RMB921.7 million, reflecting primarily dividend payments of approximately RMB836.1 million and the repayment of bank borrowings of approximately RMB72.0 million.



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Working Capital and Liabilities

We have historically maintained sufficient working capital for our operations. Our principal source of cash in 2010 was bank borrowings and cash generated from operating activities.



As of December 31, 2010, we recorded net current assets of approximately RMB14,147.5 million. Our current assets increased by RMB4,280.4 million primarily as a result of a RMB5,293.4 million, or 112.1%, increase in bills and accounts receivable and a RMB759.8 million increase in inventories. Our current liabilities decreased by RMB276.5 million from approximately RMB10,410.4 million in 2009 to approximately RMB10,133.9 million in 2010. The decrease in current liabilities was primarily due to the decrease in borrowings due within one year of RMB983.2 million and the decrease in other payables and accrued expenses of RMB620.9 million. The change in net current assets was primarily due to the increase in sales and profits during the year.

As of December 31, 2010 and 2009, we had cash and cash equivalents of approximately RMB6,771.3 million and RMB8,522.4 million, respectively. Our cash and cash equivalents primarily consist of cash on hand and demand deposits with original maturities of three months or less that are placed with banks and other financial institutions. As of December 31, 2010, our total cash and cash equivalents denominated in Renminbi amounted to approximately RMB5,122.2 million and our total cash and cash equivalents denominated in U.S. dollars, Hong Kong dollars, Australian dollars, Pound Sterling and Euro amounted to approximately RMB1,649.1 million.

We have, and in the future may continue to have, substantial debts. As of December 31, 2010, our long-term debt to equity ratio was 59.8%. The interest expenses associated with these debts may impair our future profitability. We expect that cash from operations and borrowings will be sufficient to meet our operating cash flow requirements for at least the next twelve months, although certain events that materially and adversely affect our operating results may also have a negative impact on our liquidity. In addition, we cannot assure you that financing will be available in the amounts we need or on terms acceptable to us, if at all.

As of December 31, 2010, our outstanding bank borrowings increased to approximately RMB23,015.8 million from approximately RMB22,509.8 million as of December 31, 2009. The following table sets forth the maturity profile of our bank borrowings as of the dates indicated:

	As of December 31,	
	2009	2010
	(RMB in thousands)	
Less than one year	1,598,113	614,925
One to three years	8,347,091	14,735,445
Three to five years	12,498,637	7,621,388
More than five years	66,000	44,000
Total	22,509,841	23,015,758

As of December 31, 2010, the interest rates relating to our bank borrowings ranged from 1.05% to 7.6% per annum. The interest rates for these bank borrowings are variable rates that are subject to adjustment based on the interest rates set by the PBOC, LIBOR or BBSY. As of December 31, 2010, all of our bank loans carry variable interest rates. As of the date of this annual report, our bank borrowings were denominated in Renminbi and U.S. dollars. As of December 31, 2010, our total bank loans denominated in Renminbi amounted to approximately RMB154 million, while our total bank loans denominated in U.S. dollars and Australian dollars amounted to approximately US\$3,040 million and A\$284 million, respectively. See Note 35 to the consolidated financial statements for more information on our borrowings. The interest expenses and exchange rate fluctuations associated with our bank borrowings may impair our future profitability.

Capital Expenditures

Our principal capital expenditures, which was incurred for the purchase and construction of property, plant and equipment decreased by RMB2,825.7 million, or 44.2%, from approximately RMB6,387.8 million in 2009 to approximately RMB3,562.1 million in 2010. The decrease were primarily due to a decrease of RMB1,628.2 million in the capital expenditure of Yancoal Australia for the purchases of property, plant and equipment, a decreased of RMB789.8 million the capital expenditure of Hua Ju Energy for the purchases of property, plant and equipment and a decrease of RMB390.3 million in capital expenditure of Heze Nenghua for the purchases of property, plant and equipment.

Our estimated capital expenditure for 2011 is RMB5,103.1 million. The table below sets forth our estimated capital expenditure for 2011 and capital expenditure we incurred in 2010.

Companies	Estimated capital expenditure for 2011	Capital expenditure incurred in 2010
	(RMB in millions)	
The Company	1,200.4	1,210.4
Shanxi Nenghua	38.1	14.5
Yancoal Australia	1,636.8	2,093.5
Yulin Nenghua	44.9	59.4
Heze Nenghua	720.5	134.8
Huaju Energy	67.7	41.6
Ordos Neng Hua	1,353.5	7.9
Haosheng Company	41.2	—
Total	5,103.1	3,562.1



We plan to finance our capital commitments primarily through a combination of funds generated from operations, bank loans and other external financing arrangements. Currently, we have sufficient cash and financing channels from commercial banks, which we expect are sufficient to satisfy the capital demand for operation and development.

C. Research and Development, Patents and Licenses, Etc.

One of our core strategies is to maintain our competitiveness through technology and innovation. In line with our development strategy with a focus on technology innovation, we have established a multi-layer system consists of various entities, including technology committee, professional committee, technology center, as well as external institutions or organizations with specialized technology development capacities. We completed 81 technology projects, obtained 24 patents and were awarded 78 technology advance prizes in 2010. At the same time, we focused on strengthening our environmental protection capabilities and improving our energy conservation technologies. As a result, we won the State Scientific and Technological Progress Award (Second Class) for our "Research and Development of the Fully Mechanized Top Coal Caving Mining Technology and Equipment and its Domestic and International Applications". Our expenditures for research and development were RMB106.5 million, RMB46.3 million and RMB70.6 million, in 2008, 2009 and 2010, respectively, accounting for 0.4%, 0.2% and 0.2%, respectively, of our total revenue for the same periods.

Our research and development efforts on mining technology have contributed to increases in our production. Our predecessor first adopted the longwall caving mining method in 1992. Thereafter, our research and development personnel concentrated on modifying and updating this method, taking into account the distinct geological conditions of our mining operations with the goal of maximizing production. Largely because of our research and development personnel's efforts, we have been able to:

- increase production efficiency by utilizing mining extracting equipment with improved technology;
- extend the length of certain longwall work-faces to approximately 300 meters, thereby reducing our costs for tunneling and supports;
- reduce the number of coal pillars required to support mining areas and enhance our recovery rate for coal mining and thereby increase our coal production;
- improve the roof support and auxiliary coal transportation systems of our mining systems to reduce costs;
- complete two national technologically innovative projects entitled *Research on the equipment supply and technology for fully mechanized top-coal caving work face with annual production of six million tonnes* and *Research on the technology to increase efficiency and scale of fully mechanized mining and the key equipment*, respectively, as well as one key project entitled *Research on the integrated equipment and technology of fully-automated information-based mechanized top-coal caving work face with annual production of six million tonnes*, which successfully developed a two-pillar hydraulic shield support for a top-coal caving process;
- patent our industry-leading technology for longwall caving mining in the PRC, Australia and South Africa. We believe the use of our longwall caving extraction technology reduces the per tonne production cost of our operations;
- complete technologically innovative projects entitled *Research and application of the mechanics of mine tremor caused by the fall of large indirect roof in the goaf in Yanzhou coal mining area*, *Study on early warning system through real-time online safety monitoring of rock burst in long-wall top coal caving*, or *LTCC, working face*, *Hydraulic roof support with advance support used in large deformation main gate in LTCC working face in deep mine* and *Liquid carbon dioxide fire fighting technology for coal spontaneous combustion*, which passed appraisal held by either China National Coal Association or Shandong Science and Technology Committee in 2010;
- start research on technologically innovative projects entitled *Research on deep mine cooling scheme* and *Research on hidden dangers of super-high pressure Ordovician limestone water in mining the lower coal seams* to provide technical support for work safety and efficiency; and
- implement technologically innovative projects entitled *Technology for rapid gangue discharge in mixed coal-rock roadway*, *Technology on loading and haulage of coal and rock separately in mixed coal-rock roadway*, *Technology research on rapid development equipment and construction process in rock-roadway* and *Research on high-efficient rock-roadway development equipment compatibility and related key technologies*, which improved our rock-roadway construction technology and equipment and enabled us to be more adapted to different working environments.

We intend to further strengthen our competitive advantage in core technologies with a focus on upgrading and improving our longwall caving extraction technology, fully-mechanized caving operations and related equipment as well as mining methods for medium and thick coal seams.

**D. Trend Information*****Integration of Felix***

The acquisition of Felix is a key component of our growth and international expansion strategy. Following the integration of Felix's business and assets with our pre-existing Australian operations, we intend to ramp up production at our Australian operations. Going forward, our Australian operations are expected to make substantial contributions to our total production volume and results of operations. Our ability to achieve our sales goals for our Australian operations will largely depend on our degree of success in realizing the anticipated benefits and synergies of the Felix acquisition. In 2010, we acquired 30% of the equity interests held by Austral-Asia Coal Holdings Pty Ltd, a wholly-owned subsidiary of Singapore IMC Group, in the Ashton Coal Mine Joint Venture. As of the date of this annual report, Felix's control in the Ashton Coal Mine Joint Venture increased from 60% to 90%. In addition, we disposed of our 51% equity interest in the Minerva Coal Mine Joint Venture in 2010 that was originally held through Felix, and, since completion of the disposal, no longer have any interests in the Minerva Coal Mine Joint Venture.

Development in Ordos City of Inner Mongolia

We established Ordos Neng Hua on December 18, 2009 as our wholly-owned subsidiary in Inner Mongolia Autonomous Region. Ordos Neng Hua will act as our investment management platform for coal mining, coal chemicals and a coal power project in Inner Mongolia. Our ability to achieve our sales goals for our operations in Inner Mongolia will largely depend on our degree of success in realizing the anticipated benefits and synergies of our investment in Inner Mongolia through Ordos Neng Hua. In 2010, we successfully completed the acquisition of 100% equity interests in a 600,000-tonne methanol project, the acquisition of a 51% equity interest in Haosheng Company, the acquisition of the entire assets of Anyuan Coal Mine and obtaining the mining rights of Zhuan Longean Coal mine field through public competitive bidding.

Outlook for the Coal Market

Benefiting from the recovering global economy, demand for coal in 2011 is expected to continue to increase while the supply of coal in the domestic or international market may become moderately tight. In line with the objectives set forth in China's "Twelfth Five-Year Plan" issued in 2011, the domestic economy is expected to continue to grow. Growth in the domestic economy is expected to drive growth of major coal consumption industries, which in turn is expected to increase domestic coal demand at a stable pace. However, the increase of coal supply in China will be restricted by the further consolidation of the domestic coal industry guided by the national policy to control the increase of overall national coal production capacity and production volume, through various measures, including the elimination of outdated production capacity and closing of small-sized coal mines. In addition, although rapid development of coal resources in Western China will increase the supply of coal in this region, because the major domestic coal consumers are in Eastern China, the effective supply of coal is expected to remain restricted. As a result of the foregoing factors affecting supply and demand, coal prices in China are expected to increase, but to continue to be subject to fluctuations.

The coal supply in the international market is also expected to be tight in 2011 as well, as a result of the limited increase of production volume in major coal exporting countries. For example, coal production and rail transportation in Australia will be negatively impacted due to the continuing effects of the largest flood in Australia in decades, while exports from South Africa, Indonesia and Russia are not expected to make up for this shortfall due to inadequate infrastructure in these countries, such as railways and ports. Increase of coal prices is expected to be primarily supported by demand from China and India, as well as from Japan. Although demand for coal in Japan was adversely affected by the major earthquake and tsunami experienced in Northeast Japan, demand for coal in Japan is expected to increase once it recovers from the effects of these events and commences reconstruction of its infrastructure in affected areas.

Our average selling price of coal is expected to increase in 2011 compared with 2010. As of the date of this annual report, the Company has entered into sales contracts and letters of intent for approximately 32.4 million tonnes of domestic coal sales, which included sales contracts for approximately 9.0 million tonnes of coal with an average tax-inclusive price that represented an increase of 1.2% compared with our average selling price in 2010. The price of the remaining coal to be sold pursuant to the letters of intent with the amount of approximately 23.4 million tonnes will be based on prevailing market prices at the time of sale.

Our average selling price of coal produced by Yancoal Australia is expected to increase significantly in 2011 as compared with 2010. Yancoal Australia has entered into sales contracts for 2.66 million tonnes coal sales from January 2011 to March 2011, with an average selling price of US\$133.4 per tonne. Our coal sales target for 2011 is 54 million tonnes.

Outlook for the PRC Methanol Market

In 2011, we expect that supply will continue to exceed demand in the domestic methanol market, making material increases in methanol prices unlikely. The gradual increase in production capacities of the newly built and existing domestic methanol facilities coupled with an increase in the imports of low cost foreign prime methanol, will further increase the domestic supply of methanol. The demand for methanol remains weak due to overproduction of downstream products such as methanol, dimethylether and acetic acid. However, methanol supply and demand factors are expected to become more balanced with the accelerated elimination of outdated production capacity and promotion of methanol fuel for vehicles, together with the antidumping measures imposed on methanol imports by certain countries. On the other hand, increases in prices of raw materials, including coal and natural gas, electricity and transportation costs will stimulate increases in methanol prices. Our methanol sales target for 2011 is 610,000 tonnes.



E. Off-balance Sheet Arrangements

As of December 31, 2010, other than capital expenditure commitments, discussed in “B. Liquidity and Capital Resources” above, and contractual obligations discussed in “F. Contractual Obligations” below, we did not have any off-balance sheet arrangements.

F. Contractual Obligations

The following table sets forth our contractual obligations and commercial commitments as of December 31, 2010:

	Payments Due by Period				
	Total	Less than one Year	One to three years (RMB'000)	Three to five years	More than five years
Contractual Obligations					
Unsecured bank borrowings ⁽¹⁾	946,240	156,278	701,962	44,000	44,000
Secured bank borrowings ⁽¹⁾	21,247,514	375,978	13,851,694	7,019,842	—
Finance leases ⁽²⁾	822,004	82,669	181,789	557,546	—
Capital commitments for the acquisition of assets ⁽³⁾	1,021,911	1,021,911	—	—	—
Amounts due to Controlling Shareholder and its subsidiaries ⁽⁴⁾	438,783	438,783	—	—	—
Total	24,476,452	2,075,619	14,735,445	7,621,388	44,000

Note:

- (1) Excludes interest.
- (2) Consists of the finance leases born by Felix. For details of our finance leases, please refer to Note 35(iii) to the consolidated financial statements attached to this annual report.
- (3) Mainly consists of our increased capital investment to Yancoal Australia in 2010. For details, please refer to Note 47 to the consolidated financial statements attached to this annual report.
- (4) Reflects our contractual obligations to the Controlling Shareholder in relation to Acquisition Agreement of Jining III Coal Mine. Please see subsection headed “Amounts due to Controlling Shareholder and its Subsidiaries” below for details.

We established Ordos Neng Hua on December 18, 2009 as our wholly-owned subsidiary in Inner Mongolia Autonomous Region. As of December 31, 2010, we have made deposits of RMB2,045.8 million and RMB1,080 million for the acquisitions of equity interests in Haosheng Company and assets of Anyuan Coal Mine, respectively. We established Yushuan Coal Mine Company jointly with Chia Tai Energy & Chemicals Company Limited and Yushen Coal Company Limited in 2006. We are obligated to invest approximately RMB196.8 million for 41% of the equity interests in Yushuan Coal Mine Company. As of December 31, 2010, we have made a deposit of approximately RMB117.93 million and are obligated to further invest approximately RMB78.87 million.

The following table sets forth our consolidated interest-bearing borrowings as of December 31, 2009 and 2010:

	As of December 31,	
	2009	2010
	(RMB'000)	
Secured bank borrowings	21,677,138	21,247,514
Unsecured bank borrowings	176,000	946,240
Total	21,753,138	22,193,754

Secured Bank Borrowings

As of December 31, 2010, the balance of our secured bank loans amounted to approximately RMB21.2 billion (approximately US\$3.0 billion), which primarily consist of our secured bank borrowings obtained for the acquisition of Felix in 2009 which amounted to approximately RMB20.1 billion, which are guaranteed by us, secured by a counter guarantee by Yankuang Group and secured by our term deposit, and three short-term loans in the amount of approximately A\$24.0 million (equivalent to approximately RMB161.1 million) obtained by Yancoal Australia in 2010 for its general business operations, which were secured by, among other things, property, plant and equipment. For more information on our secured borrowings, please see Note 35 to the financial statements.

Unsecured Bank Borrowings

Our RMB946.2 million balance of unsecured bank loans as of December 31, 2010 primarily representing the balance of a borrowing in the amount of RMB154.0 million, obtained by Tianchi Energy, a subsidiary of Shanxi Nenghua and the balance of a borrowing in the amount of RMB792.2 million (A\$118.0 million) obtained by Yancoal Australia. For more information about our unsecured borrowings, please see Note 35 to the financial statements.



Tianchi Energy entered into a long-term loan agreement with the State Development Bank of China in 2006 to borrow RMB220.0 million. The loan is repayable by 20 installments over a period of 117 months, with the first installment due in May 2008. The initial interest rate on the loans was 6.12% per annum, which is subject to adjustments based on interest rates set by the PBOC. The amount is guaranteed by the Yankuang Group.

The balance of unsecured bank loan as of December 31, 2010 was also due to the balance of the borrowing in the amount of approximately RMB792.2 million (approximately A\$118.0 million) obtained by Yancoal Australia, carried annual interest at three-month BBSY plus a margin of 1.5% (approximately 6.3%).

For more information on our unsecured borrowings, please see Note 35 to financial statements.

Amounts due to Controlling Shareholder and its Subsidiaries

We acquired Jining III Coal Mine on January 1, 2001 pursuant to the Acquisition Agreement of Jining III Coal Mine, which we entered into with the Controlling Shareholder on August 4, 2000. Pursuant to the Jining III Acquisition Agreement, we agreed to purchase the mining rights of Jining III for approximately RMB132.5 million. This amount is to be paid to the Controlling Shareholder in ten interest-free equal annual installments beginning 2001. In 2010, we paid approximately RMB13.2 million to the Controlling Shareholder for the mining rights of Jining III Coal Mine.

The amounts due to the Controlling Shareholder and its subsidiary companies do not bear any interest and are unsecured. The following table sets forth the amounts due to the Controlling Shareholder and its subsidiary companies as of December 31, 2009 and 2010.

	As of December 31,	
	2009	2010
	(RMB'000)	
Term for Repayment		
Within one year	757,882	438,783
More than one year, but not exceeding two years	—	—
Total due	757,882	438,783
Less: amounts due within one year	(757,882)	(438,783)
Amounts will due over one year	—	—

G. Critical Accounting Policies

We prepare our consolidated financial statements in accordance with IFRS. The preparation of these financial statements requires us to make estimates and assumptions about the carrying amounts of items in the financial statements that cannot be measured accurately. These judgments, estimates and assumptions are based on the historical experience of our management as well as other relevant factors. Actual results may differ from these estimates. We review the foregoing judgments, estimates and assumptions regularly on a going concern basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical estimates that we have made in the process of applying the accounting policies and that have the most significant effect on the amounts recognized in financial statements.

Depreciation

The cost of mining structures is depreciated using the units of production method based on the estimated production volume for which the structure was designed. Management exercises its judgment in estimating the useful lives of the depreciable assets and the production volume of each mine. The estimated coal production volume of each mine is updated on a regular basis and takes into account recent production and technical information of each mine. These changes are considered changes in estimate for accounting purposes and are reflected on a prospective basis in related depreciation rates. Estimates of the production volumes are inherently imprecise and represent only approximate amounts because of the subjective judgments involved in developing such information.

Amortization of Assets

Coal reserves, coal resources and rail access rights are amortized on a straight line basis or unit of production basis over the shorter of their useful lives and the contractual period. The expensing of overburden removal costs is based on saleable coal production over the estimated economically recoverable reserves. The useful lives are estimated on the basis of the total proven and probable reserves of a coal mine. Proven and probable coal reserve estimates are updated on a regular basis and take into account each mine's recent production and technical information.



Provision for Land Subsidence, Restoration, Rehabilitation and Environmental Costs

The provision for land subsidence, restoration, rehabilitation and environmental costs is reviewed regularly to verify that it properly reflects the remaining obligation arising from the current and past mining activities. Provisions for land subsidence, restoration, rehabilitation and environmental costs are determined by our management based on past experience, its estimate of the current and future costs and predictions for government policies.

Impairment of Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The determination of value in use requires the Company to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As of December 31, 2010, the carrying amount of goodwill was approximately RMB1,196.6 million. Cash flow projections during the budget period for each of the above units are based on the budgeted revenue and expected gross margins during the budget period and the raw materials price inflation during the budget period. Expected cash inflows/outflows have been determined based on past performance and management's market development expectations. There is no material uncertainty regarding the carrying value of goodwill due to the profitability of the underlying reporting units.

Estimated Impairment of Property, Plant and Equipment

When there are indications of impairment, the Company takes into consideration the estimate of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. When actual future cash flows are less than expected, a material impairment loss may arise. In estimating the future cash flows, management takes into account the recent production and technical advancements. As price and cost levels change from year to year, the estimate of future cash flows also changes. Notwithstanding that management has considered all the available information in making their impairment assessment, inherent uncertainty exists as to the conditions of mines and the environment, and actual write-offs may be higher than the estimated amounts. As of December 31, 2010, the carrying amount of property, plant and equipment was approximately RMB19,874.6 million. In 2010, RMB1.5 million of construction in progress was written off as expenses.

Recent Changes in Accounting Pronouncements

In the current year, we have applied, for the first time, a number of new standards and interpretations, amended and revised standards and interpretations ("new IFRSs") issued by the IASB and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB which are effective for our fiscal year beginning January 1, 2010:

IFRSs (Amendments)	Improvements to IFRSs 2009
IAS 27 (Revised)	Consolidated and separate Financial Statements
IFRS 3 (Revised)	Business Combinations
IAS 39	Eligible Hedged Items

The adoption of the New IFRS had no material effect on how the results and the financial position for the current or prior accounting years have been prepared. Accordingly, no prior period adjustment is required.

We have not applied the following new and revised standards, amendments or interpretations that have been issued but are not effective as of the date of this annual report:

IFRSs (Amendments)	Improvements to IFRSs 2010 ¹
IFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets ²
IFRS 9	Financial Instruments ³
IFRS 10	Consolidated Financial Statements ³
IFRS 11	Joint Arrangements ³
IFRS 12	Disclosures of Involvement with Other Entities ³
IFRS 13	Fair Value Measurement ³
IAS 27 (Amendments)	Separate Financial Statements (2011) ³
IAS 28 (Amendments)	Investments in Associates and Joint Ventures (2011) ³
IAS 24 (Revised)	Related Parties Disclosures ⁴

(1) Effective for annual periods beginning on or after July 1, 2010 and January 1, 2011, as appropriate

(2) Effective for annual periods beginning on or after July 1, 2011

(3) Effective for annual periods beginning on or after January 1, 2013

(4) Effective for annual periods beginning on or after January 1, 2011



IFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from January 1, 2013, with earlier application permitted. The standard requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortized cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt investments and equity investments are measured at fair value.

IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation — Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure, or rights, to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the returns.

IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets.

IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for certain exemptions. IFRS 13 requires the disclosures of fair values through a 'fair value hierarchy'. The hierarchy categorises the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. If the inputs used to measure fair value are categorised into different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the level of the lowest level input that is significant to the entire measurement

The requirements relating to separate financial statements are unchanged and are included in the amended IAS 27. The other portions of IAS 27 are replaced by IFRS 10.

IAS 28 is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12.

IAS 24 (Revised) clarifies and simplifies the definition of related party. It introduces certain exemptions on disclosure requirements in respect of transactions between government-related entities and government, and other government related entities.

Except for the abovementioned standards or interpretations, the Directors are evaluating the impact of application of other standards or interpretations on the Group's future results and financial statements.

ITEM 6. DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors, Supervisors and Senior Management

The following table sets forth selected information concerning our board of directors ("Board of Directors" or "Board"), board of supervisors and executive officers as of the date of this annual report. As of the date of this annual report, our Board of Directors consists of 11 directors, including one chairman, one vice chairmen, four independent directors and one employee director. All Directors serve three-year terms beginning their respective election date until the election of their respective successor.

As more than 50% of our voting power is held by the Controlling Shareholder, we are not required to have a majority of our Board be comprised of independent directors in reliance on the exemption provided under Section 303A of the NYSE Listing Rules.

The following table sets forth information on our directors, supervisors and executive officers:

<u>Name</u>	<u>Age</u>	<u>Position at the Company</u>	<u>Date Term of Office Expires¹</u>
<i>Directors</i>			
LI Weimin	50	Chairman of the Board	May 2014
WANG Xin	52	Vice Chairman of the Board	May 2014
ZHANG Yingmin	57	General Manager	May 2014



<u>Name</u>	<u>Age</u>	<u>Position at the Company</u>	<u>Date Term of Office Expires¹</u>
SHI Xuerang	56	Director	May 2014
WU Yuxiang	49	Director and Chief Finance Officer	May 2014
ZHANG Baocai	43	Director, Deputy General Manager and Secretary of the Board of Directors	May 2014
DONG Yunqing	55	Employee Director	May 2014
<i>Independent Non-executive Directors</i>			
WANG Xianzheng	64	Director	May 2014
CHENG Faguang	68	Director	May 2014
WANG Xiaojun	57	Director	May 2014
XUE Youzhi	46	Director	May 2014
<i>Supervisors</i>			
SONG Guo	56	Chairman of Supervisory Committee	May 2014
ZHOU Shoucheng	58	Deputy Chairman of Supervisory Committee	May 2014
ZHANG Shengdong	54	Supervisor	May 2014
ZHEN Ailan	47	Supervisor	May 2014
WEI Huanmin	54	Employee Supervisor	May 2014
XU Bentai	52	Employee Supervisor	May 2014
<i>Other Management Team Members</i>			
JIN Tai	59	Deputy General Manager	May 2014
HE Ye	53	Deputy General Manager	May 2014
LAI Cunliang	50	Deputy General Manager	May 2014
TIAN Fengze	54	Deputy General Manager	May 2014
SHI Chengzhong	48	Deputy General Manager	May 2014
NI Xinghua	54	Chief Engineer	May 2014

(1) The expiration of the term of office is generally the date of the shareholders' meeting when a new session of the Board will be elected. Executives who retire in the interim are replaced at the next Board meeting.

Executive Directors

LI Weimin, a researcher in engineering technique applications with a doctorate degree in mining engineering and holder of an EMBA degree. Mr. Li was appointed as chairman of our Board on December 30, 2010. Mr. Li joined the predecessor of the Company in 1982. In November 2002, Mr. Li was appointed as the manager of the Jining III Coal Mine. In August 2006, Mr. Li was appointed as the deputy chief engineer and the deputy head of the Safety and Supervision Bureau of the Yankuang Group. In December 2007, Mr. Li was promoted to the head of the Safety and Supervision Bureau of the Yankuang Group. In May 2009, Mr. Li was appointed as the deputy general manager of the Yankuang Group. Mr. Li was appointed as the general manager of the Company in July 2009 and was subsequently appointed as the vice chairman of the Company in February 2010. On December 15, 2010, Mr. Li was appointed as a Director, the general manager and the deputy secretary of the party committee of the Yankuang Group. He is a graduate of China University of Mining and the Technology and Nankai University.

WANG Xin, a researcher in engineering technique application with a doctorate degree in engineering technology and an EMBA degree is the vice chairman of our Board. Mr. Wang is actively involved in the Yankuang Group and serves as the chairman of the board and the party committee secretary for the Yankuang Group. Mr. Wang joined the Company's predecessor in 1982 and became a vice general manager of the Yankuang Group in 2000. He was appointed a board director and vice general manager of the Yankuang Group in 2002 and was promoted to the vice chairman of the board of directors and the general manager of the Yankuang Group in 2003. Since 2007, he has been the party committee deputy secretary of the Yankuang Group. On December 30, 2010, Mr. Wang was appointed as the vice chairman of the Board. He is a graduate of China University of Mining and Technology and Nankai University.

ZHANG Yingmin, a researcher in engineering technology application with an EMBA degree, is the General Manager of the Company and a director of the Yankuang Group. Mr. Zhang joined the Company's predecessor in 1971, appointed as the director of the division of production technology of the Yankuang Group in 1996 and became the head of Baodian Coal Mine in 2000. He was also appointed deputy general manager of the Yankuang Group in 2003 and the chief of the safety supervision bureau of the Company from 2004 to 2007. Mr. Zhang was appointed as the general manager of the Company in 2011. Mr. Zhang is a graduate of Nankai University.

SHI Xuerang, a senior engineer with an EMBA degree, is a Director of our Board and deputy general manager of the Yankuang Group. From 2001 to 2003, Mr. Shi acted as the deputy general manager of the Xinwen Coal Mining Group Company Limited. He joined the Yankuang Group as a deputy general manager in 2003 and was appointed a Director of the Company in 2005. He is a



graduate of Nankai University.

WU Yuxiang, a senior accountant with a master degree in accounting, has served as a Director and the chief financial officer of the Company since 2002. Mr. Wu joined the Company's predecessor in 1981 and was appointed as the Company's manager of the finance department in 1997. He is a graduate of the Party School of Shandong Provincial Communist Committee.



ZHANG Baocai, a senior accountant with an EMBA degree, is a Director, deputy general manager and the board secretary of the Company. Mr. Zhang joined the Company's predecessor in 1989 and was appointed as the head of the planning and finance department of the Company in 2002. He was appointed as a Director and the board secretary of the Company in 2006 and a deputy general manager of the Company in 2011. Mr. Zhang is a graduate of Nankai University.

DONG Yunqing, a professor-level senior administrative officer, has served as a Director and the chairman of the labor union of the Company since 2002. Mr. Dong joined the Company's predecessor in 1981 and was the vice chairman of the labor union of Yankuang Group from 1996 to 2002. Mr. Dong was appointed as a Director and the chairman of the labor union of the Company in 2002. He is a graduate of Central Communist Party School Correspondence Institute.

Independent Non-executive Directors

WANG Xianzheng, a professor-level senior engineer with university education, is currently a president of China Coal Industry Association and a member of the sixteenth session of China Central Discipline Inspection Committee. Mr. Wang was appointed as a vice minister of Ministry of Coal Industry and a party member from April 1995 to March 1998. He was appointed as the deputy head of the State Coal Industry Bureau, deputy head and a party member of the State Administration of Coal Mine Safety from March 1998 to August 2000. Mr. Wang was the vice governor of Shanxi province from August 2000 to May 2002 and became a standing member of the provincial committee in October 2001. From May 2002 to February 2005, he was appointed as the head and the party committee secretary of the State Administration Bureau of Work Safety (the State Administration of Coal Mine Safety). From February 2005 to May 2008, Mr. Wang was appointed as the deputy head and vice secretary to the party committee of the State Administration of Work Safety. Mr. Wang has been the president of China Coal industry Association since January 2007. Mr. Wang is also an independent director of Beijing Haohua Energy Resource Company Ltd. He is a graduate of Fuxin School of Mining.

CHENG Faguang, is a senior accountant with post-graduate education. Mr. Cheng was appointed as the vice governor of the people's government of Ningxia Hui Autonomous Region from May 1988 to May 1992. He was a standing member and the executive vice governor of the party committee of Ningxia Hui Autonomous Region from May 1992 to March 1994. Mr. Cheng was appointed as the chairman, president and secretary to the party committee of China Haohua Chemical (Group) Corporation, which was under the Ministry of Chemical Industry from March 1994 to May 1996. From May 1996 to May 2003, Mr. Cheng was the deputy head and a party member of the State Administration of Taxation. He was a member of the Financial and Economic Affairs Committee of the tenth National People's Congress from March 2003 to March 2008. He is a graduate of the Central University of Finance and Economics.

WANG Xiaojun, a solicitor admitted in England and Wales and Hong Kong, is a holder of master's degree in law and a partner of Jun He Law Offices. He 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. He was an independent non-executive Director of the Company from 2002 to 2008. Meanwhile, Mr. Wang is also an independent non-executive director of the Guangzhou Shipyard International Company Limited, Zijin Mining Group Company Limited, Norinco International Cooperation Ltd and Euro-Asia Agricultural (Holdings) Company Limited. He is a graduate of the People's University of China and the Graduate School of the Chinese Academy of Social Sciences.

XUE Youzhi, holder of a master degree in corporate management, a doctor's degree in economics and a doctor's degree in business management, is currently the vice president, a professor and a doctoral tutor in the School of Business of Nankai University. Mr. Xue has extensive experience in economics management and completed various of projects supported by National Social Science Foundation. Mr. Xue became the vice dean of the School of Business of Nankai University in 2005. Meanwhile, he is also an independent non-executive director of Xinjiang Tianshan Livestock Technology Company Limited. He is a graduate of Jilin University.

Supervisors

SONG Guo, a professor-level senior administrative officer with an EMBA degree, is the chairman of the supervisory committee of the Company and a deputy secretary of the party committee of the Yankuang Group. In 2002, Mr. Song was the officer-in-charge of the office of Coal Management Bureau of Shandong Province. He joined the Yankuang Group in 2003 and served as the secretary of the disciplinary inspection committee from 2003 to 2007. He was appointed as a deputy secretary of the party committee of the Yankuang Group in 2004 and the vice chairman of the supervisory committee of the Company in 2005. In 2008, Mr. Song became the chairman of the supervisory committee of the Company. He is a graduate of Nankai University.

ZHOU Shoucheng, a professor-level senior administrative officer with a master's degree, was appointed the vice chairman of the supervisory committee of the Company in 2008 and has served as the secretary of the disciplinary inspection committee and the chairman of the labor union of the Yankuang Group since 2007. Mr. Zhou joined the predecessor of the Company in 1979 and has held the posts of the secretary of the Youth League committee of Yankuang Group, the secretary of the party committee of Beisu Coal Mine and the secretary of the party committee and the vice manager of Xinglongzhuang Coal Mine successively from 1984 to 2002. He was the chairman of the labor union of the Yankuang Group from 2002 to 2007. Mr. Zhou is a graduate of Central Communist Party School Correspondence Institute.



ZHANG Shengdong, a senior accountant, has been a supervisor of the Company since 2002. He is also the assistant to the general manager, the deputy chief accountant and the head of the finance department of the Yankuang Group. Mr. Zhang joined the Company's predecessor in 1981 and became the head of the finance department of the Yankuang Group in 2002. He also became the deputy chief accountant of the Yankuang Group, a supervisor of the Company, the head of the finance company preparatory office of the Yankuang Group in 2002. Mr. Zhang was appointed as the assistant to the general manager of Yankuang Group in 2008. He is a graduate of China University of Mining and Technology.

ZHEN Ailan, a senior accountant and senior auditor, was appointed a supervisor of the Company in 2008. She has served as the deputy director of the audit department of the Yankuang Group since 2005. After joining the Company's predecessor in 1980, she was appointed to the deputy chief of the audit division of the Yankuang Group in 2002 and subsequently promoted to the deputy director of the audit department in 2005. In 2008, Ms. Zhen became a Supervisor of the Company. Ms. Zhen is a graduate of Northeastern University of Finance and Economics.

WEI Huanmin, a professional level senior administrative officer, was appointed the supervisor and the secretary of the disciplinary inspection committee of the Company in 2008 and 2006, respectively. Mr. Wei joined the Company's predecessor in 1984, and served as the Company's deputy secretary of the disciplinary inspection committee and the chief of the division of inspection from 2002 to 2006, when he was promoted to the secretary of the disciplinary inspection committee. In 2008, Mr. Wei became an Employee Supervisor of the Company. Mr. Wei is a graduate of Central Communist Party School Correspondence Institute.

XU Bentai, a professional level senior administrative officer with a master's degree, has been the employee supervisor of the Company since 2002 and the chairman of the labor union of Jining III Coal Mine since 1999. Mr. Xu joined the Company's predecessor in 1978 and became an employee supervisor of the Company in 2002. Mr. Xu is a graduate of the Party School of Shandong Provincial Communist Committee.

Other Executive Officers

JIN Tai, a researcher in engineering technique application with a master's degree, has served as a deputy general manager of the Company since 2004. Mr. Jin joined the Company's predecessor in 1968, and became the deputy general manager of Yankuang Group in 2000. He became the head of Xinglongzhuang Coal Mine in 1998. Mr. Tai is a graduate of China University of Mining and Technology.

HE Ye, a researcher in engineering technology application, with a doctorate degree in engineering, has served as a deputy general manager of the Company since 2004. Mr. He joined the Company's predecessor in 1993 and became the head of Jining II Coal Mine in 1999. In 2002, he was appointed the executive deputy general manager of an industrial company that is a subsidiary of Yankuang Group in 2002. Mr. He is a graduate of China University of Mining and Technology.

LAI Cunliang, a senior engineer with a master's degree in mining engineering and an EMBA degree, has served as a deputy general manager of the Company since 2005. Mr. Lai joined the Company's predecessor in 1980 and became the head of Xinglongzhuang Coal Mine in 2000. He has been a director and the general manager of Yancoal Australia since 2004. Mr. Lai became a deputy general manager of the Company in 2005 and became an executive director of Yancoal Australia in 2009. He is a graduate of China University of Mining and Technology and Nankai University.

TIAN Fengze, a senior economist with a master's degree, has served as a deputy general manager of the Company since 2002. Mr. Tian joined the Company's predecessor in 1976 and became the head of Beisu Coal Mine in 1991. Mr. Tian is a graduate of Party School of Shandong Provincial Communist Committee.

SHI Chengzhong, a researcher in engineering technique application with an EMBA degree and a master's degree in mining engineer, has served as a deputy general manager of the Company since 2002. Mr. Shi joined the Company's predecessor in 1983 and became a deputy chief engineer of the Yankuang Group in 2000. Mr. Shi is a graduate of Northeastern University and Nankai University.



NI Xinghua, a researcher in engineering technique application with a master's degree, has been the chief engineer of the Company since 2002. Mr. Ni joined the Company's predecessor in 1975 and became a deputy chief engineer of the Yankuang Group in 2000. Mr. Ni is a graduate of Tianjin University.

Appointment of Directors, Chairman and Vice Chairman of the Board

At the first extraordinary general meeting of 2010 of the Company and the thirteenth meeting of the fourth session of the Board held on February 26, 2010, Mr. Li Weimin was elected as director and vice chairman of the fourth session of the Board.

At the seventeenth meeting of the fourth session of the Board held on December 30, 2010, Mr. Li Weimin and Mr. Wang Xin were elected as the chairman and the vice chairman of the fourth session of the Board, respectively.

At the 2010 Annual General Meeting held on May 20, 2011, Mr. Li Weimin, Mr. Wang Xin, Mr. Shi Xuerang, Mr. Wu Yuxiang and Mr. Zhang Baocai were re-elected as directors of the fifth session of the Board upon their retirement by rotation at the conclusion of 2010 Annual General Meeting. Mr. Zhang Yingmin was elected as a director of the fifth session of the Board at the 2010 Annual General Meeting held on May 20, 2011.

Mr. Dong Yunqing was re-elected as the employee director of the fifth session of the Board by the employees of the Company.

Mr. Wang Xianzheng, Mr. Cheng Faguang, Mr. Wang Xiaojun and Mr. Xue Youzhi were elected as independent non-executive directors of the fifth session of the Board at the 2010 Annual General Meeting held on May 20, 2011.

At the first meeting of the fifth session of the Board held on May 20, 2011, Mr. Li Weimin and Mr. Wang Xin were elected as the chairman and the vice chairman of the fifth session of the Board, respectively.

Resignation and Retirement of Directors

Mr. Geng Jiahuai, the former Vice Chairman of the Board and Director of the Company submitted his resignation report to the Board on December 30, 2010, effective immediately.

Mr. Chen Changchun, the former Director of the Board, submitted his resignation report to the Board on March 9, 2011, effective immediately.

Mr. Wang Xinkun retired as director of the Board by rotation at the conclusion of 2010 Annual General Meeting. Mr. Pu Hongjiu, Mr. Zhai Xigui, Mr. Li Weian and Mr. Wang Junyan retired as independent non-executive directors by rotation at the conclusion of 2010 Annual General Meeting.

Appointment of Supervisors, Chairman and Deputy Chairman of the Supervisory Committee

At the 2010 Annual General Meeting held on May 20, 2011, Mr. Song Guo, Mr. Zhou Shoucheng, Mr. Zhang Shengdong and Ms. Zhen Ailan were elected as the non-worker representative supervisors of the fifth session of the supervisory committee of the Company.

Mr. Wei Huanmin and Mr. Xu Bentai were elected as the worker representative supervisors of the fifth session of the supervisory committee by the employees of the Company.

At the first meeting of the fifth session of the supervisory committee held on May 20, 2011, Mr. Song Guo and Mr. Zhou Shoucheng were elected as the chairman and the deputy chairman of the fifth session of the supervisory committee.

Change of the Senior Management

Mr. Qu Tianzhi, former vice general manager of the Company resigned from his position on August 27, 2010 as a result of a change of employment.

At the twentieth meeting of the fourth session of the Board held on March 25, 2011, Mr. Zhang Yingmin was appointed as the general manager of the Company and Mr. Zhang Baocai was appointed a deputy general manager of the Company.

At the first meeting of the fifth session of the Board held on May 20, 2011, Mr. Zhang Yingmin was appointed as the general manager of the Company and Mr. Jin Tai, Mr. Heye, Mr. Lai Cunliang, Mr. Tian Fengze, Mr. Zhang Baocai and Mr. Shi Chengzhong were appointed as deputy general managers. Mr. Wu Yuxiang was appointed as chief financial officer and Mr. Ni Xinghua was appointed as chief engineer at the same meeting.

B. Compensation

Four Directors and four supervisors receive salaries from our Controlling Shareholder, while the rest of our Directors,



supervisors and executive officers who are our employees receive compensation in the form of salaries, housing allowances and other allowances and benefits, including pension contributions. The aggregate amount of cash remuneration paid by us in 2010 to Directors, supervisors and executive officers was approximately RMB5.8 million (tax inclusive). In addition, Directors and supervisors receive other benefits, such as subsidized or free health insurance and transportation, which are customarily provided by PRC enterprises to their senior-level employees. We did not pay any discretionary bonus during the reporting period of this annual report to our Directors, supervisors or executive officers. Details of each of the Directors' and supervisors' salaries and benefits are as follows:

For the Year Ended December 31, 2010				
	Fees	Salaries, allowance and other benefits in kind	Retirement benefit plan contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Independent Non-Executive Directors				
Pu Hongjiu	113	—	—	113
Zhai Xigui	113	—	—	113
Li Weian	113	—	—	113
Wang Junyan	113	—	—	113
	<u>452</u>	<u>—</u>	<u>—</u>	<u>452</u>
Directors				
Wang Xin	—	—	—	—
Geng Jiahuai	—	—	—	—
LI Weimin	—	188	38	226
Shi Xuerang	—	—	—	—
Chen Changchun	—	—	—	—
Wu Yuxiang	—	269	54	323
Wang Xinkun	—	343	69	412
Zhang Baocai	—	312	62	374
Dong Yunqing	—	309	62	371
	<u>—</u>	<u>1,421</u>	<u>285</u>	<u>1,706</u>



	For the Year Ended December 31, 2010			
	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement benefit plan contributions RMB'000	Total RMB'000
Supervisors				
Song Guo	—	—	—	—
Zhang Shengdong	—	—	—	—
Zhou Shoucheng	—	—	—	—
Zhen Ailan	—	—	—	—
Wei Huanmin	—	305	61	366
Xu Bentai	—	346	69	415
	—	651	130	781
Other Members of Management				
Jin Tai	—	189	38	227
Zhang Yingmin	—	189	38	227
He Ye	—	188	38	226
Tian Fengze	—	291	58	349
Shi Chengzhong	—	342	68	410
Qu Tianzhi	—	285	57	342
Lai Cunliang	—	664	—	664
Ni Xinghua	—	328	66	394
	—	2,476	363	2,839
Total	452	4,548	778	5,778

C. Board Practices

Board of Directors

Directors are elected to serve three year terms. We have adopted cumulative voting for the election of a new Board of Directors.

Pursuant to our Articles of Association, the Board of Directors is accountable to shareholders and exercises the following functions and powers:

- (i) convening shareholders' meetings and reporting on the work of the Board of Directors at general meetings;
- (ii) implementing resolutions passed by the shareholders at general meetings;
- (iii) determining our business plans and investment proposals;
- (iv) formulating our annual preliminary and final budgets;
- (v) formulating our profit distribution and loss recovery proposals;
- (vi) formulating proposals for the increase or reduction of our registered capital and the issuance of our debentures or other forms of securities;
- (vii) drawing up plans for material acquisitions, repurchases of shares of the Company, mergers, divisions, dissolutions or changes of corporate structure;
- (viii) deciding our internal management structure;
- (ix) appointing or removing our general manager and secretary of the board and appointing or removing the deputy general manager(s) and other senior officers (including the financial controller(s) of the Company) based on the recommendations of the general manager, to decide on their remuneration and matters relating to awards and penalty;
- (x) formulating our basic management system;
- (xi) formulating proposals for any amendment of the Articles of Association;
- (xii) deciding on our business involving overseas investments, acquisitions and disposals of assets, mortgages of assets and other guarantees, entrusted assets management and connected transactions within the authority conferred by the general meeting;
- (xiii) managing the disclosure of information relating to the Company;
- (xiv) making recommendations on the appointment or replacement of the Company's independent auditors to shareholders at shareholders' general meetings;
- (xv) reviewing management's performance based on the working report submitted by management;



- (xvi) approving an aggregate amount of provision for impairment of assets not more than 10% of our latest audited consolidated net asset value, clearing an amount of provision for impairment of assets not more than 5% of our latest audited consolidated net asset value, and executing and clearing any provision of impairment of assets involving connected transactions in compliance with relevant connected transaction regulations; and
- (xvii) exercising any other powers specified by the law, administrative regulations, departmental rules, the Articles of Association and conferred by shareholders at a general meeting.

Except for matters specified in (vi), (vii) and (xi), which require the affirmative vote of more than two-thirds of all of the Directors, resolutions in respect of the above listed matters can be approved by a simple majority of the Directors.

The Board of Directors makes decisions on the company's scope of authority and inspection and decision making procedures with respect to company matters relating to foreign investment, asset sales and purchases, mortgages, guarantee provisions, entrusted asset management and connected transactions and, if a major investment involved, should appoint experts and professionals to make an assessment and submit such assessment to the shareholders' meeting for approval.

With the approval of over two-thirds of all Directors, the Board of Directors may make decisions on the following matters:

- (1) transactions falling within the strictest of the following limits with respect to asset sales and purchases, foreign investment (including entrusted financial management and entrusted loans), financial assistance provisions, leasing of assets as lessor or lessee, restructuring of claims or debts, giving or receiving assets as a gift, entrusted or trusted asset or business management, license agreements, and research and development projects:
 - a. the total assets value (where book value and assessed value are available, whichever is higher) involved in a single transaction with amount more than 10% and below 50% of the Company's latest audited total asset value prepared in accordance with the PRC GAAP; or more than 5% and less than 25% of the Company's latest published total assets value prepared in accordance with the IFRS;
 - b. a single investment of which the completion consideration (including liabilities and expenses) accounts for more than 10% and less than 50% of the Company's latest audited net asset value prepared in accordance with the PRC GAAP; or more than 5% and less than 25% of the total market capitalisation of the Company (which is calculated by the average closing price of the Company's shares as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of a transaction);
 - c. the latest annual income from principal operations of the subject of a single transaction which accounted for more than 10% and less than 50% of the Company's latest audited income from principal operations for the latest financial year prepared in accordance with the PRC GAAP; or more than 5% and less than 25% of the Company's latest audited income from principal operations for the latest financial year prepared in accordance with the IFRS; and
 - d. the latest annual net profit of the subject of a single transaction which accounted for more than 10% and less than 50% of the Company's latest audited net profit for the latest financial year prepared in accordance with the PRC GAAP; or more than 5% and less than 25% of the Company's latest audited net profit for the latest financial year prepared in accordance with the IFRS.

The above transactions that involve a public offer of securities, which requires the approval of the China Securities Regulatory Commission, shall be subject to a vote at the shareholders' general meeting;

- (2) a single loan representing more than 10% and less than 25% of the Company's most recently audited net asset value if the debt ratio to the Company's assets remains under 80% after such financing;
- (3) mortgages or pledges of assets so long as the cumulative outstanding amount is less than 30% of the Company's most recently audited net asset value;
- (4) external guarantees that do not require the approval of the shareholders pursuant to the Articles of Association; and
- (5) connected transactions, which must be conducted in accordance with the relevant regulations of competent securities authorities and the listing rules of applicable stock exchanges.

The transactions referred to in item (1) above that involve the provision of financial assistance and entrusted financial management are calculated on an accrued basis for twelve consecutive months according to the transaction categories and applicable approval limit proportion of the Board of Directors. When the Company conducts transactions other than those involving the provision of financial assistance and entrusted financial management, applicable approval limit proportion of the Board of Directors regarding each transaction which is under the same category shall be calculated on the principle of accrued basis for twelve consecutive months. Transactions already approved by the Company in accordance with the principle of accrued basis shall not be included in the scope of accrual calculation.



Provisions of regulatory authorities that the Company is subject to within and outside the PRC that are of a stricter standard than these Articles of Association shall apply accordingly.

In addition to obligations imposed by laws, administrative regulations or the listing rules of the stock exchanges on which our Shares are listed, the Articles of Association place on each Director, supervisor, general manager, deputy general manager and any other senior officer the following duties to each shareholder, in the exercise of his or her functions and powers:

- to act honestly in our best interests;
- not to expropriate our property in any way, including (without limitation) usurpation of opportunities which benefit us; and
- not to expropriate the individual rights of shareholders, including (without limitation) rights to distributions and voting rights, save and except pursuant to our restructuring which has been submitted to the shareholders for their approval in accordance with the Articles of Association.

The Articles of Association further place on each Director, supervisor, general manager, deputy general manager and senior officer:

- a duty to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances in the discharge of his or her duties;
- a fiduciary obligation not to have interests that conflict with the Company’s;
- a duty not to direct a person or entity related or connected to the Director, supervisor, general manager, deputy general manager or senior officer in certain relationships enumerated in the Articles of Association to act in a manner which such person is prohibited from doing; and
- a duty not to cause us to exceed the scope of business stipulated in our business license.

The shareholders in a general meeting may by ordinary resolution remove any Director or supervisor before the expiration of his or her term of office if such Director fails to perform any of the Director’s duties. A senior officer of the Company may be removed by the Board if he or she fails to perform his or her duty.

Directors’ Decision-making Risk Fund

Upon approval by our shareholders at the 2004 annual shareholders’ general meeting, we established a Directors’ Decision-making Risk Fund (“Risk Fund”) to compensate our Directors, supervisors, executive officers and other applicable personnel for personal economic losses resulting from their performance of duties in accordance with the laws, regulations or our Articles of Association or while attempting to procure legitimate benefits for our Company.

Directors, Supervisors and Management’s Indemnification

Upon approval at the 2009 general meeting that was held on June 25, 2010, we continued to purchase liability insurance for our Directors, supervisors and senior officers with coverage of up to US\$15 million.

Audit Committee of the Board of Directors

Upon approval at the first meeting of the fifth session of the Board held on May 20, 2011, the Company set up our audit committee of the fifth session of the Board. The audit committee comprises four independent non-executive Directors, namely Mr. Cheng Faguang, Mr. Wang Xianzheng, Mr. Wang Xiaojun, Mr. Xue Youzhi, and one non-executive Directors, Mr. Dong Yunqing. Mr. Cheng Faguang serves as the Chairman of the audit committee.

The audit committee is mainly responsible for ensuring the independence of the company’s independent auditors to maintain the integrity of audits, ensuring the efficiency of audit procedures, proposing the appointment or replacement of independent audit agencies; reviewing the accounting policies of the Company, the disclosure of the financial information and the procedures for preparing financial reports; and reviewing the Company’s internal control and risk management systems. The details of the responsibilities of the audit committee can be found on our Company’s website.

The members of the audit committee of our Board of Directors are:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Ownership of Shares</u>
CHENG Faguang	68	Independent non-executive director, Chairman of the Audit Committee	0
WANG Xianzheng	64	Independent non-executive director	0
WANG Xiaojun	57	Independent non-executive director	0



<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Ownership of Shares</u>
XUE Youzhi	46	Independent non-executive director	0
DONG Yunqing	55	Employee director	0

As a foreign private issuer, we rely on the exemption under Section 303A.00 of the NYSE Listed Company Manual as well as affiliated director and employee director exemptions as provided under Rule 10A-3 of the Exchange Act to be in compliance with the audit committee standards set out in Section 303A.06 of the NYSE Listed Company Manual. See “Item 16D. Exemptions from the Listing Standards For Audit Committees”.

Compensation Committee

The Compensation Committee of the fifth session of the Board was set up following approval from the Board at the first meeting of the fifth session of the Board held on May 20, 2011. Our compensation committee consists of three members: two independent non-executive directors, namely Mr. Xue Youzhi and Mr. Wang Xiaojun, and one non-executive director, namely Mr. Dong Yunqing. Mr. Xue Youzhi was elected to serve as the chairman of the compensation committee. The primary duties of our compensation committee as set out in the committee charter include drafting and establishing a compensation policy for our Directors, supervisors, and the senior officers and making recommendations on the compensation for our Directors, supervisors and senior officers. Further details on the responsibilities of the compensation committee can be found on our website.

Nomination Committee

Pursuant to approval granted at the first meeting of the fifth session of the Board held on May 20, 2011, we established the Nomination Committee of the first session of the Board (the “Nomination Committee”). The Nomination Committee consists of three Directors, namely Mr. Li Weimin, Mr. Wang Xiaojun and Mr. Cheng Faguang. Mr. Wang Xiaojun serves as the chairman of the Nomination Committee. The main duties of the Nomination Committee include (i) considering and formulating the selection criteria and procedures for directors and managers and making recommendations; (ii) extensively searching for suitable candidates of directors and managers for the Company and making recommendations to the Board; (iii) reviewing the candidates for directors and managers for recommendation to the Board regarding proposed appointments and succession of directors and managers for recommendation to the Board; and (iv) assessing the independence of independent non-executive directors.

Strategy and Development Committee

Pursuant to approval granted at the first meeting of the fifth session of the Board held on May 20, 2011, we established the Strategy and Development Committee of the fifth session of the Board (the “Strategy and Development Committee”). The Strategy and Development Committee consists of five Directors, namely Mr. Li Weimin, Mr. Wang Xin, Mr. Zhang Baocai and Mr. Xue Youzhi. Mr. Li Weimin serves as the chairman. The main duties of the Strategy and Development Committee include: (i) conducting studies and making proposals regarding the long-term development strategy and significant investment decisions of the Company; (ii) conducting studies and making proposals regarding the annual strategic development and operating plans; (iii) supervising the implementation of the Company’s strategic and operating plans; and (iv) conducting studies and making proposals regarding other significant issues impacting the development of the Company.

Supervisory Committee

Our supervisory committee consists of six members, two of whom are employee representatives. Supervisors serve a term of three years and attend Board meetings. The supervisory committee is accountable to shareholders and exercises the following duties in accordance with the applicable laws:

- review our periodic reports as prepared by the Board of Directors and provide written comments;
- review our financial position;
- supervise the Directors and senior officers and to propose removal of a Director or a senior officer who has contravened any law, administrative regulation, these Articles of Association or resolutions passed at a shareholders’ general meeting;
- demand any Director or any senior officer who acts in a manner which is harmful to our interest to rectify such behavior;
- verify financial information such as financial reports, business reports and profit distribution plans to be submitted by the Board of Directors to shareholders’ general meetings and authorise, in the Company’s name, publicly certified and practising accountants to assist in the re-examination of such information should any doubt arise in respect thereof;



- propose the convening of shareholders’ extraordinary general meetings and extraordinary board meetings. Where the Board of Directors fails to convene or hold the general meeting of shareholders in accordance with the provisions of the Company Law, to convene and hold the shareholders’ general meeting;
- make proposals at the shareholders’ general meetings;
- represent the Company in proceedings against a Director or senior officers in accordance with section 152 of the Company Law;
- conduct investigation of any identified irregularities in the Company’s operations; and
- other functions and powers specified in our Articles of Association.

Corporate Governance

As of December 31, 2010 the Yankuang Group held 2,600,000,000 Shares, representing 52.86% of our total shares on the same day. As the Yankuang Group holds more than 50% of our voting power, we are a “controlled company” under Section 303A.00 of the NYSE Listed Company Manual. As a result, we are not required to establish a Nomination Committee or Corporate Governance Committee under Sections 303A.04 and 303A.05 of the NYSE listing rules and have not done so. For details related to our corporate governance policies, please refer to “Item 16G — Corporate Governance”.

Arrangement to Purchase Equity or Debt Securities and Other Arrangements

At no time during the year ended December 31, 2010 were we, our Controlling Shareholder or any of the Yankuang Group’s subsidiaries, a party to any arrangement that enabled our Directors or supervisors to acquire benefits through the acquisition of any securities, including our equity or debt securities, with the exception of the A Shares issued to certain of our Directors, supervisors and senior management.

There is no arrangement or understanding between any Director and any major shareholder, customer or supplier in connection with the selection of such Director.

Service Contracts of Directors and Supervisors

Each of our Directors and supervisors has entered into a service contract with us. Under those contracts, the salaries and discretionary year-end bonuses paid to the Directors and supervisors, are proposed by the Board of Directors and approved by our shareholders at general meetings. The discretionary year-end bonuses paid to our Directors and other employees (including, but not limited to, our supervisors and senior officers) in any given year may not, in aggregate, exceed 1% of our net profit (after taxation and extraordinary losses, but before extraordinary gains) for that year.

No Director or supervisor has entered into any service contract with our Company which cannot be terminated by us within one year without payment other than statutory compensation.

D. Employees

General

The table below sets forth the number of our employees by function as of the periods indicated:

	As of December 31,		As of May 31,
	2008	2009	2011
Coal production employees	32,297	34,516	36,364
Engineers and technicians	1,662	1,816	1,873
Management and administrative personnel	2,895	3,595	4,036
Support staff	10,535	9,706	10,010
Total	47,389	49,633	52,283

The table below sets forth a breakdown of our employees by location as of May 31, 2011:

Location	Employees	% of Total
PRC		
Shandong	50,634	96.85%
Shaanxi	183	0.35%
Shanxi	293	0.56%
Inner Mongolia	58	0.11%
Australia	1,115	2.13%
Total	52,283	100%



The total remuneration of our employees includes wages and allowances. We paid our employees an aggregate of approximately RMB2,448.8 million, RMB2,985.5 million and 4,086.8 million in wages and allowances in the years ended December 31, 2008, 2009 and 2010, respectively. The compensation of an employee directly involved in underground mining is based on the employee's productivity, as well as the productivity of the employee's mining team. Our employees and their families also receive certain social welfare benefits and education and health services indirectly through the Yankuang Group. These benefits are provided in some cases by the Yankuang Group as required by PRC laws, rules and regulations. We, in turn, pay the Yankuang Group for such benefits.

According to the Provision of Insurance Fund Administrative Services Agreement and the annual caps from 2009 to 2011, the Yankuang Group will provide free management services for the contributions that we make to an endowment insurance fund, basic medical insurance fund, supplementary medical insurance fund, unemployment insurance fund and maternity insurance fund for our employees. We paid an aggregate of approximately RMB1,045.3 million to the above listed insurance funds in 2010.

In 2008, 2009 and 2010, we paid pension contributions for our Directors, supervisors, executive officers and senior management of approximately RMB509,000, RMB550,000 and RMB778,000, respectively. In addition, each of our employees currently pays a percentage of his or her salary as an additional pension contribution. Upon retirement, our employees are entitled to pension payments under the pension plan.

As of the date of this annual report, all of our employees are employed under employment contracts which specify the employee's position, responsibilities, remuneration and permissible grounds for termination. We have a labor union that protects employees' rights, aims to assist in the achievement of our economic objectives, encourages employee participation in management decisions and assists in mediating disputes between union members and us. Each of our operating units has a labor union. We have not experienced any strikes or other labor disturbances that has interfered with our operations, and we believe that we maintain strong relationships with our employees.

All employees who are unable to work due to illness or disability are entitled to certain benefits during the period of their absence from the work. In addition, the PRC government requires us to provide casualty and life insurance for each employee who works underground in mining sites through work injury funds. We contribute an amount to the work injury fund equivalent to 2% of each employee's total remuneration the prior year.

Medical Insurance Plan

In accordance with the relevant regulations of the Shandong Provincial People's government, since 2002, we have established a basic medical insurance plan for employees, which comprises basic medical insurance and supplementary medical insurance plans.

In 2010, we set aside 6% and 4% of the total wages of each employee to a basic medical insurance fund and a supplementary medical insurance, respectively. Production personnel's supplementary medical insurance was recorded in our statement of income as "Wages and Employee Benefits" under "Cost of Sale and Service Provided", while management and administrative personnel's supplementary medical insurance was recorded under "Selling, General and Administrative Expenses".

Housing Plan

Under the Labor and Service Supply Agreement, the Controlling Shareholder is partly responsible for providing housing accommodations to our employees. We and the Controlling Shareholder share the incidental expenses relating to the provision of housing accommodation on a pro rata basis based on our respective number of employees and other negotiations. Such expenses amounted to approximately RMB86.2 million, RMB140.0 million and RMB140.0 million for 2008, 2009 and 2010, respectively.

Beginning in 2002, we paid each of our employees a housing allowance, which is calculated based on a fixed percentage of each employee's wage to assist employees in their purchase of residential housing. In 2008, 2009 and 2010, we paid an aggregate of approximately RMB193.6 million, RMB238.5 million and RMB247.7 million, respectively, for our employees' housing allowances.

E. Share Ownership

No Director, supervisor or member of senior management who received compensation as described in subsection B above owns more than one percent of our outstanding Shares. See "Item 6. Directors, Supervisors, Senior Management and Employees — A. Directors, Supervisors and Senior Management".

We have not granted and have no plan to grant options for our Shares or other equity-linked securities to our employees. We have not and have no plan to implement any share bonus scheme for employees.



ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

As of December 31, 2010, the Yankuang Group owned 52.86% of our share capital. As a majority shareholder, the Yankuang Group is able to make most of the decisions reserved for shareholders.

The following table sets forth certain information regarding ownership of our capital stock as of December 31, 2010 by all persons who are known by us to own beneficially more than 5% of our capital stock.

<u>Title of Class</u>	<u>Identity of Person or Group</u>	<u>Shares Owned as of December 31, 2010</u>	<u>Percentage of Shares as of December 31, 2010</u>
Ordinary Shares in the form of legal person shares	Yankuang Group	2,600,000,000	52.86%
Ordinary Shares in the form of H Shares	HKSCC Nominee Limited ⁽¹⁾	1,951,633,946	39.68%

(1) As the nominee of the clearing and settlement agent for our H Shares, HKSCC Nominee Limited is the record holder of our H Shares.

The following table sets forth the substantial shareholders of our H Shares as of December 31, 2010.

<u>Name of substantial shareholders</u>	<u>Class of shares</u>	<u>Number of shares held (shares)</u>	<u>Capacity</u>	<u>Type of interest</u>	<u>Percentage in the relevant class of share capital of the Company</u>	<u>Percentage in total share capital of the Company</u>
JP Morgan Chase & Co.	H Share	274,853,588(L)	Beneficial owner,		14.03%(L)	5.59%(L)
		4,139,412(S)	Investment manager and custodian corporation /	Corporate	0.21%(S)	0.08%(S)
		95,507,480(P) ⁽²⁾	Approved lending agency		4.88%(P)	1.94%(P)
Templeton Asset Management Ltd.	H Share	235,912,000(L)	Investment manager	Corporate	12.05%(L)	4.80%(L)
BNP Paribas Investment Partners SA	H Share	117,641,207(L)	Investment manager	Corporate	6.00%(L)	2.39%(L)

(1) The letter "L" denotes a long position. The letter "S" denotes a short position. The letter "P" denotes interests in a lending pool.

(2) The long positions in H Shares included 8,706,640 H Shares, which were held in the capacity of beneficial owners, 170,639,468 H Shares were held by investment managers and 95,507,480 H Shares were held as interests of controlled custodian corporation/approved lending agent. The aggregate interests of short positions in H Shares were held in the capacity of beneficial owners. Among the aggregate interests of long position in H Shares, 81,736 H Shares were held as derivatives. Among the aggregate interests of short position in H Shares, 1,939,412 H Shares were held as derivatives.

Except as described in the table above, we are not aware of any holder of more than 5% of any class of our shares. Our major shareholders do not have voting rights different from those of other shareholders. All of our ordinary shareholders enjoy equal voting rights for each share that they hold.

To our knowledge, other than the Yankuang Group, which owns 52.86% of our Shares, we are not owned or controlled, directly or indirectly, by any other corporation, government, or other natural or legal person or persons, jointly or severally. We are not aware of any arrangement which may at a subsequent date result in a change of control over us.

B. Related Party Transactions

Our connected transactions were mainly made with the Controlling Shareholder (including its subsidiaries) for the provision of materials and services, giving rise to the continuing connected transactions described below, and asset purchase transactions.



Continuing Connected Transactions

Upon our restructuring for listing, the Controlling Shareholder, the Yankuang Group, injected its major assets and business relating to coal production and operations into the Company, while the Yankuang Group continues to provide products, materials, services and logistics support services to the Company through its remaining businesses and utilizing its remaining assets. In addition, Yankuang Finance, a joint venture established by the Yankuang Group, China Credit Trust Co., Ltd and the Company, started to provide financial services after its commencement of operation in November 2010. As both the Yankuang Group and the Company are located in Zoucheng City of Shandong Province, we are able to obtain a steady supply of materials, ancillary support services, financial and other services from the Yankuang Group, which may minimize the operational risks, financing costs and financing risks and in turn have a positive impact on our results of operations. In addition, the Yankuang Group purchases products and materials from us at market price, which may secure part of our sales market. Therefore, the continuing connected transactions are necessary and will continue.



Pursuant to approval granted at the second extraordinary general meeting held on December 23, 2008, the Company entered into five continuing connected transaction agreements with the Yankuang Group, namely the Materials Supply Agreement, Supply of Labor and Services Agreement, Pension Fund Management Agreement, Coal Products and Materials Supply Agreement and Electricity and Heat Energy Supply Agreement, together with the annual caps for such transactions from 2009 to 2011, in the ordinary course of business. We determined the prices of these transactions primarily based on government pricing. If there is no government pricing, then the market price applies. If there is no government pricing or market price, then we determine prices based on actual cost. The supply fees can be settled in one lump sum or by installments. The supply fees for continuing connected transactions within the same calendar month shall be settled in the following month, except those transactions which are not yet completed or those amounts which are in dispute.

Pursuant to approval granted at the fourteenth meeting of the fourth session of the Board of the Company held on April 23, 2010, we entered into the Financial Services Agreement with Yankuang Finance. Pursuant to the agreement, Yankuang Finance will provide us with financial services including deposit services, borrowing services and settlement services. The agreement also fixed the proposed annual caps for the transactions from 2010 to 2011. Yankuang Finance has agreed to charge us at same or more favorable price for its financial services, compared with those charged by the major commercial banks in the PRC for the same kind of financial services. Fund risk control measures were also taken to safeguard the security of the fund.

The continuing connected transactions between our Company and the Controlling Shareholder for the year 2010 included the following:

Continuing Connected Transaction of Supply of Products and Services

Details of arrangement to supply products and services between our Company and Yankuang Group in 2010 are shown in the following table.

	For the Year Ended December 31,			
	2009		2010	
	Amount (RMB'000)	% of operating income	Amount (RMB'000)	% of operating income
Sales of goods and rendering of services by the Group to the Controlling Shareholder	2,608,082	12.13	3,361,680	9.65
Sales of goods and rendering of services by the Controlling Shareholder to the Group	2,144,198	9.97	2,258,967	6.48

Note: The listed figures are under PRC CASs.

The table below shows the effect on profits from sales of coal by the Group to the Controlling Shareholder in 2010:

	Sales income (RMB'000)	Operation cost (RMB'000)	Gross profit (RMB'000)
Coal sold to the Controlling Shareholder	2,672,424	1,295,783	1,376,641

Note: The listed figures are under PRC CASs.

Continuing Connected Transaction of Pension Fund

Pursuant to approval granted at the second 2008 extraordinary shareholders' meeting and according to the Pension Fund Management Agreement and the annual transaction caps thereunder from 2009 to 2011, the Yankuang Group will provide free management services for contributions that we make to the endowment insurance fund, basic medical insurance fund, supplementary medical insurance fund, unemployment insurance fund and maternity insurance fund. We contributed an aggregate of approximately RMB1,045.3 million to the foregoing insurance funds in 2010.

**Continuing Connected Transaction of Financial Services**

Pursuant to approval granted at the fourteenth meeting of the fourth session of the Board of the Company held on April 23, 2010, we entered into the Financial Services Agreement with Yankuang Finance on January 7, 2011, which sets forth the annual caps for such transactions in 2010 and 2011 as follows:

- the maximum daily balance (including accrued interests) on our settlement account in Yankuang Finance is RMB1,400 million;
- the credit facility limit for each of 2010 and 2011 is RMB1,000 million; and
- the total fees for the discounted note services and other financial services is RMB28.54 million, in which the annual cap for discounted note service fees is RMB20.94 million.

As of December 31, 2010, our deposit balance in Yankuang Finance was RMB1,400 million, representing 15.9% of our total bank deposit as of December 31, 2010.

Details of the annual transaction cap for 2010 and the actual transaction amounts in 2010 for the above continuing connected transactions are shown in the following table.

Connected Transactions	Agreement	Annual cap for 2010 (RMB'000)	Transaction amount for 2010 (RMB'000)
Materials and facilities provided by Yankuang Group	Materials Supply Agreement	660,000	421,606
Labor and services provided by Yankuang Group	Supply of Labor and Services Agreement	2,356,820	1,837,361
Pension fund management provided by Yankuang Group	Pension Fund Management Agreement	1,209,600	1,045,296
Coal and material provided to Yankuang Group	Coal Products and Materials Supply Agreement	4,070,000	3,126,678
Electricity and heat provided to Yankuang Group	Electricity and Heat Energy Supply Agreement	334,000	235,002
Financial services provided by Yankuang Finance	Financial service agreement		
deposit balance		1,400,000	1,400,000
credit facility		1,000,000	0
financial service fee		28,540	0

The table below sets forth the continuing connected transactions that we conducted with Yankuang Group or its subsidiary during the periods indicated:

	Year Ended December 31,		
	2008	2009	2010
	(RMB'000)		
Sales Income			
Sales of coal	1,384,415	2,086,542	2,672,424
Sales of auxiliary materials	550,986	317,479	454,254
Sales of heat and electricity	—	204,061	235,002
Total	1,935,401	2,608,082	3,361,680
Expenditure			
Utilities and facilities	376,288	39,069	34,006
Annual fee for mining rights	—	—	—
Purchases of supply materials and equipment	471,768	598,498	421,606
Repair and maintenance services	253,864	388,917	262,478
Social welfare and support services	255,265	769,561	794,621
Technical support and training	20,000	26,000	26,000
Road transportation services	86,671	79,560	64,945
Construction services	294,938	242,593	655,311
Total	1,758,794	2,144,198	2,258,967



Opinions of the Independent Non-executive Directors

Our independent non-executive Directors have reviewed the continuing connected transactions that took place in 2010 and confirmed that all such connected transactions have been: (i) entered into by us in the ordinary and usual course of our business, (ii) 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 favorable to us than terms available to or from independent third parties, and (iii) 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. The independent Directors also determined that the value of the connected transactions in respect of the supply of materials and services stated under “Continuing Connected Transaction of Supply of Products and Services” above did not exceed the annual cap for 2010 approved by independent shareholders and the Board.



Opinion of the Auditors

Pursuant to Rule 14A.38 of the Hong Kong Listing Rules, the Directors have engaged the auditors of the Company to perform certain procedures required by the Hong Kong Listing Rules in respect of the continuing connected transactions of the Group. The auditors have reported to the Directors that the above continuing connected transactions: (1) have received the approval of the Board; (2) are in accordance with the pricing policies of the Company; (3) have been entered into in accordance with the relevant agreement governing the transactions; and (4) have not exceeded the relevant annual caps.

Acquisition from Connected Parties

Installation Payment for the Mining Rights of Jining III Coal Mine

Pursuant to the Jining III Coal Mine Acquisition Agreement entered into between the Company and the Yankuang Group in 2000, we agreed to purchase the mining rights of Jining III Coal Mine for approximately RMB132.5 million. Payment was to be made in ten interest-free annual installments beginning in 2001. Accordingly, we paid a total of RMB13.248 million for the mining rights to the Yankuang Group in 2010. As of December 31, 2010, the total of RMB132.5 million for the mining rights of Jining III Coal Mine was paid in full.

External Connected Transactions Entered Into Jointly by Us and Related Parties

Investment in Yankuang Finance among Yankuang Group

Pursuant to approval granted at the thirteenth meeting of the third session of the Board held on August 3, 2007, we established Yankuang Finance jointly with the Yankuang Group and China Credit Trust Co., Ltd. The registered capital of Yankuang Finance is RMB500.0 million, of which we have contributed RMB125.0 million in cash, representing an equity interest of 25%. Yankuang Finance commenced its operations on November 1, 2010. Yankuang Finance provides financial services such as accepting deposits from members, inter-bank borrowings and making the bill acceptance and discount for its members.

Establishment of Future Energy

For details of our establishment of Future Energy, please see “Item 4 Information on the Company — A. History and Development of our Company — Establishment of Shaanxi Future Energy Chemical Corp. Ltd”.

Debt and debt obligations due between the Controlling Shareholder and us

The table below sets forth the balances due from/to the Controlling Shareholder between the Controlling Shareholder and us in 2010.

Related Parties	Payable to related parties		Receivable from related parties	
	Amount involved	Remaining	Amount involved	Remaining
Yankuang Group	3,595,591	924,623	3,502,519	1,363,406

(RMB'000)

Amounts due to the Controlling Shareholder and Its Subsidiaries

For the details of the amounts due to the Controlling Shareholder and its subsidiaries, please refer to “Item 5 — Operating and Financial Review and Prospects — F. Contractual Obligations — Amounts due to the Controlling Shareholder and Its Subsidiaries”.

Up to December 31, 2010, the Controlling Shareholder or its subsidiaries had not used our funds for nonoperational matters.

Transactions/ Balances with Other State-owned Entities in the PRC

We operate in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government (“state-owned entities”). In addition, our Controlling Shareholder is also a state-owned entity. Apart from the transactions with the Controlling Shareholder and its subsidiaries and other disclosure disclosed above, we also conduct business with other state-owned entities. Our Directors consider those state-owned entities as independent third parties so far as our business transactions with them are concerned.



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

	Year Ended December 31,		
	2008	2009	2010
	(RMB'000)		
Trade sales	10,253,998	6,970,855	9,823,814
Trade purchases	1,328,958	1,191,783	1,581,427

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

	As of December 31,	
	2009	2010
	(RMB'000)	
Amounts due from other state-owned entities	1,101,535	1,320,801
Amounts due to other state-owned entities	359,726	443,403

In addition, we have entered into various transactions, including deposit placements, borrowings and other general banking facilities, with certain banks and financial institutions that are state-owned entities in the ordinary course of business. In view of the nature of those banking transactions, our Directors are of the opinion that separate disclosures are not be necessary.

Except as disclosed above, our Directors are of the opinion that transactions with other state-owned entities are not significant to our operations.

Interest of Management in Certain Transactions

None of the Directors or supervisors or executive officers had, either directly or indirectly, any material interest in any significant material contract to which we were a party during the year ended December 31, 2010.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

You should read “Item 18. Financial Statements” for information regarding our audited consolidated financial statements and other financial information.

Significant Legal Proceedings and Arbitration

We were not involved in any significant litigation or arbitration during the reporting period other than as disclosed in this report.

Dividend Policy

Pursuant to approval granted at the annual general meeting for the year 2009 held on June 25, 2010, the Company amended the terms of the Articles relating to profit distribution.

According to our Articles of Associations, we shall maintain the continuance and stability of our profit distribution policy. We pay final dividends once a year. Shareholders shall, by way of an ordinary resolution, authorize our Board of Directors to declare and pay dividends, and we distribute interim dividends pursuant to the approval of the board and shareholders. We may distribute dividends in the form of cash or shares. Cash dividends shall account for approximately 35% of the net profit of the fiscal year after the deduction of the statutory common reserve. Pursuant to our Articles of Association, our after-tax profit shall be allocated in the following order: (1) compensation of losses (if our statutory common reserve fund is not sufficient to compensate our losses from the previous year, we will utilize our after tax profit to compensate our losses before making any provision for the statutory common reserve fund) (2) allocation to the statutory common reserve fund; (3) allocation to the discretionary common reserve fund upon approval by a resolution of a shareholders’ general meeting; and (4) dividend payments for ordinary shares.

B. Significant Changes

We have not experienced any significant changes since the date of the consolidated financial statements in this annual report.

**ITEM 9. THE OFFER AND LISTING****A. Offer and Listing Details**

The following tables set forth a summary of the issuance of our Shares:

	H Shares			A Shares	
	Initial offering	Second offering	Third offering	Initial offering	Second offering
Time of issuance	March 1998	May 2001	July 2004	June 1998	January 2001
Issue amount	850,000,000	170,000,000	204,000,000	80,000,000	100,000,000

As of December 31, 2010, our share capital structure was as follows:

Type	Number of shares	Percentage of total shares
Listed shares with restricted trading condition		
Promoter Shares	2,600,021,800	52.8632%
A Shares held by our Directors, supervisors and executive officers	21,800	0.0005%
Listed shares without trading condition	2,318,378,200	47.1368%
A Shares	359,978,200	7.3190%
H Shares	1,958,400,000	39.8178%
Total	4,918,400,000	100.0%

As of December 31, 2010, we had 2,600,021,800 listed shares that were subject to trading restrictions, substantially all of which are held by our Controlling Shareholder on behalf of the State and the remainder by our Directors, supervisors and executive officers.

In 2010, the change of our listed Shares subject to trading restrictions was as follows:

Shareholders	Shares subject to trading restrictions as of January 1, 2010 (shares)	Shares released from trading restrictions in 2010 (shares)	Increase in Shares subject to trading restrictions in 2010 (shares)	Shares subject to trading restrictions as of December 31, 2010 (share)	Basis for imposition of or release from trading restriction
Yankuang Group	2,600,000,000	0	0	2,600,000,000	Share reform plan ⁽¹⁾
Yang Deyu	20,000	20,000	0	0	Mr. Yang Deyu resigned from his position as a Director and Vice Chairman of the Company on December 31, 2009.
Wu Yuxiang	20,000	0	0	20,000	Share held by Directors, Supervisors and senior management
Song Guo	1,800	0	0	1,800	
Total	2,600,041,800	20,000	0	2,600,021,800	—

(1) The share reform plan was implemented April 2006 and restricted the trading of the Yankuang Group's shares for 48 months beginning from the implementation of the reform or until certain commitments are satisfied, whichever is longer. As of the date of this annual report, the Yankuang Group's commitments in the share reform has been satisfied. Upon the Yankuang Group's application and the administrative authorities' approval, its share can be traded in the market.

**Capitalization of Capital Reserve and Our Capital Structure:**

Our total shares remained the same in 2010, however, our shareholding structure changed as follows, resulting from the release of the restriction on restricted shares held by certain individuals:

	Number of Shares as of January 1, 2010	Increase/decrease in shares during the year	Number of Shares as of December 31, 2010
Restricted Shares	2,600,041,800	(20,000)	2,600,021,800
Promoter Shares	2,600,000,000	—	2,600,000,000
A Shares held by our Directors, supervisors and executive officers	41,800	(20,000)	21,800
Unrestricted Shares	2,318,358,200	20,000	2,318,378,200
A Shares	359,958,200	20,000	359,978,200
H Shares	1,958,400,000	—	1,958,400,000
Total	4,918,400,000	—	4,918,400,000

The table below sets forth certain market information relating to the H Shares, ADSs and A Shares for the periods indicated:

	Price per H Share (HK\$)		Price per ADS (US\$)		Price per A Share (RMB)	
	High	Low	High	Low	High	Low
Annual highs and lows						
2006	7.50	4.58	9.76	5.86	8.90	5.70
2007	17.82	6.28	23.35	8.01	27.68	7.07
2008	17.94	2.98	22.90	4.04	26.99	7.60
2009	17.34	4.00	22.32	5.11	26.15	8.40
2010	25.25	14.00	32.26	18.29	33.65	14.88
Quarterly highs and lows						
2008						
First quarter	16.80	8.96	21.3	11.5	24.68	17.32
Second quarter	17.94	10.80	22.9	14.38	26.99	13.75
Third quarter	15.82	7.50	20.24	9.99	22.09	9.50
Fourth quarter	8.47	2.98	10.72	4.04	12.29	7.60
2009						
First quarter	7.10	4.00	9.08	5.11	13.35	8.40
Second quarter	11.70	5.55	15.00	7.33	16.81	12.60
Third quarter	13.00	9.20	16.81	11.68	23.70	14.60
Fourth quarter	17.34	10.48	22.32	13.52	26.15	16.95
2010						
First quarter	20.75	14.00	25.65	18.39	25.66	18.47
Second quarter	22.40	14.50	28.72	18.50	23.76	16.27
Third quarter	19.18	14.50	24.71	18.29	19.50	14.88
Fourth quarter	25.25	19.40	32.26	24.54	33.65	18.98
Monthly highs and lows						
2010						
December	23.80	20.90	30.72	27.46	30.74	25.77
2011						
January	26.20	22.20	33.13	28.69	30.00	23.29
February	23.65	21.05	30.30	27.67	28.96	24.37
March	29.25	23.00	36.71	29.34	36.45	27.40
April	32.00	28.05	39.80	35.92	39.50	33.28
May	32.95	27.55	41.89	35.41	35.75	29.92
June (through June 17, 2011)	32.85	28.50	41.62	36.58	34.80	31.24

As of December 31, 2010, a total of 1,958,400,000 H Shares were outstanding, of which approximately 197,441,580 H shares or 10.08% of the outstanding H Shares, were held in the form of 19,744,158 ADSs. The outstanding ADSs were held collectively by 111 holders of record as of May 31, 2011.



Repurchase, Sale or Redemption of H shares

The shareholders at the 2010 first A shareholders' meeting, the 2010 first H shareholders' meeting, each of which was held on June 25, 2010, and 2010 Annual General Meeting, held on May 20, 2011, resolved and granted the Board of Directors a general mandate to (i) repurchase H Shares up to 10% of the outstanding H Shares as of the date of the resolutions' passage; and (ii) issue additional H shares up to 20% of the outstanding H Shares as of the date of the resolutions' passage. During the mandate period, the Board of Directors may exercise the mandate based on our interests and market conditions, subject to the approvals of the relevant regulatory authorities and in compliance with laws, regulations and the Articles of Association. As of the date of this annual report, the general mandate to repurchase H Shares or issue additional H Shares has not been exercised.



B. Plan of Distribution

Not applicable.

C. Markets

Our A Shares are listed on the Shanghai Stock Exchange under the approval of the China Securities Regulatory Commission. The principal trading market for the H Shares is the Hong Kong Stock Exchange. The ADSs have been issued by The Bank of New York Mellon, acting as Depositary Bank, and are listed on the New York Stock Exchange under the symbol “YZC”. For market price information on the exchanges on which our securities are listed, see “– A. Offer and Listing Details”.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

Since the effective date of our Articles of Association, the PRC government and other regulatory authorities have promulgated various rules, regulations and opinions which include the Securities Laws of the PRC, the General Meeting Opinions, and the Guide for Articles of Association of Listed Companies. As a listed company, we are required to incorporate these rules, regulations and opinions into our Articles of Association as appropriate.

Selected Summary of our Articles of Association

A copy of the English translation of our Articles of Association was filed with the Commission as an exhibit to our registration statement on Form F-1 under the Securities Act in connection with the global offering of our H Shares and related American Depositary Shares in 1997. The following table sets forth the dates our Articles of Association were amended or filed with the Commission, or both:

Date of Amendment to the Articles of Association	Filing
April 22, 2002	Appendix to 2001 20-F
June 25, 2004	Appendix to 2003 20-F
July 8, 2004	Appendix to 2004 20-F
June 28, 2005	
August 22, 2005	Appendix to 2005 20-F
June 28, 2006	
November 10, 2006	Appendix to 2006 20-F
June 15, 2007	Appendix to 2007 20-F
January 30, 2008	
December 23, 2008	Appendix to 2008 20-F
June 26, 2009	
June 25, 2010	
February 18, 2011	
May 20, 2011	Appendix to 2010 20-F



Objects and Purposes

We are a joint stock limited company established in accordance with the “Company Law”, “State Council’s Special Regulations Regarding the Issue of Shares Overseas and the Listing of Shares Overseas by Companies Limited by Share” and other relevant laws and administrative regulations of the State. We were established by way of promotion with the approval of the former State Commission for Restructuring the Economic System on September 24, 1997, as evidenced by approval document Ti Gai Sheng (1997) No. 154 of 1997. We were registered with and have obtained a business license from Shandong Provincial Administration Bureau of Industry and Commerce on September 25, 1997. Our business license number is: 370000400001016.

Our scope of business includes: selection and sale of coal (among others, the export of coal should be made through companies with coal export rights according to existing state regulations); transportation of goods through self-owned railways within the mining areas; transportation of goods through highways; operation of ports; manufacture, sale, lease and repair of relevant mining equipment; production and sale of other mining materials; sale and lease of electronic equipment and sale of parts; sale of metallic materials, electronic products, construction materials, timber, rubber products and methanol; provision of mining, science and technological services; property development within the mining areas, property leasing and provision of services such as dining and accommodation; production and sale of coal residual stones as construction materials; sale of coking coal and iron ore; import and export of goods and technology; warehousing; and automotive repairs.

Board of Directors

The Board of Directors is accountable to shareholders and exercises the powers granted to it by the Articles of Association.

Directors who are not employee representatives are elected or removed at shareholders’ general meetings. Employee directors are elected in staff representative meetings or by other democratic methods. All Directors are elected for a term of three years, which can be renewed by re-election at the expiry of the term, unless an Director is removed for cause during his term.

We have established a system of independent Directors and currently have four independent Directors. Independent Directors do not hold any positions in the Company other than their role as directors and do not maintain with us or our substantial shareholders a connection which may hamper their independent and objective judgment. In addition to the powers granted to Directors by the Company Law and other relevant laws, regulations and the Articles of Association, independent Directors have the following powers:

- (i) a majority of the independent Directors must agree to the engagement of substantial connected transactions, as determined in accordance with the standards promulgated from time to time by the regulatory organizations of the place where the Company’s shares are listed, and the appointment of accounting firm(s) before submitting such decisions to the Board of Directors;
- (ii) a majority of the independent Directors may call an extraordinary general meeting for the Board of Directors, propose a board meeting, and publicly collect proxy votes from shareholders before shareholders’ general meetings; and
- (iii) with the consent of a majority of the independent Directors, the independent Directors may independently engage external auditors and consultants to provide audit and consultation for specific Company matters, with the Company bearing the associated costs.

If the above recommendations are not accepted or the above powers cannot be exercised ordinarily, the Company shall disclose the circumstances accordingly.

Where a Director, supervisor or senior officer of the Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company (other than his contract of service with the Company), he shall declare the nature and extent of his interests to the Board of Directors at the earliest opportunity, whether or not the contract, transaction or arrangement or proposal therefor is otherwise subject to the approval of the board of directors. Unless the interested director, supervisor or senior officer discloses his interests in accordance with the preceding sub-paragraph of this Article and the contract, transaction or arrangement is approved by the board of directors at a meeting in which the interested director, supervisor or senior officer is not counted as part of the quorum and refrains from voting, a contract, transaction or arrangement in which that Director, supervisor or senior officer is materially interested is voidable at the instance of the Company except as against a bona fide party thereto who did not have notice of the breach of duty by the interested director, supervisor or senior officer.

Similarly, our Articles provide that when passing a resolution in relation to a connected transaction, or where any Director or any of its associates (as defined under the Listing Rules of the Stock Exchange of Hong Kong) is connected with such resolution, such connected director must recuse himself from the Board meeting, not have any voting rights in respect thereof, not exercise any voting right on behalf of other directors and not be counted as part of the quorum of the Board of Directors’ meeting. Such board meeting can be convened where not less than half of the disinterested directors of the Company attend the meeting and any such resolutions shall be passed by at least half of the disinterested directors of the Company. If less than three non-connected Directors attend the Board of Directors’ meeting, the connected transaction shall be submitted as a resolution at a shareholders’ general meeting of the Company.



Pursuant to our Articles of Association, with the approval of over two-thirds of all Directors, the Board of Directors may exercise its borrowing powers subject to the following guidelines:

- (1) a single loan of more than 10% and less than 25% of the Company's latest audited net asset value so long as the debt ratio to the Company's assets remains under 80% after such financing; and
- (2) mortgages or pledges of assets the cumulative outstanding amount of which is less than 30% of the Company's latest audited net asset value.

Remuneration of Directors are determined by resolution of the shareholders. The Articles of Association do not impose a mandatory retirement age or share ownership qualification on Directors.

Description of the Shares and Shareholder Rights

As of December 31, 2010, our share capital structure consists of 4,918,400,000 ordinary shares, comprising

- (1) 2,960,000,000 domestic shares, which represent 60.18% of our share capital, of which:
 - a. 2,600,000,000 shares, which represent 52.86% of our share capital, were held by the promoter, Yankuang Group Corporation Limited, and
 - b. 360,000,000 shares, which represent 7.32% of our share capital, were held by other shareholders; and
- (2) 1,958,400,000 foreign H shares, which represent 39.82% of our share capital, were held by the H Shares shareholders.

Holders of our ordinary Shares are entitled to share in the Company's profits, dividends and other distributions in proportion to the number of Shares held and are not liable for making any further contribution other than the subscription amount. Our ordinary shareholders enjoy the following rights:

- (i) the right to receive dividends and other distributions in proportion to the number of shares held;
- (ii) the right to demand the convening of a shareholders' meeting, convene a shareholders' meeting, attend or appoint a proxy to attend shareholders' meetings and to vote thereat;
- (iii) the right of supervisory management over our business operations and the right to present proposals or to raise queries;
- (iv) the right to transfer, grant or pledge shares so held in accordance with laws, administrative regulations and provisions of our Articles of Association;
- (v) the right to obtain relevant information in accordance with the provisions of our Articles of Association;
- (vi) in the event of our termination or liquidation, the right to participate in the distribution of our surplus assets in accordance with the number of shares held;
- (vii) for shareholders who disagree with the resolutions for the merger and separation of the Company made in a general meeting, the right to demand the Company to purchase their shares; and
- (viii) other rights conferred by laws, administrative regulations and our Articles of Association.

Voting Rights

Shareholders (including proxies), when voting at a shareholders' general meeting, may exercise such voting rights as are attached to the number of voting shares which they hold. Each share represents one vote. Shares held by the Company do not have voting rights and these shares will not count as the total number of shares entitled to vote. Resolutions at shareholders' general meetings shall be divided into ordinary resolutions and special resolutions. An ordinary resolution must be passed by votes representing more than half of the voting rights represented by the shareholders (including proxies) present at the meeting. A special resolution must be passed by votes representing more than two-thirds of the voting rights represented by the shareholders (including proxies) present at the meeting.

Other than the obligations provided by the laws, administrative legislations and the listing rules of the stock exchange on which the Company's shares are listed, our Controlling Shareholder (as defined in the Articles) shall not exercise its voting rights to approve the following matters which will be prejudicial to the interests of all or some of the other shareholders.

- (i) to relieve a director or supervisor of his duty to act honestly in the best interests of the Company;
- (ii) to approve the expropriation by a Director or supervisor (for his own benefit or for the benefit of another person) of the Company's assets in any way, including (without limitation) opportunities which are beneficial to the Company; and



- (iii) to approve the expropriation by a Director or supervisor (for his own benefit or for the benefit of another person) of the individual rights of other shareholders, including (without limitation) rights to distributions and voting rights (save pursuant to a restructuring which has been submitted for approval by the shareholders in a general meeting in accordance with these Articles of Association).

Sources of Shareholders' Rights

The rights and obligations of holders of H Shares and other provisions relating to shareholder protection are principally provided in the Articles of Association and the PRC Company Law. The Articles of Association incorporate mandatory provisions in accordance with the Mandatory Provisions for the Articles of Association of Companies Listed Overseas promulgated by the State Council Securities Commission and the State Restructuring Commission on August 27, 1994 (the "Mandatory Provisions"). We are further subject to management ordinances applicable to the listed companies in Hong Kong SAR and the United States, as our H Shares are listed on the Hong Kong Stock Exchange and the New York Stock Exchange (in the form of ADSs).

In addition, for so long as the H Shares are listed on the Hong Kong Stock Exchange, we are subject to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "HKSE Rules"), the Securities and Futures Ordinance of Hong Kong (the "SFO") and the Hong Kong Code on Takeovers and Mergers and Share Repurchases. The Listing Agreement between us and the Hong Kong Stock Exchange further provides that we may not permit amendments to certain sections of the Articles of Association subject to the Mandatory Provisions. These sections include provisions relating to (i) varying the rights of existing classes of shares; (ii) voting rights; (iii) the power of us to purchase our own shares; (iv) rights of minority shareholders; and (v) procedures upon liquidation. In addition, certain amendments to the Articles of Association require the approval and assent of relevant PRC authorities.

Merger and Acquisition

In the event of the merger or division of our Company, a plan must be presented by our Board of Directors and approved in accordance with the procedures stipulated in our Articles of Association. Shareholders who object to the plan of merger or division will have the right to demand us or the shareholders who consent to the plan of merger or division to acquire their shares at fair market price. A resolution proposing a merger or division by our company constitutes a special document, which will be available for inspection by our shareholders.

Redemption Provisions

In accordance with the procedures set out in the Articles of Association and upon obtaining approval from relevant government authorities, we may repurchase our issued Shares under the following circumstances:

- (i) canceling Shares to reduce our capital;
- (ii) merger with another company that holds Shares of our Company;
- (iii) granting employee incentive Shares;
- (iv) purchasing the shares of dissenting shareholders; and
- (v) other circumstances permitted by relevant laws and administrative regulations.

Apart from the above, the Company is not allowed to engage in trading of its own shares.

We may repurchase shares in one of the following ways, with the approval of the relevant government authorities:

- (i) by making a general offer to repurchase shares of all our shareholders on a pro rata basis;
- (ii) by repurchasing shares through a public dealing on a stock exchange;
- (iii) by repurchasing shares outside of the stock exchange by means of an off-market agreement; or
- (iv) by other means as authorized by the competent securities authorities under the State Council.

Variation of Rights

The rights attached to any class of shares may not be varied or abrogated except with the approval of a special resolution by all shareholders at a general meeting, along with a special resolution of the holders of the affected class of shares at a separate meeting in accordance with the Articles of Association.



Shareholders' Meetings and Notices

Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Shareholders' general meetings shall be convened by the Board of Directors. Annual general meetings are held once every year and within six months from the end of the preceding financial year. The Board of Directors shall convene an extraordinary general meeting within two months of the occurrence of any one of the following events:

- (i) where the number of Directors is less than the number stipulated in the Company Law or two-thirds of the number specified in our Articles of Association or is less than eight (8);
- (ii) where our unrecovered losses amount to one-third of the total amount of our share capital;
- (iii) where shareholder(s) singly or jointly holding 10% or more of our issued and outstanding voting shares request(s) in writing for the convening of an extraordinary general meeting. Within 10 days of receiving such proposal, the Board shall provide its written decision as to whether it agrees to convene such general meeting in accordance with the laws, administrative regulations and the Articles of Association.;
- (iv) whenever the Board of Directors deems necessary or the supervisory committee so requests;
- (v) other cases as provided in laws, administrative regulations and the Articles of Association; or
- (vi) whenever more than a half of the independent Directors so request.

When we convene a shareholders' general meeting, written notice of the meeting shall be given 45 days before the date of the meeting (when calculating the 45 day period, the date on which the meeting is held shall not be included) to notify all of the shareholders whose names appear in the share register of the matters to be considered and the date and place of the meeting, along with the matters to be resolved in the meeting. Shareholders who intend to attend the meeting shall deliver to us their written reply concerning their attendance at such meeting 20 days before the date of the meeting. When we convene an annual general meeting, a shareholder singly or shareholders jointly holding 5% or more of the voting shares of the Company may propose new motions in writing, and we shall include in the agenda those motions which are within the authority of the shareholders' general meeting.

When we convene a shareholders' general meeting, the Board of Directors, the supervisory committee and shareholder(s) individually and jointly holding more than 5% of our shares have the right to propose resolutions to the Company. Shareholder(s) individually and jointly holding more than 5% of our shares may propose special resolutions in writing to the convenor 20 days before the shareholders' general meeting is convened. The convenor shall issue a supplementary notice of the general meeting within two days after receiving the resolutions to announce the contents of the resolutions. Apart from the above, no amendment to the resolutions as set out in the notice of general meeting or proposal of new resolutions shall be made after the convenor has issued the notice of general meeting. The resolutions not set out in the notice of general meeting or that fail to comply with the Articles of Association shall be not voted and resolved in the shareholders' general meeting.

Limitations on Voting and Shareholding

Holders of H Shares and Domestic Shares, with minor exceptions, are entitled to the same economic and voting rights. Consistent with PRC law, the Articles of Association provide that the H Shares can only be traded by investors of Taiwan, Hong Kong, Macau and any country other than the PRC, while A Shares may be traded only by PRC investors and qualified foreign institutional investors. State-owned legal person shares can not be traded unless the approval from the relevant government authorities.

Ownership Threshold

There are no ownership thresholds above which shareholder ownership is required to be disclosed.

Changes in Registered Capital

Pursuant to the Article of Association, any increase or reduction in share capital must be resolved by a special resolution at a shareholders general meeting.

Recent Amendments to the Articles of Association

During the reporting period of this annual report, we made a number of amendments to our Articles of Association. At our 2009 annual general meeting on June 25, 2010, our shareholders approved an amendment to our scope of business stated in our Articles of Association to include the "sale of coking coal and iron ore; import and export of goods and technology; warehousing; and automotive repairs." At the first extraordinary general meeting for the year 2011 held on February 18, 2011, our shareholders approved amendments to our Articles of Association regarding the convening of an extraordinary general meeting, the attendance of shareholders' general meeting, the power of the Board and the power of the general manager. At the 2010 annual general meeting held on May 20, 2011, our shareholders approved amendments to our Articles of Association regarding the structure of the Board and the convening of an extraordinary general meeting.



C. Material Contracts

Share Transfer Agreement of Inner Mongolia Haosheng Coal Mining Company Limited between the Company, Jinchengtai, Huayi, Jiutai Technology and Jiutaimanlai

On September 6, 2010, entered into the Share Transfer Agreement with Jinchengtai, Huayi, Jiutai Technology and Jiutaimanlai. Pursuant to the Share Transfer Agreement, the Company proposed an acquisition 23.08% of equity interests held by Jinchengtai, 15.51% of equity interests held by Huayi and 12.41% of equity interests held by Jiutai Technology in Haosheng Company for the consideration of approximately RMB3,009.1 million, RMB2,022.3 million and RMB1,617.8 million, respectively. Upon completion of the Acquisition, the Company will hold a 51% equity interest in Haosheng Company. Pursuant to the Equity Transfer Agreement, the Company and other shareholders of Haosheng Company will inject further capital into Haosheng Company on a pro-rata basis so as to increase the registered capital from RMB50 million to RMB150 million within one month after the transfer registration is completed.

Disposal of equity interests in Minerva Coal Mine Joint Venture in Australia

On December 20, 2010, Felix, a wholly-owned subsidiary of Yancoal Australia, entered into the Minerva Joint Venture Interest Sale Agreement with Sojitz Coal Resources Pty Ltd, a wholly-owned subsidiary of Sojitz Corporation in Australia, to dispose of its 51% equity interest in the Minerva Coal Mine Joint Venture for a consideration of A\$201 million. Upon completion of the disposal, we have no interest in the Minerva Mine Coal Joint Venture.

Financial Services Agreement with Yankuang Finance

On January 7, 2011, we entered into the Financial Services Agreement with Yankuang Finance. Under the Financial Service Agreement, Yankuang Finance agreed to provide deposit services, loan services and miscellaneous financial services to us with transaction caps for 2010 and 2011. Pursuant to the agreement, the fees charged to us by Yankuang Finance for the financial services shall be in accordance with the relevant benchmark rates determined by the PBOC or the CBRC (if any), which shall not exceed those charged by the major commercial banks in the PRC for provision of same kind of financial services. The agreement also provided both parties' risk control measures on funds to secure the safety of funds.

Deal Conclusion Letter for successful bidding of the mining rights of Zhuan Longwan Coal Mine

On January 28, 2011, Ordos Neng Hua made a successful bid for the mining rights of Zhuan Longwan Coal Mine for consideration of RMB7,800 million. Ordos Neng Hua entered into the Deal Conclusion Letter with the Department of Land and Resources of the Inner Mongolia Autonomous Region (on behalf of the Ministry of Land and Resources), confirming the successful bid for the mining rights of Zhuan Longwan Coal Mine on the same day.

Ashton Coal Joint Venture Sale Deed between White Mining (NSW) Pty Limited and Austral-Asia Coal Holdings Pty Ltd

On February 1, 2011, White Mining (NSW) Pty Limited, a wholly-owned subsidiary of Yancoal Australia, entered into the Ashton Coal Joint Venture Sale Deed with Austral-Asia Coal Holdings Pty Ltd, a wholly-owned subsidiary of Singapore IMC Group, to acquire 30% of the equity interests in the Ashton Coal Mine Joint Venture for consideration of US\$250 million. As of the date of this annual report, we held 90% of the equity interests in the Ashton Coal Mine Joint Venture.

Joint Venture Agreement to Establish Future Energy

On February 25, 2011, we entered into the Joint Venture Agreement with the Yankuang Group and Shaanxi Yanchang Petroleum (Group) Corp. Ltd to establish Future Energy. Pursuant to the Joint Venture Agreement, the registered capital of Future Energy is RMB5,400 million, in which we will contribute RMB1,350 million in cash, representing an equity interest of 25%. Future Energy will mainly engage in investment and participation in the coal liquefaction project in Shaanxi Province as well as the preparation for development of ancillary coal mines.

D. Exchange Controls

Our Articles of Association require that we pay dividends and other distributions to holders of Foreign-Invested Shares in accordance with relevant foreign exchange control regulations. If there is no applicable regulation, the exchange rate that we use to convert dividends and distributions to foreign currencies will be the average exchange rate of Renminbi to the relevant foreign currency announced by the Bank of China five business days prior to the announcement of the dividend or distribution.



The Renminbi currently is not a freely convertible currency. The PRC State Administration of Foreign Exchange (“SAFE”), under the authority of the PBOC, controls the conversion of Renminbi into foreign currency. Under existing foreign exchange regulations, unless otherwise approved by the SAFE or exempted by relevant regulations, PRC enterprises must price and sell their goods and services in the PRC in Renminbi.

Since August 1, 2008, all foreign exchange income generated from current account transactions of PRC enterprises (including foreign-invested enterprises) may be retained by enterprises themselves or be sold to the financial institutions operating the foreign exchange settlement or sale business in accordance with relevant regulations. Foreign exchange income from loans issued by organizations outside the territory or from the issuance of bonds and shares (for example foreign exchange income received by our Company from the sale of shares overseas) is also not required to be sold to financial institutions operating the foreign exchange settlement or sale business, but may be deposited in foreign exchange accounts at the financial institutions operating foreign exchange businesses.

PRC enterprises (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items may, without the approval of SAFE, effect payment from their foreign exchange accounts at financial institutions operating foreign exchange businesses, with valid receipts and proof. Upon a board approval, foreign-invested and PRC enterprises that need foreign currency to distribute profits to their shareholders, such as our Company, may make distributions from their foreign exchange accounts or convert RMB into foreign currencies at foreign exchange businesses.

The conversion of foreign exchange with respect to capital account items, like direct investment and capital contribution, is subject to registration formalities at the foreign exchange administrative department of the State Council.

We have established a limited independent foreign currency account since 2001. The primary source of our foreign currency is revenues denominated in U.S. dollars from coal sales. We use foreign currency primarily to settle equipment and machinery purchases and pay cash dividends on our H Shares (in HK dollars). We have not experienced any shortage of foreign currency. In addition, we can exchange Renminbi for additional foreign currency from designated banks for current account transactions by presenting relevant documents to evidence foreign currency requirements in accordance with relevant regulations.

E. Taxation

The following summary of certain tax provisions does not address all of the tax considerations that may be relevant to each investor and is based on the tax laws, notices and treaties of the relevant jurisdictions as of the date of this annual report, all of which are subject to amendments or changes in interpretation, possibly with retroactive effect. This discussion does not deal with all possible tax consequences relating to an investment in the H Shares or ADSs. In particular, the tax consequences under state, local and other laws are not discussed. This discussion does not constitute legal or tax advice. Accordingly, potential investors are strongly urged to consult their own tax adviser to determine the tax consequences of their investment.

The People’s Republic of China

The following discussion summarizes the material PRC tax provisions relating to the ownership and disposition of H Shares or ADSs held by investors as capital assets.

Taxation on Dividends

Individual Investors. Under the Individual Income Tax Law of the PRC of 1993, as amended on December 29, 2007, and other applicable tax laws and regulations, dividends paid by Chinese companies to individuals are generally subject to a PRC withholding tax of 20%. Foreign persons are generally subject to a 20% withholding tax on the dividends received from Chinese companies, unless they are subject to tax relief under applicable taxation arrangement. Pursuant to the Circular on the Questions Concerning the Income Tax on the Profits for the Transfer of Shares (Equity Interests) and Dividend Received by Foreign Invested Enterprises, Foreign Enterprises and Individual Foreigners issued by the State Administration of Taxation on July 21, 1993 (the “Circular”), dividends paid by a Chinese company to foreign persons with respect to H shares are exempt from PRC withholding taxes. On January 4, 2011, the State Administration of Taxation issued the Announcement on the List of Tax Regulations Fully or Partially Invalidated and Repealed, pursuant to which, the Circular was repealed and no longer valid. Therefore, based on our understanding, for the Company’s individual H shareholders whose names appear on the register of members of H shares of the Company, the exemption from PRC individual income tax under the Circular is no longer applicable when the Company distributes final dividend for the year ended December 31, 2010 (the “**2010 Final Dividend**”). However, the rate of the withholding tax may be adjusted in accordance with the tax treaties or arrangements applicable to the Individual H Shareholders, pending on the further confirmation from the relevant PRC tax authorities. Therefore, a 20% tax will be withheld for the time being on 2010 Final Dividends to be paid to non-PRC individual holders of H Shares or ADSs pending on the further confirmation from relevant PRC tax authorities. We reported the change of policy in dividend withholding tax on Form 6-K filed with the SEC on June 24, 2011. To date, the relevant tax authorities have not issued any implementation rules regarding the collection of the withholding tax

Enterprises. According to the Enterprise Income Tax Law of the People’s Republic of China effective January 1, 2008, the



relevant regulations in the Implementing Regulations for the Law of the People's Republic of China on Enterprise Income Tax (collectively, the "EIT Law") and the Notice of the State Administration of Taxation on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H Share Holders Which are Overseas Non-resident Enterprises promulgated on November 6, 2008, where a Chinese resident enterprise pays dividends for the year of 2008 or any year thereafter to its H shareholders that are overseas non-resident enterprises, it shall withhold the enterprise income tax thereon at the uniform rate of 10%. After receiving dividends, a non-resident enterprise shareholder may submit an application to the competent tax authority to claim any treatment under a relevant tax agreement (arrangement).



Tax Treaties

Non-PRC shareholders who are residents or citizens of countries that have entered into treaties to avoid double-taxation with China may be entitled to a reduction in the withholding tax imposed on the payment of dividends. China currently has such treaties with a number of countries, including:

- the United States;
- Australia;
- Canada;
- France;
- Germany;
- Japan;
- Malaysia;
- the Netherlands;
- Singapore; and
- the United Kingdom.

Under each one of these treaties, the withholding tax imposed by China's tax authorities is generally reduced. For example, under the treaty between China and the United States, China may tax dividends paid by us to an eligible U.S. holder up to a maximum of 10% of the gross amount of the dividend. For the purposes of this discussion, an eligible U.S. holder is a person who, by reason of domicile, residence, place or head office, place of incorporation or any other criterion of similar nature is subject to taxation in the United States.

Taxation on Capital Gains

According to the EIT Law, capital gains realized by foreign enterprises which have no establishment or residence in China or whose capital gains from China do not relate to their establishment or residence in China are generally subject to capital gains tax at the rate of 10%.

According to the Interim Measures for Administration of Withholding at Source of Income Tax of Non-resident Enterprise, which was promulgated by the State Administration of Taxation on January 9, 2009, when two non-resident enterprises enter into an equity assignment transaction to transfer the equity of a Chinese enterprise outside the territory of China, the assigning non-resident enterprise shall pay taxes to the competent tax authority in the place where the Chinese enterprise whose equity has been transferred is located. In addition, the Chinese enterprise whose equity is being assigned shall assist the tax authority in the collection of applicable taxes for the transaction.

With respect to individual holders of H Shares, the Provisions for Implementing the Individual Income Tax Law of China, as amended, provides that the levy individual income tax on the gains realized on the sale of shares will be regulated and separate rules to be drafted by the Ministry of Finance. However, to date, no such implementing measures have been promulgated by the Ministry of Finance, and no individual income tax on gains realized on sales of shares has been levied. On June 20, 1994, February 9, 1996 and March 30, 1998, the Ministry of Finance and the State Administration of Taxation issued notices providing that gains realized by individuals were temporarily exempt from individual income tax. If such exemption becomes inapplicable or is not renewed, a non-PRC enterprise shareholder might be subject to a 20% tax on capital gains under the Individual Income Tax Law of the PRC and its amendments.

Additional China Tax Considerations

Under the Provisional Regulations of the PRC Concerning the Stamp Duty, Chinese stamp duty is not imposed on the transfer of shares, such as the H Shares or ADSs, of Chinese publicly traded companies by non-Chinese investors that take place outside of China.

United States Federal Income Taxation

Investors are strongly urged to consult their own tax advisors to determine the particular United States federal, state, local, treaty and foreign tax consequences of purchasing, owning or disposing of the H Shares or ADSs.



The following is a general discussion of material United States federal income tax consequences related to purchasing, owning and disposing of the H Shares or ADSs if you are a U.S. holder, as defined below, who holds the H Shares or ADSs as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986 as amended (the "Code"). This discussion does not address all of the tax consequences relating to the ownership and disposition of the H Shares or ADSs, and does not take into account U.S. holders who may be subject to special rules including:

- tax-exempt entities;
- partnerships or other entities treated as partnerships for United States federal income tax purposes;
- banks, financial institutions, and insurance companies;
- real estate investment trusts, regulated investment companies and grantor trusts;
- dealers or traders in securities, commodities or currencies;
- U.S. holders liable for alternative minimum tax;
- U.S. holders that own, actually or constructively, 10% or more of our voting stock;
- persons who receive the H Shares or ADSs as compensation for services;
- U.S. holders that hold the H Shares or ADSs as part of a straddle or a hedging or a conversion transaction;
- certain U.S. expatriates; or
- U.S. holders whose functional currency is not the U.S. dollar.

Moreover, this description does not address United States federal estate, gift or alternative minimum taxes or any state or local tax consequences of the purchase, ownership and disposition of the H Shares or ADSs.

This discussion is based on the Code, its legislative history, final, temporary and proposed United States Treasury regulations promulgated thereunder, published rulings and court decisions as in effect on the date hereof, all of which are subject to change, or changes in interpretation, possibly with retroactive effect. In addition, this discussion is based in part upon representations of the depositary and the assumption that each obligation in the deposit agreement and any related agreements will be performed according to its terms.

You are a "U.S. holder" if you are a beneficial owner of H Shares or ADSs and are:

- an individual citizen or resident of the United States for United States federal income tax purposes;
- a corporation, or other entity treated as a corporation for United States federal income tax purposes, created or organized under the laws of the United States or any political subdivision thereof;
- an estate the income of which is subject to United States federal income tax without regard to its source; or
- a trust:
 - subject to the primary supervision of a United States court and the control of one or more United States persons; or
 - that has elected to be treated as a United States person under applicable United States Treasury regulations.

If a partnership (including any entity treated as a partnership for United States federal tax purposes) is a beneficial owner of the H Shares or ADSs, the treatment of a partner in such partnership will generally depend upon the status of the partner and the activities of the partnership. If an investor is a partner in a partnership that holds H Shares or ADSs, such investor should consult its tax advisor. We urge you to consult your tax advisors regarding the United States federal, state, local and non-United States tax consequences of the purchase, ownership and disposition of the H Shares or ADSs.



In general, if you hold ADSs, you will be treated as the owner of the H Shares represented by the ADSs. Exchanges of H shares for ADSs, and ADSs for H shares, generally will not be subject to United States federal income tax.

INVESTORS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE PARTICULAR TAX CONSIDERATIONS APPLICABLE TO THEM RELATING TO THE OWNERSHIP AND DISPOSITION OF THE H SHARES OR ADSs, INCLUDING THE APPLICABILITY OF U.S. FEDERAL, STATE AND LOCAL TAX LAWS OR NON-U.S. TAX LAWS, ANY CHANGES IN APPLICABLE TAX LAWS AND ANY PENDING OR PROPOSED LEGISLATION OR REGULATIONS.

Distributions on the H Shares or ADSs

Subject to the discussions below under “ — Passive Foreign Investment Company,” the gross amount of any distribution (without reduction for any PRC tax withheld) we make on the H Shares or ADSs out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) will be includible in your gross income as ordinary dividend income when the distribution is actually or constructively received by you, or by the depository in the case of ADSs. Distributions that exceed our current and accumulated earnings and profits will be treated as a return of capital to you to the extent of your basis in the H Shares or ADSs and thereafter as capital gain. We, however, may not calculate earnings and profits in accordance with U.S. tax principles. In that case, all distributions by us to U.S. Holders will generally be treated as dividends. Any dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from United States corporations. The amount of any distribution of property other than cash will be the fair market value of such property on the date of such distribution.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual, trust or estate in a taxable year prior to January 1, 2011 with respect to the H Shares or ADSs will be subject to taxation at a maximum rate of 15% if the dividends are “qualified dividends.” Dividends paid on H Shares or ADSs will be treated as qualified dividends if either (i) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service, or IRS, has approved for the purposes of the qualified dividend rules, or (ii) the dividends are with respect to ADSs readily tradable on a U.S. securities market, provided that we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company, or PFIC. The Agreement Between the Government of the United States of America and the Government of the People’s Republic of China for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Taxes on Income PFIC rules (the “Treaty”) has been approved for the purposes of the qualified dividend rules, and we expect to qualify for benefits under the Treaty. We are considered a qualified foreign corporation with respect to the ADSs because our ADSs are listed on the New York Stock Exchange.

The U.S. Treasury has announced its intention to promulgate rules pursuant to which holders of common stock and intermediaries through whom such stock is held will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because such procedures have not yet been issued, it is not clear whether we will be able to comply with them. Holders of H Shares or ADSs should consult their own tax advisers regarding the availability of the reduced dividend tax rate in light of their own particular circumstances.

If we make a distribution paid in HK dollars, you will be considered to receive the U.S. dollar value of the distribution determined at the spot HK dollar/U.S. dollar exchange rate on the date such distribution is received by you or by the depository, regardless of whether you or the depository convert the distribution into U.S. dollars. Any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible in your income to the date you or the depository convert the distribution into U.S. dollars will be treated as ordinary income or loss from U.S. sources.

Dividends paid by us generally will constitute income from sources outside the United States for U.S. foreign tax credit limitation purposes and will be categorized as “passive income” or, in the case of certain U.S. Holders as “general category income” for U.S. foreign tax credit purposes. We may be required to withhold PRC income tax on dividends paid to U.S. Holders on the H Shares or ADSs. Subject to various limitations, any PRC tax withheld from distributions in accordance with the Treaty may be deductible or creditable against your United States federal income tax liability.

In the event we are required to withhold PRC income tax on dividends paid to U.S. Holders on the H Shares or ADSs (see discussion under “Taxation – The People’s Republic of China”), you may be able to claim a reduced 10% rate of PRC withholding tax if you are eligible for the benefits under the Treaty. You should consult your own tax advisor about the eligibility for reduction of PRC withholding tax.



You may not be able to claim a foreign tax credit (and instead may claim a deduction) for non-United States taxes imposed on dividends paid on the H Shares or ADSs if you (i) have held the H Shares or ADSs for less than a specified minimum period during which you are not protected from risk of loss with respect to such shares, or (ii) are obligated to make payments related to the dividends (for example, pursuant to a short sale). The rules relating to the U.S. foreign tax credit are complex. U.S. Holders should consult their own tax advisors regarding the effect of these rules in their particular circumstance.

Sale, Exchange or Other Disposition

Subject to the discussions below under “ — Passive Foreign Investment Company,” upon a sale, exchange or other disposition of the H Shares or ADSs, you will generally recognize capital gain or loss for United States federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized and your tax basis, determined in U.S. dollars, in such H Shares or ADSs. Any gain or loss will generally be United States source gain or loss for foreign tax credit limitation purposes and as a result of the U.S. foreign tax credit limitation, foreign taxes, if any, imposed upon capital gains in respect of H Shares or ADSs may not be currently creditable. Under the Treaty, if any PRC tax was to be imposed on any gain from the disposition of H Shares or ADSs, the gain may be treated as PRC-source income. U.S. Holders are urged to consult their tax advisors regarding the tax consequences if a foreign withholding tax is imposed on a disposition of H Shares or ADSs, including the availability of the foreign tax credit under their particular circumstances.

If you are paid in a currency other than U.S. dollars, any gain or loss resulting from currency exchange fluctuations during the period from the date of the payment resulting from sale, exchange or other disposition is made to the date you convert the payment into U.S. dollars will be treated as United States source ordinary income or loss.

Medicare Tax on Unearned Income

Newly enacted legislation requires certain U.S. Holders that are individuals, estates or trusts to pay an additional 3.8% tax on, among other things, dividends on and capital gains from the sale or other disposition of stock for taxable years beginning after December 31, 2012. U.S. Holders that are individuals, estates or trusts should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of our common stock.

Passive Foreign Investment Company

In general, a foreign corporation is a PFIC for any taxable year in which, after applying relevant look-through rules with respect to the income and assets of subsidiaries:

- 75% or more of its gross income consists of passive income, such as dividends, interest, rents, royalties, and gains from the sale of assets that give rise to such income; or
- 50% or more of the average quarterly value of its assets consists of assets that produce, or are held for the production of, passive income.

Passive income does not include rents and royalties derived from the active conduct of a trade or business. If we own at least 25% (by value) of the stock of another corporation, we will be treated, for purposes of the PFIC tests, as owning our proportionate share of the other corporation’s assets and receiving our proportionate share of the other corporation’s income.

Based on the current and anticipated composition of our assets and income and current expectations regarding the price of the H Shares and ADSs, we believe that we should not be treated as a PFIC for U.S. federal income tax purposes with respect to our 2009 taxable year and we do not intend on or anticipate becoming a PFIC for any future taxable year. The determination of PFIC status is a factual determination that must be made annually at the close of each taxable year and therefore, there can be no certainty as to our status in this regard for the taxable year ending December 31, 2010 until the close of the 2010 taxable year. Changes in the nature of our income or assets or a decrease in the trading price of the H Shares or ADSs may cause us to be considered a PFIC in the current or any subsequent year.

If we were a PFIC in any taxable year that you held the H Shares or ADSs, you generally would be subject to special rules with respect to “excess distributions” made by us on the H Shares or ADSs and with respect to gain from your disposition of the H Shares or ADSs. An “excess distribution” generally is defined as the excess of the distributions you receive with respect to the H Shares or ADSs in any taxable year over 125% of the average annual distributions you have received from us during the shorter of the three preceding years, or your holding period for the H Shares or ADSs. Generally, you would be required to allocate any excess distribution or gain from the disposition of the H Shares or ADSs ratably over your holding period for the H Shares or ADSs. The portion of the excess distribution or gain allocated to a prior taxable year, other than a year prior to the first year in which we became a PFIC, would be taxed at the highest United States federal income tax rate on ordinary income in effect for such taxable year, and you would be subject to an interest charge on the resulting tax liability, determined as if the tax liability had been due with respect to such particular taxable years. The portion of the excess distribution or gain that is not allocated to prior taxable years, together with the portion allocated to the years prior to the first year in which we became a PFIC, would be included in your gross income for the taxable year of the excess distribution or disposition and taxed as ordinary income.



These adverse tax consequences may be avoided if the U.S. Holder is eligible and does elect to annually mark-to-market the H Shares or ADSs. If a U.S. Holder makes a mark-to-market election, such holder will generally include as ordinary income the excess, if any, of the fair market value of the H Shares or ADSs at the end of each taxable year over their adjusted basis, and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted basis of the H Shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included in income as a result of the mark-to-market election). Any gain recognized on the sale or other disposition of the H Shares or ADSs will be treated as ordinary income. The mark-to-market election is available only for “marketable stock,” which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter on a qualified exchange or other market, as defined in the applicable Treasury regulations. The H Shares or ADSs may qualify as “marketable stock” because the ADSs are listed on the New York Stock Exchange.

A U.S. Holder’s adjusted tax basis in the H Shares or ADSs will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If a U.S. Holder makes a mark-to-market election it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the H Shares or ADSs are no longer regularly traded on a qualified exchange or the IRS consents to the revocation of the election. U.S. Holders are urged to consult their tax advisors about the availability of the mark-to-market election, and whether making the election would be advisable in their particular circumstances.

Alternatively, a timely election to treat us as a qualified electing fund would avoid the foregoing rules with respect to excess distributions and dispositions. You should be aware, however, that if we become a PFIC, we do not intend to satisfy record keeping requirements that would permit you to make a qualified electing fund election.

If you own the H Shares or ADSs during any year that we are a PFIC, you must file IRS Form 8621. The reduced tax rate for dividend income, as discussed above under “ — Distributions on the H Shares or ADSs,” is not applicable to a dividend paid by us if we are a PFIC for either our taxable year in which the dividend is paid or the preceding year. We encourage you to consult your own tax advisor concerning the United States federal income tax consequences of holding the H Shares or ADSs that would arise if we were considered a PFIC.

Backup Withholding and Information Reporting

In general, information reporting requirements will apply to dividends in respect of the H Shares or ADSs or the proceeds of the sale, exchange, or redemption of the H Shares or ADSs paid within the United States, and in some cases, outside of the United States, other than to various exempt recipients, including corporations. In addition, you may, under some circumstances, be subject to “backup withholding” with respect to dividends paid on the H Shares or ADSs or the proceeds of any sale, exchange or transfer of the H Shares or ADSs, unless you:

- are a corporation or fall within various other exempt categories, and, when required, demonstrate this fact; or
- provide a correct taxpayer identification number on a properly completed IRS Form W-9 or a substitute form, certifying that you are exempt from backup withholding and otherwise comply with applicable requirements of the backup withholding rules.

Any amount withheld under the backup withholding rules generally will be creditable against your United States federal income tax liability provided that you furnish the required information to the IRS in a timely manner. If you do not provide a correct taxpayer identification number you may be subject to penalties imposed by the IRS. Investors should consult their own tax advisors as to their qualifications for an exemption from backup withholding and the procedures for obtaining this exemption.

Hong Kong

The following discussion summarizes the material Hong Kong tax provisions relating to the ownership of H shares or ADSs held by you.



Dividends

Under current Hong Kong Inland Revenue Department practice, no Hong Kong tax is payable by the recipient in respect of dividends paid by us.

Taxation of Capital Gains

No Hong Kong tax is imposed on capital gains arising from the sale of property (such as H shares) acquired and held as investment assets. However, if a person carries on a trade, profession or business in Hong Kong (e.g., trading and dealing in securities) and derives trading gains from that trade, profession or business in or from Hong Kong, Hong Kong profits tax will be payable. Gains from sales of H shares effected on or off the Hong Kong Stock Exchange are considered to derive from or arise in Hong Kong for this purpose. Hong Kong profits tax is currently charged at the rate of 16.5% for corporations and at the rate of 15% for individuals.

No Hong Kong tax liability will arise on capital or trading gains arising from the sale of ADSs where the purchase and sale is effected outside Hong Kong, e.g., on the NYSE.

Hong Kong Stamp Duty

Hong Kong stamp duty is payable by each of the seller and the purchaser for every sold note and every bought note created for every sale and purchase of the H shares. Stamp duty is charged at the total rate of 0.2% of the value of the H shares transferred (the buyer and seller each paying half of such stamp duty). In addition, a fixed duty of HK\$5 is currently payable on an instrument of transfer of H shares. If one of the parties to a sale is a non-resident of Hong Kong and does not pay the required stamp duty, the stamp duty not paid will be assessed on the instrument of transfer (if any), and the transferee will be liable for payment of such stamp duty.

If the withdrawal of H shares when ADSs are surrendered or the issuance of ADSs when H shares are deposited results in a change of beneficial ownership in the H shares under Hong Kong law, Hong Kong stamp duty at the rate described above for sale and purchase transaction will apply. The issuance of ADSs for deposited H shares issued directly to the depositary or for the account of the depositary should not lead to a Hong Kong stamp duty liability. Holders of the ADSs are not liable for the Hong Kong stamp duty on transfers of ADSs outside of Hong Kong so long as the transfers do not result in a change of beneficial interest in the H shares under Hong Kong law.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

In accordance with the Exchange Act, we must file reports, including this annual report, and other information with the Commission. The reports and other information we have filed under the Exchange Act and the registration statement on Form F-1 and exhibits thereto we have previously filed with the Commission may be inspected and copied by the public at the public reference facilities maintained by the Commission at 100 F Street NE, Washington D.C. 20549, U.S.A. and will also be available for inspection and copying at the regional offices of the Commission located at Seven World Trade Center, 13th Floor, New York, New York 10048, U.S.A. and at Northwest Atrium Center, 500 Madison Street (Suite 1400), Chicago, Illinois 60661, U.S.A. Copies of such material may also be obtained from the Public Reference Section of the Commission at 100 F Street NE, Washington D.C. 20549, U.S.A. at prescribed rates. Our annual reports and other information filed with the Commission are also available at the Commission's website at www.sec.gov. Such reports and other information may also be inspected at the office of the New York Stock Exchange, 11 Wall Street, New York, New York 10005, U.S.A.

**I. Subsidiaries**

As of December 31, 2010, we owned the following significant subsidiaries:

Name of subsidiary	Country of incorporation/ registration	Issued and fully paid capital/ registered capital	Proportion of registered capital/issued share capital held by us		Proportion of voting power held	Principal activities
			Directly	Indirectly		
Yancoal Australia Limited	Australia	A\$64,000,000	100%	—	100%	Management of investment project in Australia
Austar Coal Mine Pty Limited	Australia	A\$64,000,000	—	100%	100%	Coal production, processing, washing and separation and sales
Felix Resources Limited	Australia	A\$446,408,871	—	100%	100%	Coal mining, sales and exploration
Qingdao Free Trade Zone Zhongyan Trade Co., Ltd.	PRC	RMB2,100,000	52.38%	—	52.38%	International trade, processing and arranging, product exhibition, inter-trade among enterprises in the district and storage
Shandong Hua Ju Energy Co., Limited	PRC	RMB288,589,774	95.14%	—	95.14%	Power and heat supply
Shandong Yanmei Shipping Co., Ltd.	PRC	RMB5,500,000	92%	—	92%	Watercourse transportation services and the sales of coal and others
Yanzhou Coal Shanxi Nenghua Company Limited	PRC	RMB600,000,000	100%	—	100%	Management of investment project in Shanxi province
Shanxi Heshun Tianchi Energy Company Limited	PRC	RMB90,000,000	—	81.31%	81.31%	Coal mining business
Shanxi Tianhao Chemicals Company Limited	PRC	RMB150,000,000	—	99.89%	99.89%	Operation of methanol project
Yanmei Heze Nenghua Company Limited	PRC	RMB1,500,000,000	98.33%	—	98.33%	Coal resources exploration and mining in Juye coal field
Yanzhou Coal Ordos Neng Hua Company Limited	PRC	RMB500,000,000	100%	—	100%	Coal resources exploration in Inner Mongolia and construction of a 600,000-tonne methanol project
Yanzhou Coal Yulin Nenghua Company Limited	PRC	RMB1,400,000,000	100%	—	100%	Construction and operation of a 600,000-tonne methanol project
Inner Mongolia Haosheng Coal Mining Company Limited	PRC	RMB150,000,000	51%	—	51%	Project application and mining rights approvals of Shilawusu Coal Field



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For details of our shareholding in indirect subsidiaries, please see “Item 4 Information on the Company — C. Organizational Structure”.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Market risk represents the potential for loss due to adverse changes in the fair value of financial instruments. As a global concern, we are exposed to adverse developments in foreign currency exchange rates, interest rates and commodity price risk. These exposures may change over time as our business develops and could have a material adverse impact on our financial results.

Interest Rate Risk. We are exposed to interest rate risk caused by interest rate changes on our liabilities, in particular our long-term liabilities. We are also exposed to cash flow interest rate risk in relation to variable rate bank balances, term deposits, restricted cash and bank borrowings in Renminbi. Our cash flow interest rate risk is mainly concentrated on fluctuations of the PBOC benchmark lending interest rate in relation to our RMB denominated borrowings, fluctuations of LIBOR in relation to our U.S. dollar-denominated borrowings and fluctuations of the Australian BBSY in relation to our Australian dollar-denominated borrowings. We undertake debt obligations to fund our ordinary expenses, including capital expenditures and working capital needs. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding variable rate liabilities. Interest rate fluctuations can also lead to significant fluctuations in the fair values of our debt obligations. Our Australian subsidiaries also entered into contracts with banks to hedge a proportion of borrowings issued at variable interest rates through the use of floating-to-fixed interest rate swap contracts. As of December 31, 2010, the outstanding notional amount was approximately RMB1,503 million, maturing within three years at an assessment period of three months with a floating rate and fixed rate of approximately 5.09% and 5.8312%, respectively.



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Our exposures to interest rate risk on our financial assets and liabilities, as well as our sensitivity to interest rate fluctuation are not significant. We have prepared a sensitivity analysis to assess the impact of interest rate fluctuations on our 2010 operating results, assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year and all the variables were held constant, including the interest rate fluctuation of the abovementioned PBOC rate, LIBOR and Australian BBSY rate. Based on this analysis, we estimate that an increase in the interest rate of 1% would have decreased our reported net income attributable to our equity holders for 2010 by approximately RMB71.95 million.

Foreign Currency Exchange Rate Risk. We mainly face foreign currency exchange rate risks relating to RMB fluctuations and risks stemming from exchange rate fluctuations between the Australian dollar and U.S. dollar. China has adopted a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand with reference to a basket of currencies. Exchange rate fluctuations may adversely affect the value of our net assets, earnings and any declared dividends when translated or converted into U.S. dollars or Hong Kong dollars.

RMB fluctuations mainly affect our (a) income from coal exports, which must be converted into RMB since our coal exports are denominated in U.S. dollars; (b) conversion of foreign currency deposits and loans; (c) exposure to the foreign currency loans we granted to our foreign operations; and (d) costs of imported equipment and fittings.

The sales and costs of each entity in our Company are generally denominated in the functional currency of the relevant entity. Accordingly, we are not exposed to significant foreign currency risk.



The table below sets forth the foreign currency denominated assets and liabilities of the Company and its subsidiaries that are in currencies other than the functional currency of the entity that carries such assets or liabilities on its balance sheet as of December 31, 2010.

	Liabilities		Assets	
	2010	2009	2010	2009
	(foreign currencies converted into and dominated in thousands of RMB)			
United States dollars (US\$)	20,516,314	20,757,943	902,402	1,311,500
Euro ("EUR")	—	—	222	3,611
Hong Kong dollar (HK\$)	—	—	6,062	7,309
Notional amounts to sell US\$ foreign exchange contracts used for hedging	—	—	4,169,000	1,143,416
Notional amounts of buy US\$ foreign exchange contracts used for hedging	79,000	73,713	—	—
Notional amounts of buy Euro foreign exchange contracts used for hedging	—	26,541	—	—
Notional amounts of buy Yen foreign exchange contracts used for hedging	9,000	71,511	—	—

Except as disclosed in our financial statements, we do not have a foreign currency hedging policy. However, our management monitors our foreign exchange exposure and will consider hedging significant currency exposure if the need arises.

We have prepared a sensitivity analysis to assess the impact of exchange rate fluctuations on our operating results based on a 5% increase or decrease in the exchange rates for the U.S. dollar or Hong Kong dollar against the Renminbi. The sensitivity analysis includes only outstanding monetary items denominated in foreign currencies and adjusts the translation of these monetary items as of the end of the indicated year for a five percent change in the exchange rates for the relevant currencies. The sensitivity analysis also assesses the impact of a 5% increase or decrease in the exchange rate for the Australian dollar against the U.S. dollar, which would affect loans to foreign operations within our Company that are denominated in a currency other than the functional currency of the lender or the borrower.

The following table sets forth our sensitivity to a 5% increase and decrease in the RMB against relevant foreign currencies. Five percent represents management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates and also assumes all other risk variables remained constant. The sensitivity analysis includes loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower.

	US\$ ⁽¹⁾		HK\$ ⁽¹⁾	
	2010	2009	2010	2009
	(RMB'000)			
Increase (decrease) to profit and loss				
- if RMB weakens against respective foreign currency	35,312	49,390	227	274
- if RMB strengthens against respective foreign currency	(35,312)	(49,390)	(227)	(274)
	US\$ ⁽²⁾			
	2010	2009		
	(RMB'000)		(RMB'000)	
Increase (decrease) to profit and loss				
-if A\$ weakens against respective foreign currency	(718,045)	(739,749)		
-if A\$ strengthens against respective foreign currency	718,045	739,749		
Increase (decrease) to profit attributable to the equity holders of the Company				
-if A\$ weakens against respective foreign currency	(725,998)	(740,615)		
-if A\$ strengthens against respective foreign currency	725,998	740,615		

(1) This is mainly attributable to our exposure outstanding on bank deposits and loans to foreign operations or subsidiaries denominated in U.S. dollars and Hong Kong dollars as of the year end.



(2) This is mainly attributable to the exposure outstanding on the loans to foreign operations within the Group, foreign currency bank borrowings and derivative financial instruments where the denomination of the loan is in a currency other than the functional currency of the borrower.

During the year ended December 31, 2010, our subsidiaries in Australia entered into forward foreign exchange contracts to sell or purchase specified amounts of foreign currencies in the future at stipulated exchange rates. The objective of entering into the forward foreign exchange contracts is to reduce the foreign exchange rate related volatility of revenue streams and capital expenditures and thereby assist in our risk management. The outstanding contracts to sell United States dollars hedge highly probable forecasted sales of coal, whereas the outstanding contracts to buy United States dollars and Yen contracts relate to the purchase of mining equipment.

As of December 31, 2010, the outstanding notional amount to sell United States dollars (sell United States dollars and buy Australian dollars) was approximately RMB4,169 million, all maturing within one year with forward rates ranging approximately from US\$1.00 = A\$0.8369 to US\$1.00 = A\$0.9887.

As of December 31, 2010, the outstanding notional amount to buy United States dollars (buy United States dollars and sell Australian dollars) and buy Yen (buy Yen and sell Australian dollars) was approximately RMB79 million, nil and RMB9 million respectively, all maturing within one year with forward rates of approximately US\$1.00 = A\$0.8811 and floor price and ceiling price of A\$1.00 = 63.5 Yen and A\$1.00 = 65 Yen, respectively.

Our Australian subsidiaries also entered into contracts with banks to hedge a proportion of borrowings issued at variable interest rates through the use of floating-to-fixed interest rate swap contracts. As at December 31, 2010, the outstanding notional amount was approximately RMB1,503 million, maturing within three years at a hedge period of 3 months with floating rate and fixed rate of approximately 5.09% and 5.8312%, respectively.

The Company also entered into contracts with three banks to hedge a proportion of borrowings issued at variable interest rates through the use of floating-to-fixed interest rate swap contracts. As of December 31, 2010, the outstanding notional amount was approximately RMB9,934 million (US\$1,500 million), maturing within four years at a hedge period of three months with floating rate as LIBOR + 0.75% and fixed rate of approximately 2.75%, 2.42% and 2.41% for the three contracts respectively. The non-current portion of the derivatives is not material and is included in current portion.

For the year ended December 31, 2009, no ineffective hedging portion has been included in the consolidated income statement. The effective hedging portion was recognized as current portion of derivative financial instruments in the consolidated balance sheet. For the year ended December 31, 2010, the ineffective hedging portion of the changes in fair values of the forward foreign exchange contracts of approximately RMB10 million was recognized as selling, general and administrative expenses in the consolidated income statement.

Commodity Price Risk. Price fluctuations may directly affect our operating and financial performance. We have historically experienced substantial price fluctuations and believe these fluctuations will continue. We primarily face risk relating to coal price fluctuations, as well as methanol price fluctuations. The periodic fluctuation in coal prices was caused by factors such as changes in macroeconomic policies, downstream demand and industrial competition. Although the average selling price of our coal product increased in 2010, the price may decrease again as a result of the adoption of macroeconomic measures, governmental control and changes in the global coal market, which may in turn adversely affect our results of operations and financial condition. For the years ended December 31, 2008, 2009 and 2010, the average coal selling price was RMB663.9, RMB529.2 and RMB663.5 per tonne.

Our profitability in our methanol business was generally weak during 2010 as a result of overproduction, weak demand and negative impact brought by increased imports of methanol. We expect that methanol supply will continue to exceed market demand, which may lead to continued weak market prices. Methanol prices may also increase due to the increase in the prices of coal, natural gas, electricity and transportation, the promotion of ethanol gasoline for motor vehicles by the government and the industrial reform to be launched. However, we cannot assure you that methanol prices will not keep decreasing as the result of overproduction, uncertain demand and the increase in import methanol. All the risks mentioned above may adversely affect our results of operations.

Equity Price Risk. In addition to financial instruments, we are exposed to equity price risk because we hold investments in listed equity securities. We currently do not have any arrangements to hedge the price risk exposure of our investment in equity securities. We have conducted a sensitivity analysis and determined that our exposure to equity price risk stemming from our investment in listed equity securities is not significant.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.



B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

The following table summarizes the fees and charges that a holder of our ADSs may have to pay, directly or indirectly, in connection with the ownership of our American Depositary Receipts.

Persons depositing or withdrawing shares must pay:

For:

\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

- Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property

A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs

- Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates

Registration or transfer fees

- Distribution of securities to holders of deposited securities that are distributed by the depository to ADS registered holders

Expenses of the depository

- Transfer and registration of shares on our share register to or from the name of the depository or its agent when you deposit or withdraw shares

Taxes and other governmental charges the depository or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes

- Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)

Any charges incurred by the depository or its agents for servicing the deposited securities

- Converting foreign currency to U.S. dollars

- As necessary

- As necessary

The Bank of New York Mellon, as depository, has agreed to waive certain standard fees related to the administration of our ADR program and investor relationship programs. From January 1, 2010 to December 31 2010, the total amount of the fees that were waived was approximately US\$139,000.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

As of December 31, 2010, we were not in default, in arrears or otherwise delinquent in the payment of principal or interest of any indebtedness or dividends.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our general manager and chief financial officer, our management evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, as amended) as of December 31, 2010. Based on the evaluation described below, our general manager and chief financial officer concluded that, as of that date, our disclosure controls and procedures were effective.

***Management's Report on Internal Control over Financial Reporting***

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control framework was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with generally accepted accounting principles.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*. Based on this evaluation, management concluded that our internal control over financial reporting was effective to provide reasonable assurance that the desired control objectives were achieved as of December 31, 2010.

The effectiveness of our internal control over financial reporting as of December 31, 2010 has been audited by Grant Thornton, our independent registered public accounting firm, as stated in their report which is included herein.

Limitations on Effectiveness of Controls and Procedures

Our internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that accurately and fairly reflect the transactions and dispositions of a company's assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (3) provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not be able to prevent or detect misstatements on a timely basis, which may be a product of collusion, failure to abide by controls, error or fraud. In addition, projections of the internal control's effectiveness to future periods are subject to the risk that the control may become inadequate because of changes in conditions, or that the degree of compliance with the internal control policies or procedures may deteriorate.

Changes in Internal Control over Financial Reporting

During the period covered by this annual report, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our audit committee consists of Mr. Cheng Faguang, Mr. Wang Xianzheng, Mr. Wang Xiaojun, Mr. Xue Yonzhi and Mr. Dong Yunqing. Our Board of Directors has determined that Mr. Cheng Faguang meets the independence requirement of Section 303A.02 of the NYSE Listed Company Manual and qualifies as an audit committee financial expert as the term is defined in the rules and regulations established by the SEC.

ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics that applies to our chairman, vice chairman, chief executive officer, chief financial officer, board secretary, chief engineer, controller and the managers of our finance and audit departments. Our code of ethics is posted on our website at www.yanzhoucoal.com.cn. No amendments to, or waivers from, our code of ethics have been made. A copy of our code of ethics is available to any shareholder, without charge, upon written request to the address on the cover of this annual report.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Upon approval at the Annual General Meeting held on June 25, 2010, Grant Thornton Hong Kong and ShineWing Certified Public Accountants were appointed as our international and domestic auditors, respectively, for the year ended December 31, 2010. Upon approval at the extraordinary general meeting held on February 18, 2011, Grant Thornton and Grant Thornton Jingdu Tianhua were appointed as the international auditors of the Company and its subsidiaries and should hold this office until the conclusion of the 2010 annual general meeting of the Company. Grant Thornton Jingdu Tianhua and Grant Thornton audit the financial statements of the Company with respect to the listing of the H shares on the Hong Kong Stock Exchange and reporting requirements of the Hong Kong Stock Exchange and the listing of the ADSs on the NYSE and reporting requirements of the SEC and the NYSE, respectively. Grant Thornton is therefore the principal auditor for the purpose of this filing.

Audit Fees

Audit fees primarily consist of fees for the audits of the consolidated financial statements prepared under IFRS and PRC GAAP and the statutory financial statements of our subsidiaries for the relevant year, the review of interim consolidated financial statements and the audit of our internal control over financial reporting as required by the Sarbanes-Oxley Act. Service fees denominated in Australian dollars were incurred for the audit of Yancoal Australia's financial statements and internal control.



The following table sets forth the aggregate audit fees of our principal accountants for periods indicated:

	Audit Fees	
	(RMB)	(A\$)
2009	6,960,000	610,000
2010	7,300,000	800,000

Audit-related Fees, Tax Fees, All Other Fees

In 2009, we paid our principal accountants a consultation fee of approximately A\$150,000 in relation to the acquisition of Felix. We did not incur other audit-related fees, tax fees or other fees for professional service rendered by our principal accountants during the last two fiscal years.

Audit Committee Pre-Approval Policies and Procedures

The audit committee of our Board of Directors is responsible for, among other things, the recommendation or termination of external auditors subject to the requirements of applicable domestic and overseas listing rules and regulations. Before our principal accountants were engaged by the Company or our subsidiaries to render audit or non-audit services, their respective engagements were approved by our audit committee. All of the audit services provided by Grant Thornton (SEC principal auditor), Grant Thornton Jingdu Tianhua (Hong Kong H Share auditor) and ShineWing Certified Public Accountants (China domestic statutory auditor) in 2010 were pre-approved by our audit committee.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Our audit committee consists of four independent non-executive directors, Mr. Cheng Faguang, Mr. Wang Xianzheng, Mr. Wang Xiaojun, Mr. Xue Yonzhi and one employee director, Mr. Dong Yunqing. As a foreign private issuer, we rely on the exemption under Section 303A.06 of the NYSE Listed Company Manual, as well as exemptions for affiliated directors and employee directors as provided under Rule 10A-3 of the Exchange Act, to remain compliant with the audit committee standards set out in Section 303A.06 of the NYSE Listed Company Manual.

Our connected directors do not accept any consulting fees or other compensation from our Group or any subsidiary of our Group, directly or indirectly, except for serving as members of our Board and Audit Committee, which meets the independence requirements under Rule 10A-3(1)(ii)(A) of the Exchange Act.

The employee director qualifies for the exemption under Rule 10A-3(b)(1)(iv)(C) of the Exchange Act because he is not our executive officer and was elected to the Board of Directors of the Company pursuant to the *Advisory Opinion Regarding the Establishment of Sound Corporate Governance for Company Employee Directors and Employee Supervisors*, which was promulgated by the Shandong Economic and Trade Commission. Rule 10A-3(b)(1)(iv)(C) of the Exchange Act provides an exemption to the independence requirement and permits an employee director of a foreign private issuer who is a non-executive officer who is elected or named to the foreign private issuer's board of directors or audit committee pursuant to the issuer's governing law or documents, an employee collective bargaining or similar agreement or other home country legal or listing requirements. The employee director is neither a voting member nor the chairman of the audit committee.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

(a) Change of Principal Accountant

At the 2009 annual general meeting of the Company held on June 25, 2010, the shareholders of our Company approved the appointment of Grant Thornton Hong Kong as the Company's international auditor for the year ended December 31, 2010. On November 26, 2010, it was announced that BDO and Grant Thornton Hong Kong had concluded an agreement to merge their businesses and practice in the name of BDO Limited. As a consequence of this merger, the Grant Thornton Hong Kong entity changed its name to JBPB & Co on December 10, 2010 and ceased trading. It was noted that Grant Thornton Hong Kong had ceased to be a member firm of Grant Thornton International with effect from November 23, 2010. The audit committee of our Board recommended the appointment of Grant Thornton (for the purpose of reporting to the United States Securities and Exchange Commission) and Grant Thornton Jingdu Tianhua (for the purpose of the Hong Kong H Share listing) as the international auditors to replace JBPB on December 24, 2010, which was approved by the Board on December 30, 2010. Subsequently JBPB tendered its letter of resignation, and the appointment of Grant Thornton and Grant Thornton Jingdu Tianhua as our international auditors was approved at the extraordinary general meeting held on February 18, 2011. We reported the change in our independent registered public accounting firm on Form 6-K filed with the SEC on January 3, 2011.



JBPB's report on the Company's consolidated financial statements as of and for the two fiscal years ended December 31, 2009 did not contain an adverse opinion or disclaimer of opinion, nor were such reports qualified or modified as to uncertainty, audit scope, or accounting principles. JBPB's audit report on the Company's effectiveness of internal control over financial reporting as of December 31, 2008 contained an adverse opinion because of a material weakness. We reported the identification of the material weakness and our remediation and changes in internal control on Form 20-F filed with the SEC on June 25, 2009.

During JBPB's tenure as the independent auditor, we did not have any disagreements with JBPB on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of JBPB, would have caused them to make reference to the subject matter of the disagreements in their report on the consolidated financial statements for such year and for such period.

During JBPB's tenure as the independent auditor, save as disclosed above, there were no "reportable events" (hereinafter defined) requiring disclosure pursuant to Item 16F(a)(1)(v) of Form 20-F. As used herein, the term "reportable event" means any of the items listed in paragraphs (a)(1)(v)(A)-(D) of Item 16F of Form 20-F.

We provided a copy of this disclosure to JBPB and requested that JBPB furnish a letter addressed to the SEC stating whether it agrees with the above statements, and if not, stating the respects in which it does not agree. A copy of the letter from JBPB addressed to the SEC, dated June 24, 2011, is filed as Exhibit 15.3.

(b) Engagement of New Principal Accountant

On December 30, 2010, the Board approved the proposal to appoint Grant Thornton and Grant Thornton Jingdu Tianhua as the independent registered public accounting firms of the Company and should hold office until the conclusion of the 2010 annual general meeting of the Company. On February 18, 2011, the appointment of Grant Thornton and Grant Thornton Jingdu Tianhua as our independent registered public accounting firms was approved at the extraordinary general meeting. Grant Thornton Jingdu Tianhua and Grant Thornton audit the financial statements of the Company with respect to the listing of the H Shares on the Hong Kong Stock Exchange and reporting requirements of the Hong Kong Stock Exchange and the listing of the ADSs on the NYSE and reporting requirements of the SEC and the NYSE, respectively. During the fiscal year ended December 31, 2009 and through February 18, 2011, neither we nor anyone on our behalf consulted Grant Thornton or Grant Thornton Jingdu Tianhua regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements. Also, we have not obtained any written report or oral advice that Grant Thornton and Grant Thornton Jingdu Tianhua concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issue, or (ii) any matter that was either the subject of a "disagreement", as that term is defined in Item 16F(a)(1)(v) of Form 20-F and related instructions to Item 16-F of Form 20-F, with Grant Thornton and Grant Thornton Jingdu Tianhua or a "reportable event", as that term is described in Item 16F(a)(1)(v) of Form 20F).

ITEM 16G. CORPORATE GOVERNANCE

The NYSE imposes a series of corporate governance listing standards for companies listed on the NYSE in Section 303A of the NYSE Listed Company Manual. However, the NYSE allows foreign private issuers, subject to certain limitations and conditions, to follow "home country" practice in lieu of certain provisions of Section 303A. To qualify for this exemption, a foreign private issuer must disclose the significant manners in which its corporate governance practices differ from those generally required under NYSE listing standards.

As of the date of this annual report, 52.86% of our voting rights are held by our controlling shareholder, the Yankuang Group. We therefore are not required to comply with the majority of independent directors requirement of Section 303A.01 when forming our board of directors. Moreover, we are not required to form a nominating, corporate governance and compensation committee composed entirely of independent directors under the requirements of Sections 303A.04 and 303A.05.

We have established an audit committee pursuant to Section 303A.06 of the NYSE Listed Company Manual. We rely on the exemption under Section 303A.00 for foreign private issuers, as well as the exemption for employee directors provided under Rule 10A-3 of the Exchange Act to comply with the audit committee requirements set out in the NYSE Listed Company Manual.



As a foreign private issuer, we are subject to more than one set of corporate governance requirements, including those applicable in our home country. In the table below, we set out material differences between our corporate governance practices and the NYSE's corporate governance requirements:

**NYSE Listed Company Manual
Requirements on Corporate Governance**

Our Practice

Non-executive directors must meet at regularly scheduled executive sessions without management

Section 303A.03 requires non-executive 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. We have established a reporting system to the Board to ensure that the Directors stay informed of our business and operations. We believe that convening board meetings on a regular basis offers non-executive directors an effective forum to opine their views and engage in full and open discussions regarding our business affairs.

Corporate Governance Guidelines

Section 303A.09 requires a listed company to adopt and disclose corporate governance guidelines. In addition, Section 303A.09 lists out matters that must be addressed in the guidelines:

Although we have not adopted a separate set of corporate governance guidelines encompassing all the corporate governance matters required by the NYSE, we formulated the Rules of Procedures for the Shareholders' Meetings, Rules of Procedures for the Board Meetings, Rules of Procedures for the Supervisory Committee, Rules for the Work of the Independent Non-Executive Directors, Rules for Disclosure of Information, Rules for the Approval and the Disclosure of the Connected Transactions of the Company, and other corporate governance documentation in accordance with the regulations and requirements of listing in China.

- director qualification standards;
- director responsibilities;
- communications between directors and the management and independent advisors;
- director compensation;
- director orientation and continuing education;
- management succession; and
- annual performance evaluation of the board.

We believe that, collectively, the foregoing rules and measures adequately address the corporate governance requirements of the NYSE and provide a comprehensive and detailed set of corporate governance requirements that promote the effective operation of the Company. This enables the promotion of the standard operation of the Company.

Code of Business Conduct and Ethics

Section 303A.10 requires a listed company to adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers from the code for directors or executive officers. The following topics must be addressed in a code of business conduct and ethics:

We have adopted a code of ethics, which is published on our website, in compliance with PRC laws and regulations as well as the rules of relevant stock exchanges. Although our current code of ethics as adopted does not completely conform to the NYSE rules, we believe that the existing code of ethics adequately protects the interests of the Company and Shareholders.

- conflicts of interest;
- corporate opportunities;
- confidentiality;



- fair dealing;
- protection and proper use of company assets;
- compliance with laws, rules and regulations (including insider trading laws); and
- encouraging the reporting of any illegal or unethical behavior.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

ITEM 18. FINANCIAL STATEMENTS

Our consolidated financial statements are included at the end of this annual report on Form 20-F.



ITEM 19. EXHIBITS

Documents filed as exhibits to this annual report:

Exhibit Number	Description
1.1	Articles of Association of Yanzhou Coal Mining Limited
4.1	Share Transfer Agreement of Inner Mongolia Haosheng Coal Mining Company Limited, Ordos Jinchengtai Chemical Co., Ltd, Shanghai Huayi (Group) Company, Shandong Jiutai Chemical Industrial Technology Company Limited, Ordos City Jiutaimanlai Coal Mining Company Limited, Inner Mongolia Haosheng Coal Mining Limited and Yanzhou Coal Mining Company Limited
4.2	Minerva Joint Venture Interest Sale Agreement by Felix Resources Limited and Sojitz Coal Resources Pty Ltd
4.3	Financial Services Agreement by Yankuang Group Financial Company and Yanzhou Coal Mining Company Limited
4.4	Deal Conclusion Letter Signed by Department of Land and Resources of the Inner Mongolia Autonomous Region (Entrusted by Ministry of Land and Resources of the People's Republic of China)
4.5	Ashton Coal Joint Venture Sale Deed by White Mining (NSW) Pty Limited, Austral-Asia Coal Holdings Pty Ltd and Yancoal Australia Limited
4.6	Joint Venture Contract by Yankuang Group Company Ltd., Yanzhou Coal Mining Company Limited and Shaanxi Yanchang Petroleum (Group) Co., Ltd.
8.1	List of subsidiaries of Yanzhou Coal Mining Company Limited
12.1	Certification of general manager pursuant to Rule 13a-14 or 15d-14 promulgated under the U.S. Securities Act of 1934
12.2	Certification of chief financial officer pursuant to Rule 13a-14 or 15d-14 promulgated under the U.S. Securities Act of 1934
13.1	Certification of general manager pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the U.S. Sarbanes-Oxley Act of 2002
13.2	Certification of chief financial officer pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the U.S. Sarbanes-Oxley Act of 2002
15.3	Consent of JBPB & Co (formerly known as Grant Thornton)



SIGNATURES

The registrant hereby certifies that it meets all the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**YANZHOU COAL MINING COMPANY LIMITED
(Registrant)**

Date: June 24, 2011

By: _____ /S/ ZHANG YINGMIN
Name: Zhang Yingmin
Title: General Manager



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YANZHOU COAL MINING COMPANY LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
AND REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF
YANZHOU COAL MINING COMPANY LIMITED 兖州煤业股份有限公司
(A joint stock company with limited liability established in the People's Republic of China)

We have audited the accompanying consolidated balance sheet of Yanzhou Coal Mining Company Limited and its subsidiaries (the "Group") as of December 31, 2010, and the related consolidated income statement, statements of comprehensive income, changes in equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 principles used and significant 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2010, and the results of its operations and its cash flows for the year then ended, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group's internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 24, 2011 expressed an unqualified opinion on the Group's internal control over financial reporting.

/s/ Grant Thornton
Beijing, People's Republic of China
June 24, 2011



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF
YANZHOU COAL MINING COMPANY LIMITED 兖州煤业股份有限公司**

(A joint stock company with limited liability established in the People's Republic of China)

We have audited the internal control over financial reporting of Yanzhou Coal Mining Company Limited and its subsidiaries (the "Group") as of December 31, 2010, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the Management's Report on Internal Control over Financial Reporting disclosed in Item 15 of the Form 20-F ("Management's Report"). Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.



Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2010 of the Group and our report dated June 24, 2011 expressed an unqualified opinion on those financial statements.

/s/ Grant Thornton

Beijing, People's Republic of China
June 24, 2011



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Yanzhou Coal Mining Company Limited

We have audited the accompanying consolidated balance sheets of Yanzhou Coal Mining Company Limited and its subsidiaries (the "Group") as of December 31, 2009 and the related consolidated income statements, statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2009 and December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about 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 principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2009 and the results of its operations and its cash flows for the years ended December 31, 2009 and December 31, 2008 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ JBPB & Co. (formerly known as GRANT THORNTON)

Hong Kong
June 29, 2010

YANZHOU COAL MINING COMPANY LIMITED
CONSOLIDATED INCOME STATEMENTS

	NOTES	Year ended December 31,		
		2010 RMB'000	2009 RMB'000	2008 RMB'000
GROSS SALES OF COAL	7	32,590,911	19,947,748	24,933,349
RAILWAY TRANSPORTATION SERVICE INCOME		513,282	267,345	255,713
GROSS SALES OF ELECTRICITY POWER		185,542	187,540	59,811
GROSS SALES OF METHANOL		629,290	258,867	38,550
GROSS SALES OF HEAT SUPPLY		25,227	15,638	—
TOTAL REVENUE		33,944,252	20,677,138	25,287,423
TRANSPORTATION COSTS OF COAL	7	(1,160,470)	(403,311)	(508,712)
COST OF SALES AND SERVICE PROVIDED	8	(16,801,323)	(10,589,991)	(12,201,131)
COST OF ELECTRICITY POWER		(195,536)	(190,802)	(88,253)
COST OF METHANOL		(716,802)	(352,943)	(37,834)
COST OF HEAT SUPPLY		(12,490)	(9,734)	—
GROSS PROFIT		15,057,631	9,130,357	12,451,493
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	9	(5,093,904)	(3,820,241)	(3,832,031)
SHARE OF INCOME (LOSS) OF ASSOCIATES	28	8,870	109,786	(67,367)
OTHER INCOME	10	3,108,081	311,019	351,493
INTEREST EXPENSE	11	(603,343)	(45,115)	(38,360)
PROFIT BEFORE INCOME TAXES		12,477,335	5,685,806	8,865,228
INCOME TAXES	12	(3,171,043)	(1,553,312)	(2,385,617)
PROFIT FOR THE YEAR	13	9,306,292	4,132,494	6,479,611
ATTRIBUTABLE TO:				
EQUITY HOLDERS OF THE COMPANY		9,281,386	4,117,322	6,488,908
NON-CONTROLLING INTERESTS		24,906	15,172	(9,297)
		9,306,292	4,132,494	6,479,611
EARNINGS PER SHARE, BASIC	16	RMB 1.89	RMB 0.84	RMB 1.32
EARNINGS PER ADS, BASIC	16	RMB 18.87	RMB 8.37	RMB 13.19



YANZHOU COAL MINING COMPANY LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2010	2009	2008
	RMB'000	RMB'000	RMB'000
Profit for the year	9,306,292	4,132,494	6,479,611
Other comprehensive income (after income tax):			
Available-for-sales investments:			
Change in fair value	(87,270)	125,225	(269,639)
Deferred taxes	21,818	(31,306)	67,409
	(65,452)	93,919	(202,230)
Cash flow hedges:			
Cash flow hedge reserve recognized	54,532	12,280	(20,567)
Reclassification adjustments for amounts transferred to income statement (included in selling, general and administrative expenses)	(6,576)	18,118	—
Deferred taxes	(24,350)	(11,780)	8,831
	23,606	18,618	(11,736)
Share of other comprehensive income of associates	1,107	—	—
Exchange difference arising on translation of foreign operations	173,415	134,184	(101,227)
Other comprehensive income (loss) for the year	132,676	246,721	(315,193)
Total comprehensive income for the year	<u>9,438,968</u>	<u>4,379,215</u>	<u>6,164,418</u>
Attributable to:			
Equity holders of the Company	9,414,110	4,364,043	6,173,715
Non-controlling interests	24,858	15,172	(9,297)
	<u>9,438,968</u>	<u>4,379,215</u>	<u>6,164,418</u>



YANZHOU COAL MINING COMPANY LIMITED
CONSOLIDATED BALANCE SHEETS

	NOTES	At December 31,	
		2010	2009
		RMB'000	RMB'000
ASSETS			
CURRENT ASSETS			
Bank balances and cash	17	6,771,314	8,522,399
Term deposits	17	2,567,722	3,216,697
Restricted cash	17	85,188	315,045
Bills and accounts receivable	18	10,017,260	4,723,922
Inventories	19	1,646,116	886,360
Prepayments and other receivables	20	2,613,686	1,868,229
Prepaid lease payments	21	18,280	17,121
Prepayment for resources compensation fees	22	3,948	2,761
Derivative financial instruments	36	239,476	37,760
Tax recoverable		169,013	59,978
Overburden in advance	25	149,351	350,676
TOTAL CURRENT ASSETS		24,281,354	20,000,948
NON-CURRENT ASSETS			
Intangible assets	23	19,633,164	18,866,674
Prepaid lease payments	21	728,082	691,339
Prepayment for resources compensation fees	22	8,072	13,208
Property, plant and equipment	24	19,874,615	18,877,134
Goodwill	26	1,196,586	1,305,345
Investments in securities	27	224,442	295,295
Interests in associates	28	1,074,958	939,981
Interests in jointly controlled entities	30	751	1,257
Restricted cash	17	1,365,995	238,730
Deposits made on investments	29	3,243,679	175,021
Deferred tax assets	38	1,124,166	1,027,659
TOTAL NON-CURRENT ASSETS		48,474,510	42,431,643
TOTAL ASSETS		72,755,864	62,432,591
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Bills and accounts payable	32	1,554,444	1,366,976
Other payables and accrued expenses	33	3,820,971	4,441,834
Provision for land subsidence, restoration, rehabilitation and environmental costs	34	2,300,637	1,564,106
Amounts due to Parent Company and its subsidiary companies	46	438,783	757,882
Borrowings - due within one year	35	614,925	1,598,113
Current portion of long term payable - due within one year	37	6,536	5,967
Derivative financial instruments	36	166,178	28,333
Tax payable		1,231,388	647,190
TOTAL CURRENT LIABILITIES		10,133,862	10,410,401
NON-CURRENT LIABILITIES			
Borrowings - due after one year	35	22,400,833	20,911,728
Deferred tax liability	38	2,601,207	1,785,087
Provision for land subsidence, restoration, rehabilitation and environmental costs	34	152,594	44,702
Non-current portion of long term payable - due after one year	37	28,917	26,380
TOTAL NON-CURRENT LIABILITIES		25,183,551	22,767,897
TOTAL LIABILITIES		35,317,413	33,178,298
Capital and reserves			
Share capital		4,918,400	4,918,400
Reserves		32,413,486	24,233,407
Equity attributable to equity holders of the Company		37,331,886	29,151,807
Non-controlling interests		106,565	102,486
TOTAL EQUITY		37,438,451	29,254,293
TOTAL LIABILITIES AND EQUITY		72,755,864	62,432,591

YANZHOU COAL MINING COMPANY LIMITED
 CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital RMB'000 (note 39)	Share premium RMB'000	Future development fund RMB'000 (note 39)	Statutory common reserve fund RMB'000 (note 39)	Translation reserve RMB'000	Investment revaluation reserve RMB'000	Cash flow hedge reserve RMB'000	Retained earnings RMB'000	Attributable to equity holders of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at January 1, 2008	4,918,400	2,981,002	2,587,105	2,037,940	(13,942)	260,179	—	8,646,853	21,417,537	71,075	21,488,612
Profit for the year	—	—	—	—	—	—	—	6,488,908	6,488,908	(9,297)	6,479,611
Other comprehensive income :											
- Fair value change of available-for-sale investments	—	—	—	—	—	(202,230)	—	—	(202,230)	—	(202,230)
- Cash flow hedge reserve recognized	—	—	—	—	—	—	(11,736)	—	(11,736)	—	(11,736)
- Exchange difference arising on translation of foreign operations	—	—	—	—	(101,227)	—	—	—	(101,227)	—	(101,227)
Total comprehensive income for the year	—	—	—	—	(101,227)	(202,230)	(11,736)	6,488,908	6,173,715	(9,297)	6,164,418
Transactions with owners											
-Dividends	—	—	—	—	—	—	—	(836,128)	(836,128)	(292)	(836,420)
- Appropriations to reserves	—	—	382,219	785,235	—	—	—	(1,167,454)	—	—	—
Total transactions with owners	—	—	382,219	785,235	—	—	—	(2,003,582)	(836,128)	(292)	(836,420)
Balance at December 31, 2008	4,918,400	2,981,002	2,969,324	2,823,175	(115,169)	57,949	(11,736)	13,132,179	26,755,124	61,486	26,816,610
Balance at January 1, 2009	4,918,400	2,981,002	2,969,324	2,823,175	(115,169)	57,949	(11,736)	13,132,179	26,755,124	61,486	26,816,610
Profit for the year	—	—	—	—	—	—	—	4,117,322	4,117,322	15,172	4,132,494
Other comprehensive income :											
- Fair value change of available-for-sale investments	—	—	—	—	—	93,919	—	—	93,919	—	93,919
- Cash flow hedge reserve recognized	—	—	—	—	—	—	18,618	—	18,618	—	18,618
- Exchange difference arising on translation of foreign operations	—	—	—	—	134,184	—	—	—	134,184	—	134,184
Total comprehensive income for the year	—	—	—	—	134,184	93,919	18,618	4,117,322	4,364,043	15,172	4,379,215
Transactions with owners											
- Appropriations to reserves	—	—	292,550	381,280	—	—	—	(673,830)	—	—	—
- Dividends	—	—	—	—	—	—	—	(1,967,360)	(1,967,360)	(466)	(1,967,826)
- Acquisition of non-controlling interests	—	—	—	—	—	—	—	—	—	(134,820)	(134,820)
- Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	161,114	161,114
Total transactions with owners	—	—	292,550	381,280	—	—	—	(2,641,190)	(1,967,360)	25,828	(1,941,532)
Balance at December 31, 2009	4,918,400	2,981,002	3,261,874	3,204,455	19,015	151,868	6,882	14,608,311	29,151,807	102,486	29,254,293
Balance at January 1, 2010	4,918,400	2,981,002	3,261,874	3,204,455	19,015	151,868	6,882	14,608,311	29,151,807	102,486	29,254,293
Profit for the year	—	—	—	—	—	—	—	9,281,386	9,281,386	24,906	9,306,292
Other comprehensive income :											
- Fair value change of available-for-sale investments	—	—	—	—	—	(65,452)	—	—	(65,452)	—	(65,452)
- Cash flow hedge reserve recognized	—	—	—	—	—	—	23,606	—	23,606	—	23,606
- Exchange difference arising on translation of foreign operations	—	—	—	—	173,463	—	—	—	173,463	(48)	173,415
- Share of other comprehensive income of associates	—	—	—	—	—	1,107	—	—	1,107	—	1,107
Total comprehensive income for the year	—	—	—	—	173,463	(64,345)	23,606	9,281,386	9,414,110	24,858	9,438,968
Transactions with owners											
- Disposal of a joint venture and subsidiaries	—	—	—	—	—	—	—	—	—	(23,325)	(23,325)
- Appropriations to reserves	—	—	398,750	665,965	—	—	—	(1,064,715)	—	—	—
- Dividends	—	—	—	—	—	—	—	(1,229,600)	(1,229,600)	(1,871)	(1,231,471)
- Acquisition of non-controlling interests	—	—	—	—	—	—	—	(4,431)	(4,431)	4,417	(14)
Total transactions with owners	—	—	398,750	665,965	—	—	—	(2,298,746)	(1,234,031)	(20,779)	(1,254,810)
Balance at December 31, 2010	4,918,400	2,981,002	3,660,624	3,870,420	192,478	87,523	30,488	21,590,951	37,331,886	106,565	37,438,451



YANZHOU COAL MINING COMPANY LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS

	NOTES	Year ended December 31,		
		2010 RMB'000	2009 RMB'000	2008 RMB'000
OPERATING ACTIVITIES				
Profit before income taxes		12,477,335	5,685,806	8,865,228
Adjustments for:				
Interest expenses		603,343	45,115	38,360
Interest income		(187,189)	(187,604)	(275,220)
Dividend income		(4,504)	(2,288)	(7,401)
Net unrealized foreign exchange losses		(2,180,277)	37,676	284,278
Depreciation of property, plant and equipment		2,426,626	1,793,278	1,140,809
Release of prepaid lease payments		17,958	17,027	15,109
Amortization of prepayment for resources compensation fees		3,949	2,761	2,998
Amortization of intangible assets		349,655	44,278	35,652
Reversal of impairment loss on accounts receivable and other receivables		(4,923)	(13,634)	(4,369)
Provision for inventory		4,411	—	—
Impairment loss on property, plant and equipment		97,559	—	—
Share of (income) loss of associates		(8,870)	(109,786)	67,367
Gain on disposal of a joint venture and subsidiaries		(117,928)	—	—
Loss (Gain) on disposal of property, plant and equipment		16,937	11,252	(12,317)
Written off of property, plant and equipment		1,491	14,199	—
Operating cash flows before movements in working capital		13,495,573	7,338,080	10,150,494
Increase in bills and accounts receivable		(5,286,147)	(1,416,577)	(217,012)
(Increase) decrease in inventories		(728,026)	228,862	(405,200)
Movement in land subsidence, restoration, rehabilitation and environmental cost		838,510	1,109,659	431,344
Movement in overburden cost		224,546	—	—
(Increase) decrease in prepayments and other current assets		(694,726)	20,193	(1,242,027)
Increase (decrease) in bills and accounts payable		158,859	(4,964)	263,755
Increase in other payables and accrued expenses		153,893	622,093	34,481
Increase in long-term payables		5,654	3,980	—
(Decrease) increase in amounts due to Parent Company and its subsidiary companies		(319,099)	57,549	40,749
Cash generated from operations		7,849,037	7,958,875	9,056,584
Income taxes paid		(2,038,697)	(1,596,774)	(2,207,217)
Interest paid		(602,743)	(28,501)	(36,511)
Interest income received		187,561	184,243	275,220
Dividend income received		4,646	2,288	7,401
NET CASH FROM OPERATING ACTIVITIES		<u>5,399,804</u>	<u>6,520,131</u>	<u>7,095,477</u>



YANZHOU COAL MINING COMPANY LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS—Continued

	NOTES	Year ended December 31,		
		2010 RMB'000	2009 RMB'000	2008 RMB'000
INVESTING ACTIVITIES				
Decrease (increase) in term deposits		648,975	(1,971,371)	141,599
Purchase of property, plant and equipment		(3,576,136)	(2,133,726)	(2,027,030)
Decrease in other loans receivable		—	—	640,000
Increase in restricted cash		(874,643)	(432,492)	(50,412)
Increase in deposit made on investment		(3,125,753)	(57,095)	—
Proceeds on disposal of property, plant and equipment		205,446	79,626	19,829
Acquisition of non-controlling interests of Shanxi Tianhao		(14)	—	—
Acquisition of three subsidiaries	44	(133,000)	—	—
Acquisition of Hua Ju Energy	42	—	(761,683)	—
Acquisition of Felix	43	—	(19,558,544)	—
Acquisition of mining rights in Zhaolou		—	—	(747,339)
Proceeds on disposal of a joint venture and subsidiaries	45	1,147,821	—	—
Investments in securities		(16,257)	—	—
Investments in associates		(125,000)	—	—
Purchase of intangible assets		(35,352)	(233)	—
Purchase of land use right		(442)	(7,420)	(68,136)
NET CASH USED IN INVESTING ACTIVITIES		<u>(5,884,355)</u>	<u>(24,842,938)</u>	<u>(2,091,489)</u>
FINANCING ACTIVITIES				
Dividend paid		(1,229,600)	(1,967,360)	(836,128)
Proceeds from bank borrowings		1,110,954	20,840,505	—
Repayments of bank borrowings		(655,528)	(188,705)	(72,000)
Repayments of other borrowings		(584,478)	—	—
Repayment to Parent Company and its subsidiary companies in respect of consideration for acquisition of Jining III		—	(13,248)	(13,248)
Dividend paid to non-controlling interests of a subsidiary		(1,871)	(201)	(292)
Dividend paid to the former shareholders of Hua Ju Energy		—	(47,250)	—
Repayment of borrowings to Parent Company		—	(120,000)	—
NET CASH (USED IN) FROM FINANCING ACTIVITIES		<u>(1,360,523)</u>	<u>18,503,741</u>	<u>(921,668)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		<u>(1,845,074)</u>	<u>180,934</u>	<u>4,082,320</u>
CASH AND CASH EQUIVALENTS, AT JANUARY 1		<u>8,522,399</u>	<u>8,439,578</u>	<u>4,424,561</u>
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		<u>93,989</u>	<u>(98,113)</u>	<u>(67,303)</u>
CASH AND CASH EQUIVALENTS, AT DECEMBER 31, REPRESENTED BY BANK BALANCES AND CASH		<u><u>6,771,314</u></u>	<u><u>8,522,399</u></u>	<u><u>8,439,578</u></u>



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Organization and principal activities

Yanzhou Coal Mining Company Limited (the “Company”) is established as a joint stock company with limited liability in the People’s Republic of China (the “PRC”). 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 10 H shares) are listed on the New York Stock Exchange, Inc. The address of the registered office and principal place of business of the Company is 298 Fushan South Road, Zoucheng, Shandong Province, PRC.

The Company operates six coal mines, namely the Xinglongzhuang coal mine, Baodian coal mine, Nantun coal mine, Dongtan coal mine, Jining II coal mine (“Jining II”) and Jining III coal mine (“Jining III”), as well as a regional rail network that links these mines with the national rail network. The Company’s parent and ultimate holding company is Yankuang Group Corporation Limited (the “Parent Company”), a state-owned enterprise in the PRC.

The principal activities of the Company’s associate and joint ventures are set out in notes 28, 30 and 31 respectively.

As at December 31, 2010, the Group has a net current assets of RMB14,147,492,000 (2009: RMB9,590,547,000) and total assets less current liabilities of RMB62,622,002,000 (2009: RMB52,022,190,000).

Acquisitions and establishment of major subsidiaries

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

Shanxi Neng Hua is an investment holding company, which holds 81.31% equity interest in Shanxi Heshun Tianchi Energy Company Limited (“Shanxi Tianchi”) and approximately 99.85% equity interest in Shanxi Tianhao Chemical Company Limited (“Shanxi Tianhao”). In the current year, Shanxi Neng Hua acquired approximate 0.04% equity interest of Shanxi Tianhao at cash consideration of RMB14,000. The principal activities of Shanxi Tianchi are to exploit and sale of coal from Tianchi Coal Mine, the principal asset of Shanxi Tianchi. Shanxi Tianchi has completed the construction of Tianchi Coal Mine and commenced production by the end of 2006. Shanxi Tianhao is established to engage in the production of methanol and other chemical products, coke production, exploration and sales. The construction of the methanol facilities by Shanxi Tianhao commenced in March 2006 and it has commenced production in 2008. In 2007, the Company further acquired the remaining 2% equity interest in Shanxi Neng Hua from a subsidiary of the Parent Company at cash consideration of RMB14,965,000.



YANZHOU COAL MINING COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

1. GENERAL—Continued

In 2004, the Company acquired a 95.67% equity interest in Yanmei Heze Company Limited (“Heze”) from the Parent Company at cash consideration of RMB584,008,000. The principal activities of Heze are to conduct the initial preparation of the coal mines at the Juye coalfield which includes obtaining the approvals for the coal mine projects, applying rights to explore for coal and preparing the construction work of the coal mines. The equity interests held by the Company increased to 96.67% after the increase of the registered capital of Heze in 2007. The equity interests held by the Company increased to 98.33% after the increase of the registered capital of RMB1.5 billion in the current year.

The Company originally held a 97% equity interest in Yanzhou Coal Yulin Power Chemical Co., Ltd. (“Yulin”). In 2008, the Company acquired the remaining 3% equity interest in Yulin. Moreover, the Company made further investment of RMB600,000,000 in Yulin in 2008.

In February 2009, the Company acquired 74% equity interest in Shandong Hua Ju Energy Company Limited (“Hua Ju Energy”) from the Parent Company at a consideration of RMB593,243,000. Hua Ju Energy is a joint stock limited company established in the PRC with the principal business of the supply of electricity and heat by utilizing coal gangue and coal slurry produced from coal mining process. In July 2009, the Company entered into acquisition agreements with three shareholders of Hua Ju Energy, pursuant to which, the Company agreed to acquire 21.14% equity interest in Hua Ju Energy at a consideration of RMB173,007,000.

In 2009, the Company entered into a binding scheme implementation agreement with Felix Resources Limited (“Felix”), a corporation incorporated in Australia with shares listed on the Australian Securities Exchange, to acquire all the shares of Felix in cash of approximately AUD3,333 million. The principal activities of Felix are exploring and extracting coal resources, operating, identifying, acquiring and developing resource related projects that primarily focus on coal in Australia. This acquisition was completed in 2009.

In 2009, the Company invested RMB500 million to set up a wholly owned subsidiary located in Inner Mongolia, Yanzhou Coal Ordos Neng Hua Company Limited (“Ordos”). Ordos is a limited liability company incorporated in the PRC with the objectives of production and sale of methanol and other chemical products. As at December 31, 2010, Ordos has not yet commenced any construction and production projects.

During 2010, the Company acquired 100% equity interest of Inner Mongolia Yize Mining Investment Co., Ltd (“Yize”) and other two companies with consideration of RMB190,095,000. The main purpose of this acquisition is to facilitate the business of methanol and other chemical products in Inner Mongolia Autonomous Region. As at December 31, 2010, the three newly acquired companies have not commenced any construction and production projects.



YANZHOU COAL MINING COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

2. BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. The consolidated financial statements were approved and authorized for issue by the Board of Directors on June 24, 2011.

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

Changes in accounting estimates

In the current year, the unit-of-production method is applied for the amortization of coal reserves located in China. In the previous years, these assets were amortized on a straight-line basis. The directors of the Company consider that the unit-of-production method can better reflect the expected pattern of consumption of economic benefits of such assets. Changes of accounting estimates have no material impact on the consolidated financial statements.

Comparative figures

Business taxes and surcharges have been reclassified from as a deduction of each categories of revenue to each corresponding costs of these revenue to provide a more appropriate presentation. Therefore, for the years ended December 31, 2009 and December 31, 2008, subtotals of income and corresponding costs increased by RMB423,776,000 and RMB384,342,000 respectively. The reclassification has no impact to the overall results of the Group. The reclassification does not result in any changes to the consolidated balance sheets as at December 31, 2009 and December 31, 2008 and therefore they are not presented in the consolidated financial statements.



YANZHOU COAL MINING COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards and interpretations, and amended and revised standards and interpretations (“new IFRSs”) applicable to the Group issued by the International Accounting Standards Board (the “IASB”) and the International Financial Reporting Interpretations Committee (the IFRIC) of IASB, which are effective for the Group’s financial year beginning January 1, 2010.

IFRSs (Amendments)	Improvements to IFRSs 2009
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IFRS 3 (Revised)	Business Combinations
IAS 39 (Amendment)	Eligible Hedged Items

Except for those new accounting policies effective for the financial year beginning January 1, 2010 as applied in these financial statements of the Group, the accounting policies adopted for the current year are the same as those adopted for the Group’s financial statements for the year ended December 31, 2009. The effects of new IFRSs, which have a significant impact on the financial statements of the Group, are as follow:

• IFRS 3 (Revised) - Business Combinations

The IFRS3 (Revised) introduced major changes to the accounting requirements for business combinations. It retains the major features of the purchase method of accounting, now referred to as the acquisition method. The most significant changes in IFRS3 (Revised) that had an impact on the Group’s acquisitions in 2010 are as follows: The assets acquired and liabilities assumed are generally measured at their acquisition-date fair values. Any contingent consideration is measured at fair value at the acquisition date. If the contingent consideration arrangement gives rise to a financial liability, any subsequent changes are generally recognized in profit or loss. Acquisition-related costs of the combination are recorded as an expense in the income statement. Prior to January 1, 2010, the costs were accounted for as part of the cost of the acquisition. As the Group did not have a material business combination in the current year, the adoption of IFRS 3 (Revised) did not have any material impact on the current year financial statements. IFRS 3 (Revised) is adopted prospectively.

• IAS 27 (Revised) Consolidated and Separate Financial Statements

IAS 27 (Revised) introduced changes to the accounting requirements for transactions with non-controlling interests and the loss of control of a subsidiary. IAS 27 (Revised) requires the changes in the Group’s ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group’s interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company. Prior to January 1, 2010, goodwill arising on acquisition of additional interest in subsidiary represented the excess of the cost of acquisition over the carrying value of the net assets attributable to the additional interest in the subsidiary. IAS 27 (Revised) is adopted prospectively.

The adoption of IAS 27 (Revised) did not have material impact in the current year financial statements.



YANZHOU COAL MINING COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

• Improvements to IFRSs 2009

The Improvements to IFRSs 2009 (“2009 Improvements”) made several minor amendments to IFRSs. The only amendment relevant to the Group relates to IAS 17 Leases. Prior to this amendment, IAS 17 generally required a lease of land to be classified as an operating lease. The amendment requires that leases of land are classified as finance or operating applying the general principles of IAS 17. The Group has reassessed the classification of the land elements of its unexpired leases and has determined that none of its leases require reclassification.

The adoption of the new IFRSs had no material effect on how the financial statements for the current or prior accounting years have been prepared. Accordingly, no prior year adjustment has been required.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

IFRSs (Amendments)	Improvement to IFRSs 2010 ¹
IFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets ²
IFRS 9	Financial Instruments ³
IFRS 10	Consolidated Financial Statements ³
IFRS 11	Joint Arrangements ³
IFRS 12	Disclosures of Involvement with Other Entities ³
IFRS 13	Fair Value Measurement ³
IAS 27 (Amendments)	Separate Financial Statements (2011) ³
IAS 28 (Amendments)	Investments in Associates and Joint Ventures (2011) ³
IAS 24 (Revised)	Related Parties Disclosures ⁴

¹ Effective for annual periods beginning on or after July 1, 2010 and January 1, 2011, as appropriate

² Effective for annual periods beginning on or after July 1, 2011

³ Effective for annual periods beginning on or after January 1, 2013

⁴ Effective for annual periods beginning on or after January 1, 2011

• IFRS 9 Financial instruments

Under IFRS 9, all recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods



YANZHOU COAL MINING COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

• IFRS 9 Financial instruments—Continued

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

• IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the consolidation guidance in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation — Special Purpose Entities* by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure, or rights, to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the returns.

• IFRS 11 Joint Arrangements

IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 *Interests in Joint Ventures*. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets.

• IFRS 12 Disclosures of Involvement with Other Entities

IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities.



YANZHOU COAL MINING COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

- IFRS 13 Fair Value Measurement

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for certain exemptions. IFRS 13 requires the disclosures of fair values through a 'fair value hierarchy'. The hierarchy categorises the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. If the inputs used to measure fair value are categorised into different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the level of the lowest level input that is significant to the entire measurement

- IAS 27 Separate Financial Statements (2011)

The requirements relating to separate financial statements are unchanged and are included in the amended IAS 27. The other portions of IAS 27 are replaced by IFRS 10.

- IAS 28 Investments in Associates and Joint Ventures (2011)

IAS 28 is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12.

- IAS 24 Related Party Disclosures (Revised)

The revised standard is applicable for annual periods beginning on or after January 1, 2011. The revised standard clarifies and simplifies the definition of a related party and it introduces certain exemptions on disclosure requirements in respect of transactions between government-related entities and government, and other government-related entities.

The directors are evaluating the impact of the above mentioned standards on the Group's future results and financial statements.

- No significant impact is anticipated on adoption of the 2010 improvements and IFRS 7 improvements.



YANZHOU COAL MINING COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

Income and expenses 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. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if its results in the non-controlling interests have a deficit balance.

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

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

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

Business combination

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Subsequent adjustments to the consideration are recognized against the cost of acquisition within the measurement period which does not exceed one year from the acquisition date. Subsequent accounting for changes in fair values of the contingent consideration that do not qualify as measurement period adjustments is included in the income statement or within equity for contingent consideration classified as an asset/liability and equity respectively.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value on the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as bargain purchase gain.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. SIGNIFICANT ACCOUNTING POLICIES—Continued

Business combination—Continued

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests’ proportionate share of the recognized amounts of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. The Group applies the non-controlling interests’ proportionate share of the recognized amounts of the acquiree’s identifiable net assets to account for all its acquisitions.

Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group’s share of net assets of the associates, less any identified impairment loss. When the Group’s share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group’s net investment in the associate), the Group discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate. If the associate subsequently reports profits, the Group resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Any excess of the cost of acquisition over the Group’s share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group’s share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group’s investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group’s interest in the relevant associate.



YANZHOU COAL MINING COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. SIGNIFICANT ACCOUNTING POLICIES—Continued

Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

When a group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognized in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using the equity method of accounting and the details of equity method of accounting have been set out in the accounting policy for interests in associates. When a group entity transacts with a jointly controlled entity of the Group, unrealized profits and losses are eliminated to the extent of the Group's interest in the joint venture.

The Group's share using proportionate consolidation of the assets, liabilities, revenue and expenses of other joint ventures (no separate entity has been established) are included in the appropriate items of the financial statements.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. SIGNIFICANT ACCOUNTING POLICIES—Continued

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal courses of business, net of discounts and sales related taxes. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

Sales of goods are recognized upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Service income is recognized when services are provided.

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

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



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. SIGNIFICANT ACCOUNTING POLICIES—Continued

Intangible assets (other than goodwill)

Intangible assets acquired separately

Intangible assets acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets – research and development expenditure

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. Expenditure incurred on projects to develop new products is capitalized only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

(i) Coal reserves

Coal reserves represent the portion of total proven and probable reserves in the coal mine of a mining right. Coal reserves are amortized over the life of the mine on a unit of production basis of the estimated total proven and probable reserves or the Australia Joint Ore Reserves Committee (“JORC”) reserves for the Group’s subsidiaries in Australia. Changes in the annual amortization rate resulting from changes in the remaining reserves are applied on a prospective basis from the commencement of the next financial year.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. SIGNIFICANT ACCOUNTING POLICIES—Continued

Intangible assets (other than goodwill)—Continued

(ii) Coal resources

Coal resources represent the fair value of economically recoverable reserves (excluding the portion of total proven and probable reserves of coal mines of a mining right i.e. does not include the above coal reserves) of coal mines of a mining right (Details are set out in the accounting policy of exploration and evaluation expenditure). When production commences, the coal resources for the relevant areas of interest are amortized over the life of the area according to the rate of depletion of the economically recoverable reserves.

(iii) Rail access rights

Rail access rights are amortized on a straight line basis or on a unit of production basis under agreement over the life of the mine.

Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each separately identifiable area of interest which is at individual mine level. These costs are only carried forward where the right of tenure for the area of interest is current and to the extent that they are expected to be recouped through successful development and commercial exploitation, or alternatively, sale of the area, or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

The carrying amount of exploration and evaluation assets is assessed for impairment when facts or circumstances suggest the carrying amount of the assets may exceed their recoverable amount.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Accumulated costs in relation to an abandoned area are written-off in full in the period in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortized over the life of the area according to the rate of depletion of the economically recoverable reserves.

Capitalized exploration and evaluation expenditure considered to be tangible is recorded as a component of property, plant and equipment. Otherwise, it is recorded as an intangible asset.

Exploration and evaluation expenditure acquired in a business combination are recognized at their fair value at the acquisition date (the fair value of potential economically recoverable reserves at the acquisition date which is shown as “coal resources”)



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. SIGNIFICANT ACCOUNTING POLICIES—Continued

Prepaid lease payments

Prepaid lease payments represent land use rights under operating lease arrangement and are stated at cost less accumulated amortization and accumulated impairment losses.

Property, plant and equipment

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

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

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

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

Impairment other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets and intangible assets with finite useful life 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 (determined at the higher of its fair value less costs to sell and its value in use) is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with an indefinite useful life will be tested for impairment annually.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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



YANZHOU COAL MINING COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. SIGNIFICANT ACCOUNTING POLICIES—Continued

Goodwill*Goodwill arising on acquisitions prior to January 1, 2005*

Goodwill arising on an acquisition of net assets and operations of another entity for which the agreement date is before January 1, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

For previously capitalized goodwill arising on acquisitions of net assets and operations of another entity after January 1, 2001, the Group has discontinued amortization from January 1, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisitions on or after January 1, 2005

Goodwill arising on an acquisition of a business for which the agreement date is on or after January 1, 2005 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 the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Goodwill is presented separately in the consolidated balance sheet.

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

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. SIGNIFICANT ACCOUNTING POLICIES—Continued

Inventories

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

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

Overburden in advance

Overburden in advance comprises the accumulation of expenses incurred to enable access to the coal seams, and includes direct removal costs, machinery and plant running costs. The deferred costs are then charged to the consolidated income statement in subsequent periods on the basis of run-of-mine (“ROM”) coal tonnes mined. This is calculated by multiplying the ROM coal tonnes mined during the period by the weighted average cost to remove a bank cubic metre (“BCM”) of waste by the stripping ratio (ratio of waste removed in BCMs to ROM coal tonnes mined). The stripping ratio of the Company's Australian subsidiaries is based on the JORC reserves of each mine.

Taxation

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

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

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

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, 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.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. SIGNIFICANT ACCOUNTING POLICIES—Continued

Taxation—Continued

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 consolidated income statement, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognized in other comprehensive income or directly in equity respectively.

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.

Felix and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. Each entity in the tax consolidated group recognizes its own deferred tax assets and liabilities, except where the deferred tax assets relate to unused tax losses and credits, in which case Felix recognizes the assets. Felix group has entered into a tax sharing agreement whereby each company in the Felix group contributes to the income tax payable in proportion to their contribution to the profit before tax of the tax consolidated group. The tax consolidated group has also entered into a tax funding agreement whereby each entity in the Felix group can recognize their balance of the current tax assets and liabilities through inter-entity accounts.

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. At each balance sheet date, the Group adjusts the estimated costs in accordance with the actual land subsidence status. The provision is also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in the provision is greater than the undepreciated capitalized cost of any related assets, in which case the capitalized cost is reduced to nil and remaining adjustment is recognized in the income statement. Changes to the capitalized cost result in an adjustment to future depreciation and financial charges.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present values of the minimum lease payments of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as an obligation under finance leases.



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YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. SIGNIFICANT ACCOUNTING POLICIES—Continued

Leasing—Continued

Each lease payment is allocated between liability and finance charges so as to achieve a constant rate of interest on the remaining balance of the liability. The finance lease liabilities are included in current and non-current borrowings. The finance charges are expensed in the income statement over the lease periods so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The assets accounted for as finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Provisions and contingent liabilities

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. SIGNIFICANT ACCOUNTING POLICIES—Continued

Borrowing costs

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

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise.

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



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. SIGNIFICANT ACCOUNTING POLICIES—Continued

Government grants

Government grants are recognized as income over the periods necessary to match them with the related costs. If the grants do not relate to any specific expenditure incurred by the Group, they are reported separately as other income. If the grants subsidize 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.

Annual leave, sick leave and long service leave

Benefits accruing to employees in respect of wages and salaries, annual leave and sick leave are included in trade and other payables. Related on-costs are also included in trade and other payables as other creditors. Long service leave is provided for when it is probable that settlement will be required and it is capable of being measured reliably.

Employee benefits expected to be settled within 12 months are measured using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

Retirement benefit costs

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

Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of financial assets are set out below.



YANZHOU COAL MINING COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. SIGNIFICANT ACCOUNTING POLICIES—Continued

Financial instruments—Continued

Financial assets —Continued

Loan and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loan and receivables (including bank balances and cash, term deposits, restricted cash, bills and accounts receivable and other receivables) are initially measured at fair value and subsequently measured at amortized cost using the effective interest method, less any identified impairment loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognized initially in other comprehensive income and accumulated in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognized in equity is removed from equity and recognized in profit or loss (see accounting policy on impairment loss on financial assets below).

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade and bills receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and changes in national or local economic conditions that correlate with default on receivables.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. SIGNIFICANT ACCOUNTING POLICIES—Continued

Financial instruments—Continued

Financial assets—Continued

Impairment of financial assets—Continued

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and bills receivables and other receivables, where the carrying amounts are reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade and bills receivables and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognized initially in other comprehensive income and accumulated in equity.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. SIGNIFICANT ACCOUNTING POLICIES—Continued

Financial instruments—Continued

Financial liabilities and equity—Continued

Financial liabilities

The Group’s financial liabilities including accounts payable and bills, other payables, amounts due to Parent Company and its subsidiary companies and bank borrowings are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

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

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (i) hedges of the fair value of recognized assets or liabilities (fair value hedge); and (ii) hedges of highly probable forecast transactions (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at the inception of the hedge and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 36. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. SIGNIFICANT ACCOUNTING POLICIES—Continued

Financial instruments—Continued

Accounting for derivative financial instruments and hedging activities—Continued

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized initially in consolidated income statement immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. To the extent that the derivative is not effective as a hedge, gains and losses are recognized in the consolidated income statement as gains or losses on derivative instruments.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized initially in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated income statement. Amounts accumulated in equity are recognized in the consolidated income statement as the underlying hedged items are recognized.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement.

(iii) Derivatives that do not qualify for hedge accounting and those not designated as hedging instruments

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting and those not designated as hedges are recognized immediately in the consolidated income statement.



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YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. SIGNIFICANT ACCOUNTING POLICIES—Continued

Related Parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group’s accounting policies, which are described in note 4, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Depreciation of property, plant and equipment

The cost of mining structures is depreciated using the unit of production method based on the estimated production volume for which the structure was designed. The management exercises their judgment in estimating the useful lives of the depreciable assets and the production volume of the mine. The estimated coal production volumes are updated at regular intervals and have taken into account recent production and technical information about each mine. These changes are considered a change in estimate for accounting purposes and are reflected on a prospective basis in related depreciation rates. Estimates of the production volume are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information.

Amortization of assets

Coal reserves, coal resources and rail access rights are amortized on a straight line basis or unit of production basis over the shorter of their useful lives and the contractual period. The expensing of overburden removal costs is based on saleable coal production over estimated economically recoverable reserves. The useful lives are estimated on the basis of the total proven and probable reserves of the coal mine. Proven and probable coal reserve estimates are updated at regular intervals and have taken into account recent production and technical information about each mine.

Provision for land subsidence, restoration, rehabilitation and environmental costs

The provision is reviewed regularly to verify that it properly reflects the remaining obligation arising from the current and past mining activities. Provision for land subsidence, restoration, rehabilitation and environmental costs are determined by the management based on their best estimates of the current and future costs, latest government policies and past experiences.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at December 31, 2010, the carrying amount of goodwill is RMB1,196,586,000 (2009: RMB1,305,345,000).

Cash flow projections during the budget period for each of the above units are based on the budgeted revenue and expected gross margins during the budget period and the raw materials price inflation during the budget period. Expected cash inflows/outflows have been determined based on past performance and management’s expectations for the market development.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

5. KEY SOURCES OF ESTIMATION UNCERTAINTY—Continued

Estimated impairment of property, plant and equipment

When there is an impairment indicator, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows. Where the actual future cash flows are less than expected, a material impairment loss may arise. In estimating the future cash flows, the management have taken into account the recent production and technical advancement. As prices and cost levels change from year to year, the estimate of the future cash flow also changes. Notwithstanding the management has used all the available information to make their impairment assessment, inherent uncertainty exists on conditions of the mine and of the environment and actual written off may be higher than the amount estimated. As at December 31, 2010, the carrying amounts of property, plant and equipment is approximately RMB19,874,615,000 (2009: RMB18,877,134,000). During the year ended December 31, 2010, RMB1,491,000 was written off as expenses (2009: RMB14,199,000; 2008: nil). In addition, during the year ended December 31, 2010, impairment loss on property, plant and equipment of RMB97,559,000 was recognized (2009: nil) by the Group and details of this impairment are set out in note 24.

6. SEGMENT INFORMATION

The Group is engaged primarily in the coal mining business. The Group is also engaged in the coal railway transportation business. The Company does not currently have direct export rights in the PRC and all of its export sales is made through China National Coal Industry Import and Export Corporation (“National Coal Corporation”), Minmetals Trading Co., Ltd. (“Minmetals Trading”) or Shanxi Coal Imp. & Exp. Group Corp. (“Shanxi Coal Corporation”). The final customer destination of the Company’s export sales is determined by the Company, National Coal Corporation, Minmetals Trading or Shanxi Coal Corporation. Certain of the Company’s subsidiaries and associates are engaged in trading and processing of mining machinery and the transportation business via rivers and lakes and financial services 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. Certain of the Company’s subsidiaries are engaged in production of methanol and other chemical products, and invest in heat and electricity.

Gross revenue disclosed below is same as the turnover.

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

Principal activities are as follows:

- Coal mining - Underground and open-cut mining, preparation and sales of coal
- Coal railway transportation - Provision of railway transportation services
- Methanol, electricity and heat supply - Production and sales of methanol and electricity and related heat supply services



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

6. SEGMENT INFORMATION—Continued

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 4. Segment profit represents the profit earned by each segment without allocation of corporate expenses and directors' emoluments, results of associates, interest income, interest expenses and income tax expenses. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Segment information about these businesses is presented below:

INCOME STATEMENT

	For the year ended December 31, 2010					Consolidated RMB'000
	Coal mining RMB'000	Coal railway transportation RMB'000	Methanol, electricity and heat supply RMB'000	Unallocated RMB'000	Eliminations RMB'000	
GROSS REVENUE						
External	32,590,911	513,282	840,059	—	—	33,944,252
Inter-segment	339,355	36,051	455,259	—	(830,665)	—
Total	<u>32,930,266</u>	<u>549,333</u>	<u>1,295,318</u>	<u>—</u>	<u>(830,665)</u>	<u>33,944,252</u>

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

	For the year ended December 31, 2010					Consolidated RMB'000
	Coal mining RMB'000	Coal railway transportation RMB'000	Methanol, electricity and heat supply RMB'000	Eliminations RMB'000	Consolidated RMB'000	
RESULT						
Segment results	11,096,252	51,554	(459,610)	—		10,688,196
Unallocated corporate expenses						(473,502)
Unallocated corporate income						2,669,925
Interest income						187,189
Share of profit of associates	2,102	—	6,768	—		8,870
Interest expenses						(603,343)
Profit before income taxes						12,477,335
Income taxes						(3,171,043)
Profit for the year						<u>9,306,292</u>



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

6. SEGMENT INFORMATION—Continued

BALANCE SHEET

	At December 31, 2010			
	<u>Coal mining</u> RMB'000	<u>Coal railway transportation</u> RMB'000	<u>Methanol, electricity and heat supply</u> RMB'000	<u>Consolidated</u> RMB'000
ASSETS				
Segment assets	57,600,041	637,184	5,083,532	63,320,757
Interests in associates	127,102	—	947,856	1,074,958
Interests in jointly controlled entities	751	—	—	751
Unallocated corporate assets				8,359,398
				<u>72,755,864</u>
LIABILITIES				
Segment liabilities	5,170,012	38,782	2,653,337	7,862,131
Unallocated corporate liabilities				27,455,282
				<u>35,317,413</u>

OTHER INFORMATION

	For the year ended December 31, 2010					
	<u>Coal mining</u> RMB'000	<u>Coal railway transportation</u> RMB'000	<u>Methanol, electricity and heat supply</u> RMB'000	<u>Unallocated</u> RMB'000	<u>Corporate</u> RMB'000	<u>Consolidated</u> RMB'000
Capital additions (note 1)	3,297,996	34,498	452,838	—	2	3,785,334
Investments in associates	125,000	—	—	—	—	125,000
Amortization of intangible assets	341,003	5,014	3,638	—	—	349,655
Release of prepaid lease payments	9,760	5,372	2,826	—	—	17,958
Provision for inventories	—	—	4,411	—	—	4,411
Impairment loss on property, plant and equipment	—	—	97,559	—	—	97,559
Depreciation of property, plant and equipment	1,796,579	77,399	442,427	—	3,042	2,319,447
Written off of property, plant and equipment	—	—	1,491	—	—	1,491
Impairment losses reversed on accounts receivable and other receivables	(6,828)	—	1,905	—	—	(4,923)
Gain on disposal of a joint venture and subsidiaries	117,928	—	—	—	—	117,928

Note 1: Capital additions include those arising from the acquisition of three subsidiaries during the year



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

6. SEGMENT INFORMATION—Continued

INCOME STATEMENT

	For the year ended December 31, 2009					Consolidated RMB'000
	Coal mining RMB'000	Coal railway transportation RMB'000	Methanol, electricity and heat supply RMB'000	Unallocated RMB'000	Eliminations RMB'000	
GROSS REVENUE						
External	19,947,748	267,345	462,045	—	—	20,677,138
Inter-segment	169,153	61,507	474,946	—	(705,606)	—
Total	<u>20,116,901</u>	<u>328,852</u>	<u>936,991</u>	<u>—</u>	<u>(705,606)</u>	<u>20,677,138</u>

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

	For the year ended December 31, 2009					Consolidated RMB'000
	Coal mining RMB'000	Coal railway transportation RMB'000	Methanol, electricity and heat supply RMB'000	Eliminations RMB'000		
RESULT						
Segment results	6,353,496	(171,712)	(277,320)	—		5,904,464
Unallocated corporate expenses						(473,221)
Unallocated corporate income						2,288
Interest income						187,604
Share of profit of an associate	—	—	109,786	—		109,786
Interest expenses						(45,115)
Profit before income taxes						5,685,806
Income taxes						(1,553,312)
Profit for the year						<u>4,132,494</u>



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

6. SEGMENT INFORMATION—Continued

BALANCE SHEET

	At December 31, 2009			
	Coal mining RMB'000	Coal railway transportation RMB'000	Methanol, electricity and heat supply RMB'000	Consolidated RMB'000
ASSETS				
Segment assets	46,812,323	690,172	4,105,745	51,608,240
Interest in an associate	—	—	939,981	939,981
Interests in jointly controlled entities	1,257	—	—	1,257
Unallocated corporate assets				9,883,113
				<u>62,432,591</u>
LIABILITIES				
Segment liabilities	5,358,455	85,695	2,005,549	7,449,699
Unallocated corporate liabilities				25,728,599
				<u>33,178,298</u>

OTHER INFORMATION

	For the year ended December 31, 2009					
	Coal mining RMB'000	Coal railway transportation RMB'000	Methanol, electricity and heat supply RMB'000	Unallocated RMB'000	Corporate RMB'000	Consolidated RMB'000
Capital additions (note 1)	24,086,467	11,401	1,219,970	—	6,954	25,324,792
Investments in jointly controlled entities	1,257	—	—	—	—	1,257
Amortization of intangible assets	44,274	—	4	—	—	44,278
Release of prepaid lease payments	9,606	5,372	2,049	—	—	17,027
Depreciation of property, plant and equipment	1,409,507	86,251	295,321	—	2,199	1,793,278
Written off of property, plant and equipment	13,609	—	590	—	—	14,199
Impairment losses reversed on accounts receivable and other receivables	(14,222)	—	588	—	—	(13,634)

Note 1: Capital additions include the increase in goodwill during the year which represents RMB 766,816,000 and RMB 239,879,000 in respect of coal mining and methanol, electricity and heat supply segments respectively.

Note 2: Capital additions and investments in jointly controlled entities include those arising from the acquisition of subsidiaries.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

6. SEGMENT INFORMATION—Continued

INCOME STATEMENT

	For the year ended December 31, 2008					Consolidated RMB'000
	Coal mining RMB'000	Coal railway transportation RMB'000	Methanol, electricity and heat supply RMB'000	Unallocated RMB'000	Eliminations RMB'000	
GROSS REVENUE						
External	24,933,349	255,713	98,361	—	—	25,287,423
Inter-segment	131,655	88,458	—	—	(220,113)	—
Total	<u>25,065,004</u>	<u>344,171</u>	<u>98,361</u>	<u>—</u>	<u>(220,113)</u>	<u>25,287,423</u>

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

	For the year ended December 31, 2008					Consolidated RMB'000
	Coal mining RMB'000	Coal railway transportation RMB'000	Methanol, electricity and heat supply RMB'000	Eliminations RMB'000		
RESULT						
Segment results	9,678,304	(91,781)	(185,116)	—		9,401,407
Unallocated corporate expenses						(580,843)
Unallocated corporate income						7,401
Interest income						142,990
Share of loss of an associate	—	—	(67,367)	—		(67,367)
Interest expenses						(38,360)
Profit before income taxes						8,865,228
Income taxes						(2,385,617)
Profit for the year						<u>6,479,611</u>



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

6. SEGMENT INFORMATION—Continued

OTHER INFORMATION

	For the year ended December 31, 2008					
	Coal mining	Coal railway transportation	Methanol, electricity and heat supply	Unallocated	Corporate	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Capital additions	1,925,294	29,234	925,084	—	2,105	2,881,717
Amortization of intangible assets	35,652	—	—	—	—	35,652
Release of prepaid lease payments	9,379	5,372	358	—	—	15,109
Depreciation of property, plant and equipment	1,009,365	79,912	49,159	—	2,373	1,140,809
Gain on disposal of property, plant and equipment	(12,317)	—	—	—	—	(12,317)
Impairment losses reversed on accounts receivable and other receivables	(4,369)	—	—	—	—	(4,369)

GEOGRAPHICAL INFORMATION

The following table sets out the geographical information. The geographical location of sales to external customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets and goodwill, and the location of operations, in the case of interests in associates and jointly controlled entities.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

6. SEGMENT INFORMATION—Continued

The geographical information of sales are as follows:

	Revenue from external customers		
	For the year ended December 31,		
	2010	2009	2008
	RMB'000	RMB'000	RMB'000
The PRC (place of domicile)	28,633,685	19,633,977	23,418,886
Australia	115,227	45,121	16,346
Others	5,195,340	998,040	1,852,191
Total	<u>33,944,252</u>	<u>20,677,138</u>	<u>25,287,423</u>

The geographical information of specified non-current assets are as follows:

	Specified non-current assets	
	At December 31,	
	2010	2009
	RMB'000	RMB'000
The PRC (place of domicile)	17,412,174	17,347,369
Australia	25,095,982	23,334,361
Total non-current assets	<u>42,508,156</u>	<u>40,681,730</u>

For the year ended December 31, 2010, the revenue from coal mining segment amounted to RMB32,590,911,000 (2009: RMB19,947,748,000; 2008: RMB24,933,349,000) which including sales to the Group's largest customer located in the PRC of approximately RMB4,443,729,000 (2009: RMB3,122,684,000; 2008: RMB4,413,948,000). As at December 31, 2010, accounts receivable from this customer accounted for approximately 0% (2009: 0%) of the Group's total accounts receivable. Other than this customer, there is no other customer whose sales accounted for 10% or more of the Group's total revenue.

7. NET SALES OF COAL

	Year ended December 31,		
	2010	2009	2008
	RMB'000	RMB'000	RMB'000
Coal sold in the PRC, gross	27,280,344	18,903,375	23,033,777
Less: Transportation costs	316,452	305,110	356,517
Coal sold in the PRC, net	<u>26,963,892</u>	<u>18,598,265</u>	<u>22,677,260</u>
Coal sold outside the PRC, gross	5,310,567	1,044,373	1,899,572
Less: Transportation costs	844,018	98,201	152,195
Coal sold outside the PRC, net	<u>4,466,549</u>	<u>946,172</u>	<u>1,747,377</u>
Net sales of coal	<u>31,430,441</u>	<u>19,544,437</u>	<u>24,424,637</u>

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



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

8. COST OF SALES AND SERVICE PROVIDED

	Year ended December 31,		
	2010	2009	2008
	RMB'000	RMB'000	RMB'000
Materials	2,017,681	1,482,653	1,616,865
Wages and employee benefits	4,695,000	3,281,578	2,624,821
Electricity	223,639	500,518	346,401
Depreciation	1,462,706	1,286,265	907,218
Land subsidence, restoration, rehabilitation and environmental costs	1,545,302	1,738,103	3,279,503
Annual fee and amortization of mining rights (note 23)	481,711	181,344	170,793
Transportation costs	76,171	86,618	131,301
Cost of traded coal	3,955,603	1,077,538	1,810,342
Business tax and surcharges	505,491	419,459	388,878
Others	1,838,019	535,915	925,009
	<u>16,801,323</u>	<u>10,589,991</u>	<u>12,201,131</u>

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,		
	2010	2009	2008
	RMB'000	RMB'000	RMB'000
Wages and employee benefits	1,347,221	1,402,920	1,374,698
Additional medical insurance	67,420	20,919	53,068
Staff training costs	65,097	35,398	24,412
Depreciation	298,895	168,334	114,451
Distribution charges	835,900	148,580	103,209
Resource compensation fees (note)	226,578	177,842	159,938
Repairs and maintenance	614,173	474,233	424,751
Research and development	70,606	46,321	106,516
Freight charges	24,540	28,556	20,247
Property, plant and equipment written off	1,491	14,199	—
Impairment loss on property, plant and equipment	97,559	—	—
Loss on disposal of property, plant and equipment	16,937	11,252	—
Legal and professional fees	71,152	88,320	76,328
Social welfare and insurance	135,341	101,693	138,264
Utilities relating to administrative buildings	368,063	239,439	147,737
Environmental protection	110,254	82,426	48,028
Travelling, entertainment and promotion	98,709	79,734	80,109
Foreign exchange losses	—	—	328,858
Coal price adjustment fund	289,652	266,876	264,815
Bonus payments	—	67,842	49,977
Others	354,316	365,357	316,625
	<u>5,093,904</u>	<u>3,820,241</u>	<u>3,832,031</u>

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 sales value of raw coal.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

10. OTHER INCOME

	Year ended December 31,		
	2010	2009	2008
	RMB'000	RMB'000	RMB'000
Dividend income	4,504	2,288	7,401
Gain on sales of auxiliary materials	22,820	25,769	37,762
Government grants	43,273	29,839	3,500
Interest income from bank deposits	187,189	187,604	142,990
Interest income from entrusted loan	—	—	132,230
Exchange gain, net	2,665,421	46,151	—
Gain on disposal of a joint venture and subsidiaries	117,928	—	—
Others	66,946	19,368	27,610
	<u>3,108,081</u>	<u>311,019</u>	<u>351,493</u>

The above dividend income is from listed investments.

11. INTEREST EXPENSE

	Year ended December 31,		
	2010	2009	2008
	RMB'000	RMB'000	RMB'000
Interest expenses on:			
- bank borrowings wholly repayable within 5 years	594,679	18,838	20,537
- bank borrowings not wholly repayable within 5 years	5,369	11,396	15,899
- bills receivable discounted without recourse	2,695	13,665	75
Deemed interest expenses in respect of acquisition of Jining III	600	1,216	1,849
	<u>603,343</u>	<u>45,115</u>	<u>38,360</u>

12. INCOME TAXES

	Year ended December 31,		
	2010	2009	2008
	RMB'000	RMB'000	RMB'000
Income taxes:			
Current taxes	2,467,741	1,771,674	2,351,759
Under provision in prior years	10,085	42,221	265,390
	2,477,826	1,813,895	2,617,149
Deferred tax charge (note 38)	693,217	(260,583)	(231,532)
	<u>3,171,043</u>	<u>1,553,312</u>	<u>2,385,617</u>

The Company and its subsidiaries in the PRC are subject to a standard income tax rate of 25% on its taxable income (2009: 25%; 2008: 25%).

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



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

12. INCOME TAXES—Continued

The total charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	Year ended December 31,		
	2010 RMB'000	2009 RMB'000	2008 RMB'000
Standard income tax rate in the PRC	25%	25%	25%
Standard income tax rate applied to income before income taxes	3,119,333	1,421,452	2,216,307
Reconciling items:			
Tax effect of future development fund deductible for tax purposes	(18,601)	(20,436)	—
Deemed interest not deductible for tax purposes	150	304	462
Effect of income exempt from taxation	(242,252)	(64,170)	(74,491)
Reversal of impairment loss on doubtful debts not subject to tax	—	—	(11,398)
Deemed interest income from subsidiaries subject to tax	18,571	31,134	40,213
Tax effect of tax losses not recognized	150,590	135,268	28
Under provision in prior years	10,085	42,221	265,390
Utilization of unrecognized tax losses in prior years	—	—	(51,600)
Effect of tax rate differences in other taxation jurisdictions	135,942	1,504	—
Others	(2,775)	6,035	706
Income taxes	<u>3,171,043</u>	<u>1,553,312</u>	<u>2,385,617</u>
Effective income tax rate	<u>25%</u>	<u>27%</u>	<u>27%</u>

13. PROFIT FOR THE YEAR

	Year ended December 31,		
	2010 RMB'000	2009 RMB'000	2008 RMB'000
Profit for the year has been arrived at after charging:			
Amortization of intangible assets	349,655	44,278	35,652
Depreciation of property, plant and equipment	2,319,447	1,793,278	1,140,809
Total depreciation and amortization	<u>2,669,102</u>	<u>1,837,556</u>	<u>1,176,461</u>
Release of prepaid lease payments	17,958	17,027	15,109
Auditors' remuneration	16,763	12,401	10,157
Staff costs, including directors' and supervisors' emoluments	5,988,821	4,897,951	4,358,556
Retirement benefit scheme contributions (included in staff costs above)	785,051	1,092,817	867,808
Cost of inventories	16,167,748	9,219,686	11,986,520
Including: provision for inventories	4,411	—	—
Exchange loss, net and crediting:	—	—	328,858
Exchange gains, net	(2,665,421)	(46,151)	—
Gain on disposal of property, plant and equipment	—	—	(12,317)
Reversal of impairment loss on accounts receivable and other receivables	<u>(4,923)</u>	<u>(13,634)</u>	<u>(4,369)</u>



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

(a) Directors' and supervisors' emoluments

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

	For the year ended December 31, 2010			Total RMB'000
	Fees RMB'000	Salaries, allowance and other benefits in kind RMB'000	Retirement benefit scheme contributions RMB'000	
<u>Independent non-executive directors</u>				
Pu Hongjiu	113	—	—	113
Zhai Xigui	113	—	—	113
Li Weian	113	—	—	113
Wang Junyan	113	—	—	113
	<u>452</u>	<u>—</u>	<u>—</u>	<u>452</u>
<u>Executive directors</u>				
Wang Xin	—	—	—	—
Geng Jiahuai	—	—	—	—
Li Weimin	—	188	38	226
Shi Xuerang	—	—	—	—
Chen Changchun	—	—	—	—
Wu Yuxiang	—	269	54	323
Wang Xinkun	—	343	69	412
Zhang Baocai	—	312	62	374
Dong Yunqing	—	309	62	371
	<u>—</u>	<u>1,421</u>	<u>285</u>	<u>1,706</u>
<u>Supervisors</u>				
Song Guo	—	—	—	—
Zhang Shengdong	—	—	—	—
Zhou Shoucheng	—	—	—	—
Zhen Ailan	—	—	—	—
Wei Huanmin	—	305	61	366
Xu Bentai	—	346	69	415
	<u>—</u>	<u>651</u>	<u>130</u>	<u>781</u>
<u>Other management team</u>				
Jin Tai	—	189	38	227
Zhang Yingmin	—	189	38	227
He Ye	—	188	38	226
Tian Fengze	—	291	58	349
Shi Chenzhong	—	342	68	410
Qu Tianzhi	—	285	57	342
Ni Xinghua	—	328	66	394
Lai Cunliang	—	664	—	664
	<u>—</u>	<u>2,476</u>	<u>363</u>	<u>2,839</u>



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

(a) Directors' and supervisors' emoluments—Continued

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

	For the year ended December 31, 2009			Total RMB'000
	Fees RMB'000	Salaries, allowance and other benefits in kind RMB'000	Retirement benefit scheme contributions RMB'000	
Independent non-executive directors				
Pu Hongjiu	109	—	—	109
Zhai Xigui	109	—	—	109
Li Weian	109	—	—	109
Wang Junyan	109	—	—	109
	436	—	—	436
Executive directors				
Wang Xin	—	—	—	—
Geng Jiahuai	—	—	—	—
Yang Deyu	—	148	29	177
Shi Xuerang	—	—	—	—
Chen Changchun	—	—	—	—
Wu Yuxiang	—	220	44	264
Wang Xinkun	—	250	50	300
Zhang Baocai	—	220	44	264
Dong Yunqing	—	220	44	264
	—	1,058	211	1,269
Supervisors				
Song Guo	—	—	—	—
Zhang Shengdong	—	—	—	—
Zhou Shoucheng	—	—	—	—
Zhen Ailan	—	—	—	—
Wei Huanmin	—	220	44	264
Xu Bentai	—	259	52	311
	—	479	96	575
Other management team				
Li Weimin	—	61	12	73
Jin Tai	—	61	13	74
Zhang Yingmin	—	61	12	73
He Ye	—	61	12	73
Tian Fengze	—	221	44	265
Shi Chenzhong	—	250	50	300
Qu Tianzhi	—	250	50	300
Ni Xinghua	—	250	50	300
Lai Cunliang	—	540	—	540
	—	1,755	243	1,998



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

(a) Directors' and supervisors' emoluments—Continued

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

	For the year ended December 31, 2008			Total RMB'000
	Fees RMB'000	Salaries, allowance and other benefits in kind RMB'000	Retirement benefit scheme contributions RMB'000	
<u>Independent non-executive directors</u>				
Pu Hongjiu	104	—	—	104
Cui Jianmin	50	—	—	50
Wang Xiaojun	60	—	—	60
Wang Quanxi	50	—	—	50
Zhai Xigui	54	—	—	54
Li Weian	54	—	—	54
Wang Junyan	54	—	—	54
	<u>426</u>	<u>—</u>	<u>—</u>	<u>426</u>
<u>Executive directors</u>				
Wang Xin	—	—	—	—
Geng Jiahuai	—	—	—	—
Yang Deyu	—	—	—	—
Shi Xuerang	—	—	—	—
Chen Changchun	—	—	—	—
Wu Yuxiang	—	192	38	230
Wang Xinkun	—	218	44	262
Zhang Baocai	—	191	38	229
Dong Yunqing	—	192	38	230
	<u>—</u>	<u>793</u>	<u>158</u>	<u>951</u>
<u>Supervisors</u>				
Meng Xianchang	—	—	—	—
Song Guo	—	—	—	—
Zhang Shengdong	—	—	—	—
Liu Weixin	—	—	—	—
Zhou Shoucheng	—	—	—	—
Zhen Ailan	—	—	—	—
Wei Huanmin	—	192	38	230
Xu Bentai	—	207	41	248
	<u>—</u>	<u>399</u>	<u>79</u>	<u>478</u>
<u>Other management team</u>				
Jin Tai	—	—	—	—
Zhang Yingmin	—	—	—	—
He Ye	—	—	—	—
Tian Fengze	—	192	38	230
Shi Chenzhong	—	218	44	262
Qu Tianzhi	—	218	44	262
Ni Xinghua	—	218	44	262
Lai Cunliang	—	508	102	610
	<u>—</u>	<u>1,354</u>	<u>272</u>	<u>1,626</u>

No directors waived any emoluments in each of the year ended December 31, 2010, 2009 and 2008.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

(b) Employees' emoluments

The five highest paid individuals in the Group included no director for the year ended December 31, 2010 (2009: nil; 2008: nil). The emoluments of the five highest paid individuals (2009: five; 2008: five) were stated as follows:

	Year ended December 31,		
	2010	2009	2008
	RMB'000	RMB'000	RMB'000
Salaries, allowance and other benefits in kind	4,411	6,380	6,787
Retirement benefit scheme contributions	228	574	611
Discretionary bonuses	28	228	242
	<u>4,667</u>	<u>7,182</u>	<u>7,640</u>

Their emoluments were within the following bands:

	Year ended December 31,		
	2010	2009	2008
	No. of employees	No. of employees	No. of employees
Nil to HK\$1,000,000	3	—	—
HK\$1,000,001 to HK\$1,500,000	1	3	3
HK\$1,500,001 to HK\$2,000,000	1	1	1
HK\$2,000,001 to HK\$2,500,000	—	1	1
	<u>—</u>	<u>1</u>	<u>1</u>

15. DIVIDEND RECOGNIZED AS DISTRIBUTION DURING THE YEAR

	Year ended December 31,		
	2010	2009	2008
	RMB'000	RMB'000	RMB'000
2009 final dividend, RMB0.250 per share (2009: 2008 final dividend RMB0.400; 2008: 2007 final dividend RMB0.170)	1,229,600	1,967,360	836,128
	<u>1,229,600</u>	<u>1,967,360</u>	<u>836,128</u>



YANZHOU COAL MINING COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

15. DIVIDENDS RECOGNIZED AS DISTRIBUTION DURING THE YEAR—Continued

In the annual general meeting held on June 27, 2008, a final dividend in respect of the year ended December 31, 2007 was approved by the shareholders and paid to the shareholders of the Company.

In the annual general meeting held on June 26, 2009, a final dividend in respect of the year ended December 31, 2008 was approved by the shareholders and paid to the shareholders of the Company.

In the annual general meeting held on June 25, 2010, a final dividend in respect of the year ended December 31, 2009 was approved by the shareholders and paid to the shareholders of the Company.

The board of directors proposes to declare a final dividend of approximately RMB2,901,856,000 calculated based on a total number of 4,918,400,000 shares issued at RMB1 each, at RMB0.59 per share, in respect of the year ended December 31, 2010. The declaration and payment of the final dividend needs to be approved by the shareholders of the Company by way of an ordinary resolution in accordance with the requirements of the Company's Articles of Association. A shareholders' general meeting will be held for the purpose of considering and, if thought fit, approving this ordinary resolution.

16. EARNINGS PER SHARE AND PER ADS

The calculation of the earnings per share attributable to the equity holders of the Company for the years ended December 31, 2010, 2009 and 2008 is based on the profit attributable to the equity holders of the Company for the year of RMB9,281,386,000, RMB4,117,322,000 and RMB6,488,908,000 and on the 4,918,400,000 shares in issue, during each of the three years.

The earnings per ADS have been calculated based on the profit for the relevant periods and on one ADS, being equivalent to 10 H shares. The equivalent H shares to one ADS have been changed from 50 to 10 H shares from June 27, 2008. The new ADS were distributed to ADS holders on July 3, 2008.

No diluted earnings per share has been presented as there are no dilutive potential shares in issue during the years ended December 31, 2010, 2009 and 2008.

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

Bank balances carry interest at market rates which ranged from 0.36% to 4.75% (2009: from 0.36% to 3.75%) per annum.

At the balance sheet dates, the short-term restricted cash, which carry interest at market rates of 0.36% - 4.53 % per annum (2009: 0.36%-3.47%), represents the bank deposits pledged to certain banks to secure banking facilities granted to the Group. The long-term amount represents the bank deposits placed as guarantee for the future payments of rehabilitation costs as required by the Australian government and as guarantee for borrowings. The long-term deposits carry interest rate of 5.20% (2009: of 4.41%) per annum.

The term deposits carry fixed interest rate of 2.25% to 4.80% (2009: 1.17% to 4.53%) per annum.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

18. BILLS AND ACCOUNTS RECEIVABLE

	At December 31,	
	2010	2009
	RMB'000	RMB'000
Accounts receivable		
- From third parties	439,646	357,282
- From a jointly controlled entity	53,450	81,329
Total accounts receivable	493,096	438,611
Less: Impairment loss	(5,406)	(4,542)
	487,690	434,069
Total bills receivable	9,529,570	4,289,853
Total bills and accounts receivable, net	10,017,260	4,723,922

Bills receivable represents unconditional orders in writing issued by or negotiated from customers of the Group for completed sale orders which entitle the Group to collect a sum of money from banks or other parties. The bills are non-interest bearing and have a maturity of six months.

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 based on the invoice dates at the balance sheet dates:

	At December 31,	
	2010	2009
	RMB'000	RMB'000
1 - 90 days	4,738,930	2,592,713
91 - 180 days	5,278,330	2,131,209
	10,017,260	4,723,922

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year.

There are no significant trade receivables which are past due but not yet impaired on both balance sheet dates. The Group does not hold any collateral over these balances. The average age of these receivables is 93 days (2009: 88 days). The management closely monitors the credit quality of accounts receivable and consider the balance that are neither past due nor impaired are of good credit quality.

The Group has provided fully for all receivables over 3 years because historical experience is such that receivables that are past due beyond 3 years are generally not recoverable. For receivable aged over 4 years and considered irrecoverable by the management will be written off.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

18. BILLS AND ACCOUNTS RECEIVABLE—Continued

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

	At December 31,	
	2010	2009
	RMB'000	RMB'000
Balance at January 1	4,542	29,509
Provided for the year	895	335
Written off recognized	—	(5,797)
Reversal	(31)	(19,505)
Balance at December 31	<u>5,406</u>	<u>4,542</u>

Included in the allowance for doubtful debts is an allowance of RMB5.4 million (2009: RMB 4.5 million) for individually impaired trade receivables, which are mainly due from corporate customers in the PRC and considered irrecoverable by the management after consideration on the credit quality of those individual customers, the ongoing relationship with the Group and the aging of these receivables. The impairment recognized represents the difference between the carrying amount of these trade receivables and the present value of the amounts. The Group does not hold any collateral over these balances.

19. INVENTORIES

	At December 31,	
	2010	2009
	RMB'000	RMB'000
COST		
Methanol	10,279	27,320
Auxiliary materials, spare parts and small tools	372,046	288,550
Coal products	<u>1,263,791</u>	<u>570,490</u>
	<u>1,646,116</u>	<u>886,360</u>



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

20. PREPAYMENTS AND OTHER RECEIVABLES

	At December 31,	
	2010	2009
	RMB'000	RMB'000
Advances to suppliers	243,210	75,623
Prepaid freight charges and related handling charges	—	5,232
Due from a jointly controlled entity (note)	115,480	66,321
Deposit for environment protection	254,193	226,252
Prepaid relocation costs of inhabitants	1,709,872	1,288,453
Others	290,931	206,348
	<u>2,613,686</u>	<u>1,868,229</u>

Included in the above balances as of December 31, 2010 is an impairment loss of RMB16,067,000 (2009: RMB21,854,000). During the year ended December 31, 2009, the Group wrote off impairment loss of RMB536,000.

The Group has provided fully for all receivables over 3 years because historical experience is such that receivables that are past due beyond 3 years are generally not recoverable. Receivable will be written off, if aged over 4 years and considered irrecoverable by the management after considering the credit quality of the individual party and the nature of the amount overdue.

Note: The amount due from a jointly controlled entity is unsecured, interest-free and has no fixed repayment term.

21. PREPAID LEASE PAYMENTS

	At December 31,	
	2010	2009
	RMB'000	RMB'000
Current portion	18,280	17,121
Non-current portion	728,082	691,339
	<u>746,362</u>	<u>708,460</u>

The amounts represent prepaid lease payments for land use rights which are situated in the PRC and have a term of 45 to 50 years from the date of grant of land use rights certificates.

22. PREPAYMENT FOR RESOURCES COMPENSATION FEES

In accordance with the relevant regulations, the Shanxi Group is required to pay resources compensation fees to the Heshun Municipal Coal Industry Bureau at a rate of RMB2.70 per tonne of raw coal mined. During the year 2006, Shanxi Group was requested by the relevant government to prepay the fees based on production volume of 10 million tonnes. At the balance sheet date, the amount represented the prepayment for resources compensation fees not yet utilized. The current portion represents the amount to be utilized in the coming year which is estimated based on expected production volume.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

23. INTANGIBLE ASSETS

	Coal reserves RMB'000	Coal resources RMB'000	Technology RMB'000	Rail access rights RMB'000	Water Licenses RMB'000	Others RMB'000	Total RMB'000
COST							
At January 1, 2009	1,133,680	—	—	—	—	—	1,133,680
Exchange re-alignment	25,998	—	—	—	—	—	25,998
Additions for the year	—	—	—	—	—	233	233
Acquisition of Felix	13,782,538	3,859,559	153,235	41,523	7,356	3,812	17,848,023
At December 31, 2009 and at January 1, 2010	14,942,216	3,859,559	153,235	41,523	7,356	4,045	19,007,934
Exchange re-alignment	1,224,643	354,020	14,613	2,135	699	713	1,596,823
Acquisition of Yize	—	—	—	—	124,565	7,420	131,985
Additions for the year	—	25,921	—	1,317	—	8,114	35,352
Transfer	206,922	(206,922)	—	—	—	—	—
Disposal of a joint venture and subsidiaries	(539,070)	(127,293)	—	(41,410)	—	(348)	(708,121)
At December 31, 2010	<u>15,834,711</u>	<u>3,905,285</u>	<u>167,848</u>	<u>3,565</u>	<u>132,620</u>	<u>19,944</u>	<u>20,063,973</u>
AMORTIZATION							
At January 1, 2009	93,973	—	—	—	—	—	93,973
Exchange re-alignment	3,009	—	—	—	—	—	3,009
Provided for the year	44,274	—	—	—	—	4	44,278
At December 31, 2009 and at January 1, 2010	141,256	—	—	—	—	4	141,260
Exchange re-alignment	8,601	—	—	11	—	100	8,712
Provided for the year	341,003	—	—	5,014	—	3,638	349,655
Disposal of a joint venture and subsidiaries	(63,976)	—	—	(4,773)	—	(69)	(68,818)
At December 31, 2010	<u>426,884</u>	<u>—</u>	<u>—</u>	<u>252</u>	<u>—</u>	<u>3,673</u>	<u>430,809</u>
CARRYING VALUES							
At December 31, 2010	<u>15,407,827</u>	<u>3,905,285</u>	<u>167,848</u>	<u>3,313</u>	<u>132,620</u>	<u>16,271</u>	<u>19,633,164</u>
At December 31, 2009	<u>14,800,960</u>	<u>3,859,559</u>	<u>153,235</u>	<u>41,523</u>	<u>7,356</u>	<u>4,041</u>	<u>18,866,674</u>

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. Up to the date of these financial statements, compensation fee of RMB5 per tonne of raw coal mined amounting to RMB140,708,000 (2009: RMB137,070,000) for the year has been preliminary agreed. The revised compensation fees are to be settled with governmental authority directly. The actual amount of compensation fee payable each year is still to be confirmed by the governmental authority.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

23. INTANGIBLE ASSETS—Continued

The other mining rights (coal reserves) are amortized on the following basis:

	<u>Amortization method</u>
Jining III	Unit of production method
Zhaolou	Unit of production method
Tianchi	Unit of production method
Austar	Unit of production method
Ashton	Unit of production method
Moolarben	Unit of production method
Yarrabee	Unit of production method

Rail access rights are amortized on a straight line basis or unit of production basis over the life of the mine.

Technology has not yet reached the stage of commercial application and therefore is not amortized.

Water licenses are amortized over the life of coal mine. The mining activities of the relevant locations have not yet been started and therefore, no amortization was provided.

Other intangible assets namely represent computer software which is amortized on a straight line basis of 2.5 to 5 years over the useful life.

Amortization expense of the mining rights for the year of RMB341,003,000 (2009: RMB44,278,000) has been included in cost of sales and service provided. Amortization expense of other intangible assets for the year of RMB8,652,000 has been included in selling, general and administrative expenses.

At December 31, 2010, intangible assets with a carrying amount of approximately RMB18,297,975,000 (2009: RMB4,288,410,000) have been pledged to secure the borrowings of the Company's subsidiaries (Note 35).



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

24. PROPERTY, PLANT AND EQUIPMENT

	Freehold land in Australia RMB'000	Buildings RMB'000	Harbor works and crafts RMB'000	Railway structures RMB'000	Mining structures RMB'000	Plant, machinery and equipment RMB'000	Transportation equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST									
At January 1, 2009	42,279	3,005,627	255,805	868,967	3,698,573	10,492,130	377,625	4,827,451	23,568,457
Exchange re-alignment	14,037	2,933	—	—	—	261,896	60	42,608	321,534
Acquisition of Hua Ju Energy	—	290,362	—	—	—	434,929	4,050	25,872	755,213
Acquisition of Felix	223,963	35,403	—	—	486,736	1,882,269	—	918,536	3,546,907
Additions	9,656	1,084	—	—	—	163,300	6,981	1,904,628	2,085,649
Transfers	577	481,045	—	480,557	994,476	4,553,842	21,366	(6,531,863)	—
Written off	—	—	—	—	—	—	—	(14,199)	(14,199)
Disposals	—	(39,410)	(2,127)	(2,936)	—	(359,180)	(36,637)	—	(440,290)
At December 31, 2009 and January 1, 2010	290,512	3,777,044	253,678	1,346,588	5,179,785	17,429,186	373,445	1,173,033	29,823,271
Exchange re-alignment	26,598	10,471	—	—	67,144	357,436	25	77,736	539,410
Acquisition of Yize	—	4,670	—	—	—	8	73	—	4,751
Additions	41,764	77,300	—	—	281,451	94,707	2,337	3,059,827	3,557,386
Transfers	10	89,868	—	95,596	271,913	2,897,788	23,330	(3,378,505)	—
Written off	—	—	—	—	—	—	—	(1,491)	(1,491)
Disposals	—	(18,055)	—	(27,588)	—	(514,073)	(10,279)	—	(569,955)
Disposal of a joint venture and subsidiaries	(66,076)	—	—	—	(87,366)	(173,670)	—	—	(327,112)
At December 31, 2010	292,808	3,941,298	253,678	1,414,596	5,712,927	20,091,382	388,931	930,600	33,026,220
ACCUMULATED DEPRECIATION AND IMPAIRMENT									
At January 1, 2009	—	1,318,920	66,930	385,292	1,800,077	5,607,220	240,572	—	9,419,011
Exchange re-alignment	—	936	—	—	—	82,274	50	—	83,260
Provided for the year	—	220,440	12,010	35,765	86,087	1,399,981	38,995	—	1,793,278
Eliminated on disposals	—	(9,783)	(1,473)	(2,226)	—	(302,184)	(33,746)	—	(349,412)
At December 31, 2009 and January 1, 2010	—	1,530,513	77,467	418,831	1,886,164	6,787,291	245,871	—	10,946,137
Exchange re-alignment	—	890	—	—	7,470	56,790	20	—	65,170
Provided for the year	—	109,779	5,819	165,254	271,295	1,836,394	38,085	—	2,426,626
Impairment loss	—	15,356	—	4,127	—	78,076	—	—	97,559
Eliminated on disposals	—	(4,761)	—	(4,858)	—	(328,379)	(9,614)	—	(347,612)
Disposal of a joint venture and subsidiaries	—	—	—	—	(9,799)	(26,476)	—	—	(36,275)
At December 31, 2010	—	1,651,777	83,286	583,354	2,155,130	8,403,696	274,362	—	13,151,605
CARRYING VALUES									
At December 31, 2010	292,808	2,289,521	170,392	831,242	3,557,797	11,687,686	114,569	930,600	19,874,615
At December 31, 2009	290,512	2,246,531	176,211	927,757	3,293,621	10,641,895	127,574	1,173,033	18,877,134

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

Buildings	10 to 30 years
Harbor works and crafts	40 years
Railway structures	15 to 25 years
Plant, machinery and equipment	2.5 to 25 years
Transportation equipment	6 to 18 years



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

24. PROPERTY, PLANT AND EQUIPMENT—Continued

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

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

During the year ended December 31, 2010, the directors conducted a review of the Group’s mining assets and determined that a number of those assets were impaired, due to physical damage and technical obsolescence. Accordingly, an aggregate amount of RMB1,491,000 (2009: RMB14,199,000) have been written off in respect of construction in progress including railway projects and water engineering projects.

At December 31, 2010, property, plant and equipment with a carrying amount of approximately RMB4,361,373,000 (2009: RMB3,546,907,000) have been pledged to secure bank borrowings of the Group (Note 35).

In addition, the Group’s finance leases (Note 35) are secured by the property, plant and equipment held under the relevant finance leases with a carrying amount of RMB856,876,000 (2009: RMB651,981,000).

As a result of shortage in raw materials supply of methanol operations, the raw material prices continue to rise. Therefore the Group assessed the recoverable amount of property, plant and equipment and the Group recognized impairment loss of RMB97,559,000 (included in selling, general and administrative expenses) for the year ended December 31, 2010.

25. OVERBURDEN IN ADVANCE

	At December 31,	
	2010	2009
	RMB'000	RMB'000
Overburden in advance - cost	149,351	350,676

Overburden in advance comprises the accumulation of expenses incurred to enable access to the coal seams, and includes direct removal costs, machinery and plant running costs. The deferred costs are presented after the deduction of the portion that has been transferred to the income statement in the period.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

26. GOODWILL

	<u>2010</u>	<u>2009</u>
	RMB'000	RMB'000
COST		
At January 1	1,305,345	298,650
Acquisition of Hua Ju Energy	—	239,879
Acquisition of Felix	—	766,816
Disposal of a joint venture and subsidiaries	(181,883)	—
Exchange re-alignment	73,124	—
At December 31	<u>1,196,586</u>	<u>1,305,345</u>

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

	<u>2010</u>	<u>2009</u>
	RMB'000	RMB'000
Coal Mining		
- Jining II	10,106	10,106
- Shandong Yanmei Shipping Co., Ltd	10,046	10,046
- Heze	35,645	35,645
- Shanxi Group	145,613	145,613
- Felix	658,057	766,816
Coal Railway Transportation		
- Railway Assets	97,240	97,240
Electricity and heat supply		
- Hua Ju Energy	239,879	239,879
	<u>1,196,586</u>	<u>1,305,345</u>

The recoverable amounts of goodwill from each of the above cash generating units have been determined on the basis of value in use calculations. The recoverable amounts are based on certain similar key assumptions on discount rates, growth rates and expected changes in selling prices and direct cost. All value in use calculations use cash flow projections based on financial budgets approved by management covering a 5-year period, using a zero percent growth rate and with a discount rate of 8-10% (2009: 8%).

The cash flows beyond the 5-year period are extrapolated for 5 years using a zero percent growth rate. Cash flow projections during the budget period for each of the above units are based on the budgeted revenue and expected gross margins during the budget period and the same raw materials price inflation during the budget period. Expected cash inflows/outflows, which include budgeted sales, gross margin and raw material price inflation, have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of each of the above units to exceed the recoverable amount of each of the above units. During the years ended December 31, 2010 and 2009, management of the Group determined that there are no impairments of any of its cash-generating units containing goodwill.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

27. INVESTMENTS IN SECURITIES

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

	At December 31,	
	2010	2009
	RMB'000	RMB'000
Equity securities listed on the SSE		
- Stated at fair value	194,258	264,672
Unlisted equity securities	30,184	30,623
	<u>224,442</u>	<u>295,295</u>

Previously, the Group invested in certain state legal person shares of Shenergy Company Limited and Jiangsu Lian Yun Gang Port Corporation Limited. These shares were not tradable.

Pursuant to the share reform plan of Shenergy Company Limited carried out in 2006, the non-tradable legal person shares with the investment cost of RMB60,421,000 held by the Company were converted into tradable shares on August 17, 2006. Under this share reform plan, the Company has committed that the Company will not sell more than one-third of the shares held as of August 17, 2005 within one year after August 17, 2006; and two-third of the shares held as of August 17, 2005 within two years after August 17, 2006. This investment is presented as listed securities stated at fair value as at December 31, 2010 at the amount of RMB185,661,000 (2009: RMB254,046,000).

On April 26, 2007, Jiangsu Lian Yun Gang Port Corporation Limited became a public company with its shares listed in SSE. The Company has committed not to sell its holding, or transfer to others before April 28, 2008. This investment is presented as listed securities which amount to RMB8,597,000 as at December 31, 2010 (2009: RMB10,626,000).

The investments in equity securities listed on the SSE are carried at fair value determined according to the quoted market prices in an active market.

The unlisted equity securities are stated at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

28. INTERESTS IN ASSOCIATES

	At December 31,	
	2010	2009
	RMB'000	RMB'000
Cost of investments in associates	1,025,000	900,000
Share of post-acquisition profit and other comprehensive income	49,958	39,981
	<u>1,074,958</u>	<u>939,981</u>

Information on major associates is as follows:

Name of associate	Place of establishment and operation	Class of shares held	Principal activity	At December 31,	
				2010	2009
				Interest held	Interest held
Huadian Zouxian Power Generation Company Limited	PRC	Registered Capital	Electricity generation business	30%	30%
Yankuang Group Finance Company Limited	PRC	Registered Capital	Financial services	25%	—

Huadian Zouxian Power Generation Company Limited and Yankuang Group Finance Company Limited are held by the Company directly.

Summarized financial information in respect of the Group's associates is set out below:

	At December 31,	
	2010	2009
	RMB'000	RMB'000
Total assets	12,631,030	6,945,366
Total liabilities	(8,963,100)	(3,812,095)
Net assets	<u>3,667,930</u>	<u>3,133,271</u>
Group's share of net assets of associates	<u>1,074,958</u>	<u>939,981</u>

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Revenue	<u>4,239,375</u>	<u>3,832,204</u>
Profit for the year	<u>30,968</u>	<u>365,954</u>
Group's share of profit of associates	<u>8,870</u>	<u>109,786</u>
Group's share of other comprehensive income of associates	<u>1,107</u>	<u>—</u>



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

29. DEPOSITS MADE ON INVESTMENTS

	At December 31,	
	2010	2009
	RMB'000	RMB'000
Shaanxi coal mine operating company	117,926	117,926
Inner Mongolia Rong Xin Chemical Co., Ltd.	—	1,320
Inner Mongolia Yi Feng Mining Investment Co., Ltd.	—	53,880
Inner Mongolia Da Xin Industrial Gases Co., Ltd.	—	1,800
Stamp duty paid	—	95
Inner Mongolia Haosheng Coal Mining Limited	2,045,753	—
Yijinhuoluo Qi Nalin Tao Hai Town An Yuan Coal Mine	1,080,000	—
	<u>3,243,679</u>	<u>175,021</u>

During 2006, the Company entered into a co-operative agreement with two independent third parties to establish a company for acquiring a coal mine in Shaanxi province for operations. The Company will have to invest approximately RMB196.8 million in order to obtain 41% equity interest. As at December 31, 2010, the Company made a deposit of RMB118 million (2009: RMB118 million) in relation to this acquisition. As at December 31, 2010, the relevant procedures to establish the new company are still in progress, and the establishment has not yet been completed.

During the year, the Company entered into a co-operative agreement with an independent third party to acquire the Yijinhuoluo Qi Nalin Tao Hai Town An Yuan Coal Mine at a consideration of RMB1,435 million. As at December 31, 2010, the Company made a deposit of RMB1,080 million on this investment. According to the agreement, the completion of acquisition is subject to the relevant approval from government authority. As at December 31, 2010, the transfer and the relevant procedures are still in progress and the acquisition has not yet been completed.

During the year, the Company entered into a co-operative agreement with three independent companies to acquire 51% equity interest of Inner Mongolia Haosheng Coal Mining Limited ('Hao Sheng') at a consideration of RMB6,649 million and to obtain the mining rights of the Shilawusu Coal Field ('the mining right') in name of Hao Sheng. As at December 31, 2010, the Company made a deposit of RMB2,046 million in relation to this acquisition. As at December 31, 2010, the relevant procedures are still in progress and the mining right has not yet been obtained. As the conditions of the acquisition is to obtain the mining right in name of Hao Sheng, hence the acquisition has not been completed.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

30. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	At December 31,	
	2010	2009
	RMB'000	RMB'000
Share of net assets	751	1,257

Information on major jointly controlled entities is as follows:

Name of jointly controlled entity	Place of establishment and operation	Class of shares held	Principal activity	At December 31,			
				2010		2009	
				Voting power	Interest held	Voting power	Interest held
Australian Coal Processing Holdings Pty Ltd (i)	Australia	Ordinary shares	Holding company	33.33%	60%	33.33%	60%
Ashton Coal Mines Limited (ii)	Australia	Ordinary shares	Real estate holder & sales company	33.33%	60%	33.33%	60%

- (i) A subsidiary of the Company holds 60% of the ordinary shares of Australian Coal Processing Holdings Pty Ltd. Under the shareholders agreement between the subsidiary and the remaining two shareholders, all major financial and operating policy decisions require a vote by directors who together represent shareholders holding 100% of the shares or a vote by shareholders who together hold 100% of the shares. Therefore decisions must be passed unanimously by directors or shareholders and the subsidiary's voting power is equivalent to 33.33%.
- (ii) A subsidiary of the Company holds 60% of the ordinary shares of Ashton Coal Mines Limited. Under the shareholders agreement between the subsidiary and the remaining two shareholders, all major financial and operating policy decisions require a unanimous resolution of the shareholders. Therefore decisions must be passed unanimously by shareholders and the subsidiary's voting power is equivalent to 33.33%.
- (iii) The above jointly controlled entities are held indirectly by the Company. These entities were obtained from the acquisition of Felix at the end of 2009 and therefore there was no share of profit or loss of jointly controlled entities in 2009.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

30. INTERESTS IN JOINTLY CONTROLLED ENTITIES—Continued

Summarized financial information in respect of the Group’s jointly controlled entities is set out below:

	At December 31,	
	2010	2009
	RMB’000	RMB’000
Total assets	82,698	245,024
Total liabilities	(81,447)	(242,929)
Net assets	<u>1,251</u>	<u>2,095</u>
Group’s share of net assets of jointly controlled entities	<u>751</u>	<u>1,257</u>

	Year ended December 31,	
	2010	2009
	RMB’000	RMB’000
Revenue	<u>2,029,948</u>	<u>—</u>
Loss for the year	<u>(770)</u>	<u>—</u>
Group’s share of net loss of jointly controlled entities	<u>(462)</u>	<u>—</u>



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

31. INTERESTS IN JOINT VENTURES

Information on major joint ventures (other than jointly controlled entities) is as follows:

Name of joint venture	Place of establishment and operation	Principal activity	At December 31,	
			2010 Interest held	2009 Interest held
Boonal joint venture	Australia	Provision of a coal haul road and train load out facilities	50%	50%
Athena joint venture	Australia	Coal exploration	51%	51%
Ashton joint venture	Australia	Development and operation of open-cut and underground coal mines	60%	60%
Moolarben joint venture	Australia	Development and operation of open-cut and underground coal mines	80%	80%

The above joint ventures are established and operated as unincorporated businesses and are held indirectly by the Company. These joint ventures are consolidated into the Company's consolidated financial statements due to the acquisition of Felix. Therefore results of joint ventures were not shared by the Group during 2009.

The Group's interest in the assets and liabilities of the joint ventures are set out below:

	At December 31,	
	2010 RMB'000	2009 RMB'000
Current assets	588,626	537,378
Non-current assets	19,264,652	18,677,130
Current liabilities	(218,206)	(326,604)
Non-current liabilities	(57,218)	(30,327)
	<u>19,577,854</u>	<u>18,857,577</u>



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

31. INTERESTS IN JOINT VENTURES—Continued

The Group's share of revenue, expenses and profit before income tax of the joint ventures are set out below:

	Year ended December 31,	
	2010	2009
	RMB'000	RMB'000
Revenue	28,834	—
Expenses	(2,138,986)	—
Loss before income tax	<u>(2,110,152)</u>	<u>—</u>

The assets and liabilities as at December 31, 2009 included the Minerva joint venture disposed of during the year (note 45).

32. BILLS AND ACCOUNTS PAYABLE

	At December 31,	
	2010	2009
	RMB'000	RMB'000
Accounts payable		
- To third parties	1,420,042	1,242,349
- To a jointly controlled entity	7,943	5,667
	1,427,985	1,248,016
Bills payable	126,459	118,960
	<u>1,554,444</u>	<u>1,366,976</u>

The following is an aged analysis of bills and accounts payable based on the invoice dates at the balance sheet date:

	At December 31,	
	2010	2009
	RMB'000	RMB'000
1 - 90 days	1,321,149	1,153,686
91 - 180 days	78,647	84,400
181 - 365 days	23,607	46,955
1 - 2 years	131,041	81,935
	<u>1,554,444</u>	<u>1,366,976</u>

The average credit period for accounts payable and bills payable is 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

33. OTHER PAYABLES AND ACCRUED EXPENSES

	At December 31,	
	2010	2009
	RMB'000	RMB'000
Customers' deposits	1,378,811	1,488,748
Accrued wages	823,655	578,679
Other taxes payable	280,028	166,604
Payables in respect of purchases of property, plant and equipment and construction materials	324,136	643,674
Accrued freight charges	5,466	58,119
Accrued repairs and maintenance	24,177	35,846
Accrued utility expenses	8,516	18,829
Staff welfare payable	96,501	122,487
Withholding tax payable	258	1,869
Deposits received from employees	9,946	14,469
Coal Price adjustment fund	36,031	34,764
Accrued land subsidence, restoration, rehabilitation and environmental costs	691	78,356
Payable on compensation fee of mining rights	412,919	272,210
Payables by Felix to companies related to its directors (note)	—	602,597
Others	419,836	324,583
	<u>3,820,971</u>	<u>4,441,834</u>

Note: To assist with the funding of the dividend paid to Felix's shareholders prior to the acquisition by the Group, certain Felix's directors, through their related entities, loaned unsecured funds to Felix. The amounts due have been fully repaid during the year.

34. PROVISION FOR LAND SUBSIDENCE, RESTORATION, REHABILITATION AND ENVIRONMENTAL COSTS

	2010	2009
	RMB'000	RMB'000
Balance at January 1	1,608,808	450,979
Acquisition of Felix	—	48,170
Disposal of a joint venture and subsidiaries	(6,878)	—
Exchange re-alignment	12,791	—
Additional provision in the year	1,532,200	1,733,325
Utilization of provision	(693,690)	(623,666)
Balance at December 31	<u>2,453,231</u>	<u>1,608,808</u>
Presented as:		
Current portion	2,300,637	1,564,106
Non-current portion	152,594	44,702
	<u>2,453,231</u>	<u>1,608,808</u>



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

34. PROVISION FOR LAND SUBSIDENCE, RESTORATION, REHABILITATION AND ENVIRONMENTAL COSTS—Continued

The provision for land subsidence, restoration, rehabilitation and environmental costs has been determined by the directors based on their best estimates. 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.

35. BORROWINGS

	At December 31,	
	2010	2009
	RMB'000	RMB'000
Current liabilities		
Bank borrowings		
- Unsecured borrowings (i)	156,278	22,000
- Secured borrowings (ii)	375,978	919,410
Finance leases (iii)	<u>82,669</u>	<u>656,703</u>
	614,925	1,598,113
Non-current liabilities		
Bank borrowings		
- Unsecured borrowings (i)	789,962	154,000
- Secured borrowings (ii)	20,871,536	20,757,728
Finance leases (iii)	<u>739,335</u>	<u>—</u>
	22,400,833	20,911,728
Total borrowings	<u><u>23,015,758</u></u>	<u><u>22,509,841</u></u>

(i) Unsecured borrowings are repayable as follows:

	At December 31,	
	2010	2009
	RMB'000	RMB'000
Within one year	156,278	22,000
More than one year, but not exceeding two years	679,962	22,000
More than two years, but not more than five years	66,000	66,000
More than five years	<u>44,000</u>	<u>66,000</u>
Total	<u><u>946,240</u></u>	<u><u>176,000</u></u>

The balance as of December 31, 2010 represented a borrowing obtained by Shanxi Tianchi before the Company acquired it and three new borrowings obtained by Australian subsidiaries during the year. The loan of Shanxi Tianchi amounting to RMB154,000,000 (2009: RMB176,000,000) carried interest at 5.94% (2009: 5.94%) per annum and is subject to adjustment based on the interest rate stipulated by the People's Bank of China ("PBOC"). The loan is repayable by 20 instalments over a period of 12 years, with the first instalment due in May 2008. The amount is guaranteed by the Parent Company.

The total unsecured borrowings of Australian subsidiaries amounting to RMB792,240,000 (AUD 118,000,000) carried interest at three-month BBSY plus a margin of 1.5% (approximately 6.3%).



YANZHOU COAL MINING COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

35. BORROWINGS—Continued

(ii) Secured borrowings are repayable as follows:

	At December 31,	
	2010	2009
	RMB'000	RMB'000
Within one year	375,978	919,410
More than one year, but not exceeding two years	6,925,847	6,930,623
More than two years, but not more than five years	13,945,689	13,827,105
Total	21,247,514	21,677,138

Included in the balance as of December 31, 2010 are loans amounting to RMB20,133,007,000 (USD3,040,000,000) (2009: RMB20,757,728,000) obtained by the Group for the purpose of settling the consideration in respect of acquisition of Felix. The borrowings of RMB19,205,829,000 (USD2,900,000,000) (2009: RMB19,801,780,000) and of RMB927,178,000 (USD 140,000,000) (2009: RMB955,948,000) carried interest at three-month LIBOR plus a margin of 0.75% (approximately 1.05%) and at three-month LIBOR plus a margin of 0.8% (approximately 1.10%) respectively. The borrowings are guaranteed by the Company, counter-guaranteed by the Parent Company and secured by the Group's term deposit (Note 17).

Included in the balance as of December 31, 2010 were three new short term borrowings amounting to RMB161,133,000 (AUD24,000,000) carried interest at BBSY plus a margin of 1.8% (approximately 6.6%). The remaining borrowing attributable to Felix amounting to RMB953,374,000 (AUD142,000,000) (2009: RMB919,410,000) carried interest at BBSY plus a margin of 3.8% (approximately 8.6%) (2009: approximately 7.6%) and was obtained prior to the acquisition of Felix. These borrowings and the finance leases are secured by the Group's property, plant and equipment (Note 24) and intangible assets (Note 23) and are also secured by a floating charge over the other assets of Felix.

(iii) Finance leases are repayable as follows:

	At December 31,	
	2010	2009
	RMB'000	RMB'000
Minimum lease payments		
Within one year	152,740	841,590
More than one year, but not exceeding two years	150,125	—
More than two years, but not more than five years	747,900	—
	1,050,765	841,590
Less: Future finance charges	(228,761)	(184,887)
Present value of lease payments	822,004	656,703



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

35. BORROWINGS—Continued

(iii) Finance leases are repayable as follows:—Continued

	At December 31,	
	2010	2009
	RMB'000	RMB'000
Present value of minimum finance lease payments		
Within one year	82,669	656,703
More than one year, but not exceeding two years	88,144	—
More than two years, but not more than five years	651,191	—
	<u>822,004</u>	<u>656,703</u>
Less: amounts due within one year and included in current liabilities	(82,669)	(656,703)
Amounts due after one year and included in non-current liabilities	<u>739,335</u>	<u>—</u>

Breach of loan agreement:

The bank borrowings and finance leases granted to Felix have a number of provisions including the satisfaction of minimum net assets value and the proportion of forward contracts by Felix as at balance sheet date.

At December 31, 2009, Felix breached the above loan provisions. As a result of the breach, long term portions of the bank borrowings and finance leases of RMB919,410,000 and RMB654,546,000 respectively have been reclassified as current liabilities. In April 2010, Felix has obtained the waiver letter from the relevant lenders. The lenders agreed not to demand immediate payments from Felix and the terms of borrowings remained unchanged. Under the original borrowing terms, the bank borrowings and finance leases shall be repaid as follows:

	At December 31,
	2009
	RMB'000
Bank borrowings:	
Secured bank borrowings	
Within one year	245,176
More than one year, but not more than two years	196,141
More than two years, but not more than five years	478,093
Total	<u>919,410</u>
	At December 31,
	2009
	RMB'000
Finance leases:	
Present value of minimum lease payments	
Within one year	100,029
More than one year, but not more than two years	67,301
More than two years, but not more than five years	487,216
	<u>654,546</u>

As at December 31, 2010, the Group did not breach any loan provisions.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

36. DERIVATIVE FINANCIAL INSTRUMENTS

	At December 31,	
	2010	2009
	RMB'000	RMB'000
Derivatives used for cash flow hedging:		
Current assets		
- Forward foreign exchange contracts	239,476	37,760
Current liabilities		
- Forward foreign exchange contracts	12,269	23,980
- Interest rate swap contracts	153,909	4,353
	<u>166,178</u>	<u>28,333</u>

During the year ended December 31, 2010, the Group's subsidiaries in Australia entered into forward foreign exchange contracts to sell or purchase specified amounts of foreign currencies in the future at stipulated exchange rates. The objective of entering into the forward foreign exchange contracts is to reduce the foreign exchange rate related volatility of revenue stream and capital expenditure and thereby assist in risk management for the Group. The outstanding sell United States dollars contracts are hedging highly probable forecasted sales of coal, whereas the outstanding buy United States dollars, Euro and Yen contracts relate to the purchase of mining equipment.

As at December 31, 2010, the outstanding notional amount to sell United States dollars (sell United States dollars and buy Australian dollars) was approximately RMB4,169 million (2009: RMB1,143 million), all maturing within one year (2009: within one year) with forward rates ranging from 0.8369 to 0.9887 (2009: floor price and ceiling price of 0.7661 and 0.9044 respectively).

As at December 31, 2010, the outstanding notional amount to buy United States dollars (buy United States dollars and sell Australian dollars), buy Euro (buy Euro and sell Australian dollars) and buy Yen (buy Yen and sell Australian dollars) was approximately RMB79 million (2009: RMB74 million), nil (2009: RMB27 million) and RMB9 million (2009: RMB72 million) respectively, all maturing within one year (2009: within six months) with forward rates of approximately 0.8811 (2009: 0.753), nil (2009: 0.552) and floor price and ceiling price of 63.5 and 65 (2009: floor price and ceiling price of 71.7 and 72.7) respectively.

The Group's Australian subsidiaries also entered into contracts with banks to hedge a proportion of borrowings issued at variable interest rates through the use of floating-to-fixed interest rate swap contracts. As at December 31, 2010, the outstanding notional amount was approximately RMB1,503 million (2009: RMB282 million), maturing within three years (2009: within three years) at a hedge period of 3 months with floating rate and fixed rate of approximately 5.09% and 5.8312% respectively (2009: 4.2783% and 5.89%).

The Company also entered into contracts with three banks to hedge a proportion of borrowings issued at variable interest rates through the use of floating-to-fixed interest rate swap contracts. As at December 31, 2010, the outstanding notional amount was approximately RMB9,934 million (USD 1,500,000,000), maturing within four years at a hedge period of 3 months with floating rate as LIBOR + 0.75% and fixed rate of approximately 2.75%, 2.42% and 2.41% for the three contracts respectively. The non-current portion of the derivatives is not material and is included in current portion.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

36. DERIVATIVE FINANCIAL INSTRUMENTS—Continued

For the year ended December 31, 2009, no ineffective hedging portion has been included in the consolidated income statement. The effective hedging portion was recognized as current portion of derivative financial instruments in the consolidated balance sheet. For the year ended December 31, 2010, the ineffective hedging portion of the changes in fair values of the forward foreign exchange contracts of approximately RMB10 million was recognized as selling, general and administrative expenses in the consolidated income statement.

The fair values of the forward foreign exchange contracts are estimated based on the discounted cash flows between the contract forward rate and spot forward rate. The fair values of the interest rate swap contracts are estimated based on the discounted cash flows between the contract floating rate and the contract fixed rate.

37. LONG-TERM PAYABLE

	At December 31,	
	2010	2009
	RMB'000	RMB'000
Current liabilities		
- Deferred income of sale and leaseback	3,179	2,902
- Deferred payment for acquisition of interests in Minerva (i)	3,357	3,065
	<u>6,536</u>	<u>5,967</u>
Non-current liabilities		
- Deferred income of sale and leaseback	7,946	10,156
- Deferred payment for acquisition of interests in Minerva (i)	12,991	12,244
- Others	7,980	3,980
	<u>28,917</u>	<u>26,380</u>
Total	<u>35,453</u>	<u>32,347</u>

- (i) The carrying value of the deferred payment for acquisition of interests in Minerva is based on cash flows discounted using a rate of 7.5%.
- (ii) Felix incurred the deferred income of sale and leaseback and deferred payment for acquisition of interests in Minerva prior to its acquisition by the Group.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

38. DEFERRED TAXATION

	Available-for-sale investment	Accelerated tax depreciation	Fair value adjustment on mining rights (coal reserves)	Temporary differences on income and expenses recognized	Tax losses	Cash flow hedge reserve	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2009	(19,317)	(239,346)	(37,961)	225,125	66,914	8,831	4,246
Exchange re-alignment	—	—	—	(8,077)	—	—	(8,077)
Acquisition of Hua Ju Energy	—	—	—	2,017	—	—	2,017
Acquisition of Felix	—	—	(596,585)	(929,508)	554,300	(1,318)	(973,111)
Charge to other comprehensive income	(31,306)	—	—	—	—	(11,780)	(43,086)
(Charge) Credit to the consolidated income statement (note 12)	—	(61,880)	1,513	378,493	(57,543)	—	260,583
Balance at January 1, 2010	(50,623)	(301,226)	(633,033)	(331,950)	563,671	(4,267)	(757,428)
Exchange re-alignment	—	(3,897)	(40,040)	(30,255)	53,752	—	(20,440)
Disposal of a joint venture and subsidiaries	—	—	2,229	(5,653)	—	—	(3,424)
Credit (Charge) to other comprehensive income	21,818	—	—	—	—	(24,350)	(2,532)
Credit (Charge) to the consolidated income statement (note 12)	—	(230)	(32,738)	(406,304)	(253,945)	—	(693,217)
Balance at December 31, 2010	<u>(28,805)</u>	<u>(305,353)</u>	<u>(703,582)</u>	<u>(774,162)</u>	<u>363,478</u>	<u>(28,617)</u>	<u>(1,477,041)</u>

The temporary differences on income and expenses recognized mainly arose in respect of unpaid provision of salaries and wages, provisions of compensation fees for mining rights and land subsidence, restoration, rehabilitation and environmental costs and also included payments on certain expenses such as exploration costs and certain income in Australia.

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2010 RMB'000	2009 RMB'000
Deferred tax assets	1,124,166	1,027,659
Deferred tax liabilities	(2,601,207)	(1,785,087)
	<u>(1,477,041)</u>	<u>(757,428)</u>

At the balance sheet date, the Group has unused tax losses of RMB2,778 million (2009: RMB2,884 million) contributed by the subsidiaries available for offset against future profits. A deferred tax asset has been recognized in respect of RMB1,212 million (2009: RMB1,882 million) of such losses. No deferred tax asset has been recognized in respect of the remaining RMB1,566 million (2009: RMB1,002 million) due to the unpredictability of future profit streams. Included in unrecognized tax losses are losses of RMB106 million that will expire in 2012, losses of RMB 298 million that will expire in 2013 and losses of RMB357 million that will expire in 2014 (2009: losses of RMB55 million that will expire in 2011, losses of RMB106 million that will expire in 2012, losses of RMB298 million that will expire in 2013 and losses of RMB357 million that will expire in 2014). Other losses may be carried forward indefinitely.

By reference to financial budgets, management believes that there will be sufficient future profits for the realization of deferred tax assets which have been recognized in respect of tax losses.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

39. SHAREHOLDERS' EQUITY

Share capital

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

	<u>Domestic invested shares</u>		<u>Foreign invested shares H shares (including H shares represented by ADS)</u>	<u>Total</u>
	<u>State legal person shares (held by the Parent Company)</u>	<u>A shares</u>		
Number of shares				
At January 1, 2009, January 1, 2010 and December 31, 2010	<u>2,600,000,000</u>	<u>360,000,000</u>	<u>1,958,400,000</u>	<u>4,918,400,000</u>
	<u>State legal person shares (held by the Parent Company)</u>	<u>A shares</u>	<u>Foreign invested shares H shares (including H shares represented by ADS)</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Registered, issued and fully paid				
At January 1, 2009, January 1, 2010 and December 31, 2010	<u>2,600,000</u>	<u>360,000</u>	<u>1,958,400</u>	<u>4,918,400</u>

Each share has a par value of RMB1.

The Company has completed the implementation of the share reform plan on April 3, 2006 and the non-tradable legal person shares held by the Parent Company become tradable shares. The Parent Company guaranteed that it would not trade these shares in the market within 48 months from that day. As part of the share reform plan, the Parent Company agreed that the Group can participate in the investment and joint development in the oil production project of the Parent Company. Up to the issue of these financial statements, there is no progress on the project development and hence the shares held by the Parent Company are still not yet tradeable.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

39. SHAREHOLDERS' EQUITY—Continued

Reserves

Future Development Fund

Pursuant to regulation in the PRC, the Company, Shanxi Tianchi and Heze are 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.

Shanxi Tianchi is required to transfer an additional amount at RMB5 per tonne of raw coal mined from 2008 onwards as coal mine transformation fund.

Pursuant to the regulations of the Shandong Province Finance Bureau, State-owned Assets Supervision and Administration Commission of Shandong Province and the Shandong Province Coal Mining Industrial Bureau, the Company is required to transfer an additional amount at RMB5 per tonne of raw coal mined from July 1, 2004 to the reform specific development fund for the future improvement of the mining facilities and is not distributable to shareholders. No further transfer to the reform specific development fund is required from January 1, 2008.

In accordance with the regulations of the State Administration of Work Safety, the Company has a commitment to incur RMB8 (Shanxi Tianchi: RMB15) for each tonne of raw coal mined from May 1, 2004 which will be used for enhancement of safety production environment and improvement of facilities ("Work Safety Cost"). In prior years, the work safety expenditures are recognized only when acquiring the fixed assets or incurring other work safety expenditures. The Company, Heze and Shanxi Tianchi make appropriation to the future development fund in respect of unutilized Work Safety Cost from 2008 onwards. In accordance with the regulations of the State Administration of Work Safety, the Company's subsidiaries, Hua Ju Energy and Yulin, have a commitment to incur Work Safety Cost at the rate of: 4% of the sales income for the year below RMB10 million; 2% of the actual sales income for the year between RMB10 million and RMB100 million (included); 0.5% of the actual sales income for the year between RMB100 million and RMB1 billion (included); 0.2% of the actual sales income for the year above RMB1 billion. The unutilized Work Safety Cost at December 31, 2010 was RMB431,779,000.

Statutory Common Reserve Fund

The Company and its subsidiaries in the PRC have to set aside 10% of its profit for the statutory common reserve fund (except where the fund has reached 50% of its registered capital). The statutory common reserve fund can be used for the following purposes:

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



YANZHOU COAL MINING COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

39. SHAREHOLDERS' EQUITY—Continued

Reserves—Continued

Retained earnings

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

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

The Company's distributable reserve as at December 31, 2010 is the retained earnings computed under PRC GAAP which amounted to approximately RMB19,727,074,000 (At December 31, 2009: RMB15,062,956,000).

40. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 35 and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings, and amounted to RMB60,347,644,000 (2009: RMB51,661,648,000) as at December 31, 2010.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company assess the annual budget prepared by the accounting and treasury department and consider and evaluate the cost of capital and the risks associated with each class of capital. The Group will balance its capital structure through the payment of dividends, issue of new shares and new debts or the repayment of existing debts.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

41. FINANCIAL INSTRUMENT

41a. Categories of financial instruments

	At December 31,	
	2010	2009
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	21,468,083	17,515,714
Available-for-sale financial assets	224,442	295,295
Derivative financial instruments (financial instruments at fair value)	239,476	37,760
Financial liabilities		
Amortized cost	26,757,425	27,262,173
Derivative financial instruments (financial instruments at fair value)	166,178	28,333

41b. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale equity instrument, bills and accounts receivable, other receivables, bank balances and cash, term deposits, restricted cash, derivative financial instrument, bills and accounts payable, other payables, borrowings and amount due to Parent Company and its subsidiary companies. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no significant change to the Group's exposure to market risk or the manner in which it manages and measures the risk.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group.

At December 31, 2010 and 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from the failure to perform their obligations in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

41. FINANCIAL INSTRUMENT—Continued

41b. Financial risk management objectives and policies—Continued

Credit risk—Continued

The Group generally grants the customers with long-relationship credit terms not exceeding 180 days, 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 qualities, prices and final customer destinations of the Group’s export sales are determined by the Group, National Coal Corporation, Shanxi Coal Corporation or Minmetals Trading.

For the years ended December 31, 2010, 2009 and 2008, net sales to the Group’s five largest customers accounted for approximately 24.7%, 28.7% and 32.8%, respectively, of the Group’s total net sales. Net sales to the Group’s largest customer accounted for 13.0%, 15.4% and 17.7% of the Group’s net sales for the years ended December 31, 2010, 2009 and 2008, respectively. The Group’s largest customer was Huadian Power International Corporation Limited (“Huadian”) for the years ended December 31, 2010, 2009 and 2008.

Details of the accounts receivable from the five customers with the largest receivable balances at December 31, 2010 and 2009 are as follows:

	Percentage of accounts receivable	
	At December 31,	
	2010	2009
Five largest receivable balances	58.43%	62.18%

The management considers the strong financial background and good creditability of these customers, and there is no significant uncovered credit risk.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

41. FINANCIAL INSTRUMENT—Continued

41b. Financial risk management objectives and policies—Continued

Credit risk—Continued

The table below shows the credit limit and balance of 5 major counterparties at the balance sheet date:

Counterparty	Location	31.12.2010		31.12.2009	
		Credit limit RMB'000 (note)	Carrying amount RMB'000	Credit limit RMB'000 (note)	Carrying amount RMB'000
Company A	Australia	Not applicable	64,170	Not applicable	—
Company B	Korea	Not applicable	59,133	Not applicable	51,235
Company C	Korea	Not applicable	58,773	Not applicable	54,959
Company D	Australia	Not applicable	53,450	Not applicable	81,329
Company E	Japan	Not applicable	52,600	Not applicable	—
Company F	The PRC	Not applicable	—	Not applicable	43,592
Company G	The PRC	Not applicable	—	Not applicable	41,615
			288,126		272,730

Note: Customers in other countries of Australian subsidiaries have not been granted the credit limit. Australian subsidiaries generally make annual sales arrangements with customers.

The Group's geographical concentration of credit risk is mainly in East Asia (excluding the PRC) and Australia. As at December 31, 2010 and 2009, over 85% and 91% of the Group's total trade receivables were from Australia and from East Asia (excluding the PRC) respectively.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

41. FINANCIAL INSTRUMENT—Continued

41b. Financial risk management objectives and policies—Continued

Market risk

(i) Currency risk

The Group’s sales are denominated mainly in the functional currency of the relevant group entity making the sale, whilst costs are mainly denominated in the group entity’s functional currency. Accordingly, there is no significant exposure to foreign currency risk.

The carrying amounts of the Group’s foreign currency denominated monetary assets and monetary liabilities in currencies other than the functional currencies of the relevant group entities at the balance sheet date are as follows:

	Liabilities		Assets	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
United States Dollar (“USD”)	20,516,314	20,757,943	902,402	1,311,500
Euro (“EUR”)	—	—	222	3,611
Hong Kong Dollar (“HKD”)	—	—	6,062	7,309
Notional amounts of sell USD foreign exchange contracts used for hedging	—	—	4,169,000	1,143,416
Notional amounts of buy USD foreign exchange contracts used for hedging	79,000	73,713	—	—
Notional amounts of buy EUR foreign exchange contracts used for hedging	—	26,541	—	—
Notional amounts of buy Yen foreign exchange contracts used for hedging	9,000	71,511	—	—

The sales of the Group’s subsidiaries in Australia are mainly export sales and some of their fixed assets are imported from overseas. Their foreign exchange hedging policy is disclosed in note 36. The Group’s operations in the PRC do not adopt any foreign exchange hedging policy.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

41. FINANCIAL INSTRUMENT—Continued

41b. Financial risk management objectives and policies—Continued

Market risk—Continued

(i) Currency risk—Continued

Sensitivity analysis

The Group is mainly exposed to the fluctuation against the currency of United States Dollar and Hong Kong Dollar.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against relevant foreign currencies. 5% represents management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates and also assumes all other risk variables remained constant. The sensitivity analysis includes loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower.

	USD Impact (note i)		HKD Impact (note i)	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Increase (Decrease) to profit and loss				
- if RMB weakens against respective foreign currency	35,312	49,390	227	274
- if RMB strengthens against respective foreign currency	<u>(35,312)</u>	<u>(49,390)</u>	<u>(227)</u>	<u>(274)</u>

	USD Impact (note ii)	
	2010 RMB'000	2009 RMB'000
Increase (Decrease) to profit and loss		
- if AUD weakens against respective foreign currency	(718,045)	(739,749)
- if AUD strengthens against respective foreign currency	718,045	739,749
Increase (Decrease) to shareholders' equity		
- if AUD weakens against respective foreign currency	(725,998)	(740,615)
- if AUD strengthens against respective foreign currency	<u>725,998</u>	<u>740,615</u>



YANZHOU COAL MINING COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

41. FINANCIAL INSTRUMENT—Continued

41b. Financial risk management objectives and policies—Continued

Market risk—Continued

(i) Currency risk—Continued

Notes:

- (i) This is mainly attributable to the exposure outstanding on the bank deposit and loans to foreign operations within the Group of USD and HKD at year end in the Group.
- (ii) This is mainly attributable to the exposure outstanding on the loans to foreign operations within the Group, foreign currency bank borrowings and derivative financial instruments where the denomination of the loan is in a currency other than the functional currency of the borrower (i.e. AUD).

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances, term deposits, restricted cash (see note 17 for details of these bank balances) and bank borrowings (see note 35 for details of these borrowings).

The interest rate hedging policy of the Group is disclosed in note 36.

The Group's exposures to interest rate risk on financial assets and financial liabilities are detailed in the liquidity risk section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the PBOC arising from the Group's RMB borrowings, the LIBOR arising from the Group's USD borrowings and the Australian BBSY arising from the Group's AUD borrowings.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

41. FINANCIAL INSTRUMENT—Continued

41b. Financial risk management objectives and policies—Continued

Market risk—Continued

(ii) Interest rate risk—Continued

Sensitivity Analysis

The following table details the Group’s sensitivity to a change of 100 basis points in the interest rate, assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year and all the variables were held constant. It includes the interest rate fluctuation of the abovementioned PBOC rate, LIBOR and Australian BBSY rate.

	<u>2010</u> RMB’000	<u>2009</u> RMB’000
Increase (Decrease) to profit and loss		
-If increases by 100 basis points	(71,946)	(61,818)
-If decreases by 100 basis points	71,946	61,818
Increase (Decrease) to shareholders’ equity		
-If increases by 100 basis points	(34,692)	(61,818)
-If decreases by 100 basis points	<u>34,692</u>	<u>61,818</u>

(iii) Other price risk

In addition to the above risks relating to financial instruments, the Group is exposed to equity price risk through investment in listed equity securities and also to price risk in non financial instruments such as steel and metals (the Group’s major raw materials). The Group currently does not have any arrangement to hedge the price risk exposure of its investment in equity securities and its purchase of raw materials. The Group’s exposure to equity price risk through investment in listed equity securities and also the result of the sensitivity analysis is not significant.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

41. FINANCIAL INSTRUMENT—Continued

41b. Financial risk management objectives and policies—Continued

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk tables

	Weighted average effective interest rate %	Less than 3 months RMB'000	3-6 months RMB'000	6 months to 1 year RMB'000	1-5 years RMB'000	5+ years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount at 12.31 RMB'000
2010								
Non-derivative financial liabilities								
Bills and accounts payables	N/A	1,539,098	15,346	—	—	—	1,554,444	1,554,444
Other payables	N/A	1,732,092	—	—	—	—	1,732,092	1,732,092
Amount due to Parent								
Company and its subsidiary companies	N/A	438,783	—	—	—	—	438,783	438,783
Finance leases	6.9%-12.47%	38,185	38,185	76,370	898,025	—	1,050,765	822,004
Bank borrowings - variable rate	1.05%-7.6%	144,597	449,854	284,383	22,674,270	50,722	23,603,826	22,193,754
Long-term payable	N/A	1,626	—	1,576	10,968	2,337	16,507	16,348
		<u>3,894,381</u>	<u>503,385</u>	<u>362,329</u>	<u>23,583,263</u>	<u>53,059</u>	<u>28,396,417</u>	<u>26,757,425</u>
Financial guarantees issued								
Maximum amount guaranteed (note)								
	N/A	—	—	—	—	532,607	532,607	—
Derivative financial instruments – gross settlement								
Forward foreign exchange contracts - Outflow								
	N/A	14,747	41,098	32,155	—	—	88,000	88,000
Derivative financial instruments – net settlement								
Interest rate swap contracts								
	N/A	38,297	37,103	67,529	10,980	—	153,909	153,909



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

41. FINANCIAL INSTRUMENT—Continued

41b. Financial risk management objectives and policies—Continued

Liquidity risk—Continued

	Weighted average effective interest rate %	Less than 3 months RMB'000	3-6 months RMB'000	6 months to 1 year RMB'000	1-5 years RMB'000	5+ years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount at 12.31 RMB'000
2009								
Non-derivative financial liabilities								
Bills and accounts payables	N/A	1,306,265	60,711	—	—	—	1,366,976	1,366,976
Other payables	N/A	2,612,165	—	—	—	—	2,612,165	2,612,165
Amount due to Parent								
Company and its subsidiary companies	N/A	757,882	—	—	—	—	757,882	757,882
Finance Leases	6.9%-12.47%	656,703	—	—	—	—	656,703	656,703
Bank borrowings - variable rate	4.02%-7.6%	919,410	11,254	11,588	24,930,041	92,394	25,964,687	21,853,138
Long-term payable	N/A	1,532	—	1,532	15,324	3,065	21,453	15,309
		<u>6,253,957</u>	<u>71,965</u>	<u>13,120</u>	<u>24,945,365</u>	<u>95,459</u>	<u>31,379,866</u>	<u>27,262,173</u>
Financial guarantees issued								
Maximum amount guaranteed (note)	N/A	—	—	—	—	286,181	286,181	—
Derivative financial instruments – gross settlement								
Forward foreign exchange contracts - Outflow	N/A	100,254	71,511	—	—	—	171,765	171,765
Derivative financial instruments – net settlement								
Interest rate swap contracts	N/A	4,353	—	—	—	—	4,353	4,353

Note: the amount presented is the maximum contractual presented under guarantees issued.

41c. Fair values

The fair value of available-for-sales investment is determined with reference to quoted market price. The fair values of the forward foreign exchange contracts are estimated based on the discounted cash flows between the contract forward rate and spot forward rate. The fair values of interest rate swap contracts are estimated based on the discounted cash flows between the contract floating rate and contract fixed rate. The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

41. FINANCIAL INSTRUMENT—Continued

41c. Fair values—Continued

Fair values of financial assets and financial liabilities are determined as follows:

The following table presents the carrying value of financial instruments measured at fair value across the three levels of the fair value hierarchy defined in IFRS 7 (Amendment). The levels of fair value are defined as follows:

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	At December 31 Total RMB'000
2010				
Assets				
Available-for-sale investments				
- Investments in securities listed on the SSE	194,258	—	—	194,258
Derivative financial instruments				
- Forward foreign exchange contracts	—	239,476	—	239,476
	<u>194,258</u>	<u>239,476</u>	<u>—</u>	<u>433,734</u>
Liabilities				
Derivative financial instruments				
- Forward foreign exchange contracts	—	12,269	—	12,269
- Interest rate swap contracts	—	153,909	—	153,909
	<u>—</u>	<u>166,178</u>	<u>—</u>	<u>166,178</u>
2009				
Assets				
Available-for-sale investments				
- Investments in securities listed on the SSE	264,672	—	—	264,672
Derivative financial instruments				
- Forward foreign exchange contracts	—	37,760	—	37,760
	<u>264,672</u>	<u>37,760</u>	<u>—</u>	<u>302,432</u>
Liabilities				
Derivative financial instruments				
- Forward foreign exchange contracts	—	23,980	—	23,980
- Interest rate swap contracts	—	4,353	—	4,353
	<u>—</u>	<u>28,333</u>	<u>—</u>	<u>28,333</u>

There were no transfers between Levels 1 and 2 during the year ended December 31, 2010 and 2009.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

42. ACQUISITION OF HUA JU ENERGY

On October 24, 2008, the Company entered into an acquisition agreement with the Parent Company to acquire 74% equity interest in Hua Ju Energy. On February 18, 2009, the acquisition was completed and the consideration of RMB593,243,000 was fully paid to the Parent Company to acquire 74% equity interest of Hua Ju Energy. The net assets acquired were included in the methanol, electricity and heat supply segment.

In July 2009, the Company paid RMB173,007,000 to three former shareholders of Hua Ju Energy to acquire additional 21.14% equity interest in Hua Ju Energy which gives rise to goodwill of RMB38,187,000.

This acquisition has been accounted for using the purchase method.

The net assets of Hua Ju Energy acquired, and the goodwill arising, are as follows:

	<u>Fair value</u> <u>RMB'000</u>
Bank balances and cash	4,567
Bills and accounts receivable	2,129
Inventories	3,611
Prepayments and other receivables	79,563
Other current assets	25,246
Property, plant and equipment	755,213
Prepaid lease payment	74,652
Available-for-sale financial assets	30,182
Deferred tax assets	2,017
Accounts payable	(64,760)
Customers' deposits and other payables	(263,297)
Other current liabilities	(120,000)
Net assets acquired	529,123
Non-controlling interests	(137,572)
Goodwill arising on acquisition	201,692
	<u>593,243</u>
Total consideration satisfied by:	
Cash consideration paid on acquisition	<u>593,243</u>
Net cash outflow arising on acquisition:	
Cash paid on acquisition	(593,243)
Bank balances and cash acquired	4,567
	<u>(588,676)</u>

There is no significant difference between the carrying value and the fair value of net assets of Hua Ju Energy.



YANZHOU COAL MINING COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

42. ACQUISITION OF HUA JU ENERGY—Continued

Goodwill arising from acquisition of Hua Ju Energy is mainly because this acquisition can establish an electricity management platform for the Group and is beneficial to the future development of coal resources of the Group. It also ensures stable supply of electricity to the Group, reduce operating costs, and enhance profitability and operating results. It further ensures environmental disposal of waste products such as coal gangue produced from the Group's mining operations.

During the period from the acquisition date/the beginning period date to December 31, 2009, this transaction does not have any material impact on the revenue and operating results of the Group.

43. ACQUISITION OF FELIX

On 13 August 2009, the Company entered into a binding scheme implementation agreement with Felix to acquire 100% equity interest in Felix. On December 23, 2009, the acquisition was completed and the Company paid the consideration of AUD3,333 million to all the shareholders of Felix. On December 30, 2009, Felix was delisted from the Australian Securities Exchange and all legal procedures of acquiring all of the Felix shares have been completed. The net assets acquired were included in the coal mining segment.

This acquisition has been accounted for using the purchase method.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

43. ACQUISITION OF FELIX—Continued

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

	Carrying amounts RMB'000	Fair value adjustments RMB'000	Fair values RMB'000
Bank balances and cash	872,435	—	872,435
Term deposits	91,941	—	91,941
Bills and accounts receivable	292,008	—	292,008
Inventories	306,444	(39,349)	267,095
Prepayments and other receivables	214,501	—	214,501
Derivative financial instrument assets	27,928	—	27,928
Tax recoverable	46,777	—	46,777
Other currents assets	350,676	—	350,676
Property, plant and equipment, net	2,842,046	704,861	3,546,907
Available-for-sale financial assets	1	—	1
Interests in jointly controlled entities	1,257	—	1,257
Intangible assets	1,312,393	16,535,630	17,848,023
Accounts payable	(390,927)	—	(390,927)
Receipts in advance and other payables	(700,833)	—	(700,833)
Borrowings	(1,573,956)	—	(1,573,956)
Derivative financial instrument liabilities	(28,333)	—	(28,333)
Deferred taxation	(376,526)	(596,585)	(973,111)
Provision for land subsidence, restoration, rehabilitation and environmental costs	(48,170)	—	(48,170)
Other long-term payables	(28,367)	—	(28,367)
Net assets acquired			19,815,852
Non-controlling interests			(23,542)
Goodwill arising on acquisition			766,816
			<u>20,559,126</u>
Total consideration satisfied by:			
Cash consideration paid on acquisition			20,428,030
Direct acquisition costs paid			2,949
Direct acquisition costs not yet settled			128,147
			<u>20,559,126</u>
Net cash outflow arising on acquisition:			
Cash paid on acquisition			(20,430,979)
Bank balances and cash acquired			872,435
			<u>(19,558,544)</u>

During the period from the acquisition date to December 31, 2009, Felix did not have any material impact on the revenue and operating results the Group.

If the acquisition had been completed on January 1, 2009, the Group's revenue for the year would have been RMB23,894 million, and the Group's profit for the year would have been RMB4,914 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2009, nor is it intended to be a projection of future results.



YANZHOU COAL MINING COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

43. ACQUISITION OF FELIX—Continued

The goodwill arising from the acquisition is attributable to the extension of coal reserves and diversification of operations by the Group, and operational synergies and strategic benefits.

44. ACQUISITION OF THREE SUBSIDIARIES

In 2009, the Group signed a co-operation agreement with an independent third party for the acquisition of 100% equity of Yize. The acquisition was completed on April 30, 2010 with a consideration of RMB179.7 million being paid to the shareholders of Yize.

During the year, the Group has also completed the acquisition of 100% equity of Inner Mongolia Rongxin Chemical Co., Ltd (“Rongxin Chemicals”) and Inner Mongolia Daxin Industrial Gas Co., Ltd (“Daxin Industrial”) with cash consideration of RMB4.4 million and RMB6 million respectively.

Yize, Rongxin Chemicals and Daxin Industrial have not engaged in any operating activities at the acquisition date and the acquisitions were reflected as purchases of assets and liabilities of which no goodwill was recognized.

Net book values of the acquired net assets at acquisition dates are as follow:

	<u>Carrying amounts</u> <u>RMB'000</u>
Inventories	7
Prepayments and other receivables	15,600
Property, plant and equipment, net	4,751
Prepaid lease payments	55,418
Intangible assets	131,985
Other payables	(17,666)
Net assets acquired	<u>190,095</u>
Considerations:	
Cash paid on acquisition	133,000
Deposit paid for acquisition of investment in prior year	57,095
	<u>190,095</u>
Net cash outflow arising on acquisition	<u>(133,000)</u>



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

45. DISPOSAL OF A JOINT VENTURE

As at December 31, 2010, the Group disposed of its 51% interest in Minerva joint venture to an independent third party at a consideration of AUD191,860,000 (RMB1,235,840,000).

Net assets of joint venture disposed of are as follows:

	<u>Carrying amounts</u> RMB'000
Total assets	1,401,548
Total liabilities	(283,636)
	<u>1,117,912</u>
Gain on disposal of a joint venture	117,928
Total consideration	<u>1,235,840</u>
Cash inflow (outflow) of the disposal	
Cash consideration	1,235,840
Disposal of cash and bank balance	(88,019)
Net cash inflow from the disposal of Minerva	<u>1,147,821</u>

During the year, the Group has also disposed of its interests in Minerva Mining Pty Ltd, Minerva Coal Pty Ltd and Felix Coal Sales Pty Ltd, subsidiaries related to the operations of Minerva joint venture. The subsidiaries are not material to the Group and their assets, liabilities and related profit or loss on disposal have been included in the above disposal of a joint venture.

46. RELATED PARTY BALANCES AND TRANSACTIONS

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

Related party balances

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

The amounts due to the Parent Company and its subsidiary companies as at December 31, 2010 and 2009 included the present value of the outstanding balance that arose from the funding of the acquisition of the mining rights of Jining III as of January 1, 2001 discounted using the market rate of bank borrowings.

The consideration for the cost of the mining rights of approximately RMB132,479,000 is to be settled over the 10 years, commencing from 2001.

Except the amounts disclosed above, the amount due to the Parent Company and / or its subsidiary companies are repayable on demand.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

46. RELATED PARTY BALANCES AND TRANSACTIONS—Continued

Related party transactions

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

	Year ended December 31,		
	2010	2009	2008
	RMB'000	RMB'000	RMB'000
<i>Income</i>			
Sales of coal	2,672,424	2,086,542	1,384,415
Sales of auxiliary materials	454,254	317,479	550,986
Sales of heat and electricity	235,002	204,061	—
<i>Expenditure</i>			
Utilities and facilities	34,006	39,069	376,288
Annual fee for mining rights	—	—	—
Purchases of supply materials and equipment	421,606	598,498	471,768
Repair and maintenance services	262,478	388,917	253,864
Social welfare and support services	794,621	769,561	255,265
Technical support and training	26,000	26,000	20,000
Road transportation services	64,945	79,560	86,671
Construction services	655,311	242,593	294,938

Certain expenditure for social welfare and support services (excluding medical and child care expenses) of RMB259,575,000, RMB165,900,000 and RMB165,900,000 for the years ended December 31, 2010, 2009 and 2008, respectively, and for technical support and training of RMB26,000,000, RMB26,000,000 and RMB20,000,000, have been charged by the Parent Company at a new negotiated amount per annum, subject to changes every year.

During the year ended December 31, 2008, the Company acquired Zhaolou coal mine from the Parent Company.

During the year ended December 31, 2009, the Company acquired 74% equity interest in Hua Ju Energy from the Parent Company. Details of this acquisition are set out in note 42.

In addition to the above, the Company participates in a retirement benefit scheme of the Parent Company in respect of retirement benefits (note 48).

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

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



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

46. RELATED PARTY BALANCES AND TRANSACTIONS—Continued

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

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

	Year ended December 31,		
	2010 RMB'000	2009 RMB'000	2008 RMB'000
Trade sales	9,823,814	6,970,855	10,253,998
Trade purchases	1,581,427	1,191,783	1,328,958

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

	At December 31,	
	2010 RMB'000	2009 RMB'000
Amounts due to other state-controlled entities	443,403	359,726
Amounts due from other state-controlled entities	1,320,801	1,101,535

Amounts due to and from state-controlled entities are trade nature of which terms are not different from other customers (notes 18 and 32).

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

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

Balances and transactions with jointly controlled entities

Due from a jointly controlled entity:

	Year ended December 31,	
	2010 RMB'000	2009 RMB'000
Due from a jointly controlled entity (note 20)	115,480	66,321

The amount due from a jointly controlled entity is unsecured and interest-free.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

46. RELATED PARTY BALANCES AND TRANSACTIONS—Continued

Balances and transactions with jointly controlled entities—Continued

As at December 31, 2010, the trade balances between the Group and a jointly controlled entity are disclosed in notes 18 and 32. The jointly controlled entity was obtained through the acquisition of Felix. During the year, sales to the jointly controlled entity by the Group's Australian subsidiaries amounted to RMB 1,202,255,000 (2009: nil).

Compensation of key management personnel

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

	Year ended December 31,		
	2010	2009	2008
	RMB'000	RMB'000	RMB'000
Directors' fee	452	436	426
Salaries, allowance and other benefits in kind	4,548	3,292	2,545
Retirement benefit scheme contributions	778	550	407
	<u>5,778</u>	<u>4,278</u>	<u>3,378</u>

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

47. COMMITMENTS

	At December 31,	
	2010	2009
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements		
Acquisition of property, plant and equipment		
- the Group	814,800	5,308
- share of joint ventures	207,111	708,573
Exploration and evaluation expenditure		
- share of joint ventures	—	2,315
	<u>1,021,911</u>	<u>716,196</u>
Capital expenditure authorized but not contracted for Acquisition of property, plant and equipment		
- the Group	—	142,565

During 2006, the Company entered into a co-operative agreement with two independent third parties to establish a company for acquiring a coal mine in Shaanxi province for operations. In addition to the deposit referred to in note 29, the Company is committed to invest a further RMB78.8 million as at December 31, 2010 and 2009.



YANZHOU COAL MINING COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

47. COMMITMENTS—Continued

Pursuant to the regulations issued by the Shandong Province Finance Bureau, the Group has to pay a deposit of RMB1,980 million (2009: RMB1,980 million) to the relevant government authority, which secured for the environmental protection work done by the Company. As at December 31, 2010, deposit of RMB222 million (2009: RMB212 million) were made and the Company is committed to further make security deposit of RMB1,758 million. (2009: RMB1,768 million)

During 2007, the Company entered into an agreement with the Parent Company and China Credit Trust Co., Ltd. to establish a company, named of Yankuang Group Finance Company Limited. In November 2009, the Company has received the approval from China Banking Regulatory Commission. The Company shall contribute RMB125 million from internal resources, which would account for 25% of the equity interest in the Investee. On April 20, 2010, all the investors signed a formal joint venture establishment agreement. Details of the establishment are set out in note 28.

Compensation fees for mining rights are required to be pay annually and details are set out in note 23.

In 2009, the Company entered into agreements with third parties to acquire three subsidiary companies. The Company has made deposits of RMB 57 million in 2009 and the Group paid additional consideration of RMB133 million during the year. The acquisitions were completed during the year and details of the acquisitions are set out in note 44.

On October 27, 2009, the board of directors of the Company passed a resolution for additional investment in Yanmei Heze Neng Hua Co., Ltd of RMB1.5 billion by internal funding and thereby increasing its registered capital from RMB1.5 billion to RMB3 billion. The percentage of equity interest held by the Company increased from 96.67% to 98.33% and this capital increase was completed in March 2010.

On December 30, 2010, the Company's board of directors approved to increase the capital investment in its wholly-owned subsidiary in Australia, Yancoal Australia Limited, by AUD909 million (approximately RMB5,900 million) by internal funding and thereby increasing its registered capital from AUD64 million to AUD973 million. The capital increase has been approved by the related governmental authorities and the procedures for remitting the capital increase are currently in progress.

As at December 31, 2010, the Company's board of directors approved the acquisition of 30% equity interest in Ashton joint venture at a consideration of USD250 million. Up to the date of these financial statements, the acquisition has been completed.



YANZHOU COAL MINING COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

48. RETIREMENT BENEFITS

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

Pursuant to the Provision of Insurance Fund Administrative Services Agreement entered into by the Company and the Parent Company on November 7, 2008, the monthly contribution rate is set at 20% (2009: 20%; 2008: 45%) of the total monthly basic salaries and wages of the Company's employees for the period from January 1, 2009 to December 31, 2011. Retirement pension and other welfare benefits will be provided by the Parent Company on the actual cost basis, which will be reimbursed by the Company after the actual payment made by the Parent Company (included in 45% contribution rate in pension scheme for the years ended December 31, 2008).

The amount of contributions paid to the Parent Company were RMB640,933,000, RMB520,273,000 and RMB759,356,000 for the years ended December 31, 2010, 2009, and 2008, respectively.

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

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.

49. HOUSING SCHEME

The Parent Company is responsible for providing accommodation to its employees and the domestic 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, 2010, 2009 and 2008. Such expenses, amounting to RMB140,000,000, RMB140,000,000 and RMB86,200,000 for each of the three years ended December 31, 2010, 2009 and 2008 respectively, have been included as part of the social welfare and support services expenses summarized in note 48.

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.



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YANZHOU COAL MINING COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

50. MAJOR NON-CASH TRANSACTION

During the year ended December 31, 2010, the Group acquired certain property, plant and equipment, of which RMB324,136,000 (2009: RMB606,227,000) have not yet been paid.

During the year ended December 31, 2010, the Group acquired certain property, plant and equipment at cost of RMB261,556,000 under finance leases.

51. POST BALANCE SHEET EVENT

On January 24, 2011, the Company, the Parent Company, and Shaanxi Yanchang Petroleum (Group) Corp. Ltd (“Yanchang Petroleum”) entered into an agreement for the formation of Shaanxi Future Energy Chemical Corp. Ltd. Upon completion of the agreement, the Parent Company, the Company and Yanchang Petroleum will contribute RMB2.7 billion, RMB1.35 billion and RMB1.35 billion as capital contribution and will hold 50%, 25% and 25% equity interest in the investee company respectively.

On January 17, 2011, the Company’s board of directors approved to increase the registered capital of Ordos by RMB2.6 billion with its internal resources. The registered capital of Ordos will therefore increase from RMB500 million to RMB3.1 billion. As of the date of these financial statements, the increase in registered capital has completed.

On January 28, 2011, the Company’s board of directors approved Ordos to participate in the public auction of the mining rights of Zhuan Longwan coal mine zone. Ordos was successful in the bidding at a consideration of RMB7.8 billion and entered into a confirmation agreement with the relative governmental authority of the Inner Mongolia Autonomous Region.

On March 31, 2011, the Company entered into equity transfer agreement with Ordos City Jiutaimanlai Coal Mining Company Limited (“Jiutaimanlai”) and Jiutai Technology to acquire 10% of the equity interests in Hao Sheng held by Jiutaimanlai and Jiutai Technology for a consideration of approximately RMB1,313.8 million. The share ownership transfer procedures were completed in April 2011. Up to the date of these financial statements, the Company hold 61% of the equity interests in Hao Sheng but the mining right of Shilawusu Coal Field has not yet been obtained.



YANZHOU COAL MINING COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

52. CONTINGENT LIABILITIES

	At December 31,	
	2010	2009
	RMB'000	RMB'000
Guarantees		
(a) The Group		
Guarantees secured over deposits	43,970	4,294
Performance guarantees provided to external parties	248,763	197,466
Guarantees provided in respect of the cost of restoration of certain mining leases, given to government departments as required by statute	201,167	41,334
(b) Joint ventures		
Guarantees secured over deposits	504	460
Performance guarantees provided to external parties	463	423
Guarantees provided in respect of the cost of restoration of certain mining leases, given to government departments as required by statute	37,740	42,204
	<u>532,607</u>	<u>286,181</u>

53. OPERATING LEASE COMMITMENTS

	At December 31,	
	2010	2009
	RMB'000	RMB'000
Within one year	6,043	27,765
More than one year, but not more than five years	4,922	205,155
	<u>10,965</u>	<u>232,920</u>

Operating leases have average remaining lease terms of 1 to 5 years. Items that are subject to operating leases include mining equipment, office space and small items of office equipment.



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YANZHOU COAL MINING
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EXHIBIT 1.1

ARTICLES OF ASSOCIATION

OF

YANZHOU COAL MINING COMPANY LIMITED

(As approved by the 2011 First Extraordinary General Meeting
of the Company held on 18 February 2011)



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OF YANZHOU COAL MINING COMPANY LIMITED

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ARTICLES OF ASSOCIATION OF
YANZHOU COAL MINING COMPANY LIMITED
CHAPTER 1: GENERAL PROVISIONS

- Article 1. These Articles of Association are drawn up in accordance with the “Company Law of the People’s Republic of China” (the “Company Law”), the “Securities Law of the People’s Republic of China”, the “Mandatory Provisions for the Articles of Association of the Company to be Listed Overseas” (“Mandatory Provisions”) and other relevant laws and regulations with the aims of protecting the legitimate interests of Yanzhou Coal Mining Company Limited (the “Company”) and its shareholders and creditors, and regulating the organization and conducts of the Company. Guide 1
- Article 2. The Company is a joint stock limited company established in accordance with the Company Law, “State Council’s Special Regulations Regarding the Issue of Shares Overseas and the Listing of Shares Overseas by Companies Limited by Share” (the “Special Regulations”) and other relevant laws and regulations of the State. MP1
- The Company was established by way of promotion with the approval of the People’s Republic of China’s State Commission for Restructuring the Economic System on 24 September 1997, as evidenced by approval document *Ti Gai Sheng [1997]* no. 154 of 1997. It is registered with and has obtained a business licence from China’s State Administration Bureau of Industry and Commerce on 25 September 1997. The Company’s business licence number is: 370000400001016.
- The promoter of the Company is: Yankuang (Group) Corporation Ltd.
- Article 3. The Company’s registered Chinese name: 兗州煤業股份有限公司 MP2
The Company’s registered English name: Yanzhou Coal Mining Company Limited
- Article 4. The Company’s address : 298 South Fushan Road MP3
Zoucheng
Shandong Province
China
Telephone number : 0537-5383310
Facsimile number : 0537-5383311
Postal code : 273500
- Article 5. The Company’s legal representative is the Chairman of the board of directors of the Company. MP4



Article 6. The Company is a joint stock limited company which has perpetual existence. MP5

Article 7. The Company's Articles of Association shall take effect from the date of incorporation of the Company. MP6

From the date on which these Articles of Association come into effect, this Articles of Association shall constitute a legally binding document regulating the Company's organisation and activities, and the rights and obligations between the Company and each shareholder and among the shareholders inter se.

Article 8. These Articles of Association are binding on the Company and its shareholders, directors, supervisors, general manager, deputy general managers and other senior officers of the Company; all of whom are entitled, according to these Articles of Association, to make suggestions in respect of rights concerning the affairs of the Company. MP7

A shareholder may take action against the Company pursuant to these Articles of Association and vice versa. A shareholder may also take action against another shareholder, the directors, supervisors, general manager, deputy general managers and other senior officers of the Company pursuant to these Articles of Association.

The actions referred to in the preceding paragraph include court proceedings and arbitration proceedings.

Article 9. All assets of the Company are divided into shares of equal value. The shareholders are liable for the Company up to the amount of shares they subscribed and all the Company's assets are made liable for its debts. MP8

The Company may invest in other limited liability companies or limited stock companies. The Company is liable for an invested company up to the amount of capital it contributes to the invested company.

Article 10. Senior officers of the Company refer to the Company's general manager, deputy general manager, financial controller, chief engineer and secretary to the board of directors. Guide 11

CHAPTER 2: THE COMPANY'S OBJECTIVES AND SCOPE OF BUSINESS

Article 11. The Company's objectives are: MP9

(a) To comply with the laws and regulations in the market;



- (b) To continue to explore business opportunities which are suitable for the Company;
- (c) To fully utilise every resource of the Company;
- (d) To place emphasis on the training of its employees and technological development;
- (e) To provide the society with products which are competitive; and
- (f) To use its best endeavours to maximise its profits.

Article 12. The Company's scope of business shall be consistent with and subject to the scope of business approved by the authority responsible for the registration of the Company. MP10

The business scope of the company includes: selection and sale of coal (among others, the export of coal should be made through companies with coal export right according to the existing state regulations); transportation of goods through self-owned railway within the mining area; transportation of goods through highway; operation of ports; manufacture, sale, lease and repair of relevant mining equipments; production and sale of other mining materials; sale and lease of electronic equipments and sale of parts; sale of metallic materials, electronic products, construction materials, timber, rubber products and methanol; composition of mining, science and technological services; property development within the mining areas, property leasing and provision of services such as dining and accommodation; production and sale of coal residual stones as construction materials; sale of coking coal and iron ore; import and export of goods and technology; warehousing; automotive repairs.

Subject to compliance with applicable laws and administrative regulations of the People's Republic of China ("PRC") the Company has the power to raise and borrow money which power includes (without limitation) the issue of debentures, the charging or mortgaging of part or whole of the Company's business or properties and to provide guarantees or mortgages for the debts of third parties (including, without limitation, the subsidiaries or associated companies of the Company) in all types of circumstances.

CHAPTER 3: SHARES AND REGISTERED CAPITAL

Article 13. There must, at all times, be ordinary shares in the Company. Subject to the approval of the companies approving department authorised by the State Council, the Company may, according to its requirements, create different classes of shares. MP11



Article 14.	Shares of the Company are in the form of share certificates.	Guide 14
Article 15.	The issue of shares by the Company shall adhere to the principles of openness, fairness and equitable. Every share of the same class shall rank pari passu to every other share of the same class. Shares of the same class issued at the same time shall have the same terms and price. The same amount of money is payable by a unit or an individual subscribing the share.	Guide 15
Article 16.	The shares issued by the Company shall each have a par value of Renminbi one yuan. "Renminbi" means the legal currency of the PRC.	MP12
Article 17.	Subject to the approval of the State Council Securities Policy Committee, the Company may issue shares to Domestic Investors and Foreign Investors. "Foreign Investors" mean those investors who subscribe for the Company's shares and who are located in foreign countries and in the regions of Hong Kong, Macau and Taiwan. "Domestic Investors" mean those investors who subscribe for the Company's shares and who are located within the territory of the PRC.	MP13
Article 18.	Shares which the Company issues to Domestic Investors for subscription in Renminbi shall be referred to as "Domestic-Invested Shares". Shares which the Company issues to Foreign Investors for subscription in foreign currencies shall be referred to as "Foreign-Invested Shares". Foreign-Invested Shares which are listed overseas are called "Overseas-Listed Foreign-Invested Shares". "Foreign currencies" mean the legal currencies of countries or districts outside the PRC which are recognised by the foreign exchange authority of the State and which can be used to pay the share price to the Company. Domestic-Invested Shares issued by the Company shall be referred to as "A Shares". Overseas-Listed Foreign-Invested Shares issued by the Company and which are listed in Hong Kong shall be referred to as "H Shares". H Shares as shares which have been admitted for listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the par value of which is denominated in Renminbi and which are subscribed for and traded in Hong Kong dollars. H Shares can also be listed on a stock exchange in the United States in the form of American Depository Receipts.	MP14, App.3 9
Article 19.	Subject to the approval of the companies approving department authorised by the State Council, the Company has issued a total of 4,918,400,000 ordinary shares, of which 1,670,000,000 ordinary shares were issued to the promoters at the time of establishment.	MP15, App.3 9



- Article 20. The share capital structure of the Company is as follows: 4,918,400,000 ordinary shares, of which (a) 2,600,000,000 shares, which represent 52.86% of the Company’s share capital, are held by Yankuang (Group) Corporation Ltd. as domestic legal person shares; (b) 1,958,400,000 shares, which represent 39.82% of the Company’s share capital, are held by the H Shares shareholders; and (c) 360,000,000 shares, which represent 7.32% of the Company’s share capital, are held by the A Shares shareholders. MP16, App. 3 9
- Article 21. The Company’s board of directors may take all necessary action for the issuance of Overseas-Listed Foreign-Invested Shares and Domestic-Invested Shares after proposals for issuance of the same have been approved by the State Council’s securities authorities. MP17
- The Company may implement its proposal to issue Overseas-Listed Foreign-Invested Shares and Domestic-Invested Shares pursuant to the preceding paragraph within fifteen (15) months from the date of approval by the State Council’s securities authorities.
- Article 22. Where the total number of shares stated in the proposal for the issuance of shares include Overseas-Listed Foreign-Invested Shares and Domestic-Invested Shares, such shares should be fully subscribed for at their respective offerings. If the shares cannot be fully subscribed for all at once due to special circumstances, the shares may, subject to the approval of the State Council’s securities authorities, be issued in separate branches. MP18
- Article 23. The registered capital of the Company shall be RMB4,918,400,000. The Company shall register its registered capital with the state industry and commerce department and make the necessary filings with the companies approving department authorised by the State Council and the State Council’s securities authorities. MP19
- Article 24. The Company may, based on its operating and development needs, authorise the increase of its capital pursuant to these Articles of Association. MP20
- The Company may increase its capital in the following ways:
- (1) by offering new shares for subscription by specified or unspecified investors;
 - (2) by issuing new shares to its existing shareholders;
 - (3) by allotting bonus shares to its existing shareholders;
 - (4) to increase the capital by way of transfer from reserve; Guide 21



(5) by any other means which is permitted by law and administrative regulation.

After the Company's increase of share capital by means of the issuance of new shares has been approved in accordance with the provisions of these Articles of Association, the issuance thereof should be made in accordance with the procedures set out in the relevant laws and administrative regulations.

Article 25.	Unless otherwise stipulated in the relevant laws or administrative regulations, shares in the Company shall be freely transferable and are not subject to any lien.	MP21, App.3 1(2)
Article 26	The Directors, Supervisors and Senior Officers of the Company shall declare to the Company their holdings in the Company's shares and inform the same if there are any changes in their holdings subsequently. During their terms of office, shares being transferred every year must not exceed 25% of their holdings in the Company's shares. No transfer of their holdings shall be made within one year after the Company's shares were listed. No transfer of their holdings in the Company's shares shall be made within six months after they cease to hold their respective offices.	Guide 28
Article 27	When Directors, Supervisors or Senior Officers of the Company or shareholders holding more than 5% of the shares of the Company sell their shares within six months after they are acquired or purchase shares within six months after they are disposed of, the board of directors shall repatriate any profits derived from such dealings and the profits derived shall belong to the Company. However, for securities companies which have acquired shares underwritten and become shareholders having more than 5% of the shares of the Company shall not be restricted by the six-month restriction mentioned above when they sell their shares. If the board of directors fails to enforce the provisions as set out above, the shareholders are entitled to request the board of directors to enforce them within thirty days. If the board of directors still fails to enforce within the said timeline, the shareholders are entitled to commence legal proceeding at the People's Court directly in their own names in the interests of the company. If the board of directors fails to enforce the first clause, the directors responsible shall be liable pursuant to the laws."	Guide 29
Article 28	The Company shall not accept the Company's shares as the object of a pledge.	



CHAPTER 4: REDUCTION OF CAPITAL AND
REPURCHASE OF SHARES

- Article 29. The Company may reduce its registered share capital. In so doing, it shall act according to the Company Law, other relevant provisions and these Articles of Association. Guide 22
- Article 30. The Company must prepare a balance sheet and an inventory of assets when it reduces its registered capital. MP23, App.3 7(1)
 The Company shall notify its creditors within ten (10) days of the date of the Company’s resolution for reduction of capital and shall publish an announcement in a newspaper at least three (3) times within thirty (30) days of the date of such resolution. A creditor has the right within thirty (30) days of receipt of the notice from the Company or, in the case of a creditor who does not receive such notice, within forty-five (45) days of the date of the first public announcement, to require the Company to repay its debts or to provide a corresponding guarantee for such debt.
 The Company’s registered capital may not, after the reduction in capital, be less than the minimum amount prescribed by law.
- Article 31. The Company may, in accordance with the procedures set out in these Articles of Association and with the approval of the relevant governing authority of the State, repurchase its issued shares under the following circumstances: MP24
- (1) cancellation of shares for the purposes of reducing its capital;
 - (2) merging with another company that holds shares in the Company;
 - (3) to grant the shares as incentives to the Company’s staff; Guide 23
 - (4) shareholders who disagree with the resolutions for the merger and separation of the Company made in a general meeting may demand the Company to purchase their shares.”
 - (5) other circumstances permitted by laws and administrative regulations.
- Apart from the above, the Company is not allowed to engage in trading of its own shares.
- Article 32. The Company may repurchase shares in one of the following ways, with the approval of the relevant governing authority of the State: MP25
- (1) by making a general offer for the repurchase of shares to all its shareholders on a pro rata basis;



- (2) by repurchasing shares through public dealing on a stock exchange;
- (3) by repurchasing shares outside of the stock exchange by means of an off-market agreement;
- (4) other means as authorized by the competent securities authorities under the State Council. Guide 24

Article 33. The Company must obtain the prior approval of the shareholders in a general meeting (in the manner stipulated in these Articles of Association) before it can repurchase shares outside of the stock exchange by means of an off-market agreement. The Company may, by obtaining the prior approval of the shareholders in a general meeting (in the same manner), release, vary or waive its rights under an agreement which has been so entered into. MP26

An agreement for the repurchase of shares referred to in the preceding paragraph includes (without limitation) an agreement to become liable to repurchase shares or an agreement to have the right to repurchase shares.

The Company may not assign an agreement for the repurchase of its shares or any right contained in such an agreement.

Article 34. The Company must obtain the prior approval of the shareholders in a general meeting before it can repurchase shares pursuant to the reasons set out in these Articles of Association 31 (1) to (3). Following shares being repurchased by the Company pursuant to the provisions in Article 31, in the case of (1), the shares repurchased shall be cancelled within 10 days of the completion of the repurchase. In the case of (2) and (4), the shares repurchased shall be transferred or cancelled within six months of the completion of the repurchase. MP27
Guide 25

The aggregate par value of the cancelled shares shall be deducted from the Company's registered share capital.

The shares the Company repurchases in accordance with the provisions in Article 31(3) shall not be more than 5% of the total issued shares of the Company. The funding for the repurchase shall be provided from the profit after tax. The shares repurchased shall be transferred to the staff within one year.

Article 35. Unless the Company is in the course of liquidation, it must comply with the following provisions in relation to repurchase of its issued shares: MP28

- (1) where the Company repurchases shares at par value, payment shall be made out of book surplus distributable profits of the Company or out of proceeds of a new issue of shares made for that purpose;



- (2) where the Company repurchases shares of the Company at a premium to its par value, payment up to the par value may be made out of the book surplus distributable profits of the Company or out of the proceeds of a new issue of shares made for that purpose. Payment of the portion in excess of the par value shall be effected as follows:
- (i) if the shares being repurchased were issued at par value, payment shall be made out of the book surplus distributable profits of the Company;
 - (ii) if the shares being repurchased were issued at a premium to its par value, payment shall be made out of the book surplus distributable profits of the Company or out of the proceeds of a new issue of shares made for that purpose, provided that the amount paid out of the proceeds of the new issue shall not exceed the aggregate amount of premiums received by the Company on the issue of the shares repurchased nor shall it exceed the book value of the Company's capital common reserve fund account (including the premiums on the new issue) at the time of the repurchase;
- (3) the Company shall make the following payments out of the Company's distributable profits:
- (i) payment for the acquisition of the right to repurchase its own shares;
 - (ii) payment for variation of any contract for the repurchase of its shares;
 - (iii) payment for the release of its obligation(s) under any contract for the repurchase of shares;
- (4) after the Company's registered capital has been reduced by the aggregate par value of the cancelled shares in accordance with the relevant provisions, the amount deducted from the distributable profits of the Company for payment of the par value of shares which have been repurchased shall be transferred to the Company's capital common reserve fund account.



CHAPTER 5: FINANCIAL ASSISTANCE FOR
ACQUISITION OF SHARES

Article 36. The Company and its subsidiaries shall not, at any time, provide any form of financial assistance to a person who is acquiring or is proposing to acquire shares in the Company. This includes any person who directly or indirectly incurs any obligations as a result of the acquisition of shares in the Company (the "Obligor"). MP29

The Company and its subsidiaries shall not, at any time, provide any form of financial assistance to the Obligor for the purposes of reducing or discharging the obligations assumed by such person.

This Article shall not apply to the circumstances specified in Article 38 of this Chapter.

Article 37. For the purposes of this Chapter, "financial assistance" includes (without limitation) the following: MP30

- (1) gift;
- (2) guarantee (including the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the Obligor), compensation (other than compensation in respect of the Company's own default) or release or waiver of any rights;
- (3) provision of loan or any other agreement under which the obligations of the Company are to be fulfilled before the obligations of another party, or the change in parties to, or the assignment of rights under, such loan or agreement;
- (4) any other form of financial assistance given by the Company when the Company is insolvent or has no net assets or when its net assets would thereby be reduced to a material extent.

For the purposes of this Chapter, "assumption of obligations" includes the assumption of obligations by way of contract or by way of arrangement (irrespective of whether such contract or arrangement is enforceable or not and irrespective of whether such obligation is to be borne solely by the Obligor or jointly with other persons) or by any other means which results in a change in his financial position.

Article 38. The following actions shall not be deemed to be activities prohibited by Article 36 of this Chapter: MP31

- (1) the provision of financial assistance by the Company where the financial assistance is given in good faith in the interests of the Company, and the principal purpose of which is not for the acquisition of shares in the Company, or the giving of the financial assistance is an incidental part of some larger purpose of the Company;



- (2) the lawful distribution of the Company’s assets by way of dividend;
- (3) the allotment of bonus shares as dividends;
- (4) a reduction of registered capital, a repurchase of shares of the Company or a reorganisation of the share capital structure of the Company effected in accordance with these Articles of Association;
- (5) the lending of money by the Company within its scope of business and in the ordinary course of its business, where the lending of money is part of the scope of business of the Company (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of distributable profits);
- (6) contributions made by the Company to the employee share ownership schemes (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of distributable profits).

CHAPTER 6: SHARE CERTIFICATES AND
REGISTER OF SHAREHOLDERS

Article 39. Share certificates of the Company shall be in registered form. MP32

The share certificate of the Company shall, aside from matters required by the Company Law and the Special Regulations, also contain other matters required to be stated therein by the stock exchange(s) on which the Company’s shares are listed.

Article 40. Share certificates of the Company shall be signed by the Chairman of the Company’s board of directors. Where the stock exchange(s) on which the Company’s shares are listed require other senior officer(s) of the Company to sign on the share certificates, the share certificates shall also be signed by such senior officer(s). The share certificates shall take effect after being sealed or imprinted with the seal of the Company. The share certificate shall only be sealed with the Company’s seal under the authorisation of the board of directors. The signatures of the Chairman of the board of directors or other senior officer(s) of the Company may be printed in mechanical form. MP33,
C.1 Zheng
Jian Hai
Han [1995]
No. 1
App.3
2(1)



Article 41. The Company shall keep a register of shareholders based on the evidence provided by the share registration institution which shall contain the following particulars: MP34
Guide 30

- (1) the name (title) and address (residence), the occupation or nature of each shareholder;
- (2) the class and quantity of shares held by each shareholder;
- (3) the amount paid-up on or agreed to be paid-up on the shares held by each shareholder;
- (4) the share certificate number(s) of the shares held by each shareholder;
- (5) the date on which each person was entered in the register as a shareholder;
- (6) the date on which any shareholder ceased to be a shareholder.

Unless there is evidence to the contrary, the register of shareholders shall be sufficient evidence of the shareholders' shareholdings in the Company.

Article 42. The Company may, in accordance with the mutual understanding and agreements made between the State Council Securities Policy Committee and overseas securities regulatory organisations, maintain the register of shareholders of Overseas-Listed Foreign-Invested Shares overseas and appoint overseas agent(s) to manage such register of shareholders. The original register of shareholders for holders of H Shares shall be maintained in Hong Kong. MP35,
C.2 Zheng
Jian Hai
Han [1997]
No. 1
App.13
Pt.D
1(b)

A duplicate register of shareholders for the holders of Overseas-Listed Foreign-Invested Shares shall be maintained at the Company's residence. The appointed overseas agent(s) shall ensure consistency between the original and the duplicate register of shareholders at all times.

If there is any inconsistency between the original and the duplicate register of shareholders for the holders of Overseas-Listed Foreign-Invested Shares, the original register of shareholders shall prevail.

Article 43. The Company shall have a complete register of shareholders which shall comprise the following parts: MP36

- (1) the register of shareholders which is maintained at the Company's residence (other than those share registers which are described in sub-paragraphs (2) and (3) of this Article);



- (2) the register of shareholders in respect of the holders of Overseas-Listed Foreign-Invested Shares of the Company which is maintained in the same place as the overseas stock exchange on which the shares are listed; and
- (3) the register of shareholders which are maintained in such other place as the board of directors may consider necessary for the purposes of the listing of the Company's shares.

Article 44. Different parts of the register of shareholders shall not overlap. No transfer of any shares registered in any part of the register shall, during the continuance of that registration, be registered in any other part of the register. MP37

Amendments or rectification of the register of shareholders shall be made in accordance with the laws of the place where the register of shareholders is maintained.

Article 45. All Overseas-Listed Foreign-Invested Shares listed in Hong Kong which have been fully paid-up may be freely transferred in accordance with these Articles of Association. However, unless such transfer complies with the following requirements, the board of directors may refuse to recognise any instrument of transfer and would not need to provide any reason therefor: C.12
*Zheng Jian
Hai Han
[1995] No. 1*

- (1) a fee of HK\$2.50 per instrument of transfer or such higher amount as may be agreed by the Stock Exchange has been paid to the Company for registration of the instrument of transfer and other documents relating to or which will affect the right of ownership of the shares; App.3 1(1)
- (2) the instrument of transfer only relates to Foreign-Listed Foreign-Invested Shares listed in Hong Kong;
- (3) the stamp duty which is chargeable on the instrument of transfer has already been paid;
- (4) the relevant share certificate(s) and any other evidence which the board of directors may reasonably require to show that the transferor has the right to transfer the shares have been provided;
- (5) if it is intended that the shares be transferred to joint owners, the maximum number of joint owners shall not be more than four (4); App.3 1(3)
- (6) the Company does not have any lien on the relevant shares. App.3 1(2)

If the Company refuses to register any transfer of shares, the Company shall within two (2) months of formal application for the transfer provide the transferor and transferee with a notice of refusal to register such transfer.



Article 46. No change may be made in the register of shareholders as a result of a transfer of shares within thirty (30) days prior to the date of a shareholders' general meeting or within five (5) days before the record date for the Company's distribution of dividends. MP38
Guide 28, 29

Article 47. The board of directors or the convenor of the general meeting shall decide on a date for the determination of rights attaching to shares in the Company when the Company convenes a shareholders' meeting, distributes dividend, liquidates or engages in activities that required the determination of rights attaching to shares in the Company. The shareholders of the Company shall be such persons who appear in the register of shareholders at the close of such determination date. MP39
Guide 31

Article 48. Any person aggrieved and claiming to be entitled to have his name (title) entered in or removed from the register of shareholders may apply to a court of competent jurisdiction for rectification of the register. MP40

Article 49. Any person who is a registered shareholder or who claims to be entitled to have his name (title) entered in the register of shareholders in respect of shares in the Company may, if his share certificate (the "original certificate") relating to the shares is lost, apply to the Company for a replacement share certificate in respect of such shares (the "Relevant Shares"). MP41,
App.3
7 (1)

Application by a holder of Domestic-Invested Shares, who has lost his share certificate, for a replacement share certificate shall be dealt with in accordance with Article 144 of the Company Law." Amendments
in the
Company
Law

Application by a holder of Overseas-Listed Foreign Shares, who has lost his share certificate, for a replacement share certificate may be dealt with in accordance with the law of the place where the original register of shareholders of holders of Overseas-Listed Foreign-Invested Shares is maintained, the rules of the stock exchange or other relevant regulations.

The issue of a replacement share certificate to a holder of H Shares, who has lost his share certificate, shall comply with the following requirements:

- (1) The applicant shall submit an application to the Company in a prescribed form accompanied by a notarial certificate or a statutory declaration (i) stating the grounds upon which the application is made and the circumstances and evidence of the loss; and (ii) declaring that no other person is entitled to have his name entered in the register of shareholders in respect of the Relevant Shares.



- (2) The Company has not received any declaration made by any person other than the applicant declaring that his name shall be entered into the register of shareholders in respect of such shares before it decides to issue a replacement share certificate to the applicant.
- (3) The Company shall, if it intends to issue a replacement share certificate, publish a notice of its intention to do so at least once every thirty (30) days within a period of ninety (90) consecutive days in such newspapers as may be prescribed by the board of directors.
- (4) The Company shall, prior to publication of its intention to issue a replacement share certificate, deliver to the stock exchange on which its shares are listed, a copy of the notice to be published and may publish the notice upon receipt of confirmation from such stock exchange that the notice has been exhibited in the premises of the stock exchange. Such notice shall be exhibited in the premises of the stock exchange for a period of ninety (90) days.

In the case of an application which is made without the consent of the registered holder of the Relevant Shares, the Company shall deliver by mail to such registered shareholder a copy of the notice to be published.
- (5) If, by the expiration of the 90 day period referred to in paragraphs (3) and (4) of this Article, the Company has not have received any challenge from any person in respect of the issuance of the replacement share certificate, it may issue a replacement share certificate to the applicant pursuant to his application.
- (6) Where the Company issues a replacement share certificate pursuant to this Article, it shall forthwith cancel the original share certificate and document the cancellation of the original share certificate and issuance of a replacement share certificate in the register of shareholders accordingly.
- (7) All expenses relating to the cancellation of an original share certificate and the issuance of a replacement share certificate shall be borne by the applicant and the Company is entitled to refuse to take any action until reasonable security is provided by the applicant therefor.

Article 50. Where the Company issues a replacement share certificate pursuant to these Articles of Association and a bona fide purchaser acquires or becomes the registered owner of such shares, his name (title) shall not be removed from the register of shareholders. MP42



Article 51. The Company shall not be liable for any damages sustained by any person by reason of the cancellation of the original share certificate or the issuance of the replacement share certificate unless the claimant is able to prove that the Company has acted in a deceitful manner. MP43

CHAPTER 7: SHAREHOLDERS' RIGHTS AND OBLIGATIONS

Article 52. A shareholder of the Company is a person who lawfully holds shares in the Company and whose name (title) is entered in the register of shareholders. MP44, App.3 9

A shareholder shall enjoy rights and assume obligations according to the class and amount of shares held by him; shareholders who hold shares of the same class shall enjoy the same rights and assume the same obligations.

Article 53. The ordinary shareholders of the Company shall enjoy the following rights: MP45

- (1) the right to receive dividends and other distributions in proportion to the number of shares held;
- (2) the right to attend or appoint a proxy to attend shareholders' meeting and to vote thereat;
- (3) the right of supervisory management over the Company's business operations and the right to present proposals or to raise queries;
- (4) the right to transfer, grant or pledge shares so held in accordance with laws, administrative regulations and provisions of these Articles of Association; Guide 35(5)
- (5) the right to obtain relevant information in accordance with these Articles of Association, including:
 - (i) the right to obtain a copy of these Articles of Association, subject to payment of costs;
 - (ii) the right to inspect and copy, subject to payment of a reasonable fee:
 - (a) all parts of the register of shareholders;
 - (b) personal particulars of each of the Company's directors, supervisors and other senior officers, including:
 - (aa) present and former name and alias;



- (bb) principal address (place of residence);
 - (cc) nationality;
 - (dd) primary and all other part-time occupations and duties;
 - (ee) identification documents and the numbers thereof;
 - (c) report on the state of the Company's share capital;
 - (d) reports showing the aggregate par value, quantity, highest and lowest price paid in respect of each class of shares repurchased by the Company since the end of the last accounting year and the aggregate amount paid by the Company for this purpose;
 - (e) minutes of shareholders' general meetings;
 - (f) the copies of the Company's debentures, resolutions of the meetings of the board of directors, resolutions of the meetings of the Supervisory Committee, financial and accounting reports Guide 32
 - (6) in the event of the termination or liquidation of the Company, the right to participate in the distribution of surplus assets of the Company in accordance with the number of shares held;
 - (7) shareholders who disagree with the resolutions for the merger and separation of the Company made in a general meeting may demand the Company to purchase their shares. Guide 32
 - (8) other rights conferred by laws, administrative regulations and these Articles of Association.
- Article 54 Shareholders proposing to inspect the relevant information as set out in the previous Articles or collect information shall produce the relevant proofs of the type and quantity of shares that they are holding to the Company. The Company shall provide the shareholders such information as required after verification of the identities of the shareholders. Guide 33



Article 55	<p>In the event that the resolution of a shareholders' meeting or a board meeting is against the law or administrative rules and has infringed the legitimate interest of a shareholder, the shareholder shall have the right to submit to the People's Court to declare the resolution invalid.</p> <p>In the event the procedures for convening the shareholders' meeting and the board of directors meeting and voting thereat violate the law, administrative regulations or the provisions of these Articles, or the content resolved being in contrary to these Articles, the shareholder shall have the right to submit to the People's Court to rescind the resolution within 60 days after the resolution is made.</p>	Guide 34
Article 56	<p>In the event the directors and senior officers violate the law, administrative regulations or the provisions of these Articles in performing the Company's duties, and incur a loss to the Company, shareholder(s), either individually or jointly holding more than 1% of the Company's shares for more than 180 consecutive days shall have the right to submit a written request to the Supervisory Committee for commencing legal proceedings in the People's Court. In the event the Supervisory Committee violates the law, administrative regulations or the provisions of these Articles in performing the Company's duties, and incur a loss to the Company, the shareholders shall have the right to submit a written request to the board of directors for commencing legal proceedings in the People's Court.</p> <p>In the event the Supervisory Committee or the board of directors refuses to commence legal proceedings after receiving the written request from the shareholders as provided in the paragraph above, or has not commenced legal proceedings 30 days after receiving the written request, or in case of emergency, without commencing legal proceedings forthwith will result in damages in the interests of the Company considerably difficult to rectify, the shareholders as provided in the paragraph above shall have the right to commence legal proceedings directly in the People's Court in their own names for the interests of the Company.</p> <p>In the event the legal interests of the Company are being violated by other parties and incur a loss to the Company, the shareholders as provided in the first paragraph of this Article shall commence legal proceedings in the People's Court in accordance with the provisions in the earlier two paragraphs.</p>	Guide 35
Article 57	<p>In the event the directors and senior officers violate the law, administrative regulations or the provisions of these Articles, and the rights of shareholders are prejudicially affected, the shareholders shall have the right to commence legal proceeding in the People's Court.</p>	Guide 36
Article 58.	<p>The ordinary shareholders of the Company shall assume the following obligations:</p> <p>(1) to comply with these Articles of Association;</p>	MP46



- (2) to pay subscription monies according to the number of shares subscribed and the method of subscription;
- (3) no return of capital is allowed apart from those as provided in the laws and regulations; Guide 37
- (4) The right of the shareholder shall not be abused to infringe the interests of the Company or other shareholders. The independent status of corporate legal person and the limited liabilities of the shareholder shall not be abused to infringe the interests of the Company's creditors;

The Company's shareholder who abuses his rights and result in losses to the Company or its other shareholders shall assume indemnity liabilities pursuant to the laws.

The Company's shareholder who abuses the independent status of corporate legal person and the limited liabilities of the shareholder to avoid debts and seriously infringe the interests of the Company's creditors shall assume incidental liabilities to the Company's debts.

- (5) other obligations imposed by laws, administrative regulations and these Articles of Association.

Shareholders are not liable to make any further contribution to the share capital other than according to the terms which were agreed by the subscriber of the relevant shares at the time of subscription.

Article 59. Shareholder holding more than 5% of the shares with voting right in the Company shall submit a written report to the Company when creating a pledge over its shares on the date the same is effected. Guide 38

Article 60. In addition to the obligations imposed by laws and administrative regulations or required by the listing rules of the stock exchange on which the Company's shares are listed, a controlling shareholder (as such term is defined in the following Article) shall not exercise his voting rights in respect of the following matters in a manner prejudicial to the interests of all or part of the shareholders of the Company: MP47

- (1) to relieve a director or supervisor of his duty to act honestly in the best interests of the Company;



- (2) to approve the expropriation by a director or supervisor (for his own benefit or for the benefit of another person) of the Company’s assets in any way, including (without limitation) opportunities which are beneficial to the Company;
- (3) to approve the expropriation by a director or supervisor (for his own benefit or for the benefit of another person) of the individual rights of other shareholders, including (without limitation) rights to distributions and voting rights (save pursuant to a restructuring which has been submitted for approval by the shareholders in a general meeting in accordance with these Articles of Association).

Article 61. For the purpose of the foregoing Article, a “controlling shareholder” means a person who satisfies any one of the following conditions: MP48

- (1) a person who, acting alone or in concert with others, has the power to elect more than half of the board of directors;
- (2) a person who, acting alone or in concert with others, has the power to exercise or to control the exercise of 30 % or more of the voting rights in the Company;
- (3) a person who, acting alone or in concert with others, holds 30 % or more of the issued and outstanding shares of the Company;
- (4) a person who, acting alone or in concert with others, has de facto control of the Company in any other way.

Article 62. The controlling shareholders of the Company and persons in actual control of the Company shall not damage the lawful rights of the Company and the public shareholders by means of connected transaction. Guide 39

Those who violate the provisions in the paragraph above resulting in loss on the Company shall assume indemnity liabilities.

The controlling shareholders of the Company and persons in actual control of the Company have fiduciary duties towards the Company and the public shareholders. The controlling shareholders shall exercise his rights as investors strictly in accordance with the laws. The controlling shareholders shall not damage the lawful rights of the Company and the public shareholders by means of profit distribution, assets restructuring, external investment, use of capital and loan guarantee etc and shall not take advantage of its controlling position to damage the interest of the Company and the public shareholders.

Article 63. In operational fund transactions between the controlling shareholder of the Company and its related parties, appropriation of funds of the Company shall be strictly restricted. The controlling shareholder of the Company and its related parties shall not require the Company to pay advance fees such as salary, benefits, insurance, advertising, and they shall not undertake costs and other expenses on each other’s behalf.



Article 64. The Company shall establish a special system to prevent the appropriation of assets of the Company by the controlling shareholder of the Company and its related parties. The Company shall conduct periodic self-inspections as to whether the controlling shareholder of the Company and its related parties have engaged in non-operational appropriations of funds of the Company and report such matters to the relevant regulatory authorities within 10 business days before publication of its quarterly- reports, interim reports and annual reports.

If there are non-operational appropriations of funds of the Company conducted by the controlling shareholder of the Company and the Company fails to prevent such appropriations of funds or fails to recover such funds so appropriated in a timely manner, the Board shall be entitled to realize the repayment of such by, among others, applying to a court for an injunction and auction of equities of the Company held by its controlling shareholder.

Article 65. A sound investor relationship management working system shall be established, and the communication and interaction with the shareholders especially the public shareholders shall be initiated and strengthened through various ways.

CHAPTER 8: SHAREHOLDERS' GENERAL MEETINGS

Section 1 General Rules for Shareholders' General Meetings

Article 66. The shareholders' general meeting is the organ of authority of the Company and shall exercise its functions and powers in accordance with law. MP49

Article 67. The shareholders' general meeting shall have the following functions and powers: MP50

- (1) to decide on the Company's operational policies and investment plans;
- (2) to elect and replace directors who are not staff representatives and to decide on matters relating to the remuneration of directors; Guide 40
- (3) to elect and replace supervisors who represent the shareholders and to decide on matters relating to the remuneration of supervisors;
- (4) to examine and approve the board of directors' reports;



- (5) to examine and approve the supervisory committee's reports;
- (6) to examine and approve the Company's proposed annual preliminary and final financial budgets;
- (7) to examine and approve the Company's profit distribution plans and loss recovery plans;
- (8) to decide on the increase or reduction of the Company's registered capital;
- (9) to decide on matters such as merger, division, dissolution, liquidation or amendment to the method of operation of the Company; Guide 40
- (10) to decide on the issue of debentures by the Company;
- (11) to decide on the appointment, dismissal and non-reappointment of the accountants of the Company;
- (12) to amend these Articles of Association;
- (13) to consider and approve issues of guarantee as provided in Article 66; Guide 40
- (14) to consider issues on acquisitions and disposals of assets during a year which exceeds 30% of the latest audited total assets of the Company;
- (15) to consider and approve issues on the change in use of proceeds;
- (16) to consider share incentive schemes;
- (17) other matters to be decided in shareholders' general meeting as provided by the laws, administrative regulations, departmental rules or these Articles of Association

Article 68. The provision of guarantees by the Company to its shareholders, persons in actual control of the Company and their associates shall be considered and approved by the shareholders in a general meeting. Guide 41

The provision of guarantee by the Company to its subsidiaries shall be subject to consideration and approval by the shareholders in a general meeting if:

- (1) the provision of any guarantee where the amount of the external guarantee by the Company and its subsidiaries reaches or exceeds 50% of the latest audited net assets;



- (2) the provision of any guarantee where the amount of the external guarantee by the Company reaches or exceeds more than 30% of the latest audited net assets;
- (3) the provision of any single guarantee in which the amount exceeds 10% of the latest audited net assets.
- (4) Provision of guarantee to any guaranteed party with an assets to liabilities ratio exceeding 70%.

The Company shall not provide guarantee to any natural person, legal person, institutions and other entities not referred to in (1) and (2) above.

Article 69.

Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Annual general meetings are held once every year and within six months from the end of the preceding financial year. Guide 46, 47, 48 MP52

The Company shall convene an extraordinary general meeting within two (2) months of the occurrence of any one of the following events: Guide 43

- (1) where the number of directors is less than the number stipulated in the Company Law or two-thirds of the number specified in the Company's articles of association or is less than eight (8);
- (1) where the number of directors is less than the number stipulated in the Company Law or two-thirds of the number specified in the Company's Articles of Association; Guide 44 IDGO5(1)
- (2) where the unrecovered losses of the Company amount to one-third of the total amount of its paid-up share capital;
- (3) where shareholder(s) singly or jointly holding 10 % or more of the Company's issued and outstanding voting shares request(s) in writing for the convening of an extraordinary general meeting; Guide 46
- (4) whenever the board of directors deems necessary or the supervisory committee so requests;
- (5) other cases as provided in laws, administrative regulations and these Articles of Association.

More than half of the independent directors shall have the right to request the board of directors to convene the extraordinary general meeting.



Article 70. The shareholders' general meeting will be held at a location for meeting with the presence of those who are entitled to attend. The location where the Company convenes its shareholders' general meeting will be the registered address of the Company or other places as set out in the notice convening the meeting. Guide 44

Article 71. At a shareholders' general meeting, the Company shall retain legal advisers and obtain legal advice in relation to the following issues which shall be incorporated into the shareholders' resolutions for announcement purpose: Guide 45

- (1) Whether the procedures for convening and holding a general meeting comply with the requirements of the laws, administrative regulations and these Articles of Association;
- (2) Whether attendees or the convenor of a general meeting meet the requisite legal requirements;
- (3) Whether the voting procedures for and the voting results of the general meeting are lawful and valid; and
- (4) Issuance of legal opinions on other relevant issues at the request of the Company.

Article 72. The Company shall formulate rules of the shareholders' general meeting, which shall be drawn up by the board of directors and be considered as well as approved in the shareholders' general meeting.

Section 2 Calling for Shareholders' General Meetings

Article 73. The board of directors, Supervisory Committee and qualified shareholders as provided in these Articles of Association shall have the right to convene the shareholders' general meeting in accordance with the relevant laws, regulations and the provisions of these Articles of Association. Guide 46-48

The board of directors shall timely convene the shareholders' general meeting within the timeframe as provided in Article 67 of these Articles of Association.

Article 74. Pursuant to the stipulation under the laws, administrative rules and these Articles of Association, the board of directors shall give a written feedback on whether to approve or disapprove of the convening of the extraordinary general meeting within 10 days after the receipt of the independent directors' proposal. Guide 46

If the board of directors agrees to convene the extraordinary general meeting, a notice for convening the shareholders' general meeting shall be issued within 5 days after the resolution of convening the extraordinary general meeting has been made by the board of directors; an announcement with relevant explanation shall be made if the board of directors does not agree to convene the extraordinary general meeting.



- Article 75. The supervisory committee may propose to the board of directors in writing for convening the extraordinary general meeting. Pursuant to the stipulation under the laws, administrative regulations and these Articles of Association, the board of directors shall give a written feedback on whether to approve or disapprove of the convening of the extraordinary general meeting within 10 days after the receipt of the supervisory committee's proposal. Guide 47
- If the board of directors agrees to convene the extraordinary general meeting, a notice for convening the extraordinary general meeting shall be issued within 5 days after the decision has been made by the board of directors. Consent of the supervisory committee has to be obtained for making any alternation on the original proposed resolution in the notice.
- If the board of directors does not agree to convene the extraordinary general meeting, or no feedback is given within 10 days after receiving the request, it will be deemed that the board of directors is unable to fulfill or fails to fulfill its responsibilities to convene the shareholders' general meeting. The Supervisory Committee hereby can convene and preside the meeting by itself.
- Article 76. The necessary costs for convening the shareholders' general meeting by the supervisory committee shall be borne by the Company. Guide 51
- Article 77. Shareholders who request for the convening of an extraordinary general meeting or a class meeting shall comply with the following procedures: MP72
Guide 54
- (1) Shareholders who together hold 10% or more of the shares carrying the right to vote in the meeting are entitled to propose to convene an extraordinary general meeting or a class meeting to the board of directors in writing and state the motions and resolutions proposed. Within 10 days of receiving such proposal, the board of directors shall provide its written decision as to whether it agrees to convene such general meeting in accordance with the laws, administrative regulations and the Articles of Association.
 - (2) If the board of directors agrees to convene an extraordinary general meeting or a class meeting, it shall issue a notice of meeting within 5 days of its decision, and any changes to the proposal shall be made only with the consent of the proposing shareholders.



- (3) If the board of directors decides against convening the proposed extraordinary general meeting or class meeting, or if it fails to provide its written decision within 10 days of receipt of the proposal, shareholders individually or in aggregate holding 10% or more of the shares of the Company are entitled to propose to convene general meeting to the supervisory committee in writing.
- (4) If the supervisory committee agrees to convene the proposed extraordinary meeting or class meeting, it shall issue the notice of meeting within 5 days of receipt of the proposal, and any changes to the original proposal shall be made only with the consent of the shareholders.
- (5) If the supervisory committee fails to issue a notice of meeting within the prescribed period, the supervisory committee shall be deemed not to convene and chair the meeting. Shareholders individually or in aggregate holding 10% or more of the shares of the Company for 90 consecutive days may convene and chair the meeting on their own.

All reasonable expenses incurred for such meeting convened by the Supervisory Committee or shareholders as a result of the failure of the board of directors to convene a meeting as required by the above request(s) shall be borne by the Company.

Any reasonable expenses incurred by the requisitionists by reason of failure by the board of directors to duly convene a meeting shall be repaid to the requisitionists by the Company and any sum so repaid shall be set-off against sums owed by the Company to the defaulting directors.

Article 78. If the Supervisory Committee or the shareholders decides/decide to convene the shareholders' general meeting by itself/themselves, a written notice shall be given to the board of directors and in the meantime report shall be made to the local representative office of the competent securities authorities under the State Council and the stock exchange for record. Guide 49

The convening shareholder(s) shall submit the relevant documents to the local representative office of the competent securities authorities under the State Council and the stock exchange before issuing the notice for convening of the shareholders' general meeting and the announcement on resolution proposed to the shareholders' general meeting.

Article 79. The Board and the secretary to the board of directors should accommodate to the shareholders' general meeting convened by the Supervisory Committee or the shareholders. The board of directors shall provide the list of shareholders on the record day. Guide 50



Section 3 Proposing Resolutions for and Notices of Shareholders' General Meetings

- Article 80. When the Company convenes a shareholders' general meeting, the board of directors, the supervisory committee and shareholder(s) individually and jointly holding more than 5% of the Company's shares have the right to propose resolutions to the Company. Guide 53
 Shareholder(s) individually and jointly holding more than 5% of the Company's shares may propose special resolutions in writing to the convenor 20 days before the shareholders' general meeting is convened. The convenor shall issue a supplementary notice of the general meeting within two days after receiving the resolutions to announce the contents of the resolutions.
 Apart from the above, no amendment to the resolutions as set out in the notice of general meeting or proposal of new resolutions shall be made after the convenor has issued the notice of general meeting
 The resolutions not set out in the notice of general meeting or failing to comply with Article 79 of these Articles of Association shall be not voted and resolved in the shareholders' general meeting.
- Article 81. The contents of the resolutions shall fall within the scope of authority of the shareholders' general meeting, with questions defined and specific issues to be resolved, and shall also comply with the laws, regulations, administrative regulations and relevant provisions of these Articles of Association. Guide 52
- Article 82. At the annual shareholders' general meeting, the board of directors and the supervisory committee shall report on their work for the previous year. Guide 69
- Article 83. The board of directors must explain to the shareholders in the shareholders' general meeting when a registered accountancy firm issues a qualified audit opinion in respect of the Company's financial statements. Guide 108
- Article 84. The candidates for the directors and supervisors shall submit to the shareholders' general meeting for voting by way of resolutions. Guide 82
- Article 85. Unless otherwise provided by the relevant laws and regulations, the listing rules issued at the listing place of the Company and the Articles of Association in respect of the means of receipt of corporate communication, when the Company convenes a shareholders' general meeting, written notice of the meeting shall be given forty-five (45) days before the date of the meeting (when calculating the 45 days' period, the date on which the meeting is held shall not be included) to notify all of the shareholders whose names appear in the share register of the matters to be considered and the date and place of the meeting. A shareholder who intends to attend the meeting shall deliver to the Company his written reply concerning his attendance at such meeting twenty (20) days before the date of the meeting. MP53



Article 86. A notice of a meeting of the shareholders of the Company shall satisfy the following criterion: MP56

- (1) Unless otherwise provided by the relevant laws and regulations, the listing rules issued at the listing place of the Company and the Articles of Association in respect of the means of receipt of corporate communication, be in writing;
- (2) specify the place, date and time of the meeting;
- (3) state the matters to be discussed at the meeting;
- (4) provide such information and explanation as are necessary for the shareholders to make an informed decision on the proposals put before them. Without limiting the generality of the foregoing, where a proposal is made to amalgamate the Company with another, to repurchase the shares of the Company, to reorganise its share capital, or to restructure the Company in any other way, the terms of the proposed transaction must be provided in detail together with copies of the proposed agreement, if any, and the cause and effect of such proposal must be properly explained;
- (5) contain a disclosure of the nature and extent, if any, of the material interests of any director, supervisor and senior officer in the proposed transaction and the effect which the proposed transaction will have on them in their capacity as shareholders in so far as it is different from the effect on the interests of shareholders of the same class;
- (6) contain the full text of any special resolution to be proposed at the meeting;
- (7) contain a conspicuous statement that a shareholder entitled to attend and vote at such meeting is entitled to appoint one (1) or more proxies to attend and vote at such meeting on his behalf and that a proxy need not be a shareholder;
- (8) specify the time and place for lodging proxy forms for the relevant meeting;
- (9) state the registration date of the shares of shareholders who are entitled to attend the general meeting Guide 48
- (10) State the name and telephone number of the contact person for the meeting.



In the event the opinion of independent directors is required for the issues to be discussed, such opinion and the reasons for such opinion shall be disclosed in the notice or supplementary notice of the general meeting being issued.

Article 87. Unless otherwise provided by the relevant laws and regulations, the listing rules issued at the listing place of the Company and the Articles of Association in respect of the means of receipt of corporate communication, notice of shareholders' general meetings shall be served on each shareholder (whether or not such shareholder is entitled to vote at the meeting), by personal delivery or prepaid airmail to the address of the shareholder as shown in the register of shareholders. For the holders of Domestic-Invested Shares, notice of the meetings may also be issued by way of public announcement. MP57,
App.3
7 (1) & 7 (3)

The public announcement referred to in the preceding paragraph shall be published in one (1) or more national newspapers designated by the State Council Securities Policy Committee within the interval of forty-five (45) days to fifty (50) days before the date of the meeting; after the publication of such announcement, the holders of Domestic-Invested Shares shall be deemed to have received the notice of the relevant shareholders' general meeting.

Article 88. If matters relating to election of directors and supervisors are proposed to be discussed at a shareholders' general meeting, detailed information concerning the candidates shall be fully disclosed in the notice of the general meeting, which shall at least include the following: Guide 56

- (1) Personal information relating to the candidates, including educational background, work experience and all other positions undertaken on a part-time basis;
- (2) Whether the candidates are connected with the Company, its controlling shareholders or de facto controllers;
- (3) The candidates' shareholding in the Company;
- (4) Whether the candidates have been subject to any punishment by the competent securities authorities under the State Council or other relevant department or to any sanction by any stock exchange.

Article 89. After the issue of the notice of general meeting, the shareholders' general meeting shall not be postponed or cancelled or the resolutions set out in the notice of general meeting shall not be cancelled without any proper reason. Guide 57



In the event that there is any delay or cancellation, the convenor shall announce the reasons for such delay or cancellation at least two business days before the date the general meeting is originally scheduled to be held.

Article 90 The Company shall, based on the written replies which it receives from the shareholders twenty (20) days before the date of the shareholders' general meeting, calculate the number of voting shares represented by the shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend the meeting amount to more than one-half of the Company's total voting shares, the Company may hold the meeting; if not, then the Company shall, within five (5) days, notify the shareholders by way of public announcement the matters to be considered at, and the place and date for, the meeting. The Company may then hold the meeting after publication of such announcement. MP55

Section 4 Qualifications of Shareholders Attending Shareholders' General Meeting

Article 91 All shareholders or their proxies who are named in the shareholders' register on the record date shall have the right to attend the shareholders' general meeting, and exercise their voting rights in accordance with the laws, regulations and these Articles of Association. Guide 59

Article 92 An individual shareholder who attends the shareholders' general meeting in person shall produce his identification documents or other valid document or certificate which can prove his identity and his stock account card. Where a proxy is appointed to attend the meeting, the proxy shall produce his own identification documents and the proxy form. Guide 60

A legal person shareholder shall attend the meeting by its authorized representative or the attorney as appointed by such authorized representative. An authorized representative who attends the shareholders' general meeting in person shall produce his identification documents, valid certificate which can prove his identity. Where an attorney is appointed to attend the meeting, the attorney shall produce his own identification documents and the relevant power of attorney executed by such authorized representative pursuant to the laws.

Article 93. Any shareholder who is entitled to attend and vote at a general meeting of the Company shall be entitled to appoint one (1) or more persons (whether such person is a shareholder or not) as his proxies to attend and vote on his behalf, and a proxy so appointed shall be entitled to exercise the following rights pursuant to the authorisation from that shareholder: MP59

- (1) the shareholders' right to speak at the meeting;



- (2) the right to demand or join in demanding a poll;
- (3) the right to vote by hand or on a poll, but a proxy of a shareholder who has appointed more than one (1) proxy may only vote on a poll.

Article 94. The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing, or if the appointor is a legal entity, either under seal or under the hand of a director or a duly authorised attorney. MP60

Article 95. The proxy form appointing a proxy of a shareholder shall be in writing. Such written form shall state the following: Guide 61

- (1) The name of the proxy;
- (2) Whether or not the proxy has any voting right;
- (3) An indication to vote for or against each and every matter included in the agenda, (except the proxy of H Shareholders);
- (4) The date of issue and the valid period of the proxy form;
- (5) The signature (or seal) of the principal; if the principal is a legal person, supplemented with the seal of the legal person.

Article 96. The proxy form shall state clearly if the proxy is entitled to vote at his discretion in the absence of specific instruction from the principal. Guide 62

Article 97. The instrument appointing a voting proxy and, if such instrument is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority shall be deposited at the residence of the Company or at such other place as is specified for that purpose in the notice convening the meeting, not less than twenty-four (24) hours before the time for holding the meeting at which the proxy propose to vote or the time appointed for the passing of the resolution. MP61

If the appointor is a legal person, its legal representative or such person as is authorised by resolution of its board of directors or other governing body may attend any meeting of shareholders of the Company as a representative of the appointor.

Article 98. Any form issued to a shareholder by the directors for use by such shareholder for the appointment of a proxy to attend and vote at meetings of the Company shall be such as to enable the shareholder to freely instruct the proxy to vote in favour of or against the motions, such instructions being given in respect of each individual matter to be voted on at the meeting. Such a form shall contain a statement that, in the absence of specific instructions from the shareholder, the proxy may vote as he thinks fit. MP62



The Company has the right to request a proxy who attends a shareholders' meeting to provide evidence of his or its identity.

If a shareholder which is a legal person appoints its legal representative to attend a meeting on its behalf, the Company has the right to request such legal representative to produce evidence of his or its identity and a notarially certified copy of the resolutions of such shareholder's board of directors in respect of the appointment of the proxy or the power of attorney executed by such other organisation which has the capacity to appoint the proxy.

Article 99. A vote given in accordance with the terms of a proxy shall be valid notwithstanding the death or loss of capacity of the appointor or revocation of the proxy or the authority under which the proxy was executed, or the transfer of the shares in respect of which the proxy is given, provided that the Company did not receive any written notice in respect of such matters before the commencement of the relevant meeting. MP63

Section 5 Convening Shareholders' General Meetings

Article 100. The board of directors of the Company together with other convenors shall adopt necessary measures to maintain the normal order of the shareholders' general meeting. Measures shall be taken to stop any act which interferes with or causes nuisance at a general meeting and any act which infringes the lawful interests of the shareholders. Timely report of these acts shall be made to the relevant authority for investigation. Guide 58

Article 101. The Company shall prepare a log book to record the parties attending the shareholders' general meeting. The log book shall set out the name of the person or unit attending the meeting, their identification document numbers, resident address, the number of voting shares they have and the name of the principals (if the parties attending the meeting is a proxy/attorney). Guide 64

Article 102. The convenor and the legal advisers retained by the Company shall jointly verify the eligibility of the shareholders to vote based on the Company's shareholder register provided by the securities registration and clearing authority and shall register the name of the shareholders together with the numbers of voting shares they have. Registration shall come to a close before the chairman of the meeting announces the number of shareholders and proxies physically present at the meeting as well as the total number of voting shares represented by the shareholders who are entitled to vote. Guide 65



- Article 103. When convening shareholders' general meeting, all directors, supervisors and senior officers should attend the meeting. Guide 66
- Article 104. The chairman of the board of directors shall chair every shareholders' general meeting. If the chairman is unable to attend the meeting for any reason, the vice-chairman of the board of directors appointed by the chairman of the board of directors shall chair the meeting. If the vice-chairman of the board of directors is unable or fail to perform his duty, then a director may be nominated by more than half of all the directors to chair the meeting. If no director is nominated to chair the meeting, shareholders present shall choose one (1) person to act as the chairman of the meeting. If for any reason, the shareholders shall fail to elect a chairman, then the shareholder (including a proxy) holding the largest number of shares carrying the right to vote thereat shall be the chairman of the meeting. MP73
- The chairman of the Supervisory Committee shall chair shareholders' general meeting being convened by the Supervisory Committee and act as the chairman of the meeting. If the chairman of the Supervisory Committee is unable to attend the meeting for any reason, the vice-chairman of the Supervisory Committee shall chair the meeting. If the vice-chairman of the Supervisory Committee is unable or fail to perform his duty, then a Supervisor may be nominated by more than half of all Supervisors to chair the meeting. Guide 67
- The convener of a shareholders' general meeting being convened by the shareholders shall nominate a representative to chair the meeting.
- During the shareholders' general meeting is being held, in the event the chairman of the meeting violates the proceedings of the meeting such that the shareholders' general meeting is unable to proceed, the shareholders' general meeting may nominate one person which is agreed by the shareholders attending the meeting and carrying more than half of the voting rights in the shareholders' general meeting to be the chairman and proceed to transact business in the meeting
- Article 105. Except for trade secrets of the Company which cannot be disclosed at the general meeting, the board of directors, the Supervisory Committee and the senior officers should make an explanation or statement regarding the shareholders' queries and suggestions. Guide 70
- Article 106. The convener shall ensure that a shareholders' general meeting is held on a continuous basis until a final resolution is adopted. If a general meeting is suspended or no resolution can be adopted due to force majeure or other exceptional reasons, necessary measures shall be taken so as to promptly reconvene the general meeting or to directly terminate the then general meeting, and public announcement relating thereto shall also be made on a timely basis. At the same time, the convener shall report the same to the local office of the competent securities authorities under the State Council and to the relevant stock exchanges. Guide 74



Section 6 Voting in and Resolutions of Shareholders' General Meeting

- Article 107. Resolutions of shareholders' general meetings shall be divided into ordinary resolutions and special resolutions. MP64
- An ordinary resolution must be passed by votes representing more than one-half of the voting rights represented by the shareholders (including proxies) present at the meeting.
- A special resolution must be passed by votes representing more than two-thirds of the voting rights represented by the shareholders (including proxies) present at the meeting.
- Article 108. The following matters shall be resolved by an ordinary resolution at a shareholders' general meeting: MP70
- (1) work reports of the board of directors and the supervisory committee;
 - (2) to decide on the Company's operational policies and investment plans;
 - (3) profit distribution plans and loss recovery plans formulated by the board of directors; Guide 40
 - (4) removal of members of the board of directors and members of the supervisory committee, their remuneration and manner of payment; App.3
4 (3)
 - (5) annual preliminary and final budgets, balance sheets and profit and loss accounts and other financial statements of the Company;
 - (6) the Company's annual report; Guide 64
 - (7) matters other than those which are required by the laws and administrative regulations or by these Articles of Association to be adopted by special resolution.
- Article 109. The following matters shall be resolved by a special resolution at a shareholders' general meeting: MP71
- (1) the increase or reduction in share capital and the issue of shares of any class, warrants and other similar securities;



- (2) the issue of debentures of the Company;
- (3) the division, merger, dissolution and liquidation of the Company, as well as the alteration of the form of the Company; Company Law 104
- (4) the amendment of the Company's Articles of Association;
- (5) the repurchase of the Company's shares;
- (6) the Company's significant acquisition or disposal of material assets or provision of guarantees conducted within the period of one year with a value exceeding 30% of the latest audited total assets of the Company; Guide 77
- (7) share incentive schemes;
- (8) other matters which are provided by the laws, administrative regulations or these Articles of Association, and resolved by shareholders by ordinary resolution and are considered by the shareholders to be material to the Company and are required to be passed by special resolution."

Article 110. Unless otherwise under special emergency circumstances, and with prior approval of shareholders in the form of a special resolution obtained in a general meeting, the Company shall not enter into any contract with any person other than the directors and senior officers of the Company pursuant to which such person shall be responsible for the management and administration of the whole or any substantial part of the Company's business. Guide 81

Article 111. A shareholder (including a proxy), when voting at a shareholders' general meeting, may exercise such voting rights as are attached to the number of voting shares which he represents. Each share shall have one (1) vote. MP65

The Company's shares held by the Company do not carry any voting rights, and shall not be counted into the total number of shares carrying voting rights in the shareholders' general meeting. Guide 78

Article 112. When connected transactions are voted at the general meeting, the connected shareholders shall not participate in voting. The voting rights represented by the shares held by them shall not be counted in the total number of shares validly voted. The announcement on the resolutions passed by the general meeting should fully disclose the details of voting by unconnected shareholders.



- Article 113. Where any shareholder is, under the Hong Kong Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any vote cast or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.
- Article 114. The board of directors, independent directors and shareholders qualified under the relevant regulation may also collect from other shareholders of the Company the rights to vote in a shareholders' general meeting.
- Article 115. At any shareholders' general meeting, a resolution shall be decided on a show of hands unless a poll is demanded: MP66
- (1) by the chairman of the meeting;
 - (2) by at least two (2) shareholders present in person or by proxy entitled to vote thereat;
 - (3) by one (1) or more shareholders present in person or by proxy and representing 10 % or more of all shares carrying the right to vote at the meeting,
- before or after a vote is carried out by a show of hands.
- Unless a poll is demanded, a declaration by the chairman that a resolution has been passed on a show of hands and the record of such in the minutes of the meeting shall be conclusive evidence of the fact that such resolution has been passed. There is no need to provide evidence of the number or proportion of votes in favour of or against such resolution.
- The demand for a poll may be withdrawn by the person who demands the same.
- Article 116. A poll demanded on the election of the chairman of the meeting, or on a question of adjournment of the meeting, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs, and any business other than that upon which a poll has been demanded may be proceeded with, pending the taking of the poll. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded. MP67
- Article 117. On a poll taken at a meeting, a shareholder (including a proxy) entitled to two (2) or more votes need not cast all his votes in the same way. MP68
- Article 118. Election of directors of the Company (including independent directors but not staff representatives) and Supervisors (who are not staff representatives) shall take place in the form of cumulative voting system.



When electing directors at the shareholders' general meeting, the independent directors shall be elected separately with other members of the board of directors. Each share having voting rights held by a shareholder has the number of votes equal to the number of nominated directors. A shareholder may freely allocate his votes among the nominated directors, either to allocate to a number of persons, or to vote all his/her votes in favour of one person.

When electing supervisors at the shareholders' general meeting, each share having voting rights held by a shareholder has the number of votes equal to the number of nominated supervisors. A shareholder may freely allocate his votes among the nominated supervisors, either to allocate to a number of persons, or to vote all his/her votes in favour of one person.

- Article 119

Except for the cumulative voting system, each of the proposed resolution shall be decided by the voting in the shareholders' general meeting in sequence. Should there be more than one resolution on the same issue, voting shall be conducted according to the chronology of the resolutions proposed. No proposed resolution should be set aside or remained undecided unless the shareholders' general meeting is terminated or resolutions cannot be made due to exceptional reasons including force majeure.

Guide 83
- Article 120

No amendment shall be made to the resolutions being considered by the shareholders' general meeting. Otherwise, the relevant amendments shall be treated as a new resolution and shall not be voted in the prevailing shareholders' general meeting.

Guide 84
- Article 121

Prior to voting, the chairman of the meeting shall announce the number of shareholders and proxies physically present at the meeting as well as the total number of voting shares represented by shareholders who are entitled to vote. The number of shareholders and proxies physically present at the meeting as well as the total number of voting shares represented by the shareholders who are entitled to vote shall be determined in accordance with those registered during the meeting.

Guide 71
- Article 122

When considering the resolutions being submitted for voting, shareholders attending the meeting shall deliver their opinion in respect of approval or objection to such motions or abstention from voting. (Voting by H Shareholders may not include abstention from voting.)

Failure to or wrongly complete the ballot paper, or the ballot paper being illegible, and ballot paper not voted shall be deemed as the voter abstaining from voting. The votes represented by such shares shall be counted as "abstention".

Guide 89



- Article 123. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall be have a casting vote. MP69
- Article 124. Each vote can only be exercised once either physically at a meeting, via Internet or through other permitted means. If the same vote is exercised more than once, only the first vote will be accounted for. Guide 85
- Article 125. Before a resolution is decided on a motion at a shareholders' general meeting, two representatives of the shareholders shall be nominated to participate in counting the votes as well as supervising the counting process. If a shareholder is interested in the matters under consideration, the relevant shareholders and his proxies shall not participate in counting the votes or supervising the counting process. Guide 87
- At the time of deciding on a motion by voting at a general meeting, legal advisers, representatives of shareholders and representatives of supervisors shall participate in counting the votes as well as supervising the counting process. They shall announce the voting results at the meeting. The voting results in connection with the resolution shall be recorded in the minutes.
- Shareholders of the Company or their proxies who cast their votes via Internet or through other permitted means shall have the right to monitor the voting results by the corresponding voting platform.
- Article 126. A shareholders' general meeting shall not be declared closed for shareholders who attend in person at a time earlier than for those shareholders who attend via Internet or other permitted means. The chairman of the meeting shall announce at the meeting the voting details and results of each motion and shall declare whether or not a motion is adopted on the basis of relevant voting results. Guide 88
- The Company, persons responsible for counting the votes, persons responsible for supervising the counting process, Internet service providers and other relevant parties shall have the obligation to keep matters related to voting confidential.
- Article 127. If the chairman of the meeting has any doubt as to the result of a resolution which has been put to vote at a shareholders' meeting, he may have the votes counted. If the chairman of the meeting has not counted the votes, any shareholder who is present in person or by proxy and who objects to the result announced by the chairman of the meeting may, immediately after the declaration of the result, demand that the votes be counted and the chairman of the meeting shall have the votes counted immediately. MP75



- Article 128 If votes are counted at a shareholders' general meeting, the result of the count shall be recorded in the minute book. MP76
Guide 91
- Article 129 The chairman of the meeting shall be responsible for determining whether a resolution has been passed. His decision, which shall be final and conclusive, shall be announced at the meeting and recorded in the minute book. MP74
- Article 130 Resolutions of the shareholders' general meeting shall be announced timely. The announcement shall state the number of the shareholders and proxies present at the meeting, the total number of shares carrying the right to vote held by them and the percentage of such shares out of the total number of shares carrying the right to vote of the Company, the method of voting, the voting result of each motion and details of each resolutions passed in the meeting.
- When the five issues set out in paragraph 2 of Article 136 of the Articles of Association are proposed to be considered at the shareholders' general meeting of the Company, the announcement of the resolutions of the shareholders' general meeting shall set out the number of public shareholders voting, the total number of shares held by them and the proportion in the total number of shares held by them and disclose the shareholdings of the 10 largest public shareholders voting as well as the result of their votes.
- Article 131 Where a resolution of the meeting is not adopted, or a resolution passed at the previous shareholders' general meeting is changed at the current shareholders' general meeting, specific note shall be given in the announcement for the resolutions passed in the shareholders' general meeting. Guide 92
- Article 132 The motion for the new session of the board of directors and the Supervisory Committee being passed by the shareholders' general meeting shall commence office after the resolution being passed by the shareholders' general meeting. Guide 93
- In the event the election of the staff representative (hereinafter referred to as the "Staff director") in the new session of the board of directors and the staff representative (hereinafter referred to as the "Staff Supervisor") in the new session of the Supervisory Committee by the staff is earlier than the terms the new session of the board of directors and the Supervisory Committee commence, their offices will commence when the terms of the new session of the board of directors of director and the supervisory committee commence. If the election by staff is later than the terms of the new session of the board of directors and the Supervisory Committee commence, their offices will commence on the date when they are elected by the staff.



Article 133	If a motion in respect of the distribution of cash or bonus shares, or in connection with the capital increase by conversion from common reserve funds, is adopted at a shareholders' general meeting, the Company shall implement such distribution within two months of the relevant general meeting.	Guide 94
Article 134	Minutes of a shareholders' general meeting shall be kept and such minutes shall be prepared by the Secretary to the board of directors. Minutes of the shareholders' general meetings should set out the following: <ol style="list-style-type: none">(1) the date and venue for convening the meeting, meeting agenda and the name of the convenor;(2) the name of the chairman of the meeting as well as those of the directors, supervisors and senior officers who attend the meeting as attendees and participants;(3) the number of shareholders and proxies attending the meeting, the total number of voting shares represented by the shareholders who are entitled to vote; the proportion of the number of voting shares represented by the shareholders who are entitled to vote out of the total number of shares of the Company;(4) a description of the considerations taken for each motion, the main points put forward by each speaker relating thereto and the voting results thereof;(5) details of queries and recommendations of the shareholders and the corresponding response or explanation in relation thereto;(6) the names of the legal advisers and persons responsible for counting the votes and for supervising the counting process; and(7) other contents which should be recorded in the minutes as provided for in these Articles of Association.	MP76 Guide 74 and 75



Article 135 The convenor shall ensure that the content of the minutes shall be true, accurate and complete. Guide 73
Minutes shall be signed by attendees of the meeting, including the directors, supervisors, secretary to the board of directors, the convenor or its representative and the chairman of the meeting. Minutes shall, together with the register relating to the shareholders present at the meeting in person and the proxy form if present by proxy, or via Internet or other permitted means be kept by the Company for a period of not less than ten years.

Article 136. Copies of the minutes of proceedings of any shareholders' meeting shall, during business hours of the Company, be open for inspection by any shareholder without charge. If a shareholder requests for a copy of such minutes from the Company, the Company shall send a copy of such minutes to him within seven (7) days after receipt of reasonable fees therefor. MP77

Section 7 Voting platform through internet

Article 137 The Company shall, with its priority to ensure that the shareholders' general meeting is legal and effective, enlarge the proportion of public shareholders participating in the shareholders' general meeting through various manner and means including providing modern information technological means such as voting platform through internet. Attendance shall be accepted for shareholders who attend the general meeting through the above means. Guide 44

When the five issues set out in paragraph 2 of Article 136 of the Articles of Association are proposed to be considered at the shareholders' general meeting of the Company, domestic shareholders shall be given an online voting platform in addition to live meetings.

Online voting access for domestic shareholders shall be provided through internet service providers designated by China Securities Regulatory Commission and Shanghai Stock Exchange. The holders of Overseas Listed Foreign Invested Shares will not be provided with online voting access.

Upon completion of the voting process at the shareholders' general meeting, the Company shall consolidate, in respect of each proposal, the voting results of live meeting, online voting and other forms of voting in accordance with the relevant regulation before making any announcement.

Article 138. The Company shall establish and perfect the voting system for public shareholders in respect of significant issues.



The following issues or the relevant applications in relation to such issues proposed to the shareholders' general meeting shall be only carried out upon approval at the shareholders' general meeting and approval by the public shareholders representing more than half of the votes cast by the public shareholders present at the shareholders' general meeting:

- (1) Any issue of new shares by the Company to the public (including issue of Overseas Listed Foreign Invested Shares or other equity securities), issue of convertible debentures, placing of shares to existing shareholders (except those for which the controlling shareholders have undertaken to fully subscribe in cash before the shareholders' general meeting is convened);
- (2) Substantial assets restructuring of the Company where the total consideration for the assets proposed to be acquired is or higher than 20% of the audited net book value of such assets;
- (3) Repayment of debts owing to the Company by any shareholder by means of his/her equity interests in the Company;
- (4) Overseas listing of any subsidiaries of the Company which have a significant impact on the Company;
- (5) Other relevant issues which may have a significant impact on the interests of the public shareholders in respect of the development of the Company.

Article 139. Under circumstances as prescribed in the above article, after the Company making public announcement of the notice of shareholders' general meeting, the notice of the shareholders' general meeting shall be published once again within 3 days after the share registration day.

CHAPTER 9: SPECIAL PROCEDURES FOR VOTING
BY A CLASS OF SHAREHOLDERS

Article 140. Those shareholders who hold different classes of shares are class shareholders. MP78
Class shareholders shall enjoy rights and assume obligations in accordance with laws, administrative regulations and these Articles of Association.

Article 141. Rights conferred on any class of shareholders ("class rights") may not be varied or abrogated save MP79
with the approval of a special resolution of shareholders in a general meeting and by holders of shares of that class at a separate meeting conducted in accordance with Articles 141 to 145.



Article 142. The following circumstances shall be deemed to be variation or abrogation of the rights attaching to a particular class of shares: MP80

- (1) to increase or decrease the number of shares of that class, or to increase or decrease the number of shares of a class having voting or equity rights or privileges equal or superior to those of shares of that class;
- (2) to exchange all or part of the shares of that class for shares of another class or to exchange or to create a right to exchange all or part of the shares of another class for shares of that class;
- (3) to remove or reduce rights to accrued dividends or rights to cumulative dividends attached to shares of that class;
- (4) to reduce or remove preferential rights attached to shares of that class to receive dividends or to the distribution of assets in the event that the Company is liquidated;
- (5) to add, remove or reduce conversion privileges, options, voting rights, transfer or pre-emptive rights, or rights to acquire securities of the Company attached to shares of that class;
- (6) to remove or reduce rights to receive payment payable by the Company in particular currencies attached to shares of that class;
- (7) to create a new class of shares having voting or equity rights or privileges equal or superior to those of the shares of that class;
- (8) to restrict the transfer or ownership of shares of that class or to increase the types of restrictions attaching thereto;
- (9) to allot and issue rights to subscribe for, or to convert the existing shares into, shares in the Company of that class or another class;
- (10) to increase the rights or privileges of shares of another class;
- (11) to restructure the Company in such a way so as to result in the disproportionate distribution of obligations between the various classes of shareholders;
- (12) to vary or abrogate the provisions of this Chapter.

Article 143. Shareholders of the affected class, whether or not otherwise having the right to vote at shareholders' general meetings, have the right to vote at class meetings in respect of matters concerning subparagraphs (2) to (8), (11) and (12) of Article 140, but interested shareholder(s) shall not be entitled to vote at such class meetings. MP81



“(An) interested shareholder(s)”, as such term is used in the preceding paragraph, means:

- (1) in the case of a repurchase of shares by way of a general offer to all shareholders of the Company or by way of public dealing on a stock exchange pursuant to Article 32, a “controlling shareholder” within the meaning of Article 61;
- (2) in the case of a repurchase of shares by an off-market agreement pursuant to Article 32, a holder of the shares to which the proposed agreement relates;
- (3) in the case of a restructuring of the Company, a shareholder who assumes a relatively lower proportion of obligation than the obligations imposed on shareholders of that class under the proposed restructuring or who has an interest in the proposed restructuring different from the general interests of the shareholders of that class.

Article 144. Resolutions of a class of shareholders shall be passed by votes representing more than two-thirds of the voting rights of shareholders of that class represented at the relevant meeting who, according to Article 141, are entitled to vote thereat. MP82

Where any shareholder is, under the Hong Kong Listing Rules, required to abstain from voting any particular resolution in a class meeting or restricted to voting only for or only against any particular resolution in a class meeting, any vote cast or on behalf of any shareholder in contravention of such requirement or restriction shall not be counted.

Article 145. Unless otherwise provided by the relevant laws and regulations, the listing rules issued at the listing place of the Company and the Articles of Association in respect of the means of receipt of corporate communication, written notice of a class meeting shall be given to all shareholders who are registered as holders of that class in the register of shareholders forty-five (45) days before the date of the class meeting. Such notice shall give such shareholders notice of the matters to be considered at such meeting, the date and the place of the class meeting. A shareholder who intends to attend the class meeting shall deliver his written reply in respect thereof to the Company twenty (20) days before the date of the class meeting. MP83

If the shareholders who intend to attend such class meeting represent more than half of the total number of shares of that class which have the right to vote at such meeting, the Company may hold the class meeting; if not, the Company shall within five (5) days give the shareholders further notice of the matters to be considered, the date and the place of the class meeting by way of public announcement. The Company may then hold the class meeting after such public announcement has been made.



- Article 146. Notice of class meetings need only be served on shareholders entitled to vote thereat. MP84
 Class meetings shall be conducted in a manner which is as similar as possible to that of shareholders' general meetings. The provisions of these Articles of Association relating to the manner for the conduct of shareholders' general meetings are also applicable to class meetings.
- Article 147. Apart from the holders of other classes of shares, the holders of the Domestic-Invested Shares and holders of Overseas-Listed Foreign-Invested Shares shall be deemed to be holders of different classes of shares. App. 13 Pt. D 1(f)
- The special procedures for approval by a class of shareholders shall not apply in the following circumstances: MP85
*C.3 Zheng
 Jian Hai
 Han [1995]
 No. 3*
- (1) where the Company issues, upon the approval by special resolution of its shareholders in a general meeting, either separately or concurrently once every twelve (12) months, not more than 20% of each of its existing issued Domestic-Invested Shares and Overseas-Listed Foreign-Invested Shares; or App.13 Pt.D 1f(i)
- (2) where the Company's plan to issue Domestic-Invested Shares and Overseas-Listed Foreign-Invested Shares at the time of its establishment is carried out within fifteen (15) months from the date of approval of the State Council's securities authorities. App.13 Pt.D 1f(ii)

CHAPTER 10: BOARD OF DIRECTORS

Section I Directors

- Article 148 Directors who are not staff representative shall be elected or removed at the shareholders' general meeting. MP87,
*C.4 Zheng
 Jian Hai
 Han [1995]
 No. 1
 Guide 96*
- The staff directors shall be elected by the staff in the staff representative meeting or by other ways democratically.
- Directors shall be elected for a term of three years. At the expiry of the term, it shall be renewable upon re-election. A director may not be removed by the shareholders in a general meeting without any reason before his term of office expires.



The Chairman and Vice-chairman shall be elected and removed by more than one-half of all members of the board of directors. The term of office of the Chairman and Vice-chairman shall be three (3) years respectively, which is renewable upon re-election. Guide 85

The directors shall not be required to hold qualifying shares.

If a director fails to attend the two consecutive board meetings in person or by another director appointed as his representative (an independent director shall comply with the provisions in "Section II Independent Directors"), he shall be deemed to be in default of performing his duty. The board of directors should recommend his removal to a shareholders' general meeting.

Article 149 The tenure of a director shall commence from the date when he takes office until the end of the tenure of the existing board of directors. If an election is not conducted before the termination of the tenure of a director, the original director(s) shall continue to assume the responsibilities in accordance with the laws, administrative regulations, departmental rules and these Articles of Association before the new director(s) take office. Guide 96

Article 150. A director may submit his resignation before the expiry of his term. He should deliver a written resignation letter to the board of directors. The board of directors shall disclose such resignation within two days. Guide 86
Guide 100

Article 151. If a director's resignation will result in the number of directors falling below the legally prescribed minimum, his resignation shall not come into force until his vacancy is filled by another person. The original director(s) shall continue to assume the responsibilities in accordance with the laws, administrative regulations, departmental rules and these Articles of Association before the new director(s) take office. Guide 87
Guide 100

Apart from the above, the resignation of a director shall become effective when the written resignation letter is submitted to the board of directors Guide 88

Article 152. When a director resigns or his term of office expires, his obligation of confidentiality relating to the Company's trade secrets remains in force after the end of his office until such secrets become public information. Guide 89

Article 153. A director whose term of office has not expired shall be held responsible for the Company's loss due to his departure without permission. Guide 67



Article 154. Under normal circumstances, the board of directors will nominate candidates for directors who are not staff representative who shall be voted on at a shareholders' general meeting. The Company's shareholders and the supervisory committee may nominate candidates for directors who are not staff representative in accordance with these Articles of Association. App.3 4(3)-4 (5)

A shareholder's written notice of the intention to nominate a person for election as a director who are not staff representative and a notice in writing by that person indicating his acceptance of such nomination shall have been given to the Company seven (7) days before the date of such shareholders' general meeting. Such written notice(s) by the shareholder(s) of the Company shall be made no earlier than the day after the despatch of the notice of the general meeting appointed for election of directors who are not staff representative and no later than 7 days prior to the date of such meeting.

Where a person is proposed for election as a director who are not staff representative by the board of directors, a written notice of the intention to nominate a person for election as a director who are not staff representative and a notice in writing by that person indicating his acceptance of such nomination by board of directors shall have been given to the Company seven (7) days prior to the date of the board meeting appointed for determining the proposed directors who are not staff representative.

Under the premises of complying with the relevant laws and administrative regulations, the general meeting of the shareholders may remove any director who are not staff representative before his term expires by way of ordinary resolution provided that the claims that may be proposed pursuant to any contract shall not be affected therefrom.

Section II Independent Directors

Article 155. Independent Directors are directors who do not hold any positions in the Company other than as director and do not maintain with the Company and its substantial shareholders a connection which may hamper their independent and objective judgments. IDGO 1(1)

Article 156. The independent directors should possess the following basic qualifications: IDGO 2

- (1) having the qualifications to assume the office of a director in a listed company according to the laws, administrative rules and other relevant provisions;
- (2) being independent as specified in Article 155 of these Articles of Association;
- (3) having the basic knowledge of the operation of a listed company and being familiar with relevant laws, administrative rules and regulations;



- (4) having not less than five years' working experience in the legal or economic field or other experiences required for performing the duty of an independent director;
- (5) other qualifications specified by these Articles of Association.

Article 157. An independent director should be independent. The following persons shall not act as independent directors: IDGO 3

- (1) persons working in the Company or its subsidiaries, as well as their spouses, parents, children, siblings, parents-in-law, sons or daughters-in-law, spouses of their siblings and siblings of their spouses;
- (2) natural person shareholders who directly or indirectly hold more than 1% of the issued shares of the Company or who rank in the top ten shareholders of the Company, as well as their spouses, parents and children;
- (3) persons who work in entities being shareholders who directly or indirectly hold more than 5% of the issued shares of the Company who rank in the top five shareholders of the Company, as well as their spouses, parents and children;
- (4) persons who fell within the above three categories within the past year;
- (5) persons who provide financial, legal and consulting services to the Company or its subsidiaries or persons who work in the relevant organisations;
- (6) other people specified in these Articles of Association;
- (7) other people specified by the China Securities Regulatory Commission.

Article 158. The board of directors, the supervisory committee, and the shareholders who hold more than 1% issued shares individually or jointly may nominate candidates for independent directors to be elected at the shareholders' general meeting.

More than one third of the members of the board of directors shall be independent directors, and at least one of the independent directors shall have accounting expertise.



Article 159. The term of office of the independent directors is the same with that of the other directors of the Company. The term is renewable upon re-election after expiry, but shall not be more than six (6) years.

Any independent director shall not be removed before the expiry of his term of office without appropriate reason. Any removal before the expiry of term shall be disclosed by the Company as a special discloseable matter.

Article 160. Apart from the powers granted to directors by the Company Law and other relevant laws, regulations and these Articles of Association, the independent directors shall have the following special powers: IDGO 5(1) to (3)

- (1) Substantial connected transactions (determined in accordance with the standard promulgated from time to time by the regulatory organizations of the place where the Company's shares are listed), and engaging or ceasing to engage an accounting firm, shall be agreed by more than one-half of the independent directors before submitting to the board of directors for discussion.
- (2) The independent directors may request the board of directors to convene an extraordinary general meeting, and suggest the convening of a board meeting, and publicly collect voting rights from the shareholders before the shareholders' general meeting, which shall all be agreed by more than one-half of the independent directors.
- (3) With the consent of more than half of the members of the independent directors, the independent directors may engage external audit institutions or consultative institutions independently to provide audit and consultation for specific matters of the Company, the relevant costs of which shall be undertaken by the Company.

If the above recommendation are not accepted or the above powers can not be exercised ordinarily, the Company shall disclose the circumstances accordingly.

Article 161. Apart from exercising the above powers, the independent directors shall express their independent views to the board of directors or the shareholders' general meeting in respect of : IDGO 6

- (1) nomination, appointment and dismissal of directors;
- (2) appointment or dismissal of senior management personnel;
- (3) remuneration of the Company's directors and senior management personnel;



- (4) existing or new loans or other transactions involving funds which are substantial (determined in accordance with the standard promulgated from time to time by the regulator organizations of the place where the Company's shares are listed) between the Company and the Company's shareholders, persons in actual control of the Company and their affiliates, and whether the Company has taken effective measures to recover the moneys owed to it;
- (5) a plan of profit distribution in cash which has not yet been formulated by the board of directors of the Company;
- (6) actions which, in the opinion of the independent directors, may prejudice the interests of minority shareholders;
- (7) other matters specified by these Articles of Association.

The independent directors should express one of the following views on the above-mentioned issues: consent; reservation with the reasons thereof; objection with the reasons thereof; inability to express their opinions and the impediments thereto.

In case of matters requiring disclosure, the Company should make a public announcement of the independent directors' opinion. If the independent directors fail to reach a consensus in their opinions, the board of directors should disclose each independent director's respective opinion.

Article 162.

Independent directors shall attend the meetings of the board of directors on time understand the production business and operation of the Company, and initiate investigation to gain information required for making decision.

Independent directors shall submit an annual report for at the annual general meeting of the Company providing explanation in respect of the performance of their duties.

Article 163.

The independent directors shall perform their duties honestly and faithfully, and protect the Company's interests, especially paying attention to the protection of the legal rights of public shareholders.

The independent directors shall perform his duties independently, without being affected by major shareholders of the Company, persons in actual control or other entities or individuals which have conflicting interest with the Company, its major shareholders and persons in actual control.

Article 164.

If an independent director fails to attend three consecutive board meeting in person, the board of directors shall recommend his removal to a shareholders' general meeting.

IDGO 4(5)



Article 165. The Company shall set up a work system for the independent directors, ensuring that they have the same right of being informed as the other directors. The Company shall promptly provide the independent directors with relevant materials and information, regularly notify them of the operation of the Company, and organise on-site visit by the independent directors if necessary.

Article 166. An independent director may tender his resignation before the expiry of his term of office. He should deliver a written resignation letter to the board of directors, which explains any circumstances that are relevant to his resignation or that he considered necessary for the shareholders and creditors to pay attention.

If an independent director's resignation results in the number of independent directors or member of the board of directors falling below the legally prescribed minimum or the minimum under these Articles of Association, before the appointment of a new independent director, the independent director shall perform his duties according to the laws, administrative regulations and requirements under this Article of Association. The board of directors shall convene a shareholders' general meeting within two months to elect a replacement. If not within two months, the independent director may not continue to perform his duties.

Article 167. Matters relating to the system of independent directors which have not been set out in this section shall be handled according to the relevant laws and regulations.

Section III The Board of Directors

Article 168. The Company shall have a board of directors consisting of eleven (11) directors, of which is one shall be a staff representative, with one (1) chairman and one (1) vice-chairmen. MP86 Guide 96

The Board may establish special committees such as Strategic Committee, Audit Committee, Nomination Committee and Remuneration Committee as it deems appropriate. The special committees are to be comprised solely of Directors. The independent directors of the Company should take up the majority of the Audit Committee, the Nomination Committee and the Remuneration Committee and be responsible for as conveners of meetings. The members of the Audit Committee should have at least one independent director who is an accounting professional.

Article 169. The board of directors is accountable to the shareholders in general meeting and exercises the following functions and powers: MP88 Guide 94

- (1) to be responsible for the convening of the shareholders' general meeting and to report on its work to the shareholders in general meetings;



- (2) to implement the resolutions passed by the shareholders in general meetings;
- (3) to determine the Company's business plans and investment proposals;
- (4) to formulate the Company's annual preliminary and final financial budgets;
- (5) to formulate the Company's profit distribution proposal and loss recovery proposal;
- (6) to formulate proposals for the increase or reduction of the Company's registered capital and for the issuance of the Company's debentures;
- (7) to draw up plans for the substantial acquisition, repurchase of shares, merger, division or dissolution of the Company;
- (8) to decide on the Company's internal management structure;
- (9) to appoint or remove the Company's general manager and secretary of the board and to appoint or remove the deputy general manager(s) and other senior officers (including the financial controller(s) of the Company) based on the recommendations of the general manager, to decide on their remuneration and matters relating to awards and penalty;
- (10) to formulate the Company's basic management system;
- (11) to formulate proposals for any amendment of these Articles of Association;
- (12) to decide on matters relating to foreign investment, purchase or sale of assets, mortgage of assets, provision of guarantees, entrusted assets management and connected transactions by the Company within the scope of authority conferred by the general meeting;
- (13) to manage disclosure of the Company's information;
- (14) to recommend to the shareholders' general meeting the appointment or replacement of the Company's accounting firm;
- (15) to receive the working report by the Company's management and examine their performance;



- (16) to approve an aggregate amount of provision for impairment of assets not more than 10% of the latest audited consolidated net asset value of the Company, to clear an amount of provision for impairment of assets not more than 5% of the latest audited consolidated net asset value of the Company, and to execute in compliance with the relevant regulations on connected transaction if any provision and clearance of impairment of assets involves any connected transactions.
- (17) to exercise any other powers specified by the law, administrative regulations, departmental rules, these Articles of Association and as authorised by the shareholders' general meeting.

Except as otherwise provided in these Articles of Association, other than the board of directors' resolutions in respect of the matters specified in sub-paragraphs (6), (7) and (11) of this Article which shall be passed by the affirmative vote of more than two-thirds of all the directors, the board of directors' resolutions in respect of all other matters may be passed by the affirmative vote of a simple majority of the directors.

Article 170 The board of directors shall lay down strict procedures to inspect and decide on the approval limit for foreign investment, purchase or sale of assets, mortgage of assets, provision of guarantees, entrusted assets management and connected transactions. For major investment projects, the board of directors shall organize the relevant experts and professional officers to conduct assessment for approval of the shareholders in a general meeting.

Article 171. With the approval of over two-thirds of all directors, the board of directors may make decisions on the following matters: Guide 97

- (1) transactions falling within the following limit (whichever is stricter) with respect to purchase or sale of assets, external investment (including entrusted financial management and entrusted loans, etc.), provision of financial assistance, leasing of assets as lessor or lessee, restructuring of claims or debts, giving or receiving assets as a gift, entrusted or trusted asset or business management, entering of licence agreement, transferring or accepting the transfer of research and development projects
 - 1. the aggregate assets value (where book value and assessed value are available, whichever is higher) involved in a single transaction with amount more than 10% and below 50% of the Company's latest audited total asset value prepared in accordance with the PRC GAAP; or more than 5% and less than 25% of the Company's latest published total assets value prepared in accordance with the International Financial Reporting Standards;



2. a single transaction of which the completion consideration (including liabilities and expenses) accounts for more than 10% and less than 50% of the Company's latest audited net asset value prepared in accordance with the PRC GAAP; or more than 5% and less than 25% of the total market capitalisation of the Company (which is calculated by the average closing price of the Company's shares as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of a transaction);
3. the latest annual income from principal operations of the subject of a single transaction accounted for more than 10% and less than 50% of the Company's latest audited income from principal operations for the latest financial year prepared in accordance with the PRC GAAP; or more than 5% and less than 25% of the Company's latest audited income from principal operations for the latest financial year prepared in accordance with the International Financial Reporting Standards;
4. the latest annual net profit of the subject of a single transaction accounted for more than 10% and less than 50% of the Company's latest audited net profit for the latest financial year prepared in accordance with the PRC GAAP; or more than 5% and less than 25% of the Company's latest audited net profit for the latest financial year prepared in accordance with the International Financial Reporting Standards.

The above transactions which involve public offer of securities that requires the approval of the China Securities Regulatory Commission shall be subject to approval of the shareholders' general meeting;

- (2) a single loan of more than 10% and less than 25% of the Company's latest audited net asset value and the debt ratio to the Company's assets remains under 80% after such financing;
- (3) mortgages or pledges of assets the cumulative outstanding amount of which is less than 30% of the Company's most recently audited net asset value;
- (4) external guarantees not within the approval limit of the shareholders' general meeting as provided in the Articles of Association;
- (5) transactions involving connected transactions, which have to be conducted in accordance with the relevant regulations of competent securities authorities and the listing rules of the stock exchanges.



The transactions referred to in (1) of the first paragraph involving the provision of financial assistance and entrusted financial management, shall be calculated on accrued basis for twelve consecutive months according to the transaction categories and applicable approval limit proportion of the board of directors. When the Company conducts other transactions apart from the provision of financial assistance and entrusted financial management, applicable approval limit proportion of the board of directors regarding each transaction which is under the same category shall be calculated on the principle of accrued basis for twelve consecutive months. Transactions already approved by the Company in accordance with the principle of accrued basis shall not be included in the scope of accrual calculation.

Provision of regulatory authorities the Company is subject to within and outside the PRC that is of a stricter standard than this Article of Association shall apply accordingly.

Article 172 The directors of the Company shall ensure that the information disclosed by the Company is true, accurate and complete.

The directors of the Company shall sign a written confirmation of opinion in connection with the regular report of the Company.

Article 173. The Company has established a strict internal control system over external guarantee. The whole board of directors shall cautiously handle and strictly control the risk of debt created by external guarantee. In connection with the losses resulting from an inappropriate external guarantee or an external guarantee given not in compliance with the relevant laws and regulations the directors who shall be held responsible shall bear joint and several liabilities.

(I) Review on guarantee and decision limitation

Before making any decision on external guarantee, the Company shall understand the creditability of the debtor and make a thorough analysis on the benefit and risk of such guarantee.

Any external guarantee given by the Company shall be approved by two-thirds of the board of directors or by the shareholders in a general meeting. Any connected director(s), shareholder(s) or shareholders controlled by de facto controllers being interested in a guarantee shall excuse himself from voting on resolution relating to such guarantee.

The approval limit of the Company for an external guarantee shall be executed in accordance with (13) in the first paragraph of Article 65, Article 66 and (6) in the first paragraph of Article 107.

Guide 41, 77



(II) Management in guarantee procedures

The external guarantee of the Company shall be made in form of written contract, and at the same time the supervisory committee, the secretary to the board of directors and the financial department shall be notified.

The external guarantee of the Company shall be arranged under risk avoidance measures such as a counter guarantee given by the guaranteed party, and the party giving the counter guarantee shall have actual ability to perform its obligation under the counter guarantee.

(III) Disclosure on provision of guarantee

The provision of external guarantee as approved by the Board or shareholders in general meetings should be disclosed in a preliminary report in a true, accurate, complete and timely manner. The obligation to disclose such matters should not be fulfilled by way of periodic reports.

The contents to be disclosed should include: (i) the respective resolutions passed by the Board or 734971-v2\HKGDMs\HKGKKG 2 general meetings; (ii) the aggregate amount of external guarantee provided by the Company and its subsidiaries as at the date of disclosure; (iii) the aggregate amount of guarantees provided by the Company to its subsidiaries.

The above disclosure obligation should apply equally to the subsidiaries of the Company when providing external guarantees.

Within ten days upon the approval of the provision of external guarantee by the Company, the Company should file the relevant resolutions of the Board or the general meeting, minutes of the relevant meeting and financial statements of the guaranteed party with Shandong Provincial Securities Regulatory Bureau of the China Securities Regulatory Commission; and within ten days upon the signing of the guarantee agreement, file the relevant agreement(s) in respect of the external guarantee stamped with the Company's chop with Shandong Provincial Securities Regulatory Bureau of the China Securities Regulatory Commission."

Article 174

The board of directors shall not, without the prior approval of shareholders in a general meeting, dispose or agree to dispose of any fixed assets of the Company where the aggregate of the amount or value of the consideration for the proposed disposition, and the amount or value of the consideration for any such disposition of any fixed assets of the Company that has been completed in the period of four (4) months immediately preceding the proposed disposition, exceeds 33 % of the value of the Company's fixed assets as shown in the latest balance sheet which was tabled at a shareholders' general meeting.



For the purposes of this Article, "disposition" includes an act involving the transfer of an interest in assets but does not include the usage of fixed assets for the provision of security.

The validity of a disposition by the Company shall not be affected by any breach of the first paragraph of this Article.

- Article 175 The Chairman of the board of directors shall exercise the following powers: Guide 113
- (1) to preside over shareholders' general meetings and to convene and preside over meetings of the board of directors;
 - (2) to check on the implementation of resolutions passed by the board of directors at directors' meetings; Guide 114
 - (3) to sign the securities certificates issued by the Company;
 - (4) to sign the important documents of the board and other documents which should be signed by the Company's legal representative;
 - (5) to exercise the rights of the legal representative;
 - (6) in the event of emergency situations such as the occurrence of large-scale natural disasters, to take special steps in handling the Company's business according to the laws and the Company's interest; and to report to the Company's board of directors and shareholders' general meeting afterwards; Guide 115
 - (7) to exercise other powers conferred by the board of directors.

Article 176 The vice chairman shall assist the chairman in his work. Where the chairman is unable to or does not perform the duty, the vice chairman shall preside the meeting. Where the vice chairman is unable to or does not perform the duty, a director nominated by more than one-half of the directors shall perform the duty.

- Article 177 Meetings of the Board shall be held at least three times every year and shall be convened by the chairman of the board of directors. All of the directors and supervisors should be notified about the meeting fourteen (14) days beforehand. An extraordinary meeting of the board of directors may be held under the following circumstances:
- (1) when the Chairman thinks it is necessary;
 - (2) Shareholders carrying voting rights of more than 10%;
 - (3) when more than one-third directors so request; Guide 120



- (4) when the supervisory committee so requests;
- (5) when the general manager so requests;
- (6) when more than a half of the independent directors so request.

Article 178 Notice of meetings and extraordinary meetings of the board of directors shall be delivered in person, by facsimile, by express delivery service and by registered mail. The time limits for the delivery of such notices are: for a board meeting, at least fourteen (14) days before the meeting; and for an extraordinary meeting, at least three (3) days before the meeting. Guide 118

A notice of meetings shall contain the following contents: (1) date and place of the meeting; (2) duration of the meeting; (3) business to be discussed; and (4) date of notice.

Article 179 Notice of a meeting shall be deemed to have been given to any director who attends the meeting without protesting against, before or at its commencement, any lack of notice.

Article 180 Resolution of the board of directors may be decided on a poll or show of hands. Guide 119

As long as all directors can fully express their opinions, a board meeting or an extraordinary meeting of the board of directors may be held by way of facsimile, during which resolutions may be passed and signed by participating directors. All such directors shall be deemed to be present in person at the meeting. When the number of directors who have signified their consent to a resolution reaches the number set out in Article 179, a valid resolution shall be deemed to have been passed.

Article 181 Meetings of the board of directors shall be held only if more than half of the directors (including any alternate director appointed pursuant to Article 180 of the Company's Articles of Association) are present. Guide 121

Each director shall have one (1) vote. A resolution of the board of directors must be passed by more than half of all of the directors of the Company.

Where there is an equality of votes cast both for and against a resolution, the Chairman of the board of directors shall have a casting vote.

When passing a resolution in relation to connected transaction at a board meeting, or where any director or any of its Associates (as defined under the Listing Rules of the Stock Exchange of Hong Kong) is connected with such resolution, such connected director shall excuse himself from the Board meeting, shall not have any voting rights in respect thereof, shall not exercise any voting right on behalf of other directors and shall not be counted as part of the quorum of the board meeting. Such board meeting can be convened where not less than half of the disinterested directors of the Company attend the meeting and any such resolutions shall be passed by at least half of the disinterested directors of the Company. If the number of disinterested directors present at is less than 3, the matter shall be presented to the shareholders for consideration at a general meeting.



Article 182 Directors shall attend the meetings of the board of directors in person. Where a director is unable to attend a meeting for any reason, he may by a written power of attorney appoint another director to attend the meeting on his behalf. The power of attorney shall set out the name of the attorney, issues under authorisation, scope of authorisation and valid period, which will be signed or sealed with the chop by the appointing director.

A Director appointed as a representative of another director to attend the meeting shall exercise the rights of a director within the scope of authority conferred by the appointing director. Where a director is unable to attend a meeting of the board of directors and has not appointed a representative to attend the meeting on his behalf, he shall be deemed to have waived his right to vote at the meeting

Article 183 The board of directors shall keep minutes of resolutions passed at meetings of the board of directors. The minutes shall be signed by the directors present at the meeting, the board's secretary and the person who recorded the minutes. The directors shall be liable for the resolutions of the board of directors. If a resolution of the board of directors violates the laws, administrative regulations or the Company's Articles of Association and the Company suffers serious losses as a result thereof, the directors who participated in the passing of such resolution are liable to compensate the Company therefor. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director may be released from such liability.

The minutes of the board meeting shall include the following contents: (1) date and place of the meeting and name of the convener; (2) names of participating directors and proxies; (3) agenda; (4) main points of directors' speeches; (5) voting method for each matter and its result (the voting result should specify the number of votes for and against and abstentions).

Minutes of the board meeting shall be kept as the Company's record for a period of not less than ten years. Guide 122

Article 184 The board of directors shall formulate its rules of meetings to ensure its working efficiency and scientific decision.

The rules of meetings of the board of directors shall be drafted by the board of director of the Company and be considered and approved at the shareholders' general meeting.



CHAPTER 11: SECRETARY OF THE BOARD
OF DIRECTORS

Article 185	The Company shall have one (1) secretary to the board of directors. The secretary shall be a senior officer of the Company, who is nominated by the chairman of the board of directors, appointed or removed by the board of directors and accountable to the board of directors.	MP96 Guide 113
Article 186	<p>The secretary of the Company’s board of directors shall be a natural person who has the requisite professional knowledge and experience, and shall be appointed by the board of directors. His primary responsibilities are as follows:</p> <ol style="list-style-type: none"> (1) to prepare and deliver the board’s and general meeting’s reports and documents required by competent authorities in China; (2) to prepare and organise board meetings and shareholders’ general meetings; to take minutes of the meetings and to keep the meetings’ documents and records; (3) to be responsible for the Company’s information disclosure and to ensure the timeliness, accuracy, legality, authenticity and completeness of the Company’s disclosure; (4) to be responsible for the Company’s management for investors relation; (5) to actively co-operate with the independent directors in performing their duties; (6) to ensure that the Company’s registers of members are properly established, and that persons entitled to receive the Company’s records and documents are furnished therewith without delay; (7) other responsibilities specified in these Articles of Association and the listing rules of the stock exchanges where the Company’s shares are listed. 	MP97 Guide 115
Article 187	A director or senior officer of the Company may also act as the secretary of the board of directors. The certified public accountancy firm which has been appointed by the Company to act as its auditors shall not act as the secretary of the board of directors.	MP98



Where the office of secretary is held concurrently by a director, and an act is required to be done by a director and a secretary separately, the person who holds the office of director and secretary may not perform the act in a dual capacity.

CHAPTER 12: GENERAL MANAGER AND SENIOR OFFICERS ETC

- Article 188 The Company shall have a general manager who shall be appointed or dismissed by the board of directors. The Company shall have six to ten deputy general managers who will assist the general manager in his work, a financial controller and a chief engineer. MP99
Guide 118
and 120
- The board of directors may decide to appoint a member of the board of directors to act concurrently as the senior officers. However, the number of directors and staff director who act concurrently as the senior officers shall not exceed one half of the total number of directors. Any person serving as officers (excluding directors) at the Company's controlling shareholder and de factor controller unit shall not act as the senior officer of the Company. Guide 96, 126
- The senior officers shall serve for a term of three (3) years. The term is renewable upon re-election. Guide 127
- The tenure of a senior officer shall commence from the date when he takes office until the end of the tenure. If an appointment is not made in time upon the termination of the tenure of the senior officer, the original senior officer(s) shall assume the responsibilities in accordance with the laws, administrative regulations, departmental rules and these Articles of Association before the new senior officer(s) take office.
- Article 189 The general manager shall be accountable to the board of directors and shall exercise the following functions and powers: MP100
Guide 121
- (1) to be in charge of the Company's production, operation and management, to organise the implementation of the resolutions of the board of directors and report to the board of directors; Guide 128
 - (2) to organise the implementation of the Company's annual business plan and investment proposal;
 - (3) to draft plans for the establishment of the Company's internal management structure;
 - (4) to draft the Company's basic management system;



- (5) to formulate basic rules and regulations for the Company;
- (6) to propose the appointment or dismissal of the Company's senior officers;
- (7) to appoint or dismiss management personnel other than those required to be appointed or dismissed by the board of directors;
- (8) to draw up a package of staff's salary, benefits, awards and penalty, as well as to decide the appointment and dismissal of the staff of the Company;
- (9) to request the convening of an extraordinary meeting of the board;
- (10) other powers conferred by these Articles of Association and the board of directors.

Article 190

The general manager may, by means such as through the manager's meeting of the Company, make decisions on the following operational matters:

- (1) transactions falling within the following limit (whichever is stricter) with respect to purchase or sale of assets, external investment (including entrusted financial management and entrusted loans, etc.), provision of financial assistance, leasing of assets as lessor or lessee, restructuring of claims or debts, giving or receiving assets as a gift, entrusted or trusted asset or business management, entering of licence agreement, transferring or accepting the transfer of research and development projects:
 1. the aggregate assets value (where book value and assessed value are available, whichever is higher) involved in a single transaction with amount below 10% of the Company's latest audited total asset value prepared in accordance with the PRC GAAP; or less than 5% of the Company's latest published total asset prepared in accordance with the International Financial Reporting Standards
 2. a single transaction of which the completion consideration (including liabilities and expenses) accounts for less than 10% of the Company's latest audited net asset value prepared in accordance with the PRC GAAP; or less than 5% of the total market capitalisation of the Company (which is calculated by the average closing price of the Company's shares as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the transaction);



3. the latest annual income from principal operations of the subject of a single transaction accounted for less than 10% of the Company's latest audited income from principal operations for the latest financial year prepared in accordance with the PRC GAAP; or less than 5% of the Company's latest audited income from principal operations for the latest financial year prepared in accordance with the International Financial Reporting Standards;
4. the latest annual net profit of the subject of a single transaction accounted for less than 10% of the Company's latest audited net profit for the latest financial year prepared in accordance with the PRC GAAP; or less than 5% of the Company's latest audited net profit for the latest financial year prepared in accordance with the International Financial Reporting Standards.

The transactions referred to in (1) of the first paragraph involving the provision of financial assistance and entrusted financial management, shall be calculated on accrued basis for twelve consecutive months according to the transaction categories and applicable approval limit proportion of the board of directors. When the Company conducts other transactions apart from the provision of financial assistance and entrusted financial management, applicable approval limit proportion of the board of directors regarding each transaction which is under the same category shall be calculated on the principle of accrued basis for twelve consecutive months. Transactions already approved by the Company in accordance with the principle of accrued basis shall not be included in the scope of accrual calculation.

The above transactions which involve public offer of securities that requires the approval of the China Securities Regulatory Commission shall be subject to approval of the shareholders' general meeting of shareholders.

- (2) a single loan of less than 10% of the Company's latest audited net asset value and the debt ratio to the Company's assets remains under 50% after such financing
- (3) security or pledges of assets, a single amount of which is less than 5%, and a cumulative amount of which is less than 20% , of the Company's latest audited net asset value.

Where decisions on operational matters involve connected transactions, such decisions shall be implemented in accordance with the relevant requirements of connected transactions.

Provision of regulatory authorities the Company is subject to within and outside the PRC that is of a stricter standard than this Article will be applicable accordingly.



- Article 191 The general manager shall attend meetings of the board of directors. The general manager, who is not a director, does not have any voting rights at board meetings. MP101
- Article 192 The general manager shall, upon requests of the board of directors or supervisory committee, report to the board of directors or the supervisory committee on the signing and implementation of the Company's material contracts, usage of capital and profit and loss. The general manager shall ensure authenticity of the reports. Guide 123
- Article 193 Before drawing up a package concerning staff's immediate interests, such as staff's salary, benefits, safe production and labour, labour insurance, and dismissal of staff, the general manager should consult the trade union and the meeting of staff representatives. Guide 124
- Article 194 The general manager shall formulate working rules of general manager and submit them to the board of directors for approval. Guide 125
- Article 195 The general manager's working rules shall include the following: (1) conditions and procedures of convening a general manager's meeting, as well as the participants; (2) specific duties and division of labour among the senior officers; (3) the Company's usage of funds and assets, limits on signing of material contracts and reporting system to the board of directors and supervisory committee; and (4) other matters which the board considers necessary. Guide 126
- Article 196 The general manager and deputy general managers, in performing their functions and powers, shall act honestly and diligently and in accordance with laws, administrative regulations and these Articles of Association. MP102
- Article 197 The senior officers of the Company shall ensure that the information disclosed by the Company is true, accurate and complete.
The senior officers of the Company shall sign a written confirmation of opinion in connection with the regular report of the Company.
- Article 198 The fiduciary duties concerning the directors in Article 215 and the duties of diligence in Article 216 (4) - (6) are also applicable to the senior officers.
- Article 199 A senior officer may submit his resignation before the expiry of his term. The specific procedures and measures for resignation by the senior officers shall be governed by the labour contract being entered into by the senior officer and the Company.

CHAPTER 13: SUPERVISORY COMMITTEE

- Article 200 The Company shall have a supervisory committee. MP103



Each supervisor shall serve for a term of three (3) years, which term is renewable upon re-election and re-appointment.

Article 201	<p>The supervisory committee shall have one chairman and one vice chairman.</p> <p>The election or removal of the chairman and vice chairman of the supervisory committee shall be determined by two-thirds or more of the members of the supervisory committee.</p> <p>The chairman and vice chairman shall serve for a term of three (3) years, which term is renewable upon re-election and re-appointment.</p>	MP104, C.5 Zheng Jian Hai Han [1995] No. 1 App.13 Pt.D 1(d)(i), Guide 143
Article 202	<p>The tenure of a supervisor shall commence from the date when he takes office until the end of the tenure. If an appointment is not made in time upon the termination of the tenure of the senior officer so that a quorum of the supervisory committee is not met, the original senior officer(s) shall assume the responsibilities in accordance with the laws, administrative regulations, departmental rules and these Articles of Association before the new senior officer(s) take office.</p>	Guike 138
Article 203	<p>The supervisors of the Company shall ensure that the information disclosed by the Company is true, accurate and complete.</p>	Guide 139
Article 204	<p>The Supervisory Committee is to be comprised of six members. Members of the Supervisory Committee should be comprised of shareholder representative supervisors and an appropriate proportion of employee representative supervisors. The number of employee representative supervisors should not be less than one-third of the total number of the members of the Supervisory Committee. Shareholders representative supervisors are elected and removed by general meetings and employee representative supervisors are elected and removed by democratic elections of the employees.”</p>	MP105 Guide 149
Article 205	<p>Under normal circumstances, the Company’s supervisory committee shall submit a list of candidates for supervisors (except for staff candidates for supervisors) to the shareholders’ general meeting. The Company’s shareholders and board of directors may nominate the candidates for supervisors according to these Articles of Association.</p>	
Article 206	<p>The directors and senior managers shall not act concurrently as supervisors.</p>	MP106, Guide 135
Article 207	<p>Meetings of the supervisory committee shall be held at least once every six months, and shall be convened by the chairman of the supervisory committee. The supervisors may propose to convene the extraordinary meeting of the supervisory committee.</p>	MP107 Guide 132, Guide 145



Where the chairman of the supervisory committee is unable to or does not perform the duty, the vice chairman of the supervisory committee shall preside the meeting. Where the vice chairman of the supervisory committee is unable to or does not perform the duty, a supervisor nominated by more than one-half of the supervisors shall perform the duty.

If a supervisor fails to attend two consecutive meetings of supervisory committee, he shall be deemed to have failed to discharge his duties. The shareholders' general meeting or staff representatives' meeting shall replace him.

Article 208

The supervisory committee shall be accountable to the shareholders in a general meeting and shall exercise the following functions and powers in accordance with law:

MP108
Guide 102,
Guide 143

- (1) to review the regular reports of the Company prepared by the board of directors and give its opinion of review;
- (2) to inspect the Company's financial position;
- (3) to supervise the directors and senior officers and to propose removal of a director or a senior officer who has contravened any law, administrative regulation, these Articles of Association or resolutions passed at a shareholders' general meeting;
- (4) to demand any director or senior officer who acts in a manner which is harmful to the Company's interest to rectify such behaviour;
- (5) to check the financial information such as the financial report, business report and plans for distribution of profits to be submitted by the board of directors to the shareholders' general meetings and to authorise, in the Company's name, publicly certified and practising accountants to assist in the re-examination of such information should any doubt arise in respect thereof;
- (6) to propose to convene a shareholders' extraordinary general meeting and an extraordinary board meeting. Where the board of directors fails to convene or hold the general meeting of shareholders in accordance with the provisions of the Company Law, to convene and hold the shareholders' general meeting;
- (7) to propose resolutions to the shareholders' general meeting;
- (8) to initiate proceedings against the directors and senior officers in accordance with section 152 of the Company Law;



- (9) to conduct investigation into any identified irregularities in the Company's operations;
- (10) other functions and powers specified in these Articles of Association.

Guide 140

Supervisors shall attend meetings of the board of directors, and make queries or recommendations to the matters resolved by the board of directors.

Article 209

Notices of meetings and extraordinary meetings of the supervisory committee shall be delivered in person, by facsimile, by express delivery service or by registered mail. The time limits for the delivery of such notices are: for a supervisory meeting, at least five (5) days before the meeting; and for an extraordinary supervisory meeting, at least two (2) days before the meeting.

MP109,
C.6 Zheng
Jian Hai
Han [1995]
No. 1
App.13 Pt.D
1(d)(ii)

Resolutions of the supervisory committee shall be passed by the affirmative vote of more than two-thirds of all of its members. Resolutions may be passed by a show of hands or by poll.

Guide 139
and 142, 145

Notice of meetings shall contain the following contents: date and place of meeting; duration of meeting; business to be discussed; and date of notice.

Minutes shall be taken of the meetings of the supervisory committee. The participating supervisors and the person who records the minutes should sign the minutes. The supervisors shall have the right to request the record of his speech in the meeting for a particular illustrative description. The minutes of the meetings of the supervisory committee shall be kept as the Company's record for at least ten years.

Guide 147

Article 210

All reasonable fees incurred in respect of the employment of professionals (such as, lawyers, certified public accountants or practising auditors) which are required by the supervisory committee in the exercise of its functions and powers shall be borne by the Company.

MP110

Article 211

The supervisory committee shall formulate its rules of meetings to ensure its working efficiency and scientific decision.

The rules of meetings of the supervisory committee shall be drafted by the supervising committee of the Company and be considered and approved at the shareholders' general meeting.



CHAPTER 14: THE QUALIFICATIONS AND DUTIES
OF THE DIRECTORS, SUPERVISORS AND SENIOR OFFICERS OF
THE COMPANY

Article 212

A person may not serve as a director, supervisor or senior officer of the Company if any of the following circumstances apply:

MP112
Guide 78

- (1) a person who does not have or who has limited capacity for civil conduct;
- (2) a person who has been sentenced for corruption, bribery, infringement of property or misappropriation of property or other crimes which destroy the social economic order, where less than a term of five (5) years has lapsed since the sentence was served, or a person who has been deprived of his political rights and not more than five (5) years have lapsed since the sentence was served;
- (3) a person who is a former director, factory manager or manager of a company or enterprise which has been dissolved or put into liquidation as a result of mismanagement and who was personally liable for the winding up of such company or enterprise, where less than three (3) years have elapsed since the date of completion of the insolvent liquidation of the company or enterprise;
- (4) a person who is a former legal representative of a company or enterprise the business licence of which was revoked due to violation of law and who are personally liable therefor, where less than three (3) years have elapsed since the date of the revocation of the business licence;
- (5) a person who has a relatively large amount of debts which have become overdue;
- (6) a person who is currently under investigation by judicial organs for violation of criminal law;
- (7) a person who, according to laws and administrative regulations, cannot act as a leader of an enterprise;
- (8) a person other than a natural person;
- (9) a person who has been convicted by the competent authority for violation of relevant securities regulations and such conviction involves a finding that such person has acted fraudulently or dishonestly, where not more than five (5) years have lapsed from the date of such conviction;



(10) a person who has been restricted to enter the market by the China Securities Regulatory Commission and such restriction has not been lifted.

(11) a person who has been declared by a Stock Exchange in less than 2 years as an unsuitable candidate.

Article 213 The validity of an act carried out by a director and senior officer of the Company on its behalf shall, as against a bona fide third party, shall not be affected by any irregularity in his office, election or any defect in his qualification. MP113

Article 214 In addition to the obligations imposed by laws, administrative regulations or the listing rules of the stock exchange on which shares of the Company are listed, each of the Company's directors and senior officers owes a duty to each shareholder, in the exercise of the functions and powers of the Company entrusted to him: MP114

(1) to act honestly and in the best interests of the Company; Guide 98

(2) not to expropriate the Company's property in any way, including (without limitation) usurpation of opportunities which benefit the Company;

(3) not to expropriate the individual rights of shareholders, including (without limitation) rights to distribution and voting rights, save and except pursuant to a restructuring of the Company which has been submitted to the shareholders for approval in accordance with these Articles of Association.

Article 215 Each of the Company's directors, and senior officers owes a duty, in the exercise of his powers and in the discharge of his duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. MP115

Article 216 Each of the Company's directors, supervisors and senior officers shall exercise his powers or perform his duties in accordance with the fiduciary principle; and shall not put himself in a position where his duty and his interest may conflict. This principle includes (without limitation) discharging the following obligations: MP116

(1) to act honestly in the best interests of the Company;

(2) to act within the scope of his powers and not to exceed such powers;

(3) to exercise the discretion vested in him personally and not to allow himself to act under the control of another and, unless and to the extent permitted by laws, administrative regulations or with the informed consent of shareholders given in a general meeting, not to delegate the exercise of his discretion;



- (4) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- (5) unless otherwise provided for in these Articles of Association or except with the informed consent of the shareholders given in a general meeting, not to enter into any contract, transaction or arrangement with the Company;
- (6) not to use the Company's property for his own benefit, without the informed consent of the shareholders given in a general meeting;
- (7) not to exploit his position to accept bribes or other illegal income or expropriate the Company's property in any way, including (without limitation) opportunities which benefit the Company;
- (8) not to accept commissions in connection with the Company's transactions, without the informed consent of the shareholders given in a general meeting;
- (9) to comply with these Articles of Association, to perform his official duties faithfully, to protect the Company's interests and not to exploit his position and power in the Company to advance his own interests;
- (10) not to release any confidential information which he has obtained during his term of office, without the informed consent of the shareholders in a general meeting; nor shall he use such information otherwise than for the Company's benefit, save that disclosure of such information to the court or other governmental authorities is permitted if:
 - (i) disclosure is made under compulsion of law;

Guide 97



- (ii) public interests so warrants;
- (iii) the interests of the relevant director, supervisor, general manager, deputy general manager or other senior officer so requires.

Article 217 The fiduciary duties to be discharged by directors in complying with the laws, administrative regulations and these Articles are as follows: Guide 97

- (1) not to misappropriate the Company's funds;
- (2) not to use the Company's assets or funds to set up deposit accounts in his own name or in the any other name;
- (3) not to violate the provisions of these Articles and lend the Company's funds or to use the Company's assets to guarantee the debts of others with the approval of the shareholders' general meeting or the board of directors;
- (4) not to abuse his positions to obtain business opportunities for himself or others which should belong to the Company, to engage in same business of the Company by himself or for others;
- (5) not to hamper the Company's interests through its connected relationships;
- (6) to perform other fiduciary duties as required by the laws, administrative regulations, departmental rules and these Articles of Association.

The income derived by the directors in violating this Article shall belong to the Company. Any loss incurred by the Company as a result of violating this Article shall be indemnified by the directors.

Article 218 The duties of diligence to be discharged by directors in complying with the laws, administrative regulations and these Articles of Association are as follows: Guide 98

- (1) to exercise the rights conferred upon them in a prudent, serious and diligent manner so as to ensure that the commercial activities carried out by the Company are in compliance with the laws and administrative regulations, as well as the requirements of various economic policies of the State and falls within the scope of business provided for in the business license;



- (2) to treat all shareholders equally;
- (3) to keep informed of the business operation and management of the Company in a timely manner;
- (4) to sign a written confirmation or opinion in connection with the regular reports of the Company and to ensure that the information disclosed by the Company is true, accurate and complete;
- (5) to inform the supervisory committee of the relevant circumstances and information that is in accordance with the facts, and shall not impede the supervisory committee or a supervisor from exercising their powers;
- (6) to perform other fiduciary duties as required by the laws, administrative regulations, departmental rules and these Articles of Association.

Article 219 Each director, supervisor and senior officers of the Company shall not direct the following persons or institutions (“associates”) to do which he is prohibited from so doing: MP117

- (1) the spouse or minor child of the director, supervisor or senior officer;
- (2) the trustee of the director, supervisor or senior officer or of any person described in sub-paragraph (1) above;
- (3) the partner of that director, supervisor or senior officer or any person referred to in sub-paragraphs (1) and (2) of this Article;
- (4) a company in which that director, supervisor or senior officer, whether alone or jointly with one (1) or more of the persons referred to in sub-paragraphs (1), (2) and (3) of this Article and other directors, supervisors, general manager, deputy general managers and other senior officers, has de facto controlling interest;
- (5) the directors, supervisors and senior officers of a company which is being controlled in the manner set out in sub-paragraph (4) above.



Article 220 Directors, supervisors and senior management of the Company shall have legal responsibilities and obligations with regard to the safe-keeping of the funds of the Company. MP117

The Company shall not provide, directly or indirectly, funds to the controlling shareholder of the Company and its related parties in the following manner:

1. To lend funds of the Company to the controlling shareholder and its related parties, irrespective of whether it is interest-free;
2. To provide entrusted loan to related parties through banks or other financial institutions;
3. To entrust the controlling shareholder of the Company and its related parties with investments;
4. To issue commercial bill of exchange not substantiated by actual transactions for the controlling shareholder of the Company and its related parties;
5. To repay debts for the controlling shareholder of the Company and its related companies; and
6. In other manners prescribed by the China Securities Regulatory Commission.

Article 221 Shall directors, senior management of the Company assist, connive the controlling shareholder of the Company and its related parties to appropriate assets of the Company, the Board shall, subject to the seriousness of such events, take internal disciplinary actions, serve monetary punishments, pursue legal responsibilities against directly responsible persons; In case of serious events, the materially responsible senior management shall be removed from office, and such materially responsible director shall be proposed to the shareholders' general meeting to be removed from office. Shall there be events in which the controlling shareholder of the Company and its related parties have appropriated funds of the Company or its subsidiaries for non-operational purposes which impose adverse impacts on the Company, the Company shall, with reference to the preceding paragraph and subject to the seriousness of such events, impose punishments on such directly responsible person(s). MP117

Article 222 The fiduciary duties and duties of diligence of the directors, supervisors and senior officers may not necessarily be discharged by the resignation of the directors, supervisors, and senior officers of the Company becoming effective or expiry of the term with the procedures for handover having been duly completed. The duty of confidentiality in respect of trade secrets of the Company survives the termination of their tenure. Other duties may continue for such period as the principle of fairness may require depending on the amount of time which has lapsed between the termination and the act concerned and the circumstances and the terms under which the relationship between the relevant director, supervisor, general manager, deputy general manager and the senior officer on the one hand and the Company on the other hand was terminated. MP118, Guide 101



Article 223 Subject to Article 50, a director, supervisor or senior officer of the Company may be relieved of liability for specific breaches of his duty with the informed consent of the shareholders given at a general meeting, except in the circumstances as provided under Article 60. MP119

Article 224 Where a director , supervisor or senior officer of the Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company (other than his contract of service with the Company), he shall declare the nature and extent of his interests to the board of directors at the earliest opportunity, whether or not the contract, transaction or arrangement or proposal therefor is otherwise subject to the approval of the board of directors. MP120

Unless the interested director , supervisor or senior officer discloses his interests in accordance with the preceding sub-paragraph of this Article and the contract, transaction or arrangement is approved by the board of directors at a meeting in which the interested director , supervisor or senior officer is not counted as part of the quorum and refrains from voting, a contract, transaction or arrangement in which that director, supervisor, or senior officer is materially interested is voidable at the instance of the Company except as against a bona fide party thereto who does not have notice of the breach of duty by the interested director, supervisor or senior officer.

For the purposes of this Article, a director, supervisor or senior officer of the Company is deemed to be interested in a contract, transaction or arrangement in which his associate is interested.

Article 225 Where a director , supervisor or senior officer of the Company gives to the board of directors a notice in writing stating that, by reason of the facts specified in the notice, he is interested in contracts, transactions or arrangements which may subsequently be made by the Company, that notice shall be deemed for the purposes of the preceding Article to be a sufficient declaration of his interests, so far as the content stated in such notice is concerned, provided that such notice shall have been given before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration by the Company. MP121

Article 226 The Company shall not pay taxes for or on behalf of a director , supervisor or other officer in any manner. MP122



Article 227 The Company shall not directly or indirectly make a loan to or provide any guarantee in connection with the making of a loan to a director , supervisor or senior officer of the Company or of the Company’s holding company or any of their respective associates. MP123

The foregoing prohibition shall not apply to the following circumstances:

- (1) the provision by the Company of a loan or a guarantee in connection with the making of a loan to its subsidiary;
- (2) the provision by the Company of a loan or a guarantee in connection with the making of a loan or any other funds available to any of its directors supervisor and senior officers to meet expenditure incurred or to be incurred by him for the purposes of the Company or for the purpose of enabling him to perform his duties properly, in accordance with the terms of a service contract approved by the shareholders in a general meeting;
- (3) if the ordinary course of business of the Company includes the lending of money or the giving of guarantees, the Company may make a loan to or provide a guarantee in connection with the making of a loan to any of the relevant directors , supervisor and senior officers or their respective associates in the ordinary course of its business on normal commercial terms.

Article 228 Any person who receives funds from a loan which has been made by the Company acting in breach of the preceding Article shall, irrespective of the terms of the loan, forthwith repay such funds. MP124

Article 229 A guarantee for the repayment of a loan which has been provided by the Company acting in breach of Article 223(1) shall not be enforceable against the Company, save in respect of the following circumstances: MP125

- (1) the guarantee was provided in connection with a loan which was made to an associate of any of the directors, supervisor and senior officers of the Company or of the Company’s holding company and the lender of such funds did not know of the relevant circumstances at the time of the making of the loan; or
- (2) the collateral which has been provided by the Company has already been lawfully disposed of by the lender to a bona fide purchaser.

Article 230 For the purposes of the foregoing provisions of this Chapter, a “guarantee” includes an undertaking or property provided to secure the obligor’s performance of his obligations. MP126



Article 231 In addition to any rights and remedies provided by the laws and administrative regulations, where a director, supervisor or senior officer of the Company breaches the duties which he owes to the Company, the Company has a right: MP127

- (1) to demand such director, supervisor or senior officer to compensate it for losses sustained by the Company as a result of such breach;
- (2) to rescind any contract or transaction which has been entered into between the Company and such director, supervisor or senior officer or between the Company and a third party (where such third party knows or should have known that such director, supervisor or senior officer representing the Company has breached his duties owed to the Company);
- (3) to demand such director, supervisor or senior officer to account for profits made as result of the breach of his duties;
- (4) to recover any monies which should have been received by the Company and which were received by such director, supervisor or senior officer instead, including (without limitation) commissions; and
- (5) to demand repayment of interest earned or which may have been earned by such director, supervisor or senior officer on monies that should have been paid to the Company.

Article 232 The Company shall, with the prior approval of shareholders in a general meeting, enter into a contract in writing with a director or supervisor wherein his emoluments are stipulated. The aforesaid emoluments include: MP128

- (1) emoluments in respect of his service as director, supervisor or senior officer of the Company;
- (2) emoluments in respect of his service as director, supervisor or senior officer of any subsidiary of the Company;
- (3) emoluments in respect of the provision of other services in connection with the management of the affairs of the Company and any of its subsidiaries;
- (4) payment by way of compensation for loss of office, or as consideration for or in connection with his retirement from office.

No proceedings may be brought by a director or supervisor against the Company for anything due to him in respect of the matters mentioned in this Article except pursuant to the contract mentioned above.



Article 233 The contract concerning the emoluments between the Company and its directors or supervisors should provide that in the event that the Company is acquired, the Company’s directors and supervisors shall, subject to the prior approval of shareholders in a general meeting, have the right to receive compensation or other payment in respect of his loss of office or retirement. For the purposes of this paragraph, the acquisition of the Company includes any of the following: MP129

- (1) an offer made by any person to the general body of shareholders;
- (2) an offer made by any person with a view to the offeror becoming a “controlling shareholder” within the meaning of Article 61.

If the relevant director or supervisor does not comply with this Article, any sum so received by him shall belong to those persons who have sold their shares as a result of such offer. The expenses incurred in distributing such sum on a pro rata basis amongst such persons shall be borne by the relevant director or supervisor and shall not be paid out of such sum.

Article 234 Without lawful authorization of these Articles or the board of directors, a director of the Company may not act personally on behalf of the Company or the board of directors. If he acts personally, he shall declare his own position and identity in advance where the acting would cause a third party to believe reasonably that he is acting on behalf of the Company or the board of directors. Guide 102

Article 235 Any loss incurred by the Company as a result of the violation of laws, administrative regulations, departmental rules and these Articles of Association by the directors, supervisors and senior officers in performing the Company’s duties shall be indemnified by the directors, supervisors and senior officers. Guide 103

CHAPTER 15: FINANCIAL AND ACCOUNTING
SYSTEMS, PROFIT DISTRIBUTION AND INTERNAL AUDIT

Article 236 The Company shall establish its financial and accounting systems in accordance with laws, administrative regulations and PRC accounting standards formulated by the finance regulatory department of the State Council. MP130

Article 237 At the end of each fiscal year, the Company shall prepare a financial report which shall be examined and verified in a manner prescribed by law. MP131

Article 238 Unless otherwise provided by the relevant laws and regulations, the listing rules issued at the listing place of the Company and the Articles of Association in respect of the means of receipt of corporate communication, the board of directors of the Company shall place before the shareholders at every annual general meeting such financial reports which the relevant laws, administrative regulations and directives promulgated by competent regional and central governmental authorities require the Company to prepare. MP132



- Article 239 The Company's financial reports shall be made available for shareholders' inspection at the Company twenty (20) days before the date of every shareholders' annual general meeting. Each shareholder shall be entitled to obtain a copy of the financial reports referred to in this Chapter. Unless otherwise provided by the relevant laws and regulations, the listing rules issued at the listing place of the Company and the Articles of Association in respect of the means of receipt of corporate communication, the Company shall deliver or send to each shareholder of Overseas-Listed Foreign-Invested Shares by prepaid mail at the address registered in the register of shareholders the said reports not later than twenty-one (21) days before the date of every annual general meeting of the shareholders.
- Article 240 The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either international accounting standards, or that of the place outside the PRC where the Company's shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in the financial statements. In distributing its after-tax profits, the lower of the two amounts shown in the financial statements shall be adopted.
- Article 241 The Company shall publish or disclose and prepare its half year status or financial report according to the Chinese, as well as the overseas, accountancy and legal principles.
- Article 242 The Company shall submit its annual financial reports, interim financial report and quarterly financial report to the competent securities authorities under the State Council and relevant stock exchange within four months after the expiration of each fiscal year, within two months after the expiration of the first six months of each fiscal year and within one month after the expiration of the first three (3) months and the first nine (9) months of each fiscal year, respectively. The above financial reports shall be prepared and announced in accordance with the provisions of the law, administrative regulations and departmental rules.
- Article 243 The Company shall not keep accounts other than those required by law. No assets of the Company shall be used to set up deposit accounts in any other name. assets of the Company shall be used to set up deposit accounts in any other name.

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MP134

MP135

MP136
Guide 150

MP137
Guide 151



Article 244 In the distribution of after-tax profits of a financial year, 10% of the profits shall be allocated to the statutory common reserve. No further allocation to the statutory common reserve is required where such reserve exceeds 50% of the registered capital of the Company. Guide 152

Where the statutory common reserve is insufficient to make up losses of the previous financial year, the profits of a financial year shall be applied to make up such losses before allocation to the statutory common reserve shall be made in accordance with the above provision.

Upon the approval of the shareholders in general meeting, where the Company has made allocation to the statutory common reserve from the profits after tax, the Company may make allocation to the discretionary common reserve.

Any surplus of profits after the Company has made up losses and made allocations to the statutory common reserve may be distributed as dividends to shareholders in proportion to their shareholdings.

Where the Company or the board of directors, in breach of the above provisions, distribute dividends to shareholders before the Company has made up losses and made allocations to the statutory common reserve, such dividends distributed in breach of the above provisions shall be returned to the Company.

No profits shall be distributed in respect of the shares held by the Company.

Article 245 Capital common reserve fund includes the following items: MP138

- (1) premium on shares issued at a premium price;
- (2) any other income designated for the capital common reserve fund by the regulations of the finance regulatory department of the State Council.

Article 246 The common reserve fund of the Company shall be applied for the following purposes: Guide 153

- (1) to compensate losses;
- (2) to expand the Company's production and operation;



- (3) to convert the common reserve fund into share capital in order to increase its capital. The Company may convert its common reserve fund into share capital with the approval of shareholders in a general meeting. When such conversion takes place, the Company shall either distribute new shares in proportion to the existing shareholders' number of shares, or increase the par value of each share, provided, however, that when the statutory common reserve fund is converted to share capital, the balance of the statutory common reserve fund may not fall below 25 % of the registered capital before the conversion.

Capital reserve fund shall not be used to make up losses of the Company.

Article 247 The Company's profit distribution policy shall remain consistent and stable. Final dividends shall be paid once a year. The shareholders shall by way of an ordinary resolution authorise the board of directors to declare and pay final dividends of the Company. The Company may distribute interim cash dividends upon obtaining approval from the board of directors and the shareholders at general meeting.

Article 248 The Company may distribute dividends in the form of: MP139

- (1) cash;
- (2) shares.

Article 249 Dividends of the Company to be distributed in the form of cash shall account for approximately 35% of the Company's net profit after statutory reserve for the corresponding accounting year.

Article 250 The Company shall calculate, declare and pay dividends and other amounts which are payable to holders of Domestic-Invested Shares in Renminbi. The Company shall calculate and declare dividends and other payments which are payable to holders of Overseas-Listed Foreign-Invested Shares in Renminbi, and shall pay such amounts in the local currency of the place in which such Overseas-Listed Foreign-Invested Shares are listed (if such shares are listed in more than one place, then the currency of the principal place on which such shares are listed as determined by the board of directors).

Article 251 The Company shall pay dividends and other amounts to holders of Foreign-Invested Shares in accordance with the relevant foreign exchange control regulations of the State. If there is no applicable regulation, the applicable exchange rate shall be the average exchange reference rate of Renminbi to the relevant foreign currency announced by the Bank of China during five (5) working days prior to the announcement of payment of dividend and other amounts.



- Article 252 The Company shall appoint receiving agents for holders of the Overseas-Listed Foreign-Invested Shares. Such receiving agents shall receive dividends which have been declared by the Company and all other amounts which the Company should pay to holders of Overseas-Listed Foreign-Invested Shares on such shareholders' behalf.

The receiving agents appointed by the Company shall meet the relevant requirements of the laws of the place at which the stock exchange on which the Company's shares are listed or the relevant regulations of such stock exchange.

The receiving agents appointed for holders of Overseas-Listed Foreign- Invested Shares listed in Hong Kong shall each be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

MP140,
C.8 Zheng
Jian Hai
Han [1995]
No. 1
App.13 Pt.
D 1(c)
- Article 253 In case of any use of the Company's capital not in compliance with the relevant laws and regulations by any shareholder, the cash dividends to be distributed to such shareholder shall be deducted by the Company in compensation for the shareholder's use of the Company's capital.
- Article 254 The Company implements an internal audit system. Special audit personnel will conduct internal audit supervision on the Company's income and expenditure and economic activities. Guide 152
- Article 255 The internal audit system and the duties of the audit personnel shall take effect upon approval by the board of directors. The person in charge of the audit shall be accountable and report to the board of directors. Guide 153

CHAPTER 16: APPOINTMENT OF AUDITORS

- Article 256 The Company shall appoint an independent firm of accountants which is qualified under the relevant regulations of the State with relevant qualifications in securities affairs to audit the Company's annual report and review the Company's other financial reports. MP141
Guide 158

The first auditors of the Company may be appointed before the first annual general meeting of the Company at the inaugural meeting. Auditors so appointed shall hold office until the conclusion of the first annual general meeting.

If the inaugural meeting does not exercise the powers under the preceding paragraph, those powers shall be exercised by the board of directors.



Article 257	The auditors appointed by the Company shall hold office from the conclusion of the annual general meeting of shareholders at which they were appointed until the conclusion of the next annual general meeting of shareholders.	MP142
Article 258	The auditors appointed by the Company shall enjoy the following rights: (1) a right to review to the books, records and vouchers of the Company at any time, the right to require the directors or senior officers of the Company to supply relevant information and explanations; (2) a right to require the Company to take all reasonable steps to obtain from its subsidiaries such information and explanation as are necessary for the discharge of its duties; (3) a right to attend shareholders' general meetings and to receive all notices of, and other communications relating to, any shareholders' general meeting which any shareholder is entitled to receive, and to speak at any shareholders' general meeting in relation to matters concerning its role as the Company's accountancy firm.	MP143
Article 259	The Company shall ensure the provision of true and complete accounting evidences, accounting books, financial statements and other financial information to the accounting firm it has engaged with withheld, omission and fraud.	Guide 160
Article 260	If there is a vacancy in the position of auditor of the Company, the board of directors may appoint an accountancy firm to fill such vacancy before the convening of the shareholders' general meeting. Any other accountancy firm which has been appointed by the Company may continue to act during the period during which a vacancy arises.	MP144
Article 261	The shareholders in a general meeting may by ordinary resolution remove the Company's auditors before the expiration of its term of office, irrespective of the provisions in the contract between the Company and the Company's auditors. However, the accountancy firm's right to claim for damages which arise from its removal shall not be affected thereby.	MP145
Article 262	The remuneration of an accountancy firm or the manner in which such firm is to be remunerated shall be determined by the shareholders in a general meeting. The remuneration of an accountancy firm appointed by the board of directors shall be determined by the board of directors.	MP146



Article 263

The Company's appointment, removal or non-reappointment of an accountancy firm shall be resolved by the shareholders in a general meeting. Such resolution shall be filed with the State Council. The removal or non-reappointment of an accountancy firm shall be notified to the accounting firm seven days in advance.

MP147,
C.9 Zheng
Jian Hai
Han [1995]
No. 1
App.13
Pt.D
1(e)(i)
Guide 162

Where a resolution at a general meeting of shareholders is passed to appoint as auditor a person other than an incumbent auditor, to fill a casual vacancy in the office of auditor, to reappoint as auditor a retiring auditor who was appointed by the board of directors to fill a casual vacancy or to remove an auditor before the expiration of his term of office, the following provisions shall apply:

- (1) A copy of the appointment or removal proposal shall be sent (before notice of meeting is given to the shareholders) to the firm proposed to be appointed or proposing to leave its post or the firm which has left its post in the relevant fiscal year (leaving includes leaving by removal, resignation and retirement).
- (2) If the auditor leaving its post makes representations in writing and requests the Company to give the shareholders notice of such representations, the Company shall (unless the representations have been received too late) take the following measures:
 - (a) in any notice of the resolution given to shareholders, state the fact of the representations having been made; and
 - (b) attach a copy of the representations to the notice and deliver it to the shareholders in the manner stipulated in these Articles of Association.
- (3) If the Company fails to send out the auditor's representations in the manner set out in sub-paragraph (2) above, such auditor may (in addition to his right to be heard) require that the representations be read out at the meeting.
- (4) An auditor which is leaving its post shall be entitled to attend the following shareholders' general meetings:
 - (a) the general meeting at which its term of office would otherwise have expired;
 - (b) the general meeting at which it is proposed to fill the vacancy caused by its removal; and
 - (c) the general meeting which convened as a result of its resignation,



and to receive all notices of, and other communications relating to, any such meeting, and to speak at any such meeting which it attends on any part of the business of the meeting which concerns it as former auditor of the Company.

Article 264

Prior notice should be given to the accountancy firm if the Company decides to remove such accountancy firm or not to renew the appointment thereof. Such accountancy firm shall be entitled to make representations at the shareholders' general meeting. Where the accountancy firm resigns from its position as the Company's auditors, it shall make clear to the shareholders in a general meeting whether there has been any impropriety on the part of the Company.

MP148,
C.10 Zheng
Jian Hai
Han [1995]
No. 1
App.13
Pt.D
1(e)(ii)-
(e)(iv)

An accountancy firm may resign its office by depositing at the Company's legal address a resignation notice which shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall contain the following statements:

- (1) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of the Company; or
- (2) a statement of any such circumstances.

Where a notice is deposited under the preceding sub-paragraph, the Company shall within fourteen (14) days send a copy of the notice to the relevant governing authority. If the notice contains a statement under the preceding sub-paragraph (2), a copy of such statement shall be placed at the Company for shareholders' inspection. The Company should also send a copy of such statement by prepaid mail to every shareholder of Overseas- Listed Foreign Shares at the address registered in the register of shareholders.

Where the auditor's notice of resignation contains a statement in respect of the above, it may require the board of directors to convene a shareholders' extraordinary general meeting for the purpose of receiving an explanation of the circumstances connected with its resignation.

CHAPTER 17: INSURANCE

Article 265

The different types or items of the Company's insurance shall be insured in accordance with the relevant insurance law in China.



**CHAPTER 18: LABOUR AND PERSONNEL
MANAGEMENT SYSTEMS**

- Article 266 The Company may at its discretion employ and dismiss employees and enter into employment contracts with all employees based on the business development needs of the Company and in accordance with the requirements of the laws and administrative regulations of the State.
- Article 267 The Company may formulate its labour and payroll systems and payment methods in accordance with the relevant laws and regulations of the State and the economical benefits of the Company.
- Article 268 The Company shall endeavour to improve its employee benefits and to continually improve the working environment and living standards of its employees.
- Article 269 The Company shall provide pension, medical, educational, occupier disability and unemployment insurance for its employees and put in place a social security system, in accordance with the relevant laws and regulations of the State.

CHAPTER 19: TRADE UNIONS

- Article 270 The Company’s employees may form trade unions, carry on trade union activities and protect their legal rights. The Company shall provide the necessary conditions for such activities.

**CHAPTER 20: MERGER AND DIVISION OF THE
COMPANY**

- Article 271 In the event of the merger or division of the Company, a plan shall be presented by the Company’s board of directors and shall be approved in accordance with the procedures stipulated in these Articles of Association. The Company shall then go through the relevant approval process. A shareholder who objects to the plan of merger or division shall have the right to demand the Company or the shareholders who consent to the plan of merger or division to acquire such dissenting shareholders’ shareholding at a fair price. The contents of the resolution of merger or division of the Company shall constitute special documents which shall be available for inspection by the shareholders of the Company. MP149
- Such special documents shall be sent by means as provided in Article 295 to holders of Overseas-Listed Foreign-Invested Shares.



Article 272	<p>The merger of the Company may take the form of either merger by absorption or merger by the establishment of a new company.</p> <p>A company that absorbs other company is known as merger by absorption whereby the company being absorbed shall be dissolved. The merger of two or more companies by the establishment of a new company is known as merger by the establishment of a new company, whereby the merged companies shall be dissolved.</p> <p>In the event of a merger, the merging parties shall execute a merger agreement and prepare a balance sheet and an inventory of assets. The Company shall notify its creditors within ten (10) days of the date of the Company's merger resolution and shall publish a public notice in a newspaper at least three (3) times within thirty (30) days of the date of the Company's merger resolution. Within thirty days the creditors receive the notice, or within forty-five days the notice is announced, the creditors may demand the Company to settle its debts or to provide corresponding guarantee.</p> <p>At the time of merger, rights in relation to debtors and indebtedness of each of the merged parties shall be assumed by the company which survives the merger or the newly established company.</p>	<p>MP150, App.3 7(1)</p> <p>Guide 171</p> <p>Guide 172</p>
Article 273	<p>Where there is a division of the Company, its assets shall be divided up accordingly.</p> <p>In the event of division of the Company, the parties to such division shall execute a division agreement and prepare a balance sheet and an inventory of assets. The Company shall notify its creditors within ten (10) days of the date of the Company's division resolution and shall publish a public notice in a newspaper at least three (3) times within thirty (30) days of the date of the Company's division resolution.</p> <p>Debts of the Company prior to division shall be assumed incidentally by the companies which exist after the division, except those debts that have otherwise separately agreed by the Company with the creditors in writing for the settlement of the debts before the division.</p>	<p>MP151, App.3 7(1)</p> <p>Guide 175</p>
Article 274	<p>The Company shall, in accordance with law, apply for change in its registration with the companies registration authority where a change in any item in its registration arises as a result of any merger or division. Where the Company is dissolved, the Company shall apply for cancellation of its registration in accordance with law. Where a new company is established, the Company shall apply for registration thereof in accordance with law.</p> <p>When there is increase or reduction in the share capital of the Company, the Company shall apply for change in its registration with the company registration authority in accordance with the law.</p>	<p>MP152</p> <p>Guide 177</p>



CHAPTER 21: DISSOLUTION AND LIQUIDATION

Article 275 The Company shall be dissolved and liquidated upon the occurrence of any of the following events: MP153

- (1) a resolution for dissolution is passed by shareholders at a general meeting;
- (2) dissolution is necessary due to a merger or division of the Company;
- (3) the Company is legally declared insolvent due to its failure to repay debts as they become due; and
- (4) the Company is ordered to close down because of its violation of laws and administrative regulations.

Sub-paragraphs (1) and (2) of the above shall be approved by the State Council’s foreign trade and economic authorities.

- (5) shareholders holding at least 10% of the shares of the Company may apply to the People’s Court to dissolve the Company if the Company experiences extreme difficulties in respect of its operation and management, which cannot otherwise be resolved, such that if the Company continues to operate, its shareholders will suffer significant losses. Guide 178

Article 276 A liquidation committee shall be set up within fifteen (15) days of the Company being dissolved pursuant to sub-paragraph (1) of the preceding Article, and the composition of the liquidation committee of the Company shall be determined by an ordinary resolution of shareholders in a general meeting. If a liquidation committee is not set up within the specified time limit, the creditors of the Company may apply to the people’s court to appoint designated persons to carry out the liquidation. MP154
Guide 180

Where the Company is dissolved under sub-paragraph (3) of the preceding Article, the People’s Court shall in accordance with the provisions of relevant laws organise the shareholders, relevant organisations and relevant professional personnel to establish a liquidation committee to carry out the liquidation.

Where the Company is dissolved under sub-paragraph (4) of the preceding Article, the relevant governing authorities shall organise the shareholders, relevant organisations and professional personnel to establish a liquidation committee to carry out the liquidation.



Article 277 Where the board of directors proposes to liquidate the Company for any reason other than the Company's declaration of its own insolvency, the board shall include a statement in its notice convening a shareholders' general meeting to consider the proposal to the effect that, after making full inquiry into the affairs of the Company, the board of directors is of the opinion that the Company will be able to pay its debts in full within twelve (12) months from the commencement of the liquidation. MP155

Upon the passing of the resolution by the shareholders in a general meeting for the liquidation of the Company, all functions and powers of the board of directors shall cease.

The liquidation committee shall act in accordance with the instructions of the shareholders' general meeting to make a report at least once every year to the shareholders' general meeting on the committee's income and expenses, the business of the Company and the progress of the liquidation; and to present a final report to the shareholders' general meeting on completion of the liquidation.

Article 278 The liquidation committee shall, within ten (10) days of its establishment, send notices to creditors and shall, within sixty (60) days of its establishment, publish a public announcement in a newspaper at least three (3) times. MP156,
App.3
7(1)

A creditor shall, within thirty (30) days of receipt of the notice, or for creditors who have not personally received such notice, within forty five (45) days of the date of the first public announcement, report its rights to the liquidation committee. When reporting his rights, the creditor shall provide an explanation of matters which are relevant thereto and shall provide evidential material in respect thereof. The liquidation committee shall register the creditor's rights. Guide 182

No repayment shall be made by the liquidation committee during the period of reporting creditors' rights.

Article 279 During the liquidation period, the liquidation committee shall exercise the following functions and powers: MP157

- (1) to sort out the Company's assets and prepare a balance sheet and an inventory of assets respectively;
- (2) to send notify the creditors or to publish public announcements;
- (3) to dispose of and liquidate any unfinished businesses of the Company;
- (4) to pay all outstanding taxes and taxes incurred in the process of liquidation; Guide 181



- (5) to settle claims and debts;
- (6) to deal with the surplus assets remaining after the Company's debts have been repaid;
- (7) to represent the Company in any civil proceedings.

Article 280 After it has sorted out the Company's assets and after it has prepared the balance sheet and an inventory of assets, the liquidation committee shall formulate a liquidation plan and present it to a shareholders' general meeting or to the relevant governing authority or the people's court for confirmation. MP158
Guide 183

The company's assets shall be distributed in accordance with law or regulation. If there is no applicable law, such distribution shall be carried out in accordance with a fair and reasonable procedure determined by the liquidation committee.

Any surplus assets of the Company remaining after its debts have been repaid in accordance with the provisions of the preceding paragraph shall be distributed to its shareholders according to the class of shares and the proportion of shares held.

During the liquidation period, the Company subsists but shall not commence any business activities not related to liquidation. Prior to the repayment in accordance of the previous paragraphs, the Company's assets shall not be distributed to the shareholders.

Article 281 If after putting the Company's assets in order and preparing a balance sheet and an inventory of assets in connection with the liquidation of the Company, the liquidation committee discovers that the Company's assets are insufficient to repay the Company's debts in full, the liquidation committee shall immediately apply to the People's Court for a declaration of insolvency. MP159

After a Company is declared insolvent by a ruling of the People's Court, the liquidation committee shall transfer all matters arising from the liquidation to the People's Court.

Article 282 Following the completion of the liquidation, the liquidation committee shall prepare a liquidation report, a statement of income and expenses received and made during the liquidation period and a financial report, which shall be verified by a Chinese registered accountant and submitted to the shareholders' general meeting or the relevant governing authority or the people's court for confirmation. MP160
Guide 185



The liquidation committee shall, within thirty (30) days after such confirmation, submit the documents referred to in the preceding paragraph to the companies registration authority and apply for cancellation of registration of the Company, and publish a public announcement relating to the termination of the Company.

Article 283 The members of the liquidation committee shall act fiducially and perform the obligations of liquidation pursuant to the law. Guide 186

The members of the liquidation committee shall not take advantage of his office power, taking bribes or other illegal income or illegally taking possession of the assets of the Company.

The members of the liquidation committee shall indemnify the loss incurred by the Company or the creditors as a result of his willful act or serious misconduct.

Article 284 Where the Company is declared bankrupt pursuant to the law, bankruptcy liquidation shall be implemented pursuant to the relevant enterprise bankruptcy law. Guide 187

CHAPTER 22: PROCEDURES FOR AMENDMENT
OF THE COMPANY'S ARTICLES OF ASSOCIATION

Article 285 The Company may amend its Articles of Association in accordance with the requirements of laws, administrative regulations and the Company's Articles of Association. MP161
Guide 188

The Company shall amend these Articles of Association on the occurrence of any of the following events:

- (1) The Company Law or the relevant laws or administrative regulations are amended and these Articles are in conflict with the amended laws or administrative regulations;
- (2) There is change to the Company which makes it not consistent with these Articles of Association;
- (3) It has been approved by the shareholders in a general meeting to amend these Articles.

Article 286 The Company's Articles of Association shall be amended in the following manner: Guide 53

- (1) The board of directors, supervisory committee and shareholders who individually or jointly hold 5% or more of the Company's voting shares shall propose the manner in which the Company's Article of Association shall be amended;



- (2) Unless otherwise provided by the relevant laws and regulations, the listing rules issued at the listing place of the Company and the Articles of Association in respect of the means of receipt of corporate communication, the foregoing proposal shall be furnished to the shareholders in writing and a shareholders' meeting shall be convened;
- (3) The amendments shall be approved by votes representing more than two-thirds of the voting rights represented by the shareholders present at the meeting.

Article 287 Amendment of the Company's Articles of Association shall become effective upon receipt of approvals from the State Council's foreign trade and economic authorities. Amendment involving the contents of the Mandatory Provisions of Overseas-Listed Companies' Articles of Association shall become effective upon receipt of approvals from the State Council's securities authorities and the companies approving department authorised by the State Council. If there is any change relating to the registered particulars of the Company, application shall be made for change in registration in accordance with law. MP162

Article 288 The board of directors shall amend these Articles of Association pursuant to the resolutions of shareholders in a general meeting for amendment of these Articles and the approval opinions of the competent authority. Guide 190

Article 289 If the amendment to the Articles of Association is a matter which is required by the relevant laws and regulations to be disclosed, an announcement shall be made in accordance with the provisions of those laws and regulations. Guide 191

CHAPTER 23: DISPUTE RESOLUTION

Article 290 The Company shall abide by the following principles for dispute resolution: MP163

- (1) Whenever any disputes or claims arise between: holders of the Overseas-Listed Foreign-Invested Shares and the Company; holders of the Overseas-Listed Foreign-Invested Shares and the Company's directors, supervisors or senior officers; or holders of the Overseas-Listed Foreign-Invested Shares and holders of Domestic-Invested Shares, in respect of any rights or obligations arising from these Articles of Association, the Company Law or any rights or obligations conferred or imposed by the Company Law and special regulations (including other relevant laws) or any other relevant laws and administrative regulations concerning the affairs of the Company, such disputes or claims shall be referred by the relevant parties to arbitration.



Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall, where such person is the Company, the Company's shareholders, directors, supervisors or senior officers of the Company, comply with the arbitration.

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Disputes in respect of the definition of shareholders and disputes in relation to the register of shareholders need not be resolved by arbitration.

- (2) A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission in accordance with its Rules or the Hong Kong International Arbitration Centre in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

If a claimant elects for arbitration to be carried out at Hong Kong International Arbitration Centre, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Centre.

- (3) If any disputes or claims of rights are settled by way of arbitration in accordance with sub-paragraph (1) of this Article, the laws of the PRC shall apply, save as otherwise provided in the laws and administrative regulations.
- (4) The award of an arbitral body shall be final and conclusive and binding on all parties.

Article 291

Definitions:

Guide 192

- (1) de facto controller means a party that is not a shareholder of the company, but shall be capable to control the act of the Company through investment relationship, agreement or other arrangements.
- (2) Connected relationship means the relationship between the controlling shareholder of the Company, its de facto controller, directors, supervisors, senior officers and enterprises directly or indirectly controlled by it, as well as other relationships that may result in the transfer of the Company's interests. However, state-owned enterprises do not have connected relationship solely as a result of being controlled by the State.



CHAPTER 24: SUPPLEMENTARY

- Article 292 The rules of meetings of the shareholders' general meeting, the board of directors and the supervisory committee are attached as Appendices to these Articles. In the event that the rules of meetings of the shareholders' general meeting, the board of directors and the supervisory committee are in conflict with these Articles, these Articles shall prevail.
- Article 293 If a notice of the general meeting of shareholders, board meeting or meeting of the supervisory committee is issued by hand, the date when the recipient signed or stamped to acknowledge receipt of the same shall be regarded as the date of service of the notice. If the notice is issued by post, the seventh day from the date it is delivered to the post office shall be regarded as the date of service of the notice. If a notice of the Company is issued by public announcement, it shall be deemed received by the relevant officers once announced. Guide 168
- Article 294 If a notice of meeting is accidentally omitted to be sent to any person who is entitled to receive pursuant to Article 168 of these Articles or that person has not received such a notice of meeting, it will not cause the meeting and any resolution made therein to be void.
- Article 295 Unless otherwise provided by the relevant laws and regulations, the listing rules issued at the listing place of the Company and the Articles of Association in respect of the means of receipt of corporate communication, notices, communications or other written documents of the Company (including but not limited to annual reports, interim reports, quarterly reports, notices of meetings, listing documents, circulars, proxy forms and holding announcements) shall be sent by the following means:
- (1) by hand;
 - (2) by mail;
 - (3) by fax , email or other electronic format;
 - (4) subject to laws, administrative regulations and relevant provisions of securities regulatory authority of the place where the Company is listed, by publishing on the website designated by the Company and the stock exchange;
 - (5) by announcement on one national newspaper which has been approved by the State Council Securities Policy Committee and other designated media;
 - (6) by other means acceptable to securities regulatory authority of the place where the Company is listed.



Notwithstanding the requirements in relation to the means of sending notice, communications or other documents set out in this Articles of Association, the Company may use the means set out in sub-section (4) of this Article to replace the use of personal delivery or prepaid airmail to holders of Overseas-Listed Foreign Invested Shares, provided that the listing rules issued at the listing place of the Company is complied with.

Article 296 In these Articles of Association, references to “accountancy firm” shall have the same meaning as “auditors”. MP165

Article 297 The Company’s Articles of Association are written in Chinese and English. Both text shall be equally valid. If there is any discrepancy between the two versions, the Chinese version of the Articles of Association most recently filed at the Shandong Administration of Industry and Commence shall prevail. Guide 194

Article 298 The expressions of “above”, “within” and “below” shall include the figures mentioned whilst the expression of “less than” shall not include the figures mentioned. Guide 195

Article 299 These Articles of Association shall be interpreted by the Company’s board of directors.



EXHIBIT 4.1

Share Transfer Agreement
of
Inner Mongolia Haosheng Coal Mining Company Limited
Ordos Jinchengtai Chemical Co., Ltd
Shanghai Huayi (Group) Company
Shandong Jiutai Chemical Industrial Technology Company Limited
Ordos City Jiutaimanlai Coal Mining Company Limited
Inner Mongolia Haosheng Coal Mining Limited
and
Yanzhou Coal Mining Company Limited
September 6, 2010



On September 9, 2010, the Share Transfer Agreement (the “Agreement”) was signed by the following parties:

Transferors:

Ordos Jinchengtai Chemical Co., Ltd (hereinafter referred to as “Jinchengtai”)

Address: Erdos City Wushenqi Tooker

Legal representative: Gao Xuefeng

Shanghai Huayi (Group) Company (hereinafter referred to as “Huayi”)

Address: Hualun Building, 560 Xujiahui Road, Shanghai

Legal representative: Jin Mingda

Shandong Jiutai Chemical Industrial Technology Company Limited (hereinafter referred to as “Jiutai Technology”)

Address: High and New-Tech Industrial Development Zone, Linyi City, Shandong

Legal representative: Cui Lianxin

Transferee:

Yanzhou Coal Mining Company Limited (hereinafter referred to as “Yanzhou Coal”)

Address: 298 Fushan South Road, Zoucheng City, Shandong Province

Legal representative: Wang Xin

Third party:

Ordos City Jiutaimanlai Coal Mining Company Limited (hereinafter referred to as “Jiutaimanlai”)

Address: Yijinhuoluo County, Erdos City

Legal representative: Liu Yongcheng

Subject company: Inner Mongolia Haosheng Coal Mining Limited

Address: Yijinhuoluo County, Erdos City



Legal representative: Huang Deheng

Whereas:

1. On February 22, 2008, the National Development and Reform Commission approved the Overall Plan for Hujierte Mining Area at Dongsheng Coal Field in Inner Mogolia (Fa Gai Neng Yuan [2008] No.504 Document). On November 6, 2009, President Meeting of Inner Mongolia Autonomous Region decided to allocate the proved reserves of Shilawusu Coal Field within the Hujierte Mining Area (approximately 2,144 million tonnes), as to 500 million tonnes to Huayi, 744 million tonnes to Jinchengtai, and 400 million tonnes to Jiutaimanlai. ([2009] No.16 Minutes).
2. Based on the above, Jinchengtai, Huayi and Jiutaimanlai jointly established Inner Mongolia Haosheng Coal Mining Limited (hereinafter referred to as the "Subject Company") in March 2010 for the joint development of Shilawusu Coal Field, and, through their respective interests in the Subject Company, to receive their respective entitlements under the aforementioned coal resources allocated to the respective parties (for the purpose of the Agreement, the coal resources allocated to each Transferee by Inner Mongolia Autonomous Region Government are hereinafter referred to as "Coal Resources Amount"). In July 2010, Jiutaimanlai transferred its 20.34% equity interest in the Subject Company and the equivalent Coal Resources Amount to Jiutai Technology.
3. The parties intended to enter into a cooperation to facilitate the development of Shilawusu Coal Field. To this end, the Transferors proposed to transfer an aggregate of 51% equity interest in the Subject Company to the Transferee, which shall than be entitled to a corresponding share of the Coal Resources Amount upon completion of the share transfer. On July 7, 2010, Jinchengtai, Huayi and Jiutaimanlai signed a Framework Agreement on Share Transfer and Coal Resources Cooperation ("Framework Agreement") with Yankuang Group Company Limited in relation to the transfer and Jiutai Technology and Yanzhou Coal have both given acknowledgement thereto.
4. All parties hereto unanimously agree that the most important prerequisite for the signing and performance of the Agreement by the parties hereto is that the Subject Company shall legally obtain the exploration rights of Shilawusu Coal Field in its own name and shall act as the project company or the applicant in handling procedures for all necessary approvals, permits or authorizations, including, *inter alias*, exploration permit, approval for the project, mining permit, etc. The Transferors will use commercially best efforts possible to make the Coal Resources Amount and all rights related thereto (including, *inter alias*, exploration rights and mining rights) to be included under the name of the Subject Company.

In view of this, the parties signed the Share Transfer Agreement on the basis of consultation and consensus.

Article 1 Basic Facts about the Subject Company

Company name: Inner Mongolia Haosheng Coal Mining Limited

Registered address: Yijinhuluo County, Erdos City



Legal representative: Huang Deheng
Registered capital: RMB150,000,000, of which RMB50,000,000 have been contributed by the Transferors and Jiutaimanlai
Scope of Operation: Sale of coal machinery and equipment and accessories (for business to be approved in accordance with laws and administrative regulations, and by the State Council. Production and operation without permission is prohibited)

Shareholders, the proportion of subscribed capital and paid capital:

Jinchengtai holds 45.25% equity interest in the Subject Company with the contribution payable by it being RMB67,875,000, of which RMB22,625,000 has been paid; Huayi holds 30.41% equity interest in the Subject Company with the contribution payable by it being RMB45,615,000, of which RMB15,205,000 has been paid; Jiutai Technology holds 20.34% equity interest in the Subject Company with the contribution payable by it being RMB30,510,000, of which RMB10,170,000 has been paid; Jiutaimanlai holds 4% equity interest in the Subject Company with the contribution payable by it being RMB6,000,000, of which RMB2,000,000 has been paid.

Article 2 Transfer Subject

- 2.1 The Transferors agree to transfer, and the Transferee agrees to accept, an aggregate of 51% equity interest held by the Transferors in the Subject Company, pursuant to which Jinchengtai, Huayi and Jiutai Technology shall transfer to the Transferee equity interests in the Subject Company in the proportion of 23.08%, 15.51% and 12.41% respectively. In respect of the abovementioned equity interests in the Subject Company to be transferred by the Transferors, Jiutaimanlai agrees to give up its preemptive right.
- 2.2 The Transferors further agree that, upon transfer to the Transferee of the equity interests in the Subject Company as mentioned in Article 2.1, the Transferee shall correspondingly be entitled to the 51% of Coal Resources Amount of Shilawusu Coal Field allocated to the Transferors and Jiutaimanlai in the specific amounts as follows: the Transferee shall obtain 379,440,000 tonnes of Coal Resources Amount from Jinchengtai; 255,000,000 tonnes of Coal Resources Amount from Huayi; and 204,000,000 tonnes of Coal Resources Amount from Jiutai Technology.
- 2.3 The parties confirm that, upon completion of the Subject Company share transfer as



mentioned herein: Jinchengtai shall hold 22.17% equity interest in the Subject Company and be entitled to 364,560,000 tonnes of Coal Resources Amount; Huayi shall hold 14.90% equity interest in the Subject Company and be entitled to 245,000,000 tonnes of Coal Resources Amount; Jiutai Technology shall hold 7.93% equity interest in the Subject Company and be entitled to 130,260,000 tonnes of Coal Resources Amount; Jiutaimanlai shall hold 4.00% equity interest in the Subject Company and be entitled to 65,740,000 tonnes of Coal Resources Amount; Yazhou Coal shall hold 51.00% equity interest in the Subject Company and be entitled to 838,440,000 tonnes of Coal Resources Amount.

- 2.4 The parties agree that, the RMB100,000,000 unpaid registered capital of the Subject Company shall be contributed by the parties according to their respective shareholdings in the Subject Company (as mentioned in Article 2.3) upon completion of the share transfer, and that the corresponding change of business registration shall be completed within one month from the date of completion of the change of registration for the Subject Company share transfer hereunder.

Upon completion of the share transfer and after the registered capital has been paid up, the Subject Company shall have a registered capital of RMB150,000,000, of which Yazhou Coal shall hold 51% equity interest in the Subject Company and make a capital contribution of RMB76,500,000; Jinchengtai shall hold 22.17% equity interest in the Subject Company and make a capital contribution of RMB33,255,000; Huayi shall hold 14.90% equity interest in the Subject Company and make a capital contribution of RMB22,350,000; Jiutai Technology shall hold 7.93% equity interest in the Subject Company and make a capital contribution of RMB11,895,000; Jiutaimanlai shall hold 4% equity interest in the Subject Company and make a capital contribution of RMB6,000,000.

Article 3 Consideration for the Share Transfer

- 3.1 The Transferee shall pay the consideration for the share transfer separately to each Transferor in proportion to the shareholdings to be transferred by the respective Transferors as well as the Coal Resources Amount to which the Transferee shall be entitled upon completion of the share transfer. The consideration for share transfer shall be equal to the sum of the amount of paid-up registered capital of the Subject Company payable in proportion to the shareholdings proposed to be transferred by the Transferors and the compensation cost for the corresponding Coal Resources Amount. Of which the compensation cost shall be calculated at RMB7.90/ton, in other words, the consideration for the transfer payable by the Transferee to each Transferor shall be calculated and determined as follows:

Consideration for the transfer payable by the Transferee to each Transferor = proportion of



shareholding in the Subject Company to be transferred by such Transferor \times the registered capital of the Subject Company in the amount of RMB50 million which have been paid by each Transferor $+$ the corresponding Coal Resources Amount to which the Transferee shall be entitled upon its acceptance of such Transferor's share transfer \times RMB7.9/ton

- 3.2 The parties confirm that, according to the calculation method for the consideration for share transfer as mentioned in Article 3.1, the Transferee shall pay to the Transferors an aggregate consideration for share transfer of RMB6,649,176,000, of which a consideration for share transfer amounting to RMB3,009,116,000 shall be payable to Jinchengtai; a consideration for share transfer amounting to RMB2,022,255,000 shall be payable to Huayi; and a consideration for share transfer amounting to RMB1,617,805,000 shall be payable to Jiutai Technology by the Transferee respectively.
- 3.3 The equity interests to be transferred hereunder by the Transferors shall be assessed by a legally qualified assessment agency and the result thereof shall be reported to the relevant state-owned asset management departments or authorities for the filing thereof.

Article 4 Payment of Consideration for the Share Transfer

- 4.1 The parties expect that the Subject Company will obtain the exploration permit for Shilawusu Coal Field within two months from the effective date of the Agreement. However, the failure of the Subject Company to obtain the exploration permit for Shilawusu Coal Field within two months from the effective date of the Agreement does not constitute a breach of contract by the Transferors and Jiutaimanlei.
- 4.2 The parties agree that the Transferee shall pay the consideration for share transfer to the respective Transferors as follows:
- 4.2.1 Within three working days from the effective date of the Agreement, the Transferee shall pay to the Transferors 30% of the consideration for the share transfer (equivalent to RMB1,994,752,800) ("Initial Payment"), of which RMB902,734,800 shall be made payable to Jinchengtai; RMB606,676,500 shall be made payable to Huayi; and RMB485,341,500 shall be made payable to Jiutai Technology by the Transferee respectively.
- 4.2.2 Upon payment of the Initial Payment by the Transferee according to Article 4.2.1, the parties hereto shall, together with the Subject Company, submit all necessary documents (including, *inter alia*, resolutions of shareholders meeting, share transfer agreement, the revised constitution, etc.) to the Administration for Industry



and Commerce in respect of the change of registration for the share transfer within three working days and shall complete the same within ten working days, so that the Transferee shall hold 51% equity interest in the Subject Company. In the meantime, the Subject Company shall lawfully apply to the Administration for Industry and Commerce for an extension of operating period according to its operating needs.

4.2.3 Upon completion of the registration of change of equity hereunder and within fifteen working days after the Subject Company has obtained the exploration permit for Shilawusu Coal Field, the Transferee shall pay to the Transferors 40% of the consideration for the share transfer (equivalent to RMB2,659,670,400) ("Second Payment"), of which RMB1,203,646,400 shall be made payable to Jinchengtai; RMB808,902,000 shall be made payable to Huayi; and RMB647,122,000 shall be made payable to Jiutai Technology by the Transferee respectively.

4.2.4 Upon completion of the registration of change of equity hereunder and within ten months after the Subject Company has obtained the exploration permit for Shilawusu Coal Field, the Transferee shall pay to the Transferors the remaining portion of the consideration for the share transfer (i.e. RMB1,994,752,800) ("Third Payment"), of which RMB902,734,800 shall be paid to Jinchengtai; RMB606,676,500 shall be paid to Huayi; and RMB485,341,500 shall be paid to Jiutai Technology by the Transferee respectively.

4.3 Deposit

4.3.1 Subject to the provisions under Article 4.3.3, a deposit of RMB200,000,000 shall be paid by the Transferee to each of the Transferors who can provide valid guarantee.

4.3.2 The parties unanimously confirm that the payment of deposit to the relevant Transferors by the Transferee pursuant to Article 4.3.1 shall only be made upon: (1) such Transferor has provided the Transferee one or several guarantees as recognized by the Transferee such as bank guarantees, pledge of assets, equity pledge or third-party guarantee, etc.; (2) the Transferee has performed due diligence on the collaterals provided by the respective Transferors regarding the value thereof.

4.3.3 If the guaranteed value provided by any of the Transferors is lower than RMB200,000,000, the Transferee shall pay a deposit amount being equivalent to the guaranteed value actually provided by such Transferor.



- 4.3.4 When making the Initial Payment to the respective Transferors by the Transferee pursuant to Article 4.2.1 in the future, the Initial Payment to be paid to such Transferor after deducting the deposit amount actually paid to the respective Transferors. In respect of the deposit paid to Huayi by the Transferee, Huayi shall forthwith return the deposit received to the Transferee after the successful completion of its equity transfer transaction with the Transferee and that the Transferee has made the Initial Payment to the Shanghai United Assets and Equity Exchange.
- 4.3.5 If the Transferee has participated in the bidding for the equity interests in the Subject Company, which will be listed for sale by way of open bidding on the Shanghai United Assets and Equity Exchange by Huayi pursuant to the conditions agreed hereunder but fails to win the bid by virtue of that the price offered by other participating bidders has been in excess of the reserve price of the equity interest transferred by Huayi as listed on the Shanghai United Assets and Equity Exchange, which situation shall not constitute breach of contract by the Transferee; Huayi shall return to the Transferee the deposit actually received from the Transferee within three working days after the date on which the Shanghai United Assets and Equity Exchange has confirmed that the Transferee has failed to win the bid.
- 4.3.6 If the Agreement is terminated by reason of the Transferee's failure to make any one of the installments of the consideration for share transfer as agreed hereunder, the Transferee may not demand the return of the deposit from the Transferors. Moreover, if the Transferee violates the warranty under Article 8.6 to participate in the bidding for the equity interests in the Subject Company transferred by Huayi by way of listing, the Transferee also may not demand the return of the deposit from Huayi.
- 4.3.7 If the Transferee is unable to obtain the equity interest in the Subject Company transferred by any of the Transferors as well as the corresponding share of the Coal Resources Amount of Shilawusu Coal Field within two months from the effective date of the Agreement as a result of breach of contract by such Transferor, the Transferor shall return the amount equivalent to double of the deposit actually received (hereinafter referred to as the "Refund") to the Transferee within three days from the date of receipt of the Transferee's refund notice. If the Transferor fails to make the Refund to the Transferee as agreed above, any outstanding Refund shall be converted into the Transferee's claim against the Transferor from the date of the refund notice.



- 4.3.8 Until the Transferee has made the Initial Payment of the consideration for share transfer to the respective Transferors by the Transferee pursuant to Article 4.2.1, the guarantees provided by the relevant Transferor shall forthwith be released once the relevant Transferor and the Transferee have completed the change of registration of share transfer as agreed hereunder.

Article 5 Representation and Warranty

- 5.1 The Transferors warrant that, the equity interests in the Subject Company to be transferred to the Transferee as agreed hereunder shall represent such equity interests as legally owned by the Transferors over which the Transferors shall have complete and effective right of disposition and that such equity interests are free of any pledge or other forms of guarantees or any claim by any third party.
- 5.2 The Transferee confirms that it has carried out the necessary due diligence in respect of the matters related to its acceptance of the equity interests in the Subject Company to be transferred by the respective Transferors under the Agreement and agrees to accept transfer of such equity interests in accordance with the terms and conditions of the Agreement as well as such agreements or other documents as may be otherwise signed between the parties without prejudice to the interests of other shareholders.
- 5.3 Each party hereby represents and warrants to the other parties hereto that, up to the effective date of the Agreement:
- (a) It is an independent legal person duly organized, validly existing in good standing under the laws of the place of its establishment or incorporation which has completed all necessary procedures;
 - (b) It has full authority to enter into the Agreement and to perform its obligations hereunder;
 - (c) It has authorized its representative to sign the Agreement;
 - (d) Its execution of the Agreement and its performance of its obligations hereunder:
 - (i) have obtained all necessary approval procedures (as required);
 - (ii) will not violate any provision of its business license, agreement of incorporation,



articles of association or similar constitutional documents; and

- (iii) will not violate any contract to which it is a party or to which it is subject or result in breach of contract under any contract to which it is a party or to which it is subject.
- (e) No lawsuit, arbitration or other legal or administrative proceeding is pending or, to its knowledge, threatened against it that would affect its ability to perform its obligations under the Agreement.
- 5.4 The Transferors and Jiutaimanlai warrant that, the Coal Resources Amount to be shared by the Transferee upon acceptance of the transfer of equity interests in the Subject Company by the Transferors hereunder shall represent 51% of the Coal Resources Amount shared by the Transferors and Jiutaimanlai before the transfer.
- 5.5 The Transferors and Jiutaimanlai warrant that, up to the date of completion of the change of registration for the share transfer, accrued costs and expenditures and debts incurred by the Subject Company shall not exceed RMB50,000,000. Any debts in excess of such RMB50,000,000 incurred by the Subject Company which have not been disclosed to the Transferee on the effective date of the Agreement shall be assumed by the Transferors and Jiutaimanlai in proportion to their original shareholdings.
- 5.6 During the due diligence carried out by the Transferee for the purpose of the Agreement and in the course of negotiation, execution and performance of the Agreement by the parties, all documents, materials and information provided by each party to other parties are true, accurate, complete and not misleading.
- 5.7 The Transferors and Jiutaimanlai agree to give their best effort to make the Shilawusu Coal Resources Amount and all rights related thereto previously allocated to them by the State to be included under the name of the Subject Company. The parties undertake that the Subject Company shall act as the project company or the applicant in handling procedures for all necessary approvals, permits or authorizations, including, *inter alia*, exploration permit, approval for the project, mining permit, etc. in relation to the Shilawusu Coal Field development project.
- 5.8 The Transferors and Jiutaimanlai undertake that, as of the effective date of the Agreement, the Subject Company's assets and the acquisition thereof are legal and valid and without any



outstanding considerations or costs or whatsoever which have not been disclosed to the Transferee and all necessary registrations, filings and licenses, etc. required according to law are duly completed.

- 5.9 The Transferors and the Subject Company undertake that, all assets, claims and debts of the Subject Company as of the effective date of the Agreement provided to the Transferee are true, comprehensive and complete.
- 5.10 The Transferors and Jiutaimanlai undertake that, during the period from the date of execution of the Agreement to the date of completion of the change of registration for the equity interest, unless for the normal operations of the Subject Company or otherwise agreed in writing by the Transferee, all Transferors and legal representatives of the Subject Company appointed or designated by them or other personnel shall not execute any documents or contracts with any third parties in the name of the Subject Company nor harm the interests of the Subject Company nor dispose of the Subject Company's assets and businesses in any unusual operating manner.
- 5.11 The Transferors and Jiutaimanlai undertake that, as of the effective date of the Agreement, the Subject Company is not subject to any existing or potential violation of any laws and regulations nor any claims from any government authorities or other third parties nor involved in any disputes, litigations, arbitrations, administrative proceedings or other government investigation procedures.
- 5.12 The Transferors undertake that, from the effective date of the Agreement, save for the transfer of the equity interest in the Subject Company to the Transferee as stipulated hereunder, the Transferors shall not dispose of in any unusual operating manner the equity interest in the Subject Company to be transferred to the Transferee as stipulated hereunder, including, *inter alias*, by way of transfer, grant or pledge or any other forms of third party rights.
- 5.13 The Transferors and Jiutaimanlai warrant that, as of the effective date of the Agreement, the Subject Company is not subject to any liabilities due to its staff members (such as unpaid wages, etc.). The Transferors and Jiutaimanlai undertake that, in case of any recovery and penalty of any government authorities and related staff members' recourse against the Subject Company as a result of the Subject Company's failure to sign labour contract with its original staff members or pay social insurance or whatsoever before the effective date of the Agreement, the Transferors and Jiutaimanlai shall assume the responsibilities in proportion to their original shareholdings.
- 5.14 As of the effective date of the Agreement, save for those disclosed herein or otherwise



disclosed by the Transferors or the Subject Company, the Transferors and Jiutaimanlai warrant that the Subject Company has legally submitted to the tax authorities true and complete tax return information and the Subject Company is not subject to any other due and unpaid taxes nor any tax dispute or any query, investigation and penalty of the tax authorities.

- 5.15 The Transferors and Jiutaimanlai warrant that, as of the effective date of the Agreement, the Subject Company is not involved in any violations or irregularities of environmental protection nor subject to any investigation, penalty or other proceedings of the environmental department.
- 5.16 The Transferors and Jiutaimanlai undertake and agree that, in the future the Transferee shall have the right to transfer to its related party the equity interest in the Subject Company held by it as well as the Coal Resources Amount to which it is entitled through the transfer hereunder, provided that such related party shall possess qualifications, experience and performance equivalent to those of the Transferee in respect of creditworthiness and mine development, operation and safety and that such transfers shall not affect the performance of the Agreement nor result in any adverse impact on the Subject Company's acquisition of the exploration permit or mining permit for Shilawusu Coal Field and the development thereof.
- 5.17 The Transferors and Jiutaimanlai undertake to actively assist the Transferee to process applications for the various certificates, permits and approval documents necessary for the development of Shilawusu Coal Field after the transfer.
- 5.18 The Transferee undertakes to make timely and complete payment of the consideration for share transfer to the respective Transferors as agreed under Article 4 of the Agreement and other relevant terms hereof.
- 5.19 The parties hereto warrant that, in order to successfully complete the share transfer and cooperation hereunder, the parties will thoroughly and properly perform and fulfill their respective obligations assumed and warranties made hereunder, jointly procure acquisition by the Subject Company of all necessary approvals, permits or authorizations required for the development of Shilawusu Coal Field, produce or sign all relevant documents required to be produced or signed by the parties hereto.
- 5.20 Every representation and warranty made by the respective parties shall be construed as an individual representation and warranty and shall not be restricted or bound by other representations and warranties or any terms of the Agreement.

Article 6 Performance Guarantee



- 6.1 The Transferors agree that, unless as otherwise agreed by the parties, if the Subject Company fails to obtain the exploration permit for Shilawusu Coal Field within two years from the effective date of the Agreement: (1) the Transferors shall, within one month from the expiry date of the two-year period, return to the Transferee full amount of the compensation costs in respect of the Coal Resources Amount out of the consideration for share transfer actually received by them respectively (i.e. the amount of the consideration for share transfer actually received by them after deducting therefrom the entire corresponding registered capital amount in proportion to the shareholdings transferred by them) plus any bank deposit interest for the same period, whereas the Coal Resources Amount to which the Transferee is entitled hereunder shall still be shared by the Transferors respectively. The Transferors agree that, if any of the Transferors for whatever reasons fails to make timely and complete repayment of the consideration for share transfer which shall be returned to the Transferee as agreed hereunder, any outstanding repayable consideration for the share transfer shall be converted into the Transferee's claim against such Transferor from the day immediately after the expiry of the said one-month period. Meanwhile, from the date of establishment of such claim, the Transferee shall have the right to take action against the Transferor's responsibility for breach of contract. (2) While the Transferors make timely and complete repayment of the compensation costs in respect of the Coal Resources Amount to the Transferee, unless as otherwise agreed by the parties hereto, the parties shall legally organize liquidation of the Subject Company and shall have the right to obtain the remaining properties of the Subject Company after liquidation in proportion to their respective shareholdings. Liquidation of the Subject Company shall commence within two months from the expiry date of the two-year period mentioned above.
- 6.2 For the purpose of Article 6.1, each Transferor agrees, upon Initial Payment made by the Transferee, to pledge the remaining equity interests held in the Subject Company after the transfer to provide collateral for the amount and accrued interests repayable by such Transferor to the Transferee pursuant to Article 6.1. Such collateral shall be valid until the date on which the Subject Company has obtained the exploration permit. The parties will sign a specific equity pledge agreement separately and go through the necessary pledge registration procedures according to the law. Upon acquisition by the Subject Company of the exploration permit, the equity pledge mentioned in this Article 6.2 shall forthwith be released and relevant procedures shall be carried out accordingly.
- 6.3 The equity pledge agreement mentioned in Article 6.2 shall be signed along with the Agreement, and the procedures for equity pledge registration shall also be carried out along with those for the change of registration for share transfer.

Article 7 Payment of Consideration for Exploration Permit and Adjustment to Consideration for Share Transfer



7.1 The parties agree that, the consideration for the exploration right payable by the Subject Company in order to obtain the exploration permit for Shilawusu Coal Field shall be paid via the Subject Company; the parties hereto shall, within ten working days from the date of receipt of the notice on the payment for the consideration for exploration right, inject the considerations for exploration right payable by them in respect of their respective entitlements to the coal resources into the Subject Company in proportion to their respective shareholdings upon completion of the share transfer mentioned hereunder and according to the unit prices for the consideration for exploration right payable by them in respect of the coal resources allocated to each of them, thereby fulfilling the funding requirement of the Subject Company in paying the consideration for the exploration right. Capital injections to be made by the parties shall be calculated and accounted for as follows:

7.1.1 The amount of capital to be injected into the Subject Company shall be as follows:

Capital amount to be injected by Huayi = 245,000,000 tonnes × unit price for the consideration for exploration right payable in respect of the Coal Resources Amount allocated to Huayi (Unit: RMB/ton);

Capital amount to be injected by Jinchengtai = 364,560,000 tonnes × unit price for the consideration for exploration right payable in respect of the Coal Resources Amount allocated to Jinchengtai (Unit: RMB/ton);

Capital amount to be injected by Jiutai Technology = 130,260,000 tonnes × unit price for the consideration for exploration right payable in respect of the Coal Resources Amount allocated to Jiutai Technology (Unit: RMB/ton);

Capital amount to be injected by Jiutaimanlai = 65,740,000 tonnes × unit price for the consideration for exploration right payable in respect of the Coal Resources Amount allocated to Jiutaimanlai (Unit: RMB/ton);

The amount of capital to be injected by the Transferee shall be the portion of the consideration for share transfer to be returned to the Transferee by the respective Transferors in accordance with Article 7.2.

Should there be any increase or decrease in the Coal Resources Amount to be allocated to the Transferors and Jiutaimanlai by the government in the future, the amount of capital to be injected into the Subject Company by the parties in the above equations shall be calculated according to the actual Coal Resources Amount to be received by the parties in the end. If, as a result of any increase in the Coal Resources Amount to be allocated to the Transferors and



Jiutaimanlai by the government in the future, the corresponding consideration for exploration right payable by the Transferee in respect of the Coal Resources Amount to be obtained by it from the respective Transferors would exceed the portion of the consideration for share transfer to be returned to the Transferee by the respective Transferors in accordance with Article 7.2, the portion in excess shall be directly injected into the Subject Company by the Transferee which amount shall be deducted during adjustment to and payment of the consideration for the share transfer.

- 7.1.2 The parties agree that, of the capital to be injected into the Subject Company by each Transferor as mentioned in Article 7.1.1, the product of the Coal Resources Amount to which a party is entitled upon completion of the share transfer mentioned herein and the lowest unit price for the consideration for exploration right payable in respect of the Coal Resources Amount allocated to the respective Transferors shall be treated as the additional capital injected into the Subject Company by such party which shall be included in the Subject Company's registered capital with the remaining portion to be included in the Subject Company's capital reserve. Upon completion of the capital increase as mentioned herein, the proportion of shareholding of the parties in the Subject Company shall remain unchanged.
- 7.2 The Transferors and Transferee confirm that, the Initial Payment in relation to the consideration for share transfer to be paid by the Transferee to each Transferor comprises the consideration for exploration right payable in respect of the Coal Resources Amount to which the Transferee will be entitled correspondingly upon acceptance by it of the transfer of the equity interest in the Subject Company by such Transferor pursuant to the Agreement. Each Transferor agrees, upon determination of the consideration for exploration right payable in respect of the Coal Resources Amount to which it will be allocated and within seven working days from the date of receipt of the notice on the payment for the consideration for exploration right, to return to the Transferee the consideration for exploration right payable by the Transferee in respect of the Coal Resources Amount to which the Transferee will be entitled correspondingly upon acceptance by it of the transfer of the equity interest by such Transferor which consideration shall then be injected into the Subject Company by the Transferee as stipulated in Article 7.1. Meanwhile, the total consideration for share transfer payable by the Transferee to such Transferor as mentioned in Article 3.2 hereof shall be adjusted accordingly and such adjustment shall only be made against the Initial Payment while the amounts of the Second Payment and Third Payment shall not be affected.

The parties confirm that, the consideration for share transfer payable by the Transferee to the respective Transferors after adjustment according to the preceding paragraph shall be calculated by the following formula (hereinafter referred to as the "Price Adjustment Formula"):



Consideration for share transfer payable by the Transferee to each Transferor = proportion of shareholding in the Subject Company to be transferred by such Transferor × the registered capital of the Subject Company in the amount of RMB50 million which have been paid by each Transferor + the Coal Resources Amount to which the Transferee shall be entitled upon its acceptance of such Transferor's share transfer × (RMB7.9/tonne - unit price for the consideration for exploration right payable in respect of the Coal Resources Amount allocated to such Transferor)

The consideration for share transfer which shall be returned to the Transferee by the respective Transferors according to the preceding paragraph shall be calculated as follows:

Consideration for share transfer refundable to the Transferee by Jinchengtai = 379,440,000 tonnes × unit price for the consideration for exploration right payable in respect of the Coal Resources Amount allocated to Jinchengtai (Unit: RMB/ton)

Consideration for share transfer refundable to the Transferee by Huayi = 255,000,000 tonnes × unit price for the consideration for exploration right payable in respect of the Coal Resources Amount allocated to Huayi (Unit: RMB/ton)

Consideration for share transfer refundable to the Transferee by Jiutai Technology = 204,000,000 tonnes × unit price for the consideration for exploration right payable in respect of the Coal Resources Amount allocated to Jiutai Technology (Unit: RMB/ton)

7.3 In order to facilitate the implementation of Article 7.1 and Article 7.2,

7.3.1 A portion of the Initial Payment of the consideration for share transfer to be paid by the Transferee to each Transferor shall be co-monitored by the relevant Transferor and the Transferee, of which:

The portion to be co-monitored with the Transferee in respect of the Initial Payment payable to Jinchengtai by the Transferee shall amount to RMB372,000,000 (744,000,000 tonnes × RMB0.5/ton);

The portion to be co-monitored with the Transferee in respect of the Initial Payment payable to Huayi by the Transferee shall amount to RMB200,000,000 (500,000,000 tonnes × RMB0.4/ton);

The portion to be co-monitored with the Transferee in respect of the Initial Payment payable to Jiutai Technology by the Transferee shall amount to RMB200,000,000 (400,000,000 tonnes



× RMB0.5/ton)

- 7.3.2 Each Transferor shall open a dual signature account jointly with the Transferee separately whereby, when the Transferee is making the Initial Payment to each Transferor, the co-monitored amount as determined in Article 7.3.1 shall be separately deposited into the Transferor's dual signature account.
- 7.3.3 The parties agree that, the monitored amount in every Transferor's dual signature account shall be used to pay the capital injection as mentioned in Article 7.1 and to partially refund the consideration for share transfer as mentioned in Article 7.2.
- 7.3.4 The Transferee agrees, upon performance by the relevant Transferor of its obligations of capital injection and repayment as mentioned in Article 7.1 and Article 7.2, to forthwith release its monitoring against the Transferor's account and carry out the necessary procedures for such releasing.
- 7.4 In case of any Transferor's failure to make partial repayment to the Transferee in respect of the consideration for share transfer as stipulated under Article 7.2 or make capital injection into the Subject Company as stipulated under Article 7.1, such failure shall constitute breach of contract by the Transferor concerned. To ensure that the Subject Company to obtain exploration permit, the Transferee shall have the right as follows:
- (1) Inject in advance the consideration for share transfer repayable to it by the Transferor into the Subject Company or inject on behalf of the Transferor capital to be injected by such Transferor into the Subject Company;
 - (2) Upon injection of capital into the Subject Company by the Transferee according to (1) above, the Transferee shall have the right to require the Transferor to make a penalty representing 10% of the capital actually injected into the Subject Company by the Transferee and shall have the right to deduct the amount of capital injection actually made by it as well as the default payment receivable from the Second Payment of the consideration for share transfer to be made to the Transferor.
- 7.5 The parties confirm that the consideration for the share transfer referred herein shall be calculated on the following basis: (1) upon completion of the share transfer referred herein, the Transferee shall be entitled to 51% of the Coal Resources Amount to be allocated to the Transferors and Jiutaimanlai; (2) while the proved reserves of Shilawusu Coal Field mentioned in the relevant provisions herein are 2,144,000,000 tonnes with the respective Transferors and Jiutaimanlai being allocated Coal Resources Amount of 1,644,000,000 tonnes in total, the Coal



Resources Amount to which the parties are entitled respectively before and after the share transfer hereunder shall all be calculated on the basis that the respective Transferors and Jiutaimanlai have been allocated Coal Resources Amount of 1,644,000,000 tonnes in total.

The Parties to the Agreement further confirm that: (1) the reserves of Shilawusu Coal Field should be subject to the record of the Ministry of Land and Resources; (2) if the reserves of Shilawusu Coal Field as recorded by the Ministry of Land and Resources are lower or higher than 2,144,000,000 tonnes which would cause the aggregate Coal Resources Amount to be actually obtained by the Transferors and Jiutaimanlai to become less than or exceeding 1,644,000,000 tonnes, such shortfall or excessive portion of the Coal Resources Amount will be assumed or shared by the Transferors and Jiutaimanlai in proportion to their respective shareholdings before the share transfer hereunder. In respect of any decrease or increase in the Coal Resources Amount to which the Transferee will be entitled upon completion of the share transfer hereunder, the parties agree that the consideration for share transfer payable by the Transferee to the Transferors shall be correspondingly adjusted, which adjustment shall be calculated based on the decrease or increase in the Coal Resources Amount to which the Transferee will be entitled as a result of its acceptance of the share transfer made by the relevant Transferor multiplying by RMB7.9/ton, with the adjusted amount to be deducted from or added to the Second Payment; should there be any difference between the consideration amount determined during the course of listed equity exchange in respect of the equity interest transferred by Huayi and the consideration amount for share transfer payable by the Transferee to Huayi as determined in Article 3.2, the compensation cost in respect of the Coal Resources Amount used in the calculation of the adjusted consideration amount for share transfer payable by the Transferee to Huayi in (2) above shall be calculated as follows: (consideration amount for share transfer payable by the Transferee to Huayi as determined during the course of listed trading in respect of the equity interest transferred by Huayi - RMB7,755,000)/255,000,000 tonnes; (3) irrespective of whether there would be an increase or decrease in the 164,400,000 tonnes of Coal Resources Amount to be ultimately allocated by the government to the Transferors and Jiutaimanlai in the future, the Transferors and Jiutaimanlai shall guarantee the Transferee's entitlements to the 51% of the aggregate Coal Resources Amount to be ultimately allocated by the government to the Transferors and Jiutaimanlai as well as the corresponding equity interest in the Subject Company.

- 7.6 Huayi and the Transferee agree that, the consideration for share transfer payable by the Transferee to each Transferor shall be equal to the price as adjusted according to the Price Adjustment Formula referred in Article 7.2. In case of any increase or decrease in the Coal Resources Amount as mentioned in Article 7.5 hereof, further adjustment shall be made to the consideration for share transfer payable by the Transferee to each Transferor as stipulated in Article 7.5. In addition to the adjustments to be made to the consideration for share transfer



payable by the Transferee to Huayi according to Article 7.2 and Article 7.5, should there be any difference between the share transfer amount as determined during the course of equity exchange and the consideration amount for share transfer payable by the Transferee to Huayi as determined in Article 3.2, the consideration for share transfer payable by the Transferee to Huayi shall be adjusted to the share transfer amount as determined during the course of equity exchange.

- 7.7 Notwithstanding the provisions of Article 7.2, if the consideration for exploration right payable in respect of the Coal Resources Amount allocated to any Transferor should exceed RMB2/ton, assumption of such excessive portion of the consideration for exploration right shall be jointly resolved by the Transferor concerned and the Transferee by way of consultation. In the event that the consideration for exploration right payable in respect of the Coal Resources Amount allocated to Huayi should exceed RMB2/tonne and that Huayi and the Transferee fail to reach a consensus through consultation, Huayi shall have the right to terminate its transfer of the equity interest in the Subject Company to the Transferee hereunder. In this case, Huayi shall return to the Transferee the corresponding Initial Payment actually received and the Transferee shall return to Huayi the 15.51% equity interest in the Subject Company. Moreover, Huayi shall be entitled to the corresponding Coal Resources Amount and the Transferee shall take coordinated action to complete the formalities of reversal of registration of change of equity interest. The above situation shall not constitute a default by Huayi and the Transferee under the Agreement.
- 7.8 If, before the subject of rights related to the remaining Coal Resources Amount of Shilawusu Coal Field is clarified, the Subject Company must pay in advance the consideration for exploration right payable in respect of the remaining Coal Resources Amount so as to obtain the exploration permit, the parties agree to provide such portion of the consideration for exploration right as a loan to the Subject Company in proportion to their respective shareholdings upon completion of the share transfer hereunder. The parties agree that the consideration for exploration right in respect of the remaining Coal Resources Amount shall ultimately be borne by the corresponding right holder and shall be repaid to the respective parties after a capital increase by injecting such consideration for exploration right into the Subject Company together with any interest payable to the respective parties calculated based on the then prevailing lending rate of the bank.

Article 8 Special Covenant

- 8.1 The Transferors and Jiutaimanlai unanimously undertake that the Transferee shall acquire and shall in the future remain in possession of no less than 51% equity interest in the Subject Company; and unanimously agree that, in order to take coordinated action in full to make the Transferee's shareholding ratio in the Subject Company to reach 51%: (1) if the currently



unallocated resources of Shilawusu Coal Field are to be otherwise allocated to any one or more of the parties among the Transferors and Jiutaimanlai, at least 51% of the newly allocated resources shall be transferred to the Transferee; (2) if the unallocated resources of Shilawusu Coal Field are otherwise acquired by other third party which is not a party hereto, and if such third party would have the intention to transfer such resources to any one or more of the parties hereto, the Transferee shall have an exclusive preemptive right to acquire 51% of such resources; (3) if the Transferors and Jiutaimanlai intend to dispose of their respective shareholdings in the Subject Company, the Transferee shall have an exclusive preemptive right thereto; (4) if, for any reason, Huayi has become unable to transfer its 15.51% equity interest in the Subject Company to the Transferee as agreed in Article 2.1 hereto, other Transferors shall jointly make-up the Transferee's equity interest with their respective shareholdings in the Subject Company pursuant to the terms and conditions as agreed hereunder while the Transferee shall also be entitled to the corresponding Coal Resources Amount allocated to the Transferors that would ultimately guarantee the Transferee's shareholding ratio in the Subject Company to remain at 51%, and that the Transferee is guaranteed to be entitled to 51% of the aggregate Coal Resources Amount to be allocated to the Transferors and Jiutaimanlai. Huayi hereby agrees to give up its preemptive right as to the equity interests to be transferred by other Transferors pursuant to this item (4).

- 8.2 The Transferee agrees that, upon completion of the change of registration for share transfer, notwithstanding the equity interests intended to be transferred by the Transferors are registered in the name of the Transferee, before full settlement by the Transferee of the entire consideration for the share transfer, the Transferee shall be entitled to shareholder's interests only in proportion to the amount of consideration for the equity interest actually paid by the Transferee.
- 8.3 The parties agree that, all necessary approvals, permits or authorizations for the development of Shilawusu Coal Field including, *inter alia*, exploration permit, approval for the cooperation project hereunder, mining permit, etc. shall be applied with the Subject Company being the subject of the development.
- 8.4 The parties confirm that, the base date for assessment and audit of the Subject Company's assets carried out for the purpose of the share transfer hereunder shall be 31 July 2010. Subject to the provisions in Article 5.5 and Article 5.10, any operating profits or losses and risks incurred by the Subject Company during the period from the base date for assessment to the date of change of business registration shall be shared or assumed by the respective shareholders after completion of the change of business registration for share transfer in proportion to their respective shareholdings in the Subject Company.



- 8.5 Save as otherwise agreed by the parties hereto, all taxes and fees involved in the share transfer hereunder shall be borne by the corresponding obligatory taxpayers as stipulated under the laws and regulations.
- 8.6 By virtue of that the equity interest in the Subject Company to be transferred by Huayi pursuant to the Agreement shall represent state-owned property; the Transferee's acceptance of Huayi's transfer of such equity interest shall be conducted through open transfer procedures carried out at property exchange institution. The consideration for share transfer determined in Article 3 hereof shall represent the reserve price of the equity interest transferred by Huayi as listed for sale on property exchange institution and the corresponding change of registration for equity interest shall be made after the completion of the equity exchange. Huayi warrants to arrange for the listing for trading on the Shanghai United Assets and Equity Exchange of its equity interest in the Subject Company to be transferred hereunder pursuant to the terms and conditions as agreed in the Agreement, and the Transferee warrants to participate in the bidding for the equity interest in the Subject Company listed for transfer by Huayi in accordance with the conditions as agreed herein as well as the relevant regulations and procedures of property exchange. Any violation by Huayi or the Transferee in relation to the warranties made hereunder shall constitute a default by Huayi or the Transferee.
- 8.7 The Transferors undertake that, the chemical projects being constructed corresponding to the Coal Resources Amount allocated to the respective Transferors in respect of Shilawusu Coal Field are fully compliance with the regulations of the State and Inner Mongolia Autonomous Region in relation to the allocation of Shilawusu Coal Field's Coal Resources Amount. Any chemical project construction of any of the Transferors which would affect the construction and production of Shilawusu Mine or which would directly or indirectly result in the Subject Company's failure to obtain the exploration permit within two years from the effective date of the Agreement shall constitute a material breach of the Agreement whereas the defaulting party shall compensate for all losses suffered by the observant party.

Article 9 Confidentiality

Each party hereto shall be obligated to keep confidential all materials and documents provided by other parties as well as any information related to the negotiations hereunder. Save for those required to be provided and disclosed according to any applicable PRC laws, regulations, rules or regulatory documents, state-owned property exchange regulations, regulatory listing requirements or relevant mandatory requirements by the government, any party hereto shall not in any way disclose any contents of the Agreement, any transactions or arrangements discussed by the parties, any materials, documents or information related to the transactions without prior written consent from all other parties hereto. Otherwise such party shall be deemed in breach of the Agreement and shall be liable for any



losses incurred by other parties to the Agreement as a result hereof.

Article 10 Liability for Breach of Contract

- 10.1 Except as otherwise agreed herein, if a party (the “Defaulting Party”) fails to perform any of its obligations under the Agreement, other parties (the “Injured Parties”) shall have the right to give a written notice to the Defaulting Party demanding that the Defaulting Party to rectify its default within a reasonable period of time specified in the notice (“Rectification Period”). If the Defaulting Party fails to rectify the default within the Rectification Period, the Injured Parties shall have the right to demand termination of the Agreement and may claim for compensation from the Defaulting Party for any loss incurred by the Injured Parties as a result hereof.
- 10.2 The Transferee’s failure to pay the respective considerations for share transfer to each of the Transferors as agreed herein shall constitute a default under the Agreement and shall pay a late fee to each of the Transferors calculated at 0.05% per day for the overdue portion of the payment respectively. However, overdue payment by the Transferee of the Third Payment not exceeding two months does not constitute a default hereunder and no payment of late fee by the Transferee shall be required as agreed herein.
As for any payment by the Transferee more than three months overdue in respect of the consideration for equity interest payable as agreed herein constituting a default under the Agreement, a default payment of 10% for the overdue portion of the payment shall also be made by the Transferee in addition to the late fee.
- 10.3 The parties undertake that, in case of any untrue or misleading representations and warranties made by any party under the Agreement that cause other parties to suffer a loss, such party shall indemnify the injured parties against any loss so incurred.
- 10.4 In the event of any other default by any party, unless as otherwise agreed herein, the defaulting party shall make to the observant parties a default payment of 10% of the amount related to every event of default.

Article 11 Settlement of Disputes

- 11.1 In the event of any dispute, controversy or claim arising out of or relating to the execution, validity, interpretations or performance of the Agreement (“Dispute”), the parties shall attempt in the first instance to resolve such Dispute through friendly consultations.
- 11.2 In the event such Dispute is not resolved through friendly consultations within thirty (30) days



after the date such consultations were first requested in writing by a Party, then any Party may submit the Dispute for arbitration in Beijing before the China International Economic and Trade Arbitration Commission in accordance with the commission's arbitration rules. The arbitral award is final and binding on all parties. All costs of arbitration shall be borne by the losing party, unless otherwise determined by the arbitration tribunal.

- 11.3 During the arbitration process, the parties shall continue to exercise their other rights and perform their other obligations under the Agreement, except in respect of those related to the Dispute.

Article 12 Force Majeure

In the event of a party's partial or complete non-performance of the Agreement as a result of force majeure such as natural disaster, state policies, etc., such non-performance shall not be deemed a default by the party; nevertheless, such party shall immediately notify the other parties thereof and shall use all reasonable and practicable endeavours to take remedial measures to minimize the consequences of such force majeure. Meanwhile, effective and authoritative proof of the occurrence and duration of such force majeure shall be furnished within five (5) working days from the date on which such force majeure events disappeared.

Article 13 Effectiveness

- 13.1 The Agreement is incepted on the date on which it is signed by the parties and the Subject Company.
- 13.2 The Agreement shall come into effect upon fulfillment of the following conditions:
- 13.2.1 the Agreement having been signed by the legal representative or proxy of all parties and the Subject Company;
- 13.2.2 all parties to the Agreement have taken all necessary actions respectively required for the approval of the Agreement as well as all documents related to the share transfer agreed herein, including:
- (a) approvals by the general meeting / the board of directors of the Transferors and by the board of directors of the Transferee;
 - (b) approval by Shandong SASAC in respect of the transaction hereunder having been obtained by the Transferee;



- (c) the 15.51% equity interest held by Huayi in the Subject Company has been listed for sale on the Shanghai United Assets and Equity Exchange, and has been successfully transferred to the Transferee upon the signing of the equity exchange contract between Huayi and the Transferee under the auspices of the Equity Exchange.
- If the Transferee has been unable to complete the transaction and win the bid for Huayi's equity interest in the Subject Company listed for sale on the Shanghai United Assets and Equity Exchange, the Agreement shall become effective on all parties hereto other than Huayi immediately from the date on which the Shanghai United Assets and Equity Exchange has confirmed that the Transferee has failed to win the bid for Huayi's equity interest and that all other conditions under Article 13.2 hereof having been fulfilled, whereas Articles 4.3, 8.6, 9 and 11 hereof shall continue to be binding on Huayi.
- 13.3 Notwithstanding the covenant made in Article 13.2, the parties agree that, the provisions under Articles 4.3, 8.6, 9 and 11 shall become effective on the date on which Yanzhou Coal has made payment to any of the Transferors of the deposits as mentioned in Article 4.3 and shall become binding on all parties related hereto.

Article 14 Miscellaneous

- 14.1 In the Agreement, "the parties" shall refer to the Transferors, Transferee and Jiutaimanlai.
- 14.2 By consensus of the parties hereto, the parties may modify the Agreement in writing whereas all other unmodified provisions shall remain effective.
- 14.3 Any matters not covered herein may be otherwise covenanted by way of supplementary agreement between the parties. Supplementary agreement shall have the same legal effect as the Agreement.
- 14.4 The Agreement is executed in thirteen counterparts, of which two will be held by each of the Transferors and the Transferee, one by the business registration authority and the other one will be retained for the Subject Company.

(No text below)



Ordos Jinchengtai Chemical Co., Ltd

Legal representative or authorized representative (Signature):

Shanghai Huayi (Group) Company

Legal representative or authorized representative (Signature):

Shandong Jiutai Chemical Industrial Technology Company Limited

Legal representative or authorized representative (Signature):

Ordos City Jiutaimanlai Coal Mining Company Limited

Legal representative or authorized representative (Signature):

Inner Mongolia Haosheng Coal Mining Limited

Legal representative or authorized representative (Signature):

Yanzhou Coal Mining Company Limited



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YANZHOU COAL MINING

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Legal representative or authorized representative (Signature):

_____2010



EXHIBIT 4.2



Minerva joint venture interest sale agreement

Proserpina Coal Pty Ltd ACN 110 316 553

Felix Resources Limited ACN 000 754 174

Winpia Pty Ltd ACN 099 442 556

Sojitz Coal Resources Pty Ltd (formerly Catherine Hill Resources Pty Ltd)
ACN 063 050 680

Version: **5 CORRS COMMENTS (incorporating comments from 15 December)**

Level 11 Central Plaza Two 66 Eagle Street Brisbane QLD 4000 | GPO Box 1855 Brisbane QLD 4001 Australia | **ABN** 42 721 345
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Minerva joint venture interest sale agreement

Dated

Parties

- Proserpina** **Proserpina Coal Pty Ltd ACN 110 316 553**
of Level 6, 316 Adelaide Street, Brisbane, Queensland
- Share Vendor** **Felix Resources Limited ACN 000 754 174**
of Level 6, 316 Adelaide Street, Brisbane, Queensland
- Winpia** **Winpia Pty Ltd ACN 099 442 556**
of Level 34, Central Plaza One, 345 Queen Street, Brisbane, Queensland
- Share Purchaser** **Sojitz Coal Resources Pty Ltd (formerly Catherine Hill Resources Pty Ltd) ACN 063 050 680**
of Level 34, Central Plaza One, 345 Queen Street, Brisbane, Queensland

Background

- A Proserpina, Winpia and Kores (Minerva) are parties to the Minerva Joint Venture constituted by the Minerva Joint Venture Agreement.
- B Proserpina has a 51% Participation Interest in the Minerva Joint Venture, Winpia has a 45% Participation Interest in the Minerva Joint Venture and Kores (Minerva) has a 4% Participation Interest in the Minerva Joint Venture.
- C Minerva Coal is the registered owner of the Tenements.
- D The Share Vendor is the owner of the Minerva Coal Shares.
- E In accordance with the rights granted under the Minerva Joint Venture Agreement following a change in control:
 - (i) Proserpina agrees to sell and Winpia agrees to buy the Minerva Asset Sale Interest; and
 - (ii) the Share Vendor agrees to sell and the Share Purchaser agrees to buy the Minerva Share Sale Interest; andon the terms of this document.

Minerva joint venture interest sale agreement



Agreed terms

1 Definitions and interpretation

1.1 Definitions

In this document:

<u>Term</u>	<u>Definition</u>
Access Deed	means the deed dated on or about 12 January 2005 between Minerva Mining (formerly Sandhurst Mining Pty Ltd) and John Neville Rawlins, the registered proprietor of GHPL 37/3292, whereby John Neville Rawlins grants Minerva Coal access to the property, access to certain water under water licence number 0090183F and a first right of refusal to purchase the property.
Accounting Principles	means the principles and methodology to be applied in preparing the Completion Balance Sheet, as set out in Schedule 1.
Adjustment Amount	means the Effective Date Adjustment Amount and the Completion Adjustment Amount.
Adjustment Date	means the date which is 15 Business Days after the Completion Date.
Assumed Liabilities	means: <ul style="list-style-type: none"> (a) all of Proserpina’s Liabilities with respect to the Minerva Asset Sale Interest; and (b) all of the Share Vendor’s Liabilities with respect to the Minerva Share Sale Interest, which arise after or which have arisen before the date of this document in relation to the Minerva Asset Sale Interest, the Minerva Share Sale Interest or the Minerva Joint Venture.
Assets	means the assets of the Minerva Joint Venture.
Athena MOU	means the memorandum of understanding between Athena Coal Pty Ltd ACN 108 510 452 and Winpia dated 7 October 2004.
ATO Refund Amount	means the amount of \$9146.04 being 51% of the future cash payment relating to the Australian Tax Office BAS offset payment.
Audit	means, in relation to Tax or Duty, any audit, investigation, review, information request or other inquiry of any kind undertaken by a Taxation Authority.
Auditor	means the appointed auditor of the Minerva Joint Venture at the date of this document.
Business	means: <ul style="list-style-type: none"> (c) the business undertaken by the Minerva Joint Venture; (d) the marketing business conducted by the Marketing Company under the Minerva Coal Marketing Agreement; and



<u>Term</u>	<u>Definition</u>
	(e) the management business conducted by the Manager under the Minerva Joint Venture Management Agreement.
Business Day	means a day on which banks are open for business in Brisbane, Queensland.
Claim	means any claim, action, proceeding or demand, however it arises. ¹
Coal	means all marketable coal extracted from within the boundary of the Tenements.
Completion	means completion by the parties of the sale and purchase of the Minerva Sale Interest under this document as provided in clause 4.
Completion Adjustment Amount	means the amount calculated in accordance with the formula set out in part 2 of Schedule 2.
Completion Date	means 20 December 2010 or such other date as the parties agree.
Conditions Precedent	means the conditions precedent to Completion set out in clause 2.1.
Continuing Clauses	means clauses 1, 9 and 11.
Contracts	means all agreements and arrangements relating to the Minerva Joint Venture to which Proserpina is a party, or in relation to which Proserpina is a principal (either disclosed or undisclosed), at the Effective Date, but excluding the Minerva Joint Venture Agreement and the other Minerva Joint Venture Documents.
Corporations Act	means the <i>Corporations Act 2001</i> (Cth).
Deed of Assignment and Assumption of the Minerva Coal Shareholders' Agreement	means a deed whereby the Share Purchaser accedes to the Minerva Coal Shareholders' Agreement in relation to the Minerva Share Sale Interest the terms of which will be agreed on or before the date of this document.
Deed of Assignment, Fresh Charge and Assumption	means a deed whereby Winpia, the Share Purchaser, Minerva Mining Pty Ltd, Kores Australia and Kores (Minerva) release Proserpina and the Share Vendor from their obligations under the Minerva Coal Deed of Cross Charge, and Winpia and the Share Purchaser accede to the Minerva Coal Deed of Cross Charge, to the extent that those obligations relate to the Minerva Sale Interest the terms of which will be agreed on or before the date of this document.
Duty	means any duty (including royalties, associated fines, additional duty, interest or penalties) imposed in Australia by a State or Governmental Agency.
Effective Date	means 1 September 2010.
Effective Date Adjustment Amount	means the amount calculated in accordance with the formula set out in part 1 of Schedule 2



<u>Term</u>	<u>Definition</u>
Effective Date Balance Sheet	means the unaudited trial balance (balance sheet items only) as at 31 August 2010 as set out in Schedule 7.
Effective Date Net Assets	means the net assets of Proserpina relating to the Minerva Sale Interest as at the Effective Date as disclosed in the Effective Date Balance Sheet.
Encumbrance	means: <ul style="list-style-type: none"> (a) any mortgage, charge, pledge or lien, and any security interest or a preferential or adverse interest of any kind; (b) a title retention arrangement; (c) a right of any person to purchase, occupy or use assets (including under a hire purchase agreement, option, license, lease, or agreement to purchase); (d) a right to set-off or right to withhold payment of a deposit or other money; (e) an easement, restrictive covenant, caveat or similar restriction over property (except, in the case of land, a covenant noted on the certificate of title to the land concerned); or (f) an agreement to create any of the items referred to in paragraphs (a) to (e) above or to allow any of those items to exist.
Excluded Assets	means the assets set out in Schedule 4.
Expert	means a suitably qualified person who acts as an expert (not as an arbitrator) appointed by agreement between the parties or, failing agreement, within 14 days by the President for the time being of the Australasian Institute of Mining and Metallurgy (or the nominee of the President, if the President is not independent of the Parties) at the request of any party.
Felix Coal Sales	means Felix Coal Sales Pty Ltd ACN 110 316 599.
Governmental Agency	means a government or a governmental, semi-governmental or judicial entity or authority. It also includes a self-regulatory organisation established under statute or a stock exchange.
GST Act	means the <i>A New Tax System (Goods and Services Tax) Act 1999</i> (Cth).
GST Amount	means in relation to a Taxable Supply the amount of GST payable in respect of that Taxable Supply.
GST Law	has the meaning given to that term by the GST Act, or if that Act does not exist means any Act imposing or relating to the imposition or administration of a goods and services tax in Australia and any regulation made under that Act.
Income Tax	means tax imposed on income, profits, or gains (including capital gains) under the Tax Act.
Indemnified Party	means each member of the Vendors Group and each Officer and employee of each member of the Vendors Group.
Input Tax Credit	has the meaning given by the GST Law and a reference to an Input Tax Credit entitlement of a party includes an Input Tax Credit for an acquisition made by that party but to which another member of the same GST Group is entitled under the GST Law.



Term

Definition

Insolvency Event

means any of the following events occurring in relation to a party:

- (a) a liquidator, receiver, receiver and manager, administrator, official manager or other controller (as defined in the Corporations Act), trustee or controlling trustee or similar official is appointed over any of the property or undertaking of the party;
- (b) the party is, or becomes unable to, pay its debts when they are due or is or becomes unable to pay its debts within the meaning of the Corporations Act, or is presumed to be insolvent under the Corporations Act; or
- (c) an application or order is made for the liquidation of the party or a resolution is passed or any steps are taken to liquidate or pass a resolution for the liquidation of the party, otherwise than for the purpose of an amalgamation or reconstruction.

Interest Rate

means the Australian London Interbank Offered Rate published by Thomson Reuters on behalf of the British Bankers' Association after 11:00 am (and generally around 11:45 am) each day (London time) for a term of one month.

Inventory

means Proserpina's share of Coal to which title has not passed to a customer as at the Effective Date.

Joint Venture Policy Committee

has the meaning given in the Minerva Joint Venture Agreement.

Kores Australia

means Kores Australia Pty Ltd ACN 063 786 087.

Kores (Minerva)

means Kores Australia Minerva Coal Pty Ltd ACN 119 244 147.

Liabilities

means Claims, losses, liabilities, costs or expenses of any kind and however arising, including penalties, fines, and interest and excluding those which are prospective or contingent and those the amount of which for the time being is not ascertained or ascertainable.²

Manager

means Minerva Mining Pty Ltd ACN 108 510 309.

Marketing Company

means Felix Coal Sales Pty Ltd ACN 110 316 599.

Minerva Asset Sale Interest

means a 51% Participation Interest in the Minerva Joint Venture, including:

- (a) the rights (subject to the obligations attending to those rights) attributable to that 51% Participation Interest under the Minerva Joint Venture Documents;
- (b) a 51% interest and share in the Minerva Joint Venture Assets (including the Subleases of the Tenements, the Contracts and the Mining Information); and
- (c) a 51% share in all Coal to which title has not passed to customers as at the Effective Date,



<u>Term</u>	<u>Definition</u>
	but excluding Proserpina's interests in the Excluded Assets.
Minerva Coal	means Minerva Coal Pty Ltd ACN 075 056 058.
Minerva Coal Deed of Cross Charge	means the deed of cross charge relating to the Minerva Joint Venture dated 7 October 2004 between Proserpina, Winpia, Minerva Mining (formerly Sandhurst Mining Pty Ltd), the Share Vendor and the Share Purchaser as varied and enlarged by the deed of assignment and assumption dated 12 October 2006 and the deed of assignment and assumption dated 2 March 2007.
Minerva Coal Marketing Agreement	means the marketing agreement relating to the Minerva Joint Venture dated 7 October 2004 between Proserpina, Winpia and Felix Coal Sales as varied and enlarged by the deed of assignment and assumption dated 12 October 2006 and the deed of assignment and assumption dated 2 March 2007.
Minerva Coal Shareholders' Agreement	means the shareholders' agreement between the Share Purchaser, the Share Vendor and Minerva Coal as varied and enlarged by the deed of assignment and assumption dated 12 October 2006 and the deed of assignment and assumption dated 2 March 2007.
Minerva Coal Shares	means a 51% interest in the share capital of Minerva Coal, being 510 ordinary shares.
Minerva Deed of Assignment and Assumption	means a deed whereby Winpia accedes to the Minerva Joint Venture Agreement in relation to the Minerva Asset Sale Interest the terms of which will be agreed on or before the date of this document.
Minerva Japan Marketing Agency Agreement	means the marketing agency agreement relating to the Minerva Joint Venture dated 7 October 2004 between Felix Coal Sales, Proserpina, Winpia and Sojitz Corporation as varied and enlarged by the deed of assignment and assumption dated 12 October 2006 and the deed of assignment and assumption dated 2 March 2007.
Minerva Joint Venture	means the joint venture established by a joint venture agreement dated 7 October 2004 between Proserpina and Winpia relating to mining leases 70145 and 70376.
Minerva Joint Venture Agreement	means the joint venture agreement dated 7 October 2004 between Proserpina and Winpia establishing the Minerva Joint Venture as varied and enlarged by the deed of assignment and assumption dated 12 October 2006 and the deed of assignment and assumption dated 2 March 2007.
Minerva Joint Venture Assets	has the meaning given to the term 'Joint Venture Assets' in the Minerva Joint Venture Agreement.
Minerva Joint Venture Documents	means: <ul style="list-style-type: none"> (a) the Minerva Joint Venture Agreement; (b) the Minerva Joint Venture Management Agreement; (c) the Minerva Coal Marketing Agreement; (d) the Minerva Coal Deed of Cross Charge;



<u>Term</u>	<u>Definition</u>
	(e) the Minerva Japan Marketing Agency Agreement;
	(f) the Subleases of the Tenements; and
	(g) the Access Deed.
Minerva Joint Venture Management Agreement	means the management agreement relating to the Minerva Joint Venture dated 7 October 2004 between Proserpina, Winpia and Minerva Mining (formerly Sandhurst Mining Pty Ltd) as varied and enlarged by the deed of assignment and assumption dated 12 October 2006 and the deed of assignment and assumption dated 2 March 2007.
Minerva Mining	means Minerva Mining Pty Ltd ACN 108 510 309.
Minerva Sale Interest	means the Minerva Asset Sale Interest and the Minerva Share Sale Interest.
Minerva Share Sale Interest	means the Minerva Coal Shares and the 51% interest of the Share Vendor in the Minerva Coal Shareholders' Agreement.
Mining Information	has the meaning given in the Minerva Joint Venture Agreement.
Notice to Audit	has the meaning in clause 6.2(b).
Officer	means, in respect of a party, a director, company secretary, assistant secretary, chief executive officer, chief financial officer or general manager of that party.
Participation Interest	has the meaning given in the Minerva Joint Venture Agreement.
Performance Bonds	means the securities, guarantees or bonds listed in Schedule 6
Preliminary Balance Sheet	means the unaudited trial balance (balance sheet items only) as at 31 July 2010 as set out in Schedule 3.
Preliminary Net Assets	means the value of the net assets set out in the Preliminary Balance Sheet.
Provisional Purchase Price	means \$201,000,000.
Purchase Price	means the Provisional Purchase Price, together with the Effective Date Adjustment Amount, adjusted in accordance with clause 6.
Records	has the meaning given to that term in the Minerva Joint Venture Agreement and in relation to the Business all original and copy records, materials and documents of and relating to the Business including statements, documents, books, files, reports, accounts, plans, correspondence, letters and papers of every description and other material regardless of its form or medium and including title deeds and other documents of title, contracts and financial records.
Representative	means, in respect of a party, an Officer, employee, agent, adviser or financier of that party, or any other person acting on behalf of that party in relation to the transactions contemplated by this document.
Sellers	means Proserpina and Share Vendor.
Share Sale Agreements	means the agreements between the Share Vendor and the Share Purchaser for the acquisition of all of the shares in Minerva Mining and Felix Coal Sales.



<u>Term</u>	<u>Definition</u>
Shared Services Deed	means the shared services deed dated [insert].
Site	means the Minerva mine site and the Share Vendor's office or offices located in Brisbane, Queensland.
Subleases of the Tenements	means the Minerva Sublease as that term is defined in the Minerva Joint Venture Agreement and any other subleases of any of the Tenements.
Tax	means any Income Tax, land tax, sales tax, payroll tax, fringe benefits tax, group tax, withholding tax, franking deficits tax, goods and services tax, debits tax or any other taxes imposed in Australia by any government or Governmental Agency (including diesel fuel taxes and rebates, fines, additional tax, interest or penalties).
Tax Act	means the <i>Income Tax Assessment Act 1936</i> (Cth) or the <i>Income Tax Assessment Act 1997</i> (Cth) or both the <i>Income Tax Assessment Act 1936</i> and the <i>Income Tax Assessment Act 1997</i> (Cth), as appropriate.
Tax Audit	means any review or audit or similar activity undertaken by a Tax Authority relevant tax authority.
Taxation Authority	means any person or agency authorised by law to impose, collect or otherwise administer any Tax or Duty.
Tenements	has the meaning given in the Minerva Joint Venture Agreement.
Transaction Document	means this document and any documents entered into in connection with this document.
Vendors Group	means Proserpina and the Share Vendor.

1.2 Interpretation

The following rules apply unless the context requires otherwise:

- (a) headings are for convenience only and do not affect interpretation;
- (b) the singular includes the plural, and the converse also applies;
- (c) a gender includes all genders;
- (d) if a word or phrase is defined, its grammatical forms have a corresponding meaning;
- (e) a reference to a *person* includes a corporation, trust, partnership, unincorporated body or other entity, whether or not it comprises a separate legal entity;
- (f) a reference to a clause or schedule is a reference to a clause or schedule to this document;
- (g) a reference to an agreement or document (including reference to this document) is to the agreement or document as amended, supplemented, novated, or replaced except to the extent prohibited by this document or that other document or agreement;



- (h) a reference to writing includes any method of representing or reproducing words, figures, drawings or symbols in a visible and tangible form;
- (i) a reference to a party to this document or other agreement or document includes the party's successors, permitted substitutes and permitted assigns (and where applicable, the party's legal personal representatives);
- (j) a reference to legislation or to a provision of legislation includes a modification or re-enactment of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it;
- (k) a reference to conduct includes an omission, statement or undertaking, whether or not in writing;
- (l) a reference to dollars and \$ is to Australian currency;
- (m) if an event must occur on a specified day which is not a Business Day, then the specified day will be taken to be the next Business Day;
- (n) mentioning anything after *includes, including, for example,* or similar expressions, does not limit what else might be included;
- (o) a month means a calendar month; and
- (p) nothing in this document is to be interpreted against a party solely on the ground that the party put forward this document or a relevant part of it.

1.3 Consents or approvals

If the doing of any act, matter or thing under this document is dependent on the consent or approval of a party or is within the discretion of a party, the consent or approval may be given or the discretion may be exercised conditionally or unconditionally or withheld by the party in its absolute discretion, unless expressly provided otherwise.

1.4 Method of payment

All payments required to be made under this document must be tendered at the recipient's option either by:

- (a) drafts or cheques drawn by a bank as defined in the *Banking Act 1959* (Cth); or
- (b) by way of direct transfer of immediately available funds to the bank account nominated in writing by the party to whom the payment is due,

and by not later than 4.00pm Brisbane time on the due date for payment. Any payment tendered under this document after 4.00pm Brisbane time on any date will be taken to have been made on the next succeeding Business Day (the **deemed payment date**) after the date on which payment was tendered, and if the deemed payment date is after the relevant due date for payment, interest will accrue under clause 1.5 accordingly.

1.5 Interest on amounts payable

- (a) If any party fails to pay any amount payable by it under or in accordance with this document (including the Provisional Purchase Price), that party must, if demand is made, pay simple interest on that amount from the due date for payment until that amount is paid in full at the rate per annum which is the sum of the Interest Rate on the date on which the payment was due, plus a margin of 3%, calculated daily. The right to require payment of interest under this clause is without prejudice to any other rights the non-defaulting party may have against the defaulting party at law or in equity.



- (b) If Completion takes place later than 30 November 2010, Winpia and the Share Purchaser will pay interest on the Provisional Purchase Price from 30 November 2010 until the Provisional Purchase Price is paid in full at the rate per annum which is the sum of the Interest Rate on 30 November 2010, plus a margin of 3%, calculated daily.

2 Conditions Precedent

2.1 Conditions precedent to performance of agreement

Completion is conditional upon satisfaction or waiver of the following conditions:

- (a) Winpia and the Share Purchaser obtaining all necessary regulatory approvals including the approval of the Queensland Department of Mines and Energy to the transfer and assignment of Proserpina's interest in the Subleases of the Tenements (excluding any approval from the Foreign Investment Review Board);
- (b) all outstanding loans in the amount of \$5,965,051 to the Share Vendor being repaid by Minerva Coal.

2.2 Seller must co-operate

Each party must:

- (a) cooperate with the other parties and use its best endeavours to ensure the conditions in clause 2.1 are satisfied as soon as reasonably possible;
- (b) sign and deliver all documents and do everything necessary or desirable to carry out its obligations under this clause;
- (c) take no action that might prevent or hinder the satisfaction of the Conditions Precedent;
- (d) supply to the other parties copies of all applications made and all information supplied to enable satisfaction of the Conditions Precedent;
- (e) keep the other parties regularly informed of the status of any discussions or negotiations with relevant third parties about the Conditions Precedent; and
- (f) promptly notify the other parties on becoming aware of the satisfaction of any Conditions Precedent or of any Conditions Precedent becoming incapable of being satisfied.

2.3 Waiver of Conditions Precedent

- (a) The Conditions Precedent in:
 - (i) clauses 2.1(a) are for the benefit of Winpia and the Share Purchaser;
 - (ii) clause 2.1(b) for the benefit of Proserpina and the Share Vendor; and
- (b) If a Condition Precedent is for the benefit of a particular party, that party may in its discretion, waive a Condition Precedent by notice to the other parties. In any other case a Condition Precedent may only be waived by written agreement between the parties.



2.4 If conditions not fulfilled

- (a) If the Conditions Precedent are not satisfied, or waived under clause 2.3, on or before the Completion Date then all rights and obligations under this document, other than:
 - (i) the Continuing Clauses; and
 - (ii) rights that accrue before that date,
 terminate on the day after the Completion Date.
- (b) Until the satisfaction or waiver of the Conditions Precedent, the terms of this document are without prejudice to any pre-emption entitlements of Winpia and the Share Purchaser under the Minerva Joint Venture agreement and the Athena MOU.
- (c) If any of the Conditions Precedent are not satisfied or waived then the entering into this document is without prejudice to any pre-emption entitlements of Winpia and the Share Purchaser (if any) under the Minerva Joint Venture Agreement and the Athena MOU.

3 Price and payment

3.1 Purchase Price

The price payable for the unencumbered right, title and interest in the Minerva Sale Interest is the Purchase Price.

3.2 Payment of Purchase Price

Winpia and the Share Purchaser must pay the Purchase Price to, or at the direction of, the Sellers on the Completion Date.

3.3 Allocation of the Purchase Price

The Purchase Price must be allocated among the Minerva Sale Interest in accordance with Schedule 5.

3.4 Acknowledgment

Winpia and the Share Purchaser each acknowledges and agrees that it has full knowledge of all of the assets and liabilities of the Minerva Joint Venture and Minerva Coal Pty Ltd.

3.5 Release

As and from Completion, Winpia and the Share Purchaser each release Proserpina and the Share Vendor from any further obligations under the Minerva Joint Venture Documents and any other project documents entered into prior to Completion in relation to the Minerva Joint Venture to the extent that the obligations relate to the Minerva Sale Interest without prejudice to any pre-existing rights and liabilities arising up to Completion.

4 Conduct until Completion

4.1 Parties conduct of Business

Until Completion, the Sellers must carry on the Business in the usual way:

- (a) with due care;



- (b) in a manner consistent with how the Business is being conducted; and
- (c) so as to comply with all applicable laws.

4.2 Parties to cooperate

To assist in the implementation of the acquisition of the Minerva Sale Interest:

- (a) Winpia or the Share Purchaser may until Completion make written requests to:
 - (i) the Sellers for information about the Assets, Contracts and, Records;
 - (ii) the Manager, the Marketing Company and the Sellers about the operation of the Business and the shares in the Manager and the Marketing Company; and
- (b) the Sellers must, and until Completion the Sellers must procure the Manager and the Marketing Company to:
 - (i) co-operate fully with Winpia and its Representatives and give all reasonable assistance to enable Winpia to complete the implementation of the acquisition of the Minerva Sale Interest; and
 - (ii) supply to Winpia and its Representatives any material information or explanations reasonably requested about the Assets, Contracts, Records and operation of the Business and any further information Winpia reasonably requires to assess the Assets and Liabilities, financial position and profits and losses of the Business.

4.3 Winpia's access

Until Completion the Sellers must, and until Completion the Sellers must procure that the Manager and the Marketing Company:

- (a) supply to Winpia any information or document about the Minerva Sale Interest or the Business in their possession or control which Winpia reasonably requests;
- (b) reasonably assist Winpia to learn about the Minerva Sale Interest and the Business; and
- (c) give Winpia reasonable access to the Site on reasonable notice during normal business hours and allow Winpia to:
 - (i) observe the conduct of the Business;
 - (ii) examine, and if desired, copy any Record; and
 - (iii) inspect the Assets, Contracts and property or affairs of the Minerva Joint Venture.

4.4 Customers and Suppliers

Until Completion:

- (a) the Sellers must use all reasonable endeavours to preserve the goodwill and customers of the Business;



- (b) Winpia may notify suppliers and service providers to the Business about the change in control of the Manager and the Marketing Company; and
- (c) Winpia:
 - (i) may with the prior consent of Proserpina, which consent is not to be unreasonably withheld, notify customers of the Business about the change in control of the Manager and the Marketing Company; and
 - (ii) must keep Proserpina informed of any contact with customers of the Business.

4.5 Consent

If the consent of a person is needed as a result of the change in control of the Manager or the Marketing Company:

- (a) the Manager, the Marketing Company, the Sellers and Winpia must each use reasonable endeavours to obtain that consent before Completion; and
- (b) if the consent is not obtained by Completion, the Manager, the Marketing Company, the Sellers and Winpia must each keep using reasonable endeavours to obtain it.

5 Completion

5.1 Completion Date and place

- (a) Completion of the sale and purchase of the Minerva Sale Interest will take place on the Completion Date at the offices of McCullough Robertson, Brisbane, Queensland or at any other place as Proserpina and Winpia may agree.
- (b) The obligations of the parties in respect of Completion are interdependent with completion of the Share Sale Agreements and the execution of the Shared Services Deed. If all obligations under the Share Sale Agreements have not been performed or the Shared Services Deed has not been executed by all parties, then Completion must not take place.
- (c) If either of the Share Sale Agreements is terminated without Completion being effected, then this document is taken to be terminated on the date of termination of the Share Sale Agreement and clause 2.4 applies.
- (d) A termination of this document under this clause does not affect any other rights the parties have against one another at law or in equity.

5.2 Obligations of Proserpina and the Share Vendor on Completion

On the Completion Date, Proserpina and the Share Vendor must deliver or make available to Winpia and the Share Purchaser:

- (a) the Minerva Sale Interest;
- (b) duly executed counterparts of the following documents:
 - (i) the Minerva Deed of Assignment and Assumption (executed by Proserpina, Kores (Minerva) and Kores Australia);



- (ii) Deed of Assignment, Fresh Charge and Assumption (executed by Proserpina, Kores (Minerva), Kores Australia, the Share Vendor, the Share Purchaser and Minerva Mining);
- (iii) Deed of Assignment and Assumption of the Minerva Coal Shareholders' Agreement (executed by Minerva Coal, Kores (Minerva), Kores Australia, the Share Vendor);
- (iv) duly executed share transfer in favour of the Share Purchaser in respect of the Minerva Coal Shares;
- (v) certified copy of a resolution of the board of Directors of Minerva Coal pursuant to which the transfer of the Minerva Coal Shares to the Share Purchaser (subject to the payment of stamp duty on the instrument of transfer, which must be borne by the Share Purchaser), the cancellation of existing share certificates (if any) for the Minerva Coal Shares, the registration of the transfer of the Minerva Coal Shares and the issue and delivery by Minerva Coal to the Share Purchaser of a new share certificate for the Minerva Coal Shares in the name of the Share Purchaser are approved;
- (vi) Shared Services Deed; and
- (c) other duly executed deeds, instruments and documents as required by Proserpina, the Share Vendor, Minerva Coal, Winpia or the Share Purchaser to vest unencumbered legal and beneficial ownership of all of the Minerva Sale Interest in Winpia and the Share Purchaser subject to and in accordance with the terms of this document; and
- (d) evidence that Minerva Mining and Felix Coal Sales have ceased to be members of the tax consolidated group including the Vendors Group, prior to Completion.

In this clause 5.2, duly executed means duly executed by all parties (except Winpia and the Share Purchaser) to the relevant document or instrument.

5.3 Obligations of Winpia and the Share Purchaser at Completion

At Completion, subject to the due performance by Proserpina and the Share Vendor of their obligations under clause 5.2, Winpia and the Share Purchaser must:

- (a) deliver to Proserpina counterparts, duly executed by Winpia, of:
 - (i) the Minerva Deed of Assignment and Assumption;
 - (ii) Deed of Assignment, Fresh Charge and Assumption; and
 - (iii) such other deeds, instruments and documents delivered by Proserpina in accordance with clause 5.2 which are also required to be executed by Winpia to be effective;
- (b) deliver to the Share Vendor counterparts, duly executed by the Share Purchaser, of the Deed of Assignment and Assumption of the Minerva Coal Shareholders' Agreement and the Deed of Assignment, Fresh Charge and Assumption;
- (c) pay the Purchase Price to, or at the direction of, Proserpina and the Share Vendor;



- (d) pay the amount of \$9146.05 being Proserpina’s proportion of a tax refund to the Minerva Joint Venture and the Sellers and Winpia acknowledge that this amount is not a Taxable Supply or part of the Purchase Price;³ and
- (e) do, execute and deliver all other acts and documents that this document or any other Transaction Document requires Winpia and/or the Share Purchaser to do, execute or deliver at Completion.

5.4 Obligations of all parties

- (a) The parties must use their best endeavours (including causing representatives on the Joint Venture Policy Committee to vote and if required causing Winpia and the Share Purchaser to execute appropriate agreements) to give effect to the entering into of binding agreements as contemplated in the access arrangements set out in Annexure A within 90 days of Completion or as otherwise agreed by the parties.
- (b) The entering into of binding agreements as contemplated in the access arrangements set out in Annexure A is not a condition to Completion.
- (c) The parties must use their best endeavours (including causing representatives on the Joint Venture Policy Committee to vote and if required causing Winpia and the Share Purchaser to execute appropriate agreements) to ensure that:
 - (i) the special purpose accounts of the Minerva Joint Venture for the year ended 31 December 2010 are prepared in accordance with clause 7.2 of the Minerva Joint Venture Management Agreement; and
 - (ii) that the newly appointed auditor will undertake the audit of the special purpose accounts in a timely manner.

5.5 Acknowledgement relating to post-Completion Tax Audit

The parties acknowledge that if there is any Tax Audit of the Minerva Sale Interest after Completion that relates to a period before Completion:

- (a) the Share Purchaser, Winpia, Proserpina and the Share Vendor must cooperate and give each other all reasonable assistance they can provide concerning the Tax Audit;
- (b) the Share Vendor will take carriage of the management of any such Tax Audit but is entitled to be reimbursed for any costs incurred as a consequence of the Tax Audit should be shared; and
- (c) that the parties must pay on demand the amount equal to that parties proportionate share of any Tax liability including interest or penalties arising from any Tax Audit and incurred after 31 August 2010 that relates to the period prior to 31 August 2010.

6 Adjustment Payments

6.1 Completion Adjustment Amount

Proserpina must provide Winpia with its calculation of the Completion Adjustment Amount at least two Business Days prior to the Adjustment Date.



6.2 Review of the Completion Adjustment Amount

- (a) Proserpina must provide Winpia and its Representatives with reasonable access to its working papers during the period from the time of the Completion Date to the Adjustment Date.
- (b) If Winpia disputes any item or calculation in the Effective Date Balance Sheet or the Adjustment Amount and the parties are unable to resolve the disputed item or calculation, Winpia may give written notification of the dispute any time prior to the Adjustment Date (**Notice to Audit**).

6.3 Audit by Auditor

- (a) If Winpia delivers a Notice to Audit, Proserpina must deliver the Effective Date Balance Sheet and the Adjustment Amount calculations (together with all of Proserpina's working papers) to the Auditor within two Business Days of receiving the Notice to Audit.
- (b) Winpia must, at its cost and expense, procure that the Auditor performs an audit of the Effective Date Balance Sheet and the Adjustment Amount calculations and reports in writing (attaching a copy of the Effective Date Balance Sheet and the Adjustment Amount calculations) to Proserpina and Winpia within 20 Business Days after the date of receipt of the information in clause 6.3(a), either that:
 - (i) the Adjustment Amount has been calculated in accordance with this clause 6 and no adjustments to the Adjustment Amount need to be made; or
 - (ii) the Adjustment Amount needs to be adjusted (in which case the Auditor must also set out in writing the adjustments that need to be made to the Adjustment Amount) to comply with this clause 6.

6.4 Access to information

Winpia and Proserpina must, in connection with the performance of the audit by the Auditor:

- (a) provide or ensure the provision of all information and assistance which may be requested by the Auditor; and
- (b) permit the Auditor to have access to and take extracts from or copies of any books, correspondence, accounts or other records relating to the Minerva Joint Venture and the Minerva Sale Interest.

6.5 Parties' response to audit

- (a) If either the Effective Date Balance Sheet or the Adjustment Amount is not disputed by Proserpina or Winpia by notice under clause 6.3 prior to the Adjustment Date, it will be taken to be final.
- (b) If either the Effective Date Balance Sheet or the Adjustment Amount is disputed by Proserpina or Winpia by notice under clause 6.3 prior to the Adjustment Date, the dispute will be determined under clause 6.6.

6.6 Dispute resolution procedure

- (a) If there is any difference of opinion or dispute between Proserpina and Winpia regarding either the Effective Date Balance Sheet or the Adjustment Amount, Proserpina or Winpia (**Disputing Party**) may give a notice (**Dispute Notice**) to the other party prior to the Adjustment Date setting out:
 - (i) details of each of the matters in dispute;



- (ii) a separate dollar value for each of those matters; and
- (iii) full details of the reasons why each of those matters is disputed.
- (b) A Disputing Party may only give one Dispute Notice.
- (c) Within 15 Business Days of the Disputing Party having delivered a Dispute Notice to the other party, the other party must deliver to the Disputing Party a response in writing on the disputed matters (**Response**). If the other party does not deliver a Response within that time, either the Effective Date Balance Sheet or the Adjustment Amount (as may be the case) will be deemed to be amended as required by the Disputing Party and will be taken to comprise the final Effective Date Balance Sheet or Adjustment Amount (as may be the case).
- (d) If the dispute is not resolved within 15 Business Days of the delivery of the Response to the Disputing Party, then the Disputing Party must promptly refer the dispute to the Managing Director (or their appointed nominee) of each of Proserpina and Winpia for them to attempt to resolve the dispute.
- (e) If the Managing Directors (or their appointed nominees) have not resolved the dispute within 15 Business Days of it being referred to them; the dispute must promptly be submitted for determination to an Expert who will determine the matter or matters in dispute.
- (f) The Expert must be selected by agreement between Proserpina and Winpia, or failing agreement between them within five Business Days after they commence to discuss the selection of the Expert, selected by the President for the time being of the Institute of Chartered Accountants of Australia.
- (g) The disputed matters must be referred to the Expert by written submission which must include only:
 - (i) the details of the Effective Date Balance Sheet or Adjustment Amount (as may be the case) together with the any working papers;
 - (ii) the report issued by the Auditor under clause 6.3(b), if a party has given a Notice to Audit under clause 6.2(b);
 - (iii) the Dispute Notice;
 - (iv) the Response; and
 - (v) an extract of the relevant provisions of this document.
- (h) The Expert must be instructed to decide the matters of disagreement and finish its determination and provide it to Proserpina and Winpia no later than 20 Business Days after receipt of the submission (or such other period agreed by the parties having regard to the matters in dispute).
- (i) Proserpina and Winpia must promptly supply the Expert with any information, assistance and co-operation requested in writing by the Expert in connection with its determination. All correspondence between the Expert and a party must be copied to the other party to the dispute.



- (j) The Expert must apply the Accounting Principles.
- (k) In the absence of agreement between Proserpina and Winpia, the Expert will decide the procedures to be followed to resolve the matters of disagreement.
- (l) The Expert must act as an expert and not as an arbitrator. The Expert's written determination will be final and binding on the parties in the absence of manifest error and the Effective Date Balance Sheet or the Adjustment Amount (as may be the case) will be deemed to be amended accordingly and will be taken to comprise the final Effective Date Balance Sheet or the final Adjustment Amount (as may be the case).
- (m) The cost of a determination by the Expert must be borne by Proserpina and Winpia in such manner as the Expert determines (having regard to the merits of the dispute).

6.7 Dispute limit

Despite any other provision of this document, neither party is entitled to dispute the Effective Date Balance Sheet or Adjustment Amount unless the amount disputed per line item is greater than \$500,000 or the aggregate of items in dispute exceeds \$1,000,000.

6.8 Payment of Completion Adjustment Amount

- (a) If the Completion Adjustment Amount is positive, then Winpia must pay that amount to Proserpina on the Adjustment Date.
- (b) If the Completion Adjustment Amount is negative, then Proserpina must pay that amount to Winpia on the Adjustment Date.
- (c) If the Completion Adjustment Amount is zero there will be no adjustment amount payable.

6.9 Subsequent Audit

Despite clause 6.5(a) but subject to clause 6.7, if the audit of the accounts for the period ending 31 December 2010 for the Minerva Joint Venture reveals a material error in the Effective Date Balance Sheet or the Adjustment Amount, the parties agree:

- (a) that the Purchase Price must be further adjusted to account for the error;
- (b) that the amounts specified in the final audited accounts for the Minerva Joint Venture will be taken (in the absence of manifest error) as the relevant amounts to be used in the Effective Date Balance Sheet and the Adjustment Amount; and
- (c) that the provisions of this clause 6 (with necessary changes) will apply for the purpose of calculation and payment of any further adjustment of the Purchase Price arising under this clause 6.9.

6.10 Reimbursement obligations⁴

The Seller acknowledges its obligations under Minerva Joint Venture Agreement and Minerva Management Agreement to meet its proportionate share of GST and employment tax related liabilities incurred after 31 August 2010 that relate to the period prior to 31 August 2010. Any such amounts are to be dealt with in a manner consistent with this clause 6.

⁴



7 Tenement and Licences

7.1 Performance Bonds

- (a) Winpia must provide appropriate replacements for the 100% of the amount guaranteed under the Performance Bonds promptly after Completion, but in any event, no later than 20 Business Days after the Completion Date.
- (b) Proserpina must maintain the Performance Bonds in full force and effect, at the cost and expense of Winpia, until replaced in accordance with clause 7.1(a). Winpia must, on demand by Proserpina, reimburse Proserpina for the reasonable costs and expenses incurred by it in maintaining the relevant Performance Bonds after Completion.
- (c) Winpia indemnifies and agrees to hold harmless each Indemnified Party from and against all Liability which may arise or be incurred or sustained by the Indemnified Party from or in connection with a breach by Winpia of any obligation secured by any Performance Bond. Proserpina holds on trust for each other Indemnified Party the benefit of this clause to the extent that this clause applies to those other Indemnified Parties and is entitled to enforce this clause on behalf of those Indemnified Parties.

7.2 Costs and expenses

- (a) Winpia must reimburse Proserpina for all proper and reasonable out of pocket costs and expenses incurred by Proserpina under this clause 7 after the Effective Date or as a result of Proserpina taking any action in respect of the Tenements in accordance with the directions or instructions of Winpia.
- (b) Without limiting clause 7.2(a), Winpia must pay all registration fees payable in respect of the transfers and grants pursuant to or contemplated by this document.

8 GST

8.1 GST definitions

Unless otherwise defined below, terms capitalised in this clause have the meaning given to those terms in the GST Act.

8.2 GST to be added to amounts payable

If GST is payable on a Taxable Supply made under, by reference to or in connection with this document, the party providing the Consideration for that Taxable Supply must also pay the GST Amount in respect of that Taxable Supply as additional Consideration. This clause does not apply to the extent that the Consideration for the Taxable Supply is expressly agreed to be GST inclusive.

8.3 Tax Invoice and Adjustment Note

No payment of any amount pursuant to clause 8.2 is required until the supplier of the Taxable Supply has provided a Tax Invoice or Adjustment Note as the case may be to the recipient.



8.4 Liability net of GST

Any reference in the calculation of Consideration under this document to a cost, expense or other liability incurred by a party, shall exclude the amount of any Input Tax Credit entitlement of that party in relation to the relevant cost, expense or other liability. A party will be assumed to have an entitlement to a full Input Tax Credit unless it demonstrates otherwise prior to the date on which the Consideration must be provided.

8.5 Sale of a going concern

- (a) Proserpina and Winpia acknowledge and agree that:
 - (i) the Purchase Price does not include any amount for GST;
 - (ii) the supply of the Minerva Asset Sale Interest is the supply of an identifiable enterprise carried on by Proserpina and is a Supply of a Going Concern which is GST-free;
 - (iii) the Seller supplies to the Buyer all of the things that are necessary for the continued operation of the Business; and
 - (iv) the Seller will carry on the Business until the day of supply of the Sale Interest to the Buyer.
- (b) Winpia warrants to the Seller that it is registered for GST and will remain registered for GST until Completion.
- (c) Proserpina and Winpia acknowledge and agree that they will take all reasonable steps and do all reasonable things necessary to ensure that the supply of the Minerva Asset Sale Interest is treated as a GST-free supply of a going concern.
- (d) If it is determined that, for whatever reason, the supply of all or part of the Minerva Asset Sale Interest is a taxable supply:
 - (i) at Completion; or
 - (ii) immediately after the parties become aware that the supply of the Minerva Asset Sale Interest is a taxable supply,Proserpina must provide Winpia with a Tax Invoice for the GST Amount referable to the Provisional Purchase Price for the Minerva Asset Sale Interest.
- (e) Where an Adjustment Amount is payable pursuant to clause 4, in respect of the Minerva Asset Sale Interest, Proserpina or Winpia (as the case may be) must issue on the Adjustment Date an Adjustment Note in respect of the Adjustment Amount.
- (f) Despite clause 8.3, the recipient of a Taxable Supply must pay the GST Amount in respect of that supply to the Supplier on the 10th Business Day of the month after the month of receipt of a Tax Invoice or an Adjustment Note (as the case may be) in respect of the Supply.

8.6 Payment of GST on any other supplies

If GST is imposed on any supply (excluding the supply of the Sale Interest) made under or in accordance with this document, the recipient of the taxable supply must pay to the supplier an additional amount equal to the GST payable on or for the taxable supply. Payment of the additional amount is to be made at the same time as payment for the taxable supply is required to be made in accordance with this document.



9 Costs and stamp duty

Each party must bear its own costs arising out of the negotiation, preparation and execution of this document. All stamp duty (including fines, penalties and interest) payable on or in connection with this document, any other Transaction Document and any instrument executed under any of them must be borne by Winpia.

10 Warranties

10.1 Mutual warranties and representations

Each party represents and warrants to the other that, as at the date of this document and as at the Completion Date:

- (a) **(status)** it is a company limited by shares incorporated and existing under the laws of its country of incorporation, and an Insolvency Event does not affect the party;
- (b) **(power)** it has full legal capacity and power to enter into, exercise its rights and perform its obligations under this document;
- (c) **(authorisation)** all conditions and things required by applicable law to be fulfilled or done in order to enable it lawfully to enter into, and exercise its rights and perform its obligations under this document have been fulfilled or done;
- (d) **(obligations binding)** this document constitutes legally binding obligations enforceable against it in accordance with its terms (except to the extent limited by equitable principles and laws affecting creditors' rights generally); and
- (e) **(no breach)** the execution, delivery and performance of this document (and any other documents required to be entered into by it relating to this document) does not:
 - (i) result in a breach of, or constitute a default under, any agreement or arrangement to which it is party or by which it is bound; or
 - (ii) result in a breach of any law or order, judgement, decree or decision of any court or Governmental Agency or regulatory body by which it is bound.

10.2 Vendors Group warranties

Each member of the Vendors Group warrants:

- (a) that the undated waiver deed signed by Kores (Minerva) and Proserpina on or around December 2009 is effective and enforceable against Kores (Minerva); and
- (b) that its right, title and interest in the Minerva Sale Interest will be free from Encumbrances on the Completion Date.



11 General

11.1 Amendments

This document may only be amended by written agreement between all parties.

11.2 Assignment

A party may only assign this document or a right under this document with the written consent of each other party whose consent may not be unreasonably withheld.

11.3 Counterparts

This document may be executed in any number of counterparts. All counterparts together make one instrument.

11.4 No merger

The rights and obligations of the parties under this document do not merge on completion of any transaction contemplated by this document.

11.5 Entire agreement

- (a) This document supersedes all previous agreements about its subject matter and embodies the entire agreement between the parties.
- (b) To the extent permitted by law, any statement, representation or promise made in any negotiation or discussion, has no effect except to the extent expressly set out or incorporated by reference in this document.

11.6 Further assurances

Each party must do all things necessary to give effect to this document and the transactions contemplated by it.

11.7 No waiver

- (a) The failure of a party to require full or partial performance of a provision of this document does not affect the right of that party to require performance subsequently.
- (b) A single or partial exercise of or waiver of the exercise of any right, power or remedy does not preclude any other or further exercise of that or any other right, power or remedy.
- (c) A right under this document may only be waived in writing signed by the party granting the waiver, and is effective only to the extent specifically set out in that waiver.

11.8 Governing law and jurisdiction

- (a) Queensland law governs this document.
- (b) Each party irrevocably submits to the non-exclusive jurisdiction of the Queensland courts and courts competent to hear appeals from those courts.



11.9 Severability

A clause or part of a clause of this document that is illegal or unenforceable may be severed from this document and the remaining clauses or parts of the clause of this document continue in force.

11.10 Notice

- (a) A notice, consent or communication under this document is only effective if it is:
 - (i) in writing, signed by or on behalf of the person giving it;
 - (ii) addressed to the person to whom it is to be given; and
 - (iii) given as follows:
 - (A) delivered by hand to that person’s address;
 - (B) sent by prepaid mail (and by prepaid airmail if the person is overseas) to that person’s address; or
 - (C) sent by fax to that person’s fax number where the sender receives a transmission confirmation report from the despatching machine indicating the transmission has been made without error and showing the relevant number of pages and the correct destination fax number or name of recipient.
- (b) A notice, consent or communication delivered under clause 11.10(a) is given and received:
 - (i) if it is hand delivered or sent by fax:
 - (A) by 5.00pm (local time in the place of receipt) on a Business Day–on that day; or
 - (B) after 5.00pm (local time in the place of receipt) on a Business Day, or at any time on a day that is not a Business Day–on the next Business Day; and
 - (ii) if it is sent by post:
 - (A) within Australia–three Business Days after posting; or
 - (B) to or from a place outside Australia–seven Business Days after posting.
- (c) A person’s address and fax number are those set out below, or as the person notifies the sender:
 - (i) Proserpina Coal Pty Ltd Level 6, 316 Adelaide Street, Brisbane, Queensland 4000;
 - (ii) Felix Resources Limited Level 6, 316 Adelaide Street, Brisbane, Queensland 4000;
 - (iii) Winpia Pty Ltd Level 34, Central Plaza One, 345 Queen Street, Brisbane, Queensland 4000;
 - (iv) Sojitz Coal Resources Pty Ltd
Level 34, Central Plaza One, 345 Queen Street, Brisbane, Queensland 4000.



Schedule 1

Accounting principles (clause 1.1)

1 Summary of significant accounting policies

The management of Minerva Joint Venture have determined that the joint venture is not a reporting entity and accordingly this financial report is a special purpose financial report which has been prepared in accordance with the requirements of the joint venture agreement, and the requirements of the following applicable Australian Accounting Standards.

AASB 1031: Materiality

Whilst the recognition and measurement requirements of the Australian Accounting Standards have been complied with, not all disclosure requirements of the Australian Accounting Standards have been complied with, therefore, no other applicable Accounting Standards, Australian Accounting Interpretations or other authoritative pronouncements of the Australian Accounting Standards Board have been applied.

The report is also prepared on an accrual basis and is based on historical costs and does not take into account changing money values or, except where specifically stated, current valuations of non-current assets. The accounting policies adopted are consistent with those of the previous year unless otherwise stated. Comparative information is reclassified where appropriate to enhance comparability.

The following is a summary of the material accounting policies adopted by the entity in the preparation of the financial report. The accounting policies have been consistently applied unless otherwise stated.

(a) Cash and cash equivalents

For the purpose of the cash flow statement, cash includes:

- i) cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts; and
- ii) investments in short-term money market instruments with maturity periods of less than 3 months.

(b) Loans and receivables

Trade receivables, loans and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Debts which are known to be uncollectible are written off by reducing the carrying amount directly. A provision for impairment is made when there is objective evidence that the full amount is not collectible. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the impairment provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the income statement. When a receivable for which an impairment provision had been recognised becomes uncollectible in a subsequent period, it is written off against the provision account.

(c) Inventories

Coal stocks are stated at the lower of cost and net realisable value. Costs are assigned on a weighted average basis and include direct materials, direct labour and an appropriate proportion of variable and fixed overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(d) Overburden in advance

Overburden in advance comprises the accumulation of expenses incurred to enable access to the coal seam, and includes direct removal costs, machinery and plant running costs.



(e) Property, plant and equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and accumulated impairment losses. The carrying amount of freehold land and buildings and plant and equipment is reviewed to ensure it is not in excess of the recoverable amount from these assets.

Plant and equipment

The depreciable amount of all fixed assets, including buildings and capitalised leased assets, but excluding freehold land, is depreciated on a straight line or declining balance basis to allocate their cost, net of their residual values, over their estimated useful lives to the entity commencing from the time the asset is held ready for use, as follows.

- Buildings 12 years
- Plant and equipment 2.5 to 12 years
- Leased plant and equipment 2.5 to 12 years
- Minerva Mine development Life of mine as follows:

F		G	Life of mine units	H	Remaining life of mine units
I	31 July 2010	J	33,213,012	K	21,706,633
L	31 August 2010	M	33,213,012	N	21,555,633

(f) Intangible assets

Rail access rights

Rail access rights have a finite useful life and are carried at cost less, where applicable, any accumulated amortisation and accumulated impairment losses. The carrying values of rail access rights are reviewed to ensure they are not in excess of their recoverable amounts. The recoverable amount is assessed on the basis described in note 1(h).

Rail access rights are amortised over the life of the mine using a unit of production basis in tonnes as described above for the Minerva mine. Amortisation is charged to the income statement.

(g) Acquisition of assets

All assets acquired, including property, plant and equipment and intangibles other than goodwill are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of consideration provided plus incidental costs directly attributable to the acquisition.

Where settlement of any part of cash consideration is deferred, the amounts payable are recorded at their present value, discounted at the rate applicable to the entity as if a similar borrowing were obtained from an independent financier under comparable terms and conditions. The unwinding of the discount is treated as a finance cost.

(h) Recoverable amount of assets and impairment

At each reporting date, the entity assesses whether there is any indication that an asset may be impaired. Where an indication of impairment exists, the entity makes a formal estimate of recoverable amount. Recoverable amount is the greater of fair value less costs to sell and value in use. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

The amount of the impairment loss is recognised in the income statement. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.



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(i) Interest bearing liabilities

Interest bearing liabilities are initially recorded at fair value, net of transaction costs. Subsequent to initial recognition, interest bearing liabilities are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the income statement over the period of the interest bearing liability using the effective interest rate method.

All interest bearing liabilities are classified as current liabilities unless there is an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

(j) Borrowing costs

Borrowing costs incurred during the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are recognised as an expense when incurred.



(k) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to ownership of the assets, but not the legal ownership, are transferred to the entity, are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the lower of the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual value. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease finance charges for the year.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight line basis over the lease term.

(l) Employee benefits

Annual leave, sick leave and long service leave

Benefits accruing to employees in respect of wages and salaries, annual leave and sick leave are included in trade and other payables. Related on-costs are also included in trade and other payables as other creditors. Long service leave is provided for when it is probable that settlement will be required and it is capable of being measured reliably.

Employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the entity in respect of services provided by employees up to reporting date.

Retirement benefit obligations

Contributions are made by the entity to defined contribution superannuation funds and are charged as expenses when incurred.

(m) Rehabilitation

A provision for rehabilitation is recognised when there is a present obligation to rehabilitate an area disturbed, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. An asset is created as part of the non-current development assets, to the extent that the development relates to future production activities, which is offset by a current and/or non-current provision for rehabilitation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customer.

(o) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

The net amount of GST recoverable from, or payable to the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.



(p) Foreign currency transactions and balances

Items included in the financial statements of the entity are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Australian dollars, which is the entity’s functional and presentation currency.

Foreign currency transactions during the period are translated into the functional currency at rates of exchange applicable at the dates of each transaction. Monetary assets and liabilities denominated in foreign currencies at balance date are converted at rates of exchange ruling at that date.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities, whether realised or unrealised, are recognised in the income statement as they arise except where hedging specific anticipated transactions.

(q) Critical accounting estimates and other accounting judgements

Management evaluates estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the entity.

There have been no judgements, apart from those involving estimation, in applying accounting policies that have a significant effect on the amounts recognised in this financial report.

Following is a summary of the key assumptions concerning the future, and other key sources of estimation at reporting date that have not been disclosed elsewhere in this financial report.

Impairment

The entity assesses impairment at each reporting date by evaluating conditions specific to the entity that may lead to an impairment. Where an indicator of impairment exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

No impairment has been recognised in respect of mine development assets or rail access rights for the reporting period.

Amortisation

The amortisation of mine development assets and rail access rights, and the expensing of overburden removal costs is based on saleable coal production over estimated economically recoverable reserves. Note 1(e) provides further information regarding economically recoverable reserves. The amount of reserves that may actually be mined in the future and the entity’s estimate of reserves from time to time in the future may vary from current reserve estimates.

(r) Comparative figures

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(s) Going concern

The financial report has been prepared on the basis of going concern. The managers have prepared the financial report on a going concern basis as they believe the Joint Venture participants of the Minerva Joint Venture will continue to provide financial support.



Schedule 2

Adjustment Amount (clause 1.1)

1 Effective Date Adjustment Amount

1.1 The Effective Date Adjustment Amount will be calculated in accordance with the following formula:

$$M = (C - I) \times 51\%$$

where:

M is the Effective Date Adjustment Amount.

C is the value of the Effective Date Net Assets less the Felix Coal Sales trade debtors control account and the trade debtors revaluation account balances of \$18,087,354 [appearing in the Felix Coal Sales Pty Ltd accounts at the Effective Date?].

I is the value of the Preliminary Net Assets.

1.2 The Effective Date Adjustment Amount may be negative.

1.3 The Effective Date Adjustment Amount must include an amount in favour of Proserpina equal to 51% of all capital expenditure and working capital expenditure for the Minerva Joint Venture between the date of the Preliminary Balance Sheet and the Effective Date, determined in accordance with the calculation of the capital expenditure and working capital expenditure in the Preliminary Balance Sheet.⁵

1.4 The example calculation is included in Schedule 8. If there is any inconsistency between the methodology supporting the calculation in Schedule 8 and any other provision of this document, then the methodology of Schedule 8 is intended to prevail to the extent of that inconsistency.

2 Completion Adjustment Amount

2.1 The Completion Adjustment Amount will be, in relation to the Minerva Joint Venture (**Joint Venture**):

- (a) 51% of cash calls of the Joint Venture between the Effective Date and the Completion Date; less
- (b) 51% of receipts (excluding income from Coal sales prior to 1 September 2010) of the Joint Venture between the Effective Date and the Completion Date; plus
- (c) 51% of any reduction of cash balances that are Excluded Assets in the Minerva Joint Venture (including of Felix Coal Sales Pty Ltd) between the Effective Date and the Completion Date; less



- (d) 51% of any increase of cash balances that are Excluded Assets in the Minerva Joint Venture (including of Felix Coal Sales Pty Ltd) between the Effective Date and the Completion Date.
- 2.2 The Completion Adjustment Amount may be negative.
- 2.3 The Completion Adjustment Amount effectively includes an amount in favour of Proserpina equal to 51% of all capital expenditure, working capital expenditure and any other cash calls or other joint venture expenditure for the Minerva Joint Venture between the Effective Date and the Completion Date, and an amount in favour of Winpia for 51% of the income of the Minerva Joint Venture between the Effective Date and the Completion Date determined in accordance with the calculation of the capital expenditure, working capital expenditure, other expenditure and income in the Preliminary Balance Sheet.⁶



Schedule 3

Preliminary balance sheet 31 July 2010 (clause 1.1)



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Schedule 4

Excluded assets (clause 1.1)

- 1 Any future income tax benefits to which Proserpina is entitled.
- 2 Any rights of Proserpina under or in connection with this document or any agreement or instrument executed in connection with this document or delivered pursuant to this document.
- 3 Cash deposits held by or on behalf of Proserpina with banks and other financial institutions or on hand (other than deposits in accounts designated 'Current Account – CBA', or 'USD Account – CBA' in Schedule 7.
- 4 Insurance policies, and claims made under insurance policies in respect of events occurring prior to the Effective Date where provision for such claim is not included in the Preliminary Balance Sheet.



Schedule 5

Allocation of Purchase Price (clause 3.3)

Assets and Liabilities per Effective Date Balance Sheet for the Minerva Joint Venture

Inventory (Note 2)	Market value at Effective Date
Plant & Equipment	Tax Written Down Value at Effective Date
Other Assets (other than Excluded Assets) – see note 2 Sheet	Balance per Effective Date Balance
Assumed Liabilities – see note 2 Sheet	Balance per Effective Date Balance

Other Joint Venture Assets

Mining Information and Sublease of the Tenement (adjusted per Note 1 below)

Minerva Coal Pty Ltd

Minerva Coal Shares	\$1
Assumed Liabilities	\$Balance per Effective Date Balance Sheet

Note 1: The balance of the Purchase Price, if any, will increase or reduce the allocation to the Sublease of the Tenement.

Note 2: No amount is to be allocated to the accounting assets of “Development Costs” “other intangible assets” and its related amortisation, nor the corresponding accounting liability, and “Overburden in advance” on the basis that the value of these is reflected in the sublease of the tenement or Mining Information.

Further no amount is to be allocated to the accounting assets of “Patents trademarks and other rights” and its accumulated amortisation or to leased plant and equipment, nor is the corresponding accounting liabilities to be taken into account in calculating the amount to be allocated.



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Schedule 6

Performance bonds (clause 1.1)

<u>Bond in favour of</u>	<u>External number</u>	<u>Amount of Bond</u>
Gladstone Ports Corporation Ltd	G321688	\$ 106,914.46
Gladstone Ports Corporation Ltd	G339403	\$ 23,000.60
Gladstone Ports Corporation Ltd	G328502	\$ 23,422.28
Gladstone Ports Corporation Ltd	G347471	\$ 42,934.46
State of Queensland - Department of Mines and Energy	G337254	\$1,178,143.35
Ergon Energy Corporation Ltd	G222634	\$ 100,000

Minerva joint venture interest sale agreement 34



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YANZHOU COAL MINING
FORM 20-F

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Schedule 7

Effective Date Balance Sheet (clause 1.1)



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Schedule 8

Example calculations (Schedule 2)

Effective Date Adjustment Amount (Schedule 2)

Minerva joint venture interest sale agreement 36



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Execution

EXECUTED as an agreement

Executed by
Proserpina Coal Pty Ltd ACN 110 316 553
on / /20 by:

▲ _____
Director

▲ _____
Full name of Director

Executed by
Felix Resources Limited ACN 000 754 174
on / /20 by:

▲ _____
Director

▲ _____
Full name of Director

Executed by
Winpia Pty Ltd ACN 099 442 556
on / /20 by:

▲ _____
Director

▲ _____
Full name of Director

▲ _____
Director/Secretary

▲ _____
Full name of Director/Secretary

▲ _____
Director/Secretary

▲ _____
Full name of Director/Secretary

▲ _____
Director/Secretary

▲ _____
Full name of Director/Secretary



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Executed by
Sojitz Coal Resources Pty Ltd ACN 063 050 680
on / /20 by:

▲ _____
Director

▲ _____
Full name of Director

▲ _____
Director/Secretary

▲ _____
Full name of Director/Secretary



Annexure A

Access Arrangements (clause 5.4(a))

Access arrangements

Athena and Minerva joint ventures regarding the development and operation of an underground mine or mines within the Athena joint venture's tenements

1 Winpia/Sojitz and Felix/Athena Coal agree, subject to any consent required from Kronos, to allow the Athena joint venture to access and use the Minerva joint venture assets in connection with the development and operation of an underground mine or mines within the Athena joint venture's tenements (**Athena Tenements**) upon the terms set out in this document.

2 The Minerva joint venture agrees to:

Access to Minerva land for Athena exploration activities

- (a) waive the requirement for the Athena joint venture to give to the Minerva joint venture entry notices under the *Mineral Resources Act 1989* (Qld) (**MRA**) in respect of the entry by the Athena joint venture for exploration purposes onto land owned by the Minerva joint venture which underlies the Athena Tenements (**Overlap Land**). The Athena joint venture must:
 - (i) ensure that the Minerva joint venture has reasonable prior notice in writing of any proposed entry onto the Overlap Land on behalf of the Athena Joint Venture. That notice must include a summary of the activities proposed to be carried out and the expected duration of the activities; and
 - (ii) exercise all reasonable courtesies towards those carrying out farming activities on the land including providing reasonable notice of any proposed activities on the land.
- (b) consent to the Athena Joint venture entering onto any part of the Overlap Land, including any parts of that land which are 'restricted land' for the purposes of the MRA. The Athena joint venture must comply with its obligations under the *Coal Mining Safety and Health Act 1999* (Qld) and Regulations and any other applicable legislation when upon the Overlap Land;
- (c) enter into conduct and compensation agreements or deferral agreements at the request of the Athena joint venture upon reasonable terms which provide for nil compensation other than an obligation on the Athena joint venture to rehabilitate the land and repair any infrastructure on the land to the extent required by law as a consequence of the exploration activities of the Athena joint venture;

Application for and grant of mining lease

- (d) not object to any mining lease application made by the Athena joint venture in respect of all or any part of the area of the Athena Tenements;



- (e) consent to the Athena joint venture applying for and obtaining the grant of a mining lease over any parts of the Overlap Land which are 'restricted land' for the purposes of the MRA;
- (f) at the election of the Athena joint venture either:
 - (i) enter into a mining compensation agreement upon reasonable terms for both the original grant, and any renewals, of any mining lease over all or any part of the Overlap Land and which provides for nil compensation other than holding costs (including council rates, land tax, upkeep of fencing and gates and weed control) and an obligation on the Athena joint venture to rehabilitate the land to the extent required by law as a consequence of the mining activities of the Athena joint venture; or
 - (ii) subdivide and sell to the Athena joint venture the Overlap Land for a price agreed by the parties or, failing agreement, at fair market value as determined by an independent valuer appointed by the Athena joint venture and approved by the Minerva joint venture (such approval not to be unreasonably withheld);

Highwall and void

- (g) allow the Athena joint venture to gain access to the Athena joint venture's underground mine or mines via a highwall and void of the Minerva mine in accordance with an access and interface agreement to be agreed between the parties, acting in good faith and using all reasonable endeavours to procure an agreement between the parties provided that:
 - (i) the access by the Athena joint venture must not unreasonably interfere with the operations of the Minerva joint venture; and
 - (ii) the Athena joint venture must compensate the Minerva joint venture for any increase in the costs of carrying out the operations of the Minerva joint venture which is caused by the access of the Athena joint venture via a highwall and void of the Minerva mine,it being the intention of the parties that the access arrangements should not adversely impact in any material way the operations of the Minerva joint venture;
- (h) within six months before intending to permanently cease the mining of coal from the Minerva joint venture area notify in writing the Athena joint venture of that intention to permanently cease mining of coal (**Closure Notice**);
- (i) upon the completion of mining by the Minerva joint venture:
 - (i) subject to (i)(ii) below, the Minerva joint venture must, at its cost, rehabilitate the Minerva joint venture area as required by law and in accordance with the terms of the Minerva mining leases and environmental authorities but not so as to unreasonably interfere with the operations of the Athena joint venture;
 - (ii) the Minerva joint venture will, in return for the Athena joint venture agreeing to pay the costs referred to in (j) and (k) below, leave in place any Surface Infrastructure (as defined in (j) below) used by the Athena joint venture for a period not exceeding 12 months from the Closure Notice; and
 - (iii) prior to the Minerva joint venture surrendering all or any part of the Minerva mining leases, the Minerva joint venture must, if requested by the Athena joint venture, transfer any such area to the Athena joint venture for nil cost.



Surface infrastructure

(j) subject to 2(i)(ii) above, provide a licence to access and use relevant surface infrastructure of the Minerva joint venture, including:

- (i) all access roads;
- (ii) all rail loading facilities and the stockpile area at the rail loading facilities; and
- (iii) the rail loop,

(Surface Infrastructure) provided these access arrangements do not unreasonably interfere with the Minerva Joint Venture’s own activities (it being the intention of the parties that these access arrangements should not adversely impact in any material way the Minerva joint venture’s own activities). The Minerva joint venture and the Athena joint venture must, in due course, act in good faith and use all reasonable endeavours to agree in more detail the operational arrangements for the access to and use of the Surface Infrastructure by the Athena joint venture. To the extent that the Minerva joint venture is still using the Surface Infrastructure, the Minerva joint venture and the Athena joint venture will share all ongoing operation and maintenance costs on a tonnage utilised basis. To the extent that the Athena joint venture is the sole user, then the Athena joint venture would bear 100% of the ongoing operation and maintenance costs.

(k) allow the Athena joint venture to modify, at their own cost, the Surface Infrastructure where necessary to accommodate the requirements of the Athena joint venture, provided that the modifications will not unreasonably interfere with the Minerva joint venture’s own activities (it being the intention of the parties that these modifications should not adversely impact in any material way the Minerva joint venture’s own activities);

Disputeresolution

3 Clause 12 of the Minerva Joint Venture Agreement will apply to any disputes in relation to these access arrangements and any documentation related to such access arrangements.

Reciprocal rights to surface infrastructure

- 4 If:
- (a) either the Minerva joint venture or the Athena joint venture develops new surface infrastructure on or in the vicinity of the Athena Tenements or the Minerva joint venture area (such as new or upgraded access roads, rail loading facilities, stockpile areas or CHPP facilities and associated crushing and conveying systems); and
 - (b) the joint venture that develops the new surface infrastructure is notified by the other joint venture that they wish to have access to that new surface infrastructure,

then the parties must negotiate in good faith, and use all reasonable endeavours, to agree commercial terms upon which such access will be provided, which terms may include, without limitation, a capital or access charge and an ongoing operation and maintenance charge.



Option to purchase

- 5 Upon receipt of the Closure Notice referred to in clause 2(i) above the Athena joint venture will have an option, exercisable within six months of receipt of that notice, to purchase:
- (a) the Surface Infrastructure and all of the land and the mining tenements (including the mining lease which is subleased to the Minerva joint venture) of the Minerva joint venture; and
 - (b) at the election of the Athena joint venture, the rail and/or port access held by the Minerva joint venture,
- for:
- (c) an amount equal to:
 - (i) the market value of the land; and
 - (ii) if the Athena joint venture elects to purchase the rail and/or port access held by the Minerva joint venture, the market value of the rail and/or port access that the Athena joint venture has elected to purchase, (with the market value in each case to be agreed by the parties or, failing agreement, to be the fair market value as determined by an independent valuer appointed by the Athena joint venture and approved by the Minerva joint venture (such approval not to be unreasonably withheld); and
 - (d) the assumption of all final rehabilitation obligations including the final reclamation obligations, provided that the Minerva joint venture will be responsible for, and must ensure that it has completed, all rehabilitation obligations required to be undertaken by the time the option has been exercised, including all reclamation obligations, in accordance with the plan of operations, relevant environmental authority, the Environmental Protection Act 1994 (Qld) and Mineral Resources Act 1989 (Qld) and good mining industry practice for progressive rehabilitation (except where such rehabilitation and reclamation would unreasonably interfere with the operations of the Athena joint venture).
- 6 The option to purchase in paragraph 5 is subject to any necessary third party consents and all parties must use best endeavours to obtain those consents.
- 7 Where this option is exercised, the other rights and obligations set out in this agreement will cease.



EXHIBIT 4.3

YANKUANG GROUP FINANCIAL COMPANY
and
YANZHOU COAL MINING COMPANY LIMITED

FINANCIAL SERVICES AGREEMENT

JANUARY 7, 2011



This agreement is entered into by the following parties on January 7, 2011 in Zoucheng City, Shandong Province:

Yankuang Group Financial Company (hereinafter referred to as “**Party A**”) is a company established and validly existing under the laws of the People’s Republic of China (hereinafter referred to as “**PRC**”) with limited liability. Business License Registration Number: 370000000002238. Address: 329 Fushan South Road, Zoucheng City, Shandong Province. Legal representative: Chen Changchun.

Yanzhou Coal Mining Company Limited (hereinafter referred to as “**Party B**”) is a joint stock limited company established and validly existing under the laws of the PRC. Business License Registration Number: 370000400001016. Address: 298 Fushan South Road, Zoucheng City, Shandong Province. Legal representative: Wang Xin.

Whereas:

1. Party A is a non-banking financial institution duly established with the approval of the China Banking Regulatory Commission (hereinafter referred to as “**CBRC**”) and is a professional institution engaged in corporate financial services. According to the laws and regulations in relation to corporate finance company, it provides financial services to the controlling shareholder of Party A, namely Yankuang Group Co., Ltd. (“**Yankuang Group**”), and its subsidiary companies.
2. The shares publicly issued by Party B are listed on the Shanghai Stock Exchange, Hong Kong Stock Exchange and New York Stock Exchange, respectively. In view of the fact that the controlling shareholder of both Party A and Party B is Yankuang Group, according to the domestic and overseas regulatory requirements in relation to Party B, the businesses between Party A and Party B and its subsidiary companies (collectively referred to as “**Party B**”) constitute continuing daily connected transactions.
3. Party B agrees to choose Party A as one of the financial institutions providing financial services to it.

Based on the principles of fairness and reasonableness and mutual benefit, Party A and Party B reached the following agreement by consensus after consultation in respect of Party A’s provision of financial services to Party B:

ARTICLE 1 SERVICE PRINCIPLES



- 1.1 Party A and Party B shall cooperate and perform this agreement based on the principles of equality and voluntariness, complementarity, mutual benefit, common development and co-winning partnership.
- 1.2 Party B has the right to choose the financial institution for financial services and decide the financial institution for deposit services and loan services as well as the amounts with reference to its own business needs.
- 1.3 Party A regards Party B as its important customer and undertakes that the terms for the provision of financial services to Party B at any time shall be no less favorable than the same type of financial services provided by the Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China and China Construction Bank (hereinafter referred to as "Major Commercial Banks in the PRC").

ARTICLE 2 SERVICE CONTENTS

Party A shall provide the following financial services to Party B:

1. Deposit service: the maximum daily balance (including accrued interests) of Party B on the settlement account in Party A shall not exceed RMB1.4 billion.
2. Loan service:
 - (1) Party A shall provide a credit facility limit of RMB1 billion (including accrued interests) to Party B;
 - (2) Party A shall provide discounted note services to Party B and the annual charge for discounted note shall not exceed RMB20.94 million.
3. Settlement service: Party B opens a settlement account in Party A, and Party A will provide payment and receipt services as well as other ancillary services related to settlement services to Party B.
4. Entrusted loans and entrusted investment services: Party A can provide entrusted loans and entrusted investment services in accordance with Party B's entrustment (the provision of such services is subject to completion of the relevant approval procedures in relation to connected transactions).
5. Security service: Party A can provide guarantee for Party B's financing, and tender and auction activities to the extent permitted by the relevant financial regulatory regulations.
6. Bill acceptance services, financial and financing consultation, credit certification and relevant consultation and agency services.



7. Other businesses approved by CBRC.

8. Total fees for the aforesaid discounted note services and other financial services such as settlement services: the annual cap is RMB28.54 million.

ARTICLE 3 SERVICE PRICING

- 3.1 Deposit services: the interest rate for the deposit of Party B with Party A shall not be lower than the interest rate for the same kind of deposit announced by the People's Bank of China for the same period, shall not be lower than the interest rate for the same kind of deposit offered by the Major Commercial Banks in the PRC for the same period and not lower than the interest rate for the same kind of deposit made by other group members of Yankuang Group in Party A for the same period.
- 3.2 Loan services:
 - (1) the interest rate for the loan to be provided by Party A to Party B shall not exceed the interest rate for the same class of loan provided by the Major Commercial Banks in the PRC to Party B for the same period. Party A shall provide the loan to Party B on normal commercial terms and no security is to be granted by Party B over its assets.
 - (2) the interest rate for the discounted note to be provided by Party A to Party B shall not exceed the discounted interest rate offered by the Major Commercial Banks in the PRC.
- 3.3 The fees charged by Party A for the provision of financial services including settlement services, entrusted loans, entrusted investment, security service, bill acceptance, financial and financing consultation, credit certification and relevant consultation and agency services to Party B shall be in accordance with the relevant benchmark rates determined by the People's Bank of China or CBRC (if any). In addition, such fees shall not exceed those charged by the Major Commercial Banks in the PRC for provision of same kind of financial services to Party B.

ARTICLE 4 REPRESENTATION AND WARRANTY BY BOTH PARTIES

4.1 Party A's representations and warranties:



- 4.1.1 Party A is a non-banking financial institution legally established to provide professional corporate financial services. It has independent legal personality and currently holds a valid Business License and Financial License.
- 4.1.2 Party A has obtain all government approvals and internal authorizations for the signing of this agreement and performance of the obligations hereunder. This agreement will be binding on Party A upon its execution.
- 4.1.3 Party A will ensure the stable operation of its fund management system to safeguard the funds.
- 4.1.4 Party A will ensure that it is in strict compliance with the risk monitoring indicators for financial institutions issued by CBRC and that its major regulatory indicators such as gearing ratio and liquidity ratio will also comply with the requirements of CBRC and other relevant PRC laws, regulations and regulatory documents.
- 4.1.5 Party A shall not make investment with Party B's deposits (other than purchasing government bonds).
- 4.1.6 Copies of the regulatory reports that Party A submits to CBRC and other relevant regulatory authorities will be provided to Party B at the same time.
- 4.1.7 Financial statements of Party A for each month will be provided to Party B within ten working days of the following month.
- 4.1.8 Party B has the right to review and obtain the relevant documents such as account books, financial statements and audit reports of Party A as stipulated under the Company Law and Articles of Association.
- 4.1.9 Party B shall be notified immediately by Party A on the occurrence of circumstances that may cause harms to the security of Party B's deposits or on the occurrence of any other circumstances that may jeopardize the security of Party B's deposits. Party B has the right to withdraw all deposits.
- 4.2 Party B's representations and warranties:
 - 4.2.1 Party B is a joint stock limited company legally established with independent legal personality which currently holds a valid Business License.



4.2.2 Party B has obtain all necessary internal authorizations for the signing of this agreement and performance of the obligations hereunder. This agreement will be binding on Party B upon its execution.

ARTICLE 5 CONFIDENTIALITY

Both Party A and Party B shall strictly perform their obligation of confidentiality and shall not disclose to others any related business information, technical records and financial situation (other than the reports required to be submitted to the relevant government authorities by the parties and those required to be disclosed by Party B according to the listing rules of the listing place for its securities) unless such information has already been made public previously.

ARTICLE 6 MISCELLANEOUS

- 6.1 A party shall not in any way transfer its rights or obligations hereunder without written consent from the other party.
- 6.2 The modification, illegality, invalidity or unenforceability of any terms of this agreement shall not at any time affect the other terms hereof.
- 6.3 In the event of a party's failure to perform its obligations under this agreement as provided herein due to *force majeure*, sufficient proof and a written notice thereon shall be promptly provided by such party to the other party, in that case, the party shall not be deemed in breach of the agreement. Meanwhile, the other party shall agree to allow a reasonable period of time to perform the relevant duties and obligations as the case may require.
- 6.4 Any modification or supplement to this agreement shall be made in written agreement. Modifications or supplements to this agreement are integral parts hereof and shall have the same effects with this agreement.
- 6.5 Unless as otherwise provided, non-exercise or late exercise by a party of its rights under this agreement shall not constitute a waiver of such rights whereas any single or partial exercise of the relevant rights shall not preclude the exercise of any other rights.

ARTICLE 7 NOTIFICATION



- 7.1 Pursuant to this agreement, any notice or other documents sent by a party to the other party shall be given in written letter and delivered by hand, by mail or by fax to the other party's address as follows:
- (a) Party A: Yankuang Group Financial Company
Address: 329 Fushan South Road, Zoucheng City, Shandong Province
Telephone: 0537-5393707
Facsimile: 0537-5384480
 - (b) Party B: Yanzhou Coal Mining Company Limited
Address: 298 Fushan South Road, Zoucheng City, Shandong Province
Telephone: 0537-5385343
Facsimile: 0537-5383311
- 7.2 Time of delivery of notice or other documents:
- (a) Delivery by hand: time of delivery of the written letter.
 - (b) By mail: five working days after posted by mail (excluding Saturday, Sunday and PRC public holidays).
 - (c) By fax: time of receipt of the fax. If received outside normal business hours, the time of delivery shall be the normal business hours of the following day (excluding Saturday, Sunday and PRC public holidays), and the sender of the fax shall proof complete delivery thereof by making available of the confirmation of transmission report printed out from the sender's fax machine.

ARTICLE 8 APPLICABLE LAW AND JURISDICTION

This agreement shall be governed by and construed in accordance with the laws of the PRC. If any disputes arising from or related to this agreement are unable to be resolved through friendly consultations, any party may submit such disputes for arbitration in Jining City before the Jining Arbitration Commission of Shandong in accordance with the commission's prevailing arbitration rules at the time when application for arbitration is handed in. The arbitral award is final and binding on both parties.

ARTICLE 9 TERM OF THE AGREEMENT



- 9.1 Upon fulfilment of Party B's internal approval procedures, this agreement shall be effective from the date of signing by both parties' legal representatives or authorized representatives until December 31, 2011. During the term of this agreement, a 30 days' prior written notice shall be given to the other party on a party's request to modify or terminate this agreement, which modification or termination may take effect only after agreement by both parties through consultations.
- 9.2 In case of a material breach of any terms of this agreement by any party (the "Breaching Party") and while a written notice is given by the other party notifying the same and requesting the Breaching Party to take remedial measures within a reasonable period of time as specified therein, the Breaching Party is unable to cure the breach within the abovementioned period, the other party may then terminate this agreement with immediate effect; if the Breaching Party's breach is incurable, the other party may terminate this agreement with immediate effect.
- 9.3 Termination of this agreement shall not infringe any existing rights or obligations of any party.

ARTICLE SUPPLEMENTARY PROVISIONS

- 10.1 This agreement is written in Chinese.
- 10.2 This agreement is executed in four counterparts, each of Party A and Party B will hold two counterparts. All counterparts of this agreement shall have the same effect.



(NO TEXT BELOW. THIS IS THE SIGNING AND SEALING PAGE FOR THE FINANCIAL SERVICES AGREEMENT BETWEEN YANKUANG GROUP FINANCIAL COMPANY AND YANZHOU COAL MINING COMPANY LIMITED)

Party A: Yankuang Group Financial Company

Legal representative or authorized representative (Signature):

Party B: Yanzhou Coal Mining Company Limited

Legal representative or authorized representative (Signature):



EXHIBIT 4.4

No.: (Meng) CP2010-01-001K

Deal Conclusion Letter

Entrusting Unit: Ministry of Land and Resources of the People's Republic of China

Entrusted Unit: Department of Land and Resources of the Inner Mongolia Autonomous Region



The Department of Land and Resources of the Inner Mongolia Autonomous Region was entrusted by the Ministry of Land and Resources of the PRC to conduct the public auction of the mining rights of Zhuan Longwan coal mine field at Dongsheng Coal Field in Hohhot City. Pursuant to the provisions under the relevant laws and regulations of the State and the Autonomous Region, the entrusted transferor and the successful bidder entered into the deal conclusion letter as follows:

1. The parties concerned:

Entrusted transferor: The Department of Land and Resources of the Inner Mongolia Autonomous Region

Address: 11 2nd Ring Road South, Hohhot City

Successful bidder: Yanzhou Coal Ordos Neng Hua Company Limited

Address: Xiwei 7th Road, Kangbashi New District, Ordos City

2. Auction end date: January 28, 2011

3. Auction location: Room 230, 2nd floor of the west side of Complex Building (New Campus), Party School of Inner Mongolia Autonomous Region in Saihan District, Hohhot City

4. Consideration:

Consideration (auction deal price) of Zhuan Longwan coal mine field at Dongsheng Coal Field is SEVEN BILLION EIGHT HUNDRED MILLION YUAN OF RENMINBI (RMB7,800,000,000).

5. Summary of the mining rights deal

Name: Mining rights of Zhuan Longwan coal mine field at Dongsheng Coal Field

Mining area: 43.50 km² (a list of cartesian coordinates of inflection point is attached hereto)

Basic facts of the mining area:

Zhuan Longwan coal mine field is located at Dongsheng Coal Field in Ejin Horo Banner, Ordos City, Inner Mongolia Autonomous Region where the traffic is convenient with the Bao (Baotou) - Shen (Shenmu) Railway passing through at the west side and the Huo (Huocangou) - Hai (Hailesihao) Railway running across the middle of the coal field, adjacent to the proposed Ba (Batuta) - Zhun (Zhunger'er) Railway at the south.

The coal mine field is located at the middle of Dongsheng Coal Field. Its geological structure is simple with the lower to middle Jurassic in the Yan'an Formation (J₁₋₂) being the major coal-bearing strata, general tendency for formation is W - SWW, angle of dip is 1 - 2°. It has 8-29 coal-bearing layers with



an accumulated thickness of 12.78 – 36.80m and average thickness of 15.63m; coal burial depth is 91.10 – 345.12m and coal-bearing coefficient is 7.7%. It bears 3 -17 layers of recoverable coal seams, of which 4 are main coal seams and 6 are secondary coal seams. The local coal seams comprise of non-stick coals with low to super low-ash, low to super low-sulfur, low to super low-phosphorus and medium to high-calorific value (BN31) and with a coal (on dry basis) - calorific value of 25.70 – 27.77MJ/kg at the recoverable coal seams. All being very-easy-to-wash coals as assessed according to the ± 0.1 content reference method for washability level. Mining-technical condition in the deposit falls into Second Class-Type Four, being low gas mine with explosive coal dust and spontaneous combustion coal seam.

The exploration type in the coal field is First Class-Type Two. Details of the assessment and reporting of approved resource reserves are listed in the following table.

Prospecting level	Coal type	Standard height of coal-forming (m)	Resource reserve type (Ref No)	Retained resource reserve ('0,000 tonnes)		Mine area (km ²)
				Resource reserve	Resource reserve overlaid under the Huo-Hai Railway	
Exploration	Non-stick coal	1238-956	(331)	18329	411	43.50
			(332)	8661	324	
			(333)	27811	1035	
			Total	54801	1770	

6. Payment of consideration

The successful bidder shall pay the consideration in three installments in the proportion of 4:3:3, details of which are as follows: the first installment of THREE BILLION TEN HUNDRED TWENTY MILLION YUAN OF RENMINBI (RMB3,120,000,000) shall be paid in full before 17:00 on February 27, 2011; the second installment of TWO BILLION THREE HUNDRED FORTY MILLION YUAN OF RENMINBI (RMB2,340,000,000) shall be paid in full before 17:00 on November 30, 2011; the third installment of TWO BILLION THREE HUNDRED FORTY MILLION YUAN OF RENMINBI (RMB2,340,000,000) shall be paid in full before 17:00 on November 30, 2012. A fund dispossession surcharge shall also be paid as provided.

7. Payment of trading service charge: as stipulated under the Reply of the Development and Reform Commission of Inner Mongolia Autonomous Region on Trading Service Charge of the Department of Land and Resources of the Inner Mongolia Autonomous Region (Nei Fa Gai Fei Zi [2008] No.2160), the successful bidder shall pay a trading service charge amounting to SEVENTY EIGHT MILLION SIX HUNDRED AND FIFTY FIVE THOUSAND YUAN OF RENMINBI (RMB78,655,000) to the Mining Rights Trading Service Center of the Inner Mongolia Autonomous Region (内蒙古自治区矿业权交易服务中心) before 17:00 on February 28, 2011.

8. In respect of the development of Zhuan Longwan coal mine field at Dongsheng Coal Field, the



successful bidder shall develop and utilize the coal resources in a legal and reasonable manner and perform the obligations of environmental protection and restoration of mine area in accordance with the provisions of the relevant laws and regulations and requirements of the State and the Autonomous Region.

9. Upon its payment of the consideration and trading service charge as provided after the signing of the Deal Conclusion Letter, the successful bidder shall prepare application materials for the registration of mining rights according to Procedures for Administration of Registration of Mining of Mineral Resources as well as the relevant provisions of the State and the Autonomous Region and carry out the procedures for designated mining areas and mining registration with the Department of Land and Resources according to law.

10. Miscellaneous

- (I) Investigation and verification have been carried out against the coal resources overlaid under the Huo (Huocangou) – Hai (Hailesihao) Railway running across the middle of the mining area concerned. No mining action shall be taken against such coal resources as the security coal piles overlaid under the railway.
- (II) No estimation has ever been made for the resource reserves overlaid under the villages and scattered residential areas and other general transmission lines distributed across the mining area concerned as well as the living timberline (110kv) high voltage transmission lines across the north of the mine field, therefore sufficient consideration shall be given during the design and exploitation of the mines. Project conservation, relocations and other related issues shall be resolved through consultation between the successful bidder and the stakeholders.
- (III) As the range of the mining rights hereunder is overlapped with that of the oil and gas exploration rights of PetroChina Company Limited (certificate no.: 02000008304527), the company has agreed to set the mining rights and the successful bidder shall sign operating agreements with the company on the non-interference and guaranteeing safety in production.
- (IV) It may not be necessary for the successful bidder to undertake coal resources conversion project auxiliary to the mining rights so obtained.
- (V) The Development and Reform Commission of Inner Mongolia Autonomous Region will make priority declaration for the successful bidder in respect of the verification materials of the coal development project located in Zhuan Longwan coal mine field at Dongsheng Coal Field and it has included the coal mine field into its “Twelfth Five Year” plan of coal development of the autonomous region.

11. Liability for breach of contract

The successful bidder shall be deemed in breach of contract if any of the following situations occur. In that case, the entrusted transferor shall have the rights to terminate the Deal Conclusion Letter and cancel all the procedures related thereto handled by the relevant authorities, meanwhile, no refund will be made in respect of any deposits, trade service charge and considerations already paid by the successful bidder. The breaching successful bidder shall not participate in the transfer activity of these mining rights hereafter.



- (I) Failure to pay the consideration and trade service charge in the time and amount as prescribed under this Deal Conclusion Letter;
- (II) Any illegal or irregularities being reported and substantiated after investigation during the period of the public notice.
- 12. Any dispute occurred in relation to the execution of this Deal Conclusion Letter shall be resolved through consultations between the parties; failing which the parties may institute proceedings in the People's Court.
- 13. This Deal Conclusion Letter is executed in eight counterparts all giving the same legal effects and each of the entrusted transferor and the successful bidder shall hold four counterparts hereof.

Entrusted transferor (signature and seal)

Successful bidder (transferee) (signature and seal)

Legal representative: _____

Legal representative: _____

Entrusted agent: _____

Entrusted agent: _____

January 28, 2011

January 28, 2011

List of Coordinates of Inflection Point of Zhuan Longwan Coal Mine Field at Dongsheng Coal Field

No.	Xi'an Geodetic Coordinate System 1980	
	X	Y
1	4382618.77	37424516.82
2	4382281.62	37423802.98
3	4381952.40	37423369.70
4	4381672.16	37423240.00
5	4381187.66	37423332.52
6	4380489.78	37422506.83
7	4379407.03	37421879.46
8	4379128.19	37421566.53
9	4378919.94	37421157.38
10	4379139.67	37420984.45
11	4378727.67	37420774.45
12	4378310.46	37419927.89
13	4376085.42	37417528.43
14	4375732.71	37417560.30
15	4376065.75	37417176.87
16	4377252.62	37416886.70
17	4378139.28	37416826.24
18	4379288.26	37416117.25



200F6ByNrJi0oWmQ

19	4379575.43	37416111.48
20	4380032.93	37416305.54
21	4380778.09	37416258.23
22	4381443.48	37416589.17
23	4381929.64	37416453.50
24	4384060.07	37418959.15
25	4385048.09	37420172.00
26	4385881.86	37421021.13
27	4386488.37	37421557.33



EXHIBIT 4.5

Execution version

White Mining (NSW) Pty Limited
Austral-Asia Coal Holdings Pty Ltd
Yancoal Australia Limited

Ashton Coal Joint Venture
Sale Deed

5739652/1

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Date: / FEBRUARY 2011

Parties

White Mining (NSW) Pty Limited ACN 089 414 595 of Level 6, 316 Adelaide Street, Brisbane Queensland (**Buyer**)

Austral-Asia Coal Holdings Pty Ltd ACN 113 038 663 of Level 2, Citibank House, 37 St Georges Terrace, Perth Western Australia (**Seller**)

Yancoal Australia Limited ACN 111 859 119 of Level 11, 68 York Street, Sydney New South Wales (**Guarantor**)

Background

- A The Ashton Coal Project is owned and operated by the Ashton Joint Venture, an unincorporated joint venture established pursuant to the Ashton JVA.
- B The current participation interests in the Ashton Joint Venture are as follows:
 - (a) Buyer 60%
 - (b) Seller 30%
 - (c) ICRA 10%
- C In accordance with the rights granted to the Seller under the Ashton JVA and in accordance with the terms of the Ashton JVA the Seller has required that the Buyer purchase the Sale Interest on the terms of this document pursuant to the exercise by the Seller of its tag-along right arising from a change in control of the Buyer under clause 11.4 of the Ashton JVA.
- D This agreement between the Buyer and Seller is a direct consequence of the rights and obligations contained in the Ashton JVA.
- E The Guarantor is the Australian ultimate holding company of the Buyer and has agreed to guarantee the performance of the obligations of the Buyer under this document.

Agreed terms

1 Interpretation

1.1 Definitions

In this document:

Act means the *Mining Act 1992* (NSW).



Accounting Principles means the accounting principles set out in **Schedule 2**.

ACM means Ashton Coal Mines Limited ACN 096 238 603 of Level 6, 316 Adelaide Street, Brisbane, QLD 4000.

ACM Shareholders Agreement means the shareholders agreement between ICRA, WML and ACM dated 4 April 2003, as acceded to by the Buyer pursuant to a Deed of Accession dated 6 November 2003, amended by a Deed of Amendment between WML, ACM and ICRA dated 23 March 2005, acceded to by the Seller pursuant to a New Venturer's Deed of Accession between the Buyer, the Seller, ICRA and ACM dated 18 August 2005 and amended and restated on 18 August 2005 and on 26 June 2006.

ACM Shares means 30 shares in ACM held by the Seller.

ACOL means Ashton Coal Operations Pty Ltd ACN 078 556 500.

ACPH means Australian Coal Processing Holdings Pty Ltd ACN 106 694 115 of Level 14, 213 Miller Street, North Sydney, NSW 2060.

ACPH Shareholders Agreement means the shareholders agreement between Itochu, WML, ACPH and Roberts & Schaefer Australia Pty Ltd dated 13 November 2003, as acceded to by the Seller pursuant to a Deed of Accession between the Seller, WML, Itochu and ACPH dated 18 August 2005 and restated on 18 August 2005.

ACPH Shares means 2,040 shares in ACPH held by the Seller.

Agreement Letters means the letters from the Seller to the Buyer and Yanzhou dated 20 January 2010, 12 May 2010, 7 June 2010, 29 July 2010, 12 August 2010, 9 September 2010, 17 September 2010, 14 October 2010, 12 November 2010, 13 December 2010 and 12 January 2011.

Ashton Coal Project means the Ashton coal project in New South Wales in respect of the Mining Tenements.

Ashton Joint Venture means the unincorporated joint venture established pursuant to the Ashton JVA.

Ashton JVA means the Ashton Coal Joint Venture Agreement between the Buyer, ICRA, WML and ACOL dated 4 April 2003, as amended by Deeds of Amendment between the Buyer, ICRA, WML and ACOL dated 23 March 2005 and April 2005, restated on 18 August 2005 and further amended by a Deed of Assignment and Assumption between the Seller, the Buyer, ICRA, Itochu, WML and ACOL dated 23 February 2006.

Break Fee means US\$10 million.

Business means the Seller's business associated with the Ashton Coal Project as carried on by the Seller.

Business Day means a day which is not a Saturday, Sunday or bank or public holiday in Western Australia and New South Wales, Australia.



Business Contracts means all agreements and arrangements relating to the Ashton Joint Venture to which the Seller is a party or relating to the Ashton Joint Venture and in respect of which the Seller is an undisclosed principal.

Called Sum has the meaning set out in the Ashton JVA.

CBA means Commonwealth Bank of Australia ABN 48 123 123 124.

CBA Master Finance Lease means the Master Finance Lease Agreement dated 23 March 2005 between CBA, the Buyer, ICRA, WML, ACM and ACOL as novated pursuant to a Deed of Accession, Amendment and Restatement dated 18 August 2005 between the Seller, the Buyer, ICRA, Itochu, WML, ACM, ACOL and CBA and amended and restated pursuant to a Deed of Amendment, Restatement and Confirmation between the Seller, WML, ICRA, Itochu, WML, ACM, ACOL and CBA dated 2 February 2006.

Claims means liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever.

Coal has the meaning set out in the Ashton JVA.

Completion means completion by the parties of the sale and purchase of the Sale Interest in accordance with **clause 5**.

Completion Date means the:

- (a) the last Business Day of the first month end from 1 January 2011 after the date on which the Conditions Precedent in **clause 2.1** have been satisfied or waived; or
- (b) such other date as the Buyer and Seller agree in writing.

Corporations Act means the *Corporations Act 2001* (Cth).

CP Date means 30 April 2011 or such other later date as the Seller and the Buyer agree in writing.

Department means the New South Wales Department of Primary Industries.

Encumbrance means any mortgage, lien, pledge, security interest and any third party interest.

Effective Date means 12.01am 1 July 2010.

Expert means:

- (a) a person agreed to in writing between the Buyer and the Seller; or
- (b) failing agreement, a partner of a national chartered accounting firm with not less than 10 years relevant experience as a partner, appointed by the President for the time being of the Institute of Chartered Accountants in Australia at the request of either the Seller or the Buyer.

Felix means Felix Resources Limited ACN 000 754 174.

FIRB Approval means



- (a) the Treasurer or his agent advises the Buyer that there are no objections to the acquisition of the Sale Interest by the Buyer in terms of the Commonwealth Government's foreign investment policy; or
- (b) no order is made in relation to the Transaction under section 22 of the Foreign Acquisitions and Takeovers Act 1975 (Cth) (**FATA**) within a period of 40 days after the Buyer has notified the Treasurer that it proposes to acquire the Sale Interest in accordance with the Transaction, and no notice is given by the Treasurer to the Buyer during that period to the effect that there are any objections to the acquisition of the Sale Interest by the Buyer in terms of the Commonwealth Government's foreign investment policy; or
- (c) where an order is made under section 22 of the FATA, a period of 90 days has expired after the order comes into operation and no notice has been given by the Treasurer to the Buyer during that period to the effect that there are any objections to the acquisition of the Sale Interest by the Buyer in terms of the Commonwealth Government's foreign investment policy.

Government Agency means a government or government department, a governmental, semi-governmental or judicial person or a person (whether autonomous or not) charged with the administration of any applicable law.

Guarantee means the guarantee given by the Guarantor to the Seller under **clause 8**.

ICRA means ICRA Ashton Pty Limited ACN 097 499 780.

ICRA Approval means the written consent of ICRA under the Ashton JVA to the sale by the Seller to the Buyer of the Sale Interest whether or not actually required by the Transaction including the release contemplated by **clause 5.2(c)**.

IMC Holdings means IMC Holdings Limited.

IMC Resources means IMC Resources (Australia) Pty Ltd ACN 109 676 575 (formerly called Austral-Asia Mining & Shipping Pty Ltd).

Insolvency Event means any of the following:

- (a) a person is or states that the person is unable to pay from the person's own money all the person's debts as and when they become due and payable;
- (b) a person is taken or must be presumed to be insolvent or unable to pay the person's debts under any applicable legislation;
- (c) an application or order is made for the winding up or dissolution or a resolution is passed or any steps are taken to pass a resolution for the winding up or dissolution of a corporation;
- (d) an administrator, provisional liquidator, liquidator or person having a similar or analogous function under the laws of any relevant jurisdiction is appointed in respect of a corporation or any action is taken to appoint



any such person and the action is not stayed, withdrawn or dismissed within seven days;

- (e) a controller is appointed in respect of any property of a corporation;
- (f) a corporation is deregistered under the Corporations Act or notice of its proposed deregistration is given to the corporation;
- (g) a distress, attachment or execution is levied or becomes enforceable against any property of a person;
- (h) a person enters into or takes any action to enter into an arrangement (including a scheme of arrangement or deed of company arrangement), composition or compromise with, or assignment for the benefit of, all or any class of the person's creditors or members or a moratorium involving any of them;
- (i) a petition for the making of a sequestration order against the estate of a person is presented and the petition is not stayed, withdrawn or dismissed within seven days or a person presents a petition against himself or herself; or
- (j) anything analogous to or of a similar effect to anything described above under the law of any relevant jurisdiction occurs in respect of a person.

Itochu means Itochu Coal Resources Australia Pty Limited ACN 072 596 733.

Komatsu means Komatsu Australia Corporate Finance Pty Ltd ACN 067 959 666.

Komatsu Lease Agreement means the Master Lease Agreement between Komatsu, the Buyer, ICRA, WML and ACOL dated 21 March 2005 as amended pursuant to a Deed of Accession between Komatsu, the Buyer, ICRA, WML, ACOL, Itochu, Felix, IMC Resources, IMC Holdings and the Seller dated 18 August 2005.

Last Year Accounts means:

- (a) the audited balance sheet of the Ashton Joint Venture and ACM as at the Last Year Balance Date; and
- (b) the audited profit and loss accounts of the Ashton Joint Venture and ACM for the year ended the Last Year Balance Date.

Last Year Balance Date means 31 December 2009.

Liabilities means all debts, obligations or liabilities (whether actual, contingent or prospective), losses, damages, costs and expenses of any description, including those the amount of which is not ascertained or ascertainable of the Seller, relating to and only to the extent of the Sale Interest as of the Effective Date including:

- (a) Business Contracts not completed or discharged prior to the Effective Date;
- (b) trade creditors and other creditors of the Ashton Joint Venture and ACM as at the Effective Date and thereafter;



- (c) all indemnities, bonds, land compensation claims and other capital liabilities (including performance bonds and guarantees) incurred by the Seller in respect of the Ashton Joint Venture including in relation to any of their obligations under the Mining Tenements, the *Customs Act 1901* (Cth), and other authorisations, licences or leases granted by any Government Agency in relation to the Ashton Joint Venture;
- (d) all obligations arising out of the land held by ACM on behalf of the Ashton Joint Venture and the Mining Tenements (including environmental rehabilitation and remediation);
- (e) the accrued entitlements of all employees engaged in the Ashton Joint Venture,

which are incurred in the ordinary course of the involvement of the Seller in the business of the Ashton Joint Venture.

Management Accounts means the unaudited balance sheet and profit and loss statements of each of the Ashton Joint Venture and ACM for the 6 month period ending on 30 June 2010 prepared in accordance with the Accounting Principles, a copy of which is attached in **Annexure A**.

Management and Operating Agreement means the Management and Operating Agreement dated 4 April 2003 between ICRA, WML, the Buyer and ACOL, as novated pursuant to a New Venturer's Deed of Accession (Management & Operating Agreement) between the Seller, WML, the Buyer, ICRA and ACOL dated 18 August 2005.

Manager has the meaning set out in the Ashton JVA.

Mining Tenements means ML 1529 (Mining Act 1992), ML 1533 (Mining Act 1992), ML 1623 (Mining Act 1992), EL 4918 (Mining Act 1992) and EL 5860 (Mining Act 1992).

Minister means the Minister responsible for administering the Act.

Operator has the meaning set out in the Ashton JVA.

PRC Regulatory Approval means all approvals, consents and authorisations required in connection with the Transaction from:

- (a) the National Development and Reform Commission of China;
- (b) the Shandong Branch of State owned Assets Supervision and Administration Commission of China;
- (c) the Ministry of Commerce of the People's Republic of China; and
- (d) the State Administration of Foreign Exchange of China.

Purchase Price means US\$250,000,000.

Purchase Price Adjustment means the net movement in the economic position of the Sale Interest from the Effective Date to the Completion Date, as described more fully in **clause 5.3**.

Rate means on any day, the rate equal to Australian dollar LIBOR, being the British Bankers' Association Interest Settlement Rate for Australian dollars and



the period of one month displayed on the appropriate page of the Reuters screen as at 11 am on the relevant day.

Related Body Corporate has the meaning given to that term in the Corporations Act.

Sales Agreement means the document so entitled dated 18 August 2005 between the Seller and ACM.

Sale Interest means the Seller's 30% interest in the Ashton Joint Venture including the rights (subject to the obligations attending to those rights) attributable to that 30% interest under the Ashton JVA and includes the Coal, the ACM Shares and the ACPH Shares (provided ACPH is registered as a company at that time), details of which are set out in **Schedule 1**.

Termination Event means Completion not occurring on the Completion Date and this document is properly terminated by the Seller for cause.

Transaction means the sale and purchase of the Sale Interest.

Warranties means the Seller's warranties set out in **clause 7.1** and the Buyer's and the Guarantor's warranties set out in **clause 7.3**.

WML means White Mining Limited ACN 009 713 893.

Wonnarua People Ancillary Deed means the ancillary deed between Thomas Oliver Miller on behalf of the Wonnarua People, the Wonnarua Nation Aboriginal Corporation, ACOL, WML, the Buyer and ICRA dated 22 February 2003, as novated pursuant to a New Venturer's Deed of Accession (Wonnarua People Ancillary Deed) between the Seller, ACOL, WML, the Buyer and ICRA dated 18 August 2005.

Yanzhou means Yanzhou Coal Mining Company Limited of 40 Fushan Road, Zoucheng, Shandong Province, 273500, People's Republic of China.

1.2 Terms used in Ashton JVA

Unless otherwise defined in this document, or unless the context otherwise requires, terms defined in the Ashton JVA have the same meanings when used in this document.

1.3 Construction

In this document:

- (a) any reference to this document or any other agreement or document includes any variation or any replacement of any of them;
- (b) any reference to a clause, schedule or annexure is a reference to a clause, schedule or annexure to this document all of which are deemed part of this document;
- (c) any reference to any person, includes a reference to any individual, partnership, unincorporated joint venture, company or corporation (including any incorporated joint venture) or other entity and government agency, authority or enterprise;



- (d) the words include and including are to be construed without limitation;
- (e) a reference to this or other document includes the document as varied or replaced regardless of any change in the identity of the parties;
- (f) a reference to writing includes all modes of representing or reproducing words in a legible, permanent and visible form;
- (g) headings and sub-headings are inserted for ease of reference only and do not affect the interpretation of this document; and
- (h) where an expression is defined, another part of speech or grammatical form of that expression has a corresponding meaning.

2 Conditions Precedent

2.1 Conditions Precedent

The sale and purchase of the Sale Interest is conditional upon:

- (a) the Buyer having obtained FIRB Approval;
 - (b) the Buyer having obtained PRC Regulatory Approval; and
 - (c) the Buyer and the Seller having obtained the ICRA Approval.
- (collectively, the **Conditions Precedent**).

2.2 Fulfilment of Conditions Precedent

- (a) The Buyer must use its best endeavours to take all actions necessary to fulfil the Conditions Precedent in **clauses 2.1(a)** and **(b)** as soon as reasonably practicable after the date of this document.
- (b) In obtaining the necessary FIRB Approval, the Buyer's best endeavours are to include, to the extent necessary:
 - (i) engaging with FIRB expeditiously in the negotiation of any undertakings; and
 - (ii) procuring that Yanzhou reaffirms the undertakings made to the Treasurer on 22 October 2009.
- (c) The Buyer and Seller must use their best endeavours to take all actions necessary to fulfil the Condition Precedent in **clause 2.1(c)** as soon as reasonably practicable after the date of this document.

2.3 Failure to satisfy Conditions Precedent

If the Conditions Precedent are not satisfied or waived under **clause 2.4** by 5.00pm on the CP Date the Buyer or the Seller may give written notice of termination of this document to the other party.

2.4 Waiver of Conditions Precedent

The Conditions Precedent referred to in **clause 2.1** are for the benefit of both the Seller and the Buyer and may only be waived with the agreement of both the Seller and the Buyer.



2.5 Notice

The Buyer must promptly notify the Seller in writing as soon as it becomes aware that the Conditions Precedent are satisfied or have become incapable of being satisfied. If the Conditions Precedent are satisfied, the Buyer must provide the Seller with evidence to the reasonable satisfaction of the Seller that the Conditions Precedent are satisfied, including copies of the FIRB Approval and PRC Regulatory Approval.

3 Sale and purchase

3.1 Sale and purchase

The Seller must sell the Sale Interest to the Buyer and the Buyer must purchase the Sale Interest from the Seller, free from any Encumbrances with effect on and from the Effective Date.

3.2 Break Fee event

The Buyer must pay the Seller the Break Fee if:

- (a) a Termination Event occurs for any reason other than as a result of a default by the Seller; or
- (b) where the Buyer has failed to fulfil its obligations under **clauses 2.2 (a) and (b)** and this document is terminated under **clause 2.3**.

3.3 Payment of Break Fee

Any payment required to be made by the Buyer to the Seller in satisfaction of **clause 3.2** must be paid within 14 Business Days of the relevant event specified in **clause 3.2** occurring.

3.4 Clause without prejudice

Nothing in **clause 3.2** affects any rights a party may have to bring an action against the other in the event of any breach of this document by the other party.

3.5 Consideration

- (a) On Completion the Buyer must pay to the Seller the Purchase Price together with the amount calculated under **clause 3.8**.
- (b) Within 12 Business Days after Completion or, if there is a Calculation Dispute under **clause 5.4**, within five Business Days after the Calculation Dispute is resolved or determined by the Expert, the Buyer or the Seller as the case may be, must pay the Purchase Price Adjustment to the other party together with interest under **clause 3.9**.
- (c) The Purchase Price Adjustment must be paid as follows:
 - (i) by the Buyer to the Seller, where the total adjustment made under **clause 5.3(b)(i)** and **clause 5.3(b)(ii)** exceed the adjustment made under **clause 5.3(b)(iii)**; or



(ii) by the Seller to the Buyer, where the adjustment made under **clause 5.3(b)(iii)** exceeds the total adjustment made under **clause 5.3(b)(i)** and **clause 5.3(b)(ii)**.

(d) The Purchase Price Adjustment is to be apportioned on a pro rata basis across the values set out in **Schedule 1**.

3.6 Method of payment

All payments to be made under this **clause 3** must be made in cash (whether by electronic transfer to the payee's account or otherwise) or by unendorsed bank cheque drawn to a bank acceptable to the payee, or as may otherwise be directed by the Seller prior to Completion.

3.7 Title, risk and assumption of Liabilities

- (a) Legal and beneficial title to the Sale Interest passes to the Buyer on Completion with effect from the Effective Date.
- (b) On Completion with effect from the Effective Date, the Buyer assumes responsibility for all Liabilities incurred and payments made on and after the Effective Date.
- (c) On Completion with effect from the Effective Date, the Seller has no obligation in respect of the Sale Interest including any liability for Called Sums made on or after the Effective Date.

3.8 Interest equivalent payment on the Purchase Price

- (a) The Buyer must on Completion pay to the Seller an amount (**Purchase Price Interest**) calculated as if interest is payable on the Purchase Price at the Rate from the Effective Date until Completion.
- (b) The Purchase Price Interest paid under this **clause 3.8** will be apportioned on a pro rata basis across the values set out in the **Schedule 1**.
- (c) For the purposes of **clause 3.8(a)**, the Purchase Price Interest:
 - (i) is calculated on a daily basis and compounded at the end of each month;
 - (ii) is to be computed from and including the Effective Date until but excluding the day of payment of that amount referred to in **clause 3.8(a)**; and
 - (iii) is to be calculated on the actual number of days elapsed on the basis of a 365 day year.

3.9 Interest payment on the Purchase Price Adjustment

- (a) Interest must be paid on the Purchase Price Adjustment at the Rate from Completion until the date of payment of the Purchase Price Adjustment as follows:



- (i) by the Buyer to the Seller, where the total adjustment made under **clause 5.3(b)(i)** and **clause 5.3(b)(ii)** exceed the adjustment made under **clause 5.3(b)(iii)**; or
 - (ii) by the Seller to the Buyer, where the adjustment made under **clause 5.3(b)(iii)** exceeds the total adjustment made under **clause 5.3(b)(i)** and **clause 5.3(b)(ii)**,
- and all such interest must be paid together with the payment of the Purchase Price Adjustment.

(b) Interest:

- (i) is calculated on a daily basis and compounded at the end of each month;
- (ii) is to be computed from and including the Completion Date until but excluding the day of payment of that amount referred to in **clause 3.9(a)**; and
- (iii) is to be calculated on the actual number of days elapsed on the basis of a 365 day year.

3.10 Interest equivalent payment on payments made prior to Completion

(a) If at any time after the Effective Date but before Completion:

- (i) the accumulated amounts received by the Seller under **clause 5.3(a)(ii)** from the Effective Date (excluding the amount to be received by the Seller under **clause 5.3(b)(ii)**) is insufficient to enable the Seller to pay the amounts under **clause 5.3(a)(i)**, resulting in a shortfall (**Shortfall**); and
- (ii) the Seller must contribute additional funds to pay for the Shortfall,

then:

- (iii) the Seller must give to the Buyer written notice of an amount (**Shortfall Interest**) calculated as if interest is payable on the Shortfall calculated in accordance with **clause 3.10(c)** within 5 Business Days after Completion; and
- (iv) the Buyer must pay to the Seller the Shortfall Interest within 10 Business Days after Completion.

(b) All Shortfall Interest paid under this **clause 3.10** is to be apportioned on a pro rata basis across the values set out in **Schedule 1**.

(c) For the purposes of **clause 3.10(a)**, the Shortfall Interest:

- (i) is calculated on a daily basis and compounded at the end of each month;
- (ii) subject to **clause 3.10(c)(iii)**, is to be computed from and including the date of payment of the Shortfall by the Seller under **clause 3.10(a)(ii)** until but excluding the day:



- (A) such Shortfall is repaid in full to the Seller out of the amounts received by the Seller under **clause 5.3(a)(ii)**; or
- (B) of Completion,
whichever is earlier;
- (iii) if any part of the Shortfall is repaid to the Seller from time to time, the Shortfall Interest is to be computed on the unpaid amount of such Shortfall for the period during which it remains unpaid; and
- (iv) is to be calculated on the actual number of days elapsed on the basis of a 365 day year.

3.11 Acknowledgement

The Seller and the Buyer acknowledge that the sale of the Sale Interest by the Seller to the Buyer is pursuant to the exercise by the Seller of its tag-along right under clause 11.2(c)(ii) of the Ashton JVA arising from a change in control of the Buyer under clause 11.4 of the Ashton JVA.

4 Conduct prior to Completion

4.1 Seller's obligations

Until Completion the Seller must carry on its affairs in the ordinary course of business and must:

- (a) unless otherwise provided in this document, observe and perform its obligations and duties under the Ashton JVA and must not knowingly incur or assume any liability in connection with the Sale Interest except in the ordinary course of business;
- (b) request the Manager to provide to the Buyer with copies of any reports, correspondence or information received by the Seller in respect of the Sale Interest or the Ashton Joint Venture; and
- (c) notify the Buyer in writing if the Seller becomes aware of any fact or circumstance that the Seller knows will cause or constitute a breach of any of the Warranties of the Seller as of the date of this document.

4.2 Approval for transfer of Mining Tenements

The Seller must as soon as practicable after the execution of this document provide the Buyer with Forms AD2 under the Act (without any fees or stamp duty payable, which fees or stamp duty are payable by the Buyer) for each of the Mining Tenements to apply for written approval from the Minister for the transfer of the Mining Tenements forming part of the Sale Interest to the Buyer.

4.3 Proceeds and outgoings

The Seller:

- (a) is entitled to the proceeds received from, and must pay all outgoings in respect of, the Sale Interest up to the Effective Date; and



(b) indemnifies the Buyer in respect of those outgoings up to the Effective Date.

5 Completion

5.1 Time and place for Completion

Completion will commence at 10am on the Completion Date, and will take place at the offices of Corrs Chambers Westgarth, Level 32 Governor Phillip Tower, 1 Farrer Place, Sydney New South Wales 2000 or at such other time and place as the parties may agree.

5.2 Obligations at Completion

At Completion:

- (a) the Buyer must pay the Purchase Price and the Purchase Price Interest under **clause 3.8** to the Seller in accordance with **clause 3**;
- (b) the Buyer must execute the relevant documents referred to in **clause 5.2(e)** and provide the Seller with copies of all such documents executed by the Buyer;
- (c) the receipt by the Buyer of an ASIC Form 312 executed by ICRA to release the Sale Interest from ASIC registered charge no. 1198449;
- (d) the Buyer must execute the ASIC Form 312 executed by ICRA under **clause 5.2(c)** to release the Sale Interest from ASIC registered charge no. 1198449 and lodge the ASIC Form 312 for registration with ASIC;
- (e) the Seller must deliver to the Buyer the following:
 - (i) Form AD4 applications for registration of the transfer of an authority (without any fees or stamp duty payable, which fees and stamp duty are payable by the Buyer) in favour of the Buyer of the Seller's interest in each of the Mining Tenements executed by the Seller;
 - (ii) a transfer in favour of the Buyer of the ACM Shares executed by the Seller together with the relevant share certificate;
 - (iii) a transfer in favour of the Buyer of the ACPH Shares executed by the Seller together with the relevant share certificate, provided ACPH is a registered company at that time;
 - (iv) the resignations of the directors nominated by the Seller on the boards of ACM and ACPH, provided ACPH is a registered company at that time;
 - (v) a deed of assignment and assumption of the Seller's interest in the Ashton Joint Venture Agreement substantially in the form annexed to the Ashton JVA as Annexure "H" executed by the Seller;
 - (vi) a deed of assignment and assumption of the Seller's interest in the Management and Operating Agreement executed by the Seller;



- (vii) a deed of assignment and assumption of the Seller's interests in the ACM Shareholders Agreement executed by the Seller;
 - (viii) a deed of assignment and assumption of the Seller's interest in the ACPH Shareholders Agreement executed by the Seller, provided ACPH is a registered company at that time;
 - (ix) a deed of assignment and assumption of the Seller's interest in the Wonnarua People Ancillary Deed executed by the Seller;
 - (x) a deed of assignment and assumption of the Seller's interest in the CBA Master Finance Lease executed by the Seller;
 - (xi) a deed of assignment and assumption of the Seller's interests in the Komatsu Lease Agreement executed by the Seller;
 - (xii) ASIC Forms 312 executed by the Seller with respect to the following ASIC registered charges:
 - (A) no. 1198954;
 - (B) no. 1198451;
 - (C) no. 1319238; and
 - (D) no. 1319242, and
 - (xiii) any other documents reasonably required by the Seller or the Buyer by written notice to each other and mutually agreed within 15 days after the date of this document,
- each in a form to be mutually agreed by the Seller and the Buyer prior to Completion.

5.3 Purchase Price Adjustment

- (a) The economic benefit and risks of the Seller's Sale Interest is intended to accrue to the Buyer with effect from the Effective Date. However, this general position is to be varied so that the Seller:
 - (i) is liable to pay all Called Sums and all other amounts that may need to be paid in respect of the Ashton Joint Venture from the Effective Date up to the Completion Date; and
 - (ii) is entitled to the proceeds from Coal sales from the Effective Date up to the Completion Date (including in respect of amounts receivable as at the Effective Date but not paid).
- (b) Consistent with the general proposition provided in **clause 5.3(a)**, the Purchase Price Adjustment is the net amount of the following:
 - (i) an increase adjustment equal to any amounts paid by the Seller referred to in **clause 5.3(a)(i)**. Any Called Sums that remain payable as at the Completion Date will be paid by the Buyer;
 - (ii) an increase adjustment of US\$4,556,700.78, which is equal to the amounts receivable by the Seller as at the Effective Date in



respect of Coal sales entered into prior to the Effective Date as reflected in the Management Accounts, and

- (iii) a decrease adjustment equal to any amounts received by the Seller referred to in **clause 5.3(a)(ii)** (net of any GST liability incurred or to be incurred by the Seller in respect of such amounts and net of any bank fees and fees or charges payable to ACM),

and which amounts are to be calculated in the following currencies:

- (iv) the Called Sums and other amounts in **clause 5.3(b)(i)** in US\$, being the US\$ that were actually converted to A\$ for such payment;
 - (v) the proceeds of sales of Coal in **clause 5.3(b)(ii)** in US\$ as at the Effective Date; and
 - (vi) the proceeds of sales of Coal in **clause 5.3(b)(iii)** in US\$.
- (c) Within six Business Days after Completion, the Buyer must prepare an adjustment statement containing the Purchase Price Adjustment calculated in accordance with **clause 5.3(b)** and deliver it to the Seller. An example of the adjustments referred to in **clause 5.3(b)** is set out in **Schedule 3**.

5.4 Calculation dispute

- (a) If the Seller disputes the calculation of the Purchase Price Adjustment (**Calculation**) by the Buyer in **clause 5.3(c)** (**Calculation Dispute**), it must deliver to the Buyer a notice specifying the nature of the dispute within five Business Days of receipt of the Calculation.
- (b) If a Calculation Dispute between the Buyer and the Seller regarding the Calculation arises then if the Buyer and the Seller have not resolved the Calculation Dispute within 15 Business Days, the Calculation Dispute must promptly be submitted for determination to the Expert who will determine the matter or matters in dispute.
- (c) The Expert will be instructed to finish his or her determination no later than 10 Business Days after the date of his or her appointment.
- (d) The Expert will act as an expert and not as an arbitrator and his or her decision will be final and binding on the parties in the absence of manifest error and the Calculation will then be deemed amended accordingly.
- (e) The cost of the determination by the Expert will be borne by the Buyer and the Seller in such manner as the Expert determines (having regard to the merits of the Calculation Dispute). In the absence of any such determination, the costs of the Expert will be borne by the Buyer and the Seller equally.

5.5 Completion not occurring by reason of the Buyer's default

If Completion does not occur on the Completion Date by reason of the Buyer's default and if the Buyer does not rectify the default within 14 days after



receiving written notice from the Seller specifying the default, then the Seller may seek specific performance of this document or terminate this document by notice given by the Seller to the Buyer. If the Seller terminates this document, then in addition to any of the rights, powers or remedies provided by law:

- (a) each party is released from its obligations to further perform this document except those imposing on it:
 - (i) obligations of confidentiality;
 - (ii) obligations of the Buyer to pay to the Seller the Break Fee; and
 - (iii) obligations of the Guarantor guaranteeing the payment of the Break Fee; and
- (b) each party retains the right it has against any other party in respect of any past breach.

5.6 Completion not occurring by reason of the Seller's default

If Completion does not occur on the Completion Date by reason of the Seller's default and if the Seller does not rectify the default within 14 days after receiving written notice from the Buyer specifying the default, then the Buyer may seek specific performance of this document or terminate this document by notice given by the Buyer to the Seller. If the Buyer terminates this document, then in addition to any other rights, powers or remedies provided by law:

- (a) each party is released from its obligations to further perform this document except those imposing on it obligations of confidentiality; and
- (b) each party retains the rights it has against any other party in respect of any past breach.

5.7 Completion not occurring for any other reason

If Completion does not occur on the Completion Date for any other reason other than those set out in **clauses 5.5** or **5.6**, then in addition to any other rights, powers or remedies provided by law:

- (a) each party is released from its obligations to further perform this document except those imposing on it:
 - (i) obligations of confidentiality;
 - (ii) obligations of the Buyer to pay to the Seller the Break Fee; and
 - (iii) obligations of the Guarantor guaranteeing the payment of the Break Fee; and
- (b) each party retains the rights it has against any other party in respect of any past breach.

6 Performance bonds

- (a) The Buyer must, to the extent of the Sale Interest, provide to the Seller replacements for the performance bonds or guarantees currently provided by the Seller or any Related Body Corporate to the Department



or to any other party in relation to the Ashton Joint Venture on Completion. The performance bonds or guarantees include the following:

- (i) performance bonds provided to the Department;
 - (ii) bank guarantee in favour of Rail Infrastructure Corporation;
 - (iii) bank guarantee in favour of the Department of Mineral Resources (NSW);
 - (iv) bank guarantee in favour of Port Waratah Coal Services Ltd;
 - (v) guarantee by IMC Resources in favour of Komatsu under a Guarantor Deed of Accession dated 18 August 2005 between the IMC Resources and Komatsu;
 - (vi) guarantee by IMC Holdings in favour of Komatsu under a Guarantor Deed of Accession dated 18 August 2005 between IMC Holdings and Komatsu; and
 - (vii) the guarantee by IMC Holdings in favour of CBA under a Guarantee and Indemnity dated 10 February 2006.
- (b) If the Buyer is not able to provide the replacement performance bonds or guarantees under **clause 6(a)**, then:
- (i) the Buyer must on Completion pay the Seller a cash amount equal to the full value of the amounts secured by such performance bonds or guarantees as security for the performance or payments required under those performance bonds or guarantees;
 - (ii) the Seller may deduct from such cash amount any payments that may need to be paid by the Seller under or arising from those performance bonds or guarantees; and
 - (iii) the Seller must refund to the Buyer without interest any cash remaining after the deductions in **clause 6(b)(ii)** above as soon as practicable after the replacement performance bonds or guarantees have been provided to the relevant parties and the performance bonds or guarantees previously provided by the Seller have been returned to it for cancellation.
- (c) The Buyer indemnifies the Seller against all liabilities, claims, demands, actions, suits, proceedings, costs, damages, expenses or losses of any nature suffered by or occasioned to the Seller arising directly or indirectly in connection with any breach by the Buyer of any obligation secured by the performance bonds or guarantees referred to in **clause 6(a)** from the Effective Date.
- (d) If any of the performance bonds or guarantees referred to in **clause 6(a)** are due for renewal between the date of this document and Completion, then the Buyer must arrange for new performance bonds or guarantees to replace those that are expiring before their expiry dates.



7 Warranties

7.1 Warranties by the Seller

The Seller warrants to the Buyer that each of the following statements is true, complete and accurate at the date of this document:

- (a) **(owner and holder)** the Seller is the sole legal and beneficial owner and registered holder of the Sale Interest;
- (b) **(power)** the Seller has full legal capacity and power to enter into this document and to complete the sale and purchase of the Sale Interest;
- (c) **(no Insolvency Event)** the Seller is not affected by an Insolvency Event and neither execution of this document nor Completion nor any other transaction which this document contemplates will be or become a transaction which is voidable under part 5.7B of the Corporations Act; and
- (d) **(at Completion)** at Completion, the Buyer will receive absolute ownership of the Sale Interest and title to the Sale Interest free from any Encumbrance.

7.2 Indemnity by Seller

The Seller indemnifies the Buyer against all liabilities, claims, demands, actions, suits, proceedings, costs, damages, expenses or losses of any nature arising out of or in relation to any inaccuracy in or breach of any Warranty in **clause 7.1**.

7.3 Warranties by the Buyer and the Guarantor

The Buyer and the Guarantor warrant to the Seller that each of the following statements is true, complete and accurate at the date of this document:

- (a) **(power)** the Buyer and the Guarantor have full legal capacity and power to enter into this document and to complete the sale and purchase of the Sale Interest; and
- (b) **(no Insolvency Event)** the Buyer and the Guarantor are not affected by an Insolvency Event and neither execution of this document nor Completion nor any other transaction which this document contemplates will be or become a transaction which is voidable under part 5.7B of the Corporations Act.

7.4 Indemnity by Buyer and Guarantor

The Buyer and the Guarantor jointly and severally indemnify the Seller against all liabilities, claims, demands, actions, suits, proceedings, costs, damages, expenses or losses of any nature arising out of or in relation to any inaccuracy in or breach of any Warranty in **clause 7.3**.



7.5 Each of Buyer and Guarantor Warranties is separate

Each of the Warranties by the Buyer and the Guarantor is separate and independent and is not limited by reference to any other clause or anything in this document.

8 Guarantee

8.1 Guarantee

The Guarantor guarantees to the Seller:

- (a) the payment of any money the Buyer is liable to pay under this document; and
- (b) the performance by the Buyer of all its obligations under this document.

8.2 Liability of Guarantor

The liability of the Guarantor under this Guarantee is not affected by:

- (a) the granting of time or other indulgence or concessions to the Buyer;
- (b) the compounding, compromise, release, abandonment, waiver, variation, relinquishment or renewal of any of the rights of the Seller against the Buyer or by any neglect or omission to enforce those rights;
- (c) the insolvency, death or supervening contractual incapacity of the Buyer or the Guarantor;
- (d) the administration in equity or otherwise of the estate or assets in whole or in part of the Buyer or the Guarantor, as the case may be; or
- (e) the entering into of any scheme of arrangement or composition with creditors or by the appointment of a liquidator, provisional liquidator, receiver or receiver and manager, administrator or controller of the Buyer or any of its assets.

8.3 Continuing guarantee

This Guarantee is a continuing guarantee and remains in effect until the payment of all money and the performance of all obligations to be performed by the Buyer under this document.

8.4 Indemnity

To the extent (if any) that this Guarantee may be void or unenforceable by reason of the fact that all or any of the obligations of the Buyer under this document may not be or may cease for any reason to be enforceable against the Buyer or otherwise, the Guarantor indemnifies the Seller against all liabilities, claims, demands, actions, suits, proceedings, costs, damages, expenses or losses of any nature suffered by or occasioned to the Seller as a result of any failure by the Buyer to perform its obligations under this document.



8.5 Insolvency

If the Buyer is liquidated or enters into a deed of company arrangement:

- (a) the Guarantor will not prove in such liquidation or deed in competition with the Seller; and
- (b) the Guarantor authorises the Seller to prove for all money which the Guarantor has paid under this Guarantee and to retain any amounts received until the Seller, with the aid of any amount received, has been paid one hundred cents in the dollar in respect of all money secured by this Guarantee.

8.6 Reimbursement to Seller

The Guarantor must reimburse the Seller for any money that the Seller may have to pay or elect to pay to any liquidator, including any legal and adviser fees, in response to any claim by such liquidator for payment to him or her of any moneys received by the Seller from the Buyer pursuant to this document.

9 Confidentiality

9.1 Confidentiality

Each party must keep confidential, and must ensure that each of its advisers and representatives keeps confidential:

- (a) until the Completion Date (or forever if Completion does not occur) all confidential information of each other party; and
- (b) the existence and content of:
 - (i) this document; and
 - (ii) the negotiations in connection with it,

unless, subject to **clause 9.3**, compelled to do otherwise by law (or by an authority such as a governmental agency, court, tribunal or stock exchange).

9.2 Permitted disclosure

A party may disclose information:

- (a) on a confidential basis to its advisers or representatives if they need to know that information to enable them to advise in connection with this document (including its administration or enforcement) or otherwise evaluate this document or the transaction contemplated by it;
- (b) with the consent of each other party;
- (c) in connection with any Claim relating to this document; or
- (d) if this document expressly requires it to disclose information.

If a party intends to disclose information under this **clause 9.2**, it must, as far as practical, consult with each other party beforehand as to the content and timing of the disclosure.



9.3 Compulsory disclosure

If a party is or may be compelled by law (or by an authority such as a governmental agency, court, tribunal or stock exchange) to disclose confidential information of another party, it must:

- (a) immediately notify the other party in writing and provide the other party with a copy of the proposed disclosure or announcement and provide the other party reasonable time to give its comments before the disclosure or announcement is made;
- (b) if requested by the other party at the other party's expense, assist and permit the other party to oppose or restrict disclosure of that confidential information to the maximum extent permitted by law; and
- (c) subject to **clause 9.3(b)**, make disclosure, to the extent possible, on terms that will preserve the strictest confidentiality of that confidential information.

9.4 Continuing obligations

Other than as provided in **clause 9.1**, this **clause 9** continues to bind the parties after Completion and after each party's other obligations under this document terminate and has no effect on the parties' obligations under clause 18.2 of the Ashton JVA.

10 Notices

10.1 General

A notice, demand, certification, process or other communication relating to this document must be in writing in English and may be given by an agent of the sender.

10.2 How to give a communication

In addition to any other lawful means, a communication may be given by being:

- (a) personally delivered;
- (b) left at the party's current address for notices;
- (c) sent to the party's current address for notices by pre-paid ordinary mail or, if the address is outside Australia, by pre-paid airmail;
- (d) sent by fax to the party's current fax number for notices; or
- (e) sent by email to the other party's email address.

10.3 Address for service

- (a) The addresses and facsimile numbers are initially:
 - (i) in the case of the Seller:

Seller

Address Level 2, Citibank House, 37 St Georges Terrace,
Perth, Western Australia 6000



Fax: +61 8 9226 4766
Tel: +61 8 9422 8800
E-mail: johnmorton@imcresources.com.au
Attention: John Morton (Chief Portfolio Manager)

with a copy to:

Address: IMC Corp Limited, 5 Temasek Boulevard #12-01,
Suntec Tower Five, Singapore 038985

Fax: +65 6337 9803

Tel: +65 6336 2233

E-mail: woohingyew@imccorp.com

Attention: Woo Hing Yew (Regional Legal Counsel)

(ii) in the case of the Buyer and the Guarantor:

Buyer

Address Level 11, 68 York Street, Sydney New South Wales 2000

Fax: +61 2 8243 5399

Tel: +61 2 8243 5388

E-mail: mbailey@yancoalaustralia.com.au

Attention: Murray Bailey (Director)

Guarantor

Address Level 11, 68 York Street, Sydney New South Wales 2000

Fax: +61 2 8243 5399

Tel: +61 2 8243 5388

E-mail: mbailey@yancoalaustralia.com.au

Attention: Murray Bailey (Director)

(b) A party may from time to time change its address or numbers for service by notice to the other party.

10.4 Service by post

Subject to **clause 10.9**, a communication given by post is deemed to be received:

- (a) if posted within Australia to an Australian address, on the third Business Day after posting; and
- (b) in any other case, on the tenth Business Day after posting.



10.5 Service by facsimile

Subject to **clause 10.9**, a communication given by facsimile is deemed received when the sender's facsimile machine produces a transmission report indicating that the facsimile was sent in full to the addressee's facsimile number. That transmission report is conclusive evidence that the addressee received the fax in full at the time indicated on that report unless the message is not fully received in legible form and the addressee immediately notifies the sender of that fact.

10.6 Service by email

Subject to **clause 10.9**, a communication given by email is deemed received when the email containing the notice left the sender's email system, unless the sender receives notification that the email containing the notice was not received by the recipient.

10.7 Service personally

A communication served personally or left at the person's address is deemed received upon service.

10.8 Process service

Any process or other document relating to litigation, administrative or arbitral proceedings in relation to this document may be served by any method contemplated by this clause in addition to any means authorised by law.

10.9 Service after hours

If a communication to a party is received by it:

- (a) after 5.00pm in the place of receipt; or
- (b) on a day which is not a Business Day,

it is to be taken to have been received at 9.00am on the next Business Day.

11 Goods and Services Tax

11.1 Interpretation

In this clause:

- (a) **GST Law** has the meaning given to that expression in the *A New Tax System (Goods and Services Tax) Act 1999*;
- (b) expressions which are not defined, but which have a defined meaning in GST Law, have the same meaning; and
- (c) **GST** has the meaning given to it in GST Law.

11.2 Amounts for payment expressed exclusive of GST

Unless otherwise expressly stated, all prices or other sums payable or consideration to be provided under or in accordance with this document are exclusive of GST.



11.3 Supply of a going concern

- (a) The Seller and Buyer acknowledge and agree that:
 - (i) the Purchase Price does not include any amount for GST;
 - (ii) the supply of the Sale Interest is the supply of an identifiable enterprise carried on by the Seller and is a Supply of a Going Concern which is GST-free;
 - (iii) the Seller supplies to the Buyer all of the things that are necessary for the continued operation of the Business; and
 - (iv) the Seller will carry on the Business until the day of supply of the Sale Interest to the Buyer.
- (b) The Buyer warrants to the Seller that it is registered for GST and will remain registered for GST until Completion.

11.4 Recovery of any GST payable on the supply of the Sale Interest

If the Australian Tax Office, a court or tribunal determines that the supply of the Sale Interest does not constitute the Supply of a Going Concern which is GST- free and GST is imposed on the supply, the Buyer must pay to the Seller an amount on account of GST plus any interest and penalties payable by the Seller in addition to the Purchase Price.

11.5 Payment of GST on any other supplies

If GST is imposed on any supply (excluding the supply of the Sale Interest) made under or in accordance with this document, the recipient of the taxable supply must pay to the supplier an additional amount equal to the GST payable on or for the taxable supply. Payment of the additional amount is to be made at the same time as payment for the taxable supply is required to be made in accordance with this document.

11.6 Tax invoice

A party is not obliged under **clauses 11.4 or 11.5** to pay an amount for GST in respect of a taxable supply made to it until given a valid tax invoice for the supply.

11.7 Adjustment of GST Amount

If the additional amount on account of GST recovered from the recipient differs from the amount of GST payable at law by the supplier, the amount of the difference must be paid by, or refunded to, the recipient, as the case may be and an Adjustment Note issued by the supplier.

11.8 Reimbursements

Where a party is required under this document to pay or reimburse an expense or outgoing of another party, the amount to be paid or reimbursed by the first party is the sum of:

- (a) the amount of the expense or outgoing less any input tax credits in respect of the expense or outgoing to which the other party, or to which



the representative member for a GST group of which the other party is a member, is entitled; and

- (b) if the payment or reimbursement is subject to GST, an amount equal to that GST.

12 General

12.1 Duty

Other than as expressly stated in this document, the Buyer is liable for and must pay all duty (including any fine or penalty), registration fees and other government charges on this document, any document executed under it or any dutiable transaction evidenced or effected by it whether or not it is assessed against the Buyer, the Seller or both.

12.2 Legal costs

Except as expressly stated in this document, each party must pay its own legal and other costs and expenses of negotiating, preparing, executing and performing its obligations under this document.

12.3 Waiver and exercise of rights

- (a) A single or partial exercise or waiver by a party of a right relating to this document does not prevent any other exercise of that right or the exercise of any other right.
- (b) A party is not liable for any loss, cost or expense of any other party caused or contributed to by the waiver, exercise, attempted exercise, failure to exercise or delay in the exercise of a right.

12.4 Rights cumulative

Except as expressly stated otherwise in this document, the rights of a party under this document are cumulative and are in addition to any other rights of that party.

12.5 Further steps

Each party must promptly do whatever any other party reasonably requires of it to give effect to this document and to perform its obligations under it.

12.6 Counterparts

This document may consist of a number of counterparts and, if so, the counterparts taken together constitute one document.

12.7 Entire understanding

- (a) This document and the Agreement Letters contain the entire understanding between the parties as to the subject matter of this document.
- (b) Except for matters set out in the Agreement Letters, all previous negotiations, understandings, representations, warranties, memoranda



or commitments concerning the subject matter of this document are merged in and superseded by this document and are of no effect. No party is liable to any other party in respect of those matters. Nothing in this document will be deemed or construed to vary, affect, terminate or limit the rights granted under the Agreement Letters.

- (c) No oral explanation or information provided by any party to another:
 - (i) affects the meaning or interpretation of this document; or
 - (ii) constitutes any collateral agreement, warranty or understanding between any of the Parties.

12.8 Governing law and jurisdiction

- (a) This document is governed by and is to be construed in accordance with the laws applicable in New South Wales.
- (b) Each party irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of New South Wales, and any courts which have jurisdiction to hear appeals from any of those courts, and waives any right to object to any proceedings being brought in those courts.

12.9 Legislation

In this document, a reference to a statute includes regulations under it and consolidations, amendments, re-enactments or replacements of any of them.

12.10 Amendment

This document may only be varied or replaced by a document duly executed by the parties.

12.11 No assignment

A party must not:

- (a) sell, transfer, novate, delegate, assign, licence; or
- (b) mortgage, charge or otherwise encumber,

any right or obligation under this document to any person without the prior written consent of the other parties to this document.

12.12 Time

Time is of the essence as regards all dates, periods of time and times specified in this document.

12.13 Survival of indemnities

Each indemnity in this document is a continuing obligation, separate and independent from the other obligations of the parties and survives termination of this document.

12.14 Enforcement of indemnities

It is not necessary for a party to incur expense or make payment before enforcing a right of indemnity conferred by this document.



12.15 No merger

The warranties, undertakings, agreements and continuing obligations in this document do not merge on completion.

12.16 Business Day

If a payment or other act is required by this document to be made or done on a day which is not a Business Day, the payment or act must be made or done on the next following Business Day.

12.17 Number

In this document, a reference to the singular includes the plural and vice versa.

12.18 Announcements

- (a) No party (and each will procure any Related Body Corporate) may, before or after Completion, make or send a public announcement, communication or circular concerning the sale and purchase of the Sale Interest unless it has first obtained the consent of the other parties (not to be unreasonably withheld or denied).
- (b) Subject to law and regulation, the Seller and the Buyer (and each will procure any Related Body Corporate) will consult in good faith with a view to agreeing the form, content and timing of any press release, statement or announcement to be issued jointly or by either of the Seller, the Buyer or any Related Body Corporate, on or after the date of this document or Completion, in relation to the sale and purchase of the Sale Interest.



Schedule I

Apportionment of Purchase Price

The Purchase Price is apportioned to include the following headings:

Part I

(a) 30% interest in the Ashton Joint Venture

<u>Ashton Joint Venture</u>	<u>Purchase Price apportionment (US\$)</u>
<i>Current Assets</i>	
Coal Inventory/Stock on Hand	5,500,000
Consumables/Other Inventory	3,000,000
<i>Non Current Assets</i>	
Mining Information	3,000,000
Owned Plant and Equipment	72,000,000
Construction in Progress	1,000,000
Land	2,000,000
Buildings	1,000,000
Leased Plant and Equipment	5,300,000
Port Access Rights (including all contracts associated with the transportation of the coal through the relevant ports)	18,000,000
Rail Access Right (including the contracts with QR National in respect of the transportation of the coal by rail)	9,000,000
Mining Development and Leasehold Improvements	14,000,000
Mining Tenements (ML 1529, ML 1533, ML 1623, EL 4918 and EL 5860)	113,099,900
Total	246,899,900



(b) ACM Shares

ACM Shares 3,100,000

(c) ACPH Shares

ACPH Shares 100

Total Purchase Price 250,000,000



Schedule 2

Accounting Principles

The Management Accounts must:

1. incorporate all the assets and liabilities of the Ashton Joint Venture and ACM, as applicable;
2. be prepared in accordance with generally accepted accounting principles in Australia;
3. be prepared in accordance with the requirements of any applicable laws consistently applied; and
4. be on a consistent basis with the Last Year Accounts.



Schedule 3

Example of Purchase Price Adjustment

Purchase Price US\$250,000,000

(a) Increase Adjustment for Cash Calls

Increase adjustment being the amount of cash calls paid by the Seller in the period between Effective Date and Completion converted to US\$ at the then prevailing exchange rate at the date of payment of each cash call.

	A\$ Cash Call	Exchange Rate @ Date of Payment	US\$ Amount
31 July 2010	\$7,200,000.00	0.8698	\$6,262,560.00
31 August 2010	\$7,800,000.00	0.9071	\$7,075,380.00
30 September 2010	\$7,800,000.00	0.9028	\$7,041,840.00
31 October 2010	\$6,450,000.00	0.9738	\$6,281,010.00
30 November 2010	\$ X	x.xx	\$ Y
31 December 2010	\$ X	x.xx	\$ Y
31 January 2011	\$ X	x.xx	\$ Y
28 February 2011	\$ X	x.xx	\$ Y
31 March 2011	\$ X	x.xx	\$ Y

Total clause 5.3(b)(i) increase adjustment: \$ YY (a)

(b) Increase Adjustment for Receivables

Increase adjustment being the value of the Seller's interest in the trade receivables of the Ashton Joint Venture as at 30 June 2010.



	A\$ Value	Exchange Rate @ Effective Date	US\$ Amount
30% of Trade receivables as at 30 June Management Accounts	\$5,243,010.91	0.8691	\$4,556,700.78
Total clause 5.3(b)(ii) increase adjustment:			\$4,556,700.78 (b)

(c) Decrease Adjustment for Coal sales

Coal sales being the actual cash receipts relating to the Sale Interest received in the period from Effective Date up to Completion (including cash receipts relating to receivables outstanding as at Effective Date).

<u>Cash received from coal sales</u>	<u>US\$ Amount</u>
July 2010	\$ 7,788,886.20
August 2010	\$ 8,286,632.29
September 2010	\$ 13,724,849.74
October 2010	\$ 9,660,229.22
November 2010	\$ Z
December 2010	\$ Z
January 2011	\$ Z
February 2011	\$ Z
March 2011	\$ Z
less	
- bank fees	(\$ XX)
- margin fees	(\$ XX)
Total clause 5.3(b)(iii) decrease adjustment:	\$ ZZ (c)

Net Purchase Price Adjustment



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YANZHOU COAL MINING

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Net purchase price adjustment = (a) + (b) - (c)

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Executed as a deed

EXECUTED by)
White Mining (NSW) Pty Limited)
)


Company Secretary/Director

Director

Name of Company Secretary/Director
(print)

Name of Director (print)

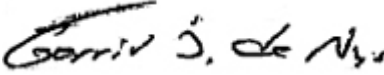
EXECUTED by)
Austral-Asia Coal Holdings Pty Ltd)
)



Company Secretary/ Director



Director



Name of Company Secretary/Director
(print)

TAI SOOK YEE

Name of Director (print)

EXECUTED by)
Yancoal Australia Limited)
)

Company Secretary/Director

Director

Name of Company Secretary/Director
(print)

Name of Director (print)



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YANZHOU COAL MINING

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Annexure A
Management Accounts

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ASHTON COAL JOINT VENTURE
STATEMENT OF FINANCIAL POSITION AS AT June 2010

(Comprising Ashton Coal Operations Pty Ltd and Ashton Coal Mines Limited)

	<u>TOTAL</u> \$'000	<u>ACOL</u> \$'000	<u>ACML</u> \$'000
Current Assets			
Cash on Hand	2	2	0
Current Account	1,428	954	474
Other Cheque Accounts	—	—	—
Deposits - At Call	6,553	6,553	—
Foreign Currency Accounts - USD	10,844	—	10,844
Trade Receivables, Net, Current	17,477	806	16,671
Intercompany Receivables	—	15,923	(15,923)
Other Receivables, Net, Current	—	—	—
Other Receivables, Net, Current	20	20	—
Production Supplies	3,704	3,704	—
Overburden in Advance	5,297	5,297	—
Coal Stocks	20,671	20,671	—
Prepayments, Current	606	606	—
Deposits	3	3	—
Current Tax Receivables	1,480	1,335	145
Exploration - Current	5,143	5,143	—
Total Current Assets	<u>73,228</u>	<u>61,015</u>	<u>12,212</u>
Non-Current Assets			
Construction in Progress	3,392	2,557	834
Land & Buildings	23,339	3,359	19,980
Leased Plant & Equipment	6,759	6,759	—
Plant & Equipment	131,679	131,658	20
Fixtures and Fittings	87	41	46
Leasehold Improvements	52,890	52,880	10
Other Property, Plant and Equipment	5	5	—
Exploration Evaluation Expenditure Non Current	2,904	2,904	—
Patents, Trademarks and Other Rights	854	854	—
Computer Software	29	29	—
Other Intangible Assets	1,619	—	1,619
Intercompany Receivables NC	(8)	7,483	(7,491)
Deferred Tax Assets	172	—	172
Total Non-Current Assets	<u>223,719</u>	<u>208,529</u>	<u>15,191</u>
Total Assets	<u>296,947</u>	<u>269,544</u>	<u>27,403</u>
Current Liabilities			
Trade Payables, Current	31,944	6,299	25,645
Finance Leases, Current	4,912	4,912	—
Other Provisions, Current	8,197	8,197	—
Group Tax Payable	19	—	19
GST on Sales	159	14	145
General Accruals	14,145	13,356	790
Total Current Liabilities	<u>59,376</u>	<u>32,777</u>	<u>26,599</u>
Non Current Liabilities			
Finance Leases, Non Current	1,629	1,629	—
Provisions Non Current	6,605	6,605	—
Deferred Tax Liabilities	—	—	—
Total Non-Current Liabilities	<u>8,234</u>	<u>8,234</u>	<u>—</u>
Total Liabilities	<u>67,610</u>	<u>41,011</u>	<u>26,599</u>
Net Assets Under Control of Manager	<u>229,337</u>	<u>228,533</u>	<u>804</u>
Issued Capital	0	0	0



200F6ByNrJi2Y3r0

Contributions Received

White Mining (NSW) Pty Limited	751,053	751,053	—
ICRA Ashton Pty Limited	325,298	325,298	—
Austral-Asia Coal Holdings Pty Ltd	139,453	139,453	—

Coal Sales

Total	(1,614,398)	(1,614,398)	
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Earnings

Accumulated Profit/(Loss) - Prior Period(s)	559,143	(752,638)	1,311,781
Profit/(Loss) - Current Period	<u>68,788</u>	<u>(234,633)</u>	<u>303,421</u>

Joint Venturers Interest in Net Assets	<u>229,337</u>	<u>228,533</u>	<u>804</u>
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200F6ByNrJi2bJNw

**Ashton Coal Joint Venture (incl ACML)
Consolidated Profit Statement**

Jun-10				Coal Sold (Tonnes)	12 Months to June10			
Budget		Actual			Actual		Budget	
82,347		103,114		Opencut	1,104,543		1,190,414	
187,653		21,001		Underground	1,570,873		1,929,587	
270,000		124,115		Total Coal Sold	2,675,416		3,120,000	
Rate \$	Amount \$000	Rate \$	Amount \$000		Amount \$000	Rate \$	Amount \$000	Rate \$
Revenue - Sales								
103.90	28,052	212.12	26,328	Coal sales	307,497	114.93	323,818	103.79
103.90	28,052	212.12	26,328	Total Revenue	307,497	114.93	323,818	103.79
Selling Costs								
3.88	1,047	2.65	329	Rail	9,725	3.64	12,097	3.88
3.52	951	5.93	736	Port	10,475	3.92	10,982	3.52
7.53	2,034	15.78	1,959	Royalties - Govt	23,741	8.87	23,721	7.60
0.48	129	0.64	79	Levies	1,622	0.61	1,489	0.48
1.35	365	2.03	252	Demurrage / (Despatch)	4,790	1.79	4,213	1.35
3.12	842	5.72	710	Management Fees	9,030	3.38	9,715	3.11
19.88	5,368	32.75	4,065	Total Selling Costs	59,382	22.20	62,217	19.94
84.01	22,684	179.37	22,263	FOR Revenue	248,115	92.74	261,602	83.85
Cost of Production								
30.27	8,172	63.25	7,850	Mining Costs - UG	90,649	33.88	91,697	29.39
15.94	4,304	42.01	5,215	Mining Costs - OC	60,338	22.55	59,413	19.04
7.57	2,043	12.59	1,563	CHPP	22,499	8.41	25,377	8.13
2.58	696	18.02	2,237	Change in O/B in Advance	8,205	3.07	5,934	1.90
(9.48)	(2,560)	2.40	298	Change in Coal Stocks	(5,995)	(2.24)	10,840	3.47
46.87	12,655	138.28	17,163	Total Cost of Production	175,696	65.67	193,262	61.94
Off site costs								
0.59	158	0.63	79	Brisbane Overheads	1,823	0.68	1,901	0.61
0.21	57	0.47	58	Marketing Overheads	691	0.26	690	0.22
0.21	57	(0.08)	(10)	Property Management	413	0.15	681	0.22
0.31	84	0.34	42	Leased equipment Interest	840	0.31	1,009	0.32
—	—	3.87	480	Finance other	(102)	(0.04)	—	—
—	—	(0.11)	(13)	(Profit)/loss disposal	(34)	(0.01)	—	—
1.32	356	5.12	636	Total Off Site costs	3,631	1.36	4,280	1.37
48.19	13,012	143.41	17,799	Total Production Cost	179,327	67.03	197,542	63.31
68.07	18,380	176.16	21,864	Total Cost	238,709	89.22	259,758	83.26
35.82	9,672	35.97	4,464	Profit / (Loss)	68,788	25.71	64,060	20.53
Check								
			5,515.662	OC	24,950.115			
			-1,051.492	UG	43,837.909			
			4,464.170	Total	68,788.024			
			-0.00					



200F6ByNrJi2fXyQ

Ashton Coal Joint Venture (incl ACML)
Profit Statement - Opencut

Jun-10				12 Months to June 10			
Budget		Actual		Actual		Budget	
82,347		103,114		Coal Sold (Tonnes)			
				1,104,543		1,190,414	
Rate \$	Amount \$000	Rate \$	Amount \$000	Amount \$000	Rate \$	Amount \$000	Rate \$
Revenue - Sales							
104.34	8,592	160.85	16,586	126,950	114.93	123,577	103.81
104.34	8,592	160.85	16,586	126,950	114.93	123,577	103.81
Selling Costs							
3.88	319	3.17	327	4,015	3.64	4,616	3.88
3.52	290	4.87	502	4,324	3.92	4,190	3.52
8.23	678	12.48	1,287	10,752	9.73	9,789	8.22
0.48	39	0.62	64	670	0.61	568	0.48
1.35	111	1.90	196	1,977	1.79	1,607	1.35
3.13	258	4.48	462	3,728	3.38	3,707	3.11
20.59	1,696	27.53	2,838	25,467	23.06	24,477	20.56
83.75	6,896	133.33	13,748	101,483	91.88	99,100	83.25
FOR Revenue							
Cost of Production							
52.27	4,304	50.57	5,215	60,338	54.63	59,413	49.91
8.46	696	21.69	2,237	8,205	7.43	5,934	4.98
7.27	599	10.22	1,054	8,980	8.13	11,005	9.25
(9.22)	(759)	(5.80)	(598)	(2,959)	(2.68)	5,327	4.47
58.77	4,840	76.68	7,907	74,564	67.51	81,679	68.61
Off site costs							
0.59	48	0.66	68	753	0.68	726	0.61
0.21	18	0.36	37	285	0.26	263	0.22
0.21	17	0.04	4	171	0.15	260	0.22
1.02	84	0.41	42	838	0.76	1,006	0.84
—	—	1.81	186	(42)	(0.04)	—	—
—	—	(0.13)	(13)	(34)	(0.03)	—	—
—	—	—	—	—	—	—	—
2.03	167	3.15	325	1,970	1.78	2,255	1.89
60.80	5,007	79.83	8,232	76,533	69.29	83,934	70.51
81.39	6,702	107.36	11,070	102,000	92.35	108,411	91.07
22.95	1,890	53.49	5,516	24,950	22.59	15,166	12.74



**Ashton Coal Joint Venture(incl ACML)
Profit Statement - Underground**

Jun-10				12 Months to June 10			
Budget		Actual		Actual		Budget	
187,653		21,001		Coal Sold (Tonnes)		1,570,873	1,929,587
Rate \$	Amount \$000	Rate \$	Amount \$000	Amount \$000	Rate \$	Amount \$000	Rate \$
Revenue - Sales							
103.80	19,478	463.86	9,742	Coal sales	180,547	114.93	200,241
103.80	19,478	463.86	9,742	Total Revenue	180,547	114.93	200,241
Selling Costs							
3.88	728	0.10	2	Rail	5,710	3.64	7,481
3.52	661	11.16	234	Port	6,150	3.92	6,792
7.23	1,356	31.98	672	Royalties - Govt	12,989	8.27	13,932
0.48	90	0.73	15	Levies	953	0.61	921
1.35	254	2.64	55	Demurrage / (Despatch)	2,812	1.79	2,606
3.11	584	11.79	248	Management Fees	5,302	3.38	6,007
19.57	3,673	58.40	1,226	Total Selling Costs	33,916	21.59	37,739
84.23	15,806	405.46	8,515	FOR Revenue	146,632	93.34	162,502
Cost of Production							
43.55	8,172	373.81	7,850	Mining Costs	90,649	57.71	91,697
—	—	—	—	Change in O/B in Advance(OC Only)	—	—	—
7.70	1,445	24.23	509	CHPP	13,520	8.61	14,372
(9.60)	(1,801)	42.68	896	Change in Coal Stocks	(3,036)	(1.93)	5,513
41.65	7,816	440.72	9,256	Total Cost of Production	101,132	64.38	111,582
Off site costs							
0.59	110	0.51	11	Brisbane Overheads	1,070	0.68	1,175
0.21	40	1.02	21	Marketing Overheads	406	0.26	426
0.21	39	(0.70)	(15)	Property Management	243	0.15	421
—	—	—	—	Leased equipment Interest	3	—	3
—	—	13.98	294	Finance other	(60)	(0.04)	—
—	—	—	—	(Profit)/loss disposal	—	—	—
1.01	189	14.81	311	Total Off Site costs	1,661	1.06	2,025
42.66	8,005	455.53	9,567	Total Production Cost	102,794	65.44	113,608
62.23	11,678	513.93	10,793	Total Cost	136,710	87.03	151,347
41.57	7,801	(50.07)	(1,051)	Profit / (Loss)	43,838	27.91	48,894



Ashton Coal Operations Limited
 Opencut Detail Cost Report

Jun-10				12 Months to June 10					
Unit Cost per ROM tonne	Budget	Unit Cost per ROM tonne	Actual		Actual	Unit Cost per ROM tonne	Budget	Unit Cost per ROM tonne	
	696,832		707,858	Overburden Removed (BCM)	8,966,321		8,470,757		
	154,305		186,545	Opencut ROM Mined (Tonnes)	1,840,478		1,889,466		
Mine Management Open Cut									
0.16	24,835	0.15	28,669	Mine Management Open Cut	301	353,474	0.19	289,920	0.15
0.16	24,835	0.15	28,669		OCMM	353,474	0.19	289,920	0.15
Overburden Removal (per BCM)									
0.07	49,889	0.07	48,612	Overburden - Supervision	310	617,176	0.07	582,059	0.07
1.03	717,133	1.08	766,493	Overburden - Drill & Blast	315	9,414,556	1.05	9,343,281	1.10
3.03	2,114,343	3.04	2,149,325	Overburden - Removal	316	27,631,573	3.08	28,338,844	3.35
0.35	243,851	0.57	400,541	Mine Support Services	377	5,088,660	0.57	3,961,783	0.47
4.48	3,125,216	4.75	3,364,971		OVERBURD	42,751,966	4.77	42,226,067	4.98
20.25	/ ROM t	18.04	/ ROM t			/ ROM t	23.23	/ ROM t	22.35
Coal Mining									
0.11	16,407	0.07	13,219	Coaling - Supervision	320	209,730	0.11	191,312	0.10
2.49	383,697	2.34	436,341	Coaling - Mine Coal to ROM	323	5,467,233	2.97	5,745,702	3.04
—	—	—	—	Coaling - Coal sampling & analysis R	391	—	—	—	—
2.59	400,104	2.41	449,561		COALING	5,676,963	3.08	5,937,014	3.14
Rehabilitation									
—	—	—	—	Rehabilitation - Supervision	330	—	—	—	—
—	—	0.40	75,410	Reshape Waste Dumps	331	76,801	0.04	175,500	0.09
—	—	—	—	Spread Topsoil	332	—	—	—	—
—	—	—	—	Construct & Maintain Drainage Struc	333	—	—	—	—
—	—	0.09	17,505	Seeding & Revegetation	335	127,932	0.07	767,590	0.41
—	—	0.50	92,915		REHAB	203,733	0.11	943,090	0.50
Technical Services									
0.38	59,094	0.33	61,676	Supervision	371	664,317	0.37	690,081	0.37
0.29	44,200	0.32	59,028	Mine Plan & Scheduling	372	348,279	0.19	193,400	0.10
—	—	—	—	Environmental Monitoring	374	2,270	0.00	—	—
0.01	2,000	—	—	Geological Modeling	375	116,900	0.06	24,000	0.01
0.68	105,294	0.65	120,704		OCTS	1,151,766	0.63	907,481	0.48
Safety and Training									
0.18	27,682	0.19	34,604	Opencut Safety	392	345,307	0.19	332,180	0.18
—	—	—	—	Opencut Training	393	—	—	—	—
0.18	27,682	0.19	34,604			345,307	0.19	332,180	0.18
—	—	—	—			—	—	—	—
Other									
0.18	28,500	0.21	39,341	Open Cut Facilities	355	492,441	0.27	342,000	0.18
0.18	28,500	0.21	39,341			492,441	0.27	342,000	0.18
Maintenance									



0.65	100,191	0.47	88,807	Supervision	340	1,208,663	0.66	1,202,288	0.64
0.23	36,200	0.21	38,611	Workshop General	341	546,459	0.30	434,400	0.23
0.20	31,168	0.10	18,920	Mechanical Maintenance - General	342	1,069,317	0.58	373,992	0.20
0.19	30,000	0.13	24,463	Electrical Maintenance - General	343	483,697	0.26	360,006	0.19
0.22	33,378	0.11	21,224	Maintenance Facilities	344	246,389	0.13	400,536	0.21
0.19	29,778	0.17	31,048	Purchasing Stores & Logistics	345	411,612	0.22	357,338	0.19
0.59	90,600	0.32	59,225	Servicing	346	936,186	0.51	1,087,201	0.58
—	—	—	—	Demob/Mob Plant Equipment	347	—	—	—	—
—	—	0.20	37,821	Accident Damage	348	318,649	0.17	—	—
(2.28)	(351,313)	(1.66)	(309,849)	Plant Recovery		(4,856,948)	(2.64)	(4,215,761)	(2.23)
(0.00)	(0)	0.05	10,070		MAINT	364,025	0.20	—	—
24.05	3,711,630	22.20	4,140,834	Opencut Costs (ex Depreciation)		51,339,675	27.89	50,977,752	28.98
1.11	171,246	2.19	407,602	Administration		2,862,538	1.56	3,019,778	1.60
0.36	55,210	0.80	148,763	Environmental Mgt		973,825	0.53	1,064,364	0.56
2.37	365,954	2.77	517,467	Depreciation		5,161,698	2.80	4,351,214	2.30
27.89	4,304,041	27.95	5,214,666	Total Opencut Cost		60,337,736	32.78	59,413,107	31.44



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Advanced overburden stripping calculation

VALUE \$000's	Jun-10			12 Months to June 10		
	BCM	Rate	\$000's	BCM	Rate	\$000's
Opening Stock	1,566,232	4.81	7,533,574	2,727,636	4.95	13,501,798
Removed - value	707,858	4.75	3,364,971	8,966,321	4.77	42,751,966
Subtotal	2,274,090	4.79	10,898,545	11,693,957	4.81	56,253,764
Closing stock 30/06/10	1,105,775	4.79	5,296,662	1,105,775	4.79	5,296,662
Consumed - value \$000's	1,168,315	4.79	5,601,883	10,588,182	4.81	50,957,102

INVENTORY

UNDERGROUND ROM	Jun-10			12 Months to June 10		
	Tonnes	Rate	Total	Tonnes	Rate	Total
Opening Stock	10,555	29.47	311,036	117,416	16.24	1,906,408
ROM Production	6,156	1284.72	7,908,753	2,690,667	33.71	90,707,412
	16,711	491.88	8,219,789	2,808,083	32.98	92,613,620
Washed	-13,989	481.88	-6,880,909	-2,805,361	32.97	-92,498,835
NRV Adj			-1,223,894			
Closing stock 30/06/10	2,722	42.24	114,986	2,722	42.24	114,986
Production						
Opening Stock	208,088	56.70	11,799,480	157,286	39.87	6,271,326
Product	5,472	1257.48	6,880,909	1,615,492	57.26	92,498,835
Washing Costs	0		508,807			13,519,602
	213,561	89.85	19,189,196	1,772,778	63.34	112,289,765
Coal sales	-21,001	89.85	-1,886,969	-1,570,972	63.34	-101,190,650
Adj +/-	819	0	0	-8,428	0	0
NRV Adj			-6,203,113			
Closing stock 30/05/10	193,378	57.40	11,099,114	193,378	57.40	11,099,114
OPEN CUT ROM						
Opening Stock	15,762	39.61	624,283	62,285	32.92	2,050,138
AOB Movement	0		2,236,912	0	0.00	8,205,136
ROM Production	186,545	28.17	5,254,526	1,840,478	32.81	60,377,596
	202,307	40.12	8,115,721	1,902,763	37.12	70,632,870
Washed	-162,880	40.12	-6,533,943	-1,863,318	37.06	-69,051,093
Closing stock 30/06/10	39,447	40.10	1,581,778	39,447	40.10	1,581,778
Production						
Opening Stock	109,674	75.08	8,234,667	76,847	57.88	4,448,016
Production	95,623	68.33	6,633,943	1,135,916	60.79	69,051,093
Washing Costs			1,053,743			8,979,697
	205,297	77.07	15,822,353	1,212,763	68.01	82,478,805
Coal sales	-103,114	77.07	-7,946,971	-1,104,605	68.01	-74,603,423
Adj +/-	48	0	0	-5,926	0	0
Closing stock 30/06/10	102,232	77.03	7,875,382	102,232	77.03	7,875,382
Total Inventory				337,779		20,671,250



ASHTON COAL OPERATIONS PTY LIMITED
CAPITAL EXPENDITURE & JV RATIFICATION REPORT

12 Months to June10

CAPITAL EXPENDITURE

COST CODE	DESCRIPTION	Ratified by Operating Committee	CER AMT	ACTUAL MONTH \$'000's	ACTUAL YEAR TO DATE \$'000's	BUDGET MONTH \$'000's	BUDGET YEAR TO DATE \$'000's
	2008 / 2009 Program Carried forward approved Capital UNDERGROUND						
20018109	Rib Bolting Rigs for Miners	15/06/2009	343,872	0	172	0	350
20018110	1400 & 1600 Structure and Conveyor	3rd Develop. Unit (Approved 2008)	—	2	728	0	
20018112	Submersible Pump Relocation	15/06/2009	280,000	0	344	0	280
20018113	New Ventilation Shaft	3rd Develop. Unit (Approved 2009)	—	0	0	0	220
20200112	Shuttle Cars	3rd Develop. Unit (Approved 2009)	—	0	1,259	0	1,350
20200131	Personnel Transport	3rd Develop. Unit (Approved 2009)	—	0	314	0	315
20200191	Maingate Drive	3rd Develop. Unit (Approved 2009)	—	0	2,697	0	2,486
20200192	Northwest Mains Tripper	3rd Develop. Unit (Approved 2009)	—	76	1,398	0	1,080
20200133	2MVA Section Transformer	3rd Develop. Unit (Approved 2009)	—	0	165	0	180
20200143	Diesel Attachments	3rd Develop. Unit (Approved 2009)	—	0	56	0	100
20200150	Bat Bag Man Basket	3rd Develop. Unit (Approved 2009)	—	34	34	0	
25405000	Longwall (Final Settlement)		—	0	261	0	
20200114	Trailer	3rd Develop. Unit (Approved 2009)	—	0	49	0	
20200132	LHD	3rd Develop. Unit (Approved 2009)	—	79	79	0	
20200173	Emergency Cache	3rd Develop. Unit (Approved 2009)	—	64	77	0	
20200175	Air Equipment CHPP	3rd Develop. Unit (Approved 2009)	—	0	18	0	
					0	0	
20018132	Feeder/Breaker	(CER Approval \$1,431M) 22/04/2009	250,000	0	598	0	250
20018130	Tripper Power Control System	15/06/2009	85,000	0	180	0	85
20018115	Train Loadout Weightometers	15/06/2009	90,000	0	52	0	90
	Administration				0	0	
20018124	Upgrade Toilet Facilities	22/10/2009	57,572	0	70	0	70
20018125	VOP Equipment		—	0	89	0	
20018122	Main Office Refurbishment		—	0		0	100
	Total 08/09 carried forward Capital		1,106,444	255	8,640	0	6,956



2009 / 2010 Program							
OPENCUT (NEOC)							
20018511	Two Way Radios			—	0	0	10
20018512	Aluminum Work Platforms			—	0	0	20
20018513	Various Hydraulic Press Equipment			—	0	0	20
20018514	GPS Survey Unit			—	0	68	80
20018526	Excavator Damage			—	0	175	0
20018527	Purchase Hired D10 Dozer TD3073	14/12/2009		425,000	0	400	0
Total Open Cut				<u>425,000</u>	<u>0</u>	<u>643</u>	<u>130</u>

UNDERGROUND

Scheduled							
Overhauls/Replacement							
20018506	Replace Shuttle Cars No. 1, 2 & 3	25/08/2009		1,650,000	265	1,276	1,650
Conveyors							
20018504	1400mm Conveyor Belt	25/08/2009		480,000	0	0	480
20018504	1400mm Structure	25/08/2009		560,000	0	1,132	560
20018504	1600mm Structure and Conveyor Belt	25/08/2009		189,000	0	0	189
20018504	1600mm Conveyor belt	25/08/2009		144,000	0	0	144
Infrastructure							
20018508	Submersible Pump Relocation	25/08/2009		494,240	29	414	600
20018525	ULD Access	- \$5.3M budgeted for FY 2010/11 - 1		12,650,000	751	3,865	5,300
20018509	Back Road Ventilation Shaft	25/08/2009		450,000	0	458	450
20018516	Power Distrubtion & Communications			—	0	0	250
20018505	Compressor	25/08/2009		480,000	0	518	350
20018507	Road Sealing	25/08/2009		376,452	0	376	400
20018530	6x 330MM 11KV Cables			228,676	229	229	0
Safety							
20018517	Emergency Excape System	22/10/2009		145,000	0	0	250
20018518	Seal Goaf Inertisation			—	0	0	500
20018131	Gas Chromatograph	25/08/2009		67,950	0	66	140
20018519	Geological Database Management System	25/08/2009		25,000	0	23	25
0							
Total Underground				<u>17,711,642</u>	<u>1,274</u>	<u>8,358</u>	<u>11,288</u>

CHPP

Mechanical							
20018510	Crane inspection platform mod 2	25/08/2009		25,000	0	17	25
Electrical							
20018130	Tripper cable reel and control panel	15/06/2009		85,000	0	0	85
20018500	High Voltage Swithroom PLC	25/08/2009		10,000	(3)	0	10
20018521	Thickener Bed Level Monitoring			—	0	0	30
20018502	UPS for #1 415 volt switch room	25/08/2009		6,000	0	6	6



200F6ByNrJi2oguQ

20018501	MCC 6 Weather Protection	25/08/2009	9,000	0	0	0	9
20018533	Reloc 33 KV Power Lines Mac Gen		110,000	110	110	0	0
20018534	4th Continuous Miner Operational		5,239,466	786	786	0	0
20018503	Bobcat	25/08/2009	50,000	0	45	0	50
20018520	Upgrade Fire systems for council approval	25/08/2009	100,000	0	0	0	100
20018536	Ravensworth Dam Lift 2		2,400,000	839	839	0	0
				0			
	Total CHPP		<u>285,000</u>	<u>1,732</u>	<u>1,803</u>	<u>0</u>	<u>315</u>
ENVIRONMENTAL							
20018522	Talings Dam Saddle Dam Wall	14/12/2009	627,000	0	606	0	500
20018523	Bowmans Creek Pump			0		0	97
							0
	Total Environmental		<u>627,000</u>	<u>0</u>	<u>606</u>	<u>0</u>	<u>597</u>
ADMINISTRATION							
20018524	7 x motor vehicle replacements			(8)	361	0	330
20018529	Glennies Creek Rd Insurance Part 11			281	281	0	0
						0	0
	Total Administration		<u>0</u>	<u>273</u>	<u>642</u>	<u>0</u>	<u>330</u>
PROJECTS							
20025009	Southeast Open Cut/West Pit & Other New Projects	Project approval pending		1,824	11,196	1,973	18,819
20018531	Bengalia Coal Conveyor		1,300	0	41		
					0		
	Total Projects		<u>1,300</u>	<u>1,824</u>	<u>11,237</u>	<u>1,973</u>	<u>18,819</u>
	Total 2009/ 2010 Program		<u>20,156,386</u>	<u>5,357</u>	<u>31,931</u>	<u>4,641</u>	<u>38,435</u>

Ashton Coal Operations Limited
Administration & Overheads Cost Report

Jun-10										12 Months to June 10			
Unit Cost per ROM tonne	Budget	Unit Cost per ROM tonne	Actual			Actual	Unit Cost per ROM tonne	Budget	Unit Cost per ROM tonne				
	154,305		186,545	Opencut ROM Mined (Tonnes)		1,840,478		1,889,466					
	407,052		6,156	Underground ROM Mined (Tonnes)		2,690,667		3,056,548					
	<u>561,357</u>		<u>192,701</u>	Total ROM (Tonnes)		<u>4,531,145</u>		<u>4,946,014</u>					
Administration													
0.16	88,465	0.63	12,1425	Salaries	80510	1,178,406	0.26	1,031,535	0.21				
0.00	2,500	0.03	6,471	Recruitment Costs	80710	88,055	0.02	30,000	0.01				
				Staff Relocation	80715	82	0.00	—	—				
				Temporary Staff	81090	—	—	52,500	0.01				
00.4	22,000			FBT	80760	—	—	264,000	0.05				
00.0	1,000	0.00	294	Staff Pvt Accomodation	80766	3,582	0.00	12,000	0.00				
		(0.00)	(39)	Luxury Car Tax	80755	(534)	(0.00)	—	—				
				Employee Gifts	80780	76,845	0.02	—	—				
0.04	23,000	0.11	22,119	Contractors - General	82000	217,321	0.05	276,000	0.06				
				Contractors - Wonnarua	82037	—	—	—	—				
		(0.02)	(4,138)	Materials, Consumables & Spare	83010	12,396	0.00	—	—				
		0.22	43,350	Stocktake Adjustment	83110	(68,460)	(0.02)	—	—				
				Safety	83410	—	—	—	—				
				Vehicles	84010	1,194	0.00	—	—				
0.01	3,000	0.01	1,360	Electricity	84510	16,619	0.00	36,000	0.01				
0.02	9,000	0.01	2,768	Water	84520	95,044	0.02	108,000	0.02				
0.01	4,000	0.02	4,407	Cleaning	84530	46,943	0.01	48,000	0.01				
0.00	2,000	0.05	9,383	Security	84535	110,531	0.02	24,000	0.00				
				Rates	84540	—	—	—	—				
				Rental Expense	84545	—	—	—	—				
0.02	12,500	0.05	10,119	Office Consumables	85010	120,082	0.03	150,000	0.03				
0.01	5,000			Printing and Stationery	85015	—	—	60,000	0.01				
0.00	2,500	0.01	2,000	Courier Charges	85025	25,817	0.01	30,000	0.01				
0.04	25,000	0.01	1,620	Subscriptions	85040	274,390	0.06	300,000	0.06				
0.02	10,000	0.04	6,996	Computer Operating Costs	85125	139,610	0.03	120,000	0.02				
0.01	7,500	0.06	11,653	Telephones - Fixed	85210	81,405	0.02	90,000	0.02				
0.02	9,000	0.04	6,618	Telephones - Mobile	85015	82,248		108,000	0.02				
0.01	5,000	0.03	4,830	Travel - Domestic	85410	42,723	0.01	60,000	0.01				
0.00	2,000	0.00	631	Entertainment	85430	51,400	0.01	87,000	0.02				
		0.01	1,200	Public Relations	85620	52,548	0.01	—	—				
				Donations Allow	85630	3,772	0.00	30,000	0.01				
0.00	2,500	0.04	7,216	Legal Fees - Allowable	86010	176,876	0.04	30,000	0.01				
0.25	140,667	1.24	239,568	Insurance - Industrial	86410	1,458,205	0.32	1,688,000	0.34				
				Other Bank Charges	87045	—	—	—	—				
		0.34	64,586	Fringe Benefits	87510	240,447	0.05	—	—				
		0.07	12,833	Other Expenses	87899	27,193	0.01	—	—				
		0.10	19,055	Minor Capital	88010	105,245	0.02	—	—				
0.01	3,000	0.01	2,716	Allocated Plant Costs	90440	30,890	0.01	36,000	0.01				



				Internal Service	90660				
				Minor Capital < \$1000	88010				
				Minor Capital > \$1000 < \$5000	88020			60,000	
0.68	379,632	3.11	599,240		Total	4,690,873	1.04	4,731,035	0.96
Environmental Management									
0.07	41,768		99,523	Salaries	80510	714,286	0.16	501,213	0.10
0.25	142,668	0.54	103,564	Contractors - General	82000	1,497,391	0.33	1,712,018	0.35
				Contractors - Wonnaru	82037	18,270	0.00		
0.01	8,333	0.15	29,350	Materials, Consumables & Spare	83010	118,841	0.03	102,000	0.02
				Telephones - Fixed	85210	2,773	0.00		
0.01	7,083	0.00	280	Public Relations	85620	36,114	0.01	85,000	0.02
0.00	1,000	0.00	555	Allocated Plant Costs	90440	9,823	0.00	12,000	0.00
0.36	200,852	1.21	233,272		Total	2,397,497	0.53	2,412,231	0.49
Safety and Training									
0.04	22,083	0.18	35,387	Salaries	80510	328,180	0.07	264,993	0.05
0.02	8,600	0.05	9,241	Contractors - General	82000	88,933	0.02	103,200	0.02
0.00	1,596	0.07	13,306	Materials, Consumable & Spare	83010	33,964	0.01	19,150	0.00
				Telephones - Fixed	85210				
				Other Expenses	87899				
0.00	1,000	0.02	3,172	Allocated Plant Costs	90440	10,808	0.00	12,000	0.00
0.06	33,279	0.32	61,106		Total	461,885	0.10	399,343	0.08
1.09	613,762	4.62	893,619	Administration Costs (ex Depreciation)		7,550,256	1.67	7,542,609	1.52
0.37	205,079	(0.27)	(52,513)	Depreciation		1,894,637	0.42	1,933,076	0.39
1.46	818,841	4.36	841,106	Total Administration Cost		9,444,893	2.08	9,475,685	1.92
1.11	171,248	2.19	407,602	Opencut Share of Admin & Safety Costs		2,862,538	1.56	3,019,778	1.60
1.11	451,743	32.53	200,232	Underground Share of Admin & Safety Costs		4,184,857	1.56	4,043,677	1.32
0.14	55,210	0.80	148,763	Opencut Share of Environmental Costs		973,825	0.53	1,064,364	0.56
0.36	145,643	13.73	84,509	Underground Share of Environmental Costs		1,423,673	0.53	1,347,868	0.44



Ashton Coal Operations Limited
Maintenance Cost Report

Jun-10				12 Months to June 10			
Unit Cost per ROM tonne	Budget	Unit Cost per ROM tonne	Actual	Actual	Unit Cost per ROM tonne	Budget	Unit Cost per ROM tonne
EQUIPMENT							
	2,080,324		2,540,777				
				27,460,381		30,363,907	
Maintenance							
100,191		88,607		Supervision 340	1,208,663	1,202,288	
36,200		38,811		Workshop General 341	546,459	434,400	
31,166		18,920		Mechanical Maintenance - General 342	1,069,317	373,992	
30,000		24,463		Electrical Maintenance - General 343	483,697	360,006	
33,378		21,224		Maintenance Facilities 344	246,389	400,538	
29,778		31,048		Purchasing Stores & Logistics 345	411,612	357,338	
90,800		59,225		Servicing 346	936,188	1,087,201	
—		—		Demob/Mob Plant Equipment 347	—	—	
<u>351,313</u>		<u>282,097</u>			<u>4,902,325</u>	<u>4,215,761</u>	
<u>2,441,638</u>		<u>2,822,874</u>		Total Costs (ex Depreciation)	<u>32,362,705</u>	<u>34,579,668</u>	
<u>2,441,638</u>		<u>2,822,874</u>		Total Cost	<u>32,362,705</u>	<u>34,579,668</u>	



**Ashton Coal Operations Limited
 Underground Detail Cost Report**

Jun-10				12 Months to June-10					
Unit Cost per ROM tonne	Budget	Unit Cost per ROM tonne	Actual		Actual	Unit Cost per ROM tonne	Budget	Unit Cost per ROM tonne	
	407,052		6,156	Underground ROM Mined (Tonnes)	2,690,667		3,056,548		
	2,035		255	Development Meters	16.448		22,216		
Mine Management									
0.24	96,947	13.19	81,210	Underground Mine Management	401	1,167,193	0.43	1,141,686	0.37
0.24	96,947	13.19	81,210	UGMM	1,167,193	0.43	1,141,686	0.37	
Technical Services									
0.17	69,130	21.11	129,929	Supervision	421	988,527	0.37	814,301	0.27
0.05	20,000	8.71	53,638	Bowman Crk Aquidude	420	1,287,543	0.48	240,000	0.08
0.06	25,000	2.50	15,366	Mine Planning and Scheduling	422	104,724	0.04	300,000	0.10
0.01	6,000	0.42	2,609	Surveying & Mine Planning	423	126,755	0.05	72,000	0.02
0.05	20,000	(1.30)	(8,000)	Multi Seam Assessment	424	343,541	0.13	240,000	0.08
0.14	58,000	1.92	11,792	Exploration & Infill Drilling	425	336,121	0.12	696,000	0.23
0.00	1,000	—	—	Geological Modelling	426	—	—	12,000	0.00
				Geotechnical Assessment					
0.04	15,000	2.92	18,005	Modelling	427	252,165	0.09	180,000	0.06
0.08	32,000	(12.29)	(75,672)	Subsidence Assessment Modelling	428	296,725	0.11	384,000	0.13
				Ventilation Assessment					
0.02	8,000	2.07	12,750	Monitoring	429	128,090	0.05	96,000	0.03
0.82	254,130	26.06	160,416	UGTS	3,864,191	1.44	3,034,301	0.99	
Development Mining									
0.10	41,600	1.23	7,542	Stonedusting & Barriers	430	313,223	0.12	453,320	0.15
0.43	173,703	18.17	111,851	Supervision	431	1,787,431	0.66	2,044,432	0.67
4.80	1,955,471	386.51	2,379,354	Development Mining	432	22,773,408	8.46	20,910,607	6.84
0.10	40,700	6.86	42,234	Ventilation	433	249,762	0.09	444,320	0.15
5.43	2,211,473	412.76	2,540,981	UGDM	25,123,824	9.34	23,852,679	7.80	
Longwall Mining									
2.36	960,797	41.28	254,131	Longwall Mining	434	9,052,517	3.36	12,508,536	4.09
—	—	138.75	854,144	Longwall Relocation	435	5,692,860	2.12	4,500,000	1.47
0.05	22,062	5.16	31,752	Stone Dusting & Barriers	437	227,230	0.08	175,591	0.06
0.16	64,732	11.23	69,105	Ventilation	439	947,986	0.35	547,519	0.18
0.22	87,931	22.66	139,518	Supervision	481	1,670,035	0.62	1,035,077	0.34
2.79	1,135,521	219.08	1,348,650	UGLM	17,590,627	6.54	18,766,722	6.14	
Outbye Mining									
1.88	764,052	96.49	594,018	Outbye Mining	438	9,028,409	3.36	9,047,090	2.96
0.37	151,400	29.42	181,091	Roadworks	438	1,974,350	0.73	1,671,800	0.55
0.47	191,177	18.95	116,654	Supervision	462	1,585,208	0.59	2,249,368	0.74
2.72	1,106,629	144.86	891,763	UGDM	12,587,967	4.68	12,968,257	4.24	
Underground Services									
0.60	245,967	23.59	145,235	Coal Conveying	440	1,597,495	0.59	1,875,992	0.61



0.10	40,700	15.25	93,861	Water Supply	441	774,176	0.29	444,320	0.15	
0.11	43,200	2.35	14,494	Compressed Air	442	243,856	0.09	474,320	0.16	
0.14	55,400	11.52	70,927	Electrical Power Supply	443	534,786	0.20	662,400	0.22	
0.10	40,700	1.33	8,211	Communications / Monitoring	444	372,186	0.14	444,320	0.15	
0.03	12,000	0.61	3,763	Gas Monitoring	445	265,867	0.10	144,000	0.05	
0.02	8,000	0.04	270	Fire Fighting	446	124,850	0.05	98,000	0.03	
0.02	8,000	5.24	32,230	Emergency Escape System	447	88,931	0.03	306,000	0.10	
0.19	78,050	3.05	18,747	Dewatering and Pumping	448	919,112	0.34	870,480	0.28	
0.33	135,000	24.36	149,937	Underground Electricity	486	1,566,767	0.58	1,620,000	0.53	
1.64	667,017	87.34	537,677		UGUS	6,488,028	2.41	6,937,832	2.27	
Surface Facilities										
0.02	8,200	0.72	4,461	Offices	451	95,842	0.04	98,400	0.03	
0.04	16,000	2.56	15,783	Bath House & Ablutions	452	210,593	0.08	192,000	0.06	
0.00	1,000	—	—	Crib Room	453	4,785	0.00	12,000	0.00	
0.13	52,000	7.98	49,142	Services	454	753,038	0.28	624,000	0.20	
0.12	48,000	11.23	69,145	Diesel Fuel Station	456	419,649	0.16	576,000	0.19	
0.31	125,200	22.50	138,532		UGSF	1,483,908	0.55	1,502,400	0.49	
Maintenance										
0.40	184,604	22.38	137,768	Supervision - UG Maintenance	460	2,061,686	0.77	1,938,064	0.63	
0.04	16,000	2.21	13,590	Maintenance Facilities	461	97,311	0.04	192,000	0.06	
0.03	12,000	4.03	24,838	Workshop General	462	185,535	0.07	144,000	0.05	
0.02	8,000	1.02	6,257	Maintenance Tooling	463	150,254	0.06	98,000	0.03	
0.01	5,000	—	—	Demob / Mob Plan Equipment	464	1,260	0.00	60,000	0.02	
0.22	90,891	12.95	79,725	Servicing	465	914,462	0.34	1,065,934	0.36	
0.07	28,000	2.76	16,972	Mechanical Maintenance- General	466	196,864	0.07	336,000	0.11	
0.05	20,000	1.07	6,576	Electrical Maintenance- General	467	125,936	0.05	240,000	0.08	
0.05	20,000	3.29	20,272	Cable Repairs	468	153,309	0.06	240,000	0.08	
0.01	6,000	0.50	3,105	Lifting Equipment	469	54,935	0.02	72,000	0.02	
0.19	77,467	11.20	68,960	Purchasing Stores & Logistics	470	807,433	0.30	923,544	0.30	
—	—	—	—	Damage Repairs	471	—	—	—	—	
1.10	447,962	61.41	378,064		UGMA	4,748,984	1.76	5,327,542	1.74	
Safety and Training										
0.10	40,172	9.18	56,501	Underground Safety	492	616,655	0.23	482,060	0.16	
0.10	40,172	9.18	56,501			616,655	0.23	482,060	0.16	
14.95	6,085,052	996.39	6,133,794	Underground Costs (ex Depreciation)		73,671,378	27.38	74,013,480	24.21	
1.11	451,743	32.53	200,232	Administration		4,184,857	1.56	4,043,677	1.32	
0.36	145,643	13.73	84,509	Environmental Mgt		1,423,673	0.53	1,347,868	0.44	
3.66	1,489,767	232.61	1,431,946	Depreciation		11,369,232	4.23	12,292,430	4.02	
20.08	8,172,205	1,275.26	7,850,480	Total Underground Cost		90,649,139	33.69	91,697,454	30.00	



**Ashton Coal Operations Limited
 CHPP Cost Report**

Jun-10									12 Months to June 10				
Unit Cost per ROM tonne	Budget	Unit Cost per ROM tonne	Actual			Actual	Unit Cost per ROM tonne	Budget	Unit Cost per ROM tonne			Actual	Unit Cost per ROM tonne
	154,305		162,860	Opencut ROM Feed (Tonnes)		1,863,316		1,934,466					
	372,375		13,989	Underground ROM Feed (Tonnes)		2,805,361		3,066,871					
	526,680		176,849	Total ROM Feed		4,668,677		5,001,337					
	95,266		95,623	Opencut Product (Tonnes)		1,135,916		1,137,635					
	217,095		5,472	Underground Product (Tonnes)		1,615,492		1,824,082					
	312,361		101,095	Total Product		2,751,408		2,961,717					
	62%		59%	Opencut Yield		61%		59%					
	58%		39%	Underground Yield		57.59%		59%					
	59%		57%	Average Yield		59%		59%					
0.20	104,272	0.29	51,635	Management CHPP	501	1,067,330	0.23	1,251,260	0.25				
0.64	440,306	1.42	250,872	ROM Coal Handling	531	4,216,897	0.90	5,570,322	1.11				
0.62	324,842	2.18	385,894	Coal Processing	532	4,731,834	1.01	4,633,481	0.93				
0.48	252,568	1.01	177,794	Product Coal Handling	533	2,974,099	0.64	3,261,017	0.65				
0.31	161,354	0.55	96,471	Rejects	534	1,377,996	0.30	2,220,558	0.44				
0.19	99,428	0.33	58,580	Tailings Treatment	535	1,059,507	0.23	1,218,993	0.24				
0.02	8,120	0.16	28,832	CHPP Facilities / Services	543	367,174	0.08	328,629	0.07				
0.06	30,612	0.13	23,088	Purchasing, Stores & Logistics	544	266,729	0.06	367,340	0.07				
0.21	111,315	0.51	90,939	CHPP Electricity	586	1,263,165	0.27	1,421,409	0.28				
0.09	45,000	0.24	42,896	Coal Sampling & Analysis	591	627,798	0.13	540,000	0.11				
0.03	14,143	0.11	19,761	Safety/Training	592	123,114	0.03	169,720	0.03				
3.02	1,591,960	6.94	1,226,762	CHPP Cost (ex Depreciation)		18,075,643	3.87	20,982,728	4.20				
0.86	451,156	1.90	335,788	Depreciation		4,423,655	0.95	4,394,349	0.88				
3.88	2,043,115	8.84	1,562,550	Total CHPP Cost		22,499,299	4.82	25,377,077	5.07				
	596,246		1,053,743	Opencut Share of CHPP Costs		8,979,697		10,544,386					
	1,554,497		508,807	Underground Share of CHPP Costs		13,519,602		15,621,741					



Ashton Joint Venture
Cost per Tonne Sold Analysis
Opencut

<u>Jun-10</u>			<u>YTD Jun-10</u>	
<u>Budget</u>	<u>Actual</u>		<u>Actual</u>	<u>Budget</u>
154,305	186,545	ROM Coal Mined	1,840,478	1,889,466
82,347	103,114	Net Tonnes Sold (Invoiced)	1,104,543	1,190,414
45.07	40.16	OC Mining	46.48	42.82
0.00	0.00	UG Mining	0.00	0.00
5.64	8.02	Coal Processing	6.53	7.32
2.07	5.89	Site Admin and Overheads	2.78	2.81
(0.76)	15.89	Movement in OBIA and Coal Stocks	4.75	9.45
		Finance Leases		
52.02	69.96	Total FOR Cash Costs per Tn Sold	60.54	62.41
3.88	3.17	Rail	3.64	3.88
3.52	4.87	Port	3.92	3.52
1.35	1.90	(Despatch)/Demurrage	1.79	1.35
3.13	4.43	Management & Marketing Fees	3.38	3.11
1.01	0.93	Brisbane Corporate and Other Costs	1.06	1.05
64.91	85.31	FOB Cash Costs per Tn Sold	74.33	75.32
8.71	13.10	Royalties and Levies	10.34	8.70
1.02	2.22	Finance Costs	0.72	0.84
6.73	6.72	Depreciation and Amortisation	6.97	5.81
81.37	107.35	Total FOB Costs per Tn Sold	92.36	90.67
<u>Input:</u>				
49.52	45.18	OC Mining	51.15	46.48
		UG Mining		
7.24	10.22	Coal Processing	8.13	8.86
2.75	5.40	Site Admin and Overheads	3.47	3.43
		Finance Leases (Principal)		
59.51	60.79	FOR Cost per Tn Sold	62.76	58.77
366	517	OC Mining D&A	5,162	4,351
		UG Mining D&A		
132	226	Coal Processing D&A	1,766	1,826
56	(51)	Site Admin and Overheads D&A	770	738
0	0	Exploration Amortisation	0	0
554	693	Depn & Amortn [\$'000]	7,697	6,916
<u>Cross Check to P&L</u>				
20.59	27.53	Total Selling Costs	23.06	20.56
60.80	79.83	Total Costs	69.29	70.51
81.39	107.36	Total Costs per Tn Sold	92.35	91.07
(0.02)	(0.01)	Difference	0.01	(0.40)



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Ashton Joint Venture
Cost per Tonne Sold Analysis
Underground

Jun-10			YTD Jun-10	
Budget	Actual		Actual	Budget
407,052	6,156	ROM Coal Mined	2,690,667	3,056,548
187,653	21,001	Net Tonnes Sold (Invoiced)	1,570,873	1,929,587
0.00	0.00	OC Mining	0.00	0.00
32.43	292.07	UG Mining	46.90	38.36
6.45	19.02	Coal Processing	6.91	6.69
2.39	13.64	Site Admin and Overheads	2.85	2.18
(9.60)	42.68	Movement in OBIA and Coal Stocks	(1.93)	2.86
		Finance Leases		
31.67	367.41	Total FOR Cash Costs per Tn Sold	54.74	50.09
3.88	0.10	Rail	3.64	3.88
3.52	11.16	Port	3.92	3.52
1.35	2.64	(Despatch)/Demurrage	1.79	1.35
3.11	11.79	Management & Marketing Fees	3.38	3.11
1.01	0.83	Brisbane Corporate and Other Costs	1.09	1.05
44.54	393.93	FOB Cash Costs per Tn Sold	68.56	63.00
7.71	32.71	Royalties and Levies	8.88	7.70
0.00	13.98	Finance Costs	(0.04)	0.00
10.56	73.31	Depreciation and Amortisation	9.65	8.39
62.81	513.93	Total FOB Costs per Tn Sold	87.04	79.09

Input:

40.37	360.25	OC Mining		
8.28	24.23	UG Mining	54.14	44.73
3.18	13.56	Coal Processing	8.61	8.10
		Site Admin and Overheads	3.57	2.79
		Finance Leases (Principal)		
51.83	398.04	FOR Cost per Tn Sold	66.31	55.62
1,490	1,432	OC Mining D&A		
343	109	UG Mining D&A	11,369	12,292
149	(2)	Coal Processing D&A	2,658	2,705
0	0	Site Admin and Overheads D&A	1,125	1,195
		Exploration Amortisation	0	0
1,982	1,540	Depn & Amortn [\$'000]	15,152	16,192
Cross Check to P&L				
19.57	58.40	Total Selling Costs	21.59	19.56
42.66	455.53	Total Costs	65.44	58.88
62.23	513.93	Total Costs per Tn Sold	87.03	78.44
0.58	(0.00)	Difference	0.01	0.65



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Ashton Coal Joint Venture(incl ACML)

Consolidated Cash Generation

Variance \$000's	Jun-10			12 Months to June10		
	Budget \$000's	Actual \$000's		Actual \$000's	Budget \$000's	Variance \$000's
(5,208)	9,672	4,464	Consolidated Profit	68,788	64,060	4,728
			Add back:			
152	366	517	O/C depn	5,162	4,351	810
(58)	1,490	1,432	U/G Depn	11,369	12,292	(923)
(115)	451	336	CHPP Depn	4,424	4,394	29
(258)	205	(53)	Admin Depn	1,895	1,933	(38)
(41)	84	42	Lease Interest	840	1,009	(168)
1,540	696	2,237	Change in O/B in Advance	8,205	5,934	2,271
2,859	(2,560)	298	Change in Coal Stocks	(5,995)	10,840	(16,836)
(1,130)	10,404	9,274	Operating Cash Surplus	94,687	104,814	(10,127)
			Finance/Capital			
1,266	0	1,266	Lease Payments	(6,065)	(8,915)	2,850
(536)	(4,641)	(5,177)	Capex	(31,931)	(38,435)	6,504
(399)	5,763	5,364	Total Cash Generation	56,691	57,464	(773)



Ashton Joint Venture
Cost per Tonne Sold Analysis
Underground

<u>Jun-10</u>			<u>YTD Jun-10</u>	
<u>Budget</u>	<u>Actual</u>		<u>Actual</u>	<u>Budget</u>
561,357	192,701	ROM Coal Mined	4,531,145	4,946,014
270,000	124,115	Net Tonnes Sold (Invoiced)	2,675,416	3,120,000
13.75	33.36	OC Mining	19.19	16.34
22.54	49.42	UG Mining	27.54	23.72
5.90	9.88	Coal Processing	6.76	6.73
2.27	7.20	Site Admin and Overheads	2.82	2.42
(6.90)	20.42	Movement in OBIA and Coal Stocks	0.83	5.37
		Finance Leases		
37.55	120.29	Total FOR Cash Costs per Tn Sold	57.13	54.57
3.88	2.65	Rail	3.54	3.88
3.52	5.93	Port	3.92	3.52
1.35	2.03	(Despatch)/Demurrage	1.79	1.35
3.12	5.72	Management & Marketing Fees	3.38	3.11
1.01	0.91	Brisbane Corporate and Other Costs	1.08	1.05
50.43	137.53	FOB Cash Costs per Tn Sold	70.94	67.48
8.01	16.42	Royalties and Levies	9.48	8.08
0.31	4.21	Finance Costs	0.27	0.32
9.30	17.99	Depreciation and Amortisation	8.54	7.36
68.06	176.15	Total FOB Costs per Tn Sold	89.23	83.25

Input:

15.10	37.53	OC Mining	21.12	17.73
28.05	60.96	UG Mining	31.79	27.66
7.57	12.59	Coal Processing	8.41	8.13
3.03	6.78	Site Admin and Overheads	3.53	3.04
		Finance Leases (Principal)		
53.76	117.86	FOR Cost per Tn Sold	64.84	56.57
366	517	OC Mining D&A	5,162	4,351
1,490	1,432	UG Mining D&A	11,369	12,292
451	336	Coal Processing D&A	4,424	4,394
205	(53)	Site Admin and Overheads D&A	1,895	1,933
0	0	Exploration Amortisation	0	0
2,512	2,233	Depn & Amortn [\$'000]	22,849	22,971
<u>Cross Check to P&L</u>				
19.88	32.75	Total Selling Costs	22.20	19.94
48.19	143.41	Total Costs	67.03	63.31
68.07	176.16	Total Costs per Tn Sold	89.23	83.25
(0.01)	(0.01)	Difference	0.00	(0.00)



EXHIBIT 4.6

Joint Venture Contract

Party A: Yankuang Group Co., Ltd.

Party B: Yanzhou Coal Mining Company Limited

Party C: Shaanxi Yanchang Petroleum (Group) Co., Ltd.

WHEREAS:

Party A is a mega-sized state-owned enterprise mainly engaged in coal production and sales, coal chemicals, machining and coal-power-aluminum. It is an important coal production and export base in China and is currently a mega-sized state-owned conglomerate under the supervision of Shandong Province State-owned Assets Supervision and Administration Commission.

Party B became the first enterprise in China's coal industry that simultaneously issued shares domestically and abroad when it successfully listed shares in New York, Hong Kong and Shanghai, respectively. It is a majority-controlled subsidiary of Party A.

Party C is one of the four qualified enterprises for oil and gas exploration in China. It is a solely state-owned enterprise with limited liability directly under Shaanxi Provincial Government, and endeavors to promote common development of the oil, gas, coal and salt industries.

Based on the principles of fairness and mutual benefit, complementarity and common development and after friendly consultations, Party A, B, and C jointly



establish a joint venture, namely Shaanxi Future Energy Chemical Corp. for the co-construction of a coal-to-oil project. This contract is hereby signed and intended to be bound by the parties hereto.

Chapter 1 Establishment of the Company

Article 1 Company name: 陕西未来能源化工有限公司(Shaanxi Future Energy Chemical Corp.) (hereinafter referred to as the “Company”).

Article 2 Company address: Yulin City, Shaanxi Province

Article 3 Business scope of the Company: manufacture and sale of chemical products, oil products and coal.

Article 4 Operation period: Long-term. Business license issue date is the date of establishment of the Company.

With regard to the registration items set out above, the registration details with the State’s industry and commerce department shall prevail.

Article 5 The Company can set up branches as required by the development of production and operations. The branch does not have legal person status and its civil liability will be borne by the Company.

Upon establishment, the Company will register with company registration authority and obtain the Business License for Enterprise as a Legal Person.

Article 6 The Company is a limited liability company. The chairman of the board of directors shall be the legal representative.

Article 7 All three parties agree to jointly appoint the Company’s attorney (by way of a power of attorney signed separately) to apply to the company registration authority for the registration of the pre-approval of the Company’s name as well as



the registration of the Company's establishment.

Article 8 The Company bears all expenses spent in relation to the establishment of the Company. The expenses shall be audited and shall be reviewed and approved by a shareholders' meeting of the Company.

In view of the fact that Party A has pre-paid some expenses for the project's early stage preparation work, the newly established Company will reimburse Party A after auditing of such expenses and upon confirmation by the respective investing parties.

Chapter 2 Capital Contribution

Article 9 The Company's registered capital is RMB5,400,000,000.

Article 10 The amount and percentage of capital contribution by the respective contributing parties are as follows:

Party A to contribute RMB2,700,000,000, representing 50% of the total contribution;

Party B to contribute RMB1,350,000,000, representing 25% of the total contribution;

Party C to contribute RMB1,350,000,000, representing 25% of the total contribution

Article 11 Form and Timing of Contribution

Contributions by the respective contributing parties shall all be made in cash (RMB) and fully paid up in three installments.

Initial contribution amounts to RMB2,160,000,000 (40% of the registered capital) in total, which shall be paid up by the three shareholders on the basis of their respective percentage of capital contributions within 7 days after the set-up of the



Company's provisional account, i.e.: initial payment by Party A: RMB1,080,000,000; initial payment by Party B: RMB540,000,000; initial payment by Party C: RMB540,000,000.

Second contribution amounts to RMB1,620,000,000 (30% of the registered capital) in total, which shall be paid up by the three shareholders on the basis of their respective percentage of capital contributions within 12 months from the date of establishment of the Company, of which: Party A to contribute RMB810,000,000; Party B to contribute RMB405,000,000; Party C to contribute RMB405,000,000.

Third contribution amounts to RMB1,620,000,000 (30% of the registered capital) in total, which shall be paid up by the three shareholders on the basis of their respective percentage of capital contributions within 18 months from the date of establishment of the Company, of which: Party A to contribute RMB810,000,000; Party B to contribute RMB405,000,000; Party C to contribute RMB405,000,000.

Article 12 Upon establishment of the Company, all shareholders shall be issued a capital contribution certificate, which shall be signed by the Company's legal representative.

The shareholders' name, address and amount of capital contribution shall be included in the Company's register of members.

Chapter 3 Share Transfer

Article 13 Upon establishment of the Company, all or some of the equity interests of the shareholders may be transferred between the shareholders. Where a shareholder intends to transfer its equity interest to any non-shareholder, it shall be approved by more than half of the other shareholders. The shareholder shall notify the other



shareholders in written form of the share transfer for their approval. If any of the other shareholders fails to give a reply within 30 days after the receipt of the written notice, it shall be deemed to have agreed to the transfer. If half or more of the other shareholders disagree to the transfer, the shareholders who disagree to the transfer shall purchase the equity interest to be transferred. If they refuse to purchase the equity interest, they shall be deemed to have agreed to the transfer.

Under the same conditions, the other shareholders have a preemptive right to purchase the equity interest to be transferred upon their approval. If two or more shareholders claim the preemptive rights, they shall determine their respective percentage of purchase through negotiation. If they fail to reach an agreement during the negotiation, they shall exercise the preemptive rights on the basis of their respective percentage of capital contributions.

Chapter 4 Undertakings of the Contributing Parties

Article 14 The contributing parties undertake that they are all legally established and validly existing enterprise legal persons and have the investment capability and the legal subject qualification to make investments.

Article 15 The contributing parties undertake that all necessary approvals have been obtained for their contributions made under this contract according to their respective articles of association and relevant laws and regulations.

Chapter 5 Rights and Obligations of the Contributing Parties

Article 16 Each contributing party shall have the rights as follows:



(I) To make the contribution according to this contract and obtain the corresponding capital contribution certificate based on the amount of its contribution;

(II) In the event of any substantive changes in the conditions agreed in this contract, the contributing parties shall have the right to receive notice thereon, express their opinion and demand modification to or termination of this contract as agreed herein;

(III) To receive compensation in case of any loss incurred as a result of other contributing parties' default;

(IV) To participate in the drafting, consideration and approval of the articles of association;

(V) To recommend and elect directors and supervisors (not including worker directors and worker supervisors) of the Company;

(VI) To examine the Company's preparation expenses and participate in the preparation of the Company's establishment;

(VII) Upon establishment of the Company, to be entitled to such other rights as shareholders shall be entitled to according to laws and regulations and articles of association.

Article 17 Each contributing party shall assume obligations as follows:

(I) To make its full contribution according to the time and form as prescribed;

(II) If the Company fails to be established due to reasons not attributable to any party, each contributing party agrees to assume the expenses and liabilities incurred during the establishment of the Company in proportion to their respective subscribed capital;

(III) To make compensation or damages to the performing parties if it has failed to perform its obligation of contribution according to the time, form or amount as



agreed;

(IV) All contributing parties shall timely provide all necessary documents and certificates for the registration of the Company and shall provide all kinds of services and facilities for the establishment of the Company in their respective areas of competence;

(V) In the event of damage to the Company's interest by virtue of any contributing party's fault during the establishment of the Company, such party shall be liable for Company's damages to the extent of its proportionate fault;

(VI) No contribution shall be withdrawn after the establishment of the Company.

Chapter 6 Corporate Governance Structure

Article 18 The Company holds shareholders' meeting. The shareholders' meeting of the Company, consisting of three shareholders, namely Party A, Party B and Party C, is the Company's organ of authority and shall exercise its powers in accordance with the laws and regulations and the Company's articles of association.

Article 19 The Company sets up a board of directors comprising nine directors recommended by the Company's shareholders of whom four directors shall be nominated by Yankuang Group Co., Ltd., two directors shall be nominated by Yanzhou Coal Mining Company Limited and two directors shall be nominated by Shaanxi Yanchang Petroleum (Group) Co., Ltd., which director nominations by the shareholders shall be approved by voting at the shareholders' committee; one employee director who is to be elected at the general meeting of the staff and workers through democratic voting processes. The term of each director shall be three years. A director may continue for the next term if he is re-elected upon the expiration of his



term.

The board shall have one chairman and one vice-chairman. The chairman and vice-chairman are appointed by Party A among the directors as it has recommended.

Article 20 The Company shall have one general manager who is to be nominated by the chairman of the board and appointed or removed by the board of directors. The general manager is responsible for the board and shall be in charge of managing the Company's production and operation and organizing the implementation of board resolutions.

The Company shall have seven deputy general managers and one chief engineer; the deputy general managers and chief engineer are to be nominated by the general manager and appointed or removed by the board of directors.

The Company shall have one chief financial officer who is to be recommended by Party C and appointed or removed by the board of directors after being nominated by the general manager.

Article 21 The Company shall have a board of supervisors comprising five supervisors. Of whom: one shall be recommended by Party A, one shall be recommended by Party B and one shall be recommended by Party C. The above supervisors recommended by the shareholders shall be elected by voting at the shareholders' meeting. Two employee supervisors are to be elected at the general meeting of the staff and workers through democratic voting processes.

The board of supervisors shall have one chairman who is to be recommended by Party B and elected by half or more of the votes by all the supervisors. Meetings of the board of supervisors shall be convened and presided over by the chairman of the board of supervisors; in the event that the chairman is unable to perform or does not perform his duties, another supervisor may be elected to convene and preside over the meeting



by half or more of the votes cast therefor by the supervisors.

Article 22 Upon signing of this contract, the parties shall jointly draft the articles of association. Other specific issues related to this chapter shall be otherwise stipulated by the articles of association.

Chapter 7 Confidentiality

Article 23 Any party to this contract shall have an obligation both now and in the future not to intentionally or negligently disclose or make use of other parties' trade secrets learned in this joint venture. Unless:

- (I) the trade secrets have been made publicly known by its owner;
- (II) a prior written consent from the owner of the trade secrets has been obtained;
- (III) by implementation of effective court judgments, rulings and arbitration awards;
- (VI) by performance of the obligations provided under the state laws and regulations.

The three parties shall be liable for the confidentiality of the cooperation project and shall not make separate information release in relation thereto without prior consent from the other parties.

Chapter 8 Amendment and Termination of the Contract

Article 24 Any amendment to this contract shall take effect only when it is unanimously approved by all contributing parties through consultations and a written



contract or agreement is signed therefor.

Article 25 In the process of the Company's incorporation, the contributing parties agree that all parties hereto shall have the right to propose to other parties to amend or terminate this contract upon occurrence of any of the following conditions:

- (I) *Force majeure* event continues for six months and is not expected to be eliminated, resulting in the inability to perform the contract;
- (II) Impossible to perform this contract as a result of a party's default;
- (III) Other reasons as agreed by the three parties.

Chapter 9 Liability for Breach of Contract

Article 26 Liability for breach of contract

(I) The contributing parties shall conscientiously perform this contract based on the principles of honesty and trustworthiness. If the business purpose stipulated in this contract cannot be achieved as result of a party's non-performance of its obligation as prescribed herein, other contributing parties to the Company shall have the right to claim damages against such default party.

(II) In the event of full or partial non-performance of this contract as a result of a party's default, the default party shall be liable for breach of contract. In the case where two or all three parties default, the parties shall assume the liability for breach of contract respectively according to the actual situation of their defaults.

(III) Upon signing of the contract, the parties shall make timely contributions as agreed and for each day overdue, the default party shall make a default penalty of 0.5% for the non-contributed amount to the observant party and shall be liable for damages if any loss incurred thereon.



(IV) Upon establishment of the Company, no party to this contract shall withdraw its contribution and if any loss caused to the Company or other shareholders as a result of contribution withdrawal or other acts of default, the default party shall be liable for damages therefor.

Chapter 10 Force Majeure

Article 27 Force majeure

Force majeure means unforeseeable, unavoidable and insurmountable objective conditions, including, *inter alias*, earthquakes, floods, fires and other natural disasters; war, strikes, riots and other social anomalies.

In the event of *force majeure* that directly affects the performance of this contract by the three parties pursuant to the conditions as agreed hereunder, a prompt notice on the situation shall forthwith be made to the other contributing parties or their authorized representatives and, within 15 days, details of the *force majeure* event and reasons for full or partial non-performance or late performance of this contract together with any effective proof thereof shall be furnished. In this case, neither party shall be responsible for any loss or increased costs suffered by other parties as a result of the non-performance or late performance of this contract, and that such act of non-performance or late performance of this contract shall not be deemed an act of default. The party claiming *force majeure* shall take measures to minimize or eliminate the impact of *force majeure* and shall in the shortest time possible recover the performance of the obligations under this contract thus delayed or hindered by *force majeure*.



Chapter 11 Dispute Settlement

Article 28 Any dispute occurred in relation to the interpretations or performance of this joint venture contract among the contributing parties shall, as far as possible, be resolved through consultations; in the event of failure to reach an agreement through consultation, any dispute arising from or related to this contract shall be submitted for arbitration before the China International Economic and Trade Arbitration Commission in accordance with the commission's prevailing arbitration rules. The arbitral award is final and binding on all parties.

Chapter 12 Effectiveness of the Contract and Miscellaneous

Article 29 This contract shall take effect upon signing by the legal representatives or authorized representatives of Party A, Party B and Party C and being stamped with the Company's official seal.

Article 30 The contributing parties hereby agree that: after the Company has commenced production, Party C shall have a preemptive right on the Company's products under the same conditions.

Article 31 The Company's registered capital (RMB5.4 billion) shall be settled by the three shareholders, being Party A, Party B and Party C, with their own funds.

Project investment funds other than the Company's registered capital shall be settled by the Company with bank loans, of which: the form of security for 75% of the loans to be determined by Party A and Party B through separate consultations; 25% of the loans to be secured by Party C.

Article 32 This contract is executed in ten counterparts, of which two to be held by each of the three parties hereto, two to be retained by the Company; and two to be



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reported and submitted to the business registration authority. All counterparts hereof shall have the same legal effect.

[No text below]

[This is the signing page for Yankuang Group Co., Ltd., Yanzhou Coal Mining Company Limited and Shaanxi Yanchang Petroleum (Group) Co., Ltd. in respect of the Joint Venture Contract]

Yankuang Group Co., Ltd.:

Legal representative or authorized representative:

Yanzhou Coal Mining Company Limited:

Legal representative or authorized representative:



Shaanxi Yanchang Petroleum (Group) Co., Ltd.:

Legal representative or authorized representative:

Date: _____



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EXHIBIT 8.1

LIST OF SUBSIDIARIES OF YANZHOU COAL MINING COMPANY LIMITED

As of April 30, 2011, we owned the following subsidiaries:

<u>Name of Subsidiary</u>	<u>Country of incorporation/ registration and operation</u>
Yancoal Australia Limited	Australia
Austar Coal Mine Pty Limited	Australia
Felix Resources Limited	Australia
Qingdao Free Trade Zone Zhongyan Trade Co., Ltd.	PRC
Shandong Hua Ju Energy Co., Limited	PRC
Shandong Yanmei Shipping Co., Ltd.	PRC
Yankuang Shanxi Nenghua Co., Ltd.	PRC
Shanxi Heshun Tianchi Energy Company Limited	PRC
Shanxi Tianhao Chemicals Co., Ltd.	PRC
Yanmei Heze Nenghua Company Limited	PRC
Yanzhou Coal Ordos Nenghua Company Limited	PRC
Yanzhou Coal Yulin Nenghua Company Limited	PRC
Inner Mongolia Haosheng Coal Mining Company Limited	PRC



Exhibit 15.3

24 June 2011

U.S. Securities and Exchange Commission
Office of the Chief Accountant
100 F Street, NE
Washington, DC 20549

Dear Sir or Madam:

We have read Item 16F of Form 20-F of Yanzhou Coal Mining Company Limited for the year ended December 31, 2010 and agree with the statements concerning our Firm contained therein.

Very truly yours,

/s/ JBPB & Co (formerly known as Grant Thornton)
Hong Kong