Yanzhou Coal Mining Company Limited
Interim results for the six months ended 30th June, 2001

Dear shareholders,

The Board of Directors of Yanzhou Coal Mining Company Limited (the "Company") is pleased to present the Company's unaudited interim operating results for the six months ended 30th June, 2001.

In the first half of 2001, both domestic and export markets continued to develop positively as we anticipated. The Company's raw coal production increased by 4.227 million tonnes, or 33.1%, to 16.991 million tonnes in the first half of 2001 as compared with the same period in 2000. Sales volume for the first six months of 2001 was 15.435 million tonnes, representing an increasing of 2.988 million tonnes or 24.0% of the sales volume for the same period last year. Total net sales for the first six months of 2001 were RMB2,335.4 million, a RMB649.7 million or 38.5% increase over those for the same period last year. Income before income taxes and net income for the first six months of 2001 were RMB617.6 million and RMB447.0 million, respectively, a RMB120.9 million or 24.3% increase and a RMB88.235 million or 24.6% increase over those for the same period last year, respectively.

SUMMARY OF UNAUDITED FINANCIAL INFORMATION

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

	For the six months ended 30th June,			Year ended 31st December
			% change as compared to same period last year	
	2001	2000		2000
	RMB'000	RMB'000		RMB'000
	(unaudited)	(audited)	(+/–)	(audited)
Net sales				
Domestic	**1,348,035**	1,072,234	25.7	2,090,758
Export	**987,393**	613,472	61.0	1,508,979
Total net sales	**2,335,428**	1,685,706	38.5	3,599,737
Gross profit	**973,210**	757,973	28.4	1,616,217
Operating income	**613,635**	463,870	32.3	979,781
Interest expenses	**(23,879)**	(2,473)	865.6	(5,012)
Income before income taxes	**617,619**	496,724	24.3	1,035,652
Net income	**446,998**	358,763	24.6	748,360
Earnings per share (RMB/share)	**0.163**	0.138	18.1	0.289

	Ended 30th June, 2001 (unaudited)	Ended 30th June, 2000 (audited)	Ended 31st December, 2000 (audited)
Total assets (RMB'000)	**10,707,735**	7,679,926	8,103,684
Shareholder's equity (RMB'000)	**8,532,586**	6,480,028	6,869,625
Return on net assets (%)	**5.24**	5.54	10.89
Net asset value per share (RMB/share)	**2.97**	2.49	2.64
Net cash flows from operating activities per share (RMB/share)	**0.19**	0.11	0.41

REVIEW OF OPERATIONS

The following discussion is based on the Company's unaudited financial results for the first half of 2001 and the Company's audited financial results for the first half of 2000, which were prepared in accordance with IAS.

Coal Production

The Company's coal production increased by 4.227 million tonnes, or 33.1%, to 16.991 million tonnes in the first half of 2001 as compared with the same period in 2000. Jining III, the newly acquired coal mine, produced 2.509 million tonnes of coal in the first half of 2001, demonstrating the production capacity increase of the Company. As a result of applying advanced mining techniques and equipment and continuously improving production efficiency, the Company has also achieved steady production increases at the five existing coal mines.

Product Sales

The Company continued with the operating strategies of "increasing sales volume and enhancing export volume" in the first half of 2001. The Company's sales volume increased by 2.988 million tonnes, or 24.0%, to 15.435 million tonnes in the first half of 2001 from the sales volume for the same period last year, of which 9.701 million tonnes were sold in the domestic market, an increase of 1.309 million tonnes, or 15.6% compared with the same period in 2000 (the principal factor being the increased sales of No. 3 clean coal and washed mixed coal and others). As to export sales, the volume increased to 5.734 million tonnes, an increase of 1.679 million tonnes, or 41.4%, as compared with the same period of 2000 mainly due to an increase of No. 2 clean coal exports by 349 thousand tonnes and an increase of No. 3 clean coal exports by 1.331 million tonnes. The proportion of the export sales volume of the Company's total sales volume increased by 4.5 percentage points compared with the same period in 2000. The increase in sales volume reflected the Company's strengthened market competitiveness in both domestic and overseas coal markets.

Product Pricing

The following table sets out the Company's product prices for the six months ended 30th June, 2001, and the prices for the six months ended 30th June and 31st December, 2000, respectively:

(prepared in accordance with IAS)

	For the six months ended 30th June, 2001	For the six months ended 30th June, 2000	For the six months ended 31st December, 2000
	Average price	Average price	Average price (note)
	RMB per tonne	RMB per tonne	RMB per tonne
Clean Coal			
No. 1 Clean Coal	220.1	222.9	210.2
No. 2 Clean Coal	181.9	177.2	169.3
Domestic	218.3	221.7	214.1
Exports	177.8	167.2	161.3
No. 3 Clean Coal	167.8	147.4	146.5
Domestic	159.4	152.2	153.2
Exports	170.6	146.5	145.5
Average Price for Clean Coal	171.5	156.3	151.9
Domestic	169.3	178.0	172.0
Exports	172.2	151.3	148.5
Screened Raw Coal	141.8	128.6	129.1
Mixed Coal and others	80.4	65.8	64.4
Average	151.3	135.4	136.1

Note:

The average price per tonne for the six months ended 31st December, 2000, was calculated based on the following formula:

$$\frac{\text{(Net sales for the year ended 31st December, 2000) less (net sales for the six months ended 30th June, 2000)}}{\text{(Sales volume for the year ended 31st December, 2000) less (sales volume for the six months ended 30th June, 2000)}}$$

Information relating to net sales and sales volume for the year ended 31st December, 2000 was set out in the Company's 2000 annual report.

The Company's average coal price increased by RMB15.9, or 11.7%, to RMB151.30 in the first six months of 2001 as compared with the same period last year, of which the average domestic price increased by 8.8% and the average export price increased by 13.8%. The quantity increase can be accounted for by the following factors which include: (i) the effective implementation of the macro regulation and control measures taken by the government such as the "shutting down mines and reducing coal production" and "limiting coal production and reducing coal inventories" has resulted in increases in domestic coal prices; (ii) fluctuation in oil prices has led to an adjustment in the international energy consumption structure, which has had a positive impact on the export coal price; and (iii) the Company was able to significantly increase the sales volume of higher-priced clean coal.

Net Sales

Net sales increased by RMB649.7 million, or 38.5%, to RMB2,335.4 million in the first half of 2001 compared with the same period last year. Domestic net sales increased by RMB275.8 million, or 25.7%, to RMB1,348.0 million and export net sales increased by RMB373.9 million, or 61.0%, to RMB987.4 million. The proportion of the export sales of the Company's total net sales increased by 5.9 percentage points compared with the same period of 2000.

The following table sets out the Company's net sales by product category for the six months ended 30th June, 2001 and 2000, respectively:

(prepared in accordance with IAS)

	For the six months ended 30th June, 2001 (unaudited)			For the six months ended 30th June, 2000 (audited)		
	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	146.9	32,339	1.4	131.4	29,288	1.7
No. 2 Clean Coal	1,423.6	258,876	11.1	1,142.9	202,510	12.1
Domestic	141.6	30,907	1.3	209.6	46,453	2.8
Exports	1,282.0	227,969	9.8	933.3	156,057	9.3
No. 3 Clean Coal	5,915.3	992,708	42.5	3,703.6	546,042	32.3
Domestic	1,463.2	233,284	10.0	582.2	88,628	5.2
Exports	4,452.1	759,424	32.5	3,121.4	457,414	27.1
Subtotal of Clean Coal	7,485.8	1,283,923	55.0	4,977.9	777,840	46.1
Domestic	1,751.7	296,530	12.7	923.2	164,369	9.7
Exports	5,734.1	987,393	42.3	4,054.7	613,471	36.4
Screened Raw Coal	6,717.2	952,404	40.8	6,632.5	852,835	50.6
Mixed Coal and others	1,232.4	99,101	4.2	837.0	55,031	3.3
Total	15,435.4	2,335,428	100.0	12,447.4	1,685,706	100.0

Cost and Expenses

Total operating expenses for the six months of 2001 increased by RMB500 million, or 40.9%, to RMB1,721.8 million as compared with those for the same period last year, of which the cost of goods sold increased by 46.8% and the selling, general and administrative expenses increased by 22.3%.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis are based on the unaudited interim financial report of 2001 and the audited 2000 interim financial report of the Company. These financial reports are prepared in accordance with IAS. For a discussion of certain differences between the IAS and accounting principles generally accepted in the United States of America ("US GAAP"), please refer to note 33 to the financial information prepared in accordance with IAS.

Net sales of the Company in the first six months of 2001 increased by RMB649.7 million, or 38.5%, to RMB2,335.4 million as compared with the same period of 2000. The increase of net sales was principally due to the increase of sales volume and product price, of which the increment of sales volume resulted in net sales increasing by RMB404.5 million, and the increases in product prices resulted in net sales increasing by 245.2 million.

Cost of goods sold increased by RMB434.5 million, or 46.8%, to RMB1,362.2 million in the first six months of 2001. The increase in cost of goods sold was principally due to: increases in production volume, greater than usual mine development cost arising from installation and removal of working panels, additional washery cost for clean coal and increases in wages. The unit cost of goods sold increased by RMB13.7 as compared with the same period of 2000 to RMB88.3, principally because: (i) as a result of the measure to enhance export volume, the increase in proportion of washed clean coal of total sales volume resulted in an increase of unit cost by around RMB3.4; (ii) increased occurance of installation and removal of working panels resulted in an increase in unit cost by around RMB2.8; (iii) the increase in employees' wages in relation to the increase in the Company's production and profitability resulted in an increase in unit cost by around RMB2.1; and (iv) Jining III had yet to achieve its economies of scale. Its unit cost of RMB99.4 in the first half of 2001 under the current production level resulted in an increase of RMB3.9 in the Company's unit cost.

Selling, general and administrative expenses was RMB359.6 million in the first six months of 2001, an increase of RMB65.472 million as compared with the same period of 2000. The increase was principally due to the increase in contribution to the retirement benefit scheme, wages, and the bad debt provision.

The Company's operating income increased by RMB149.7 million, or 32.3%, to RMB613.6 million for the first six months in 2001 from RMB463.9 million for the first half of 2000. This was principally due to the increase in sales income.

Interest expenses increased by RMB21.406 million, to RMB23.879 million as compared with the same period of 2000. This was principally due to the deemed interest expenses of RMB22.565 million reflecting the unpaid installments for Jining III acquisition.

Income before income taxes increased by RMB120.9 million, or 24.3%, to RMB617.6 million from RMB496.7 million in the same period of 2000.

Net income increased by RMB88.235 million, or 24.6%, to RMB447.0 million from RMB358.8 million for the same period of 2000.

Total assets increased by RMB2,604.0 million, or 32.1%, to RMB10,707.7 million as at 30th June, 2001 from RMB8,103.7 million as at 31st December, 2000. This was principally due to the acquisition of Jining III coal mine and the incremental assets increases arising from the Company's operating activities.

Total liabilities increased by RMB941.0 million, or 76.2%, from RMB1,234.1 million as at 31st December, 2000 to RMB2,175.1 million as at 30th June, 2001. This was principally due to the deferred payments representing the balance of the consideration due for the Jining III acquisition.

Shareholders' equity increased by RMB1,663.0 million, or 24.2%, from RMB6,869.6 million as at 31st December, 2000 to RMB8,532.6 million as at 30th June, 2001. This was principally attributed to an increase of RMB270.0 million resulting from the new issuances of A Shares and H Shares, an increase of RMB1,181.3 million in capital reserves and an increase of RMB211.7 million in undistributed operating profits.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of capital are proceeds raised from the new issues of A Shares and H Shares, and cash flow from operations. The Company's principal uses of capital have been payment of Jining III acquisition, shareholders' dividend, and purchasing of property, plant and equipment.

As at 30th June, 2001, the balance of the Company's accounts receivable and notes receivable was RMB832.7 million, a decrease of RMB4.06 million from that on 31st December, 2000. The Company tightened the collection of receivables resulting in a decrease of RMB85.376 million in receivable accounts.

Inventories increased by RMB84.237 million to RMB347.1 million from RMB262.9 million as at 31st December, 2000. This was principally due to the increase of coal stocks.

Prepayment and other current assets increased by RMB69.293 million to RMB629.7 million from RMB560.4 million as at 31st December, 2000. This was principally due to the increases in freight fee paid in advance.

Accounts payable decreased by RMB113.3 million to RMB435.1 million from RMB548.4 million as at 31st December, 2000.

Other accounts payable and provisions increased by RMB118.9 million to RMB517.4 million from RMB398.5 million as at 31st December, 2000. This was principally due to the increase arising from the next installment of the deferred payment for the consideration for Jining III acquisition.

Long-term liabilities were RMB639.7 million as at 30th June, 2001, which will be paid for the acquisition of Jining III a year latter.

In the first half of 2001, the Company's capital expenditure was RMB1,396.5 million principally for the payments made in respect of the consideration for Jining III acquisition and replacement of machinery and equipment. The Company's major capital expenditures will be used to meet the deferred payments representing the balance of consideration for Jining III acquisition and purchase and replacement of machinery and equipment in the second half of 2001.

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

TAXATION

For the period under review, the Company is still subject to an income tax rate of 33% on its taxable profits.

US GAAP RECONCILIATION

The Company's unaudited interim financial statements are prepared in compliance with IAS, which differs in certain respects from US GAAP. Please refer to note 33 to the interim financial statements prepared in accordance with IAS for this period for a description of the differences between IAS and US GAAP.

OUTLOOK FOR THE SECOND HALF OF 2001

The Company achieved satisfactory interim results in the first half of 2001. The domestic and overseas coal markets are expected to continue to be stable in the second half of 2001. The positive effects of the government's macro regulation and control measures to close small coal mines are expected to be realized in the second half of 2001. Fluctuation in oil prices has led to an adjustment in the international energy consumption structure, which has had a positive impact on the long term coal price and demand. The company is expected to benefit from the stabilized domestic and overseas coal markets.

In the second half of 2001, China's economy is expected to maintain a strong outlook. Coal will maintain its position as the overall energy leader in China and it is expected during the Tenth Five Years period domestic demand for coal will increase by an average of 20 million tonnes per year. In the first half of 2001, the State Council promulgated measures to strengthen the macro regulation and control, including implementation of the system to investigate and inflict administrative responsibility for major safety accidents, closure of small state-owned coal mines, and restructuring and ceasation of production of the township coal mines. These powerful and effective macro regulatory and control measures are expected to further reduce domestic coal supply and achieve orderly operational environment. Large-scale coal enterprises including the Company are expected to benefit from these measures and increase their sales volume and improve their operating results. China exported 39.87 million tonnes of coal in the first half of 2001, giving an annualized total of 80 million tonnes, which is expected to make China the second largest exporter of coal in the world. The Company is expected to benefit from these export increases.

According to the "Tenth Five-year Plan For Coal Industry" promulgated by the State, enterprises are encouraged to establish industrial leaders commanding international competitiveness by means of acquisition, merger or restructuring to build up integrated operations including coal, power, transportation, ports and freight business. This State policy enables the Company to use its comparative advantages in technology, marketing position and financing skills to expand the Company's production capacity and strengthen its core business.

Both supply and demand of the international coal market are in a strong yet balanced position. Adjustments caused by the fluctuating oil prices which have featured in the international energy consumption structure, resulted in substantial increase of coal demand in the international major markets. The import volume in East Asia markets mainly to Japanese and Korean and European markets are increasing continuously. The United States, which is typically a minor swing exporter of coal, has in recent months become a net importer. The United States and Germany implemented new energy policies to increase the proportion of coal-fired power generation. Thanks to the increase of coal demand, the export volume growth of major coal export countries such as Australia and China are being sustained.

The international coal spot market is expected to be activen in the second half of 2001. The international spot coal prices showed notable increases in the first half of 2001. The Australian BJ spot price, which is a benchmark for the international coal price, has rebounded from US$27.8/tonne at the beginning of this year to the highest US$34.25/tonne in May, 2001, and then has sustained some downward pressure due to the close of most price negotiations for annual contract and timely increases of supply in major markets. As at 16th August, BJ spot price dropped to US$32.25/tonne. Japan is beginning to pay close attention to spot markets because the spot price has fallen below contract prices. European spot markets will also turn active due to the decrease in spot prices.

The Company's principal development objectives are to focus on core business of coal and to realize the large-scale and low-cost expansion through utilization of advanced technology and superior management. The Company's major operating strategies are: (i) increasing both coal production and sales volume, especially sales to the power plant customers in the coastal areas in China and increasing export volumes, especially to the power plant customers and the steel companies using PCI coal in Japan, South Korea and Taiwan; (ii) acquiring domestic and overseas high-quality assets to enhance the Company's capacity in its core business; (iii) further improving and perfecting the top caving mining technology and improving efficiency; and (iv) exploring clean coal technology, which can process coal into clean energy used in power generation, chemical industry, transportation and so on.

The Company will continue to improve profitability through increasing sales volume. The Company is expected to sell more than 18 million tonnes in the second half of 2001, giving an annualized total of 33.2 million tonnes. In the second half of 2001, the domestic sales volume is expected to reach more than 10 million tonnes and the export sales volume is expected to reach more than 8 million tonnes.

The Company intends to focus on the following measures to improve the operational porformance and enhance profitablibility in the second half of 2001:

I. Strengthening cost control measures. In the second half of 2001, the reduction in the installation and removal of working panels is expected to decrease cost and the increase in sales volume is expected to decrease the unit cost, respectively. The Company will adopt the following measures to control cost: (i) perfecting the top caving mining technology. In the second half of 2001, the production system with output capacity of 6 million tonnes per year will commence at Xinglongzhuang coal mine, resulting in an increase in the capacity and reduction in production cost; (ii) controlling wages escalation and implement further staff reduction by up to 600 emplyees; (iii) improving the cost control of Jining III; and (iv) strengthening the operation and management and reinforcing the implementation of cost reduction measures, and implementing the payroll structure linked to production cost.

II. Improving product quality and business reputation through improvements in coal preparation process, coal quality systems and equipment and improvements in transportation and storage quality.

III. The multiple-tracks of Yan-Shi railway is expected to commence operation in the fourth quarter of 2001. In conjunction with the increasing transportation capacity, the Company will reform its storage, loading and unloading and transportation systems, enhance management for exports and sales to the coastal areas, increase sales volume and reduce transportation cost.

IV. Jining III coal mine is anticipated to produce 5 million tonnes of coal in 2001, and is expected to reach the design production capacity and contribute positively to the Company in the first year it is commissioned. Jining III intends to focus on the following three tasks in the second half of 2001: (i) complete certification processes for ISO14000 environment protection system and ISO9000 quality assurance system; (ii) improve the production auxiliary equipment and increase production capacity; and (iii) enhance management of preparation plant and increase quality and production of washed coal.

With domestic and overseas coal markets showing signs of stability at a high operating level, the Company is expected to enhance profitability further in the second half of 2001 to reward our shareholders for their long-term support.

CHANGE IN SHARE CAPITAL STRUCTURE AND SUBSTANTIAL SHAREHOLDERS

Changes in share capital

(In share) Par value per share: RMB 1.00

	Number of shares before the changes 31st December, 2000	Changes during the period under review (Increase/ Decline)	Number of shares after the changes 30th June, 2001
A. Shares not listed for public dealing			
1. Subscriber shares of which:			
State legal person shares	1,670,000,000	–	1,670,000,000
2. Shares issued to senior management of the Company	221,000	–	221,000
Total number of shares not listed for public dealings	1,670,221,000	–	1,670,221,000
B. Shares listed for public dealings			
1. Domestically listed RMB Ordinary Shares	79,779,000	100,000,000	179,779,000
2. Foreign invested Shares listed on overseas stock exchange	850,000,000	170,000,000	1,020,000,000
Total number of shares listed for public dealings	929,779,000	270,000,000	1,199,779,000
C. Total shares	2,600,000,000	270,000,000	2,870,000,000

The New Issuances of 100,000,000 A Shares and 170,000,000 H Shares were completed on 3rd January, 2001 and 11th May, 2001 respectively. As of 30th June, 2001, all of the New Shares have been listed for public dealings.

The share capital of the Company increased from 2,600,000,000 shares to 2,870,000,000 shares and the outstanding shares as a percentage of share capital increased from 35.76% to 41.80% after the New Issuances referred to above.

Substantial Shareholders

(As at 30th June, 2001)

Name	Class of Shares held	Number of Shares at the end of this period	Percentage Holding %
Yankuang Group Corporation Limited	State legal person shares	1,670,000,000	58.19
HKSCC Nominees Limited	H shares	1,018,238,000	35.48
China National Petroleum Corporation	A shares	17,797,479	0.62
Wuhu Conch Cement Co., Ltd.	A shares	5,347,000	0.19
Anhui Yurongxin Investment Company	A shares	4,983,294	0.17
Sichuan Changhong Electric Co., Ltd.	A shares	3,569,800	0.12
Tianyuan Fund	A shares	3,305,790	0.12
Petroleum Equipment	A shares	2,968,609	0.10
Yulong Fund	A shares	2,456,258	0.09
Dongfeng Automobile Co., Ltd.	A shares	1,779,748	0.06

Save as disclosed above, no other shareholder was recorded in the register kept pursuant to China Security Act as having an interest of 5% or more of the Company's public shares; no other shareholder was recorded in the register kept pursuant to Section 16 (1) of the Securities (Disclosure of Interests) Ordinance of Hong Kong (the "SDI Ordinance") as having an interest of 10% or more of the Company's domestic invested shares or foreign invested shares as at 30th June, 2001.

The Company is not aware of any connected relations among its top ten shareholders.

During the period under review, the shares held by Yankuang Group Corporation Ltd. were neither pledged nor frozen.

The following shareholders entered the top ten shareholders of the Company through subscription for the New A shares.

Shareholder's name	Agreed period of holding shares beginning date	ending date
China National Petroleum Corporation	3rd January,2001	20th May,2001
Wuhu Conch Cement Co., Ltd.	3rd January,2001	20th May,2001
Anhui Yurongxin Investment Company	3rd January,2001	20th May,2001
Sichuan Changhong Electric Co., Ltd.	3rd January,2001	20th May,2001
Petroleum Equipment	3rd January,2001	20th May,2001
Dongfeng Automobile Co., Ltd.	3rd January,2001	20th May,2001

DIRECTORS' AND SUPERVISORS' INTERESTS

As at 30th June, 2001 the Company's directors and supervisors held in aggregate 180,000 A shares, representing 0.0063% of the Company's total issued share capital. Details are as follows:

Name	Title	Number of A shares held
Zhaojingche	Chairman of the board	10000
Yangdeyu	General Manager and Executive Directors	10000
Dumingshan	Executive Directors	10000
Luotaiyan	Executive Directors	10000
Xiaolifang	Executive Directors and Financial Controller	10000
Wangbangjun	Non-executive Director	10000
Moliqi	Non-executive Director	10000
Liuyubin	Non-executive Director	10000
Wuzezhi	Non-executive Director	10000
Chenyongge	Non-executive Director	10000
Mahouliang	Non-executive Director	10000
Xutianen	Non-executive Director	10000
Yangjiachun	Non-executive Director	10000
Mengxianchang	Chairman of the Supervisor Committee	10000
Xiaoshuzhang	Supervisor	10000
Qianxiulan	Supervisor	10000
Xuxinmin	Supervisor	10000
Zhouhongbin	Supervisor	10000

Save as disclosed herein, none of the Company's directors or supervisors had, as at 30th June, 2001, 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 of are deemed to have under Section 31 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 of supervisors, which would be required to be named as described above if they had been directors. The Company has not granted to any of the Company's directors or supervisors or their spouses or children under 18 years of age any right to subscribe for equity or debts securities of the Company.

DISCLOSURE OF SIGNIFICANT EVENTS

Final Dividends

At the 2000 annual general meeting of the Company held on 15th June, 2001, the shareholders of the Company approved a final dividend of RMB235,340,000 (including tax), or RMB0.082 per share (including tax). Such final dividend had been paid to shareholders of the company before 30th June, 2001.

Interim Dividends

According to the Articles of Association of the Company, interim dividends will not be paid to the shareholders of the Company.

Acquisition of Jining III Coal Mine

The Company entered into the Acquisition Agreement for Jining III Coal Mine (the "Acquisition Agreement") with the Parent Company on 4th August, 2000. The Acquisition Agreement was reviewed and approved by the Independent Board Committee on 26th August, 2000 and was further approved by the Independent Shareholders at an Extraordinary General Meeting held on 22nd September, 2000.

In accordance with the Acquisition Agreement, the Company completed the acquisition of Jining III on 1st January, 2001. The purchase price of approximately RMB2,434 million was set based on the valuation on 30th April, 2000 being the Valuation Date, and confirmed by the Ministry of Finance. After adjustment based on the current assets value of Jining III on 31st December, 2000, the purchase price is RMB2,451 million. The purchase price has been partially paid off by the Company with cash in hand of RMB3.94 million and the net proceeds of RMB961 million raised from the New Issuance of A Shares. The remainder of the purchase price will be paid before 31st December, 2001 and 31st December, 2002 in two installments without interest.

The consideration of the mining right of Jining III is approximately RMB132 million, which shall be paid to the Parent Company in ten equal annual installments without interest commencing from 2001.

New Issue Shares

The New Issuances of 100,000,000 A Shares and 170,000,000 H Shares were completed on 3rd January, 2001 and 11th May, 2001 respectively. Details are as follows:

	A Shares	H Shaes
Par value	RMB1.00 per share	RMB1.00 per share
Quantities of new issue shares ('000)	100,000	170,000
Issue price	RMB10.00 per share	HK$2.925 per share
Net proceeds	RMB961 million	RMB491 million
Use of proceeds	Applying to finance the acquisition of Jining III	Applying to finance the acquisition of Jining III

Amendments to the Articles of Association of the Company

After the New Issue of A Shares, the Company has amended the Articles of Association of the Company and disclosed that in the Annual Report 2000. Due to the New Issuance of H Shares in accordance with the authorization made by the Annual General Meeting for the year 1999, held on 16th June, 2000, the Board of Directors has made the following amendments to the Articles of Association of the Company to reflect the new capital structure of the Company after New Issue of H Shares.

Article 15 Subject to the approval of the companies approving department authorised by the State Council, the Company issued a total of 2,870,000,000 ordinary shares, of which 1,670,000 ordinary shares, representing 58.19% of the total number of ordinary shares, were issued to the promoter of the Company at the time when the Company was established.

Article 16 The share capital structure of the Company comprises 2,870,000,000 ordinary shares, of which (a) 1,670,000,000 shares, which represent 58.19% of the Company's share capital, are held by the promoter of the Company, Yankuang Group Corporation Ltd., in the form of state-owned legal person shares; (b) 1,020,000,000 shares, which represent 35.54% of the Company's share capital are held by the H shares shareholders; and (c) 180,000,000 shares, which represent 6.27% of the Company's share capital, are held by the A shares shareholders.

Article 19 The registered capital of the Company is RMB2,870,000,000. 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 Security Policy Committee.

Connected Transactions

The Company's connected transactions in the first half of 2001 are set out in note(25) of the financial statements prepared in accordance with IAS.

Purchase, Sale or Redemption of Shares

During the six months ended 30th June, 2001, the Company did not purchase or redeem any of its shares and the details of Shares Sale are set out on the "New Issue Shares" section of the report.

Compliance with Code of Best Practice

As at 30th June, 2001, the Board of Directors of the Company had not established an audit committee. However, under the Company's organizational structure, a Board of Supervisors carries out functions similar to that of an audit committee. The differences being that the Company's Board of Supervisors comprises five members (one of which shall be an employee representative) who are elected and removed in the general meeting of shareholders. Whereas, an audit committee should comprise the non-executive directors of a company.

Except for mentioned above, none of the directors is aware of any information that would reasonably indicate that the Company is not, or has not, in compliance with the "Code of Best Practice" set out in Appendix 14 of the Rules on Governing the Listing of Securities issued by the Hong Kong Stock Exchange Ltd. during the six months ended 30th June, 2001.

Effect of the Exchange Rate Changing

The effect of the exchange rate changes on the Company has been stated in Annual Report 2000. There is no other effect during the period of this report.

Changing into Sino-foreign Joint Stock Limited Company

The Company was changed into Sino-foreign Joint Stock Limited Company in April, 2001.

Material Litigation and Arbitration

The Company was not involved in any material litigation or arbitration during the period of this report.

Material Contracts

Saved as the Acquisition Agreement, which was set out on "Acquisition of Jining III Coal Mine" section, and the Placing Agreement of New Issue H Shares announced on 9th May, 2001, the Company did not enter into any material contract during the period of this report.

Employees

As at 30th June, 2001, the Company had 23,855 employees of whom 18,985 were directly involved in coal production, 660 were technicians, 1,844 were administrative personnel, and 2,366 were other supporting staff.

Auditors

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

DOCUMENTS AVAILABLE FOR INSPECTION

The following documents are available for inspection in the office of the secretary to the Board of Directors of the Company at 40 Fushan Road, Zoucheng, Shandong Province, PRC:

- the full text of the interim report signed by the Chairman;
- financial statements signed by corporate representative, financial responsible person and accountants;
- all of the original documents and announcement manuscripts, which were publicly released during the period of this report on the newspaper designated by China Securities Regulatory Commission;
- the full text of the interim report released on the other securities markets; and
- the Article of Association of the Company.

On behalf of the Board
Zhao Jingche
Chairman

24th August, 2001
Zoucheng, P.R.China

(i) Unaudited financial information prepared under PRC GAAP

BALANCE SHEET

JUNE 30, 2001

	NOTES	6.30.2001 RMB (Unaudited)	12.31.2000 RMB
ASSETS			
CURRENT ASSETS			
Bank balances and cash	4	1,204,895,557	844,754,367
Bills receivable		99,930,305	16,798,987
Accounts receivable	5	774,830,384	870,971,641
Other receivable	6	382,103,209	491,401,223
Prepayments	7	84,723,017	63,858,468
VAT refundable	8	246,161,494	221,500,273
Inventories	9	347,138,576	262,901,887
Deferred expenditures	10	93,283,393	34,732,327
TOTAL CURRENT ASSETS		3,233,065,935	2,806,919,173
FIXED ASSETS			
Fixed assets at cost	11	11,256,619,678	8,756,556,850
Less: Accumulated depreciation	11	4,337,462,228	3,796,796,179
FIXED ASSETS, NET	11	6,919,157,450	4,959,760,671
Construction materials	12	6,173,050	4,651,893
Construction in progress	13	283,345,532	245,130,684
TOTAL FIXED ASSETS		7,208,676,032	5,209,543,248
INTANGIBLE AND OTHER ASSETS			
Intangible assets	14	505,132,925	290,979,405
Pre-operating expenses	15	–	3,671,461
Long-term deferred expenditures	15	5,677,843	5,992,615
TOTAL INTANGIBLES AND OTHER ASSETS		510,810,768	300,643,481
TOTAL ASSETS		10,952,552,735	8,317,105,902

Notes form parts of the financial statements.

BALANCE SHEET

JUNE 30, 2001

	NOTES	6.30.2001 RMB (Unaudited)	12.31.2000 RMB
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Notes payable	16	232,800,000	318,400,000
Accounts payable	17	385,051,320	568,290,178
Advance from customers	18	107,866,828	93,740,947
Payroll payable		33,751,562	34,727,203
Dividend payable	19	–	235,340,000
Tax payable	20	126,435,502	159,409,303
Other payable	21	679,872,973	215,337,981
Accrued expenses	22	33,872,781	–
Accrued land subsidence costs	23	157,209,379	136,724,035
TOTAL CURRENT LIABILITIES		1,756,860,345	1,761,969,647
LONG TERM LIABILITY			
Long-term payables	21	742,614,000	–
TOTAL LIABILITIES		2,499,474,345	1,761,969,647
SHAREHOLDERS' EQUITY			
Share capital	24	2,870,000,000	2,600,000,000
Capital reserves	25	3,707,532,803	2,526,228,929
Surplus reserves	26	358,585,824	358,585,824
Including: Statutory Common Welfare Fund		119,528,609	82,579,303
Unappropriated profits	27	1,516,959,763	1,070,321,502
SHAREHOLDERS' EQUITY		8,453,078,390	6,555,136,255
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		10,952,552,735	8,317,105,902

Notes form parts of the financial statements.

STATEMENT OF INCOME AND PROFITS APPROPRIATION

PERIOD FROM JANUARY 1, 2001 TO JUNE 30, 2001

	NOTES	Six months ended June 30, 2001 RMB (unaudited)	Six months ended June 30, 2000 RMB	Year ended 12.31.2000 RMB
Net revenue from principal operations	28	**3,086,004,912**	2,148,897,507	4,780,580,876
Less: Cost of principal operations	29	**1,362,218,643**	927,732,721	1,983,519,916
Sales taxes on principal operations	30	**47,335,555**	41,119,715	76,380,272
Income from principal operations		**1,676,450,714**	1,180,045,071	2,720,680,688
Add: Income from other operations	31	**19,625,160**	16,752,321	27,559,433
Less: Operating expenses	32	**735,642,914**	456,336,972	1,168,691,771
Administrative expenses	33	**344,387,680**	250,486,606	554,130,939
Financial expenses	34	**(7,579,042)**	(16,323,694)	(20,768,987)
Operating profit		**623,624,322**	506,297,508	1,046,186,398
Add: Subsidies	35	**–**	188,579	188,579
Non-operating income	36	**269,155**	1,825,436	2,996,491
Less: Non-operating expenses	37	**5,418,076**	12,117,157	14,777,978
Profit before income taxes		**618,475,401**	496,194,366	1,034,593,490
Less: Income taxes	38	**171,837,140**	145,880,950	295,607,377
Net profit		**446,638,261**	350,313,416	738,986,113
Add: Unappropriated profits at the beginning of the period/year		**1,070,321,502**	677,523,306	677,523,306
Profits available for appropriation		**1,516,959,763**	1,027,836,722	1,416,509,419
Less: Appropriations to statutory common fund	27	**–**	–	73,898,611
Appropriations to public welfare fund	27	**–**	–	36,949,306
Profits available for appropriation to shareholders		**1,516,959,763**	1,027,836,722	1,305,661,502
Less: Dividends	27	**–**	–	235,340,000
Unappropriated profits		**1,516,959,763**	1,027,836,722	1,070,321,502

Notes form parts of the financial statements.

STATEMENT OF INCOME AND PROFITS APPROPRIATION – continued

PERIOD FROM JANUARY 1, 2001 TO JUNE 30, 2001

	Six months ended June 30, 2001				Six months ended June 30, 2000			
	Return on shareholder's equity		Earnings per share		Return on shareholder's equity		Earnings per share	
Profit for the period/year	Diluted	Weighted average	Diluted	Weighted average	Diluted	Weighted average	Diluted	Weighted average
			RMB	RMB			RMB	RMB
Income from principal operations	19.83%	21.88%	0.58	0.62	18.43%	18.95%	0.45	0.45
Operating profit	7.38%	8.14%	0.22	0.23	7.91%	8.13%	0.19	0.19
Net profit	5.28%	5.83%	0.16	0.16	5.47%	5.63%	0.13	0.13
Net profit deducted extraordinary income (or loss)	5.34%	5.89%	0.16	0.17	5.63%	5.79%	0.14	0.14

CASH FLOWS STATEMENT

PERIOD FROM JANUARY 1, 2001 TO JUNE 30, 2001

	NOTES	Six months ended June 30, 2001 RMB (unaudited)
CASH FLOW FROM OPERATING ACTIVITIES		
Cash received from sales of goods and rendering of services		3,216,331,998
Taxes refunded		167,781,264
Other cash received relating to operating activities		335,475,008
SUBTOTAL CASH INFLOW		3,719,588,270
Cash paid for goods and services		1,075,819,588
Cash paid to and on behalf of employees		311,637,912
Taxes paid		555,756,743
Cash paid for other operating activities	39	1,229,474,269
SUBTOTAL CASH OUTFLOW		3,172,688,512
NET CASH FLOWS FROM OPERATING ACTIVITIES		546,899,758
CASH FLOW FROM INVESTING ACTIVITIES		
Net cash received from disposal of fixed asset, intangible assets and other non-current assets		2,798,322
SUBTOTAL CASH INFLOW		2,798,322
Cash paid for purchases of fixed assets, intangible ssets and other long-term assets		51,384,764
Cash paid for acquisition of Jining III	40	1,354,136,000
SUBTOTAL CASH OUTFLOW		1,405,520,764
NET CASH FLOWS FROM INVESTING ACTIVITIES		(1,402,722,442)
CASH FLOW FROM CAPITAL RAISING ACTIVITIES		
Cash received from issue of share capital		1,451,303,874
SUBTOTAL CASH INFLOW		1,451,303,874
Dividends paid		235,340,000
SUBTOTAL CASH OUTFLOW		235,340,000
NET CASH INFLOWS FROM CAPITAL RAISING ACTIVITIES		1,215,963,874
EFFECT OF FOREIGN EXCHANGE RATES CHANGES ON CASH		–
NET INCREASE IN CASH AND CASH EQUIVALENTS		360,141,190

Notes form parts of the financial statements.

CASH FLOWS STATEMENT – continued

PERIOD FROM JANUARY 1, 2001 TO JUNE 30, 2001

	Six months ended June 30, 2001 RMB (unaudited)
RECONCILIATION OF NET PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Net profit	446,638,261
Add:	
Provision for bad debts	4,323,013
Depreciation of fixed assets	412,173,176
Amortization of intangible assets and other assets	17,534,054
Losses on disposal of fixed assets, intangible assets and other long-term assets (Less: gains)	3,548,078
Decrease in deferred expenditures (Less: increase)	(58,551,066)
Increase in accrued expenses (Less: decrease)	33,872,781
Financial expense	–
Decrease in inventories (Less: increase)	(84,236,689)
Decrease in operating receivable (Less: increase)	82,820,054
Increase in operating payable (Less: decrease)	(311,221,904)
Net cash flows from operating activities	546,899,758
Net increase in cash and cash equivalents:	
Cash at the end of the period	1,204,895,557
Less: Cash at the beginning of the period	844,754,367
Net increase in cash and cash equivalents	360,141,190

Notes form parts of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM JANUARY 1, 2001 TO JUNE 30, 2001

1. GENERAL

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

In January 2001, the Company allotted an additional 100,000,000 A shares of RMB1 each to the public. In May 2001, the Company placed an aggregate of 170,000,000 H shares of RMB1 each to independent investors.

After the new issue of shares, the Company has 2,870,000,000 shares in issue. Each share has a par value of RMB1. The Company's total share capital is RMB2,870,000,000, including RMB1,670,000,000 (representing 58.19% of the total share capital) state legal person shares; RMB1,020,000,000 (representing 35.54% of the total share capital) H Shares and American Depository Shares; and RMB 180,000,000 (representing 6.27% of the total share capital) A Share listed on domestic stock exchange. Details of the movements in the Company's share capital during the period are set out in note 24 to the financial statements.

The Company was changed to a sino-foreign-joint stock company with limited liability in April 2001.

After the new issue of shares, the registered capital of the Company will be increased to RMB2,870,000,000 (up to the date of this report, the application for the change of registered capital of the Company is still in progress).

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Accounting policy

The financial statements have been prepared in accordance with "Accounting Standards for Business Enterprises" and "Accounting Regulations for Business Enterprises".

Accounting year

The accounting year of the Company commences on January 1 and ends on December 31 each year. The accounting period for these financial statements is from January 1, 2001 to June 30, 2001.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES – continued

Reporting currency

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

Recording principles and accounting basis

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

Foreign currency translation

Transactions denominated in foreign currencies are translated into Renminbi at the applicable rates of exchange prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the applicable rates of exchange prevailing at the balance sheet dates. Exchange gains or losses arising from translation are dealt with as financial expenses in the statement of income.

Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity and subject to limited risk on changes in value.

Accounting treatment for bad debts

(1) Recognition criteria for bad debts

The irrecoverable amount of a bankrupt debtor after pursuing the statutory procedures; the irrecoverable amount of a debtor who has died and has insufficient estate to repay; the irrecoverable amount, demonstrated by sufficient evidence or by court orders, of a debtor who is proved to be unable to repay obligations after the debts fall due.

(2) Accounting treatment for bad debts

Provision for bad debts is made using provision method based on aging analysis. Bad provision is estimated according to closing balance of accounts receivable (excluding amount due from related party) and other receivables (excluding amount due from related party and deposits on packaging material for long-term use) and estimated bad debt loss percentage. The estimated bad debt loss percentage is as follows:

Accounts Receivable Age	Estimated provision %
Within 1 year (including 1 year)	4%
1 to 2 years	30%
2 to 3 years	50%
Over 3 years	100%

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES – continued

Accounting treatment for bad debts – continued

(2) Accounting treatment for bad debts – continued

The provision percentage is reasonably estimated based on the past experiences of management of the Company, the financial position and cash flows condition of the relevant debtor, as well as other relevant information.

Inventories

Inventories are stated at the historical cost which includes direct materials and, where applicable, direct labour cost and those overheads that have been incurred in bringing the inventories to their present location and condition. Inventories include raw materials and finished products.

The cost of inventories is calculated on the weighted average cost method when they are issued.

Provision for loss on realization of inventories

Provision for loss on realization of inventories is made when the net realizable value is lower than the cost. Provision for loss on realization of inventories is provided as the difference between the cost of one single item and its net realizable value. Net realizable value represents the estimated selling price less the estimated cost of completion and the estimated costs to be incurred in marketing, selling and distribution.

Fixed assets and depreciation

Fixed assets include buildings, mining structures, plant, machinery and equipment, transportation equipment and other equipment used for production with useful life exceeding 1 year and non-operating equipment with unit value over RMB 2,000 and useful life exceeding 2 years.

Fixed assets are stated at cost or valuation upon the restructuring. Depreciation is provided to write off the cost of each category of assets, other than mining structures, over their useful lives from the month after they are put into use using the straight-line method with estimated residual value of 3% on cost. The useful life and annual depreciation rate of each category of fixed assets are as follows:

	Useful life	Annual depreciation rate
Buildings	15-30 years	3.23 – 6.47%
Plant, machinery and equipment	5-15 years	6.47 – 19.40%
Transportation equipment	6-9 years	10.78 – 16.17%

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES – continued

Fixed assets and depreciation – continued

According to (89) Caigongzi No.302, depreciation of mining structures was previously provided at RMB2.5 per tonne of raw coal mined and is now provided using the units of production method. Based on the cost of mining structures and the designed annual production capacity, it is still estimated as RMB2.5 per tone. Therefore the change of accounting estimate has no effect on the profit and loss for the period.

Provision on impairment loss on fixed assets

At each balance sheet date, the Company inspects individual item of fixed assets. If the recoverable amount of the fixed assets is less than the carrying amount when evidence such as, the decrease in market value of the fixed assets, technology obsolescence, damage or under-utilization, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized. The impairment loss is recognized on individual item of fixed assets.

The recoverable amount is stated at the higher of net realizable value or usable value.

Construction in progress

Construction in progress is stated at historical cost or valuation upon the restructuring. Cost includes all expenditures incurred for construction projects, relevant loan interests, and other related expenses incurred. Construction in progress is transferred to fixed assets upon completion of the project and when assets have been put into use. If the fixed assets constructed are ready for their intended use but the final account of completed project has not been issued, (1) the completed part should be transferred to fixed assets at an estimated cost according to the construction budget, construction price or actual cost, and; (2) depreciation should be provided according to deprecation policy for fixed assets from the date when the assets are ready for their intended use. Depreciation is to be adjusted when the final account of completed project issued.

Provision on impairment loss on construction in progress

At the balance sheet date, the Company inspects individual items of construction in progress, if there exists (1) construction in progress has been ceased for construction for a long period of time and no re-commencement of work is expected in the future 3 years, (2) construction in progress was technically and physically obsolete and its economic benefits to the Company is uncertain, (3) other evidences show the existence of the circumstance of the decline in value on construction in progress. The carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognised on individual item of construction in progress. The recoverable amount is stated at the higher of net realizable value or usable value.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES – continued

Intangible assets

Intangible assets are stated at historical cost or valuation upon the restructuring.

Land use rights are amortized equally over 50 years after the certificate of land use rights has been obtained.

The mining rights are equally amortized over 20 years based on the total proven and probable reserve since the date of the mining rights being obtained.

Provision on impairment loss on intangible assets

At the balance sheet date, the Company inspects individual item of intangible assets and if the following circumstances exist, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized on individual item of intangible assets. The circumstances are as follows:

(1) such intangible assets can be replaced by other new technologies, which leads to the economic benefit on the Company flowing from such intangible assets have significant adverse effect;

(2) the market value of such intangible assets was significantly declined at that period and it is expected that it cannot be recovered in the remaining amortization period;

(3) such intangible assets still have part of usable value within the legal protection period;

(4) other evidences show the existence of the circumstance of the decline in value on such intangible assets.

If any of the following circumstances occur, the carrying amount of such intangible assets should be charged to the income statements in that period:

(1) such intangible assets was replaced by other new technologies and it had not any usable value or saleable value,

(2) such intangible assets are beyond the legal protection period and no economic benefits is expected to flow to the Company,

(3) Other evidences show that such intangible assets have no usable value and saleable value.

Long-term deferred expenditures

Long-term deferred expenditures are amortized on a straight line basis over the expected benefit period.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES – continued

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 Company may relocate inhabitants from the land above the underground mining sites prior to mining those sites or the Company may compensate the inhabitants for losses or damages from land subsidence after the underground sites have been mined. The Company 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 recognised in the period in which the obligation is identified and is charged as an expense by RMB6.2 per tonne based on the coal extracted.

Revenue from principal operations

Revenue from sales of goods is recognized when the Company has transferred to the buyers the risk and ownership of the goods; and the Company neither retains the managing rights nor control over the goods sold; and the Company received or has the right to collect the sales proceeds.

Revenue from assets used by other parties is recognised when relevant economic interest is realizable and the amount of revenue can be measured precisely.

Income taxes

Income taxes are recorded on an accrued basis.

The charge for taxation is based on the accounting income for the period adjusted in accordance with the relevant requirements of related tax laws and regulations.

Taxes refund income

Taxes refund income are recognized as income on the taxes refund received or receivable.

Changes of accounting policies

Originally the Company adopted Accounting Regulations for Joint Stock Limited Companies. Since January 1, 2001, the Company has adopted new “Accounting Regulations for Business Enterprise” and supplemental regulations. Since January 1, 2001, the following accounting policies have been changed.

(1) In prior period, pre-operating expenses were amortized over 5 years. In current period, they are directly charged to expenses in the period in which they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES – continued

Changes of accounting policies – continued

(2) In prior period, the net assets value of fixed assets was stated at the carrying amount. In current period, the net assets value of fixed assets is stated at the lower of carrying amount or recoverable amount. The impairment loss is recognized when the carrying amount is reduced to the recoverable amount.

(3) In prior period, the net assets value of construction in progress was stated at the carrying amount. In current period, the net assets value of construction in progress is stated at the lower of carrying amount or recoverable amount. The impairment loss is recognized when the carrying amount is reduced to the recoverable amount.

(4) In prior period, the net assets value of intangible assets was stated at the carrying amount. In current period, the net assets value of intangible assets is stated at the lower of carrying amount or recoverable amount. The impairment loss is recognized when the carrying amount is reduced to the recoverable amount.

(5) In prior period, the land subsidence cost was charged to income statements for the period when the amount paid. In current period, the land subsidence cost is estimated and charged as an expense in proportion to the coal extracted. Such cost is estimated by the management with reference to the accumulated payment of land subsidence costs, geographical condition of coal mining area and the compensation paid to the inhabitants for relocation.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES – continued

Changes of accounting policies – continued

The prior year adjustments on the opening balance of relevant accounts which resulted from the above five changes of accounting policies are as follows:

	2000		1999		1998	
	Before adjustment RMB'000	After adjustment RMB'000	Before adjustment RMB'000	After adjustment RMB'000	Before adjustment RMB'000	After adjustment RMB'000
Balance sheet						
Deferred expenditure	156,070	34,732	34,678	34,678	16,412	16,412
Accrued land subsidence costs	–	136,724	–	232,866	–	226,796
Surplus reserves	366,946	358,585	252,319	247,737	135,190	131,519
Unappropriated profits	1,320,023	1,070,322	905,808	677,523	473,476	250,351
Statement of income and profits appropriation						
Net revenue from principal operations	1,958,324	1,983,520	1,678,311	1,684,381	2,009,019	2,033,490
Net profit	764,182	738,986	780,861	774,791	753,840	729,369
Unappropriated profits at the beginning of the year	905,808	677,523	473,476	250,351	56,312	(146,012)
Transfer from statutory common reserve fund	76,418	73,899	78,086	77,479	75,384	72,937
Transfer from statutory public welfare fund	38,209	36,949	39,043	38,740	37,692	36,468

3. TAXES

Value added tax

Value added tax ("VAT") on sales is calculated at 13% on revenue from principal operations and 17% on other operating income, and paid after deducting VAT on purchases.

Resource tax

Resource tax is calculated and paid at the amount of RMB 1.20 per tonne of raw coal sold or consumed to produce clean coal.

City construction tax

City construction tax is calculated and paid at 7% on VAT payable. Such tax is not required to pay after the Company was changed to a sino-foreign-joint-stock company with limited liability.

Education fee and others

Education fee and others is calculated and paid at 3% on VAT payable. Such tax is not required to pay after the Company was changed to a sino-foreign-joint-stock company with limited liability.

Income taxes

The income taxes, including the national income tax and domestic income tax, are calculated at an aggregate of 33% on the assessment income.

The tax bureau has granted the approval for the Company and Yankuang Group Corporation to pay consolidated income taxes and VAT.

4. BANK BALANCES AND CASH

	6.30.2001 RMB	12.31.2000 RMB
Cash on hand	479,863	988,713
Cash in bank	1,204,302,383	843,652,343
Other currency fund	113,311	113,311
	1,204,895,557	844,754,367

5. ACCOUNTS RECEIVABLE

The aging analysis of the accounts receivable is as follows:

Aging	6.30.2001			12.31.2000		
	RMB	%	Bad debt provision RMB	RMB	%	Bad debt provision RMB
Within 1 year	672,609,327	78	25,220,025	761,896,434	80	20,658,276
1 to 2 years	176,194,494	20	52,858,348	178,003,305	19	53,400,992
2 to 3 years	8,209,872	1	4,104,936	10,262,340	1	5,131,170
Over 3 years	6,675,714	1	6,675,714	7,853,781	–	7,853,781
Total	863,689,407	100	88,859,023	958,015,860	100	87,044,219

Balances of the largest 5 debtors are as follows:

Name	Amount RMB	Aging	Nature
China Coal Import & Export Company	115,974,025	Within 1 year	Trade receivable
Yankuang Group	42,108,695	Within 1 year	Trade receivable
Shandong Luneng Electricity & Fuel Company	26,029,884	Within 1 year	Trade receivable
Huibei Zhonghui Materials Trade Company	19,803,966	Within 1 year	Trade receivable
Dongguan Shijie Fuel Company	14,072,020	Within 1 year	Trade receivable
	217,988,590		

For the receivables from shareholders holding more than 5% of the total shares of the Company, please refer to note 41 for details.

6. OTHER RECEIVABLE

	6.30.2001 RMB	12.31.2000 RMB
Amounts due from related companies	157,722,846	239,928,198
Prepaid freight charges	35,844,316	28,091,492
Receivable on sales of materials	41,798,440	64,645,149
Others	146,737,607	158,736,384
	382,103,209	491,401,223

Aging analysis of other receivables is as follows:

Aging	6.30.2001			12.31.2000		
	RMB	%	Bad debt provision RMB	RMB	%	Bad debt provision RMB
Within 1 year	320,608,845	84	201,157	438,917,633	89	–
1 to 2 years	57,639,978	15	1,654,398	47,023,212	10	–
2 to 3 years	3,154,386	1	652,654	4,760,378	1	–
Over 3 years	700,000	–	–	700,000	–	–
Total	382,103,209	100	2,508,209	491,401,223	100	–

The balances whose aging is over 2 years are mainly deposits paid for purchases of steel and other packing materials. The Company has not cleared the balances to these suppliers because the deposits have been roll-over to cover current purchases.

6. OTHER RECEIVABLE – continued

The 5 largest balances in other receivables are as follows:

Name	Amount RMB	Aging	Nature
Jining Yanmei Fibra Company	40,302,145	Within 1 year	Receivable on sales of materials
Yankuang Group	7,722,846	Within 1 year	Prepaid expenses
Yanzhou Daqing Transportation Company	2,910,000	Within 1 year	Prepaid freight charges
Zhoucheng Nantun Village	1,055,514	Within 1 year	Prepaid electricity charges
Huamei Company in Qingdao Free Trade Zone	700,000	Within 1 year	Prepaid freight charges
Total	52,690,505		

For others receivables from shareholders holding more than 5% of the total shares of the Company, please refer to note 41 for details.

7. PREPAYMENTS

The aging analysis of prepayments is as follows:

Aging	6.30.2001		12.31.2000	
	RMB	%	RMB	%
Within 1 year	74,667,503	88	54,020,831	85
1 to 2 years	6,755,487	8	6,081,519	10
2 to 3 years	3,300,027	4	2,526,199	4
Over 3 years	–	–	1,229,919	1
Total	84,723,017	100	63,858,468	100

The balances with aging over 2 years are mainly the prepayments for the purchases of spare parts and materials. As the amounts are insignificant, the Company has not yet settled with the suppliers.

7. PREPAYMENTS – continued

The 5 largest balances of advance to suppliers are as follows:

Name	Amount RMB	Aging	Nature
Yankuang Group	24,513,758	Within 1 year	Prepayment on purchase of goods and machinery
China Coal Machinery Export and Import Company	14,447,332	Within 1 year	Prepayment on purchase of goods and machinery
Shanghai Turbine Company Limited	9,800,000	Within 1 year	Prepayment on purchase of goods and machinery
Harbin Charging Company Limited	5,000,000	Within 1 year	Prepayment on purchase of machinery
SEW-EURODRIVE (Tianjin) Company Limited	2,272,000	Within 1 year	Prepayment on purchase of machinery
	56,033,090		

For the prepayments to shareholders holding more than 5% of the total shares of the Company, please refer to the note 41 for details.

8. VAT REFUNDABLE

VAT refundable is from the export of coal. The calculation method of the VAT on export is “Payment first and refund afterwards”. VAT refundable is calculated in accordance with the relevant regulations.

9. INVENTORIES

	30.6.2001		31.12.2001	
		Provision for loss on		Provision for loss on
	Amount	realisation	Amount	realisation
	RMB	RMB	RMB	RMB
Raw Materials	211,299,308	–	215,516,407	–
Finished Products	135,839,268	–	47,385,480	–
	347,138,576	–	262,901,887	–

Inventories increased significantly. It is mainly because the Company acquired Jining III on January 1, 2001. The productivity greatly increased.

No provision of inventories for loss on realisation was made in this reporting period.

10. DEFERRED EXPENDITURES

Category	Opening balance	Addition for the period	Amortisation for the period	Closing balance
	RMB	RMB	RMB	RMB
Harbour transportation fee	29,960,444	181,794,903	(120,857,895)	90,897,452
Others	4,771,883	–	(2,385,942)	2,385,941
	34,732,327	181,794,903	(123,243,837)	93,283,393

11. FIXED ASSETS AND ACCUMULATED DEPRECIATION

	Buildings RMB	Mining structure RMB	Plant, machinery and equipment RMB	Transportation equipment RMB	Total RMB
Cost					
Opening balance	1,517,731,945	2,553,750,075	4,597,988,085	87,086,745	8,756,556,850
Addition on acquisition of Jining III	320,385,576	998,633,902	1,140,347,267	54,646,717	2,514,013,462
Additions	139,757	–	5,164,845	87,086	5,391,688
Disposals	(1,728,657)	–	(17,554,219)	(59,446)	(19,342,322)
Closing balance	1,836,528,621	3,552,383,977	5,725,945,978	141,761,102	11,256,619,678
Accumulated Depreciation					
Opening balance	509,336,998	1,119,076,726	2,097,555,292	70,827,163	3,796,796,179
Addition on acquisition of Jining III	17,020,025	4,095,691	113,711,110	6,661,969	141,488,795
Provided for the period	46,124,079	42,747,660	318,545,779	4,755,658	412,173,176
Eliminated on disposal	(61,589)	–	(12,907,284)	(27,049)	(12,995,922)
Closing balance	572,419,513	1,165,920,077	2,516,904,897	82,217,741	4,337,462,228
Net Amount					
Opening balance	1,008,394,947	1,434,673,349	2,500,432,793	16,259,582	4,959,760,671
Closing balance	1,264,109,108	2,386,463,900	3,209,041,081	59,543,361	6,919,157,450

No provision in impairment loss on individual fixed assets was made for this period.

12. CONSTRUCTION MATERIALS

Category	**6.30.2001 RMB**	12.31.2000 RMB
Construction materials	**6,173,050**	4,651,893

13. CONSTRUCTION IN PROGRESS

	Opening balance RMB	Addition on acquisition of Jining III RMB	Additions RMB	Transfer on completion RMB	Closing balance RMB	Progress %	Sources of funds
Equipment to be installed	126,482,446	–	35,499,127	–	161,981,573	80	internally generated funds
Buildings under construction	118,008,238	–	1,630,651	–	119,638,889	80	internally generated funds
Others	640,000	–	1,085,070	–	1,725,070	70	internally generated funds
Total	245,130,684	–	38,214,848	–	283,345,532		

No provision of impairment loss on individual item of construction in progress was made for this period.

14. INTANGIBLE ASSETS

Category	Historical cost RMB	Opening balance RMB	Addition on acquisition of Jining III RMB	Amortization RMB	Closing balance RMB
Land use rights	399,171,139	290,979,405	88,965,470	(3,978,780)	375,966,095
Mining right of Jining III	132,478,800	–	132,478,800	(3,311,970)	129,166,830
	531,649,939	290,979,405	221,444,270	(7,290,750)	505,132,925

No provision of impairment loss on individual item of intangible assets was made for this period.

15. PRE-OPERATING EXPENSES/LONG-TERM DEFERRED EXPENDITURE

Category	Opening balance RMB	Additions RMB	Amortization RMB	Closing balance RMB
Pre-operating expenses	3,671,461	–	(3,671,461)	–
Long-term deferred expenditure	5,992,615	6,257,071	(6,571,843)	5,677,843
	9,664,076	6,257,071	(10,243,304)	5,677,843

16. NOTES PAYABLE

For amounts due to shareholders holding more than 5% of the total shares of the Company, please refer to note 41 for details.

17. ACCOUNTS PAYABLE

For amounts due to shareholders holding more than 5% of the total shares of the Company, please refer to note 41 for details.

18. ADVANCE FROM CUSTOMERS

For amounts advanced from shareholders holding more than 5% of the total shares of the Company, please refer to note 41 for details.

19. DIVIDEND PAYABLE

	6.30.2001 RMB	12.31.2000 RMB
Yankuang Group	–	136,940,000
Shareholders of H shares	–	83,640,000
Shareholders of A shares	–	14,760,000
	–	235,340,000

20. TAXES PAYABLE

	6.30.2001 RMB	12.31.2000 RMB
Income taxes	121,837,140	149,726,427
Others	4,598,362	9,682,876
	126,435,502	159,409,303

21. OTHER PAYABLES/LONG-TERM PAYABLES

On January 1, 2001, the Company acquired Jining III and mining rights from Yankuang Group Corporation. As at June 30, 2001, RMB1,229,250,000 was outstanding. Pursuant to the agreement, RMB742,614,000 will be payable after June 30, 2002. Please refer to note 41 for details.

For amounts payable to shareholders holding more than 5% of the total shares of the Company, please refer to note 41 for details.

22. ACCRUED EXPENSES

	6.30.2001 RMB	12.31.2000 RMB	Nature
Accrued repair expenses	22,468,251	–	Accrual
Accrued technical expenses	11,404,530	–	Accrual
	33,872,781	–	

23. ACCRUED LAND SUBSIDENCE COSTS

The accrual 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.

24. SHARE CAPITAL

The changes in share capital of the Company during the year is as follows:

	6.30.2001 (Share)	Changes Placement of shares	Bonus issue	Shares issued from transfer of reserves	Issue new shares	Listed	12.31.2000 (Share)
Shares not listed for public dealings							
Subscriber shares							
State legal person shares	1,670,000,000	–	–	–	–	–	1,670,000,000
Internal employee shares	-	–	–	–	–	–	–
Total shares not listed for public dealings	1,670,000,000	–	–	–	–	–	1,670,000,000
Shares list for public dealings							
Ordinary shares listed on a domestic stock exchange	180,000,000	–	–	–	100,000,000	–	80,000,000
Ordinary shares listed on overseas stock exchange	1,020,000,000	–	–	–	170,000,000	–	850,000,000
Total shares listed for public dealings	1,200,000,000	–	–	–	270,000,000	–	930,000,000
Total share capital	2,870,000,000	–	–	–	270,000,000	–	2,600,000,000

Each share has a par value of RMB1.

25. CAPITAL RESERVES

	6.30.2001 RMB	12.31.2000 RMB
Share premium	3,545,758,854	2,364,454,980
Transfer from Wei Jian Fei (Note)	161,773,949	161,773,949
Total reserves	3,707,532,803	2,526,228,929

Note: Pursuant to regulations in the PRC, the Company was required to transfer an annual amount to a future development fund. The Company is no longer required to transfer to this future development fund since January 1, 1999. The fund can only be used for the future development of the coal mining business and is not available for distribution to shareholders.

26. SURPLUS RESERVES

	Statutory common reserve fund RMB	Statutory public welfare fund RMB	Total RMB
Opening balance (as reported in previous year)	244,630,919	122,315,460	366,946,379
Opening adjustment (note 2)	(5,573,704)	(2,786,851)	(8,360,555)
Closing balance	239,057,215	119,528,609	358,585,824

The statutory common reserve fund can be used to make good the losses in previous years or to convert into capital. The statutory public welfare fund would be used for the welfare of the staff and workers of the Company.

27. UNAPPROPRIATED PROFITS

	Amount RMB
Unappropriated profits at the beginning of the period (as reported in previous year)	1,333,962,805
Less: Adjustment on the dividend approved for the new issue of H shares (note 1)	13,940,000
	1,320,022,805
Less: Prior year adjustment of changes of accounting policies (note 2)	249,701,303
Unappropriated profits at the beginning of the period (after adjustment)	1,070,321,502
Add: Net income for the period	446,638,261
Less: Appropriation to statutory common fund	–
Appropriation to statutory public welfare fund	–
Proposed dividend	–
Unappropriated profits at the end of the period	1,516,959,763

In May 2001, the Company placed an aggregate of 170,000,000 H shares. According to the approval in the shareholders' meeting, those part of new shareholders enjoy the appropriated profit for the year 2000. Thus, the Company paid RMB13,940,000 dividend and adjusted the unappropriated profits at the beginning of the period.

28. NET REVENUE FROM PRINCIPAL OPERATIONS

	Six months ended June 30	
	2001	2000
	RMB	RMB
Revenue from domestic sales of coal products	**1,605,678,104**	1,215,304,555
Revenue from coal products exported	**1,480,326,808**	933,592,952
	3,086,004,912	2,148,897,507

Revenue from principal operations increased by 44%. The main reason is the boosting of export sales in current period.

29. COST OF PRINCIPAL OPERATIONS

	Six months ended June 30	
	2001	2000
	RMB	RMB
Materials	**312,486,542**	194,149,529
Wages	**247,032,677**	167,154,793
Employee benefits	**34,601,938**	23,402,878
Electricity	**111,475,714**	90,879,776
Depreciation	**373,446,249**	246,997,854
Land subsidence costs	**105,344,597**	78,716,896
Repairs	**114,831,227**	72,626,740
Others	**62,999,699**	53,804,255
Total	**1,362,218,643**	927,732,721

Cost of principal operations increased by 47%. The main reason is the boosting of sales in current period.

30. SALES TAXES ON PRINCIPAL OPERATIONS

Tax item	Six months ended June 30 2001 RMB	2000 RMB
City construction tax	19,379,239	17,948,159
Education fee and others	8,002,352	7,692,068
Resource tax	19,953,964	15,479,488
	47,335,555	41,119,715

31. INCOME FROM OTHER OPERATIONS

	Six months ended June 30 2001 RMB	2000 RMB
Sales of raw materials		
– Sales	195,214,301	214,257,199
– Cost of sales	178,297,516	197,810,020
	16,916,785	16,447,179
Others		
– Income	13,144,460	13,951,715
– Cost	10,436,085	13,646,573
	2,708,375	305,142
	19,625,160	16,752,321

32. OPERATING EXPENSE

	Six months ended June 30 2001 RMB	2000 RMB
Selling expense of domestic sales of coal products	227,892,285	115,344,450
Selling expense of export sales of coal products	475,348,248	306,728,637
Others	32,402,381	34,263,885
	735,642,914	456,336,972

Operating expense increased by 61% because of the boosting of sales.

33. ADMINISTRATIVE EXPENSES

Administrative expenses increased by 37%. The main reason is the increasing in all items of expenses, wages and bonus after the Company acquired Jining III Coal Mine in the period.

34. FINANCIAL EXPENSES

	Six months ended June 30	
	2001	2000
	RMB	RMB
Interest expenses	**1,314,561**	2,473,382
Less: interest income	**9,830,753**	18,879,947
Others	**937,150**	82,871
	(7,579,042)	(16,323,694)

35. SUBSIDIES

The amount represents the subsidies granted in accordance with the incentive policy for export enterprises and is calculated with reference to the exported amount.

36. NON-OPERATING INCOME

	Six months ended June 30	
	2001	2000
	RMB	RMB
Gain on disposal of fixed assets	**134,350**	94,779
Others	**134,805**	1,730,657
	269,155	1,825,436

37. NON-OPERATING EXPENSES

	Six months ended June 30	
	2001	2000
	RMB	RMB
Loss on disposal of fixed assets	**3,682,428**	11,330,010
Donations	**286,586**	126,900
Fines	**222,206**	130,459
Others	**1,226,856**	529,788
	5,418,076	12,117,157

38. INCOME TAXES

	Six months ended June 30	
	2001	2000
	RMB	RMB
Income taxes for the period	171,837,140	145,880,950
Accounting profit for the period	618,475,401	496,194,366
Add: – donation expenses	281,586	120,900
– fines	222,206	130,459
– land subsidence cost	3,685,797	22,200,000
	4,189,589	22,451,359
Less: Wei Jian Fei (note)	101,946,384	76,582,242
Taxable income for the period	520,718,606	442,063,483
Income taxes rate	33%	33%
Income taxes for the period	171,837,140	145,880,950

Note: The Company has obtained the approval from the domestic tax bureau that Wei Jian Fei which not accrued from 1999 can be deducted from taxable income as a special adjustment item.

39. CASH PAID FOR OTHER OPERATING ACTIVITIES

	RMB
Amount paid in cash in operating expenses and administrative expenses	951,956,961
Other operating expenses	188,733,601
Other expenses paid	88,783,707
Total	1,229,474,269

40. CASH PAID FOR ACQUISITION OF JINING III

	RMB
Current assets	10,360,884
Fixed assets	2,372,524,667
Intangible assets	88,965,470
Current liabilities	(20,946,005)
Sub-total	2,450,905,016
Mining right of Jining III Coal Mine	132,478,800
Total	2,583,383,816
Including:	
Cash paid for this period	1,354,136,000
Cash payable within one year	486,633,816
Cash payable after one year	742,614,000
	2,583,383,816

41. SIGNIFICANT RELATED PARTY TRANSACTIONS

(1) Related parties who can exercise control over the Company

Name: Yankuang Group Corporation Limited ("Yankuang Group")

Registered address: No. 40 Fushan Road, Zhouchen, Shandong Province ,PRC

Principal operations: Industrial (production)

Relationship with the company: holding company

Nature of business: state-owned

Legal representative: Mr. Zhao Jingiche

(2) Status and changes of the shares and equity owned by related parties who can exercise control over the Company

	At the beginning of the period		Addition		Reduction		By the end of the period	
	RMB	%	RMB	%	RMB	%	RMB	%
Yankuang Group	1,670,000,000	64	–	–	–	–	1,670,000,000	58

(3) Nature of relationship with related parties who cannot exercise control over the Company

Name of related parties	Relationship with the Company
Zhouchen Nanmei Shipping Co. Ltd.	Common key management members

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

(a) Acquisition of Jining III

On January 1, 2001, the Company exercised the "Agreement for Purchase of Jining III", which was signed with Yankuang Group. The Company acquired Jining III from Yankuang Group at the consideration of RMB2,450,900,000 and mining rights of RMB132,480,000.

The Company will pay the interest-free consideration of RMB623,382,000 prior to December 31, 2001 and December 31, 2002. The consideration for the costs of the mining rights of RMB132,479,000 is to be settled over ten years by equal installments before December 31 of each year, commencing from 2001.

On January 1, 2001, the Company acquired Jining III Coal Mine from the parent company. Internal fund of RMB393,526,000 and the net proceeds from the A shares offering of approximately RMB960,610,000 were applied towards the part of purchase price of Jining III.

41. SIGNIFICANT RELATED PARTY TRANSACTIONS – continued

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

(b) Purchase and sales

Details of purchase and sales with related parties for the six months ended June 30, 2000 and 2001 are listed below:

	Six months ended June 30	
	2001	2000
	RMB	RMB
SALES		
Zhouchen Nanmei Shing Ltd. Co.	18,900,000	15,210,886
Yankuang Group	26,695,000	30,177,000
	45,595,000	45,387,886
PURCHASE		
Yankuang Group	38,155,000	36,010,000

(c) Amount due to or from related parties

Account	Company	6.30.2001 RMB	12.31.2000 RMB
Accounts receivable	Yankuang Group	42,108,695	51,058,471
Other receivable	Yankuang Group	157,722,846	239,928,198
Prepayments	Yankuang Group	24,513,758	17,137,999
		224,345,299	308,124,668
Notes payable	Yankuang Group	180,000,000	308,400,000
Accounts payable	Yankuang Group	2,769,749	29,911,711
Advances from customers	Yankuang Group	5,691,884	15,660,304
Other payable	Yankuang Group	516,633,816	76,094,425
Long-term payable	Yankuang Group	742,614,000	–
		1,447,709,449	430,066,440

41. SIGNIFICANT RELATED PARTY TRANSACTIONS – continued

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

(d) Other transactions

(1) Pursuant to an agreement signed between the Company and Yankuang Group, Yankuang Group manages the retirement benefits, medical benefits and other benefits of the two companies and makes combined payments of the total retirement benefits of the two companies, and the total retirement benefits to the government department in charge of the related funds. Amount included as expenses of the Company for the period from January 1, 2000 to June 30, 2000 and from January 1, 2001 to June 30, 2001 are RMB 109,309,000 and RMB 172,773,000, respectively.

(2) Pursuant to an agreement signed by the Company and Yankuang Group, the department and subsidiary of the Yankuang Group provides and charges the services listed below:

	Six months ended June 30	
	2001	2000
	RMB	RMB
Repairs and maintenance	60,603,000	35,818,000
Technical support and training fee	7,565,000	7,565,000
Mining rights fees	6,490,000	6,490,000
Railway transportation fee	118,505,000	108,451,000
Public utilities expenses	300,000	300,000
Road transportation fee	4,502,000	4,596,000
Gases and eructate expenses	5,510,000	5,510,000
Buildings management fee	15,485,000	14,850,000
Children tuition fee	6,660,000	6,275,000
Others	7,115,000	7,115,000

(3) Total amount of salaries paid to key management, including salaries paid in the form of cash, goods and salaries, welfare and subsidies, for the period from January 1, 2000 to June 30, 2000 and from January 1, 2001 to June 30, 2001 are RMB277,678 and RMB286,438, respectively.

42. CAPITAL COMMITMENTS

Capital commitment

	Closing balance RMB'000
Capital commitment contracted for but not provided in the financial statements in respect of the purchase of assets	138,261

43. SUMMARY OF DIFFERENCE BETWEEN IAS AND PRC GAAP

	Net profit of the period RMB'000	Net assets at June 30, 2001 RMB'000
As per the financial statements prepared under "Accounting Standards for Business Enterprises" and "Accounting Regulations for Business Enterprises"	446,638	8,453,078
Impact adjustment in respect of:		
– amortization of deferred assets	3,672	–
– amortisation of goodwill on acquisition of Jining II	(389)	(2,720)
– deferred tax effect	1,216	86,377
– release of negative goodwill to income	18,426	18,426
– deemed interest expenses	(22,565)	(22,565)
– others	–	(10)
As per the financial statements prepared under IAS	446,998	8,532,586

44. PREPARATION OF FINANCIAL STATEMENTS

The above interim financial statements for 2001 and the related notes were prepared pursuant to "Accounting Standards for Business Enterprises" and "Accounting Regulations for Business Enterprises" and the supplemental regulations.

Supplemental Assets:

Item	1.1.2001 to 6.30.2001 RMB	1.1.2000 to 6.30.2000 RMB	1.1.2000 to 12.31.2000 RMB
1. Gain on sale and disposal of department or investment income	–	–	–
2. Loss on natural disaster	–	–	–
3. Increase (decrease) in the total profit on the change of accounting policy	(6,421,396)	(22,200,000)	(25,195,858)
4. Increase (decrease) in the total profits on the change of accounting estimate	–	–	–
5. Loss on debt restructuring	–	–	–
6. Others	–	–	–

(ii) Unaudited Financial information prepared under IAS

CONDENSED STATEMENT OF INCOME

	NOTES	Six months ended June 30, 2001 RMB'000 (unaudited)	2000 RMB'000 (audited)
Gross sales	4	3,038,669	2,107,778
Transportation costs	4	703,241	422,072
Net sales	4	2,335,428	1,685,706
Cost of goods sold	5	1,362,218	927,733
Gross profit		973,210	757,973
Selling, general and administrative expenses	6	359,575	294,103
Operating income		613,635	463,870
Interest expenses	7	(23,879)	(2,473)
Other income	8	27,863	35,327
Income before income taxes	9	617,619	496,724
Income taxes	10	170,621	137,961
Net income		446,998	358,763
Appropriations to reserves		8,361	–
Dividend	11	235,340	231,400
Earnings per share	12	RMB0.16	RMB0.14
Earnings per ADS.	12	RMB8.15	RMB6.90

CONDENSED BALANCE SHEET

	NOTES	At June 30, 2001 RMB'000 (unaudited)	At December 31, 2000 RMB'000 (audited)
ASSETS			
Current assets			
Bank balances and cash		1,204,896	844,754
Bills and accounts receivable	13	832,652	836,712
Inventories	14	347,139	262,902
Prepayments and other current assets	15	629,712	560,419
Total current assets		3,014,399	2,504,787
Non-current assets			
Mining rights	16	129,167	–
Land use rights	17	375,966	290,979
Property, plant and equipment, net	18	7,208,676	5,209,543
Goodwill	19	12,825	13,214
Negative goodwill	20	(119,675)	–
Deferred tax asset	21	86,377	85,161
Total non-current assets		7,693,336	5,598,897
TOTAL ASSETS		10,707,735	8,103,684
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	22	435,082	548,387
Other payables and accrued expenses		517,422	398,459
Amounts due to Parent Company and its subsidiary companies	25	461,110	137,487
Taxes payable		121,837	149,726
Total current liabilities		1,535,451	1,234,059
Non-current liabilities			
Amounts due to Parent Company and its subsidiary companies – due after one year	25	639,698	–
Total liabilities		2,175,149	1,234,059
Commitments	26		
Shareholders' equity	23	8,532,586	6,869,625
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		10,707,735	8,103,684

CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital RMB'000	Share premium RMB'000	Future development fund RMB'000	Statutory common reserve fund RMB'000	Statutory common welfare fund RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at January 1, 2000	2,600,000	2,087,723	111,748	168,213	84,106	1,300,875	6,352,665
Net income	–	–	–	–	–	748,360	748,360
Appropriations to reserves	–	–	–	76,418	38,209	(114,627)	–
Dividend	–	–	–	–	–	(231,400)	(231,400)
Balance at January 1, 2001	2,600,000	2,087,723	111,748	244,631	122,315	1,703,208	6,869,625
Additional issue of shares, net of share issue expenses (unaudited)	270,000	1,181,303	–	–	–	–	1,451,303
Net income from January 1, 2001 to June 30, 2001 (unaudited)	–	–	–	–	–	446,998	446,998
Appropriations to reserves (unaudited)	–	–	–	(5,574)	(2,787)	8,361	–
Dividend (unaudited)	–	–	–	–	–	(235,340)	(235,340)
Balance at June 30, 2001 (unaudited)	2,870,000	3,269,026	111,748	239,057	119,528	1,923,227	8,532,586

CONDENSED STATEMENT OF CASH FLOWS

	NOTE	Six months ended June 30, 2001 RMB'000 (unaudited)	2000 RMB'000 (audited)
Cash flow from operating activities			
Net income		446,998	358,763
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		416,116	261,423
Amortization of goodwill		389	389
Release of negative goodwill to income		(18,426)	–
Deemed interest expenses		22,565	–
Amortization of mining rights		3,312	–
Recognition of deferred tax asset		(1,216)	(7,920)
Loss on disposal of property, plant and equipment		3,548	11,235
(Increase) decrease in assets:			
Bills and accounts receivable		6,980	(112,921)
Inventories		(78,159)	33,548
Prepayments and other current assets		(67,931)	(214,195)
Increase (decrease) in liabilities:			
Accounts payable		(120,367)	(144,046)
Other payables and accrued expenses		82,551	(30,714)
Amounts due to Parent Company and its subsidiary companies		(127,826)	296,095
Taxes payable		(27,889)	(168,134)
Net cash provided by operating activities		540,645	283,523
Cash flow from investing activities			
Acquisition of Jining III	24	(1,354,136)	–
Purchase of property, plant and equipment		(45,128)	(20,698)
Proceeds on disposal of property, plant and equipment		2,798	983
Net cash utilized for investing activities		(1,396,466)	(19,715)
Cash flow from financing activities			
Issues of shares, net of share issue expenses		1,451,303	–
Dividend paid		(235,340)	(231,400)
Net cash provided by (utilized for) financing activities		1,215,963	(231,400)
Net increase in cash and cash equivalents		360,142	32,408
Cash and cash equivalents, beginning		844,754	517,687
Cash and cash equivalents, ending		1,204,896	550,095
Additional cash flow information:			
Cash paid for			
Interest		1,314	2,473
Income taxes		198,510	314,015

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. GENERAL

The Company was established as a joint stock company with limited liability in the People's Republic of China (the "PRC") and operates six coal mines, namely the Xinglongzhuang coal mine, Baodian coal mine, Nantun coal mine, Dongtan coal mine, Jining II coal mine, and Jining III coal mine. These six coal mines were originally divisions of the Company's ultimate holding company, Yankuang Group Corporation Limited (the "Parent Company"), a state-owned enterprise in the PRC. The Parent Company injected the assets and liabilities of the Xinglongzhuang coal mine, Baodian coal mine, Nantun coal mine and Dongtan coal mine into the Company upon its formation. The Company acquired the Jining II coal mine from the Parent Company for cash in 1998. The Company acquired the Jining III coal mine from the Parent Company effective January 1, 2001. This acquisition was financed as set out below.

On January 3, 2001, the Company allotted an additional 100,000,000 A shares to the public in the PRC (the "A Share Issue") and the A shares have been listed on the Shanghai Securities Exchange ("SSE") since February 2001. On May 11, 2001, the Company placed an aggregate of 170,000,000 H shares to independent investors and the H shares were listed on the Hong Kong Stock Exchange. The total net proceeds from the A share and H share offerings were approximately RMB960,607,000 and HK$458,595,000 (equivalent to approximately RMB490,696,000), respectively. The proceeds were applied towards the purchase price of Jining III of approximately RMB2,583 million. The purchase price includes the costs of Jining III of approximately RMB2,450,905,000 and the costs of the mining rights of approximately RMB132,479,000.

The consideration for the cost of Jining III is to be settled as follows:

(i) **Initial installment**

RMB243,526,000 was paid on January 1, 2001, the Completion Date;

(ii) **Second installment**

The net proceeds of RMB960,607,000 of the A Share Issue were paid over on January 22, 2001.

(iii) **Third installment**

50% of the outstanding balance of the purchase price shall be paid (without interest) prior to December 31, 2001; and

(iv) **Fourth installment**

The outstanding balance of the purchase price shall be paid (without interest) prior to December 31, 2002.

1. GENERAL – continued

The consideration for the cost of the mining rights of RMB132,479,000 is to be settled over ten years by equal annual installments before December 31 of each year, commencing from 2001.

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 SSE, its H shares are listed on the Hong Kong Stock Exchange, and its American Depositary Shares ("ADS", one ADS represents 50 H shares) are listed on the New York Stock Exchange.

2. BASIS OF PRESENTATION

The condensed financial statements have been prepared in accordance with International Accounting Standard 34 ("IAS 34") Interim Financial Reporting and with the applicable disclosures requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules"). The accounting policies adopted, as described below, differ from those used in the management accounts of the Company, which have been prepared in accordance with the relevant accounting principles and regulations applicable to PRC enterprises ("PRC GAAP"). The principal adjustments to the management accounts made to conform to IAS are summarized in note 32.

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

Differences between IAS and accounting principles generally accepted in the United States of America ("US GAAP") are stated in note 33.

3. SIGNIFICANT ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention.

Except for the following new accounting policies adopted by the Company during the current period, the accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2000.

Mining rights

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

Negative goodwill

Negative goodwill, which represents the excess of the fair value ascribed to the Company's share of the separable net assets at the date of acquisition of Jining III over the purchase consideration is presented as a deduction from the assets of the Company. Negative goodwill is released to income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets.

4. SALES AND TRANSPORTATION COSTS

	Six months ended June 30,	
	2001	2000
	RMB'000	RMB'000
Domestic sales, gross	**1,575,927**	1,187,578
Less: Transportation costs	**227,892**	115,344
Domestic sales, net	**1,348,035**	1,072,234
Export sales, gross	**1,462,742**	920,200
Less: Transportation costs	**475,349**	306,728
Export sales, net	**987,393**	613,472
Net sales	**2,335,428**	1,685,706

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

Sales taxes consist primarily of a resource tax calculated at the rate of RMB1.20 per metric tonne ("tonne") of imputed quantity of raw coal sold and is paid to the local tax bureau. The resource tax for each of six months ended June 30, 2000 and 2001 amounted to RMB15,479,000 and RMB19,954,000, respectively.

4. SALES AND TRANSPORTATION COSTS – continued

The Company exports its coal through China National Coal Industry Import and Export Corporation ("National Coal Corporation"), a company under National Coal Industry Bureau ("NCIB"). The final customer destination of the Company's export sales is determined by the Company and National Coal Corporation.

5. COST OF GOODS SOLD

	Six months ended June 30,	
	2001	2000
	RMB'000	RMB'000
Materials	312,487	194,150
Wages and employee benefits	281,635	190,558
Electricity	111,476	90,880
Depreciation	373,446	246,998
Land subsidence, restoration, rehabilitation and environmental costs	105,345	78,717
Repairs and maintenance	114,831	72,627
Annual fee and amortization of mining rights	9,802	6,490
Others	53,196	47,313
	1,362,218	927,733

6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended June 30,	
	2001	2000
	RMB'000	RMB'000
Retirement benefits scheme contributions (note 27)	131,681	83,475
Wages and employee benefits	44,938	37,006
Depreciation	16,695	14,425
Amortization of goodwill	389	389
Amortization of negative goodwill	(18,426)	–
Distribution charges	32,402	34,265
Provision for doubtful debts	4,308	–
Resource compensation fees	15,023	13,720
Repairs and maintenance	3,913	3,208
Research and development	12,483	12,503
Others	116,169	95,112
	359,575	294,103

7. INTEREST EXPENSES

	Six months ended June 30, 2001 RMB'000	2000 RMB'000
Interest expenses on bills receivable discounted without recourse	1,314	2,473
Deemed interest expenses (note 24)	22,565	–
	23,879	2,473

No interest was capitalized during the relevant periods.

8. OTHER INCOME

	Six months ended June 30, 2001 RMB'000	2000 RMB'000
Gain on sales of auxiliary materials	16,916	16,447
Interest income from bank deposits	9,831	18,880
Others	1,116	–
	27,863	35,327

9. INCOME BEFORE INCOME TAXES

	Six months ended June 30, 2001 RMB'000	2000 RMB'000
Income before income taxes has been arrived at after charging:		
Depreciation of land use rights and property, plant and equipment	390,141	261,423
Amortization of mining rights	3,312	–
Amortization of goodwill	389	389
Repairs and maintenance	118,744	75,835
Research and development	12,483	12,503
and after crediting:		
Release of negative goodwill to income	18,426	–

10. INCOME TAXES

	Six months ended June 30, 2001 RMB'000	2000 RMB'000
Income taxes	171,837	145,881
Deferred tax credit	(1,216)	(7,920)
	170,621	137,961

The Company is subject to a standard income tax rate of 33%. However, the effective income tax rate of the Company for the current period is 28% (six months ended June 30, 2000: 28%). The major reconciling item is the deduction claimed on the deemed appropriation to future development fund which is not charged to income under PRC tax regulation but is eligible for tax deduction.

11. DIVIDEND

	Six months ended June 30, 2001 RMB'000	2000 RMB'000
Final dividend approved	235,340	231,400

Pursuant to the annual general meeting held on June 15, 2001, a final dividend of approximately RMB235,340,000 or RMB0.082 per share in respect of the year ended December 31, 2000 was approved.

12. EARNINGS PER SHARE AND ADS

The calculation of the earnings per share for the six months ended June 30, 2000 and 2001 is based on the net income for the period of RMB358,763,000 and RMB446,998,000 and on the weighted average number of 2,600,000,000 shares and 2,743,977,901 shares in issue, respectively, during the period.

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

13. BILLS AND ACCOUNTS RECEIVABLE

	At June 30, 2001 RMB'000	At December 31, 2000 RMB'000
Total bills receivable	99,930	16,799
Total accounts receivable	821,581	906,957
Less: Provision for doubtful debts	(88,859)	(87,044)
Total bills and accounts receivable, net	832,652	836,712

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

The Company made provision for doubtful debts of RMB1,815,000 for the six months ended June 30, 2001. No provision was made for the six months ended June 30, 2000.

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

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

	At June 30, 2001 RMB'000	At December 31, 2000 RMB'000
1 – 180 days	548,324	529,457
181 – 365 days	182,107	198,180
1 – 2 years	176,194	178,003
2 – 3 years	8,210	10,262
Over 3 years	6,676	7,854
	921,511	923,756

14. INVENTORIES

	At June 30, 2001 RMB'000	At December 31, 2000 RMB'000
Auxiliary materials, spare parts and small tools	211,300	215,517
Coal products	135,839	47,385
	347,139	262,902

15. PREPAYMENTS AND OTHER CURRENT ASSETS

	At June 30, 2001 RMB'000	At December 31, 2000 RMB'000
Advance to suppliers	102,008	121,665
Prepaid freight charges	129,127	28,091
VAT refundable	246,162	221,500
Temporary advances	15,996	8,837
Others	136,419	180,326
	629,712	560,419

16. MINING RIGHTS

	RMB'000
Cost	
Acquisition of Jining III and at June 30, 2001	132,479
Amortization	
Provided for the period and at June 30, 2001	3,312
Net book values	
At June 30, 2001	129,167
At December 31, 2000	–

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

17. LAND USE RIGHTS

	Land use rights RMB'000
Cost	
At January 1, 2001	310,242
Addition on acquisition of Jining III	88,929
At June 30, 2001	399,171
Depreciation	
At January 1, 2001	19,263
Provided for the period	3,942
At June 30, 2001	23,205
Net book values	
At June 30, 2001	375,966
At December 31, 2000	290,979

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

18. PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings RMB'000	Mining structure RMB'000	Plant, machinery and equipment RMB'000	Tran-sportation equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At January 1, 2001	1,517,732	2,553,751	4,597,987	87,086	249,783	9,006,339
Addition on acquisition of Jining III	303,365	994,538	1,026,636	47,986	–	2,372,525
Additions	140	–	5,165	87	39,736	45,128
Disposals	(1,729)	–	(17,554)	(59)	–	(19,342)
At June 30, 2001	1,819,508	3,548,289	5,612,234	135,100	289,519	11,404,650
Depreciation						
At January 1, 2001	509,338	1,119,078	2,097,554	70,826	–	3,796,796
Provided for the period	46,124	42,748	318,546	4,756	–	412,174
Eliminated on disposals	(62)	–	(12,907)	(27)	–	(12,996)
At June 30, 2001	555,400	1,161,826	2,403,193	75,555	–	4,195,974
Net book values						
At June 30, 2001	1,264,108	2,386,463	3,209,041	59,545	289,519	7,208,676
At December 31, 2000	1,008,394	1,434,673	2,500,433	16,260	249,783	5,209,543

19. GOODWILL

	At June 30, 2001 RMB'000	At December 31, 2000 RMB'000
Cost		
Opening balance and closing balance	15,545	15,545
Amortization		
Opening balance	2,331	1,554
Provided for the period/year	389	777
Closing balance	2,720	2,331
Net book values		
Closing balance	12,825	13,214

20. NEGATIVE GOODWILL

	Negative goodwill RMB'000
Cost	
Addition on acquisition of Jining III and at June 30, 2001	138,101
Released to income	
In the period and at June 30, 2001	18,426
Net book values	
At June 30, 2001	119,675
At December 31, 2000	–

21. DEFERRED TAX ASSET

	At June 30, 2001 RMB'000	At December 31, 2000 RMB'000
Opening balance	85,161	76,846
Credit for the period/year	1,216	8,315
Closing balance	86,377	85,161

At the balance sheet date, the deferred tax asset represented the tax effect of temporary differences on the additional provision for land subsidence, restoration, rehabilitation and environmental costs.

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

22. ACCOUNTS PAYABLE

	At June 30, 2001 RMB'000	At December 31, 2000 RMB'000
Bills payable	52,800	10,000
Accounts payable	382,282	538,387
	435,082	548,387

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

	At June 30, 2001 RMB'000	At December 31, 2000 RMB'000
1 – 180 days	285,814	438,709
181 – 365 days	139,677	102,388
1 – 2 years	9,591	7,290
	435,082	548,387

23. SHAREHOLDERS' EQUITY

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

Class of shares	Type of shares	Number of shares At June 30, 2001	Number of shares At December 31, 2000
Domestic invested shares	– State legal person shares (held by the Parent Company)	1,670,000,000	1,670,000,000
	– A shares	180,000,000	80,000,000
Foreign invested shares	H shares (including H shares represented by ADS)	1,020,000,000	850,000,000
	Total	2,870,000,000	2,600,000,000

Each share has a par value of RMB1.

23. SHAREHOLDERS' EQUITY – continued

Pursuant to regulations in the PRC, the Company was required to transfer an annual amount to a future development fund prior to January 1, 1999. The Company is no longer required to transfer to this future development fund after that date. The fund can only be used for the future development of the coal mining business and is not available for distribution to shareholders.

The Company shall set aside 10% of its net income for the statutory common reserve fund (except where the fund has reached 50% of the Company's registered capital) and 5% to 10% of its net income for the statutory common welfare fund. The appropriation is done once a year based on the results for the year, and accordingly, no appropriation is made at the interim dates. The statutory common reserve fund can be used for the following purposes:

- to make good the 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.

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

In accordance with its Articles of Association, the net income for the purpose of appropriation will be deemed to be the lesser of the amounts determined in accordance with (i) PRC GAAP and (ii) IAS 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 June 30, 2001 is the retained earnings computed under PRC GAAP which amounted to approximately RMB1,516,960,000.

The Company's distributable reserve as at December 31, 2000 is also the retained earnings computed under PRC GAAP which have been restated from approximately RMB1,333,963,000 to approximately RMB1,070,322,000 as a result of the dividends distributed to the additional 170,000,000 H shares issued on May 11, 2001 and change of accounting policy for the accrual of land subsidence, restoration, rehabilitation and environmental costs as disclosed in note 32.

24. ANALYSIS OF THE NET OUTFLOW OF CASH AND CASH EQUIVALENTS IN RESPECT OF THE ACQUISITION OF JINING III

	Six months ended June 20, 2001 RMB'000	Six months ended June 30, 2000 RMB'000
Bills and accounts receivable	2,920	–
Inventories	6,078	–
Prepayments and other current assets	1,362	–
Mining rights	132,479	–
Land use rights	88,929	–
Property, plant and equipment, net	2,372,525	–
Accounts payable	(7,062)	–
Other payables and accrued expenses	(13,847)	–
Total net assets acquired	2,583,384	–
Negative goodwill	(138,101)	–
Consideration	2,445,283	–
Satisfied by:		
Cash consideration	1,354,136	–
Amounts due to Parent Company and its subsidiary companies – due within one year	451,449	–
Amounts due to Parent Company and its subsidiary companies – due after one year	639,698	–
Total consideration	2,445,283	–

The total consideration of RMB2,445,283,000 disclosed above represents the present value of the installments payable in respect of the acquisition cost of Jining III. The difference between this amount and the gross payments due of RMB2,583,384,000, amounting to RMB138,101,000 represents a deemed interest charge on the acquisition which is charged to income in proportion to the balance outstanding each period.

25. RELATED PARTY TRANSACTIONS

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

The amounts due to Parent Company and its subsidiary companies as at June 30, 2001 included the present value of outstanding balance discounted using market rate that arose from the acquisition of Jining III and its mining right as of January 1, 2001 (note 1).

	At June 30, 2001 RMB'000	At December 31, 2000 RMB'000
Within one year	461,110	137,487
More than one year, but not exceeding five years	598,642	–
Exceeding five years	41,056	–
Total due	1,100,808	137,487
Less: amount due within one year	461,110	137,487
Amount due after one year	639,698	–

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

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

	Six months ended June 30,	
	2001 RMB'000	2000 RMB'000
Income		
Sales of coal	45,595	45,388
Sales of auxiliary materials and spare parts	5,272	4,493
Utilities and facilities	2,905	2,320
Expenditure		
Utilities and facilities	300	300
Annual fee for mining rights	6,490	6,490
Purchases of supply materials	38,155	36,010
Railway transportation services for export sales	118,505	108,451
Repairs and maintenance services	60,603	35,818
Social welfare and support services	75,861	59,584
Technical support and training	7,565	7,565
Road transportation services	4,502	4,596

25. RELATED PARTY TRANSACTIONS – continued

Certain expenditure for social welfare and support services (excluding medical and child care expenses) of RMB34,770,000 for the six months ended June 30, 2001 (six months June 30, 2000: RMB33,750,000) and for technical support and training of RMB7,565,000 for each of the six months ended June 30, 2000 and 2001 have been charged by the Parent Company at a negotiated amount per annum, subject to changes every year.

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

On January 1, 2001, the Company acquired Jining III mine from Parent Company. The purchase price include the costs of Jining III of approximately RMB2,450,905,000 and the costs of the mining rights of approximately RMB132,479,000.

In addition to the above, the Company participates in a multi-employer plan of the Parent Company in respect of retirement benefits (see note 27).

26. COMMITMENTS

At June 30, 2001, the Company had capital commitments of approximately RMB138,261,000 (December 31, 2000: RMB26,355,000 excluding the commitments to acquire Jining III) contracted for but not provided in the condensed financial statements in respect of the acquisition of property, plant and equipment.

27. RETIREMENT BENEFITS

Qualifying employees of the Company are entitled to a pension, medical and other welfare benefits. The Company participates in a multi-employer plan 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 qualifying employees. The Parent Company is responsible for the payment of all retirement benefits to the retired employees of the Company. All obligations for past service costs of the employees of the business contributed to the Company have been assumed by the Parent Company.

For the six months ended June 30, 2000 and 2001, the monthly contribution rate has been set initially at 45% of the aggregate monthly basic salaries and wages of the Company's employees, and is fixed until December 31, 2001. In respect of each five-year period following the expiration of the initial period, the Parent Company and the Company will determine a new contribution rate. If the Parent Company and the Company cannot agree on the level of contribution for any such subsequent five-year period, then the contribution rate will be fixed by arbitration.

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

28. HOUSING SCHEME

The Parent Company is responsible for providing accommodation to its employees and the employees of the Company. The Company and the Parent Company share the incidental expenses relating to the accommodation at a negotiated amount for the six months ended June 30, 2000 and 2001. Such expenses, amounting to RMB14,850,000 and RMB15,485,000 for the six months ended June 30, 2000 and 2001, respectively, have been included as part of the social welfare and support services expenses summarized in note 25.

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 utilizes the fund, 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. It is the intention of the Parent Company to sell the new accommodation to the employees at cost.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of the Company's cash and cash equivalents and amounts due to the Parent Company and/or its subsidiary companies approximate their fair values because of the short maturity of these amounts or are stated at present value discounted using market rates.

30. CONCENTRATION OF CREDIT RISK

The Company maintains its cash and cash equivalents with banks and financial institutions in the PRC.

The Company generally grants long-term customers credit terms ranging from one to six months, depending on the circumstances of the individual customers. For small to medium size new customers, the Company generally requires them to pay for the products before delivery.

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

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

30. CONCENTRATION OF CREDIT RISK – continued

For the six months ended June 30, 2000 and 2001, net sales to the Company's five largest domestic customers accounted for approximately, 25% and 25%, respectively, of the Company's total net sales. Net sales to the Company's largest domestic customer, the Shandong Power and Fuel Company, accounted for 16% and 15% of the Company's net sales for the six months ended June 30, 2000 and 2001, respectively. The Shandong Power and Fuel Company purchases coal on behalf of several power plants in Shandong Province, the largest of which, the Zouxian Electric Power Plant, alone accounted for 16% and 14% of the Company's net sales for the six months ended June 30, 2000 and 2001, respectively.

Details of the amounts receivable from the five customers with the largest receivable balances at June 30, 2001 and December 31, 2000 are as follows:

	Percentage of accounts receivable	
	At June 30, 2001	At December 31, 2000
Five largest receivable balances	**23%**	9%

31. SEGMENT INFORMATION

The Company is engaged solely in the coal mining business and operates only in the PRC and the number of employees of the Company was 20,753 at June 30, 2000 and 23,855 at June 30, 2001. All the identifiable assets of the Company are located in the PRC. The Company does not currently have direct export rights and all of its export sales must be made through National Coal Corporation. The final customer destination of the Company's export sales is determined by the Company and National Coal Corporation.

32. SUMMARY OF DIFFERENCES BETWEEN IAS AND PRC GAAP

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

(i) elimination of the revaluation surplus on low-priced consumables recognized on the establishment of the Company and subsequently amortized to the statement of income in 1997 under PRC GAAP;

(ii) the installments payable to the Parent Company for the acquisition of Jining III have been stated at present value discounted using market rates under IAS while under PRC GAAP, the installments payable are stated at gross amount. Accordingly, deemed interest expense arises on the installments payable to the Parent Company under IAS.

(iii) recognition of a deferred tax asset under IAS for the tax consequence of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities; and

32. SUMMARY OF DIFFERENCES BETWEEN IAS AND PRC GAAP – continued

(iv) negative goodwill arising under IAS for the acquisition of Jining III is recognized as income in the statement of income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets.

(v) dividends proposed by the directors after the balance sheet date and subject to approval in the annual general meeting are adjusted in the condensed financial statements under PRC GAAP as at the balance sheet date.

The following table summarizes the difference between IAS and PRC GAAP:

	Net income for		Net assets	
	Six months ended June 30, 2001 RMB'000	Six months ended June 30, 2000 RMB'000 (restated – see note below)	**as at June 30, 2001 RMB'000**	as at December 31, 2000 HK$'000 (restated - see note below)
As per condensed financial statements prepared under IAS	**446,998**	358,763	**8,532,586**	6,869,625
Impact of IAS adjustment in respect of:				
– revaluation surplus on low-priced consumables recognized on the establishment of the Company under PRC GAAP	**(3,672)**	(918)	**–**	3,672
– amortization of goodwill	**389**	389	**2,720**	2,331
– deferred tax effect on temporary differences not recognized under PRC GAAP	**(1,216)**	(7,920)	**(86,377)**	(85,161)
– release of negative goodwill to income	**(18,426)**	–	**(18,426)**	–
– deemed interest expenses	**22,565**	–	**22,565**	–
– proposed final dividend	**–**	–	**–**	(235,340)
– others	**–**	–	**10**	9
As per condensed financial statements prepared under PRC GAAP	**446,638**	350,314	**8,453,078**	6,555,136

32. SUMMARY OF DIFFERENCES BETWEEN IAS AND PRC GAAP – continued

Note:

The Company's net assets as at December 31, 2000 prepared under PRC GAAP had been restated and reduced by RMB13,940,000 as a result of the dividends distributed to the additional 170,000,000 H shares issued on May 14, 2001. Also, in prior years under PRC GAAP, land subsidence, restoration, rehabilitation and environmental costs were charged to income before income taxes when the costs had been paid and agreements reached between the respective Government departments and the Company. According to the respective accounting guidelines, 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. The effect of adoption of these new accounting guidelines, which has been applied retrospectively, on the profit for the six months ended June 30, 2000 and the net assets as at December 31, 2000, are reductions of RMB 22,199,000 and RMB258,062,000, respectively.

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

33. SUMMARY OF DIFFERENCES BETWEEN IAS AND US GAAP

The Company's condensed 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 acquisitions of Jining II and Jining III, the revaluation of property, plant and equipment and land use rights and related adjustments to deferred taxation.

Under IAS, the acquisition of Jining III has been accounted for using the purchase method which accounts for the assets and liabilities of Jining III at their fair value at the date of acquisition. Any excess of the fair value of the assets acquired over the purchase consideration of Jining III is recorded as negative goodwill, which is presented as a deduction from the assets of the Company in the balance sheet. The Company released the negative goodwill to the statement of income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets.

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

33. SUMMARY OF DIFFERENCES BETWEEN IAS AND US GAAP – continued

In applying the pooling of interest 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. The effect of accounting for the acquisition of Jining III using the pooling of interest under US GAAP on the gross sales and net income for the six months ended June 30, 2000 is as follows:

	Six months ended June 30, 2000 RMB'000
Gross sales	
As previously reported	2,107,778
Pooling of interest adjustment	49,386
As restated	2,157,164
Net income	
As previously reported	358,763
Pooling of interest adjustment	(3,406)
As restated	355,357

Under IAS, excess of the fair value of the assets acquired over the purchase consideration of Jining III, which is calculated based on the installments payable to the Parent Company that have been stated at present value discounted using market rates, is presented as a deduction from the assets of the Company as negative goodwill. Under US GAAP, the amount of the value of Jining III based on historical cost over purchase consideration is eliminated against the equity of the Company.

Under IAS, the mining rights of Jining III are stated at purchase consideration less amortization. Mining rights are amortized on a straight line basis over twenty years, being the useful live estimated based on the total proven and probable reserves of the coal mine. Under US GAAP, as both the Company and Jining III are entities under the common control of the Parent Company, the mining rights are to be restated at nil cost and no amortization on mining rights will be recognized.

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

33. SUMMARY OF DIFFERENCES BETWEEN IAS AND US GAAP – continued

Under IAS, the excess of the purchase consideration of Jining II over the fair value of the net assets acquired is capitalized as goodwill and amortized over a period of twenty years. Under US GAAP, the amount of purchase consideration over the value of Jining II based on historical cost is deducted from the equity as a deemed dividend.

Under US GAAP, if there is a reasonable possibility that an additional loss may have been incurred, then disclosure of the additional amount of possible loss is required. In the case of the Company, the directors estimate that at June 30, 2001 additional accrual for land subsidence, restoration, rehabilitation and environmental costs of approximately RMB76,000,000 is reasonably possible.

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 summarizes the effect on net income of differences between IAS and US GAAP:

	Six months ended June 30,	
	2001	2000
	RMB'000	RMB'000
Net income as reported under IAS	**446,998**	358,763
US GAAP adjustments:		
Depreciation charge on revalued property, plant and equipment and land use rights	**81,241**	82,552
Amortization of goodwill on acquisition of Jining II	**389**	389
Additional deferred tax charge due to a higher tax base resulting from the revaluation of property, plant and equipment	**(26,810)**	(27,242)
Loss of Jining III included in the Company using pooling of interest	**–**	(3,406)
Amortization of negative goodwill on acquisition of Jining III	**(18,426)**	–
Amortization of mining rights of Jining III	**3,312**	–
Net income under US GAAP	**486,704**	411,056
Earnings per share under US GAAP	**RMB0.18**	RMB0.16
Earnings per ADS under US GAAP	**RMB8.87**	RMB7.90

33. SUMMARY OF DIFFERENCES BETWEEN IAS AND US GAAP – continued

	At June 30, 2001 RMB'000	At December 31, 2000 RMB'000
Shareholders' equity as reported under IAS	**8,532,586**	6,869,625
US GAAP adjustments:		
Revaluation of property, plant and equipment and land use rights	**(1,982,444)**	(1,912,164)
Depreciation charged on revalued property, plant and equipment and land use rights	**665,708**	584,467
Additional deferred tax assets due to a higher tax base resulting from the revaluation of property, plant and equipment	**411,331**	438,141
Goodwill arising on acquisition of Jining II	**(12,825)**	(13,214)
Net asset of Jining III incorporated under pooling of interest		
– current assets	**–**	12,504
– property, plant and equipment and land use rights, net	**–**	2,391,174
– current liabilities	**–**	(20,909)
	–	2,382,769
Negative goodwill arising on acquisition of Jining III, net	**119,675**	–
Mining rights of Jining III	**(129,167)**	–
Shareholders' equity under US GAAP	**7,604,864**	8,349,624

Under US GAAP, the Company's total assets would have been RMB9,604,592,000 and RMB9,780,012,000 at December 31, 2000 and June 30, 2001, respectively.

In addition, the Company has not adopted the following new accounting standards:

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations". SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling of interest method.

In July 2001, the FASB also issued SFAS No.142, "Goodwill and Other Intangible Assets", which requires that upon adoption, amortization of goodwill will cease and instead, the carrying value of goodwill will be evaluated for impairment on an annual basis. Identifiable intangible assets will continue to be amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". SFAS No. 142 is effective for fiscal years beginning after December 15, 2001.

The Company is evaluating the impact of the adoption of these standards and has not yet determined the effect of adoption on its financial positions and results of operations.

CORPORATE INFORMATION

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Places of Listing	*A Shares:* The Shanghai Securities Exchange Ticker Symbol: 600188 Stock Abbreviation: Yanzhou Mei Ye *H Shares:* The Stock Exchange of Hong Kong limited Share Code:1171 *ADSs:* The New York Stock Exchange, Inc. Ticker Symbol: YZC