

1. GENERAL

Yanzhou Coal Mining Company Limited (the "Company") is a Sino-foreign joint stock company with limited liability in the People's Republic of China (the "PRC"). The Company was established on September 25, 1997 by Yankuang Group Corporation Limited (the "Yankuang Group") and 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, sales of coal products and coal transportation service.

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 listed on overseas stock exchange; and RMB180,000,000 (representing 6.27% of the total share capital) A Share listed on domestic stock exchange. Details of Company's share capital are set out in note 30 to the financial statements.

2. CHANGES IN ACCOUNTING TREATMENT OF WEI JIAN FEI AND ITS IMPACT

Prior to 1998, the Company has to accrue for "Wei Jian Fei" based on a rate of RMB6.0 per tonne of coal mined according to (92)Caigongzi No.380 issued by Ministry of Finance. This accrual was included in both production costs and other current liabilities. The amount of Wei Jian Fei was used for payments of production transferral fee and the principal fund to National Coal Industry Administration Bureau and Coal Industry Administration Bureau of Shandong Province. The remaining amount, up to the aggregate amount of the total purchase costs of coal production equipment and the refurbishment cost of the coal mining structures, will be transferred to capital reserves upon completion of construction projects at the year end.

Starting from 1999, the Company was no longer required to pay relevant fees to National Coal Industry Administration Bureau and Coal Industry Administration Bureau of Shandong Province and the depreciation provided is considered adequate for purchase of coal production equipment and renewal of coal mining structures, the Company ceased the accrual of Wei Jian Fei and transferred the balance of RMB161,773,949 to capital reserves.

In year 2002, the relevant authorities raised queries on the cessation of accrual of Wei Jian Fei. In their opinion, without formal announcement on the abolishment, enterprises should comply with those industry accounting policies and regulations. Since the regulation of accrual of Wei Jian Fei in the Coal Mining Industry is still valid and is currently carried out by the domestic coal mining industry, the Company should resume the accrual for Wei Jian Fei. Therefore, the Company decided to continue to accrue for Wei Juan Fei and restate prior years' financial statements retrospectively.

2. CHANGES IN ACCOUNTING TREATMENT OF WEI JIAN FEI AND ITS IMPACT (Continued)

The effect of prior year adjustments on the opening balances of relevant accounts and of current year's profit and shareholders' equity resulting from the above-mentioned issue are as follows:

	2002	2001		2000	
	Increase (decrease) RMB'000	As previously reported RMB'000	As restated RMB'000	As previously reported RMB'000	As restated RMB'000
Balance sheet					
Capital reserves	230,610	3,711,033	4,223,911	2,526,229	2,834,973
Surplus reserves	(34,592)	508,644	431,712	358,586	312,274
Unappropriated profits	(196,018)	1,633,650	1,197,704	1,070,321	807,889
Shareholders' equity	–	8,723,327	8,723,327	6,555,136	6,555,136
Statement of income and profits appropriation					
Cost of major operations	230,610	2,812,584	3,016,718	1,983,520	2,148,257
Net profit	(230,610)	1,000,387	796,253	738,986	574,249
Unappropriated profits at the beginning of the year	–	1,070,321	807,889	677,523	555,117
Appropriations to statutory common reserve fund	(23,061)	100,039	79,625	73,899	57,425
Appropriations to statutory common welfare fund	(11,531)	50,019	39,813	36,949	28,712

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Accounting system

The Company adopts the "Accounting Standards for Business Enterprises", "Accounting System for Business Enterprises" and the supplementary regulations thereto.

Accounting year

The Company has adopted the calendar year as its accounting year, i.e. from January 1 to December 31.

Reporting currency

The recording currency of the Company is Renminbi.

Basis of accounting and principle of measurement

The Company adopts the accrual basis of accounting and uses the historical cost convention as the principle of measurement.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Foreign currency translation

Transactions denominated in foreign currencies are translated into Renminbi at the applicable rates of exchange ("market exchange rate") prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the market exchange rate prevailing at the balance sheet date. Exchange gains or losses incurred on a specific borrowing for the acquisition or construction of a fixed asset are capitalized as part of the cost of fixed asset; other exchange gains or losses are dealt with as finance costs.

Cash equivalents

Cash equivalents are short-term, highly liquid investments of maturities within 3 months that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Accounting for bad debts

1) Criteria for recognition of bad debts

The irrecoverable amount of a bankrupt debtor after pursuing the statutory procedures;

The irrecoverable amount of a debtor who has deceased and has insufficient estate to repay;

The amount owed by a debtor who is unable to repay the obligations after the debts fall due, and the amount is irrecoverable or unlikely to be recovered as demonstrated by sufficient evidence.

2) Accounting treatment for bad debt losses

Bad debt is accounted for using allowance method and provided according to the recoverability of receivables at the year-end. The appropriate percentages of provision for bad debts relating to significant receivable accounts are reasonably determined based on relevant information such as past experience, actual financial position and cash flows of the debtors, as well as other relevant information. General provision for the remaining receivables is estimated according to aging analysis.

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 deposit on packaging materials for long-term use) as follows:

Age of Receivables	Percentage of bad debt provision
Within 1 year (including 1 year)	4%
1 – 2 years	30%
2 – 3 years	50%
Over 3 years	100%

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Inventories

Inventories are initially recorded at cost. The cost of inventories comprises all costs of purchase, costs of convention and other costs incurred in bringing the inventories to their present location and condition. Inventories mainly include raw materials, work in progress and finished goods.

Inventories are accounted for using actual costing method. In determining the cost of inventories transferred out or issued for use, the actual costs of raw materials and finished goods are determined by the moving average and weighted average method, respectively.

Provision for decline in value of inventories

Inventories are measured at the lower of cost and net realizable value at the end of a period. Where the net realizable value is lower than the cost, the difference is recognized as provision for decline in value. Provision for decline in value of inventories is made by comparing cost with net realizable value on an individual item basis.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs to completion and the estimated expenses and related taxes necessary to make the sale.

Current investments

A current investment is initially recorded at its cost of acquisition. The initial cost of an investment is the total price paid on acquisition, including incidental expenses such as tax payments and handling charges. However, cash dividends declared but unpaid or bonds interests due but unpaid are accounted for separately as receivable items.

Cash dividends or interest on current investments, other than those recorded as receivable items as noted in the preceding paragraph, are offset against the carrying amount of investments upon receipt.

Current investments are carried at the lower of cost and market value at the end of each period. Provision on current investment is calculated and determined on the basis of individual investment.

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

Long-term investments

(1) Accounting treatment for long-term investments

A long-term investment is initially recorded at its cost on acquisition.

The cost method is used to account for a long-term equity investment when the Company does not have control, joint control or significant influence over the investee enterprise. The equity method is used when the Company can control, jointly control or has significant influence over the investee enterprise.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Long-term investments (Continued)

When the cost method is adopted, the amount of investment income recognized is limited to the amount distributed out of accumulated net profits of the investee enterprise that arose after the investment has been made. The amount of profits or cash dividends declared by the investee enterprise in excess of the above threshold is treated as return of investment cost, and the carrying amount of the investment is reduced accordingly.

When the equity method is adopted, the investment income for current period is recognized according to its attributable share of the net profit or loss of the investee enterprises. The attributable share of net losses incurred by the investee enterprise is recognized to the extent that the carrying amount of the investment is reduced to zero. If the investee enterprise realizes net profits in subsequent periods, the carrying amount of the investment is resumed by the excess of the Company's attributable share of profits over the share of unrecognized losses.

When a long-term equity investment is accounted for using the equity method, the difference between the initial investment cost of the Company and its share of owners' equity of the investee enterprise is accounted for as equity investment difference and amortised on a straight-line basis over the investment period and charged to the income statement accordingly.

(2) Impairment of long-term investments

If the recoverable amount of any long-term 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.

Recognition of recoverable amount

The recoverable amount refers to the higher of net selling price of assets and the present value of the estimated future cash flows expected to arise from the continuing use of the assets and from its disposal at the end of its useful life. Net selling price refers to the selling price of the asset less relevant expenses and taxes incurred for the sales of the asset.

Fixed assets and depreciation

Fixed assets are tangible assets that are (a) held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; (b) have useful life more than one year; and (c) have relatively high unit price.

Fixed assets are stated at cost or valuation upon the restructuring. Except for mining structures, which are depreciated using the production volume method, depreciation is provided 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:

Category	Useful life	Annual depreciation rate
Buildings	15 – 30 years	3.23 – 6.47%
Railway structure	15 – 25 years	3.88 – 6.47%
Plant, machinery and equipment	5 – 15 years	6.47 – 19.40%
Transportation equipment	6 – 9 years	10.78 – 16.17%

Depreciation of mining structures is provided using production volume method at RMB 2.5 per tonne of raw coal mined.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Impairment loss provision for fixed assets

At the end of each period, the Company determines whether a provision should be made for impairment loss on a fixed asset by considering the indications that an impairment loss may have occurred. Where the recoverable amount of any fixed asset is lower than its carrying amount, a provision for impairment loss on fixed asset is made for the difference.

Fixed assets under construction

Fixed assets under construction are recorded at the actual cost incurred for the construction.

Cost includes all expenditures incurred for construction projects, capitalized borrowing costs incurred on a specific borrowing for the construction of fixed assets incurred before it has reached the working condition for its intended use, and other related expenses. A fixed asset under construction is transferred to fixed assets when it has reached the working condition for its intended use. No depreciation is provided for fixed assets under construction.

Where the work on a fixed asset under construction has been suspended for a long period of time and is not expected to re-commence within three years; or it is technically and physically obsolete and its economic benefits to the Company is uncertain; or there are other evidences indicating a decline in value on the fixed asset under construction, an impairment loss provision is made at the shortfall of the recoverable amount of the fixed asset under construction over its carrying amount.

Intangible assets

Intangible assets are recorded at the actual cost of acquisition or valuation upon the restructuring.

Land use rights are evenly amortized over 50 years since the certificate of land use rights are obtained.

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

Goodwill represents the excess of the purchase consideration over the net assets of the acquired business unit as a whole.

Goodwill is evenly amortized over 10 years.

Provision for impairment loss on intangible assets

At the end of each period, the Company determines whether a provision should be made for impairment loss on an intangible asset by considering the indications that an impairment loss may have occurred. Where the recoverable amount of any intangible asset is lower than its carrying amount, a provision for impairment loss on intangible asset is made for the difference.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Provision

The obligation related to a contingency is recognized as a liability when it meets the following conditions:

- (1) that obligation is a present obligation of the Company;
- (2) it is probable that an outflow of economic benefits from the Company will be required to settle the obligation; and
- (3) a reliable estimate can be made of the amount of the obligation.

Borrowing costs

Borrowing costs comprise interest incurred on borrowings, amortization of discounts or premiums, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings. Borrowing costs incurred on a specific borrowing for the acquisition or construction of a fixed asset, are capitalized as the cost of the fixed asset to the extent they are incurred before the fixed asset has reached working condition for its intended use if the conditions for capitalisation are met. Other borrowing costs are recognized as expenses and included as finance costs in the period in which they are incurred.

Revenue recognition

Revenue from sales of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, it retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the economic benefits associated with the transaction will flow to the Company, and the relevant amount of revenue and costs can be measured reliably.

When the provision of services is started and completed within the same accounting year, revenue is recognized at the time of completion of the services. When the provision of services is started and completed in different accounting years and the outcome of a transaction involving the rendering of services can be estimated reliably, revenue is recognized at the balance sheet date by the use of the percentage of completion method; revenue is otherwise recognized at the balance sheet date only to the extent of the costs incurred that are recoverable and service costs are recognized as expenses in the period in which they are incurred. If the service costs incurred are not expected to be recovered, revenue is not recognized.

Interest income is measured based on the length of time for which the enterprise's cash is used by others and the applicable interest rate.

Subsidy income

Subsidy income is recognized when grants are actually received.

Income taxes

Income taxes is provided under tax payable method. The income tax provision is calculated based on the accounting profit for the year as adjusted in accordance with the relevant tax laws.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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 the balance sheet date. A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than 50% of the equity, or which the Company controls its operating activities through other method.

(2) Accounting for consolidation

The accounting policies used by subsidiaries conform with those used 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 between group enterprises are eliminated on consolidation.

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

4. TAXES

Value added tax

Value added tax ("VAT") on sales is calculated at 13% on revenue from sales of coal products and 17% on other types of sales, and paid after deducting input VAT.

The calculation method of "Payment first and refund afterwards" was adopted for calculation of the VAT refund on coal products export before January 1, 2002. From January 1, 2002 onwards, the calculation method has been changed to "Exemption, counteract and refund" in accordance with Caishui [2002] No.7. The tax refund rate on export sales of coal products is 13%.

Business tax

Business tax is paid at the applicable tax rate of the corresponding revenue and the business tax on revenue from coal transportation service is calculated at 3%.

Resource tax

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

City construction tax & Education fee

Although the Company was changed to a sino-foreign joint stock limited company, it is still subject to all taxes applicable to domestic enterprise according to the reply letter to Yanzhou Coal Mining Co., Ltd issued by State Taxes Bureau (Guoshuihan [2001] No.673). The Company continues to calculate and pay the taxes under the tax law applicable to domestic companies. Therefore, the city construction tax and education fee are still calculated and paid at 7% and 3%, respectively, on the total amount of VAT payable and business tax payable.

4. TAXES (Continued)

Income tax

Income tax, including both national and domestic income tax, is calculated at 33% of the total assessment income of the Company.

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

5. SCOPE OF CONSOLIDATION AND DETAILS OF SUBSIDIARY

The Company owns the following subsidiary:

Name	Registered capital	Investment amount and percentage of equity interest		Consolidated or not
Qingdao Free Trade Zone Zhongyan Trade Co., Ltd. ("Zhongyan Trade")	RMB2,100,000	RMB2,710,000	52.38%	Yes

Nature of business of Zhongyan Trade: International trade, processing and matching, trimming, exhibiting and storage in Qingdao Free Trade Zone (except for project subjected to special approval according to national regulations).

The above subsidiary is included in the consolidated financial statements since it was acquired by the Company on December 31, 2001.

All the notes to the financial statements are applicable to consolidated financial statements, except for note 51 which is only applicable to the Company.

6. BANK BALANCES AND CASH

	December 31, 2002			December 31, 2001		
	Foreign currency	Exchange rate	RMB equivalent	Foreign currency	Exchange rate	RMB equivalent
Cash on hand						
RMB	-	-	311,649	-	-	403,264
Cash in bank						
RMB	-	-	544,649,269	-	-	217,551,797
USD	117,994,555	8.2773	976,676,330	92,381,985	8.2766	764,608,737
EUR	76,655	8.6360	661,993	-	-	-
HKD	64,592,801	1.0611	68,539,421	162,398,500	1.0606	172,239,849
Other monetary assets						
RMB	-	-	5,095,066	-	-	2,695
			<u>1,595,933,728</u>			<u>1,154,806,342</u>

7. CURRENT INVESTMENTS

	December 31, 2002			December 31, 2001		
	Cost RMB	Provision RMB	Net book value RMB	Cost RMB	Provision RMB	Net book value RMB
Investments in bonds						
– National bonds	<u>88,702,100</u>	<u>–</u>	<u>88,702,100</u>	<u>49,997,305</u>	<u>–</u>	<u>49,997,305</u>

On December 31, 2002 and 2001, the market value of the national bonds were RMB87,847,200 and RMB49,897,359, respectively. Since there is no significant difference between the market value and the carrying amount, no provision for impairment loss is made.

The above market value is made reference to the closing price quoted on stock exchange on December 31, 2002 and 2001.

8. NOTES RECEIVABLE

	December 31, 2002 RMB	December 31, 2001 RMB
Bank acceptance bills	<u>234,521,923</u>	<u>155,883,666</u>
Commercial acceptance bills	<u>5,452,300</u>	<u>–</u>
	<u><u>239,974,223</u></u>	<u><u>155,883,666</u></u>

9. ACCOUNTS RECEIVABLE

The aging analysis of accounts receivable is as follows:

Aging	December 31, 2002				December 31, 2001			
	Amount RMB	%	Bad debt provision RMB	Net book value RMB	Amount RMB	%	Bad debt provision RMB	Net book value RMB
Within 1 year	504,683,920	78	20,176,674	484,507,246	488,709,197	80	15,863,684	472,845,513
1 to 2 years	99,632,835	15	29,887,980	69,744,855	105,443,312	17	31,632,994	73,810,318
2 to 3 years	38,388,185	6	19,194,093	19,194,092	8,258,014	2	4,129,007	4,129,007
Over 3 years	6,824,655	1	6,824,655	–	6,238,603	1	6,238,603	–
Total	<u>649,529,595</u>	<u>100</u>	<u>76,083,402</u>	<u>573,446,193</u>	<u>608,649,126</u>	<u>100</u>	<u>57,864,288</u>	<u>550,784,838</u>

9. ACCOUNTS RECEIVABLE (Continued)

Balance of the 5 largest debtors is as follows:

Total amount of the 5 largest debtors RMB	Percentage in accounts receivable balance
333,651,193	51%

See note 50 for accounts receivable from shareholders of the Company holding more than 5% of the total shares of the Company.

10. OTHER RECEIVABLES

Aging analysis of other receivables is as follows:

Aging	December 31, 2002				December 31, 2001			
	Amount RMB	%	Bad debt provision RMB	Net book value RMB	Amount RMB	%	Bad debt provision RMB	Net book value RMB
Within 1 year	183,629,621	81	135,725	183,493,896	338,081,783	84	201,158	337,880,625
1 to 2 years	31,234,251	14	1,176,619	30,057,632	55,053,503	14	1,654,397	53,399,106
2 to 3 years	9,156,961	4	1,896,615	7,260,346	8,715,043	2	652,654	8,062,389
Over 3 years	2,659,824	1	329,912	2,329,912	1,777,582	-	-	1,777,582
Total	226,680,657	100	3,538,871	223,141,786	403,627,911	100	2,508,209	401,119,702

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

Balance of the 5 largest debtors is as follows:

Total amount of the 5 largest debtors RMB	Percentage in other receivables balance
62,143,414	27%

See note 50 for others receivables from shareholders of the Company holding more than 5% of the total shares of the Company.

11. PROVISION FOR BAD DEBTS

	Amount RMB
Opening balance	60,372,497
Provision for the year	66,203,577
Written-off for the year	<u>(46,953,801)</u>
Closing balance	<u>79,622,273</u>

Pursuant to the minutes of Board of Directors, the Company has written off bad debts of RMB46,953,801, including RMB19,341,635 due to death or bankruptcy of debtors and RMB27,612,166 due to business fraud or lack of ability to repay.

12. PREPAYMENTS

The aging analysis of the prepayments is as follows:

Aging	December 31, 2002		December 31, 2001	
	RMB	%	RMB	%
Within 1 year	113,227,188	77	60,195,238	68
1 to 2 years	27,936,386	19	22,936,739	26
2 to 3 years	5,176,057	4	5,033,455	6
Over 3 years	—	—	—	—
Total	<u>146,339,631</u>	<u>100</u>	<u>88,165,432</u>	<u>100</u>

The balances with aging over 2 years are mainly the prepayments for the purchases of spare parts and materials. As disputes on quality or price exist between the Company and the suppliers, the amount has not yet been settled and has not yet off set with corresponding accounts payables.

Balances of the 5 largest debtors are as follows:

Total amount of the 5 largest debtors RMB	Percentage in prepayments balance
73,477,119	50%

See note 50 for the prepayments to shareholders of the Company holding more than 5% of the total shares of the Company.

13. SUBSIDIES RECEIVABLE

The closing balance of subsidies receivable represents export tax refund receivable in respect for the export sales of the year 2001 which has not been received.

14. INVENTORIES

	December 31, 2002			December 31, 2001		
	Amount	Provision	Net book	Amount	Provision	Net book
	RMB	RMB	value	RMB	RMB	value
Raw materials	309,246,183	-	309,246,183	269,510,049	-	269,510,049
Finished goods	267,333,120	-	267,333,120	170,372,249	-	170,372,249
	<u>576,579,303</u>	<u>-</u>	<u>576,579,303</u>	<u>439,882,298</u>	<u>-</u>	<u>439,882,298</u>

15. DEFERRED EXPENSES

	December 31, 2002	December 31, 2001
	RMB	RMB
Harbour transportation fee	<u>110,560,888</u>	<u>111,048,395</u>

16. LONG-TERM EQUITY INVESTMENTS

Other equity investment

Name of investee	January 1, 2002			December 31, 2002					%
	Investment	Provision	Net book	Addition	Disposal	Investment	Provision	Net book	
	amount	RMB	value			amount	RMB	value	
Jiangsu Lianyungang Port Co., Ltd.	1,760,419	-	1,760,419	-	-	1,760,419	-	1,760,419	1
Shenergy Company Limited	-	-	-	30,137,265	-	30,137,265	-	30,137,265	0.42
	<u>1,760,419</u>	<u>-</u>	<u>1,760,419</u>	<u>30,137,265</u>	<u>-</u>	<u>31,897,684</u>	<u>-</u>	<u>31,897,684</u>	

Note: The Company acquired 14,882,600 legal person shares of Shenergy Company Limited at RMB4.05 per share for a total of RMB60,274,530 during the year. The Company has paid RMB30,137,265 in advance, which represents 50% of the total consideration. According to the acquisition agreement, the Company will settle the remaining amount in 2003. The legal title of the shares has not been transferred to the Company at the balance sheet date.

17. FIXED ASSETS AND ACCUMULATED DEPRECIATION

	Buildings RMB	Mining structure RMB	Railway structure RMB	Plant, machinery and equipment RMB	Transportation equipment RMB	Total RMB
Cost						
At January 1, 2002	1,906,283,061	3,560,418,752	–	6,059,102,103	176,248,125	11,702,052,041
Additions on acquisition						
of Railway Assets	60,525,682	–	870,600,760	120,889,916	51,993,303	1,104,009,661
Additions	7,363,186	–	–	432,499,737	10,847,352	450,710,275
Transfer from						
fixed assets						
under construction	91,559,960	89,745,192	–	267,645,530	84,399,929	533,350,611
Disposals	(12,072,367)	–	–	(131,488,462)	(13,764,790)	(157,325,619)
At December 31, 2002	<u>2,053,659,522</u>	<u>3,650,163,944</u>	<u>870,600,760</u>	<u>6,748,648,824</u>	<u>309,723,919</u>	<u>13,632,796,969</u>
Accumulated depreciation						
At January 1, 2002	628,226,359	1,208,228,327	–	2,561,133,573	95,397,635	4,492,985,894
Additions on acquisition						
of Railway Assets	12,516,635	–	149,897,088	32,501,455	32,233,661	227,148,839
Provided for the year	100,921,330	96,087,478	52,285,656	583,845,752	35,937,015	869,077,231
Eliminated on disposals	(5,227,295)	–	–	(96,134,981)	(7,070,623)	(108,432,899)
At December 31, 2002	<u>736,437,029</u>	<u>1,304,315,805</u>	<u>202,182,744</u>	<u>3,081,345,799</u>	<u>156,497,688</u>	<u>5,480,779,065</u>
Net book value						
At January 1, 2002	<u>1,278,056,702</u>	<u>2,352,190,425</u>	<u>–</u>	<u>3,497,968,530</u>	<u>80,850,490</u>	<u>7,209,066,147</u>
At December 31, 2002	<u>1,317,222,493</u>	<u>2,345,848,139</u>	<u>668,418,016</u>	<u>3,667,303,025</u>	<u>153,226,231</u>	<u>8,152,017,904</u>

18. MATERIALS FOR CONSTRUCTING FIXED ASSETS

Category	December 31, 2002 RMB	December 31, 2001 RMB
Materials for constructing fixed assets	<u>1,899,659</u>	<u>1,697,068</u>

19. FIXED ASSETS UNDER CONSTRUCTION

Category	At		Addition on acquisition of Railway Assets	Transfers upon completion	At		Proportion to budget %	Source of funds
	January 1, 2002	Addition			December 31, 2002	Budget		
	RMB	RMB	RMB	RMB	RMB	RMB		
Equipment to be installed	97,066,091	285,670,143	-	(284,522,349)	98,213,885	157,500,000	62	internally generated fund
Buildings under construction	165,665,703	74,897,650	518,930	(240,024,306)	1,057,977	1,200,000	88	internally generated fund
Others	6,259,742	26,295,109	-	(8,803,956)	23,750,895	40,500,000	59	internally generated fund
Total	268,991,536	386,862,902	518,930	(533,350,611)	123,022,757	199,200,000		

No interest was capitalized for the year.

20. INTANGIBLE ASSETS

Category	Original	At	Addition on acquisition		Amortization	Accumulated	At	Remaining
	amount	January 1, 2002	Addition	of Railway Assets	for the year	amortization	December 31, 2002	amortization period
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	
Land use rights	310,242,143	284,833,859	-	-	(6,278,386)	(31,686,670)	278,555,473	44 years and 11 months
Land use rights of Jining III	88,928,996	87,186,161	-	-	(1,814,325)	(3,557,160)	85,371,836	48 years
Mining rights of Jining III	132,478,800	125,854,760	-	-	(6,623,940)	(13,247,980)	119,230,820	18 years
Land use rights of Railway Assets	259,378,500	-	-	259,378,500	(5,100,000)	(5,100,000)	254,278,500	49 years
Goodwill	40,000,000	-	40,000,000	-	-	-	40,000,000	10 years
	831,028,439	497,874,780	40,000,000	259,378,500	(19,816,651)	(53,591,810)	777,436,629	

The original land use rights are injected by Yankuang Group. The land use rights of Jining III and Railway Assets and mining rights of Jining III were acquired from Yankuang Group at revaluated amount. At December 31, 2002, the registration process in respect of the land use rights of Railway Assets has not yet been completed.

The original land use rights of the Company are 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 rights of Jining III are 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 rights of Jining III are 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 discounting cashflow. Land use rights of Railway Assets are revaluated by reference to the revaluation report [2001] Luzhengkuai Pingbaozi No. 10041 of Shandong Zhengyuan Hexin Limited Liability CPA with the method of cost revaluation.

20. INTANGIBLE ASSETS (Continued)

Goodwill represents the excess of the purchase consideration of Railway Assets over the net assets of Railway Assets at the date of acquisition. According to the "Railway Assets Acquisition Agreement", if the Railway Assets' actual transportation capacity reaches 25,000,000 tonnes for the year 2002, the Company will pay an extra RMB 40,000,000, details of which are set out in note 50(5)(b). Goodwill is amortized over 10 years.

21. NOTES PAYABLE

	December 31, 2002 RMB	December 31, 2001 RMB
Commercial acceptance bills	–	60,000,000
Bank acceptance bills (note 48)	<u>108,001,674</u>	<u>215,860,000</u>
	<u>108,001,674</u>	<u>275,860,000</u>
Notes payable due within one year	<u>108,001,674</u>	<u>275,860,000</u>

See note 50 for notes payable due to shareholders of the Company holding more than 5% of the total shares of the Company.

22. ACCOUNTS PAYABLE

See note 50 for accounts payable due to shareholders of the Company holding more than 5% of the total shares of the Company.

23. ADVANCE FROM CUSTOMERS

See note 50 for amounts advanced from shareholders of the Company holding more than 5% of the total shares of the Company.

24. DIVIDENDS PAYABLE

	December 31, 2002 RMB	December 31, 2001 RMB
Yankuang Group	173,680,000	167,000,000
Shareholders of H Share	106,080,000	102,000,000
Shareholders of A Share	<u>18,720,000</u>	<u>18,000,000</u>
	<u>298,480,000</u>	<u>287,000,000</u>

25. TAXES PAYABLE

	December 31, 2002 RMB	December 31, 2001 RMB
Income tax	56,866,726	50,018,758
Value added tax	43,268,288	19,961,601
City construction tax	49,177,153	8,452,626
Others	56,827,775	25,989,944
	<u>206,139,942</u>	<u>104,422,929</u>

26. OTHER PAYABLES

See note 50 for other payables due to shareholders of the Company holding more than 5% of the total shares of the Company.

27. PROVISION

Category	At January 1, 2002 RMB	Accrual for the year RMB	Payment for the year RMB	At December 31, 2002 RMB
Land subsidence, restoration, rehabilitation and environmental costs	<u>120,196,012</u>	<u>238,296,944</u>	<u>(275,449,009)</u>	<u>83,043,947</u>

The consequence of coal mining activities 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 provision for land subsidence, restoration, rehabilitation and environmental costs has been determined by management based on their past experience and estimation on future expenditure and accrued on a certain ratio of raw coal mined. 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.

28. LONG-TERM PAYABLE AND LONG-TERM PAYABLE DUE WITHIN ONE YEAR

	December 31, 2002 RMB	December 31, 2001 RMB
Long-term payable due within one year	13,247,800	636,633,816
Long-term payable	92,735,160	105,983,040
	<u>105,982,960</u>	<u>742,616,856</u>

The above balances represent the remaining balance of payable to Yankuang Group for acquisition of Jining III and related mining rights, details of which are set out in note 50(5)(c).

29. LONG-TERM LOAN

Lender	December 31, 2002 RMB	January 1, 2002 RMB	Period	Annual Intet Rate	Condition for Loan
Bank of China	1,200,000,000	-	96 Months	6.21%	Guaranteed by Yankuang Group

On January 4, 2002, the Company obtained a new bank loan in the amount of RMB1,200,000,000 from the Bank of China Shandong Branch, Bank of China Jining Branch and Bank of China Zoucheng Branch to finance the acquisition of Railway Assets. The loan is repayable by instalments over a period of 96 months, whereas the first 2 years of which is grace period. According to the agreement, interests are payable on quarterly basis and principal will be paid in 6 instalments of RMB200 million each time, i.e. on August 25, of each year from year 2004 to 2008 and on January 4, 2010 for the last time.

30. SHARE CAPITAL

Changes in share capital from January 1, 2002 to December 31, 2002 are as follows:

	January 1, and December 31, 2002	
	RMB	%
Shares not listed for public dealings		
Subscriber shares		
– State legal person shares	<u>1,670,000,000</u>	<u>58.19</u>
Shares listed for public dealings		
Ordinary shares listed on a domestic stock exchange (A shares)	180,000,000	6.27
Ordinary shares listed on an overseas stock exchange (H shares)	<u>1,020,000,000</u>	<u>35.54</u>
Total shares listed for public dealings	<u>1,200,000,000</u>	<u>41.81</u>
Total share capital	<u><u>2,870,000,000</u></u>	<u><u>100.00</u></u>

30. SHARE CAPITAL (Continued)

Changes in share capital from January 1, 2001 to December 31, 2001 are as follows:

	January 1, 2002		Issue new shares		December 31, 2002	
	RMB	%	RMB		RMB	%
Shares not listed for public dealings						
Subscriber shares						
– State legal person shares	<u>1,670,000,000</u>	<u>58.19</u>	<u>–</u>		<u>1,670,000,000</u>	<u>64.23</u>
Shares listed for public dealings						
Ordinary shares listed on a domestic stock exchange (A shares)	<u>180,000,000</u>	<u>6.27</u>	<u>100,000,000</u>		<u>80,000,000</u>	<u>3.08</u>
Ordinary shares listed on overseas stock exchange (H shares)	<u>1,020,000,000</u>	<u>35.54</u>	<u>170,000,000</u>		<u>850,000,000</u>	<u>32.69</u>
Total shares listed for public dealings	<u>1,200,000,000</u>	<u>41.81</u>	<u>270,000,000</u>		<u>930,000,000</u>	<u>35.77</u>
Total share capital	<u>2,870,000,000</u>	<u>100.00</u>	<u>270,000,000</u>		<u>2,600,000,000</u>	<u>100.00</u>

Each share has a par value of RMB 1. The share capital has been verified by Deloitte Touche Tohmatsu CPA (formerly known as Deloitte Touche Tohmatsu Shanghai CPA) on capital verification report Deshibao (Yan)zi No. 588, capital verification Deshibao (Yan)zi (98) No. 439, capital verification Deshibao (Yan)zi (01) No. 006 and capital verification Deshibao (Yan)zi (01) No.040.

31. CAPITAL RESERVES

Changes in capital reserves from January 1, 2002 to December 31, 2002 are as follows:

	Share premium	Transfer from Wei Jian Fei (Note)	Total
	RMB	RMB	RMB
At January 1, 2002	3,549,258,855	674,652,539	4,223,911,394
Addition	<u>–</u>	<u>230,609,946</u>	<u>230,609,946</u>
At December 31, 2002	<u>3,549,258,855</u>	<u>905,262,485</u>	<u>4,454,521,340</u>

31. CAPITAL RESERVES (Continued)

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

	Share premium RMB	Transfer from Wei Jian Fei (Note) RMB	Total RMB
Balance at January 1, 2001 (As previously reported)	2,364,454,980	161,773,949	2,526,228,929
Prior year adjustment (note 2)	–	308,744,406	308,744,406
Balance at January 1, 2001 (As restated)	<u>2,364,454,980</u>	<u>470,518,355</u>	<u>2,834,973,335</u>
Addition (As previously reported)	1,184,803,875	–	1,184,803,875
Adjustment on addition (note 2)	–	204,134,184	204,134,184
Addition (As restated)	<u>1,184,803,875</u>	<u>204,134,184</u>	<u>1,388,938,059</u>
Balance at December 31, 2001 (As previously reported)	<u>3,549,258,855</u>	<u>161,773,949</u>	<u>3,711,032,804</u>
Balance at December 31, 2001 (As restated)	<u><u>3,549,258,855</u></u>	<u><u>674,652,539</u></u>	<u><u>4,223,911,394</u></u>

Note: As stated in note 2, the Company should accrue at RMB6 per tonne of raw coal mined every year as Wei Jian Fei, which is recorded in cost of sales and capital reserves.

Pursuant to relevant regulations, this capital reserve can only be used for the future development of the coal mining business.

32. SURPLUS RESERVES

Changes in surplus reserves from January 1, 2002 to December 31, 2002 are as follows:

	Statutory, common reserve fund RMB	Statutory common welfare fund RMB	Total RMB
At January 1, 2002	287,808,101	143,904,051	431,712,152
Additions	<u>100,393,485</u>	<u>50,237,710</u>	<u>150,631,195</u>
At December 31, 2002	<u><u>388,201,586</u></u>	<u><u>194,141,761</u></u>	<u><u>582,343,347</u></u>

32. SURPLUS RESERVES (Continued)

Changes in surplus reserves from January 1, 2001 to December 31, 2001 are as follows:

	Statutory, common reserve fund RMB	Statutory common welfare fund RMB	Total RMB
Balance at January 1, 2001 (As previously reported)	239,057,215	119,528,609	358,585,824
Prior year adjustment (note 2)	<u>(30,874,441)</u>	<u>(15,437,220)</u>	<u>(46,311,661)</u>
Balance at January 1, 2001 (As restated)	<u>208,182,774</u>	<u>104,091,389</u>	<u>312,274,163</u>
Addition (As previously reported)	100,038,745	50,019,371	150,058,116
Adjustment on addition (note 2)	<u>(20,413,418)</u>	<u>(10,206,709)</u>	<u>(30,620,127)</u>
Addition (As restated)	<u>79,625,327</u>	<u>39,812,662</u>	<u>119,437,989</u>
Balance at December 31, 2001 (As previously reported)	<u>339,095,960</u>	<u>169,547,980</u>	<u>508,643,940</u>
Balance at December 31, 2001 (As restated)	<u><u>287,808,101</u></u>	<u><u>143,904,051</u></u>	<u><u>431,712,152</u></u>

Note: 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 common welfare fund can be used for the welfare of the staff and workers of the Company.

33. UNAPPROPRIATED PROFITS

	December 31, 2002 RMB	December 31, 2001 RMB
Unappropriated profits at the beginning of the year (As previously reported)	1,633,650,835	1,070,321,502
Less: Retrospective adjustment for changes in accounting treatment of Wei Jian Fei (Note 2)	<u>435,946,802</u>	<u>262,432,745</u>
Unappropriated profits at the beginning of the year (As restated)	<u>1,197,704,033</u>	<u>807,888,757</u>
Add: Net income for the year (As previously reported)	1,003,115,498	1,000,387,449
Less: Retrospective adjustment for changes in accounting treatment of Wei Jian Fei (Note 2)	<u>–</u>	<u>204,134,184</u>
Net income for the year (As restated)	<u>1,003,115,498</u>	<u>796,253,265</u>
Less: Appropriations to statutory common reserve fund (As restated) (Note i)	100,311,550	79,625,327
Appropriations to statutory common welfare fund (As restated) (Note ii)	50,155,775	39,812,662
Appropriations to statutory common reserve fund of the subsidiary (Note iii)	81,935	–
Appropriations to statutory common welfare fund of the subsidiary (Note iii)	81,935	–
Proposed dividend (Note iv)	<u>298,480,000</u>	<u>287,000,000</u>
Unappropriated profits at the end of the year	<u><u>1,751,708,336</u></u>	<u><u>1,197,704,033</u></u>

33. UNAPPROPRIATED PROFITS (Continued)

Notes (i) Appropriations to statutory common reserve fund

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

Such appropriations can be ceased when the accumulated amount of the fund reaches 50% of the Company's registered capital.

Notes (ii) Appropriations 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 common welfare fund.

Note (iii) Appropriations to statutory common reserve fund and statutory common welfare fund of the subsidiary

Statutory common reserve fund and statutory common welfare fund of the subsidiary are appropriated on the preparation of consolidation financial statement.

Note (iv) Proposed dividend

Pursuant to relevant regulations, companies that issue H shares should appropriate dividend proposed based on profit available for appropriation listed on the audited financial statements prepared under accounting standards in the People's Republic of China or International Financial Reporting Standards ("IFRS"), whichever is the lesser.

According to the minute of directors dated April 11, 2003, proposed dividend for year 2002 is RMB 1.04 per ten shares, based on the total issued shares of 2,870,000,000 (each share with a par value of RMB 1). The declaration and payment of the final dividend need to be approved by the shareholders' meeting of the Company.

34. REVENUE FROM MAJOR OPERATIONS

	2002 RMB	2001 RMB
Revenue from domestic sales of coal products	4,008,864,774	3,133,402,455
Revenue from export sales of coal products	3,899,061,202	3,335,950,500
Revenue from railway transportation services	147,332,930	—
	<u>8,055,258,906</u>	<u>6,469,352,955</u>
Total amount of the 5 largest customers RMB		Percentage in total revenue %
		19

The Company exports its coal through China National Coal Industry Import and Export Corporation, China National Minerals Import and Export Co., Ltd and Shanxi Coal Import and Export Group Corp. Currently, the Company does not have direct export rights, and has to export coals through import and export companies. The final decision on customer selection of the Company's export sales is jointly determined by the Company and the above-mentioned import and export companies. Therefore the amounts of sales made through these import and export companies are excluded from sales of the 5 largest customers, all of whom are domestic customers.

35. COST OF MAJOR OPERATIONS

	2002 RMB	2001 RMB
Cost of sales of coal products	3,540,520,892	3,016,717,921
Cost of the railway transportation services	<u>52,990,246</u>	<u>—</u>
	<u><u>3,593,511,138</u></u>	<u><u>3,016,717,921</u></u>

Analysis of cost of sales of coal products is as follows:

Materials	744,556,976	643,664,001
Wages	663,219,828	501,922,677
Employee benefits	82,970,676	70,279,150
Electricity	275,828,859	218,579,179
Depreciation	794,423,499	784,477,818
Land subsidence, restoration, rehabilitation and environmental costs	232,030,188	210,938,657
Repairs	340,633,532	276,790,599
Others	<u>176,247,388</u>	<u>105,931,656</u>
Subtotal	<u>3,309,910,946</u>	<u>2,812,583,737</u>
Wei Jian Fei	<u>230,609,946</u>	<u>204,134,184</u>
Total	<u><u>3,540,520,892</u></u>	<u><u>3,016,717,921</u></u>

36. SALES TAXES AND SURCHARGES

	2002 RMB	2001 RMB
Business tax	4,419,988	—
City construction tax	63,914,620	41,546,945
Education fee	27,426,892	17,805,834
Resource tax	<u>44,711,641</u>	<u>40,351,262</u>
	<u><u>140,473,141</u></u>	<u><u>99,704,041</u></u>

37. PROFIT FROM OTHER OPERATIONS

	2002 RMB	2001 RMB
Sales of raw materials		
– Sales	521,801,637	393,135,657
– Cost of sales	<u>500,524,833</u>	<u>374,168,548</u>
	<u>21,276,804</u>	<u>18,967,109</u>
Others		
– Income	62,888,946	37,654,873
– Cost	<u>54,012,529</u>	<u>30,138,653</u>
	<u>8,876,417</u>	<u>7,516,220</u>
	<u><u>30,153,221</u></u>	<u><u>26,483,329</u></u>

38. OPERATING EXPENSES

	2002 RMB	2001 RMB
Selling expense of domestic sales		
of coal products	525,997,969	415,120,973
Selling expense of export sales of coal products	1,032,416,088	1,078,518,000
Others	<u>89,033,211</u>	<u>57,970,396</u>
	<u><u>1,647,447,268</u></u>	<u><u>1,551,609,369</u></u>

39. FINANCIAL EXPENSES

	2002 RMB	2001 RMB
Interest expenses	75,737,500	1,923,500
Less: interest income	28,736,909	39,863,039
Others	<u>2,560,585</u>	<u>3,106,274</u>
	<u><u>49,561,176</u></u>	<u><u>(34,833,265)</u></u>

40. INVESTMENT INCOME

	2002 RMB	2001 RMB
Gain on debt investment	<u>3,687,968</u>	<u>–</u>

41. SUBSIDY INCOME

The amount represents subsidies granted to the Company on its export sales which were received during the year.

42. NON-OPERATING INCOME

	2002 RMB	2001 RMB
Gain on disposal of fixed assets	8,203,377	7,446,513
Others	<u>370,389</u>	<u>433,693</u>
	<u>8,573,766</u>	<u>7,880,206</u>

43. NON-OPERATING EXPENSES

	2002 RMB	2001 RMB
Loss on disposal of fixed assets	9,296,739	13,258,082
Donations	528,060	457,186
Fines	2,933,795	758,420
Others	<u>9,085,587</u>	<u>2,338,375</u>
	<u>21,844,181</u>	<u>16,812,063</u>

44. INCOME TAXES

	2002 RMB	2001 RMB
Income taxes of the Company	523,566,759	391,487,645
Income taxes of the subsidiary	<u>967,462</u>	<u>–</u>
	<u>524,534,221</u>	<u>391,487,645</u>

45. OTHER CASH RECEIVED RELATING TO OPERATING ACTIVITIES

	2002 RMB
Other operating income	584,690,583
Interest income	28,736,909
Others	482,241,636
Total	<u>1,095,669,128</u>

46. OTHER CASH PAID RELATING TO OPERATING ACTIVITIES

	2002 RMB
Amounts paid in cash for operating expenses and administrative expenses	2,094,624,554
Other operating expenses	554,537,362
Others	15,108,027
Total	<u>2,664,269,943</u>

47. CASH PAID FOR ACQUISITION OF RAILWAY ASSETS

	RMB
Bank balances and cash	141,575
Accounts receivable	4,585,587
Other receivables	132,632,303
Inventories	5,461,299
Fixed assets	877,379,752
Intangible assets (Land use right)	259,378,500
Accounts payable	(30,857,417)
Other payables	(6,135,684)
Total net assets (See note 50(5)(b))	<u>1,242,585,915</u>
Consideration paid on acquisition (See note 50(5)(b))	1,242,585,915
Additional cash paid for acquisition of Railway Assets	40,000,000
Less: Bank balances and cash acquired	(141,575)
Net cash paid for acquisition of Railway Assets	<u>1,282,444,340</u>

The above consideration has been paid to Yankuang Group in the current year.

48. CASH AND CASH EQUIVALENTS

	December 31, 2002 RMB	December 31, 2001 RMB
Bank balances and cash	1,595,933,728	1,154,806,342
Less: Restricted cash (Note)	<u>51,760,596</u>	<u>30,000,000</u>
	<u>1,544,173,132</u>	<u>1,124,806,342</u>

Note: At the balance sheet date, the amount represented the bank deposits pledged to certain banks to secure bank acceptance bills and letters of credit.

49. SEGMENT INFORMATION

Item	Coal Mining Business 2002	Railway Transportation Business 2002	Inter-segment elimination 2002	Unallocated Items 2002	Total 2002
1. Operating Revenue					
External	7,907,925,976	147,332,930	-	-	8,055,258,906
Inter-segment	-	386,823,130	(386,823,130)	-	-
Total	<u>7,907,925,976</u>	<u>534,156,060</u>	<u>(386,823,130)</u>	<u>-</u>	<u>8,055,258,906</u>
2. Cost Of Sales					
External	3,540,520,892	52,990,246	-	-	3,593,511,138
Inter-segment	-	139,126,078	(139,126,078)	-	-
Total	<u>3,540,520,892</u>	<u>192,116,324</u>	<u>(139,126,078)</u>	<u>-</u>	<u>3,593,511,138</u>
3. Total Operating Expenses	<u>2,842,401,049</u>	<u>70,548,063</u>	<u>(247,697,052)</u>	<u>276,355,774</u>	<u>2,941,607,834</u>
4. Total Operating Profit	<u>1,525,004,035</u>	<u>271,491,673</u>	<u>-</u>	<u>(276,355,774)</u>	<u>1,520,139,934</u>
5. Total Assets	<u>9,969,328,750</u>	<u>1,162,372,071</u>	<u>-</u>	<u>1,851,847,542</u>	<u>12,983,548,363</u>
6. Total Liabilities	<u>1,380,691,443</u>	<u>55,999,440</u>	<u>-</u>	<u>1,883,348,008</u>	<u>3,320,038,891</u>

50. SIGNIFICANT RELATED PARTY TRANSACTIONS

- (1) The followings are related parties where a control relationship exists:

Name of related parties	Registration address	Major business	Relationship	Quality Status	Representative
Yankuang Group	40 Fu Shan Road Zoucheng City, Shandong	Industry Processing	Major shareholder	State-owned	Zhao Jing Che
Zhongyan Trade	No.1 Industrial Zone, Qingdao Free Trade Zone	International Trade	Subsidiary	Limited	Shao Hua Zhen

- (2) For the related parties where a control relationship exists, the registered capital and the changes therein are as follows:

	December 31, 2001 and 2002 RMB
Yankuang Group	<u>3,090,336,000</u>
Zhongyan Trade	<u>2,100,000</u>

- (3) For the related parties where a control relationship exists, the proportion and changes of equity interest are as follows:

	December 31, 2001 and 2002	
	RMB	%
Yankuang Group	1,670,000,000	58.19
Zhongyan Trade	1,000,000	52.38

- (4) Nature of relationship with related parties where a control relationship does not exist:

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

50. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

(a) The transactions between the Company and the subsidiary which the Company can exercise control over and whose financial statements are included in the consolidated financial statements were eliminated.

(b) Acquisition of railway transportation business

On January 1, 2002, the Company acquired from Yankuang Group the assets of the special purpose coal railway transportation business ("Railway Assets") at the consideration of approximately RMB1,242,590,000 according to "Railway Assets Acquisition Agreement" signed with Yankuang Group. When the Railway Assets' actual capacity reaches the targets quoted in the agreement, the additional payment would be 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 RMB40,000,000;
- 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 RMB40,000,000;
- 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 RMB40,000,000.

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

- 1) The amount of RMB1,159,560,000 has been paid by the Company to Yankuang Group at acquisition date;
- 2) The remaining balance of RMB83,030,000 has been paid before June 30, 2002;
- 3) The amount of RMB40,000,000 as mentioned in term A should be paid before June 30, 2003;
- 4) The amount of RMB40,000,000 as mentioned in term B should be paid before June 30, 2004;
- 5) The amount of RMB40,000,000 as mentioned in term C should be paid before June 30, 2005.

By December 31, 2002, the Company had paid off the above consideration of RMB1,242,590,000. In addition, the Railway Assets' actual capacity has reached approximately 27,000,000 tonnes for the year ended December 31, 2002 and an extra RMB40,000,000 was paid to Yankuang Group according to the agreement above-mentioned.

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

50. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

(c) Acquisition of Jining III

On January 1, 2001, the Company acquired Jinjing III according to the "Agreement for Acquisition of Jining III" signed with Yankuang Group at the consideration of RMB2,450,900,000 and mining rights of RMB132,480,000, totally RMB2,583,380,000.

By the end of December 31, 2002, the Company had paid RMB2,477,396,000 to Yankuang Group for the above acquisition including the consideration of RMB2,450,900,000 and the mining rights of RMB26,496,000. The payment made during this year is RMB636,633,000 including the consideration of RMB623,385,000 and the mining rights of RMB13,248,000.

According to the agreement, the Company will pay the interest-free consideration for the cost of mining rights over ten years by equal instalments before December 31 of each year commencing from year 2001. The Company should pay the mining rights of RMB13,248,000 as the third instalment before December 31, 2003.

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

(d) Sales and purchases

	2002 RMB'000	2001 RMB'000
SALES AND SERVICE PROVIDED		
Sales of coal – Zoucheng Nanmei Shipping Co., Ltd.	37,693	35,440
– Yankuang Group	<u>110,403</u>	<u>73,675</u>
Subtotal	<u>148,096</u>	<u>109,115</u>
Railway transportation services income		
– Yankuang Group	496	–
Public utilities and facilities income		
– Yankuang Group	5,000	5,810
Gain on sales of material and spare parts		
– Yankuang Group	<u>12,385</u>	<u>11,586</u>
	<u>165,977</u>	<u>126,511</u>
PURCHASES		
Yankuang Group	<u>409,117</u>	<u>143,213</u>

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

50. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

(e) Amount due to or from related parties

Account	Company	December 31, 2002 RMB	December 31, 2001 RMB
Accounts receivable	Yankuang Group	10,491,800	12,416,512
Other receivables	Yankuang Group	54,484,900	160,504,483
Prepayments	Yankuang Group	<u>12,125,593</u>	<u>26,547,580</u>
		<u>77,102,293</u>	<u>199,468,575</u>
Notes payable	Yankuang Group	7,020,000	160,000,000
Accounts payable	Yankuang Group	55,433,118	33,456,343
Advance from customers	Yankuang Group	15,355,725	—
Other payables	Yankuang Group	262,964,418	29,308,749
Long-term payable due within one year	Yankuang Group	13,247,800	636,633,816
Long-term payables	Yankuang Group	<u>92,735,160</u>	<u>105,983,040</u>
		<u>446,756,221</u>	<u>965,381,948</u>

50. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

(f) 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 to the government department in charge of the related funds. Amount included as expenses of the Company for the year ended December 31, 2002 and 2001 are RMB437,677,000 and RMB347,145,000 respectively.
- (2) Pursuant to an agreement signed by the Company and Yankuang Group, the department and subsidiary of Yankuang Group provided the following services and charged related service fees during the year:

	2002 RMB'000	2001 RMB'000
Repairs and maintenance	239,297	207,550
Technical support and training fee	15,130	15,130
Mining rights fees	12,980	12,980
Public utilities expenses	1,350	600
Road transportation fee	33,208	6,302
Gases and eructate expenses	11,970	11,020
Buildings management fee	37,200	30,970
Children tuition fee	16,600	13,320
Railway transportation fee	–	248,876
Others	17,330	14,230
Total	<u>385,065</u>	<u>560,978</u>

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, welfare and subsidies paid in the form of cash, goods and others, for the year ended December 31, 2002 and 2001 are RMB1,918,814 and RMB1,341,265, respectively.
- (4) During the year 2002 and 2001, the Company and Yankuang Group have made payments or collected receipts to or from individual third party or government authorities on behalf of each other, in respect of goods purchased, services received and other expenses. These payments and receipts made on behalf of the other have been recorded in other payables.

51. NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Long-term equity investments – The Company

	December 31, 2002			December 31, 2001		
	Investment amount	Provision	Net book value	Investment amount	Provision	Net book value
	RMB	RMB	RMB	RMB	RMB	RMB
Investment in subsidiary	4,774,406	–	4,774,406	2,709,903	–	2,709,903
Investment in other equity	31,897,684	–	31,897,684	1,760,419	–	1,760,419
	<u>36,672,090</u>	<u>–</u>	<u>36,672,090</u>	<u>4,470,322</u>	<u>–</u>	<u>4,470,322</u>

(a) Details of investments on subsidiary are as follows:

	Investment amount January 1 and December 31, 2002 RMB	Profit and loss adjustment		December 31, 2002 RMB	Net book value		
		January 1, 2002 RMB	Addition of equity RMB		January 1, 2002 RMB	December 31, 2002 RMB	
			Cash dividend of this year RMB				
Zhangyan Trade	<u>2,709,903</u>	<u>–</u>	<u>3,371,130</u>	<u>(1,306,627)</u>	<u>2,064,503</u>	<u>2,709,903</u>	<u>4,774,406</u>

(b) Details of other equity investments see note 16.

(2) Investment profit – The Company

	2002 RMB	2001 RMB
Short-term investment income:		
Gain on debt investment	3,687,968	–
Long-term investment income:		
Share of investee's profit recognized under equity method	<u>3,371,130</u>	–
	<u>7,059,098</u>	<u>–</u>

51. NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

(3) Cash and cash equivalents – The Company

	December 31, 2002 RMB	December 31, 2001 RMB
Bank balance and cash	1,592,397,958	1,150,155,924
Less: Restricted cash (Note)	<u>51,760,596</u>	<u>30,000,000</u>
	<u>1,540,637,362</u>	<u>1,120,155,924</u>

Note: At the balance sheet date, the amount represented the bank deposits pledged to certain banks to secure bank acceptance bills and letters of credit.

52. CAPITAL COMMITMENTS

	December 31, 2002 RMB'000	December 31, 2001 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– Purchase of assets	257,382	63,986
– Investments (See note 16)	<u>30,137</u>	<u>–</u>
	<u>287,519</u>	<u>63,986</u>

53. SUBSEQUENT EVENTS

To improve the capacity of coal transportation and release the pressure of railway transportation, according to the approval of Board of Directors' meeting dated April 11, 2003, the Company will build the Sihekou Coal Harbour in Nanyang Lake near Jining III to take advantage of transportation of domestic waterways connected with Jinghang Canal. The approved budget of the harbour project amounts to RMB 250,000,000.