



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	After adjustment	Before adjustment	After adjustment	Before adjustment	After adjustment
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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	12.31.2000
	RMB	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
	<u>1,204,895,557</u>	<u>844,754,367</u>



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	<u>863,689,407</u>	<u>100</u>	<u>88,859,023</u>	<u>958,015,860</u>	<u>100</u>	<u>87,044,219</u>

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
Hubei Zhonghui Materials Trade Company	19,803,966	Within 1 year	Trade receivable
Dongguan Shijie Fuel Company	14,072,020	Within 1 year	Trade receivable
	<u>217,988,590</u>		

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
	<u>382,103,209</u>	<u>491,401,223</u>

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	<u>382,103,209</u>	<u>100</u>	<u>2,508,209</u>	<u>491,401,223</u>	<u>100</u>	<u>-</u>

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	<u>52,690,505</u>		

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	<u>84,723,017</u>	<u>100</u>	<u>63,858,468</u>	<u>100</u>

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	
	Amount RMB	Provision for loss on realisation RMB	Amount RMB	Provision for loss on realisation RMB
Raw Materials	211,299,308	-	215,516,407	-
Finished Products	135,839,268	-	47,385,480	-
	<u>347,138,576</u>	<u>-</u>	<u>262,901,887</u>	<u>-</u>

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 RMB	Addition for the period RMB	Amortisation for the period RMB	Closing balance 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
	<u>34,732,327</u>	<u>181,794,903</u>	<u>(123,243,837)</u>	<u>93,283,393</u>



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	<u>1,836,528,621</u>	<u>3,552,383,977</u>	<u>5,725,945,978</u>	<u>141,761,102</u>	<u>11,256,619,678</u>
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	<u>572,419,513</u>	<u>1,165,920,077</u>	<u>2,516,904,897</u>	<u>82,217,741</u>	<u>4,337,462,228</u>
Net Amount					
Opening balance	<u>1,008,394,947</u>	<u>1,434,673,349</u>	<u>2,500,432,793</u>	<u>16,259,582</u>	<u>4,959,760,671</u>
Closing balance	<u>1,264,109,108</u>	<u>2,386,463,900</u>	<u>3,209,041,081</u>	<u>59,543,361</u>	<u>6,919,157,450</u>

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	<u>6,173,050</u>	<u>4,651,893</u>



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
	<u>-</u>	<u>235,340,000</u>

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
	<u>126,435,502</u>	<u>159,409,303</u>



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
	<u>33,872,781</u>	<u>–</u>	<u>–</u>

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 Shares issued				Listed	12.31.2000 (Share)
		Placement of shares	Bonus issue	from transfer of reserves	Issue new shares		
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	<u>239,057,215</u>	<u>119,528,609</u>	<u>358,585,824</u>

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
	<u>1,320,022,805</u>
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	<u>1,516,959,763</u>

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 RMB	2000 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 RMB	2000 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
	<u>47,335,555</u>	<u>41,119,715</u>

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
	<u>16,916,785</u>	<u>16,447,179</u>
Others		
– Income	13,144,460	13,951,715
– Cost	10,436,085	13,646,573
	<u>2,708,375</u>	<u>305,142</u>
	<u>19,625,160</u>	<u>16,752,321</u>

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
	<u>735,642,914</u>	<u>456,336,972</u>

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 RMB	2000 RMB
Interest expenses	1,314,561	2,473,382
Less: interest income	9,830,753	18,879,947
Others	937,150	82,871
	<u>(7,579,042)</u>	<u>(16,323,694)</u>

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 RMB	2000 RMB
Gain on disposal of fixed assets	134,350	94,779
Others	134,805	1,730,657
	<u>269,155</u>	<u>1,825,436</u>

37. NON-OPERATING EXPENSES

	Six months ended June 30	
	2001 RMB	2000 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
	<u>5,418,076</u>	<u>12,117,157</u>



38. INCOME TAXES

	Six months ended June 30	
	2001 RMB	2000 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
	<u>4,189,589</u>	<u>22,451,359</u>
Less: Wei Jian Fei (note)	<u>101,946,384</u>	<u>76,582,242</u>
Taxable income for the period	<u>520,718,606</u>	<u>442,063,483</u>
Income taxes rate	33%	33%
Income taxes for the period	<u>171,837,140</u>	<u>145,880,950</u>

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	<u>1,229,474,269</u>

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	<u>2,450,905,016</u>
Mining right of Jining III Coal Mine	132,478,800
Total	<u>2,583,383,816</u>
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
	<u>2,583,383,816</u>



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		Addition		Reduction		By the end	
	of the period						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 RMB	2000 RMB
SALES		
Zhouchen Nanmei Shing Ltd. Co.	18,900,000	15,210,886
Yankuang Group	26,695,000	30,177,000
	<u>45,595,000</u>	<u>45,387,886</u>
PURCHASE		
Yankuang Group	<u>38,155,000</u>	<u>36,010,000</u>

(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
		<u>224,345,299</u>	<u>308,124,668</u>
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	–
		<u>1,447,709,449</u>	<u>430,066,440</u>



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 RMB	2000 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	<u>446,998</u>	<u>8,532,586</u>



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	-	-	-
	<hr/>	<hr/>	<hr/>