

Year ended December 31, 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"). 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 exchanges 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 RMB 1 each to the public. In May 2001, the Company placed an aggregate of 170,000,000 H shares of RMB 1 each to independent investors.

After the new issue of shares, the Company has 2,870,000,000 shares in issue. The Company's total share capital is RMB 2,870,000,000, including RMB 1,670,000,000 (representing 58.19% of the total share capital) state legal person shares; RMB 1,020,000,000 (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 Shares listed on domestic stock exchange. Details of the movements in the Company's share capital during the period are set out in note 30 to the financial statements.

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

The Company invested RMB 2,710,000 (representing 52.38% of the total share capital) in Qingdao Free Trade Zone Zhongyan Trade Co., Ltd. on December 31, 2001. The principal operations of the company are international trade, processing and trimming, exhibiting, storage and trading with companies in Qingdao Free Trade Zone (except for projects subject to special approval according to national regulations).

2. CHANGES IN ACCOUNTING SYSTEM, ACCOUNTING POLICIES AND THEIR IMPACT

The Company changed the following accounting policies according to related regulations:

1. The Company began to implement "Enterprise Accounting Regulations" from January 1, 2001. Provision for impairment loss on fixed assets, construction in progress and intangible assets should be made according to the regulations, while it is not necessary previously. After inspection, there is no impairment on fixed assets, construction in progress and intangible assets.
2. Pre-operating expenses should be charged to profit and loss on an once-off basis from the month when the Company commences operation, while it is amortized for a period of 5 years previously. In the current period, closing balance of pre-operating expenses in year 2000 of RMB 3,671,461 was directly charged to profit and loss of year 2001.

2. CHANGES IN ACCOUNTING SYSTEM, ACCOUNTING POLICIES AND THEIR IMPACT (Continued)

3. Land subsidence, restoration, rehabilitation and environmental costs are estimated based on the output of the coal instead of charging actual amount of payments to the current year's profit and loss with the approval of the authorities. Such costs are estimated by management with reference to the accumulated payments of land subsidence costs, geographical condition of coal mining area and the compensation paid to the inhabitants for relocation. The prior year adjustments on the opening balances of relevant accounts resulting from this 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 expenditures	156,070	34,732	34,678	34,678	16,412	16,412
Provision for land subsidence costs	–	136,724	–	232,866	–	226,796
Surplus reserve	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 appropriations						
Cost of 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 beginning of the year	905,808	677,523	473,476	250,351	56,312	(146,012)
Appropriation to statutory common reserve fund	76,418	73,899	78,086	77,479	75,384	72,937
Appropriation to common welfare fund	38,209	36,949	39,043	38,740	37,692	36,468

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Accounting policies

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

The Company adopted "Accounting Regulations for Joint Stock Limited Companies-Accounting Accounts and Financial Statements". According to the regulations of the Ministry of Finance, the Company began to implement "Enterprise Accounting Regulations" from January 1, 2001. The Company has made transitional adjustments according to the relevant requirements.

Financial year

The financial year of the Company commences on January 1 and ends on December 31 each year.

3. 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 gain and loss relating to constructions are recorded in construction in progress while those relating to others are recorded as financial expenses in the statement of income.

Basis of consolidation

(1) Principle for consolidation scope recognition

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to December 31 each year. A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the equity, or which the Company controls its business through other method.

(2) Accounting for consolidation

The accounting policies used by subsidiaries agree with that regulated by the Company.

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

All significant intercompany transactions and balances are eliminated on consolidation.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Accounting treatment for bad debts

(1) Recognition criteria for bad debt

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 proven to be unable to repay obligations after the debts fall due.

(2) Accounting treatment for loss on bad debt

Provision for bad debts is made using provision method based on aging analysis.

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

Bad debt provision is estimated according to closing balance of accounts receivable (excluding amounts due from related parties) and other receivables (excluding amounts due from related parties and deposits on packaging materials for long-term use) 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%

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 a single item and its net realizable value. Net realizable value represents the estimated selling price less the estimated cost of completion and the estimated cost to be incurred in marketing, selling and distribution.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Short-term investments

A short-term investment is an investment that is readily realizable and is intended to be held for not more than one year.

An investment should be recorded at its initial cost on acquisition. The initial cost of an investment is the total price paid on acquisition, including incidental expenses such as taxes and handling charges. However, cash dividends which have been declared but unpaid at the time of acquisition and are therefore included in the price paid, or unpaid interest on bonds which has been accrued and are therefore included in the price paid, should be accounted for separately as receivable items.

Cash dividends or interest on current investments, other than those recorded as receivable items, should be offset against the carrying amount of investments upon receipt.

Short-term investment should be carried at the lower of cost and market value at the end of each period. Provision on short-term investment is calculated and determined for each individual investment.

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

Long-term investments

(1) Accounting treatment for long-term investments

An investment should be recorded at its initial cost on acquisition.

Cost method should be used to account for a long-term equity investments when an investor does not have control, joint control or significant influence over the investee enterprise. The equity method should be used to account for long-term equity investments when an investor can control, jointly control or has significant influence over the investee enterprise.

When the cost method is adopted, the amount of investment income recognized by the investor is limited to the amount received from the accumulated net profits which arise after the investee enterprise has accepted the investment from the investor. The amount of profits or cash dividends declared to be distributed by the investee enterprise in excess of the above threshold should be treated as a recovery of investment cost, and reduce the carrying amount of the investment accordingly.

When equity method is adopted, the amount of investment income is recognized according to its attributable share of the net profit or loss of the investee enterprises.

When a long-term equity investment is accounted for using the equity method, the difference between the initial investment cost of the investor and the investor's share of owners' equity of the investee enterprise should be amortised evenly over the investment period and recorded in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Long-term investments (Continued)

(2) Impairment of long-term investments

If the recoverable amount of any investment is lower than the carrying amount of that investment as a result of a continuing decline in market value or changes in operating conditions of the investee enterprise, the difference between the recoverable amount and the carrying amount of the investment should be recognized as an investment loss in the current period. Recoverable amount represents the higher of net selling price of the asset and the present value of the estimated future cash flows expected to arise from the holding of the asset and from its disposal at the end of its maturity period.

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%

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 production volume method. Based on the cost of mining structures and the designed annual production capacity, it is still estimated as RMB2.5 per tonne. Therefore the change of accounting estimate has no effect on the profit or loss for the period.

Provision for impairment loss on fixed assets

Fixed asset is valued at carrying amount or recoverable amount, whichever is the lesser. At the year end, the excess of the carrying amount of the fixed assets over its recoverable amount is recognized as provision for impairment on fixed assets. The term "recoverable amount" refers to higher of net selling price of the fixed asset and the present value of the estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Construction in progress

Construction in progress is stated at actual expenditure of the construction.

Cost includes all expenditures incurred for construction projects, relevant loan interests which should be capitalized and other related expenses. Construction in progress is transferred to fixed assets upon completion of the project and when assets have been put into use. No depreciation is recognized for construction in process.

At the period end, based on the investigation on each construction in progress, if there exists (1) construction in progress has been ceased for construction for a long period of time and no 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 impairment loss is recognized.

Intangible assets

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

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

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

Provision for impairment loss on intangible assets

Intangible assets are valued at the lower of carrying amount and recoverable amount. At the year end, the Company inspects the ability of individual item of intangible assets to generate economic benefits for the enterprise. The excess of the carrying amount of the intangible assets over its recoverable amount is recognized as provision for impairment on intangible assets. Recoverable amount represents the higher of net selling price of the intangible asset and the present value of the estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life.

Long-term deferred expenditures

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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 recognized 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 is recognized as income on the taxes refund received.

4. 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 input 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

Though the status of the Company was changed to a sino-foreign joint stock limited company, the Company is still subject to all taxes applicable to domestic enterprise according to the reply letter to Yanzhou coal Mining Company Limited issued by State Taxes Bureau (Guoshuihan [2001] No.673). Accordingly, city construction tax is still calculated and paid at 7% on VAT payable.

Education fee and others

The Company is still subject to all taxes applicable to domestic enterprises according to the reply letter to Yanzhou Coal Mining Company Limited issued by State Tax Bureau (Guoshuihan [2001] No.673). Accordingly, education fee and others is still calculated and paid at 3% on VAT payable.

4. TAXES (Continued)

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 Company and Yankuang Group pay income tax and VAT separately to tax bureau since July 2001. In the past, they paid consolidated income tax and VAT.

5. SUBSIDIARY

The status of the subsidiary is as follows:

Name	Registered capital	Investment amount	Ratio	Consolidated or not
Qingdao Free Trade Zone Zhongyan Trade Co., Ltd.	RMB 2,100,000	RMB 2,710,000	52.38%	Yes

Scope of operations: International trade, processing and matching, trimming, exhibiting and storage in Qingdao Free Trade Zone (except for projects subject to special approval according to national regulations).

The above subsidiary is included in the consolidated financial statements since it was acquired on December 31, 2001. Accordingly, statement of income and profits appropriations of the Company are the same as those consolidated. In view of the insignificant amount of the net assets of the subsidiary, no details regarding the assets and liabilities acquired at the date of acquisition were disclosed.

6. BANK BALANCES AND CASH

	Closing balance The Group RMB	Closing balance The Company RMB	Opening balance The Company RMB
Cash on hand	403,264	403,264	988,713
Cash in bank	1,124,400,383	1,119,749,966	843,652,343
Pledged bank deposits (note)	30,000,000	30,000,000	–
Other currency fund	2,695	2,694	113,311
	<u>1,154,806,342</u>	<u>1,150,155,924</u>	<u>844,754,367</u>

Note: At the balance sheet date, the amount represented the bank deposits pledged to a bank to secure bank acceptance bills of RMB 100,000,000.

7. SHORT-TERM INVESTMENTS

	Closing balance The Group and The Company			Opening balance The Company		
	Cost	Provision	Net book value	Cost	Provision	Net book value
	RMB	RMB	RMB	RMB	RMB	RMB
Investments in bonds						
–National debt	<u>49,997,305</u>	<u>–</u>	<u>49,997,305</u>	<u>–</u>	<u>–</u>	<u>–</u>

The market value of the national debt was RMB 49,897,359 at the end of the year. Since there is no significant difference between the market value and the carrying amount, no provision for impairment loss is made.

8. BILLS RECEIVABLE

	Closing balance The Group and The Company	Opening balance The Company
Bank acceptance bills	<u>155,883,666</u>	<u>16,798,987</u>

9. ACCOUNTS RECEIVABLE

The aging analysis of accounts receivable is as follows:

	Closing balance The Group and The Company				Opening balance The Company			
	Amount	%	Bad debt Provision	Net book value	Amount	%	Bad debt Provision	Net book value
	RMB		RMB	RMB	RMB		RMB	RMB
Within 1 year	488,709,197	80	15,863,684	472,845,513	761,896,434	80	20,658,276	741,238,158
1 to 2 years	105,443,312	17	31,632,994	73,810,318	178,003,305	18	53,400,992	124,602,313
2 to 3 years	8,258,014	2	4,129,007	4,129,007	10,262,340	1	5,131,170	5,131,170
Over 3 years	6,238,603	1	6,238,603	–	7,853,781	1	7,853,781	–
Total	<u>608,649,126</u>	<u>100</u>	<u>57,864,288</u>	<u>550,784,838</u>	<u>958,015,860</u>	<u>100</u>	<u>87,044,219</u>	<u>870,971,641</u>

Balance of the largest 5 debtors is as follows:

Total amount of the largest 5 debtors RMB	Percentage in consolidated accounts receivable balance
178,139,636	29%

See note 46 for the receivables from shareholders of the Company holding more than 5% of the total shares of the Company.

10. OTHER RECEIVABLES

Aging analysis of the consolidated amount of other receivables is as follows:

Aging	Closing balance		Provision RMB	Net book value
	Amount RMB	% RMB		
Within 1 year	338,081,783	84	201,158	337,880,625
1 to 2 years	55,053,503	14	1,654,397	53,399,106
2 to 3 years	8,715,043	2	652,654	8,062,389
Over 3 years	1,777,582	–	–	1,777,582
Total	403,627,911	100	2,508,209	401,119,702

The balances with aging over 2 years are mainly deposits of packing materials paid for purchases of steel and other raw materials. The Company has not settled the balances with these suppliers since the packing materials are in roll-over uses.

Balance of the largest 5 debtors is as follows:

Total amount of the largest 5 debtors RMB	Percentage in consolidated other receivable balance
53,933,432	13%

See note 46 for others receivables from shareholders of the Company holding more than 5% of the total shares of the Company.

Aging analysis of other receivables of the Company is as follows:

Aging	Closing balance			Net book value RMB	Opening balance			Net book value RMB
	Amount RMB	%	Provision RMB		Amount RMB	%	Provision RMB	
Within 1 year	337,955,797	84	201,158	337,754,639	438,917,633	89	–	438,917,633
1 to 2 years	55,053,503	14	1,654,397	53,399,106	47,023,212	10	–	47,023,212
2 to 3 years	8,715,043	2	652,654	8,062,389	4,760,378	1	–	4,760,378
Over 3 years	1,777,582	–	–	1,777,582	700,000	–	–	700,000
Total	403,501,925	100	2,508,209	400,993,716	491,401,223	100	–	491,401,223

11. PROVISION FOR BAD DEBTS

	Amount RMB
Opening balance	87,044,219
Provision for the year	2,508,209
Written-off for the year	<u>(29,179,931)</u>
Closing balance	<u><u>60,372,497</u></u>

12. PREPAYMENTS

The aging analysis of the consolidated amount of prepayments is as follows:

Aging	Closing balance	
	RMB	%
Within 1 year	60,195,238	68
1 to 2 years	22,936,739	26
2 to 3 years	<u>5,033,455</u>	<u>6</u>
Total	<u><u>88,165,432</u></u>	<u><u>100</u></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 them with the suppliers.

Balance of the largest 5 debtors are as follows:

Total amount of the largest 5 debtors RMB	Percentage in consolidated prepayments balance
58,755,566	67%

See note 46 for the prepayments to shareholders of the Company holding more than 5% of the total shares of the Company.

The aging analysis of prepayments of the Company is as follows:

Aging	Closing balance		Opening balance	
	RMB	%	RMB	%
Within 1 year	66,840,124	71	54,020,831	85
1 to 2 years	22,936,739	24	6,081,519	9
2 to 3 years	5,033,455	5	2,526,199	4
Over 3 years	<u>—</u>	<u>—</u>	<u>1,229,919</u>	<u>2</u>
Total	<u><u>94,810,318</u></u>	<u><u>100</u></u>	<u><u>63,858,468</u></u>	<u><u>100</u></u>

13. 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.

14. INVENTORIES

	Closing balance of the Group		
	Amount RMB	Provision RMB	Net book value RMB
Raw materials	170,372,249	–	170,372,249
Finished products	269,510,049	–	269,510,049
	<u>439,882,298</u>	<u>–</u>	<u>439,882,298</u>

	Closing balance of the Company			Opening balance of the Company		
	Amount RMB	Provision RMB	Net book value RMB	Amount RMB	Provision RMB	Net book value RMB
Raw materials	170,372,249	–	170,372,249	215,516,407	–	215,516,407
Finished products	255,980,616	–	255,980,616	47,385,480	–	47,385,480
	<u>426,352,865</u>	<u>–</u>	<u>426,352,865</u>	<u>262,901,887</u>	<u>–</u>	<u>262,901,887</u>

15. DEFERRED EXPENDITURES

	Closing balance	Opening balance
	The Group and the Company RMB	The Company RMB
Harbour transportation fee	111,048,395	29,960,444
Others	–	4,771,883
	<u>111,048,395</u>	<u>34,732,327</u>

16. LONG-TERM INVESTMENTS

Other equity investments

Name of invested company	Date of acquisition RMB	Investment amount RMB	Current year and accumulated increase (decrease) on equity RMB	%	Closing balance The Company RMB	Closing balance The Group RMB
Qingdao Free Trade Zone Zhongyan Trade Co.,Ltd.	2001.12.31	2,709,903	2,709,903	52%	2,709,903	-
Jiangsu Lianyungang Port Co.,Ltd.	2001.10.15	1,760,419	1,760,419	1%	1,760,419	1,760,419
					<u>4,470,322</u>	<u>1,760,419</u>

17. FIXED ASSETS AND ACCUMULATED DEPRECIATION

Movement of fixed assets of the Group and the Company is as follows:

	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	1,080,189	-	8,368,983	4,714,832	14,164,004
Transfer from construction in progress	69,551,039	13,349,000	578,476,756	32,143,846	693,520,641
Disposals	(2,465,688)	(5,314,225)	(266,273,296)	(2,642,431)	(276,695,640)
Closing balance of the Company	<u>1,906,283,061</u>	<u>3,560,418,752</u>	<u>6,058,907,795</u>	<u>175,949,709</u>	<u>11,701,559,317</u>
Addition on acquisition of subsidiary	-	-	194,308	298,416	492,724
Closing balance of the Group	<u>1,906,283,061</u>	<u>3,560,418,752</u>	<u>6,059,102,103</u>	<u>176,248,125</u>	<u>11,702,052,041</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 year	102,197,781	85,055,910	605,626,877	18,869,763	811,750,331
Eliminated on disposals	(328,445)	-	(255,819,350)	(1,050,655)	(257,198,450)
Closing balance of the Company	<u>628,226,359</u>	<u>1,208,228,327</u>	<u>2,561,073,929</u>	<u>95,308,240</u>	<u>4,492,836,855</u>
Addition on acquisition of subsidiary	-	-	59,644	89,395	149,039
Closing balance of the Group	<u>628,226,359</u>	<u>1,208,228,327</u>	<u>2,561,133,573</u>	<u>95,397,635</u>	<u>4,492,985,894</u>
Net Book Value					
Opening balance of the Company	<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 of the Company	<u>1,278,056,702</u>	<u>2,352,190,425</u>	<u>3,497,833,866</u>	<u>80,641,469</u>	<u>7,208,722,462</u>
Closing balance of the Group	<u>1,278,056,702</u>	<u>2,352,190,425</u>	<u>3,497,968,530</u>	<u>80,850,490</u>	<u>7,209,066,147</u>

18. CONSTRUCTION MATERIALS

Category	Closing balance The Group and the Company RMB	Opening balance The Company RMB
Construction materials	<u>1,697,068</u>	<u>4,651,893</u>

19. CONSTRUCTION IN PROGRESS

Category	Opening Balance RMB	Additions	Transfers upon completion RMB	Closing balance RMB	Budget RMB	Project Input/ Budget %	Sources of funds
Equipment to be installed	126,482,446	610,438,767	(639,855,122)	97,066,091	121,330,000	80	internally generated funds
Buildings under construction	118,008,238	101,322,983	(53,665,518)	165,665,703	207,080,000	80	internally generated funds
Others	640,000	5,619,742	-	6,259,742	8,940,000	70	internally generated funds
Total	<u>245,130,684</u>	<u>717,381,492</u>	<u>(693,520,640)</u>	<u>268,991,536</u>	<u>337,350,000</u>		

No interest expenses are capitalized for the year.

20. INTANGIBLE ASSETS

Category	Original amount RMB	Opening balance RMB	Additions on acquisition of Jining III RMB	Amortization for the year RMB	Accumulated amortization RMB	Closing balance RMB	Remaining amortization period
Land use right	310,242,143	290,979,405	-	(6,145,546)	(25,408,284)	284,833,859	45 years and 11 months
Land use right of Jining III	88,928,996	-	88,928,996	(1,742,835)	(1,742,835)	87,186,161	49 years
Mining right of Jining III	132,478,800	-	132,478,800	(6,624,040)	(6,624,040)	125,854,760	19 years
	<u>531,649,939</u>	<u>290,979,405</u>	<u>221,407,796</u>	<u>(14,512,421)</u>	<u>(33,775,159)</u>	<u>497,874,780</u>	

The original land use right is injected by Yankuang Group. The Company acquired the land use right and mining right of Jining III at the revaluation price.

The original land use right of the Company is revaluated by reference to the revaluation report [97] Zhongdizi [zong] zi No.032 of China Land Consultation and Evaluation Center with the method of cost approaching and coefficient-revising of benchmark land price to determine the value of the land.

Land use right of Jining III is revaluated by reference to the revaluation report Ludijia [2000] No.7 of Shandong Land Evaluation Office with the method of cost approaching and coefficient-revising of benchmark land price.

Mining right of Jining III is revaluated by reference to the revaluation report Haidiren Pingbaozi [2000] No.11 zong No.24 of Beijing Haidiren Resource Consulting Co., Ltd with the method of cashflow discounting.

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

Category	Opening balance RMB	Addition 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	(12,249,686)	–
	<u>9,664,076</u>	<u>6,257,071</u>	<u>(15,921,147)</u>	<u>–</u>

22. NOTES PAYABLE

	Closing balance The Group and the Company RMB	Opening balance The Company RMB
Trade acceptance bills	60,000,000	–
Bank acceptance bills (note 6)	215,860,000	318,400,000
	<u>275,860,000</u>	<u>318,400,000</u>
Notes payable within one year	<u>275,860,000</u>	<u>318,400,000</u>

23. ACCOUNTS PAYABLE

See note 46 for amounts due to shareholders of the Company holding more than 5% of the total shares of the Company.

24. ADVANCE FROM CUSTOMERS

See note 46 for amounts advanced from shareholders of the Company holding more than 5% of the total shares of the Company.

25. DIVIDEND PAYABLE

	Closing balance The Group and the Company RMB	Opening balance The Company RMB
Yankuang Group	167,000,000	136,940,000
Shareholders of H shares	102,000,000	83,640,000
Shareholders of A shares	18,000,000	14,760,000
	<u>287,000,000</u>	<u>235,340,000</u>

26. TAXES PAYABLE

	Closing balance The Group RMB	Closing balance The Company RMB	Opening balance The Company RMB
Income taxes	50,018,758	49,353,367	149,726,427
Value added tax	19,961,601	19,842,695	–
Others	34,442,570	34,433,825	9,682,876
	<u>104,422,929</u>	<u>103,629,887</u>	<u>159,409,303</u>

27. OTHER PAYABLES

See note 46 for amounts payable to shareholders of the Company holding more than 5% of the total shares of the Company.

28. PROVISION FOR LAND SUBSIDENCE COSTS

The provision for land subsidence, restoration, rehabilitation and environmental costs has been determined by management 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.

Category	Opening balance RMB	Accrual RMB	Payment RMB	Closing balance RMB
Land subsidence, restoration, rehabilitation and environmental costs	<u>136,724,035</u>	<u>210,938,657</u>	<u>(227,466,680)</u>	<u>120,196,012</u>

29. LONG-TERM PAYABLE AND LONG-TERM PAYABLE WITHIN ONE YEAR

	Closing balance The Group and the Company RMB	Opening balance The Company RMB
Long-term payable within one year	636,633,816	–
Long-term payable	105,983,040	–
	<u>742,616,856</u>	<u>–</u>

The above balances represent the remaining balance of payables to Yankuang Group for acquisition of Jining III and related mining rights, details of which are set out in notes 45 and 46.

30. SHARE CAPITAL

The changes in share capital of the Company from January 1, 2001 to December 31, 2001 are as follows:

	Closing balance (Share)	Changes of Shares				Listed	Opening balance (Share)
		Placement of shares	Bonus issue	from transfer of reserves	Issue new shares		
Shares not listed for public dealings							
Subscriber shares	1,670,000,000	-	-	-	-	-	1,670,000,000
Internal employee shares	-	-	-	-	-	-	-
Total shares not listed for public dealings	<u>1,670,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,670,000,000</u>
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 exchanges	<u>1,020,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>170,000,000</u>	<u>-</u>	<u>850,000,000</u>
Total shares listed for public dealings	<u>1,200,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>270,000,000</u>	<u>-</u>	<u>930,000,000</u>
Total share capital	<u><u>2,870,000,000</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>270,000,000</u></u>	<u><u>-</u></u>	<u><u>2,600,000,000</u></u>

The above additional issue of ordinary shares listed on a domestic stock exchange has been verified by Deloitte Touche Tohmatsu Shanghai CPA on capital verification report Deshibao (Yan) zi (01) No.006.

The above additional issue of ordinary shares listed on an overseas stock exchange has been verified by Deloitte Touche Tohmatsu Shanghai CPA on capital verification report Deshibao (Yan) zi (01) No.040.

There were no changes in share capital of the Company from January 1, 2000 to December 31, 2000.

Each share has a par value of RMB1.

31. CAPITAL RESERVES

The changes in capital reserves from January 1, 2001 to December 31, 2001 are as follows:

	Opening balance RMB	Capital surplus RMB	Transfer reserve RMB	Closing balance RMB
Share premium	2,364,454,980	1,184,803,875	–	3,549,258,855
Transfer from Wei Jian Fei (note)	161,773,949	–	–	161,773,949
	<u>2,526,228,929</u>	<u>1,184,803,875</u>	<u>–</u>	<u>3,711,032,804</u>

The changes in capital reserves from January 1, 2000 to December 31, 2000 are as follows:

	Opening balance RMB	Capital surplus RMB	Transfer reserve RMB	Closing balance RMB
Share premium	2,364,454,980	–	–	2,364,454,980
Transfer from Wei Jian Fei (note)	161,773,949	–	–	161,773,949
	<u>2,526,228,929</u>	<u>–</u>	<u>–</u>	<u>2,526,228,929</u>

Note: Pursuant to related regulations, the Company was required to transfer an annual amount to a future development fund. The Company is no longer required to transfer to this 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.

32. SURPLUS RESERVES

The changes in surplus reserves of the Company from January 1, 2001 to December 31, 2001 are as follows:

	Statutory common reserve fund RMB	Statutory public welfare fund RMB	Total RMB
Opening balance	239,057,215	119,528,609	358,585,824
Additions	100,038,745	50,019,371	150,058,116
Closing balance	<u>339,095,960</u>	<u>169,547,980</u>	<u>508,643,940</u>

32. SURPLUS RESERVES (Continued)

The changes in surplus reserves of the Company from January 1, 2000 to December 31, 2000 are as follows:

	Statutory common reserve fund RMB	Statutory public welfare fund RMB	Total RMB
Opening balance	168,212,722	84,106,361	252,319,083
Opening adjustment (note 2)	(3,054,119)	(1,527,059)	(4,581,178)
Addition (note 2)	<u>73,898,612</u>	<u>36,949,307</u>	<u>110,847,919</u>
Closing balance	<u><u>239,057,215</u></u>	<u><u>119,528,609</u></u>	<u><u>358,585,824</u></u>

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

33. UNAPPROPRIATED PROFITS

	2001 RMB	2000 RMB
Unappropriated profits at beginning of the year (As previously reported)	<u>1,333,962,805</u>	905,808,130
Less: Changes in accounting policies retrospective adjustment- land subsidence, restoration, rehabilitation and environmental costs (note 2)	<u>249,701,303</u>	<u>228,284,824</u>
	<u>1,084,261,502</u>	677,523,306
Less: Adjustment on dividend approved for the new issue of H shares (note 1)	<u>13,940,000</u>	—
Unappropriated profits at beginning of the year (After adjustment)	<u>1,070,321,502</u>	<u>677,523,306</u>
Add: Net income for the year (As previously reported)	1,000,387,449	764,181,971
Less: Changes in accounting policies retrospective adjustment- land subsidence, restoration, rehabilitation and environmental costs (note 2)	—	<u>25,195,858</u>
Net income for the year (After adjustment)	<u>1,000,387,449</u>	<u>738,986,113</u>
Less: Appropriation to statutory common fund (After adjustment) (note 2)	100,038,745	73,898,611
Appropriation to statutory public welfare fund (After adjustment) (note 3)	50,019,371	36,949,306
Proposed dividend (note 4)	287,000,000	221,400,000
Adjustment on the dividend approved for the new issue of H shares (note 1)	—	<u>13,940,000</u>
Unappropriated profits at end of the year	<u><u>1,633,650,835</u></u>	<u><u>1,070,321,502</u></u>

33. UNAPPROPRIATED PROFITS (Continued)

Note 1: In May 2001, the Company placed an aggregate of 170,000,000 H shares. According to the approval in the shareholders' meeting, those new shareholders entitle to the unappropriated profit for the year 2000. Thus, the Company paid RMB 13,940,000 dividend and adjusted the unappropriated profits at the beginning of the period.

Note 2: Appropriation to statutory common fund

Pursuant to the Provision 177 of Company Law and the Company's Article of Association, 10% of net profit is appropriated as statutory common fund.

And such appropriation can be ceased when the accumulated amount of fund has reached 50% of the Company's registered capital.

Note 3: Appropriation to statutory public welfare fund

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

Note 4: Proposed dividend

Pursuant to relevant regulations, the company that issues H shares should appropriate dividend based on profit available for appropriation listed on the audited financial statements prepared under accounting standards in the People's Republic of China and International Accounting Standards, whichever is the lesser.

Proposed dividend for year 2001 is RMB 1.00 per ten shares, based on the total issued shares of 2,870,000,000 (each share with a par value of RMB1). The declaration and payment of the final dividend need to be approved by the shareholders' meeting of the Company.

34. NET REVENUE FROM PRINCIPAL OPERATIONS

	2001 RMB	2000 RMB
Revenue from domestic sales of coal products	3,133,402,455	2,462,156,336
Revenue from coal products exported	3,335,950,500	2,318,424,540
	<u>6,469,352,955</u>	<u>4,780,580,876</u>
Total amount of the largest 5 customers RMB		Percentage in total revenue %
1,247,067,401		19%

The Company exports its coal through China National Coal Industry Import or Export Corporation ("National Coal Corporation") and China National Minerals Import & Export Co., Ltd ("National Materials Company"). Currently, the Company has no direct export right, and has to export coals through National Coal Corporation and National Materials Company. Final customer destination of the Company's export sales is determined by National Coal Corporation, National Materials Company and the Company.

35. COST OF PRINCIPAL OPERATIONS

	2001 RMB	2000 RMB
Materials	643,664,001	484,336,910
Wages	501,922,677	367,661,468
Employee benefits	70,279,150	51,472,606
Electricity	218,579,179	185,758,550
Depreciation	784,477,818	487,623,422
Land subsidence, restoration, rehabilitation and environmental costs	210,938,657	170,228,750
Repairs	276,790,599	174,734,478
Others	105,931,656	61,703,732
Total	<u>2,812,583,737</u>	<u>1,983,519,916</u>

36. SALES TAXES ON PRINCIPAL OPERATIONS

Tax items	2001 RMB	2000 RMB
City construction tax	41,546,945	29,697,661
Education fee and others	17,805,834	12,727,569
Resource tax	40,351,262	33,955,042
	<u>99,704,041</u>	<u>76,380,272</u>

37. INCOME FROM OTHER OPERATIONS

	2001 RMB	2000 RMB
Sales of raw materials		
– Sales	393,135,657	478,351,674
– Cost of sales	374,168,548	443,085,272
	<u>18,967,109</u>	<u>35,266,402</u>
Others		
– Income	37,654,873	34,379,790
– Cost	30,138,653	42,086,759
	<u>7,516,220</u>	<u>(7,706,969)</u>
	<u>26,483,329</u>	<u>27,559,433</u>

38. OPERATING EXPENSES

	2001 RMB	2000 RMB
Selling expense of domestic sales of coal products	415,120,973	324,067,774
Selling expense of coal products exported	1,078,518,000	780,396,000
Others	57,970,396	64,227,997
	<u>1,551,609,369</u>	<u>1,168,691,771</u>

39. FINANCIAL EXPENSES

	2001 RMB	2000 RMB
Interest expenses	1,923,500	5,011,637
Less: interest income	39,863,039	25,983,871
Others	3,106,274	203,247
	<u>(34,833,265)</u>	<u>(20,768,987)</u>

40. NON-OPERATING INCOME

	2001 RMB	2000 RMB
Gain on disposal of fixed assets	7,446,513	1,019,376
Others	433,693	1,977,115
	<u>7,880,206</u>	<u>2,996,491</u>

41. NON-OPERATING EXPENSES

	2001 RMB	2000 RMB
Loss on disposal of fixed assets	13,258,082	12,620,226
Donations	457,186	300,830
Fines	758,420	427,251
Others	2,338,375	1,429,671
	<u>16,812,063</u>	<u>14,777,978</u>

42. INCOME TAXES

	2001 RMB	2000 RMB
Income taxes for the year	<u>391,487,645</u>	<u>295,607,377</u>
Accounting profit for the year	1,391,875,094	
Add:		
1. Donations	448,886	
2. Fines	758,420	
3. Land subsidence, restoration, rehabilitation and environmental costs without invoices	<u>6,851,194</u>	
	<u>8,058,500</u>	
Less:		
1. Wei Jian Fei (note)	204,134,184	
2. Others	<u>2,622,019</u>	
	<u>206,756,203</u>	
Taxable income for current year	<u>1,193,177,391</u>	
Income tax rate	33%	

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

43. OTHER CASH RECEIVED RELATING TO OPERATING ACTIVITIES

	RMB
Other operating income	430,790,530
Interest income	39,863,039
Others	<u>196,290,592</u>
Total	<u>666,944,161</u>

44. OTHER CASH PAID RELATING TO OPERATING ACTIVITIES

	RMB
Amount paid in cash in operating expenses and administrative expenses	1,549,491,217
Other operating expenses	404,307,201
Other expenses paid	<u>308,910,040</u>
Total	<u>2,262,708,458</u>

45. CASH PAID FOR PURCHASE OF JINING III

	RMB
Current assets	10,360,884
Fixed assets	2,372,524,667
Intangible assets (Land use right)	88,928,996
Current liabilities	<u>(20,909,531)</u>
Sub-total (note 46)	2,450,905,016
Mining right of Jining III Coal Mine	<u>132,478,800</u>
Total	<u><u>2,583,383,816</u></u>
Including:	
Cash paid on acquisition	1,204,133,000
Installments paid during the year	636,633,960
Cash payable within one year (note 29)	636,633,816
Cash payable after one year (note 29)	<u>105,983,040</u>
	<u><u>2,583,383,816</u></u>

46. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

Name of related parties	Address	Major business	Relationship	Quality	Status Representative
Yankuang Group Corporation Limited ("Yankuang Group")	40 Fu Shan Road Shandong	Industry Processing	Common director	State-owned	Zhao Jing Che
Qingdao Free Trade Zone Zhongyan Trade Co., Ltd. ("Zhongyan Trade")	No.1 Industry Zone, Qingdao Free Trade Zone	International Trade	Subsidiary	Limited	Shao Hua Zhen

- (2) Status and charges of the Paid-in Capital owned by related parties who can exercise control over the Company

	Opening and Closing balance RMB
Zhongyan Trade	<u><u>2,100,000</u></u>

46. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

	Opening balance		Addition		Deduction		Closing balance	
	RMB	%	RMB	%	RMB	%	RMB	%
Yankuang Group	1,670,000,000	64		–			– 1,670,000,000	58

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

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

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

- (a) Acquisition of Jining III

On January 1, 2001, the Company exercised the "Agreement for Acquisition of Jining III", which was signed with Yankuang Group. The Company acquired Jining III from Yankuang Group at the consideration of RMB 2,450,900,000 and mining rights of RMB 132,480,000.

The Company will pay the interest-free consideration of RMB 623,380,000 prior to December 31, 2002. The consideration for the costs of the mining rights of RMB 13,248,000 is to be settled over ten years by equal installments before December 31 each year, commencing from 2001.

By the end of December 31, 2001, the Company had paid RMB 1,840,770,000 to Yankuang Group for the above acquisition.

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

- (b) Purchases and sales

	2001 RMB	2000 RMB
SALES		
Zoucheng Nanmei Shipping Co., Ltd.	35,440,000	23,470,000
Yankuang Group	73,675,000	66,434,000
	<u>109,115,000</u>	<u>89,904,000</u>
PURCHASES		
Yankuang Group	<u>143,213,000</u>	<u>67,845,000</u>

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

46. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

(c) Amount due to or from related parties

Account	Company	Amount by the end of the period RMB	Amount at the beginning of the year RMB
Accounts receivable	Yankuang Group	12,416,512	51,058,471
Prepayments	Yankuang Group	26,547,580	17,137,999
Other receivables	Yankuang Group	160,504,483	239,928,198
		<u>199,468,575</u>	<u>308,124,668</u>
Notes payable	Yankuang Group	160,000,000	308,400,000
Accounts payable	Yankuang Group	33,456,343	29,911,711
Advances from customers	Yankuang Group	–	15,660,304
Other payables	Yankuang Group	29,308,749	76,094,425
Long-term payable within one year		636,633,816	–
Long-term payable		105,983,040	–
		<u>965,381,948</u>	<u>430,066,440</u>

(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 year ended December 31, 2000 and 2001 are RMB 247,828,000 and RMB 347,145,000, respectively.

46. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

(d) Other transactions (Continued)

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

	2001 RMB	2000 RMB
Repairs and maintenance	207,550,000	79,316,000
Technical support and training fee	15,130,000	15,130,000
Mining rights fees	12,980,000	12,980,000
Railway transportation fee	248,876,000	209,842,000
Public utilities expenses	600,000	600,000
Road transportation fee	6,302,000	10,474,000
Gases and eructate expenses	11,020,000	11,020,000
Buildings management fee	30,970,000	29,700,000
Children tuition fee	13,320,000	12,550,000
Others	14,230,000	14,230,000

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

(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 year ended December 31, 2000 and 2001 are RMB 1,143,000 and RMB 1,341,265, respectively.

47. 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	<u>63,986</u>

48. SUBSEQUENT EVENTS

On January 1, 2002, the Company acquired from Yankuang Group the assets of railway transportation business ("Railway Assets") at the consideration of approximately RMB 1,242,590,000 according to "Railway Assets Acquisition Agreement" signed with Yankuang Group. Moreover, when the Railway Assets reach the target transportation capacity in the agreement, the additional payment is as follows:

- A. If the Railway Assets' actual capacity reaches 25,000,000 tonnes for the year ended December 31, 2002, the Company will pay an extra RMB 40,000,000;
- B. If the Railway Assets' actual capacity reaches 28,000,000 tonnes for the year ended December 31, 2003, the Company will pay an extra RMB 40,000,000;
- C. If the Railway Assets' actual capacity reaches 30,000,000 tonnes for the year ended December 31, 2004, the Company will pay an extra RMB 40,000,000.

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

- 1) The amount of RMB 1,159,560,000 has been paid by the Company to Yankuang Group at acquisition date;
- 2) The remaining balance of RMB 83,030,000 should be paid before June 30, 2002;
- 3) The amount of RMB 40,000,000 as mentioned in term A should be paid before June 30, 2003;
- 4) The amount of RMB 40,000,000 as mentioned in term B should be paid before June 30, 2004;
- 5) The amount of RMB 40,000,000 as mentioned in term C should be paid before June 30, 2005.

The acquisition was financed by cash of the Company and long-term bank loans from Bank of China Shandong Branch, Bank of China Jining Branch and Bank of China Zoucheng Branch, amounting to approximately RMB 1,200,000,000 on January 4, 2002 with the term of 96 months (including 2 years of grace period, 6 years of repayment period). The repayment of the loan is guaranteed by the Yankuang Group.