YANZHOU COAL MINING COMPANY LIMITED
INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 1998

Dear Shareholders,

The Board of Directors of Yanzhou Coal Mining Company Limited (the "Company") has the pleasure of presenting the interim operating results of the Company for the six months ended 30th June, 1998.

Total net sales for the first six months of 1998 were RMB1,809.8 million, a 7.8% increase over proforma results for the first half of 1997. Income before income taxes and net income for the first half of 1998 were RMB537.8 million and RMB372.6 million, respectively, a 27.9% and 35.3% increase over proforma results for the first half of 1997.

UNAUDITED SUMMARY STATEMENTS OF INCOME

(prepared in accordance with International Accounting Standards ("IAS"))

	For the six months ended 30th June,			1998 Historical	1998 Historical
	1998 Historical *(RMB'000)*	1997 Historical *(RMB'000)*	1997 Proforma *(RMB'000)*	vs. 1997 Historical *% Inc. (Dec.)*	vs. 1997 Proforma *% Inc. (Dec.)*
Net sales					
Domestic	1,174,724	1,146,759	1,191,288	2.4%	-1.4%
Export	635,100	487,373	487,373	30.3%	30.3%
Total net sales	1,809,824	1,634,132	1,678,661	10.8%	7.8%
Gross profit	840,933	885,870	790,452	-5.1%	6.4%
Operating income	583,012	631,081	509,353	-7.6%	14.5%
Interest expenses	(63,063)	(79,810)	(111,885)	-21.0%	-43.6%
Income before income taxes	537,829	574,210	420,475	-6.3%	27.9%
Net income	372,623	388,110	275,400	-4.0%	35.3%

Note: The unaudited proforma statement of income for the six months ended 30th June, 1997 has been prepared based on the historical results of operations after giving effect to proforma adjustments described in the notes thereto as if the transactions and agreements described in such notes were in effect throughout the six months ended 30th June, 1997. The acquisition of the Jining II coal mine has been included in the unaudited proforma statements of income as if the acquisition was completed on 1st January, 1997. The unaudited proforma statements of income do not purport to represent what the combined results of operations of the Company would actually have been if the events described above had in fact occurred on such dates or at the beginning of 1997, or to project the statements of income of the Company for any future date or period.

REVIEW OF OPERATIONS

The following discussion is based on the Company's historical results for the first half of 1998, the Company's proforma results for the first half of 1997 and the Company's historical results for the first half of 1997, which were prepared in accordance with IAS. The Board of Directors believes that the comparison of actual results for the first half of 1998 to proforma results for the first half of 1997 presents a more meaningful comparison of the Company's operating results for the period under review.

The results of the Company for the six months ended 30th June, 1998 were in line with management's expectations. Despite a decline in the average coal prices in both the domestic and export markets in the first six months of 1998 compared to the same period in 1997, the Company's net income increased 35.3% as compared with the 1997 proforma results for the same period (a decrease of 4.0% as compared with the 1997 actual results for the same period). The increase in net income was principally due to an increase in total sales volume and a decline in interest expenses.

Net sales increased by RMB131.2 million, or 7.8%, to RMB1,809.8 million in the first six months of 1998 from the proforma result of RMB1,678.7 million for the same period in 1997 (an increase of RMB175.7 million, or 10.8%, as compared with the 1997 actual results for the same period). The increase was principally attributable to an increase in total sales volume of 1.5 million tonnes, or 19.0%, over the proforma results for the same period in 1997. The increase in total sales volume reflects increases in Raw Coal and export sales which were partially offset by a decline in the domestic sale of Clean Coal. The increase in net sales was partially offset by a 10.1% decline in the average price of the Company's products.

The Company acquired the Jining II coal mine as of 1st January, 1998. As a result, total raw coal production volume for the first six months of 1998 reached 9.1 million tonnes, a 7.9% increase from 8.5 million tonnes produced by the Company's four original coal mines in the same period last year.

The following table sets out the Company's net sales by product category for the six months ended 30th June, 1998 and 1997, respectively:

Product Sales

(unaudited and prepared in accordance with IAS)

	For the six months ended 30th June,								
	1998 Historical			1997 Historical			1997 Proforma		
	Sales volume ('000 tonnes)	Net sales (RMB '000)	% of total net sales	Sales volume ('000 tonnes)	Net sales (RMB '000)	% of total net sales	Sales volume ('000 tonnes)	Net sales (RMB '000)	% of total net sales
Clean Coal									
No. 1 Clean Coal	253	93,760	5.2%	134	43,454	2.7%	134	43,454	2.6%
No. 2 Clean Coal/Thermal Coal									
Domestic sales	644	165,639	9.2%	1,579	437,660	26.8%	1,579	437,660	26.1%
Exports	2,812	635,100	35.1%	1,873	487,373	29.8%	1,873	487,373	29.0%
Subtotal	3,456	800,739	44.3%	3,452	925,033	56.6%	3,452	925,033	55.1%
Subtotal for Clean Coal	3,709	894,499	49.5%	3,586	968,487	59.3%	3,586	968,487	57.7%
Screened Raw Coal (1)	4,935	840,455	46.4%	2,830	525,407	32.1%	3,079	569,936	33.9%
Mixed Coal and others	578	74,870	4.1%	1,084	140,238	8.6%	1,084	140,238	8.4%
Total	9,222	1,809,824	100.0%	7,500	1,634,132	100.0%	7,749	1,678,661	100.0%

(1) The Company's proforma net sales by product category for the first half of 1997 have been prepared based on the historical sales analysis of the Company, including coal sales from the Jining II coal mine during such period (which only comprised of Screened Raw Coal) as if the acquisition of the Jining II coal mine was completed on 1st January, 1997.

The following table sets out the Company's product prices for the six months ended 30th June, 1998 and 1997, respectively, and for the six months ended 31st December, 1997:

Product Pricing

(unaudited and prepared in accordance with IAS)

	For the six months ended 30th June,			For the six months ended 31st December,
	1998 Historical average price *(RMB per tonne)*	1997 Historical average price *(RMB per tonne)*	1997 Proforma average price *(RMB per tonne)*	1997 Historical average price(1) *(RMB per tonne)*
Clean Coal				
No. 1 Clean Coal	370(2)	324	324	348(2)
No. 2 Clean Coal/Thermal Coal				
Domestic sales	257	277	277	270
Exports	226	260	260	252
Screened Raw Coal	170	186	185	187
Mixed Coal and others	130	129	129	135
Average	196	218	218	218

Notes:

(1) The 1997 historical average price per tonne for the six months ended 31st December, 1997 has been calculated on the following basis:

$$\frac{\text{(Net sales for the year ended 31st December, 1997) less (net sales for the six months ended 30th June, 1997)}}{\text{(Sales volume for the year ended 31st December, 1997) less (sales volume for the six months ended 30th June, 1997)}}$$

Information relating to net sales and sales volume for the year ended 31st December, 1997 were included in the Company's 1997 annual report.

(2) The price increase was principally due to a change in payment settlement from an ex-factory price basis to an ex-Rizhao Port price basis. Since the ex-Rizhao Port price is determined based on the ex-factory price plus transportation cost from the Company's coal mines to Rizhao Port, this change does not affect the Company's profits.

The Company's average product price declined by 10.1% in the first six months of 1998 as compared with the same period last year primarily due to:(i) A deceleration in the economic growth rate which resulted in a corresponding slow down in the demand for coal products. In response to this less favourable market environment, domestic coal producers introduced steep price cuts to attract customers. The situation was worsened as some coal customers switched to lower quality coal products, which are typically cheaper, in order to reduce their operating costs. (ii) A decline in export contract prices which were negotiated in March 1998.

Cost of goods sold increased by RMB80.7 million, or 9.1%, to RMB968.9 million for the first six months of 1998 from the proforma result of RMB888.2 million for the same period in 1997. The increase was principally due to additional costs associated with the commencement of commercial production at the Jining II coal mine in the beginning of 1998. (Cost of goods sold increased by RMB220.6 million, or 29.5%, as compared with the actual results for 1997 for the same period, principally due to additional costs relating to the Jining II coal mine as well as an increase in depreciation charges resulting from asset revaluations which took place in connection with the Company's Combined Offering, details of which are discussed in the paragraph headed "H share issue" in the section headed "Disclosure of Significant Events" below.)

Selling, general and administrative expenses decreased by RMB23.2 million, or 8.2%, to RMB257.9 million for the first six months of 1998 from the proforma result of RMB281.1 million for the same period in 1997. The decrease was principally due to a decline in distribution charges. (Selling, general and administrative expenses increased by RMB3.1 million, or 1.2%, as compared with the actual results for 1997 for the same period, principally due to additional costs attributable to the Jining II coal mine which were partially offset by the decline in distribution charges.)

The Company's operating income increased by RMB73.7 million, or 14.5%, to RMB583.0 million for the first six months of 1998 from the proforma result of RMB509.4 million for the same period in 1997, principally due to a 7.8% increase in net sales and an 8.2% decrease in selling, general and administrative expenses. The increase was partially offset by a 9.1% increase in cost of goods sold.

Interest expenses decreased by RMB48.8 million, or 43.6%, to RMB63.1 million for the first six months of 1998 from the proforma results of RMB111.9 million for the same period in 1997 as a result of principal repayments of RMB485 million and RMB700 million which were made in respect of bank borrowings in the fourth quarter of 1997 and the first half of 1998, respectively. (Interest expenses decreased by RMB16.7 million, or 21.0%, as compared with the actual result for the same period in 1997, principally due to principal repayment of bank borrowings in the first half of 1998.)

Income before income taxes increased by RMB117.4 million, or 27.9%, to RMB537.8 million in the first half of 1998 from the proforma results of RMB420.5 million for the same period of 1997, principally due to an increase in operating income and a decrease in interest expenses. Net income was RMB372.6 million for the first half of 1998, yielding a net income margin of 20.6%, as compared to the proforma net income of RMB275.4 million, with a net income margin of 16.4%, for the same period in 1997. For the period under review, the Company was subject to an income tax rate of 33% in accordance with the Provisional Regulations of the People's Republic of China ("PRC") on Enterprise Income Tax.

HOUSING SCHEME

As disclosed in the Company's offering prospectus dated 24th March, 1998 and issued in Hong Kong in connection with the Combined Offering, the Company's parent company, Yanzhou Mining (Group) Corporation Ltd. (the "Parent Company"), is responsible for providing accommodation to its employees and the employees of the Company. The Company and the Parent Company share the incidental expenses relating to the accommodation on a pro-rata basis based on head count. Such expenses amounted to RMB12.1 million and RMB14.9 million for the first six months in 1997 and 1998, respectively.

OUTLOOK FOR THE SECOND HALF OF 1998

The Board of Directors believes that the economic and market environments will continue to be challenging in the second half of 1998. While the PRC government continues its efforts to stimulate the domestic economy and implement economic reform, the result of which would be an expected increase in the long term demand for coal, unforeseen negative factors could counter such efforts or hamper the reform progress and dampen the short term growth in demand for coal products.

Total domestic coal production in the PRC declined by approximately 70 million tonnes, or approximately 11%, during the first six months of 1998 as compared with the same period in 1997. It is expected that there will be a further decline in domestic coal production in the PRC in the second half of 1998. While the Company believes that a reduction in domestic coal production in the PRC may help to alleviate the downward pressure on domestic coal product prices, the Company cannot predict with any degree of certainty whether such decline in coal production will take place in the second half of this year nor can there be any assurance that any such decline will have a material positive effect on domestic coal prices in the PRC.

During the second half of 1998, the Company will continue to focus on two key operating strategies: strengthening its sales efforts and reducing its operating costs.

Production is expected to increase in the second half of 1998 as compared to the first half of 1998 as coal production volume at the Jining II coal mine continues to increase. In order to achieve the Company's targeted sales volume for the fiscal year 1998, the Company expects to continue to strengthen its sales efforts. Export sales volume is expected to be higher in the second half of 1998 as compared to the first half of 1998 based on the existing contracts signed by National Coal Corporation. The Company also plans to increase its domestic sales volume in the second half of 1998 by expanding its sales network, by providing better after sales services and by offering better quality products to its domestic customers.

Although the Company's profit margin was affected by a decline in product prices in the first six months of 1998, the Company expects to enhance its profit margin in the second half of 1998 through continued improvements in operating efficiency and reductions in operating costs.

The Company recently received formal approval from the relevant PRC authorities regarding its export VAT rebate. Effective 1st June, 1998, the Company's export VAT rebate was increased from 3% to 9%. This, together with other measures implemented by the PRC government, such as reductions in port handling charges and export commissions, is expected to reduce the Company's operating costs in the second half of 1998.

The Company expects to continue to reduce the outstanding principal amount of its bank loan using cashflow from operations in the second half of 1998. As a result, financial expenses in the second half of 1998 are expected to be lower than that in the first half of 1998.

The Company believes that the successful implementation of its key operating strategies will enhance its competitiveness in a difficult market environment and will assist the Company in achieving its 1998 profit target. The Board of Directors is confident that the Company will continue to be one of the most profitable and competitive coal mining companies in China.

INTERIM DIVIDEND

The Board of Directors proposes to declare an interim dividend of approximately RMB75,130,000 (before tax), or approximately RMB0.029 per share (before tax). As the Company was not established as a joint stock company with limited liability in the PRC until 25th September, 1997, and the coal mining business of the Company was operated as a division of the Parent Company prior to the establishment of the Company, no dividend was considered paid during the first six months of 1997. The declaration and payment of an interim dividend need to be approved by the shareholders of the Company by way of an ordinary resolution in accordance with the requirements of the Company's Articles of Association. An extraordinary general meeting will be held on 12th October, 1998 for the purposes of considering and, if thought fit, approving such ordinary resolution. A further announcement will be made by the Company in respect of the amount of interim dividend declared and payable to the shareholders of the Company.

SHARE CAPITAL STRUCTURE

As a result of the H share issue and A share issue which are described in greater detail in the section headed "Disclosure of Significant Events" below, the Company's share capital structure as of 30th June, 1998 was as follows:

		As of 30th June, 1998	
Class of shares	**Type of shares**	**Number of shares**	**Percentage of issued share capital**
Domestic invested shares	– State legal person shares (held by the Parent Company)	1,670,000,000	64.23%
	– A shares (including 8,000,000 shares owned by the Company's employees)	80,000,000	3.08%
Foreign invested shares	H shares (including H shares represented by American depositary shares)	850,000,000	32.69%
	Total	2,600,000,000	100.00%

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 1998, the following shareholder was recorded in the register kept by the Company pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") as being directly or indirectly interested in 10% or more of the domestic invested shares of the Company:

Name	Number of shares	Percentage holdings
Yanzhou Mining (Group) Corporation Ltd.	1,670,000,000 Domestic invested shares (State legal person shares)	64.23% of issued share capital (95.43% of domestic invested shares)

Save as disclosed above, no other shareholder was recorded in the register kept pursuant to Section 16(1) of the SDI Ordinance as having an interest of 10% or more of the Company's domestic invested shares or foreign invested shares during the six months ended 30th June, 1998.

DIRECTORS' AND SUPERVISORS' INTERESTS

As of 30th June, 1998, the Company's directors and supervisors held in aggregate 180,000 A shares, representing 0.0069% of the Company's total issued share capital. Details are as follows:

Name	Title	Number of A shares held
Zhao Jingche	Chairman of the Board	10,000
Yang Deyu	General Manager and Executive Director	10,000
Du Mingshan	Executive Director	10,000
Luo Taiyan	Executive Director	10,000
Xiao Lifang	Executive Director and Financial Controller	10,000

Name	Title	Number of A shares held
Wang Bangjun	Non-executive Director	10,000
Mo Liqi	Non-executive Director	10,000
Liu Yubin	Non-executive Director	10,000
Wu Zezhi	Non-executive Director	10,000
Chen Yongge	Non-executive Director	10,000
Ma Houliang	Non-executive Director	10,000
Xu Tianen	Non-executive Director	10,000
Yang Jiachun	Non-executive Director	10,000
Meng Xianchang	Supervisor	10,000
Xiao Shuzhang	Supervisor	10,000
Qian Xiulan	Supervisor	10,000
Xu Xinmin	Supervisor	10,000
Zhou Hongbin	Supervisor	10,000

Save as disclosed herein, none of the Company's directors or supervisors had, as at 30th June, 1998, any interests in any shares in or debentures of the Company or any associated corporation (within the meaning of the SDI Ordinance) which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Section 28 of the SDI Ordinance (including interests which they are taken or are deemed to have under Section 31 of, or Part I of the Schedule to, the SDI Ordinance), or which are required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or, in the case of supervisors or the associates of directors or supervisors, which would be required to be notified as described above if they had been directors.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not purchase, sell or redeem any of its shares during the six months ended 30th June, 1998 other than the issue of certain H shares, American depositary shares and A shares, details of which are set out in the section headed "Disclosure of Significant Events" below.

DISCLOSURE OF SIGNIFICANT EVENTS

Acquisition of Jining II

The Company acquired the Jining II coal mine from the Parent Company as of 1st January, 1998. Pursuant to the Jining II coal mine acquisition agreement which was signed by the Company and the Parent Company on 17th October, 1997 and amended on 18th February, 1998, the acquisition price of the Jining II coal mine was originally approximately RMB1,995 million (or approximately US$241 million, or HK$1,868 million). The acquisition price, which was approved by the State Assets Bureau, represented the net asset value of the Jining II coal mine as of 30th April, 1997. The Company and the Parent Company have recently agreed to reduce the acquisition price to approximately RMB1,956 million (or approximately US$236 million, or HK$1,831 million), to reflect the net asset value of the Jining II coal mine as of 1st January,

1998. Based on the relevant PRC regulations, the Company's PRC legal counsel has confirmed that the Company does not need to obtain further approval from the State Assets Bureau with regard to the new acquisition price of the Jining II coal mine. Using the net proceeds from the Combined Offering, which is described in greater detail below, the Company has paid in full the reduced acquisition price of approximately RMB1,956 million as of 30th June, 1998.

H share issue

The Company was listed on the Hong Kong Stock Exchange on 1st April, 1998 and the New York Stock Exchange, Inc. on 31st March, 1998 pursuant to a combined offering (the "Combined Offering") of its H shares and American depositary shares ("ADSs", each representing 50 H shares), respectively. An additional 30 million H shares were subsequently issued pursuant to the exercise of the over-allotment option (the "Over-Allotment Option") by the US underwriters in the Combined Offering. The issue price for the H shares in the Combined Offering was HK$2.44 each for investors who elected to receive H shares rather than ADSs in the US offering and the international offering, and HK$2.42 each (plus brokerage and Hong Kong Stock Exchange transaction levy) for investors in the Hong Kong offering. The issue price for ADSs was US$15.75 each.

The total net proceeds from the Combined Offering and exercise of the Over-Allotment Option were approximately RMB2,024 million (or approximately US$244 million, or HK$1,894 million). The Company has used approximately RMB1,956 million (or approximately US$236 million, or HK$1,831 million) to pay for the acquisition price of the Jining II coal mine. The remaining balance has been placed in a foreign currency-denominated short-term bank deposit.

A share issue

On 3rd June, 1998, the Company obtained approval from the China Securities Regulatory Commission (the "CSRC") to issue up to 80,000,000 A shares in the PRC (the "A Share Offering"), comprising 72,000,000 A shares offered to public investors and securities investment funds (the "Public A Shares") in the PRC and 8,000,000 A shares offered to the Company's employees. On 8th June, 1998, the A shares were offered for subscription in the PRC at the price of RMB3.37 each. On 12th June, 1998, the Company allotted and issued a total of 80,000,000 A shares at the price of RMB3.37 each. On 1st July, 1998 the Public A Shares commenced trading on the Shanghai Securities Exchange.

The total net proceeds from the A Share Offering were approximately RMB263 million (or approximately US$32 million, or HK$246 million). The Company has used approximately RMB200 million (or approximately US$24 million, or HK$187 million) to repay a portion of its debts and approximately RMB63 million (or approximately US$8 million, or HK$59 million) to supplement its working capital requirements.

Total interest income from subscription payments received from the A Share Offering, including oversubscription payments, amounted to approximately RMB12,459,000 (or approximately US$1.5 million, or HK$11.7 million) in aggregate. Interest income relating to subscription payments received from the successful application of A shares (excluding oversubscription payments) amounted to approximately RMB35,000 (or approximately US$4,227, or HK$32,760).

Under the Company's Articles of Association, holders of domestic invested shares (including A shares) and H shares have substantially the same rights and obligations, except that dividends on domestic invested shares will be paid in Renminbi while dividends on H shares will be paid in Hong Kong dollars.

(The exchange rate used for the purposes of this report is approximately US$1.00=HK$7.75=RMB8.28. No representation is made that RMB could have been or could be converted into US dollars or Hong Kong dollars at such rates on any given date.)

Dissolution of PRC Ministry of Coal Industry ("MOCI")

As part of China's recent reform program, the MOCI was dissolved, and the National Coal Industry Bureau was established, in March 1998. Following such reorganisation, the National Coal Industry Bureau and the State Economic and Trade Committee will be jointly responsible for the planning, regulation and administration of the coal industry. The National Coal Industry Bureau will no longer directly manage the enterprises under its jurisdiction. The Company believes that the reorganisation will bring greater operating autonomy to individual coal enterprises and allow them to compete in a freer market.

Special interim dividend

As disclosed in the Company's 1997 annual report, the Company declared on 22nd March, 1998 a special interim dividend of RMB69 million in respect of the period from 1st October, 1997 to 31st December, 1997 payable to the Parent Company. Such dividend was paid out of the Company's cashflow from operations before 30th June, 1998.

Other significant events

1. During the period under review, the Company was not involved in any material litigation or arbitration matters.

2. During the period under review, the Company did not enter into any material contracts as a guarantor or as a securer.

3. The Company retained Deloitte Touche Tohmatsu Shanghai CPA and Deloitte Touche Tohmatsu as its domestic and international auditor, respectively.

RECENT FLOODING IN THE PRC

The water levels of several rivers in the PRC, including the Yangtze and Songhua rivers, have recently reached unusually high levels and have resulted in severe flooding along these rivers. To date, the Company has not been affected by any flooding. Given the geographic location of the Company's coal mines in Shandong Province, which is relatively further removed from the immediate vicinity of these rivers compared to the areas currently affected by the flooding, the Company does not believe that the flooding will cause any physical damage to its coal mines or its operation facilities. The Company also does not expect the flooding to have any material and adverse effects on its business.

DEPOSITS

As of 30th June, 1998, the Company did not have any deposits with non-bank financial institutions.

IMPACT OF THE RECENT REGIONAL ECONOMIC DEVELOPMENTS

The Asian economic turmoil has not had a material adverse effect on the Company's operations and financial position.

While the Renminbi has recently come under devaluation pressure due to the Asian economic turmoil, the PRC government has publicly indicated that the Renminbi will not be devalued in the near-term. However, should the Renminbi be devalued, the Company does not believe that such a devaluation would have a material adverse effect on the Company's operations and financial position. This is because (i) a majority of the Company's net sales are derived from selling coal products to the PRC domestic market where a devaluation is not expected to have a material impact on the Company's domestic net sales, (ii) the remainder of the Company's net sales are derived from selling coal products to the export market, where its product prices are denominated in US dollars, (iii) the Company does not have any foreign currency-denominated debt, and (iv) the Company does not expect a significant amount of capital expenditure in the near future which would require the Company to make foreign currency payments.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the directors is aware of any information that would reasonably indicate that the Company is not in compliance, or has not during the six months ended 30th June, 1998 complied with, the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

YEAR 2000 ISSUE

The Year 2000 issue arises from the inability of computer systems, which only use the last two digits to record years, to distinguish between 1900 and 2000. As most of the Company's information systems are relatively advanced, it is expected that the Year 2000 problem will not have a material adverse impact on the Company's production and business activities. Notwithstanding that, the Company has placed special emphasis on addressing the Year 2000 problem and is currently in the process of conducting a thorough evaluation of the impact which such problem may have on its information systems and its business and is also assessing the technical, legal and commercial risks associated therewith. To date, the following technical reviews of information systems have been conducted by the Company and the Parent Company (given the Company's close business relationship with the Parent Company):

1. The Company has already completed the investigation and registration of its computer systems and date-related automatic control equipment and communication equipment before 30th July, 1998.

2. As most of the Company's information systems are relatively advanced and do not record years by the last two digits, they are Year 2000 compliant. Certain software and hardware systems and date-related automatic control equipment purchased by the Company from its suppliers are affected by the Year 2000 problem. However, the Company is working closely with its suppliers to resolve the Year 2000 problem associated with the relevant systems and equipment.

3. The Year 2000 problem also exists in some of the software developed by certain third party software providers which is used by the Company for the purpose of conducting statistical analysis of internal production volumes but which does not affect its business operations. The hardware platforms on which such software is currently running also have the Year 2000 problem. The Company plans to replace such software and the related hardware with newly developed software and new hardware platforms before March 1999. The costs associated therewith are estimated to amount to approximately RMB6.0 million (or approximately US$725,000, or HK$5.6 million).

4. The Parent Company updated the software and hardware platforms in respect of its consolidated information management system in 1995. In 1996, the Parent Company began to develop software applications on these updated platforms, which include financial, internal audit and business related applications, all of which are Year 2000 compliant.

The Company believes that the Year 2000 problem will be properly resolved by mid-1999. A public announcement will be made before the end of this year to provide the shareholders of the Company with more detailed information on the Company's progress in addressing this problem (including the risks associated therewith and the measures taken by the Company to eliminate or to mitigate such risks).

DOCUMENTS AVAILABLE FOR INSPECTION

The full text of the interim report and financial statements signed by the Chairman is available for inspection at 40 Fushan Road, Zoucheng, Shandong Province 273500, PRC.

On behalf of the Board
Zhao Jingche
Chairman

Zoucheng, PRC, 24th August 1998

INTERIM RESULTS

The Board of Directors of Yanzhou Coal Mining Company Limited (the "Company") has the pleasure of presenting the interim operating results for the Company for the six months ended 30th June, 1998 prepared in conformity with (i) the relevant accounting principles and regulations applicable to PRC enterprises ("PRC GAAP") and (ii) International Accounting Standards ("IAS").

(i) Unaudited statements of income

(prepared in accordance with PRC GAAP)

	Notes	Six months ended 30th June, **1998** *(RMB'000)*	**1997** *(RMB'000)*
NET REVENUE FROM PRINCIPAL OPERATIONS		2,055,153	1,807,122
LESS: COST OF PRINCIPAL OPERATIONS		1,005,281	764,756
SALES TAXES ON PRINCIPAL OPERATIONS		23,177	20,630
INCOME FROM PRINCIPAL OPERATIONS		1,026,695	1,021,736
ADD: INCOME FROM OTHER OPERATIONS	1	6,068	13,381
LESS: PROVISION ON NET REALISABLE VALUE OF INVENTORIES		–	–
OPERATING EXPENSES		269,416	206,195
ADMINISTRATIVE EXPENSES		214,332	201,862
FINANCIAL EXPENSES	2	61,078	70,619
OPERATING INCOME		487,937	556,441
ADD: NON-OPERATING INCOME	3	13,332	5,106
LESS: NON-OPERATING EXPENSES	4	645	5,173
PROFIT BEFORE INCOME TAXES		500,624	556,374
LESS: INCOME TAXES	5	165,206	183,625
NET INCOME		335,418	372,749

Unaudited balance sheet

(prepared in accordance with PRC GAAP)

	Notes	**As of 30th June, 1998** *(RMB'000)*	**As of 31st December, 1997** *(RMB'000)*
ASSETS			
CURRENT ASSETS			
Bank balances and cash		214,749	211,797
Bills receivable		111,983	143,793
Accounts receivable	6	258,220	72,197
Less: Provision on doubtful debt		337	–
Accounts receivable, net		257,883	72,197
Prepayments		188,703	86,127
Other receivables	7	373,601	268,885
Inventories	8	294,781	365,573
Accrued expenses		–	29,867
TOTAL CURRENT ASSETS		1,441,700	1,178,239
FIXED ASSETS			
FIXED ASSETS COST		6,931,282	5,674,530
LESS: ACCUMULATED DEPRECIATION		2,743,835	2,356,680
FIXED ASSETS, NET		4,187,447	3,317,850
CONSTRUCTION IN PROGRESS	9	914,960	81,812
FIXED ASSETS TO BE DISPOSED		2	–
TOTAL FIXED ASSETS		5,102,409	3,399,662
PRELIMINARY EXPENDITURES		8,462	9,276
INTANGIBLES		279,341	282,191
TOTAL ASSETS		6,831,912	4,869,368

Unaudited balance sheet

(prepared in accordance with PRC GAAP)

	Notes	**As of 30th June, 1998** *(RMB'000)*	**As of 31st December, 1997** *(RMB'000)*
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Accounts payable		370,229	324,668
Receipts in advance		26,670	38,999
Wages payable		18,631	19,187
Dividend payable		–	69,000
Tax payable	10	165,206	72,613
Other accounts payable		21,622	188,298
Accruals		109,524	–
Other current liabilities	11	122,657	67,351
TOTAL CURRENT LIABILITIES		834,539	780,116
LONG-TERM LOANS	12	615,000	1,315,000
TOTAL LIABILITIES		1,449,539	2,095,116
SHAREHOLDERS' EQUITY			
Share capital	13	2,600,000	1,670,000
Capital reserves	14	2,368,529	1,025,826
Surplus reserves	15	22,114	22,114
including statutory public welfare fund		7,371	7,371
Unappropriated profits		391,730	56,312
SHAREHOLDERS' EQUITY		5,382,373	2,774,252
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		6,831,912	4,869,368

Unaudited statement of profit appropriation

(prepared in accordance with PRC GAAP)

	Six months ended 30th June, 1998 *(RMB'000)*
Net income for the period	335,418
Add: Balance at 1st January, 1998	56,312
Profits available for appropriation	391,730
Less: Transfer to statutory common fund	–
Transfer to statutory public welfare fund	–
Profits attributable to shareholders	391,730
Less: Transfer to discretionary surplus fund	–
Dividends paid	–
Unappropriated profits	391,730

Principal financial ratios

(prepared in accordance with PRC GAAP)

		For six months ended 30th June, 1998	After deducting interest income from shares subscription payments	For six months ended 30th June, 1997
1.	Net income (RMB'000)	335,418	327,094	372,749
2.	Shareholders' equity (RMB'000) (Share capital + capital reserves + surplus reserves + retained profits)	5,382,373	5,374,014	–
3.	Income per share (RMB)			
	(Net income/total number of shares issued)	0.129	0.126	–
	(Net income/weighted average number of shares issued)	0.159	0.155	–
4.	Return on assets (Net income/net assets) x 100%	6.2%	6.1%	–
5.	Net asset value per share (RMB) (Shareholders' equity/total number of shares issued)	2.07	2.07	–
6.	Adjusted net asset value per share (RMB) (Adjusted shareholders' equity/total number of shares issued)	2.07	2.06	–

Note: Adjusted shareholder's equity = shareholders' equity – accounts receivable outstanding for over 3 years – deferred expenditures (current) – loss on net assets to be disposed – preliminary expenses – deferred expenditures (non-current)

Significant PRC accounting policies

1. **Accounting policy**

   The Company adopted "Accounting Regulations for Joint Stock Limited Companies" on 1st January, 1998.

2. **Accounting year**

   The accounting year for the Company commences on 1st January and ends on 31st December each year.

3. **Reporting principle and accounting basis**

   The accrual accounting method based on historical cost have been adopted by the Company.

4. **Reporting currency**

   The books and records of the Company are maintained in Renminbi.

5. **Foreign currency translation**

   Transactions denominated in foreign currencies are translated into Renminbi at the applicable rates of exchange prevailing at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the applicable rates of exchange prevailing at the balance sheet dates. Profits and losses arising on translation are dealt with in the statement of income.

6. **Provision for doubtful debts**

   Provision for doubtful debts has been made based on the aging analysis of the accounts receivable.

7. **Provision on net realisable values of inventories**

   Provision on inventories is calculated based on the net realisable values and the historical costs of the individual inventory items.

8. **Income tax**

   Provision for income tax is calculated based on the estimated income tax payable method.

9. **Taxes and other additional fees**

Major tax item	Basis of provision	Tax rate
Income tax	estimated assessable income	33%
Value added tax ("VAT")	excess of VAT on sales over VAT on purchases for the period	13%, 17%
City construction tax	estimated sales tax, VAT payable	7%
Educational fee	estimated sales tax, VAT payable	3%
Resource tax	imputed quantity of raw coal sold	RMB1.20 per tonne

Notes to the unaudited financial statements
(prepared in accordance with PRC GAAP)

1. Income from other operations

	Six months ended 30th June, 1998 (RMB'000)	1997 (RMB'000)
Sales of auxiliary materials	3,416	13,302
Others	2,652	79
Total	6,068	13,381

2. Financial expenses

	Six months ended 30th June, 1998 (RMB'000)	1997 (RMB'000)
Interest expenses	61,023	70,587
Others	55	32
Total	61,078	70,619

3. Non-operating income

	Six months ended 30th June, 1998 (RMB'000)	1997 (RMB'000)
Gain on disposal of fixed assets	406	2,283
Interest income on shares subscription payments	12,424	–
Others	502	2,823
Total	13,332	5,106

4. Non-operating expenses

	Six months ended 30th June, 1998 (RMB'000)	1997 (RMB'000)
Penalties	57	–
Others	588	5,173
Total	645	5,173

5. Income taxes

The Company should be subject to the standard PRC income tax rate of 33% on income before income taxes in 1998.

6. Accounts receivable

The aging analysis of the gross accounts receivable as of 30th June, 1998 is as follows:

Outstanding period	**Amount**	**Percentage**
	(RMB'000)	*(%)*
Within 1 year	224,958	87.12
1 to 2 years	23,776	9.21
2 to 3 years	9,486	3.67
Over 3 years	–	–
Total	258,220	100.00

7. Other receivables

The aging analysis of the other receivables as of 30th June, 1998 is as follows:

Outstanding period	**Amount**	**Percentage**
	(RMB'000)	*(%)*
Within 1 year	361,975	96.89
1 to 2 years	8,113	2.17
2 to 3 years	2,891	0.78
Over 3 years	622	0.16
Total	373,601	100.00

8. Inventories

	As of 30th June, 1998
	(RMB'000)
Auxiliary materials, spare parts and small tools	167,336
Coal products	127,445
Total	294,781

9. Construction in progress

The movement of construction in progress for the period is as follows:

Project	As at 1st January, 1998	Additions for the period	As at 30th June, 1998	Source of funds	Status
	(RMB'000)	*(RMB'000)*	*(RMB'000)*		
1. Jining II raw coal well and tunnel	–	225,862	225,862	Proceeds from issue of shares	Substantially completed
2. Jining II washery plant	–	143,122	143,122	Proceeds from issue of shares	Substantially completed
3. Jining II production facilities	–	330,145	330,145	Proceeds from issue of shares	Substantially completed
4. Jining II supporting facilities	–	94,246	94,246	Proceeds from issue of shares	Substantially completed
5. Replacement of production facilities	17,588	30,337	47,925	Cashflow from operations	Substantially completed
6. Supporting facilities on the ground	64,224	3,885	68,109	Cashflow from operations	In progress
7. Major overhaul	–	5,551	5,551	Cashflow from operations	In progress
	81,812	833,148	914,960		

10. Tax payable

	As of 30th June, 1998
	(RMB'000)
Income tax payable	165,206

11. Other current liabilities

	Plantation fee	Repair and Maintenance	Total
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Balance at 1st January, 1998	–	67,351	67,351
Increase during the period	914	54,392	55,306
Decrease during the period	–	–	–
Balance at 30th June, 1998	914	121,743	122,657

12. Long-term loans

	As of 30th June, 1998 *(RMB'000)*
Long-term loans are repayable as follows:	
Over five years	615,000
One to five years	–
	615,000
Less: amount repayable within one year	–
Amount repayable over one year	615,000

13. Share capital

(a) Changes in the number of shares issued

	Number of shares issued at 1st January, 1998 *(share)*	Number of shares issued during the period *(share)*	Number of shares issued at 30th June, 1998 *(share)*
I. Shares not listed for public dealings:			
(i) subscriber shares	1,670,000,000	–	1,670,000,000
comprising: state legal person shares	1,670,000,000	–	1,670,000,000
(ii) employees' shares	–	8,000,000	8,000,000
(iii) ordinary shares to be listed on a PRC stock exchange	–	72,000,000	72,000,000
Total shares not listed for public dealings	1,670,000,000	80,000,000	1,750,000,000
II. Shares listed for public dealings:			
ordinary shares listed on overseas stock exchanges	–	850,000,000	850,000,000
Total shares listed for public dealings	–	850,000,000	850,000,000
III. Total shares	1,670,000,000	930,000,000	2,600,000,000

(b) Each share has a par value of RMB1.00 and the total issued share capital is RMB2,600,000,000.

14. Capital reserves

	Premium on shares allotted to Parent Company *(RMB'000)*	Premium on shares issued *(RMB'000)*	Total *(RMB'000)*
Balance at 1st January, 1998	1,025,826	–	1,025,826
Additions during the period	–	1,342,703	1,342,703
Balance at 30th June, 1998	1,025,826	1,342,703	2,368,529

15. Surplus reserves

	Statutory common reserve *(RMB'000)*	Statutory public welfare fund *(RMB'000)*	Total *(RMB'000)*
Balance at 1st January, 1998 and 30th June, 1998	14,743	7,371	22,114

16. Related party transactions

(1) Related party which is a shareholder of the Company

Registered name	:	Yanzhou Mining (Group) Corporation Ltd.
Legal address	:	40 Fushan Road, Zoucheng, Shandong Province, PRC
Principal operation	:	Industrial production
Relationship with the Company	:	Parent Company
Economic status	:	Stated-owned
Authorised legal representative	:	Zhao Jingche

(2) Related party which is not a shareholder of the Company

Name	Relationship with the Company
Zoucheng Nanmei Shipping Co. Ltd.	Subsidiary of the Parent Company

(3) Sales

	Six months ended 30th June, 1998 *(RMB'000)*	As a % of total sales
Sales to related parties	31,766	1.5%

(4) Purchases

	Six months ended 30th June, 1998 *(RMB'000)*	As a % of total purchases
Purchases from related parties	50,230	12.6%

(5) Balances with related parties

	As of 30th June, 1998 *(RMB'000)*	%
Accounts receivable	11,044	4.28
Prepayments	2,159	1.14
Other receivables	134,880	36.10

Note: % represents each item as a percentage of the total amount of the relevant account.

(6) Other issues

1. Pursuant to an agreement signed between the Company and the Parent Company, the Parent Company is responsible for the payment of pension, medical and other welfare benefits to the retired employees of the Company. The Company pays a monthly contribution to the Parent Company for such plan and the amount paid for the first six months of 1998 was RMB75,800,000.

2. The following services were provided by subsidiaries or departments of the Parent Company and were charged to the Company in accordance with a contract signed between the Company and the Parent Company.

	Six months ended 30th June, 1998 *(RMB'000)*
Repair and maintenance	41,030
Technical support and training	7,570
Railway transportation	49,610
Utilities and facilities	300
Road transportation	12,860
Social welfare and support service	42,480

(ii) Unaudited statements of income

(prepared in accordance with IAS)

	Notes	Six months ended 30th June, 1998 Historical (RMB'000)	1997 Historical *(Note 2)* *(RMB'000)*	1997 Proforma *(Note 2)* *(RMB'000)*
NET SALES	3	1,809,824	1,634,132	1,678,661
COST OF GOODS SOLD	4	968,891	748,262	888,209
GROSS PROFIT		840,933	885,870	790,452
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	5	257,921	254,789	281,099
OPERATING INCOME		583,012	631,081	509,353
INTEREST EXPENSES		(63,063)	(79,810)	(111,885)
OTHER INCOME	6	17,880	22,939	23,007
INCOME BEFORE INCOME TAXES		537,829	574,210	420,475
INCOME TAXES	7	165,206	186,100	145,075
NET INCOME		372,623	388,110	275,400
EARNINGS PER SHARE (proforma for six months ended 30th June, 1997)	8	RMB0.18	RMB0.23	RMB0.16
EARNINGS PER ADS (proforma for six months ended 30th June, 1997)	8	RMB8.84	RMB11.62	RMB8.25

Unaudited balance sheet
(prepared in accordance with IAS)

	As of 30th June, 1998 (RMB'000)	As of 31st December, 1997 (RMB'000)
ASSETS		
TOTAL CURRENT ASSETS	1,254,489	947,389
PROPERTY, PLANT AND EQUIPMENT, NET	5,532,476	3,746,535
GOODWILL	15,545	–
DEFERRED TAX ASSET	82,830	82,830
TOTAL ASSETS	6,885,340	4,776,754
LIABILITIES AND EQUITY		
TOTAL CURRENT LIABILITIES	984,843	821,582
BORROWINGS - DUE AFTER ONE YEAR	615,000	1,315,000
TOTAL LIABILITIES	1,599,843	2,136,582
SHAREHOLDERS' EQUITY	5,285,497	2,640,172
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	6,885,340	4,776,754

Notes to the unaudited financial statements
(prepared in accordance with IAS)

1. Restructuring

The Company was established as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 25th September, 1997 (the "Restructuring") to takeover and operate the coal mining business of Xinglongzhong coal mine, Baodian coal mine, Nantun coal mine and Dongtan coal mine (hereinafter collectively referred to as the "Four Original Mines"). Prior to the formation of the Company, the Four Original Mines were divisions of Yanzhou Mining (Group) Corporation Ltd. (the "Parent Company"), which is a state-owned enterprise under the supervision of the former Ministry of Coal Industry, which has been replaced by the National Coal Industry Bureau under the State Economic and Trade Committee.

Pursuant to the Restructuring, the relevant assets and liabilities of the Four Original Mines were injected into the Company by the Parent Company in consideration of the issue of 1,670,000,000 Domestic Shares of RMB1.00 each. The Parent Company retained certain assets and liabilities and businesses not assumed by the Company.

On 30th March, 1998, the Company allotted 820,000,000 shares, represented by 82,000,000 H shares and 14,760,000 American Depository Shares ("ADS", one ADS represents 50 H shares) in a combined offering and the H shares and ADSs were listed on The Stock Exchange of Hong Kong Limited and the New York Stock Exchange, Inc. since 1st April, 1998 and 31st March, 1998, respectively. On 16th April, 1998, the Company allotted an additional 30,000,000 H shares, represented by 600,000 ADS, to cover over-allotments in the combined offering.

The Company has used approximately RMB1,956,000,000 out of the net proceeds of approximately RMB2,023,600,000 received from the combined offering (including proceeds from the over-allotment option) to pay for the purchase price of a fifth mine, Jining II, which the Company acquired from the Parent Company as of 1st January, 1998.

The Company allotted 80,000,000 A shares to the public and its employees in the PRC in June 1998.

2. Basis of presentation and proforma statement of income

The Restructuring has been accounted for as a reorganisation of business under common control in a manner similar to a pooling of interests and the Company is regarded as a continuing entity. Accordingly, the unaudited balance sheet has been prepared to present all of the assets and liabilities of the Four Original Mines as if the Restructuring had been completed as of the beginning of the periods presented. The unaudited historical statements of income for the six months ended 30th June, 1997 include the results of operations of the Four Original Mines as if the Company had been in existence throughout such six-month period. Since Jining II was acquired by the Company for cash consideration, Jining II has been accounted for by the Company using the acquisition method from 1st January, 1998.The directors are of the opinion that the financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Company as a whole.

After the Restructuring, the environment in which the Company operates is different from that of the Parent Company. Also, the Company acquired Jining II from the Parent Company as of 1st January, 1998 and its results for the six months ended 30th June, 1998 have been incorporated in the unaudited financial statements of the Company. For these reasons, the Company's management believes that presentation of an unaudited proforma statement of income is necessary to supplement the historical financial data.

The unaudited proforma statement of income for the six months ended 30th June, 1997 has been prepared based on the historical results of operations after giving effect to proforma adjustments described in the notes thereto as if the transactions and agreements described in these notes were in effect throughout the six months ended 30th June, 1997. The acquisition of Jining II has been included in the unaudited proforma statements of income as if the acquisition was completed on 1st January, 1997. The unaudited proforma statements of income do not purport to represent what the combined results of operations of the Company would actually have been if the events described above had in fact occurred on such dates or at the beginning of 1997, or to project the statements of income of the Company for any future date or period.

The accompanying unaudited financial statements and the unaudited proforma statement of income have been prepared in accordance with IAS issued by the International Accounting Standards Committee which differ from those used in the management accounts of the Company prepared in accordance with PRC GAAP. Differences between IAS and PRC GAAP are stated in note 10.

Differences between IAS and accounting principles generally accepted in the United States of America ("US GAAP") are stated in note 11.

3. Net sales

	Six months ended 30th June,		
	1998 Historical *(RMB'000)*	**1997 Historical** *(RMB'000)*	**1997 Proforma** *(RMB'000)*
Domestic sales	1,174,724	1,146,759	1,191,288
Export sales, gross	857,252	639,733	639,733
Less: Transportation costs	222,152	152,360	152,360
Export sales, net	635,100	487,373	487,373
Net sales	1,809,824	1,634,132	1,678,661

4. Cost of goods sold

	Six months ended 30th June,		
	1998 Historical *(RMB'000)*	**1997 Historical** *(RMB'000)*	**1997 Proforma** *(RMB'000)*
Materials	171,670	137,330	151,920
Wages and employee benefits	162,659	149,876	162,422
Electricity	84,677	82,597	86,961
Depreciation	253,988	132,911	226,853
Contribution to coal industry fund	18,453	17,020	17,333
Relocation cost and land subsidence, restoration, rehabilitation and environmental costs	64,005	58,324	60,424
Repairs and maintenance	80,107	66,858	71,465
Non-rebated value added taxes	65,378	63,619	63,619
Annual fee for mining rights	6,490	–	6,490
Others	61,464	39,727	40,722
	968,891	748,262	888,209

5. Selling, general and administrative expenses

	Six months ended 30th June,		
	1998 Historical *(RMB'000)*	**1997 Historical** *(RMB'000)*	**1997 Proforma** *(RMB'000)*
Retirement benefits scheme contributions	75,779	69,134	76,568
Wages and employee benefits	29,315	24,929	26,974
Depreciation	12,414	10,847	19,153
Distribution charges	25,946	46,720	46,720
Resource compensation fees	11,219	14,282	14,734
Farm land encroachment tax	189	4,590	4,590
Repairs and maintenance	3,141	4,598	4,877
Research and development	17,300	11,238	11,453
Others	82,618	68,451	76,030
	257,921	254,789	281,099

6. Other income

	Six months ended 30th June,		
	1998 Historical *(RMB'000)*	**1997 Historical** *(RMB'000)*	**1997 Proforma** *(RMB'000)*
Gain on sales of auxiliary materials	3,415	13,784	13,786
Interest income	14,465	9,155	9,221
	17,880	22,939	23,007

7. Income taxes

IAS 12 "Income Taxes" was revised with effect from 1st January, 1998. The revised IAS 12 changed the criteria for measuring the provision for income taxes and recording deferred tax assets and liabilities on the balance sheet. Under the revised IAS 12, deferred income taxes are recognised for the tax consequences of 'temporary differences' by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The Company has adopted the revised IAS 12 retroactively. Accordingly, income tax expense for the six month period ended 30th June, 1997 increased by HK$2,475,000 and deferred tax asset and retained earnings increased by HK$82,830,000 as at 31st December, 1997.

	Six months ended 30th June,	
	1998 Historical *(RMB'000)*	**1997 Historical** *(RMB'000)*
Income tax	165,206	183,625
Deferred tax charge	–	2,475
	165,206	186,100

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

	Six months ended 30th June, 1998 Historical *(RMB'000)*	1997 Historical *(RMB'000)*
Standard income tax rate in PRC	33%	33%
Standard income tax rate applied to income before income taxes	177,484	189,489
Adjustments under IAS not deductible or subject to tax:		
Adjustment of future development fund, which is charged to income before taxes under PRC accounting regulations, to owner's equity	(12,009)	(11,085)
Elimination of unrealised intra-company profit from inventories	–	8,117
Others	(269)	(421)
Income tax	165,206	186,100

8. Earnings per share and per ADS

The calculation of the earnings per share and per ADS for the six months ended 30th June, 1998 is based on the net income for the period of RMB372,623,000 and on the weighted average number of shares of 2,106,464,000 shares and the equivalent 42,129,000 ADSs in issue during the period, respectively.

Earnings per proforma share for the six months ended 30th June, 1997 have been calculated based on the net income for the relevant period and assuming that the number of 1,670,000,000 shares issued in connection with the Restructuring were outstanding during the relevant period. The calculation of the earnings per proforma ADS is based on the net income for the relevant periods and on 33,400,000 ADSs assumed to be in issue during the relevant periods.

9. Provision for reserves

No transfer has been made to the statutory common reserve fund and statutory public welfare fund from profit attributable to shareholders for the period.

10. Summary of differences between IAS and PRC GAAP

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

	Net income for the six months ended 30th June, 1998 *(RMB'000)*	Net assets as of 30th June, 1998 *(RMB'000)*
As per financial statements prepared under IAS	372,623	5,285,497
Impact of IAS adjustment in respect of:		
– future development fund which is charged to income before income taxes under PRC GAAP, to shareholders' equity	(36,390)	(103,731)
– additional provision for land subsidence, restoration, rehabilitation and environmental costs	–	251,000
– additional provision for doubtful debts	–	25,148
– deferred tax asset	–	(82,830)
– others	(815)	7,289
As per financial statements prepared under PRC GAAP	335,418	5,382,373

There are also differences in other items in the financial statements due to differences in classification between IAS and PRC GAAP.

11. Summary of differences between IAS and US GAAP

The Company's financial statements are prepared in accordance with IAS, which differ in certain significant respects from US GAAP. The significant differences relate principally to the accounting for the acquisition of Jining II, the revaluation of property, plant and equipment, and dividend liabilities as of 31st December, 1997 and the calculation of the net income per proforma share for the six months ended 30th June, 1997.

IAS do not deal specifically with reorganisation of entities under common control, and accordingly, the Company has adopted the acquisition method in accounting for Jining II. Under US GAAP, adoption of the pooling of interests method is required for the acquisition of a business under common control. In applying the pooling of interests method the financial statement items of the combining enterprises for the period in which the combination occurs and for any comparative periods disclosed should be included in the financial statements of the combined enterprises as if they had been combined from the beginning of the earliest period presented.

Under IAS, revaluation of property, plant and equipment is generally permitted even for cases involving companies formed under reorganisation of entities under common control and depreciation is based on the revalued amount. Under US GAAP, financial statements are required to be prepared on a historical cost basis. Accordingly, property, plant and equipment are restated at cost and no additional depreciation on revalued amounts will be recognised under US GAAP. However, a deferred tax asset relating to the revaluation surplus is required to be recognised under US GAAP as a higher tax base resulting from the revaluation is utilised for PRC tax purposes.

Under IAS, the special interim dividend in respect of the period from 1st October, 1997 to 31st December, 1997 was recorded as a liability as of 31st December, 1997 although it was not declared until after that date. Under US GAAP, dividends are recorded as a liability on the date of declaration.

Under IAS, net income per proforma share for the six months ended 30th June, 1997 is computed by dividing net income for the period by the proforma number of shares outstanding following the formation of the Company. Under US GAAP, the net income per proforma share for the six months ended 30th June, 1997 is computed by dividing net income for the period by the proforma number of 1,709,906,513 domestic shares, being the proforma number of 1,670,000,000 domestic shares outstanding following the formation of the Company plus the 39,906,513 domestic shares which when multiplied by the offering price of RMB2.61 per share would be sufficient to pay a deemed dividend of RMB104,156,000. The deemed dividend is the differences between the purchase price for the acquisition of Jining II and the net assets of Jining II (calculated on a historical cost basis) which were acquired by the Company, assuming the acquisition had occurred on such date and the adjustment to the fair value of property, plant and equipment of Jining II is RMB103,589,000.

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

The following table summarises the effect on net income of differences between IAS and US GAAP:

	Six months ended 30th June,	
	1998 Historical *(RMB'000)*	**1997 Historical** *(RMB'000)*
Net income as reported under IAS	372,623	388,110
US GAAP adjustments:		
Loss of Jining II for the six month period ended 30th June, 1997 included in the results of the Company using the pooling of interests method	–	(29,416)
Depreciation charge on revalued property, plant and equipment	84,826	9,576
Additional deferred tax (charge) credit due to a higher tax base resulting from the revaluation of property, plant and equipment	(27,993)	4,956
Net income under US GAAP	429,456	373,226
Net income under US GAAP per share (proforma for the six months ended 30th June, 1997)	RMB0.20	RMB0.22
Net income under US GAAP per ADS (proforma for the six months ended 30th June, 1997)	RMB10.19	RMB10.91

	As of 30th June, 1998 *(RMB'000)*	**As of 31st December,1997** *(RMB'000)*
Shareholders' equity as reported under IAS	5,285,497	2,640,172
US GAAP adjustments:		
Revaluation of property, plant and equipment	(1,912,164)	(1,823,553)
Depreciation charged on revalued property, plant and equipment	171,710	86,884
Additional deferred tax assets due to a higher tax base resulting from the revaluation of property, plant and equipment	574,350	573,101
Deemed dividend on acquisition of Jining II	–	(104,156)
Goodwill arising on acquisition of Jining II	(15,545)	–
Special interim dividend	–	69,000
Shareholders' equity under US GAAP	4,103,848	1,441,448

The additional deferred tax assets under US GAAP comprised of the tax effect on a higher tax base resulting from the revaluation of property, plant and equipment for PRC tax purposes.

Under US GAAP, the Company's total assets would have been RMB5,497,364,000 and RMB5,703,691,000 at 31st December, 1997 and 30th June, 1998, respectively.

12. **Housing scheme**

The Parent Company is responsible for providing accommodation to its employees and the employees of the Company. The Company and the Parent Company share the incidental expenses relating to the accommodation on a pro-rata basis based on head count. Such expenses, amounting to RMB14,850,000 and RMB12,100,000 for the six months ended 30th June, 1998 and 1997, respectively, have been included as part of the social welfare and support services expenses.

Monthly wages and benefits paid to employees by the Company presently include a housing allowance, which is equally matched by a contribution from the employees. The contributions are paid to the Parent Company which utilises the fund, along with the proceeds from the sale of accommodation and, if the need arises, from loans arranged by the Parent Company, to construct new accommodation. It is the intention of the Parent Company to sell the new accommodation to the employees at cost. The Company estimates that over 85% of its employees own their accommodation.

Unaudited proforma statement of income

	Six months ended 30th June, 1997				
	Company historical *(Under IAS)* *(RMB'000)*	**Jining II historical** *(Under IAS)* *(RMB'000)*	**Historical combined** *(RMB'000)*	**Proforma adjustments** *(RMB'000)*	**Proforma combined** *(RMB'000)*
Net sales	1,634,132	44,529	1,678,661		1,678,661
Cost of goods sold	748,262	54,603	802,865	6,490 (a) 78,854 (b)	888,209
Gross profit	885,870	(10,074)	875,796		790,452
Selling, general and administrative expenses	254,789	19,410	274,199	6,900 (b)	281,099
Operating income	631,081	(29,484)	601,597		509,353
Interest expenses	(79,810)	–	(79,810)	(32,075) (c)	(111,885)
Other income	22,939	68	23,007		23,007
Income before income taxes	574,210	(29,416)	544,794		420,475
Income taxes	186,100	–	186,100	(41,025) (d)	145,075
Net income	388,110	(29,416)	358,694		275,400

Notes

(a) To adjust for an annual fee in respect of the usage of mining rights associated with the Company's five mines for the period from 1st January, 1997 to 30th June, 1997. The Company is required to pay the Parent Company an annual fee of RMB12,980,000 in respect of the usage of mining rights for a period of ten years with effect from 25th September, 1997;

(b) To adjust for additional amortisation and depreciation resulting from the revaluation of property, plant and equipment as at 31st July, 1997 as if the revaluation had been recorded on 1st January, 1997;

(c) To adjust for additional interest expense resulting from the bank loan of RMB1,800,000,000 at 12.42% per annum to replace the borrowings from the Parent Company upon the establishment of the Company on 25th September, 1997. The proforma adjustment is the difference between the Company's proportionate share of the Parent Company's total interest expense incurred and borrowings being charged at an interest rate of 12.42% per annum for the period from 1st January, 1997 to 30th June, 1997;

(d) To adjust the income taxes using the statutory rate as a result of proforma adjustments (a) to (c).

CORPORATE INFORMATION

Registered Name	兗州煤業股份有限公司
English Name	Yanzhou Coal Mining Company Limited
Legal Address	40 Fushan Road Zoucheng Shandong Province 273500 PRC
Legal Representative	Zhao Jingche
Company Secretary	Chen Guangshui
Authorised Representatives	Luo Taiyan Chen Guangshui 40 Fushan Road Zoucheng Shandong Province 273500 PRC Tel: (86-537) 538-3310 Fax: (86-537) 538-3311
Places of Listing	H Shares: The Stock Exchange of Hong Kong Limited Share Code: 1171 ADSs: The New York Stock Exchange, Inc. Ticker Symbol: YZC A Shares: The Shanghai Securities Exchange Ticker Symbol: 600188 Stock Abbreviation: Yanzhou Mei Ye