# YANZHOU COAL MINING COMPANY LIMITED
# INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

Dear shareholders,

The Board of Directors of Yanzhou Coal Mining Company Limited (the "Company") is pleased to present the Company's unaudited interim operating results for the six months ended 30th June, 2003, which have been reviewed by the Audit Committee of the Company.

In the first half of 2003, net sales of the Company were RMB3,504.6 million, representing an increase of RMB508 million or 17.0% over the same period last year. Net income was RMB738 million, representing an increase of RMB41.579 million or 6.0% as compared to the same period last year. Raw coal production was 21.84 million tonnes, an increase of 2.54 million tonnes or 13.2% as compared to the same period last year. Coal sales were 19.98 million tonnes, representing an increase of 3.8 million tonnes or 23.5% over the same period last year. Coal deliveries made by the special purpose coal transportation railway assets (the "Railway Assets") were 13.86 million tonnes, representing an increase of 0.79 million tonnes or 6.0% over the same period last year.

## SUMMARY OF UNAUDITED FINANCIAL INFORMATION

(prepared in accordance with International Financial Reporting Standards ("IFRS"))

| | For the six months ended 30th June | | | Year ended 31st December |
|---|---|---|---|---|
| | **2003 (RMB'000) (unaudited)** | 2002 (RMB'000) (unaudited) | % change as compared to same period last year (+/–) | 2002 (RMB'000) (audited) |
| Net sales | | | | |
| Coal net sales | **3,428,625** | 2,928,609 | 17.1 | 6,213,901 |
| Domestic | **2,181,385** | 1,583,981 | 37.7 | 3,413,955 |
| Export | **1,247,240** | 1,344,628 | -7.2 | 2,799,946 |
| Railway transportation service income | **75,989** | 67,991 | 11.8 | 142,471 |
| Total net sales | **3,504,614** | 2,996,600 | 17.0 | 6,356,372 |
| Gross profit | **1,635,706** | 1,539,770 | 6.2 | 2,993,471 |
| Operating income | **1,057,027** | 1,048,859 | 0.8 | 1,866,141 |
| Interest expenses | **(37,971)** | (63,988) | -40.7 | (117,929) |
| Income before income taxes | **1,019,056** | 984,871 | 3.5 | 1,748,212 |
| Net income | **737,966** | 696,387 | 6.0 | 1,221,999 |
| Net cash from operating activities | **831,369** | 1,028,784 | -19.2 | 2,239,712 |
| Earnings per share (RMB/share) | **0.257** | 0.243 | 6.0 | 0.426 |

| | As at 30th June 2003 (RMB'000) (unaudited) | 2002 (RMB'000) (unaudited) | As at 31st December 2002 (RMB'000) (audited) |
|---|---|---|---|
| Current assets | 3,935,471 | 3,723,716 | 3,820,163 |
| Current liabilities | 1,676,447 | 1,679,491 | 1,662,734 |
| Total assets | 12,776,306 | 12,425,814 | 12,924,045 |
| Shareholder's equity | 10,434,519 | 9,469,421 | 9,995,033 |
| Return on net assets (%) | 7.07 | 7.35 | 12.23 |
| Net asset value per share (RMB/share) | 3.64 | 3.30 | 3.48 |

## REVIEW OF OPERATIONS

The following discussion is based on the Company's unaudited financial results for the first half of 2003 and 2002 respectively, which were prepared in accordance with IFRS.

### Coal Production

The Company continued to carry out measures to increase its production capacity in the first half of 2003. This has led to a steady increase in coal output. Raw coal production increased 2.54 million tonnes, or 13.2%, to 21.84 million tonnes for the first six months of 2003 as compared to the same period in 2002. The increase in coal output was mainly due to: 1. an increase of 1.99 million tonnes or 31.8% in raw coal output of Jining III coal mine; and 2. an increase of 1.35 million tonnes or 8.7% in raw coal output of the Company's five other coal mines . In the first half of 2003, salable coal production was 20.30 million tonnes, representing an increase of 2.17 million tonnes or 12.0% as compared to the same period last year.

### Coal Sales

The Company implemented the operating strategies of "increasing sales volume, stabilizing export volume" to increase sales volume of the high-priced and high quality clean coal in the first half of 2003. As a result, sales volume increased 3.80 million tonnes, or 23.5%, to 19.98 million tonnes as compared to the same period last year. Sales to the domestic market were 13.12 million tonnes, representing an increase of 3.68 million tonnes, or 39.0%, as compared to the same period of last year. The sales increase in the domestic market was attributable to the increase in sales of No.2 clean coal, No.3 clean coal, raw coal, blended coal and other types of coal by 0.23 million tonnes, 0.54 million tonnes, 1.52 million tonnes and 1.39 million tonnes respectively over the same period last year. Sales to the export market was 6.86 million tonnes, indicating an increase of 0.12 million tonnes, or 1.7%, as compared to the same period last year. Increase in export sales was mainly due to the increase in sales of No. 2 clean coal by 0.90 million tonnes despite a reduction in the sales of No.3 clean coal by 0.78 million tonnes.

## Coal Sales Prices

The following table sets out the selling prices of the Company's products for the six months ended 30th June 2003, 30th June 2002, and 31st December 2002 respectively; and in 2002:

(prepared in accordance with IFRS)

| | For the six months ended 30th June, 2003 | 2002 | For the six months ended 31st December, 2002 | For the year ended 31st December, 2002 |
|---|---|---|---|---|
| | Average price of coal products (RMB per tonne) | | | |
| Clean Coal | | | | |
| No.1 Clean Coal | 245.9 | 237.6 | 236.0 | 237.0 |
| No.2 Clean Coal | 191.5 | 207.7 | 202.6 | 204.7 |
| Domestic | 234.9 | 249.2 | 217.2 | 232.0 |
| Exports | 187.1 | 206.0 | 202.1 | 203.7 |
| No.3 Clean Coal | 179.8 | 192.5 | 179.5 | 186.0 |
| Domestic | 184.1 | 184.6 | 184.1 | 184.4 |
| Exports | 176.9 | 195.7 | 177.4 | 186.7 |
| Subtotal for Clean Coal | 185.9 | 198.1 | 188.7 | 193.1 |
| Domestic | 195.3 | 194.1 | 189.6 | 191.8 |
| Exports | 181.8 | 199.4 | 188.5 | 193.6 |
| Screened Raw Coal | 176.4 | 176.2 | 174.5 | 175.3 |
| blended Coal and others | 110.8 | 96.7 | 102.5 | 100.1 |
| Average | 171.6 | 181.0 | 174.1 | 177.3 |
| Average: domestic | 166.3 | 167.9 | 164.2 | 165.9 |

Notes:1. The average price of coal products is the invoice price minus sales taxes, transportation cost from the Company to the ports, port charges and various miscellaneous fees.

2. The historic average price per tonne of the same type of products for the six months ended 31st December, 2002 was calculated based on the following formula:

$$\frac{\text{(Net sales of the same type of products for the year ended 31st December, 2002) less (net sales of the same type of products for the six months ended 30th June, 2002)}}{\text{(Sales volume of the same type of products for the year ended 31st December, 2002) less (sales volume of the same type of products for the six months ended 30th June, 2002)}}$$

3. Information relating to the net sales and sales volume for the six months ended 30th June, 2002 and for the year ended 31st December, 2002 were set out in the Company's 2002 interim report and 2002 annual report, respectively.

The Company's average coal price for the first six months of 2003 was RMB171.60/tonne, representing a decrease of 5.2% or RMB9.40/tonne as compared to the same period last year. Average domestic coal price decreased 1.0% while average export coal price decreased 8.8%.

Decrease in average coal price was caused by: 1) significant increase in domestic sales of lower-priced raw coal, blended coal and other types of coal; and 2) the Company's export coal price in the first quarter was based on the lower contract price of the preceding year. As a result, rate of decrease in export coal price in the first quarter of 2003 was fairy higher than the same period last year.

### Net Sales of Coal

Net sales of coal increased RMB500 million, or 17.1%, to RMB3,428.6 million in the first half of 2003 as compared to the same period last year. Among which, net domestic sales increased RMB597.4 million, or 37.7%, to RMB2,181.4 million while net export sales decreased RMB97.388 million, or 7.2%, to RMB1,247.2 million, as compared to the same period in 2002.

The following table sets out the sales volume and net sales in coal by product category for the six months ended 30th June, 2003 and 2002 respectively:

(prepared in accordance with IFRS)

| | For the six months ended 30th June, 2003 (unaudited) | | | For the six months ended 30th June, 2002 (unaudited) | | |
|---|---|---|---|---|---|---|
| | Sales volume '000 tonnes | Net sales RMB'000 | % of total net sales (%) | Sales volume '000 tonnes | Net sales RMB'000 | % of total net sales (%) |
| Clean Coal | | | | | | |
| No.1 Clean Coal | 257.7 | 63,366 | 1.8 | 258.1 | 61,322 | 2.1 |
| No.2 Clean Coal | 3,634.8 | 695,996 | 20.3 | 2,504.1 | 520,186 | 17.7 |
| Domestic | 334.1 | 78,461 | 2.3 | 103.1 | 25,699 | 0.8 |
| Exports | 3,300.7 | 617,535 | 18.0 | 2,401.0 | 494,487 | 16.9 |
| No.3 Clean Coal | 5,891.2 | 1,058,955 | 30.9 | 6,129.5 | 1,179,900 | 40.3 |
| Domestic | 2,331.8 | 429,250 | 12.5 | 1,786.4 | 329,759 | 11.3 |
| Exports | 3,559.4 | 629,705 | 18.4 | 4,343.1 | 850,141 | 29.0 |
| Subtotal of Clean Coal | 9,783.7 | 1,818,317 | 53.0 | 8,891.7 | 1,761,408 | 60.1 |
| Domestic | 2,923.6 | 571,077 | 16.6 | 2,147.6 | 416,780 | 14.2 |
| Exports | 6,860.1 | 1,247,240 | 36.4 | 6,744.1 | 1,344,628 | 45.9 |
| Screened Raw Coal | 7,331.8 | 1,293,075 | 37.7 | 5,814.8 | 1,024,717 | 35.0 |
| Blended Coal and others | 2,864.2 | 317,233 | 9.3 | 1,473.6 | 142,484 | 4.9 |
| Total | 19,979.7 | 3,428,625 | 100.0 | 16,180.1 | 2,928,609 | 100.0 |
| Total: domestic | 13,119.6 | 2,181,385 | 63.6 | 9,436.0 | 1,583,981 | 54.1 |

### Railway Assets

Coal deliveries made by Railway Assets in the first half of 2003 were 13.86 million tonnes, representing an increase of 0.79 million, or 6.0%, as compared to the same period last year. Railway transportation service income for the first six months of 2003 was RMB75.989 million, representing an increase of RMB7.998 million , or 11.8%, over the same period last year.

**Cost and Expenses**

The following table sets out the Company's principal operating expenses, which are also expressed as percentages of total net sales, for each of the six months ended 30th June, 2003 and 2002 respectively:

| | Six months ended 30th June, | | | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | (RMB'000) (unaudited) | | (% of total net sales) (unaudited) | |
| Net sales | | | | |
| Net sales of coal | 3,428,625 | 2,928,609 | 97.8 | 97.7 |
| Railway transportation service income | 75,989 | 67,991 | 2.2 | 2.3 |
| Total net sales | 3,504,614 | 2,996,600 | 100.0 | 100.0 |
| Cost of goods sold and railway transportation service | | | | |
| Materials | 446,973 | 338,784 | 12.8 | 11.3 |
| Wages and employee benefits | 429,853 | 312,262 | 12.3 | 10.4 |
| Electricity | 141,058 | 115,125 | 4.0 | 3.9 |
| Depreciation | 434,622 | 380,646 | 12.4 | 12.7 |
| Repairs and maintenance | 154,926 | 131,892 | 4.4 | 4.4 |
| Land subsidence | 131,473 | 104,972 | 3.7 | 3.5 |
| Mining rights expenses | 9,802 | 9,802 | 0.3 | 0.3 |
| Other transportation fees | 26,037 | 17,864 | 0.7 | 0.6 |
| Other manufacturing costs | 94,164 | 45,483 | 2.7 | 1.5 |
| Total cost of goods sold and railway transportation service | 1,868,908 | 1,456,830 | 53.3 | 48.6 |
| Selling, general and administration expenses | 636,167 | 533,334 | 18.2 | 17.8 |
| Total operating expenses | 2,505,075 | 1,990,164 | 71.5 | 66.4 |

Total operating expenses for the first six months of 2003 increased RMB514.9 million, or 25.9%, to RMB2,505.1 million as compared to the same period last year. Among which, cost of goods sold and railway transportation service increased 28.3% while selling, general and administration expenses increased 19.3%.

## MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis are based on the Company's unaudited interim financial report of 2003 and 2002 respectively. These financial reports have been prepared in accordance with IFRS. In respect of the differences between IFRS and accounting principles generally accepted in the United States of America (the "US GAAP"), please refer to note 39 to the financial information prepared in accordance with IFRS.

In the first half of 2003, net sales of the Company increased RMB508 million, or 17.0%, to RMB3,504.6 million from RMB2,996.6 million over the same period in 2002, among which, (1) net sales of coal were RMB3,428.6 million, representing an increase of RMB500 million, or 17.1%, as compared to RMB2,928.6 million of the same period in 2002. The increase was the result of an offset between an increase of RMB687.7 million attributable to increase in sales volume and a decrease of RMB187.7 million attributable to lower coal price; and (2) income generated from railway transportation service increased by RMB7.998 million or 11.8% to RMB75.989 million from RMB67.991 million of the same period last year due to the increase in the volume of coal deliveries made by the Railway Assets where transportation expenses were calculated on ex-mine basis and were borne by the customers.

Cost of goods sold and railway transportation service increased RMB412.1 million, or 28.3%, to RMB1,868.9 million for the first six months of 2003, as compared to RMB1,456.8 million for the same period of 2002. This was mainly due to the increase in coal production, wages and employee benefits. Cost of sales per tonne increased by RMB3.36 or 3.8% to RMB91.86 from RMB88.5 of the same period last year. The increase was attributable to the following: (1) Starting from 2002, the Company paid an additional housing allowance to the employees at a percentage of their wages. In the first half of 2003, housing allowance was recorded at RMB 57.04 million, resulting in an increase of RMB2.85 in cost of sales per tonne;(2) the Company invested additional RMB15 million on improving safety production facilities at coal mining sites, resulting in an increase of RMB0.75 in cost of sales per tonne; and (3) increased production efficiency and effective costs control under a strengthened management system partially offset the impact to the Company of the above-mentioned increases in cost of sales.

Selling, general and administration expenses ("SG&A") were RMB636.2 million in the first half of 2003, representing an increase of RMB102.9 million, or 19.3%, from RMB533.3 million of the same period last year. The increase in SG&A was mainly due to: (1) an increase in labor insurance of RMB18.191 million; (2) an increase in coal resource compensation fees of RMB20.761 million; (3) an increase in R&D expenses of RMB36.037 million; (4) an increase in supplementary medical insurance of RMB14.234 million; and (5) an increase attributable to higher production output and increased sales volume.

The Company's operating income increased RMB8.168 million, or 0.8%, to RMB1,057 million for the first six months of 2003 as compared to RMB1,048.9 million for the same period last year.

Interest expenses of the Company decreased RMB26.017 million, or 40.7%, to RMB37.971 million for the first six months of 2003 from RMB63.988 million for the same period last year. This was primarily due to the decrease in deemed interest expenses.

Income before tax increased RMB34.185 million, or 3.5%, to RMB1,019.1 million for the first six months of 2003 as compared to RMB984.9 million for the same period last year.

Net income increased RMB41.579 million, or 6.0%, to RMB738 million for the first six months of 2003 from RMB696.4 million for the same period last year.

Total assets as at 30th June 2003 decreased RMB147.7 million, or 1.1%, to RMB12,776.3 million as compared to RMB12,924.0 million as at 31st December, 2002. The decrease was a result of an offset between an increase attributable to the operation activities and a decrease after partial repayment of its long-term bank loans.

Total liabilities as at 30th June, 2003 decreased RMB586.3 million, or 20.1%, to RMB2,337.8 million as compared to RMB2,924.1 million as at 31st December, 2002. The decrease in the total liabilities was a result of partial repayment of its long-term bank loans during the reporting period .

Shareholders' equity as at 30th June 2003 increased RMB439.5 million, or 4.4%, to RMB10,434.5 million from RMB9,995.0 million as at 31st December, 2002. This was principally attributable to the increase in the retained earnings of profits arising from the Company's operation activities.

## LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations was the Company's major source of capital during the first half of 2003. The Company's cash received for the period have been used primarily on operating activities expenditure, purchase of property, plants and equipment, payment of shareholders' dividends and partial repayment of long-term bank loans.

As at 30th June, 2003, the balance of bills and accounts receivable were RMB972.1 million, representing an increase of RMB169.2 million or 21.1% from RMB802.9 million as at 31st December, 2002. Out of the total receivables for the period, bills receivable accounted for RMB487.0 million, representing an increase of RMB247.0 million, or 102.9%, as compared to RMB240.0 million as at 31st December, 2002. Increase in bills receivable was primarily due to the increase in bank bills as a result of a substantial increase in coal sales volume. As at 30th June, 2003, accounts receivable decreased RMB77.908 million, or 13.8%, to RMB485.0 million from RMB563.0 million as at 31st December, 2002. The decrease was a result of the Company's strengthened efforts to collect its outstanding accounts receivables.

As at 30th June, 2003, inventories decreased RMB28.812 million, or 5.0%, to RMB 547.8 million from RMB576.6 million as at 31st December, 2002. Strengthened management and strict cost control effectively reduced the Company's inventories of auxiliary materials, spare parts and small tools.

Prepayment and other current assets as at 30th June 2003 decreased RMB18.621 million, or 2.5%, to RMB737.4 million as compared to RMB756.0 million as at 31st December, 2002.

Decrease in payables of materials and equipments has caused total bills and accounts payable as at 30th June 2003 to decrease RMB233.5 million, or 38.7%, to RMB369.2 million as compared to RMB602.7 million as at 31st December, 2002.

Other payables and accrued expenses increased RMB328.1 million, or 51.7%, to RMB962.9 million as at 30th June, 2003 from RMB634.8 million as at 31st December, 2002 as a result of an increase in accounts payable of dividends to shareholders and repairing expenses.

Long-term liabilities as at 30th June 2003 decreased RMB600.0 million, or 47.6%, to RMB661.3 million as compared to RMB1,261.3 million as at 31st December 2002 after an early partial repayment of some of its long-term bank loans.

In the first half of 2003, capital expenditure was RMB181.2 million. This was mainly used for the purchase of properties, machinery and equipment.

In the first half of 2003, the Company has paid RMB6.49 million to the Parent Company for the coal mining rights.

As at 30th June, 2003, the debt to equity ratio was 5.8%.

## TAXATION

The Company is subject to an income tax rate of 33% on its taxable profits for the reporting period.

## US GAAP RECONCILIATION

The Company's unaudited interim financial statements are prepared in accordance with IFRS, which differs in certain aspects from the US GAAP. In respect of these differences, please refer to note 39 to the interim financial statements prepared in accordance with IFRS for the period ended 30th June 2003.

## OUTLOOK FOR THE SECOND HALF OF 2003

In the first half of 2003, the Company overcame the negative impact of decrease in coal price and achieved stable growth in operating results through the implementation of policies such as increasing sales volume, adjusting product structure and cost control. The demand and supply in both domestic and overseas coal markets are expected to maintain overall stability in the next half year, which will be beneficial to the Company in achieving its annual operating targets.

**An increase in both supply and demand in the domestic coal market.** China's GDP is estimated to increase for more than 7% in 2003 in spite of the impact of SARS on China's economic growth. The rapid and continuous growth in electricity power generation, construction and metallurgical industries will lead to a large increase in the demand for coal. It is estimated that the annual domestic coal demand will increase by 150 million tonnes, among which 95 million tonnes will be consumed by thermal power plants. The Chinese Government will continue to regulate production safety in coal mines by shutting down small coal mines which do not reach production safety standards and will further increase production safety level. Coal supply will keep pace with the increasing trend as in the first half year, which will assist in reaching an equilibrium in coal supply and demand, and to secure stable coal price. The demand and supply of thermal coal in the domestic coal market will be in equilibrium and at a stable price. The excess of coking coal demand over supply will be relieved and the coking coal price will fall slightly.

**International thermal coal market is favorable to the Company in the increase of its coal export. Coking coal will be in short supply and its price will remain high.** Oil price remains at a high level. Coal has an unique position in the world's energy sources. Thermal coal is over-supplied in the global coal market. Several Australian coal producers are planning to reduce their production volume due to the appreciation of Australian Dollars, the increase of freight rate and the lower price in the spot market. This may cause the coal price to increase and place the Company in an advantageous position in Northeast Asia thermal coal market. Due to the recovery of thermal coal price in the European market, there was a slight increase in the Australian BJ spot price. There is excess of coking coal demand over supply. In addition, coking coal producers in countries such as U.S.A and Canada have lowered their production, the demand for coking coal from coking coal importing countries such as Brazil and India increased, and the coking coal price remains high. This will help to stabilize the semi-soft coking coal price.

**The operating result of the Company will increase steadily.** The Company has signed sales contracts with Japanese customers to export 10.68 million tonnes of coal in 2003, among which, the contract volume of No. 2 clean coal increased by 730,000 tonnes and the contract volume of No. 3 clean coal decreased by 1.22 million tonnes as compared with the same period in 2002. The contract prices of both No. 2 clean and No. 3 clean coal decreased by USD1.35/tonne as compared with that of last year. The average contract price of export coal in 2003 will decrease by USD1.14/tonne, or 3.6%, as compared with the average contract price in 2002. It is estimated that the average coal export price of the Company in the second half of 2003 will be lower than that of the first half of 2003. The Company estimates that the annual total coal export volume will reach 14 million tones. It is estimated that the domestic coal sale price will remain the average price level of 2002 and sales volume will continue to increase in the second half of 2003. The unit cost will be tightly controlled to ensure that it will not be higher than that of 2002. The operating result of the Company will thereby increase steadily.

**Operating strategies in the second half of 2003:** (i) Increase production and enlarge sales volume. The Company will take advantage of the good reputation of its coal products in both domestic and overseas markets and continue to increase both the production and sales volume. (ii) The Company will continue to improve its product quality and implement the "Four optimizing" measures of coal sales. The Company will further improve its coal washing and selection system to upgrade the quality of its coal products. The market reputation and operating results of the Company will be further improved by optimizing the product structure, transportation method, market direction and port selection. (iii) Strengthen the management and control costs. The Company will continue to improve the mining technology and production efficiency, lower unit fixed costs, advance the bolting net supporting and auxiliary transportation reform, and lower the consumption of materials. The Company will improve the EPR management system and reinforce the management of costs and expenses. (iv) Seek opportunities for the acquisition and development of new coal mines. The Company will make good use of its advantages in technology, market share, management, etc. to seek opportunities in domestic and overseas markets and related businesses to acquire quality coal mines and develop new coal mines. In this way the Company will enhance its profitability level and expand the business scale for sustainable development.

## CHANGE IN SHARE CAPITAL STRUCTURE AND SUBSTANTIAL SHAREHOLDERS

### Change in Share Capital

There is no change in the total number of shares and the capital structure of the Company during this interim reporting period.

### Number of shareholders as at the end of this reporting period

As at 30th June 2003, the Company had 66,978 shareholders, of which one was holder of state legal person shares, 66,841 were holders of A shares and 136 were holders of H shares.

### Substantial Shareholders

(As at 30th June, 2003)

| Name | Classes of shares held | Number of shares at the end of this reporting period | Percentage holding (%) | Changes in the number of shares held during this reporting period (+/-) (shares) | Whether listed for public dealings (yes/no) |
|---|---|---|---|---|---|
| Yankuang Group Corporation Limited | State legal person shares | 1,670,000,000 | 58.19 | 0 | No |
| HKSCC Nominees Limited | H shares | 1,017,431,999 | 35.45 | 172,000 | Yes |
| Fenghe Value Securities Investment Fund | A shares | 5,799,366 | 0.20 | 2,324,000 | Yes |
| Yulong Securities Investment Fund | A shares | 5,179,207 | 0.18 | 5,179,207 | Yes |
| Yinfeng Securities Investment Fund | A shares | 3,686,104 | 0.13 | 2,083,300 | Yes |
| Fuguo Securities Investment Fund | A shares | 2,735,192 | 0.10 | 1,936,662 | Yes |
| Jingbo Securities Investment Fund | A shares | 1,935,000 | 0.07 | 1,935,000 | Yes |
| Tongsheng Securities Investment Fund | A shares | 1,906,534 | 0.07 | 1,906,534 | Yes |
| Taihe Securities Investment Fund | A shares | 1,825,363 | 0.06 | 1,534,023 | Yes |
| Dongfeng Automobile Co., Ltd | A shares | 1,779,748 | 0.06 | 0 | Yes |

Note: The above top 10 shareholders information was prepared according to the Registers of Members as at 30th June, 2003 which were provided by China Securities Depository and Clearing Corporation Limited Shanghai Branch and Hong Kong Registrars Limited.

Pursuant to the China Securities Act, save as disclosed above, no other shareholders were recorded in the register as at 30th June, 2003 as having an interest of 5% or more of the Company's public shares.

None of the shares held by Yankuang Group Corporation Ltd. (the "Parent Company") was pledged, locked up or held under trust during the period under review. It is uncertain as to whether the shares held by the other top 10 shareholders were pledged, locked up or held under trust.

As the clearing and settlement agent for the Company's H shares, HKSCC Nominees Limited held the Company's H shares in a nominee capacity.

Among the top 10 shareholders, the fund manager of Fenghe Value Securities Investment Fund and Taihe Securities Investment Fund is Jiashi Fund Administration Co., Ltd. Related party relationships and concert actions among the eight other top 10 shareholders are not known.

Dongfeng Automobile Co., Ltd. became one of the top 10 shareholders of the Company through a subscription for new A shares in 2001. The agreed period of holding shares was from 3rd January, 2001 to 20th May, 2001.

During the period under review, there is no change in the controlling shareholder or person in actual control of the Company.

As at 30th June 2003, the following persons (other than a director, chief executive or supervisor of the Company) had interests in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the Securities and Futures Ordinance (the "SFO").

| Name of shareholder | Shares | Number of shares held | Approximate percentage shareholding of total issued share capital | Approximate percentage shareholding of total issued domestic shares | Approximate percentage shareholding of total issued H Shares |
|---|---|---|---|---|---|
| Yankuang Group Corporation Limited | State legal person shares | 1,670,000,000(L) | 58.19% | 90.27% | – |
| J.P. Morgan Chase & Co. (Note 1) | H Shares | 204,081,125(L) (Note 2) | 7.11% | – | 20.01% |
| Capital Group Companies, Inc. (Notes 3 and 4) | H Shares | 113,338,000(L) | 3.95% | – | 11.11% |

Notes:

1. J.P. Morgan Chase & Co. is taken to be interested in 20.01% of the Company's total H shares through the following companies:

   (a) 103,412,900 H shares (representing approximately 10.14% of the Company's total H shares) held by JPMorgan Chase Bank, which is beneficially wholly-owned by J.P. Morgan Chase & Co.

   (b) 698,000 H shares (representing approximately 0.07% of the Company's total H shares) held by J.P. Morgan Whitefriars Inc., which is beneficially wholly-owned by J.P. Morgan Chase & Co.

   (c) 95,654,000 H shares (representing approximately 9.38% of the Company's total H shares) held by JF Asset Management Limited, which is approximately 99.99% owned by J.P. Morgan Chase & Co.

   (d) 781,225 H shares (representing approximately 0.08% of the Company's total H shares) held by J.P. Morgan (Suisse) SA, which is beneficially wholly-owned by J.P. Morgan Chase & Co.

   (e) 534,000 H shares (representing approximately 0.05% of the Company's total H shares) held by JF International Management Inc., which is beneficially wholly-owned by J.P. Morgan Chase & Co.

(f) 3,000,000 H shares (representing approximately 0.29% of the Company's total H shares) held by JF Asset Management (Singapore) Limited, which is beneficially wholly-owned by J.P. Morgan Chase & Co.

(g) 1,000 H shares (representing approximately 0.0001% of the Company's total H shares) held by J.P. Morgan Securities Ltd., which is approximately 90% owned by J.P Morgan Chase & Co.

2. It includes an interest in a lending pool comprising 103,412,900 H shares (representing approximately 10.14% of the Company's total H shares).

3. Capital Group Companies, Inc. held such interest in the capacity as an investment manager and is taken to be interested in approximately 11.11% of the total H shares through the following companies:

(a) 31,938,000 H shares (representing approximately 3.13% of the Company's total H shares) held by Capital International, Inc., which is beneficially wholly-owned by Capital Group Companies, Inc.

(b) 81,400,000 H shares (representing approximately 7.98% of the Company's total H shares) held by Capital Research and Management Co., which is beneficially wholly-owned by Capital Group Companies, Inc.

4. The information disclosed is based on the information available on the website of The Stock Exchange of Hong Kong Limited.

5. The letter "L" denotes a long position in shares.

Save as disclosed herein, as at 30th June 2003, no other person (other than a director, chief executive or supervisor of the Company) had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

## DIRECTORS' AND SUPERVISORS' INTERESTS

As at 30th June, 2003 the Company's directors and supervisors held in aggregate 70,000 A shares in the Company, representing 0.0024% of the Company's total issued shares. During the period under review, there was no change in the shareholding of the directors, chief executive, and supervisors of the Company. Details are as follows:

| Name | Capacity | Title | Number of domestic shares held at the end of this reporting period |
|---|---|---|---|
| Mo Liqi | Beneficial owner | Chairman of the board | 10,000 |
| Yang Deyu | Beneficial owner | Vice Chairman of the Board and General Manger | 10,000 |
| Geng Jiahuai | – | Director | 0 |
| Wang Bangjun | Beneficial owner | Director | 10,000 |
| Yu Xuezhi | – | Director and Vice General Manger | 0 |
| Yang Jiachun | Beneficial owner | Director | 10,000 |
| Wu Yuxiang | Beneficial owner | Director and Chief Financial Officer | 10,000 |
| Dong Yunqing | – | Director | 0 |
| Fan Weitang | – | Independent and Non-executive Director | 0 |
| Cui Jianming | – | Independent and Non-executive Director | 0 |
| Wangxiaojun | – | Independent and Non-executive Director | 0 |
| Meng Xianchang | Beneficial owner | Chairman of the Supervisor Committee | 10,000 |
| Xiao Shuzhang | Beneficial owner | Supervisor | 10,000 |
| Zhang Shengdong | – | Supervisor | 0 |
| Liu Weixin | – | Supervisor | 0 |
| Xu Bentai | – | Supervisor | 0 |

All the interests disclosed above represent long position in the shares of the Company.

Save as disclosed above, as at 30th June 2003, none of the directors, supervisors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) as recorded in the register required to be kept under section 352 of the SFO; or (ii) as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (which shall be deemed to apply to the Company's supervisors to the same extent as it applies to the Company's directors). The Company has not granted to any of its directors, chief executives or supervisors or their spouses or children under 18 years of age any right to subscribe for equity or debts securities of the Company.

## DISCLOSURE OF SIGNIFICANT EVENTS

### Final Dividends

At the 2002 annual general meeting of the Company held on 27th June, 2003, the shareholders of the Company approved a final dividend of RMB298.48 million (including tax), or RMB0.104 per share (including tax) to be declared and paid to the shareholders. Such final dividend had been paid to shareholders of the Company on 18th July, 2003.

### Interim Dividends

There will be no payment of interim dividends to the shareholders of the Company. Conversion of surplus reserves into shares of capital will not take place.

## CONNECTED TRANSACTIONS

The Company's connected transactions during the first half of 2003 are set out in note 49 to the financial statements prepared in accordance with PRC GAAP.

The second supplemental agreement to the materials and services supply agreement was entered into between the Company and the Parent Company on 29th May, 2003 (the "Second Supplemental Agreement"), contents of the agreement were disclosed in the circular to shareholders dated 30th May, 2003, and came into effect after the approval by independent shareholders at the annual general meeting for the year 2002 held on 27th June, 2003.

The Materials and Services Supply Agreement dated 17th October 1997, the Supplemental Agreement dated 30th October 2001 (both entered into between the Company and the Parent Company and contents of such agreements were disclosed in the combined offering prospectus dated 24th March, 1998 and the circular to shareholders dated 22nd November, 2001 respectively) and the Second Supplement Agreement defined the on-going supply of materials and services between the Company and the Parent Company.

The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") has on 11th July, 2003 granted a conditional waiver (the "Waiver") to the Company from strict compliance with the requirements of disclosure by way of press announcement and shareholders' approval as stipulated in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in respect of the connected transactions in accordance with the above agreements between the Company and the Parent Company for a period of three financial years ending 31st December, 2005. The upper limits of the Waiver were as follows: the value of connected transactions relating to the provision of materials and services by the Company to the Parent Company shall not exceed 13% of the Company's audited consolidated net sales in the immediately preceding financial year, and the value of connected transactions relating to the provision of materials and services by the Parent Company to the Company shall not exceed 26% of the Company's audited consolidated net sales in the immediate preceding financial year.

The on-going connected transactions in accordance with above agreements shall be: (1) entered into by the Company in the ordinary and usual course of its business; (2) conducted either on normal commercial terms, or where there is no available comparison, on terms that are fair and reasonable so far as the Company and its subsidiary, and the shareholders of the Company are concerned; and (3) entered into either in accordance with the terms of the above agreements, or where there are no such agreements, on terms no less favorable than those available to or from independent third parties. The Independent Non-executive Directors and auditors of the Company shall review the above-mentioned on-going connected transactions annually.

**Investment for Establishment of Jining Sihe Port**

The Company's board of directors held a meeting on 11th April, 2003, at which a resolution has been passed to approve the opening of an inland river route connecting Jining III coal mine to the Jinghang Grand Canal by the construction of the Jining Sihe Coal Port which is adjacent to Jining III coal mine.

The handling capacity of the Jining Sihe Coal Port is expected to be 5 million tonnes per year. Its construction consists of two phases. The first phase of this project will mainly include a dock with loading capacity of 1,000 tonnes and a coal stockpile of 180 thousand tonnes. Its handling capacity is expected to be 3 million tonnes per year. Depending on the operation of the first phase of the Jining Sihe Coal Port, the Company may carry out feasibility study on, and the construction of, the second phase of the project.

Construction of the first phase of the Jining Sihe Coal Port has already commenced and is expected to be completed before the end of 2003. The estimated investment for the construction of the first phase of the Jining Sihe Coal Port is RMB250 million. The Company will use its internal capital resources to construct the Jining Sihe Coal Port.

**Acquisition of equity interest in Zoucheng Nanmei Shipping Co., Ltd.**

An Equity Transfer Agreement was entered into between the Company and Nantun Coal Mine Staff Labor and Service Company (the "Labor Company") after its approval by a meeting of the Board of Directors held on 15th August, 2003. According to the Equity Transfer Agreement, the Company will acquire an 80% equity interest in Zoucheng Nanmei Shipping Co., Ltd. from the Labor Company. The consideration is approximately RMB10.164 million and will be satisfied by the Company's internal capital resources. Details can be found in the announcement in domestic *China Securities, Shanghai Securities*, and *Wen Wei Po* and *South China Morning Post* of Hong Kong on 18th August, 2003.

**Borrowing**

The Company entered into a long term borrowing contract (the "Borrowing Contract") with the Bank of China on 3rd December, 2001 and borrowed RMB1.2 billion from the Bank of China on 4th January, 2002. The loan was applied to finance the acquisition of Railway Assets from the Parent Company.

The Borrowing Contract stipulates that the interest rate of the loan is 6.21% per annum, subject to adjustment in accordance with the adjustment of statutory interest rate or method of calculation of interest made by the State during the term of the Borrowing Contract. According to the newest statutory interest rate announced by The People's Bank of China, the interest rate of the loan has been adjusted to 5.76% per annum from 1st January, 2003.

The loan period commenced on the date of the signing of the Borrowing Contract and will expire on the date on which the last instalment of principal and interest is repaid, which should be no more than 96 months. The Company has made an earlier repayment of RMB600 million to the Bank of China on 30th June, 2003.

Details for borrowings are set out in note 28 to the financial statements prepared in accordance with IFRS contained herein.

**Material Contracts**

The second supplemental agreement to the materials and services supply agreement was entered into between the Company and the Parent Company on 29th May, 2003. The details are set out in the "Connected Transactions" section above.

Save as disclosed above, the Company was not a party to any other material contract during the six months ended 30th June, 2003.

**Purchase, Sale or Redemption of Shares**

During the six months ended 30th June, 2003, the Company or any of its subsidiaries did not purchase, sell or redeem any of its shares.

### Compliance with Code of Best Practice

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June, 2003, in compliance with the Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### Impact of the Exchange Rate Fluctuation on the Company

Coal exports of the Company are all settled in US dollars. China adopts a floating exchange rate which is under the State's supervision. During the period under review, exchange rate from RMB to US dollars varied slightly and has no main influence on the Company.

### Change of place of business in Hong Kong

The Company's place of business in Hong Kong has been changed to Rooms 805-808, Alexandra House, 16-20 Chater Road, Central, Hong Kong on 28th July, 2003.

### Employees

As at 30th June, 2003, the Company had 28,138 employees, of whom 1,795 were administrative personnel, 881 were technicians, 21,651 were directly involved in coal production and 3,811 were supporting staff.

### Material Litigation and Arbitration

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

### Auditors

The Company retained Deloitte Touche Tohmatsu Certified Public Accountants Ltd. (certified public accountants in the PRC (excluding Hong Kong)) and Deloitte Touche Tohmatsu (certified public accountants in Hong Kong) as its domestic and international auditors, respectively.

## DOCUMENTS AVAILABLE FOR INSPECTION

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

- the full text of the interim report signed by the Chairman;
- financial statements signed by legal representative, responsible person of the accountancy work and responsible person of the accounting department;
- all documents which were disclosed during the period of this report in newspapers designated by the China Securities Regulatory Commission;
- the Articles of Association of the Company;
- the full text of the interim report released in other securities markets.

On behalf of the Board
*Chairman*
**Mo Liqi**

15th August, 2003
*Zoucheng, People's Republic of China*

## INTERIM RESULTS

### (i) Financial Information under PRC GAAP

# BALANCE SHEET

AT JUNE 30, 2003

| | NOTES | The Group June 30, 2003 RMB (Unaudited) | The Group December 31, 2002 RMB (Audited) | The Company June 30, 2003 RMB (Unaudited) | The Company December 31, 2002 RMB (Audited) |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| CURRENT ASSETS: | | | | | |
| Bank balances and cash | 5 | 1,489,518,337 | 1,595,933,728 | 1,484,844,068 | 1,592,397,958 |
| Current investments | 6 | 188,702,100 | 88,702,100 | 188,702,100 | 88,702,100 |
| Notes receivable | 7 | 531,047,240 | 239,974,223 | 531,047,240 | 239,974,223 |
| Dividends receivable | | – | – | – | 655,479 |
| Accounts receivable | 8 | 485,865,165 | 573,446,193 | 485,865,165 | 573,446,193 |
| Other receivables | 9 | 232,891,193 | 223,141,786 | 232,168,498 | 222,698,314 |
| Prepayments | 11 | 139,955,524 | 146,339,631 | 139,295,792 | 145,812,599 |
| Subsidies receivable | 12 | 312,267,343 | 342,595,878 | 312,267,343 | 342,595,878 |
| Inventories | 13 | 547,766,503 | 576,579,303 | 543,070,603 | 569,496,944 |
| Deferred expenses | 14 | 104,749,202 | 110,560,888 | 104,749,203 | 110,560,888 |
| TOTAL CURRENT ASSETS | | 4,032,762,607 | 3,897,273,730 | 4,022,010,012 | 3,886,340,576 |
| LONG-TERM EQUITY INVESTMENTS | 15/50(1) | 31,897,684 | 31,897,684 | 36,296,705 | 36,672,090 |
| FIXED ASSETS: | | | | | |
| Fixed assets – cost | 16 | 13,608,814,509 | 13,632,796,969 | 13,607,993,686 | 13,631,983,945 |
| Less: Accumulated depreciation | 16 | 5,933,504,792 | 5,480,779,065 | 5,933,227,796 | 5,480,563,829 |
| Fixed assets – net book value | 16 | 7,675,309,717 | 8,152,017,904 | 7,674,765,890 | 8,151,420,116 |
| Materials for constructing fixed assets | 17 | 1,837,241 | 1,899,659 | 1,837,241 | 1,899,659 |
| Fixed assets under construction | 18 | 278,395,275 | 123,022,757 | 278,395,275 | 123,022,757 |
| TOTAL FIXED ASSETS | | 7,955,542,233 | 8,276,940,320 | 7,954,998,406 | 8,276,342,532 |
| INTANGIBLE ASSETS | 19 | 802,999,924 | 777,436,629 | 802,999,924 | 777,436,629 |
| TOTAL ASSETS | | 12,823,202,448 | 12,983,548,363 | 12,816,305,047 | 12,976,791,827 |

Notes are an integral part of the financial statements.

## BALANCE SHEET – continued

AT JUNE 30, 2003

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | NOTES | June 30, 2003 RMB (Unaudited) | December 31, 2002 RMB (Audited) | June 30, 2003 RMB (Unaudited) | December 31, 2002 RMB (Audited) |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| CURRENT LIABILITIES: | | | | | |
| Notes payable | 20 | 15,000,000 | 108,001,674 | 15,000,000 | 108,001,674 |
| Accounts payable | 21 | 387,992,407 | 557,175,701 | 389,030,755 | 556,939,363 |
| Advances from customers | 22 | 216,975,231 | 171,826,093 | 214,757,891 | 170,508,547 |
| Salaries and wages payable | | 46,380,714 | 46,389,189 | 46,380,714 | 46,389,189 |
| Dividends payable | 23 | 124,800,000 | 298,480,000 | 124,800,000 | 298,480,000 |
| Taxes payable | 24 | 325,742,478 | 206,139,942 | 324,896,675 | 206,021,490 |
| Other payables | 25 | 339,278,494 | 542,999,385 | 338,405,151 | 542,851,634 |
| Accrued expenses | 26 | 148,937,007 | – | 148,937,007 | – |
| Provisions | 27 | 141,734,530 | 83,043,947 | 141,734,530 | 83,043,947 |
| Long-term payable due within one year | 28 | 13,247,800 | 13,247,800 | 13,247,800 | 13,247,800 |
| TOTAL CURRENT LIABILITIES | | 1,760,088,661 | 2,027,303,731 | 1,757,190,523 | 2,025,483,644 |
| LONG-TERM LIABILITIES: | | | | | |
| Long-term loan | 29 | 600,000,000 | 1,200,000,000 | 600,000,000 | 1,200,000,000 |
| Long-term payable | 28 | 92,735,160 | 92,735,160 | 92,735,160 | 92,735,160 |
| TOTAL LONG-TERM LIABILITIES | | 692,735,160 | 1,292,735,160 | 692,735,160 | 1,292,735,160 |
| TOTAL LIABILITIES | | 2,452,823,821 | 3,320,038,891 | 2,449,925,683 | 3,318,218,804 |
| MINORITY INTEREST | | 3,999,263 | 4,936,449 | – | – |
| SHAREHOLDERS' EQUITY: | | | | | |
| Share capital | 30 | 2,870,000,000 | 2,870,000,000 | 2,870,000,000 | 2,870,000,000 |
| Capital reserves | 31 | 4,585,557,170 | 4,454,521,340 | 4,585,557,170 | 4,454,521,340 |
| Surplus reserves | 32 | 582,343,347 | 582,343,347 | 582,179,477 | 582,179,477 |
| Including: Statutory common welfare fund | | 194,141,761 | 194,141,761 | 194,059,826 | 194,059,826 |
| Retained earnings | 33 | 2,328,478,847 | 1,751,708,336 | 2,328,642,717 | 1,751,872,206 |
| TOTAL SHAREHOLDERS' EQUITY | | 10,366,379,364 | 9,658,573,023 | 10,366,379,364 | 9,658,573,023 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 12,823,202,448 | 12,983,548,363 | 12,816,305,047 | 12,976,791,827 |

Notes are an integral part of the financial statements.

Company: Yanzhou Coal Mining Company Limited

| Legal representative | The person in charge of accountancy work | The person in charge of the accounting department |
|---|---|---|
| **Mo Li Qi** | **Wu Yu Xiang** | **Zhang Bao Cai** |

# STATEMENT OF INCOME AND PROFITS APPROPRIATION

FOR THE PERIOD FROM JANUARY 1, 2003 TO JUNE 30, 2003

| | NOTES | The Group<br>Six months ended June 30,<br>2003<br>RMB<br>(Unaudited) | <br><br>2002<br>RMB<br>(Unaudited) | The Company<br>Six months ended June 30,<br>2003<br>RMB<br>(Unaudited) | <br><br>2002<br>RMB<br>(Unaudited) |
|---|---|---|---|---|---|
| Revenue from principal operations | 34 | 4,427,879,818 | 3,780,370,046 | 4,427,879,818 | 3,780,370,046 |
| Less: Cost of principal operations | 35 | 1,999,944,009 | 1,572,614,620 | 2,000,043,993 | 1,578,679,680 |
| Sales taxes and surcharges | 36 | 53,654,994 | 50,489,605 | 53,654,994 | 50,367,046 |
| Profit from principal operations | | 2,374,280,815 | 2,157,265,821 | 2,374,180,831 | 2,151,323,320 |
| Add: Profits from other operations | 37 | 33,280,264 | 19,257,160 | 29,154,080 | 14,852,699 |
| Less: Operating expenses | 38 | 903,853,042 | 781,281,891 | 902,550,577 | 777,461,546 |
| General and administrative expenses | | 599,243,171 | 485,864,557 | 598,685,387 | 485,349,056 |
| Financial expenses | 39 | 28,122,556 | 30,995,763 | 28,129,884 | 31,006,049 |
| Operating profit | | 876,342,310 | 878,380,770 | 873,969,063 | 872,359,368 |
| Add: Investment income | 40/50(2) | 1,478,333 | – | 2,389,488 | 2,831,482 |
| Subsidy income | 41 | 4,495,207 | – | 4,495,207 | – |
| Non-operating income | 42 | 3,771,816 | 1,750,353 | 3,673,897 | 1,750,353 |
| Less: Non-operating expenses | 43 | 8,858,613 | 4,496,573 | 8,855,669 | 4,490,260 |
| Total profits | | 877,229,053 | 875,634,550 | 875,671,986 | 872,450,943 |
| Less: Income taxes | 44 | 299,630,188 | 288,114,506 | 298,901,475 | 287,505,031 |
| Minority interest | | 828,354 | 2,574,132 | – | – |
| Net profit | | 576,770,511 | 584,945,912 | 576,770,511 | 584,945,912 |
| Add: Retained earnings at the beginning of the year | 33 | 1,751,708,336 | 1,197,704,033 | 1,751,872,206 | 1,197,704,033 |
| Profits available for appropriation | | 2,328,478,847 | 1,782,649,945 | 2,328,642,717 | 1,782,649,945 |
| Less: Appropriations to statutory common reserve fund | 33 | – | – | – | – |
| Appropriations to statutory common welfare fund | 33 | – | – | – | – |
| Profits available for appropriation to shareholders | | 2,328,478,847 | 1,782,649,945 | 2,328,642,717 | 1,782,649,945 |
| Less: Ordinary share dividend | 33 | – | – | – | – |
| Retained earnings at the end of the period | | 2,328,478,847 | 1,782,649,945 | 2,328,642,717 | 1,782,649,945 |

Notes are an integral part of the financial statements.

Company: Yanzhou Coal Mining Company Limited

| Legal representative | The person in charge of accountancy work | The person in charge of the accounting department |
|---|---|---|
| **Mo Li Qi** | **Wu Yu Xiang** | **Zhang Bao Cai** |

# CASH FLOW STATEMENT

FOR THE PERIOD FROM JANUARY 1, 2003 TO JUNE 30, 2003

| | NOTES | The Group Six months ended June 30, 2003 RMB (Unaudited) | The Group Six months ended June 30, 2002 RMB (Unaudited) | The Company Six months ended June 30, 2003 RMB (Unaudited) | The Company Six months ended June 30, 2002 RMB (Unaudited) |
|---|---|---|---|---|---|
| 1. CASH FLOW FROM OPERATING ACTIVITIES: | | | | | |
| Cash received from sales of goods or rendering of services | | 4,642,462,613 | 3,807,684,143 | 4,639,905,784 | 3,785,967,455 |
| Refunds of taxes | | 30,328,535 | 58,434,312 | 30,328,535 | 58,434,312 |
| Other cash received relating to operating activities | 45 | 409,827,282 | 587,832,787 | 405,463,079 | 586,945,385 |
| Sub-total of cash inflows | | 5,082,618,430 | 4,453,951,242 | 5,075,697,398 | 4,431,347,152 |
| Cash paid for goods and services | | 1,218,058,233 | 1,032,690,284 | 1,217,630,740 | 1,038,809,912 |
| Cash paid to and on behalf of employees | | 712,538,024 | 554,689,034 | 712,357,026 | 554,649,094 |
| Taxes and surcharges paid | | 419,437,390 | 445,521,803 | 419,266,799 | 422,569,346 |
| Other cash paid relating to operating activities | 46 | 1,867,539,413 | 1,348,961,563 | 1,866,251,321 | 1,344,688,192 |
| Sub-total of cash outflows | | 4,217,573,060 | 3,381,862,684 | 4,215,505,886 | 3,360,716,544 |
| NET CASH FLOW FROM OPERATING ACTIVITIES | | 865,045,370 | 1,072,088,558 | 860,191,512 | 1,070,630,608 |
| 2. CASH FLOW FROM INVESTING ACTIVITIES: | | | | | |
| Cash received from the returns of investments | | 1,478,333 | – | 3,420,352 | 651,148 |
| Net cash received from disposal of fixed assets and other long-term assets | | 12,797,732 | 9,816,882 | 12,797,732 | 9,816,882 |
| Cash received from acquisition of a subsidiary | | – | 141,575 | – | 141,575 |
| Reduction of bank deposit | | 14,355,083 | – | 14,355,083 | – |
| Sub-total of cash inflows | | 28,631,148 | 9,958,457 | 30,573,167 | 10,609,605 |
| Cash paid to acquire fixed assets and other long-term assets | | 248,817,286 | 59,851,672 | 248,809,486 | 59,851,672 |
| Cash paid for investments | | 100,000,000 | 40,000,000 | 100,000,000 | 40,000,000 |
| Cash paid for acquisition of Jining III | | – | 550,000,000 | – | 550,000,000 |
| Cash paid for acquisition of Railway Assets | | – | 1,242,585,915 | – | 1,242,585,915 |
| Sub-total of cash outflows | | 348,817,286 | 1,892,437,587 | 348,809,486 | 1,892,437,587 |
| NET CASH FLOW FROM INVESTING ACTIVITIES | | (320,186,138) | (1,882,479,130) | (318,236,319) | (1,881,827,982) |
| 3. CASH FLOW FROM FINANCING ACTIVITIES: | | | | | |
| Cash received from borrowings | | – | 1,200,000,000 | – | 1,200,000,000 |
| Sub-total of cash inflows | | – | 1,200,000,000 | – | 1,200,000,000 |
| Repayments of borrowings | | 600,000,000 | – | 600,000,000 | – |
| Dividends paid | | – | 287,000,000 | – | 287,000,000 |
| Dividends paid to minority shareholder of a subsidiary | | 1,765,540 | 591,975 | – | – |
| Cash paid for interest expenses | | 35,154,000 | 43,304,961 | 35,154,000 | 43,304,961 |
| Sub-total of cash outflows | | 636,919,540 | 330,896,936 | 635,154,000 | 330,304,961 |
| NET CASH FLOW FROM FINANCING ACTIVITIES | | (636,919,540) | 869,103,064 | (635,154,000) | 869,695,039 |
| 4. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH | | – | – | – | – |
| 5. NET INCREASE IN CASH AND CASH EQUIVALENTS | | (92,060,308) | 58,712,492 | (93,198,807) | 58,497,665 |

Notes are an integral part of the financial statements.

# CASH FLOW STATEMENT – continued

FOR THE PERIOD FROM JANUARY 1, 2003 TO JUNE 30, 2003

| | NOTES | The Group Six months ended June 30, 2003 RMB (Unaudited) | 2002 RMB (Unaudited) | The Company Six months ended June 30, 2003 RMB (Unaudited) | 2002 RMB (Unaudited) |
|---|---|---|---|---|---|
| SUPPLEMENTAL INFORMATION: | | | | | |
| 1. RECONCILIATION OF NET PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES: | | | | | |
| Net profit | | 576,770,511 | 584,945,912 | 576,770,511 | 584,945,912 |
| Add: Minority interest | | 828,354 | 2,574,132 | – | – |
| Provision for impairment losses of assets | | 30,234,601 | 35,022,260 | 30,234,601 | 35,022,260 |
| Depreciation of fixed assets | | 487,975,862 | 433,840,496 | 487,914,101 | 433,809,932 |
| Provision for Wei Jian Fei | | 131,035,830 | 115,784,850 | 131,035,830 | 115,784,850 |
| Amortization of intangible assets and other assets | | 14,436,705 | 9,979,210 | 14,436,705 | 9,979,210 |
| Losses on disposal of fixed assets and other long-term assets | | 1,813,779 | 932,125 | 1,813,779 | 932,125 |
| Decrease(increase) in deferred expenses | | 5,811,686 | (101,306,543) | 5,811,686 | (101,306,543) |
| Increase(decrease) in accrued expenses | | 108,937,007 | 39,634,061 | 108,937,007 | 39,634,061 |
| Financial expenses | | 35,154,000 | 43,304,961 | 35,154,000 | 43,304,961 |
| Loss (profit) on investment | | (1,478,333) | – | (2,389,488) | (2,831,482) |
| Decrease (increase) in inventories | | 28,812,800 | (181,985,730) | 26,426,341 | (190,229,624) |
| Decrease (increase) in receivables under operating activities | | (208,656,355) | (17,645,209) | (208,244,433) | (9,487,155) |
| Increase (decrease) in payables under operating activities | | (346,631,077) | 107,008,033 | (347,709,128) | 111,072,101 |
| NET CASH FLOW FROM OPERATING ACTIVITIES | | 865,045,370 | 1,072,088,558 | 860,191,512 | 1,070,630,608 |
| 2. INVESTING AND FINANCING ACTIVITIES THAT DO NOT INVOLVE CASH RECEIPTS AND PAYMENTS | | | | | |
| Deducting the dividend payable to the holding company from the receivables | | 173,680,000 | – | 173,680,000 | – |
| 3. NET INCREASE IN CASH AND CASH EQUIVALENTS: | | | | | |
| Cash at the end of the period | 47/50(3) | 1,452,112,824 | 1,183,518,834 | 1,447,438,555 | 1,178,653,589 |
| Less: Cash at the beginning of the period | | 1,544,173,132 | 1,124,806,342 | 1,540,637,362 | 1,120,155,924 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | (92,060,308) | 58,712,492 | (93,198,807) | 58,497,665 |

Notes are an integral part of the financial statements.

Company: Yanzhou Coal Mining Company Limited

| Legal representative | The person in charge of accountancy work | The person in charge of the accounting department |
|---|---|---|
| **Mo Li Qi** | **Wu Yu Xiang** | **Zhang Bao Cai** |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM JANUARY 1, 2003 TO JUNE 30, 2003

## 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 the Company's share capital are set out in note 30 to the financial statements.

## 2. 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. The accounting period for these financial statements is from January 1, 2003 to June 30, 2003.

### 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.

### 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 before the fixed asset has reached working condition for its intended use; 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES – continued

### 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% |

### 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES – continued

**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 investments 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.

**Designated deposit**

Designated deposit represents an instructed deposit with an authorized lending institution which lends the deposit to third party and are accounted for at the actual amount lent out. Interest income from such loans is accrued at the interest rate specified in the loan agreement and recognized in the income statement on a time basis. Accruing interest is stopped if that interest cannot be collected on due dates, and any interest that has previously been accrued is reversed. Designated deposit is carried at the lower of cost and recoverable amount at the end of each period. Where the recoverable amount is lower than the principal amount of a designated deposit, the difference is recognized as a provision for impairment loss.

**Recoverable Amount**

Recoverable amount is the higher of (a) an asset's net selling price and (b) the present value of 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. Net selling price refers to the selling price of the asset less the cost of disposal.

**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.

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.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES – continued

**Long-term investments – continued**

(1) *Accounting treatment for long-term investments – continued*

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 impairment loss in the current period.

**Fixed assets and depreciation**

Fixed assets are tangible assets that are (a) held for use in the production of goods or supply of 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 estimated production volume method, depreciation is provided over their estimated 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% |

Mining structures is depreciated using production volume method at RMB2.5 per tonne of raw coal mined.

**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.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES – continued

### Fixed assets under construction – continued

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, starting from its initial recognition.

### Impairment loss provision for 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.

### Provisions

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.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES – continued

**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 period as adjusted in accordance with the relevant tax laws.

**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 period 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.

## 3. 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 calculating 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 RMB1.20 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.

According to "Notice of issues on collection of city construction tax & education fee after application of "Exemption, counteract and refund" by exporting enterprises" issued by Shandong Local Taxes Bureau (Ludishuifa [2002] No.108), the amount of VAT exemption and counteract declared by the Company is also deemed as the basis for city construction tax & education fee calculation.

### Income tax

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

## 4. SCOPE OF CONSOLIDATION AND DETAILS OF SUBSIDIARY

The Company owns the following subsidiary:

| Name of subsidiary | 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).

## 4. SCOPE OF CONSOLIDATION AND DETAILS OF SUBSIDIARY – continued

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

Except for note 50 which is only applicable to the Company, the following notes to the financial statements are for the consolidated financial statements.

## 5. BANK BALANCES AND CASH

| | June 30, 2003 | | | December 31, 2002 | | |
|---|---|---|---|---|---|---|
| | Foreign currency | Exchange rate | RMB equivalent | Foreign currency | Exchange rate | RMB equivalent |
| Cash on hand | | | | | | |
| RMB | – | – | 307,119 | – | – | 311,649 |
| Cash in bank | | | | | | |
| RMB | – | – | 677,240,802 | – | – | 544,649,269 |
| USD | 89,660,911 | 8.2774 | 742,159,225 | 117,994,555 | 8.2773 | 976,676,330 |
| EUR | 76,655 | 9.4649 | 725,532 | 76,655 | 8.6360 | 661,993 |
| HKD | 58,199,209 | 1.0612 | 61,761,001 | 64,592,801 | 1.0611 | 68,539,421 |
| Other monetary assets | | | | | | |
| RMB | – | – | 7,324,658 | – | – | 5,095,066 |
| | | | 1,489,518,337 | | | 1,595,933,728 |

## 6. CURRENT INVESTMENTS

| | June 30, 2003 | | | December 31, 2002 | | |
|---|---|---|---|---|---|---|
| | Cost RMB | Provision RMB | Net book value RMB | Cost RMB | Provision RMB | Net book value RMB |
| Investments in bonds | | | | | | |
| – National bonds (Note 1) | 88,702,100 | – | 88,702,100 | 88,702,100 | – | 88,702,100 |
| Other investments | | | | | | |
| – Designated deposit (Note 2) | 100,000,000 | – | 100,000,000 | – | – | – |
| | 188,702,100 | – | 188,702,100 | 88,702,100 | – | 88,702,100 |

Note 1: The balances are 96 National bonds (8) which will mature on November 1, 2003. If the Company holds the National bonds till mature date, the total amount of principal and interest at the mature date is greater than the carrying amount. So no provision for impairment loss is made.

Note 2: The designated deposit represents an instructed deposit with Bank of China to Shandong Chuangye Investment Co., Ltd. (Minor shareholder of a fellow subsidiary) at interest 6% per annum for 12 months commencing from April 7, 2003. Related obligations are guaranteed by Shandong Dongxijiehe Credit Guaranteed Co., Ltd. and are secured by approximate 16% share of interest of Shandong Huaju Energy Co., Ltd. owned by Shandong Chuangye Investment Co., Ltd. The related income generated from the designated deposit during the period is RMB1,133,333.

## 7. NOTES RECEIVABLE

| | June 30, 2003 RMB | December 31,2002 RMB |
|---|---|---|
| Bank acceptance bills | 531,047,240 | 234,521,923 |
| Commercial acceptance bills | – | 5,452,300 |
| | 531,047,240 | 239,974,223 |

See note 49 for notes receivable from shareholders of the Company holding more than 5% of the total shares of the Company.

## 8. ACCOUNTS RECEIVABLE

The aging analysis of accounts receivable is as follows:

| Aging | June 30, 2003 | | | | December 31, 2002 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount RMB | % | Bad debt provision RMB | Net book value RMB | Amount RMB | % | Bad debt provision RMB | Net book value RMB |
| Within 1 year | 397,392,788 | 69 | 15,863,011 | 381,529,777 | 504,683,920 | 78 | 20,176,674 | 484,507,246 |
| 1 to 2 years | 107,614,476 | 18 | 32,284,343 | 75,330,133 | 99,632,835 | 15 | 29,887,980 | 69,744,855 |
| 2 to 3 years | 58,010,510 | 10 | 29,005,255 | 29,005,255 | 38,388,185 | 6 | 19,194,093 | 19,194,092 |
| Over 3 years | 20,018,747 | 3 | 20,018,747 | – | 6,824,655 | 1 | 6,824,655 | – |
| Total | 583,036,521 | 100 | 97,171,356 | 485,865,165 | 649,529,595 | 100 | 76,083,402 | 573,446,193 |

Balance of the 5 largest debtors is as follows:

| Total amount of the 5 largest debtors RMB | Percentage in accounts receivable balance |
|---|---|
| 213,755,040 | 37% |

See note 49 for accounts receivable from shareholders of the Company holding more than 5% of the total shares of the Company.

## 9. OTHER RECEIVABLES

Aging analysis of other receivables is as follows:

| Aging | June 30, 2003 | | | | December 31, 2002 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount RMB | % | Bad debt provision RMB | Net book value RMB | Amount RMB | % | Bad debt provision RMB | Net book value RMB |
| Within 1 year | 189,418,440 | 77 | 3,602,721 | 185,815,719 | 183,629,621 | 81 | 135,725 | 183,493,896 |
| 1 to 2 years | 40,650,086 | 16 | 3,387,097 | 37,262,989 | 31,234,251 | 14 | 1,176,619 | 30,057,632 |
| 2 to 3 years | 11,248,361 | 5 | 4,095,700 | 7,152,661 | 9,156,961 | 4 | 1,896,615 | 7,260,346 |
| Over 3 years | 4,259,824 | 2 | 1,600,000 | 2,659,824 | 2,659,824 | 1 | 329,912 | 2,329,912 |
| Total | 245,576,711 | 100 | 12,685,518 | 232,891,193 | 226,680,657 | 100 | 3,538,871 | 223,141,786 |

The balances with aging over 2 years are mainly deposits paid for purchase of packing materials of steel and other raw materials. The Company 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 |
|---|---|
| 37,395,647 | 15% |

See note 49 for other receivables from shareholders of the Company holding more than 5% of the total shares of the Company.

## 10. PROVISION FOR BAD DEBTS

| | Amount RMB |
|---|---|
| Opening balance | 79,622,273 |
| Provision for the period | 30,234,601 |
| Written-off for the period | – |
| Closing balance | 109,856,874 |

## 11. PREPAYMENTS

The aging analysis of prepayments is as follows:

| Aging | June 30, 2003 RMB | % | December 31, 2002 RMB | % |
|---|---|---|---|---|
| Within 1 year | 128,178,308 | 92 | 113,227,188 | 77 |
| 1 to 2 years | 7,044,614 | 5 | 27,936,386 | 19 |
| 2 to 3 years | 4,732,602 | 3 | 5,176,057 | 4 |
| Total | 139,955,524 | 100 | 146,339,631 | 100 |

## 11. PREPAYMENTS – continued

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 or offset with corresponding accounts payable.

Balances of the 5 largest debtors are as follows:

| Total amount of the 5 largest debtors RMB | Percentage in prepayments balance |
|---|---|
| 61,474,706 | 44% |

See note 49 for prepayments to shareholders of the Company holding more than 5% of the total shares of the Company.

## 12. 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.

## 13. INVENTORIES

| | June 30, 2003 | | | December 31, 2002 | | |
|---|---|---|---|---|---|---|
| | Amount RMB | Provision RMB | Net book value RMB | Amount RMB | Provision RMB | Net book value RMB |
| Raw materials | 239,727,892 | – | 239,727,892 | 309,246,183 | – | 309,246,183 |
| Finished goods | 308,038,611 | – | 308,038,611 | 267,333,120 | – | 267,333,120 |
| | 547,766,503 | – | 547,766,503 | 576,579,303 | – | 576,579,303 |

## 14. DEFERRED EXPENSES

| | June 30, 2003 RMB | December 31,2002 RMB |
|---|---|---|
| Harbour transportation fee | 104,749,202 | 110,560,888 |

## 15. LONG-TERM EQUITY INVESTMENTS

Other equity investment

| Name of investees | January 1, 2003 Investment amount RMB | Provision RMB | Net book value RMB | Addition RMB | Disposal RMB | June 30, 2003 Investment amount RMB | Provision RMB | Net book value RMB | % |
|---|---|---|---|---|---|---|---|---|---|
| Jiangsu Lianyungang Port Co., Ltd. | 1,760,419 | – | 1,760,419 | 345,000 | 345,000 | 1,760,419 | – | 1,760,419 | 1% |
| Shenergy Company Limited (Note) | 30,137,265 | – | 30,137,265 | – | – | 30,137,265 | – | 30,137,265 | 0.42% |
| | 31,897,684 | – | 31,897,684 | 345,000 | 345,000 | 31,897,684 | – | 31,897,684 | |

Note: The Company acquired 14,882,600 legal person shares of Shenergy Company Limited at RMB4.05 per share with the total consideration of RMB60,274,530. In year 2002, the Company 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 after the legal title of the shares is transferred to the Company. The legal title of the shares has not been transferred to the Company at the period end.

## 16. 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, 2003 | 2,053,659,522 | 3,650,163,944 | 870,600,760 | 6,748,648,824 | 309,723,919 | 13,632,796,969 |
| Additions | – | – | – | 10,795,952 | 178,652 | 10,974,604 |
| Transfer from fixed assets under construction | 299,756 | – | – | 13,964,960 | 639,866 | 14,904,582 |
| Disposals | – | – | – | (47,780,823) | (2,080,823) | (49,861,646) |
| At June 30, 2003 | 2,053,959,278 | 3,650,163,944 | 870,600,760 | 6,725,628,913 | 308,461,614 | 13,608,814,509 |
| **Accumulated depreciation** | | | | | | |
| At January 1, 2003 | 736,437,029 | 1,304,315,805 | 202,182,744 | 3,081,345,799 | 156,497,688 | 5,480,779,065 |
| Provided for the period | 47,655,189 | 54,598,263 | 26,125,867 | 340,604,359 | 18,992,184 | 487,975,862 |
| Eliminated on disposals | – | – | – | (34,148,733) | (1,101,402) | (35,250,135) |
| At June 30, 2003 | 784,092,218 | 1,358,914,068 | 228,308,611 | 3,387,801,425 | 174,388,470 | 5,933,504,792 |
| **Net book value** | | | | | | |
| At January 1, 2003 | 1,317,222,493 | 2,345,848,139 | 668,418,016 | 3,667,303,025 | 153,226,231 | 8,152,017,904 |
| At June 30, 2003 | 1,269,867,060 | 2,291,249,876 | 642,292,149 | 3,337,827,488 | 134,073,144 | 7,675,309,717 |

## 17. MATERIALS FOR CONSTRUCTING FIXED ASSETS

| Category | June 30, 2003 RMB | December 31, 2002 RMB |
|---|---|---|
| Materials for constructing fixed assets | 1,837,241 | 1,899,659 |

## 18. FIXED ASSETS UNDER CONSTRUCTION

| Category | At January 1, 2003 RMB | Addition RMB | Transfers upon completion RMB | At June 30, 2003 RMB | Budget RMB | Proportion to budget % | Source of funds |
|---|---|---|---|---|---|---|---|
| Equipment to be installed | 98,213,885 | 149,935,589 | (13,696,735) | 234,452,739 | 259,910,000 | 90 | internally generated fund |
| Buildings under construction | 1,057,977 | 18,783,448 | (1,067,112) | 18,774,313 | 27,470,000 | 68 | internally generated fund |
| Others | 23,750,895 | 1,558,063 | (140,735) | 25,168,223 | 31,300,000 | 80 | internally generated fund |
| Total | 123,022,757 | 170,277,100 | (14,904,582) | 278,395,275 | 318,680,000 | | |

No interest was capitalized for the period.

## 19. INTANGIBLE ASSETS

| Category | Original amount RMB | At January 1, 2003 RMB | Addition RMB | Amortization for the period RMB | Accumulated amortization RMB | At June 30, 2003 RMB | Remaining amortization period |
|---|---|---|---|---|---|---|---|
| Land use rights | 310,242,143 | 278,555,473 | – | 3,131,537 | 34,818,207 | 275,423,936 | 44 years and 5 months |
| Land use rights of Jining III | 88,928,996 | 85,371,836 | – | 889,290 | 4,446,450 | 84,482,546 | 47 years and 6 months |
| Mining rights of Jining III | 132,478,800 | 119,230,820 | – | 3,311,970 | 16,559,950 | 115,918,850 | 17 years and 6 months |
| Land use rights of Railway Assets | 259,378,500 | 254,278,500 | – | 2,659,463 | 7,759,463 | 251,619,037 | 48 years and 6 months |
| Goodwill | 80,000,000 | 40,000,000 | 40,000,000 | 4,444,445 | 4,444,445 | 75,555,555 | 8 years and 6 months |
| | 871,028,439 | 777,436,629 | 40,000,000 | 14,436,705 | 68,028,515 | 802,999,924 | |

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 June 30, 2003, the registration process in respect of the land use rights of Railway Assets has not yet been completed.

## 19. INTANGIBLE ASSETS – continued

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.

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", the Railway Assets' actual transportation capacity reached 25,000,000 tonnes for the year 2002, therefore the Company paid an extra RMB40,000,000. According to the above agreement, when the Railway Assets' actual transportation capacity reaches 28,000,000 tonnes for the year 2003, the Company will pay an extra RMB40,000,000. During the period from January 1 to June 30, 2003, the actual transportation capacity has reached 13,859,000 tonnes. Based on historical data and sales plan for the next half year, the management estimated that the transportation capacity will probably reach 28,000,000 tonnes. Extra payment is accrued accordingly in this period, details of which are set out in note 49(5)(b).

Goodwill is amortized over 10 years on a straight-line basis since its initial recognition.

## 20. NOTES PAYABLE

| | June 30, 2003<br>RMB | December 31, 2002<br>RMB |
|---|---|---|
| Bank acceptance bills (See note 47) | 15,000,000 | 108,001,674 |
| | 15,000,000 | 108,001,674 |
| Notes payable due within one year | 15,000,000 | 108,001,674 |

See note 49 for notes payable due to shareholders of the Company holding more than 5% of the total shares of the Company.

## 21. ACCOUNTS PAYABLE

See note 49 for accounts payable due to shareholders of the Company holding more than 5% of the total shares of the Company.

## 22. ADVANCE FROM CUSTOMERS

See note 49 for amounts advanced from shareholders of the Company holding more than 5% of the total shares of the Company.

## 23. DIVIDENDS PAYABLE

| | June 30, 2003<br>RMB | December 31, 2002<br>RMB |
|---|---|---|
| Yankuang Group | – | 173,680,000 |
| Shareholders of H Share | 106,080,000 | 106,080,000 |
| Shareholders of A Share | 18,720,000 | 18,720,000 |
| | 124,800,000 | 298,480,000 |

## 24. TAXES PAYABLE

| | June 30, 2003<br>RMB | December 31, 2002<br>RMB |
|---|---|---|
| Income tax | 135,871,110 | 56,866,726 |
| Value added tax | 93,720,898 | 43,268,288 |
| City construction tax | 38,413,463 | 49,177,153 |
| Others | 57,737,007 | 56,827,775 |
| | 325,742,478 | 206,139,942 |

## 25. OTHER PAYABLES

See note 49 for other payables due to shareholders of the Company holding more than 5% of the total shares of the Company.

## 26. ACCRUED EXPENSES

| | June 30, 2003<br>RMB | December 31, 2002<br>RMB |
|---|---|---|
| Accrued repair expense | 63,143,362 | – |
| Accrued technology expense | 45,793,645 | – |
| Accrued goodwill expense (See note 19) | 40,000,000 | – |
| | 148,937,007 | – |

## 27. PROVISION

| Category | At January 1, 2003<br>RMB | Accrual for the period<br>RMB | Payment for the period<br>RMB | At June 30, 2003<br>RMB |
|---|---|---|---|---|
| Land subsidence, restoration, rehabilitation and environmental costs | 83,043,947 | 135,403,692 | 76,713,109 | 141,734,530 |

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.

## 27. PROVISION – continued

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

| | June 30, 2003<br>RMB | December 31, 2002<br>RMB |
|---|---|---|
| Long-term payable due within one year | 13,247,800 | 13,247,800 |
| Long-term payable | 92,735,160 | 92,735,160 |
| | 105,982,960 | 105,982,960 |

The above balances represent the remaining balance of payable to Yankuang Group for acquisition of Jining III's mining rights, details of which are set out in note 49(5)(c).

## 29. LONG-TERM LOAN

| Lender | June 30, 2003<br>RMB | January 1, 2003<br>RMB | Period | Annual Interest Rate | Condition for Loan |
|---|---|---|---|---|---|
| Bank of China | 600,000,000 | 1,200,000,000 | 96 Months | 5.76%H | 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 instalment, i.e. on August 25, of each year from year 2004 to 2008 and on January 4, 2010 for the last instalment.

In June, 2003, the Company repaid the long-term loan of RMB600,000,000 ahead of schedule. According to the agreement, the unpaid principal will be paid in 3 instalments of RMB200 million each instalment, i.e. on August 25, of each year from year 2004 to 2006.

## 30. SHARE CAPITAL

Changes in share capital from January 1, 2003 to June 30, 2003 and from January 1, 2002 to December 31, 2002 are as follows:

| | January 1, 2002, December 31, 2002 and June 30, 2003 RMB | % |
|---|---|---|
| Shares not listed for public dealings | | |
| Subscriber shares | | |
| – State legal person shares | 1,670,000,000 | 58.19 |
| 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) | 1,020,000,000 | 35.54 |
| Total shares listed for public dealings | 1,200,000,000 | 41.81 |
| Total share capital | 2,870,000,000 | 100.00 |

Each share has a par value of RMB1. 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, 2003 to June 30, 2003 are as follows:

| | Share premium RMB | Transfer from Wei Jian Fei (Note) RMB | Total RMB |
|---|---|---|---|
| At January 1, 2003 | 3,549,258,855 | 905,262,485 | 4,454,521,340 |
| Addition | – | 131,035,830 | 131,035,830 |
| At June 30, 2003 | 3,549,258,855 | 1,036,298,315 | 4,585,557,170 |

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

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

Note: Pursuant to relevant regulations, this capital reserve can only be used for the future development of the coal mining business. The Company should accrue at RMB6 per tonne of raw coal mined as Wei Jian Fei, which is recorded in cost of sales and capital reserves.

## 32. SURPLUS RESERVES

Changes in surplus reserves from January 1, 2003 to June 30, 2003 are as follows:

| | Statutory common reserve fund RMB | Statutory common welfare fund RMB | Total RMB |
|---|---|---|---|
| At January 1, 2003 | 388,201,586 | 194,141,761 | 582,343,347 |
| Additions | – | – | – |
| At June 30, 2003 | 388,201,586 | 194,141,761 | 582,343,347 |

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 | 100,393,485 | 50,237,710 | 150,631,195 |
| At December 31, 2002 | 388,201,586 | 194,141,761 | 582,343,347 |

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. RETAINED EARNINGS

| | From January 1, 2003 to June 30, 2003 RMB | From January 1, 2002 to December 31, 2002 RMB |
|---|---|---|
| Retained earnings at the beginning of the period/year | 1,751,708,336 | 1,197,704,033 |
| Add: Net income for the period/year | 576,770,511 | 1,003,115,498 |
| Less: Appropriations to statutory common reserve fund (Note i) | – | 100,311,550 |
| Appropriations to statutory common welfare fund (Note ii) | – | 50,155,775 |
| 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 |
| Ordinary share dividend (Note iv) | – | 298,480,000 |
| Retained earnings at the end of the period/year | 2,328,478,847 | 1,751,708,336 |

## 33. RETAINED EARNINGS – continued

Note (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.

Note (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 last 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 at the preparation of consolidation financial statements.

Note (iv) Proposed dividend

Pursuant to relevant regulations, companies that issue H shares should appropriate dividends 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 Board of Directors dated April 11, 2003, proposed dividend for year 2002 is RMB1.04 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 has been approved at the shareholders' meeting of the Company on June 27, 2003.

## 34. REVENUE FROM PRINCIPAL OPERATIONS

| | For the period ended June 30, | |
|---|---|---|
| | 2003 | 2002 |
| | RMB | RMB |
| Revenue from domestic sales of coal products | 2,541,147,903 | 1,837,331,450 |
| Revenue from export sales of coal products | 1,808,149,772 | 1,872,727,921 |
| Revenue from railway transportation services | 78,582,143 | 70,310,675 |
| | 4,427,879,818 | 3,780,370,046 |

| Total amount of the 5 largest customers | Percentage in total revenue |
|---|---|
| RMB | % |
| 805,728,434 | 18% |

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 PRINCIPAL OPERATIONS

| | For the period ended June 30, 2003 RMB | 2002 RMB |
|---|---|---|
| Cost of sales of coal products | 1,966,414,242 | 1,547,802,008 |
| Cost of the railway transportation services | 33,529,767 | 24,812,612 |
| | 1,999,944,009 | 1,572,614,620 |

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

| | For the period ended June 30, 2003 RMB | 2002 RMB |
|---|---|---|
| Materials | 441,217,851 | 324,508,604 |
| Wages | 376,096,952 | 280,835,817 |
| Employee welfare | 44,667,973 | 36,084,456 |
| Electricity | 139,738,434 | 112,054,100 |
| Depreciation | 425,502,754 | 371,123,903 |
| Land subsidence, restoration, rehabilitation and environmental costs | 131,472,527 | 104,971,745 |
| Repairs | 148,450,528 | 116,881,553 |
| Others | 128,231,393 | 85,556,980 |
| Subtotal | 1,835,378,412 | 1,432,017,158 |
| Wei Jian Fei | 131,035,830 | 115,784,850 |
| Total | 1,966,414,242 | 1,547,802,008 |

## 36. SALES TAXES AND SURCHARGES

| | For the period ended June 30, 2003 RMB | 2002 RMB |
|---|---|---|
| Business tax | 2,593,210 | 2,109,320 |
| City construction tax | 18,266,868 | 18,664,772 |
| Education fee | 7,828,658 | 8,034,099 |
| Resource tax | 24,966,258 | 21,681,414 |
| | 53,654,994 | 50,489,605 |

## 37. PROFIT FROM OTHER OPERATIONS

| | For the period ended June 30, 2003 RMB | 2002 RMB |
|---|---|---|
| Sales of raw materials | | |
| – Sales | 373,332,566 | 241,004,945 |
| – Cost of sales | 347,208,280 | 227,926,355 |
| | 26,124,286 | 13,078,590 |
| Others | | |
| – Income | 18,370,658 | 22,255,872 |
| – Cost | 11,214,680 | 16,077,302 |
| | 7,155,978 | 6,178,570 |
| | 33,280,264 | 19,257,160 |

## 38. OPERATING EXPENSES

| | For the period ended June 30, 2003 RMB | 2002 RMB |
|---|---|---|
| Selling expense of domestic sales of coal products | 326,233,003 | 211,541,157 |
| Selling expense of export sales of coal products | 543,377,901 | 521,863,086 |
| Others | 34,242,138 | 47,877,648 |
| | 903,853,042 | 781,281,891 |

## 39. FINANCIAL EXPENSES

| | For the period ended June 30, 2003 RMB | 2002 RMB |
|---|---|---|
| Interest expenses | 35,154,000 | 43,304,961 |
| Less: interest income | 7,356,124 | 13,289,408 |
| Others | 324,680 | 980,210 |
| | 28,122,556 | 30,995,763 |

## 40. INVESTMENT INCOME

| | For the period ended June 30, 2003 RMB | 2002 RMB |
|---|---|---|
| Short-term investment income | | |
| – Interest income from designated deposit | 1,133,333 | – |
| Long-term investment income | | |
| – Investee's distributed profit recognized under cost method | 345,000 | – |
| | 1,478,333 | – |

## 41. SUBSIDY INCOME

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

## 42. NON-OPERATING INCOME

| | For the period ended June 30, 2003 RMB | 2002 RMB |
|---|---|---|
| Gain on disposal of fixed assets | 3,310,774 | 1,544,482 |
| Others | 461,042 | 205,871 |
| | 3,771,816 | 1,750,353 |

## 43. NON-OPERATING EXPENSES

| | For the period ended June 30, 2003 RMB | 2002 RMB |
|---|---|---|
| Loss on disposal of fixed assets | 5,124,553 | 2,476,607 |
| Donations | 276,700 | 133,500 |
| Fines | 65,467 | 231,698 |
| Compensation for early-retired staff | 2,889,874 | 1,339,097 |
| Others | 502,019 | 315,671 |
| | 8,858,613 | 4,496,573 |

## 44. INCOME TAXES

| | For the period ended June 30, 2003 RMB | 2002 RMB |
|---|---|---|
| Income tax of the Company | 298,901,475 | 287,505,031 |
| Income tax of the subsidiary | 728,713 | 609,475 |
| | 299,630,188 | 288,114,506 |

## 45. OTHER CASH RECEIVED RELATING TO OPERATING ACTIVITIES

| | For the period ended June 30, 2003 RMB |
|---|---|
| Other operating income | 391,703,224 |
| Interest income | 7,356,124 |
| Others | 10,767,934 |
| Total | 409,827,282 |

## 46. OTHER CASH PAID RELATING TO OPERATING ACTIVITIES

| | For the period ended June 30, 2003 RMB |
|---|---|
| Cash payments for operating expenses and administrative expenses | 1,176,388,769 |
| Other operating expenses | 358,422,960 |
| Others | 332,727,684 |
| Total | 1,867,539,413 |

## 47. CASH AND CASH EQUIVALENTS

| | June 30, 2003 RMB | December 31, 2002 RMB |
|---|---|---|
| Bank balances and cash | 1,489,518,337 | 1,595,933,728 |
| Less: Restricted cash (Note) | 37,405,513 | 51,760,596 |
| | 1,452,112,824 | 1,544,173,132 |

Note: The amount represents the bank deposits pledged to certain banks to secure bank acceptance bills and letters of credit at the balance sheet date.

## 48. SEGMENT INFORMATION

Segment information for the period ended June 30, 2003 is set as followings:

| Item | | Coal Mining Business RMB | Railway Transportation Business RMB | Inter-segment elimination RMB | Unallocated Items RMB | Total RMB |
|---|---|---|---|---|---|---|
| 1. | Operating Revenue | | | | | |
| | External | 4,349,297,675 | 78,582,143 | – | – | 4,427,879,818 |
| | Inter-segment | – | 194,767,229 | (194,767,229) | – | – |
| | Total | 4,349,297,675 | 273,349,372 | (194,767,229) | – | 4,427,879,818 |
| 2. | Cost Of Sales | | | | | |
| | External | 1,966,414,242 | 33,529,767 | – | – | 1,999,994,009 |
| | Inter-segment | – | 86,563,054 | (86,563,054) | – | – |
| | Total | 1,966,414,242 | 120,092,821 | (86,563,054) | – | 1,999,944,009 |
| 3. | Total Operating Expenses | 1,412,382,628 | 37,897,263 | (108,204,175) | 209,517,783 | 1,551,593,499 |
| 4. | Total Operating Profits | 970,500,805 | 115,359,288 | – | (209,517,783) | 876,342,310 |
| 5. | Total Assets | 9,884,685,202 | 1,132,546,426 | – | 1,805,970,820 | 12,823,202,448 |
| 6. | Total Liabilities | 1,463,168,083 | 58,695,923 | – | 930,959,815 | 2,452,823,821 |

## 49. 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, Shandong | Industry Processing | Major shareholder | State-owned | Geng Jia Huai |
| Zhongyan Trade | No. 1 Industrial Zone, Qingdao Free Trade Zone | International Trade | Subsidiary | Limited Company | Shao Hua Zhen |

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

| | January 1 and June 30, 2003 RMB |
|---|---|
| Yankuang Group | 3,090,336,000 |
| Zhongyan Trade | 2,100,000 |

## 49. SIGNIFICANT RELATED PARTY TRANSACTIONS – continued

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

| | January 1 and June 30, 2003 RMB | % |
|---|---|---|
| Yankuang Group | 1,670,000,000 | 58.19 |
| Zhongyan Trade | 1,100,000 | 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. ("Nanmei Shipping") | Common key management members |

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

(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;

## 49. SIGNIFICANT RELATED PARTY TRANSACTIONS – continued

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

(b) **Acquisition of railway transportation business – continued**

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.

The Company had paid off the above consideration of RMB1,242,590,000 at acquisition date. In addition, the Railway Assets' actual capacity reached approximately 25,000,000 tonnes for the year ended December 31, 2002 and an extra RMB40,000,000 was paid to Yankuang Group according to the agreement mentioned in term A.

During the period from January 1, 2003 to June 30, 2003, the Railway Assets' actual capacity has reached 13,859,000 tonnes. According to historical data and sales plan for the next half year, the management estimated that the transportation capacity will probably reach 28,000,000 tonnes. Extra payment of RMB40,000,000 is accrued accordingly, details of which are set out in note 19 and 26.

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

(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 June 30, 2003, the Company had paid RMB2,477,396,000 to Yankaung Group for the above acquisition including the consideration of RMB2,450,900,000 and the mining rights of RMB26,496,000.

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, which has not been paid by the end of June 30, 2003.

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

## 49. SIGNIFICANT RELATED PARTY TRANSACTIONS – continued

(d) Sales and purchases

| | For the period ended June 30, 2003 RMB'000 | 2002 RMB'000 |
|---|---|---|
| SALES AND SERVICE PROVIDED | | |
| Sales of coal – Nanmei Shipping | 21,501 | 20,243 |
| – Yankuang Group | 79,009 | 55,788 |
| Subtotal | 100,510 | 76,031 |
| Railway transportation services income – Yankuang Group | 26 | 266 |
| Public utilities and facilities income – Yankuang Group | 14,500 | 2,500 |
| Material and spare parts sales/profit – Yankuang Group | 180,480 | 8,399 |
| | 295,516 | 87,196 |
| PURCHASES | | |
| Yankuang Group | 181,342 | 68,831 |

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

(e) Amount due to or from related parties

| Account | Company | June 30, 2003 RMB | December 31, 2002 RMB |
|---|---|---|---|
| Notes receivable | Yankuang Group | 44,009,698 | – |
| Accounts receivable | Yankuang Group | 817,512 | 10,491,800 |
| Other receivables | Yankuang Group | 27,498,510 | 54,484,900 |
| Prepayments | Yankuang Group | 24,957,402 | 12,125,593 |
| | | 97,283,122 | 77,102,293 |
| Notes payable | Yankuang Group | – | 7,020,000 |
| Accounts payable | Yankuang Group | 33,817,272 | 55,433,118 |
| Advance from customers | Yankuang Group | 11,883,050 | 15,355,725 |
| Other payables | Yankuang Group | 93,890,733 | 262,964,418 |
| Accrued expenses | Yankuang Group | 40,000,000 | – |
| Long-term payable due within one year | Yankuang Group | 13,247,800 | 13,247,800 |
| Long-term payables | Yankuang Group | 92,735,160 | 92,735,160 |
| | | 285,574,015 | 446,756,221 |

## 49. SIGNIFICANT RELATED PARTY TRANSACTIONS – 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 period from January 1, 2003 to June 30, 2003 and from January 1, 2002 to June 30, 2002 are RMB227,676,000 and RMB205,087,000, 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 period:

| | For the period ended June 30, | |
|---|---|---|
| | 2003 | 2002 |
| | RMB'000 | RMB'000 |
| Electricity | 154,119 | – |
| Repairs and maintenance | 92,217 | 108,437 |
| Technical support and training fee | 7,565 | 7,565 |
| Mining rights fees | 6,490 | 6,490 |
| Public utilities expenses | 300 | 870 |
| Road transportation fee | 13,417 | 16,921 |
| Gases and eructate expenses | 5,985 | 5,510 |
| Buildings management fee | 18,600 | 18,600 |
| Children tuition fee | 8,300 | 8,300 |
| Others | 9,388 | 7,265 |
| Total | 316,381 | 179,958 |

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 period from January 1, 2003 to June 30, 2003 and from January 1, 2002 to June 30, 2002 are RMB1,098,717 and RMB1,264,369, respectively.

(4) During this period and the same period of last year, 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.

## 50. NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

### (1) Long-term equity investments – The Company

| | June 30, 2003 | | | December 31, 2002 | | |
|---|---|---|---|---|---|---|
| | Investment amount RMB | Provision RMB | Net book value RMB | Investment amount RMB | Provision RMB | Net book value RMB |
| Investment in subsidiary | 4,399,021 | – | 4,399,021 | 4,774,406 | – | 4,774,406 |
| Other equity investment | 31,897,684 | – | 31,897,684 | 31,897,684 | – | 31,897,684 |
| | 36,296,705 | – | 36,296,705 | 36,672,090 | – | 36,672,090 |

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

| Name of investee | Investment cost | Profit and loss adjustment | | | | Net book value | |
|---|---|---|---|---|---|---|---|
| | January 1 and June 30, 2003 RMB | January 1, 2003 RMB | Addition of equity RMB | Cash dividend of this period RMB | June 30, 2003 RMB | January 1, 2003 RMB | June 30, 2003 RMB |
| Zhangyan Trade | 2,709,903 | 2,064,503 | 911,155 | 1,286,540 | 1,689,118 | 4,774,406 | 4,399,021 |

(b) For details of other equity investments, see note 15.

### (2) Investment profit – The Company

| | For the period ended June 30, 2003 RMB | 2002 RMB |
|---|---|---|
| Short-term investment income | | |
| – Interest income from designated deposit | 1,133,333 | – |
| Long-term investment income | | |
| – Share of investee's profit recognized under equity method | 911,155 | 2,831,482 |
| – Investee's distributed profit recognized under cost method | 345,000 | – |
| | 2,389,488 | 2,831,482 |

## 50. NOTES TO THE COMPANY'S FINANCIAL STATEMENTS – continued

(3) Cash and cash equivalents – The Company

| | June 30, 2003 RMB | December 31, 2002 RMB |
|---|---|---|
| Bank balance and cash | 1,484,844,068 | 1,592,397,958 |
| Less: Restricted cash (Note) | 37,405,513 | 51,760,596 |
| | 1,447,438,555 | 1,540,637,362 |

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.

## 51. CAPITAL COMMITMENTS

| | June 30, 2003 RMB | December 31, 2002 RMB |
|---|---|---|
| Capital expenditure contracted for but not provided in the financial statements in respect of: | | |
| – Purchase of assets | 139,956 | 257,382 |
| – Investments (See note 15) | 30,137 | 30,137 |
| Capital expenditure approved by Board of Directors but not contracted: | | |
| – Construction of assets (Note) | 250,000 | – |
| | 420,093 | 287,519 |

Note: 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 domestic waterways connected with Jinghang Canal. The approved budget of the harbour project amounts to RMB250,000,000.

## 52. SUBSEQUENT EVENTS

Pursuant to a resolution passed by the board of directors on August 15, 2003, the Company entered into an agreement to acquire an 80% equity interest in Zoucheng Nanmei Shipping Co., Ltd. ("Nanmei Shipping") for a cash consideration of RMB10,164,000. Nanmei Shipping is established and operated in the PRC and is principally engaged in river and lake transportation, and the sales of coal and construction material.

# SUPPLEMENT

FOR THE PERIOD FROM JANUARY 1, 2003 TO JUNE 30, 2003

## 1. SUMMARY OF DIFFERENCES BETWEEN IFRS AND PRC GAAP

The financial statements are prepared in accordance with PRC GAAP, which differs from that under IFRS. As at June 30, 2003, under PRC GAAP the net profit is 576,771 (RMB'000) and the shareholder's equity is 10,366,379 (RMB'000). The summary of differences of net profit and shareholder's equity between PRC GAAP and IFRS in this year are as follows:

| | Net profit for the period RMB'000 | Net assets at June 30, 2003 RMB'000 |
|---|---|---|
| As per the financial statements prepared under PRC GAAP | 576,771 | 10,366,379 |
| Adjustments under IFRS: | | |
| – Reversal of Wei Jian Fei | 131,034 | – |
| – Deferred tax effect | 19,368 | 108,175 |
| – Release of negative goodwill to income | 13,810 | 69,050 |
| – Deemed interest expenses | (2,631) | (102,182) |
| – Others | (386) | (6,903) |
| As per the financial statements prepared under IFRS | 737,966 | 10,434,519 |

## 2. RETURN ON SHAREHOLDERS' EQUITY AND EARNINGS PER SHARE CALCULATED BY DILUTED METHOD AND WEIGHTED AVERAGE METHOD

| | Return on Shareholders' Equity % | | Earnings Per Share RMB | |
|---|---|---|---|---|
| Profit for the reporting period | Diluted | Weighted Average | Diluted | Weighted Average |
| Income from principal operations | 22.90 | 23.71 | 0.83 | 0.83 |
| Operating profits | 8.45 | 8.75 | 0.31 | 0.31 |
| Net profit | 5.56 | 5.76 | 0.20 | 0.20 |
| Net profit deducted by extraordinary gain (or loss) | 5.61 | 5.81 | 0.20 | 0.20 |

## 3. LIST OF PROVISION I FOR IMPAIRMENT LOSS ON ASSETS

Unit: RMB Yuan

| Item | January 1, 2003 | | Provision | | Reversal | | June 30, 2003 | |
|---|---|---|---|---|---|---|---|---|
| | The Group | The Company | The Group | The Company | The Group | The Company | The Group | The Company |
| 1. Total provision for bad debts | 79,622,273 | 79,622,273 | 30,234,601 | 30,234,601 | – | – | 109,856,874 | 109,856,874 |
| Including: Accounts receivable | 76,083,402 | 76,083,402 | 21,087,954 | 21,087,954 | – | – | 97,171,356 | 97,171,356 |
| Other receivables | 3,538,871 | 3,538,871 | 9,146,647 | 9,146,647 | – | – | 12,685,518 | 12,685,518 |
| 2. Total provision for loss on current investment | – | – | – | – | – | – | – | – |
| Including: Investment in stock | – | – | – | – | – | – | – | – |
| Investment in bond | – | – | – | – | – | – | – | – |
| 3. Total provision for loss on inventory | – | – | – | – | – | – | – | – |
| Including: Raw material | | | | | | | | |
| Finished goods | – | – | – | – | – | – | – | – |
| 4. Total provision for loss on long-term investment | – | – | – | – | – | – | – | – |
| Including: Long-term equity investment | – | – | – | – | – | – | – | – |
| Long-term bonds investment | – | – | – | – | – | – | – | – |
| 5. Total provision for loss on fixed assets | – | – | – | – | – | – | – | – |
| Including: Buildings | – | – | – | – | – | – | – | – |
| Plant, machinery and equipment | – | – | – | – | – | – | – | – |
| 6. Total provision for loss on intangible assets | | | | | | | | |
| Including: Land use right | | | | | | | | |
| Mining right | – | – | – | – | – | – | – | – |
| Goodwill | – | – | – | – | – | – | – | – |
| 7. Provision for loss on fixed assets under construction | – | – | – | – | – | – | – | – |
| 8. Provision for loss on designated deposit | – | – | – | – | – | – | – | – |

## 4. ANALYSIS OF ITEMS WHICH FLUCTUATED OVER 30% (INCLUDING 30%), AND ACCOUNTING FOR 5% (INCLUDING 5%) OF THE TOTAL ASSETS ON THE BALANCE SHEET DATE OR 10% (INCLUDING 10%) OF THE OPERATING PROFIT FOR THE REPORTING PERIOD:

Nil.

## (ii) Unaudited Financial Information prepared under IFRS

# CONDENSED CONSOLIDATED STATEMENT OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2003

| | Notes | Six months ended June 30, 2003 RMB'000 (unaudited) | 2002 RMB'000 (unaudited) |
|---|---|---|---|
| Gross sales of coal | 5 | 4,298,236 | 3,662,013 |
| Transportation costs of coal | 5 | (869,611) | (733,404) |
| Net sales of coal | 5 | 3,428,625 | 2,928,609 |
| Railway transportation service income | | 75,989 | 67,991 |
| Cost of sales and service provided | 6 | (1,868,908) | (1,456,830) |
| Gross profit | | 1,635,706 | 1,539,770 |
| Selling, general and administrative expenses | 7 | (636,167) | (533,334) |
| Other operating income | 8 | 57,488 | 42,423 |
| Operating income | | 1,057,027 | 1,048,859 |
| Interest expenses | 9 | (37,971) | (63,988) |
| Income before income taxes | 10 | 1,019,056 | 984,871 |
| Income taxes | 11 | (280,262) | (285,910) |
| Income before minority interest | | 738,794 | 698,961 |
| Minority interest | | 828 | 2,574 |
| Net income | | 737,966 | 696,387 |
| Appropriations to reserves | | 131,036 | 551,732 |
| Dividend | 12 | 298,480 | 287,000 |
| Earnings per share | 13 | RMB0.26 | RMB0.24 |
| Earnings per ADS | 13 | RMB12.86 | RMB12.13 |

## CONDENSED CONSOLIDATED BALANCE SHEET

AT JUNE 30, 2003

| | Notes | At June 30, 2003 RMB'000 (unaudited) | At December 31, 2002 RMB'000 (audited) |
|---|---|---|---|
| **ASSETS** | | | |
| CURRENT ASSETS | | | |
| Bank balances and cash | | 1,452,113 | 1,544,173 |
| Restricted cash | 14 | 37,406 | 51,761 |
| Bills and accounts receivable | 15 | 972,085 | 802,929 |
| Investments in securities | 16 | 88,702 | 88,702 |
| Inventories | 17 | 547,767 | 576,579 |
| Other loan receivable | 18 | 100,000 | – |
| Prepayments and other current assets | | 737,398 | 756,019 |
| TOTAL CURRENT ASSETS | | 3,935,471 | 3,820,163 |
| MINING RIGHTS | 19 | 115,919 | 119,231 |
| LAND USE RIGHTS | 20 | 611,526 | 618,206 |
| PROPERTY, PLANT AND EQUIPMENT, NET | 21 | 7,955,542 | 8,276,941 |
| GOODWILL | 22 | 86,826 | 51,660 |
| NEGATIVE GOODWILL | 23 | (69,051) | (82,861) |
| INVESTMENTS IN SECURITIES | 16 | 1,760 | 1,760 |
| DEPOSIT MADE ON ACQUISITION OF INVESTMENTS IN SECURITIES | 24 | 30,138 | 30,138 |
| DEFERRED TAX ASSET | 25 | 108,175 | 88,807 |
| TOTAL ASSETS | | 12,776,306 | 12,924,045 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| CURRENT LIABILITIES | | | |
| Bills and accounts payable | 26 | 369,174 | 602,725 |
| Other payables and accrued expenses | | 962,946 | 634,790 |
| Provision for land subsidence, restoration, rehabilitation and environmental costs | 27 | 141,735 | 83,044 |
| Amounts due to Parent Company and its subsidiary companies | 31 | 66,576 | 285,308 |
| Taxes payable | | 136,016 | 56,867 |
| TOTAL CURRENT LIABILITIES | | 1,676,447 | 1,662,734 |
| AMOUNTS DUE TO PARENT COMPANY AND ITS SUBSIDIARY COMPANIES – DUE AFTER ONE YEAR | 31 | 61,341 | 61,341 |
| LONG-TERM BANK BORROWING | 28 | 600,000 | 1,200,000 |
| TOTAL LIABILITIES | | 2,337,788 | 2,924,075 |
| COMMITMENTS | 32 | | |
| SHAREHOLDERS' EQUITY | | 10,434,519 | 9,995,033 |
| MINORITY INTEREST | | 3,999 | 4,937 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 12,776,306 | 12,924,045 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2003

| | Share capital RMB'000 | Share premium RMB'000 | Future development fund RMB'000 | Statutory common reserve fund RMB'000 | Statutory common welfare fund RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2002 | 2,870,000 | 3,272,527 | 111,748 | 339,096 | 169,548 | 2,297,115 | 9,060,034 |
| Net income (unaudited) | – | – | – | – | – | 696,387 | 696,387 |
| Appropriations to reserves, net of minority interest's share (unaudited) (note) | – | – | 628,664 | (51,288) | (25,644) | (551,732) | – |
| Dividend (unaudited) | – | – | – | – | – | (287,000) | (287,000) |
| Balance at June 30, 2002 (unaudited) | 2,870,000 | 3,272,527 | 740,412 | 287,808 | 143,904 | 2,154,770 | 9,469,421 |
| Balance at July 1, 2002 (unaudited) | 2,870,000 | 3,272,527 | 740,412 | 287,808 | 143,904 | 2,154,770 | 9,469,421 |
| Net income (unaudited) | – | – | – | – | – | 525,612 | 525,612 |
| Appropriations to reserves, net of minority interest's share (unaudited) (note) | – | – | 114,825 | 100,393 | 50,237 | (265,455) | – |
| Balance at December 31, 2002 | 2,870,000 | 3,272,527 | 855,237 | 388,201 | 194,141 | 2,414,927 | 9,995,033 |
| Balance at January 1, 2003 | 2,870,000 | 3,272,527 | 855,237 | 388,201 | 194,141 | 2,414,927 | 9,995,033 |
| Net income (unaudited) | – | – | – | – | – | 737,966 | 737,966 |
| Appropriation to reserve (unaudited) | – | – | 131,034 | – | – | (131,034) | – |
| Dividend (unaudited) | – | – | – | – | – | (298,480) | (298,480) |
| Balance at June 30, 2003 (unaudited) | 2,870,000 | 3,272,527 | 986,271 | 388,201 | 194,141 | 2,723,379 | 10,434,519 |

Note:

Prior to 1999, Yanzhou Coal Mining Company Limited ("the Company") was required to contribute at RMB1.80 per tonne of raw coal mined to the National Coal Industry Bureau ("NCIB") and Shangdong Coal Mining Industrial Bureau ("SCMIB") in aggregate and the amount was recognized as an expense. In addition, the Company was also required to transfer an annual amount to a future development fund at RMB4.2 per tonne of raw coal mined. The fund can only be used for the future development of the coal mining business and is not available for distribution to shareholders.

The contribution to NCIB has been cancelled since July 1, 1998 and the contribution to SCMIB has been cancelled since January 1, 1999. The annual transfer to the future development fund was stopped in the year started from January 1999.

According to clarification of the relevant regulations obtained from the Ministry of Finance during the year ended December 31, 2002, the requirement for the Company to transfer an annual amount to the future development fund was not changed upon cancellation of the requirements for contributions to NCIB and SCMIB. Therefore, the Company was required to transfer an amount of RMB743,489,000 (including RMB204,134,000, RMB164,738,000 and RMB144,007,000 for the years ended December 31, 2001, 2000 and 1999, respectively, that would have been transferred had the annual transfer not been stopped on January 1, 1999), to the future development fund in 2002, representing RMB6 per tonne of raw coal mined, from retained earnings. This change did not have any impact on the Group's financial position or the results of operations of the Company and its subsidiary.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2003

| | Six months ended June 30, 2003 RMB'000 (unaudited) | 2002 RMB'000 (unaudited) |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Income before minority interest | 738,794 | 698,961 |
| Adjustments to reconcile income before minority interest to net cash provided by operating activities: | | |
| Depreciation of property, plant and equipment and land use rights | 455,009 | 393,147 |
| Amortization of goodwill | 4,834 | 389 |
| Release of negative goodwill to income | (13,810) | (13,810) |
| Amortization of mining rights | 3,312 | 3,312 |
| Recognition of deferred tax asset | (19,368) | (2,204) |
| Loss on disposal of property, plant and equipment | 1,814 | 932 |
| (Increase) decrease in assets (net of acquisition): | | |
| Bills and accounts receivable | (169,156) | (102,076) |
| Inventories | 72,389 | (134,627) |
| Prepayments and other current assets | 16,728 | (6,110) |
| Taxes receivable | – | 21,674 |
| Increase (decrease) in liabilities (net of acquisition): | | |
| Bills and accounts payable | (233,551) | (32,690) |
| Other payables and accrued expenses | 232,877 | 58,504 |
| Provision for land subsidence, restoration, rehabilitation and environmental costs | 54,760 | 16,444 |
| Amounts due to Parent Company and its subsidiary companies | (392,412) | 8,804 |
| Taxes payable | 79,149 | 118,134 |
| NET CASH FROM OPERATING ACTIVITIES | 831,369 | 1,028,784 |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – continued

FOR THE SIX MONTHS ENDED JUNE 30, 2003

| | Note | Six months ended June 30, 2003 RMB'000 (unaudited) | 2002 RMB'000 (unaudited) |
|---|---|---|---|
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | | (248,816) | (59,852) |
| Increase in other loan receivable | | (100,000) | – |
| Decrease in restricted cash | | 14,355 | – |
| Proceeds on disposal of property, plant and equipment | | 12,798 | 9,818 |
| Acquisition of Railway Assets | 30 | – | (1,242,445) |
| Acquisition of investments in securities | | – | (40,000) |
| NET CASH USED IN INVESTING ACTIVITIES | | (321,663) | (1,332,479) |
| FINANCING ACTIVITIES | | | |
| Repayment of bank borrowing | | (600,000) | – |
| Dividend paid to a minority shareholder of subsidiary | | (1,766) | (592) |
| Repayment to Parent Company and its subsidiary companies in respect of consideration for acquisition of Jining III | | – | (550,000) |
| Dividend paid | | – | (287,000) |
| Bank borrowing raised | | – | 1,200,000 |
| NET CASH (USED IN) FROM FINANCING ACTIVITIES | | (601,766) | 362,408 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | | (92,060) | 58,713 |
| CASH AND CASH EQUIVALENTS, BEGINNING | | 1,544,173 | 1,124,806 |
| CASH AND CASH EQUIVALENTS, ENDING | | 1,452,113 | 1,183,519 |
| Additional cash flow information: | | | |
| Cash paid during the period for | | | |
| Interest | | 35,340 | 103,961 |
| Income taxes | | 220,481 | 217,931 |

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2003

## 1. GENERAL

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

On January 3, 2001, the Company allotted an additional 100,000,000 A shares to the public in the PRC (the "A Share Issue") and the A shares have been listed on the Shanghai Securities Exchange ("SSE") since February 2001. On May 14, 2001, the Company issued an aggregate of 170,000,000 H shares to independent investors and the H shares were listed on The Stock Exchange of Hong Kong Limited. The total net proceeds from the A share and H share offerings were approximately RMB960,607,000 and HK$461,867,000 (equivalent to approximately RMB494,197,000), respectively. The proceeds were applied towards the purchase price of Jining III of approximately RMB2,583 million. The purchase price includes the cost of Jining III of approximately RMB2,450,905,000 and the cost of the mining rights of approximately RMB132,479,000.

The consideration for the cost of Jining III was fully settled at December 31, 2002 as follows:

(i) Initial instalment
RMB243,526,000 was paid on January 1, 2001, the completion date.

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

(iii) Third instalment
50% of the outstanding balance of the purchase price was paid (without interest) prior to December 31, 2001; and

(iv) Fourth instalment
The outstanding balance of the purchase price was paid (without interest) prior to December 31, 2002.

## 1. GENERAL – continued

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

On January 1, 2002, the Company acquired from the Parent Company the assets of the special purpose coal railway transportation business ("Railway Assets"). The consideration for the acquisition of the Railway Assets was approximately RMB1,242,586,000 subject to the adjustments as follows:

> For each of the years ending December 31, 2002, 2003 and 2004, the Company will pay an extra RMB40,000,000 for each year if the Railway Assets' actual capacity reaches 25,000,000 tonnes, 28,000,000 tonnes and 30,000,000 tonnes, respectively.

The acquisition was funded by cash of the Company and a long-term bank loan of RMB1,200,000,000, the repayment of which is guaranteed by the Parent Company.

For the year ended December 31, 2002, Railway Assets' actual capacity was more than 25,000,000 tonnes, and accordingly, the consideration was adjusted to approximately RMB1,282,586,000.

As at June 30, 2003, the Company estimated that the capacity of the Railway Assets for the year ending December 31, 2003 will exceed 28,000,000 tonnes. As a result, the consideration was further adjusted to approximately RMB1,322,586,000.

At June 30, 2003 and December 31, 2002, the Company holds a 52.38% interest in the registered capital of Qingdao Free Trade Zone Zhongyan Trade Co., Ltd. ("Zhongyan"), a limited liability company established and operated in the PRC. Zhongyan is engaged in the trading and processing of mining machinery. The Company acquired its stake in Zhongyan during the year ended December 31, 2001 for a cash consideration of RMB2,710,000. Zhongyan did not have any significant impact on the consolidated results of the Company and Zhongyan (collectively, the "Group").

In April 2001, the status of the Company was changed to that of a sino-foreign joint stock limited company.

The Company's A shares are listed on the SSE, its H shares are listed on The Stock Exchange of Hong Kong Limited, and its American Depositary Shares ("ADS", one ADS represents 50 H shares) are listed on the New York Stock Exchange, Inc.

## 2. BASIS OF PRESENTATION

The condensed financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" and with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Company also prepares a set of financial statements in accordance with the relevant accounting principles and regulations applicable to PRC enterprises ("PRC GAAP"). Differences between International Financial Reporting Standard ("IFRS") and PRC GAAP are stated in note 38.

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

Differences between IFRS and accounting principles generally accepted in the United States of America ("US GAAP") are stated in note 39.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of financial instruments.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2002.

## 4. SEGMENT INFORMATION

The Group is engaged primarily in the coal mining business and, commencing from January 1, 2002, the Group is also engaged in coal railway transportation business. The Group operates only in the PRC. All the identifiable assets of the Group are located in the PRC. The Company does not currently have direct export rights and all of its export sales must be made through China National Coal Industry Import and Export Corporation ("National Coal Corporation"), China National Minerals Import and Export Co., Ltd. ("National Minerals Company") or Shanxi Coal Imp. & Exp. Group Corp. ("Shanxi Coal Corporation"). The final customer destination of the Company's export sales is determined by the Company, National Coal Corporation, National Minerals Company or Shanxi Coal Corporation. The Company's subsidiary is engaged in trading and processing of mining machinery in the PRC. No separate segment information about the subsidiary's business is presented in these financial statements as the underlying gross sales, results and assets of the subsidiary's business are insignificant to the Group.

**Business segments**

For management purposes, the Group is currently organised into two operating divisions – coal mining and coal railway transportation. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

| | |
|---|---|
| Coal mining | – Underground mining, preparation and sales of coal |
| Coal railway transportation | – Provision for railway transportation services |

## 4. SEGMENT INFORMATION – continued

Segment information about these businesses is presented below:

### INCOME STATEMENT

| | For the six months ended June 30, 2003 | | | |
|---|---|---|---|---|
| | Coal mining RMB'000 | Coal railway transportation RMB'000 | Eliminations RMB'000 | Consolidated RMB'000 |
| GROSS REVENUE | | | | |
| External | 4,298,236 | 75,989 | – | 4,374,225 |
| Inter-segment | – | 194,767 | (194,767) | – |
| Total | 4,298,236 | 270,756 | (194,767) | 4,374,225 |
| Inter-segment revenue is charged at prices pre-determined by the relevant governmental authority. | | | | |
| RESULT | | | | |
| Segment results | 1,114,822 | 115,111 | – | 1,229,933 |
| Unallocated corporate expenses | | | | (181,395) |
| | | | | 1,048,538 |
| Unallocated corporate income | | | | 8,489 |
| Operating income | | | | 1,057,027 |

| | For the six months ended June 30, 2002 | | | |
|---|---|---|---|---|
| | Coal mining RMB'000 | Coal railway transportation RMB'000 | Eliminations RMB'000 | Consolidated RMB'000 |
| GROSS REVENUE | | | | |
| External | 3,662,013 | 67,991 | – | 3,730,004 |
| Inter-segment | – | 188,707 | (188,707) | – |
| Total | 3,662,013 | 256,698 | (188,707) | 3,730,004 |

Inter-segment revenue is charged at prices pre-determined by the relevant governmental authority.

| | | | | |
|---|---|---|---|---|
| RESULT | | | | |
| Segment results | 997,228 | 135,518 | – | 1,132,746 |
| Unallocated corporate expenses | | | | (97,165) |
| | | | | 1,035,581 |
| Unallocated corporate income | | | | 13,278 |
| Operating income | | | | 1,048,859 |

## 5. SALES OF COAL AND TRANSPORTATION COSTS OF COAL

| | Six months ended June 30, 2003 RMB'000 | 2002 RMB'000 |
|---|---|---|
| Domestic sales of coal, gross | 2,507,618 | 1,795,523 |
| Less: Transportation costs | 326,233 | 211,542 |
| Domestic sales of coal, net | 2,181,385 | 1,583,981 |
| Export sales of coal, gross | 1,790,618 | 1,866,490 |
| Less: Transportation costs | 543,378 | 521,862 |
| Export sales of coal, net | 1,247,240 | 1,344,628 |
| Net sales of coal | 3,428,625 | 2,928,609 |

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

Sales taxes consist primarily of a resource tax calculated at the rate of RMB1.20 per metric tonne ("tonne") of the imputed quantity of raw coal sold and are paid to the local tax bureau. The resource tax for each of six months ended June 30, 2003 and 2002 amounted to RMB24,966,000 and RMB21,681,000, respectively.

## 6. COST OF SALES AND SERVICE PROVIDED

| | Six months ended June 30, 2003 RMB'000 | 2002 RMB'000 |
|---|---|---|
| Materials | 446,973 | 338,784 |
| Wages and employee benefits | 429,853 | 312,262 |
| Electricity | 141,058 | 115,125 |
| Depreciation | 434,622 | 380,646 |
| Land subsidence, restoration, rehabilitation and environmental costs | 131,473 | 104,972 |
| Repairs and maintenance | 154,926 | 131,892 |
| Annual fee and amortization of mining rights | 9,802 | 9,802 |
| Transportation costs | 26,037 | 17,864 |
| Others | 94,164 | 45,483 |
| | 1,868,908 | 1,456,830 |

## 7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

| | Six months ended June 30, 2003 RMB'000 | 2002 RMB'000 |
|---|---|---|
| Retirement benefits scheme contributions (note 33) | 174,279 | 156,088 |
| Wages and employee benefits | 52,369 | 82,581 |
| Additional medical insurance | 14,234 | – |
| Depreciation | 20,387 | 12,501 |
| Amortization of goodwill | 4,834 | 389 |
| Distribution charges | 20,687 | 44,057 |
| Allowance for doubtful debts | 30,235 | 35,023 |
| Resource compensation fees | 42,204 | 21,443 |
| Repairs and maintenance | 4,760 | 3,744 |
| Research and development | 49,286 | 13,249 |
| Staff training costs | 13,377 | 5,146 |
| Freight charges | 6,389 | 1,361 |
| Others | 203,126 | 157,752 |
| | 636,167 | 533,334 |

## 8. OTHER OPERATING INCOME

| | Six months ended June 30, 2003 RMB'000 | 2002 RMB'000 |
|---|---|---|
| Gain on sales of auxiliary materials | 26,124 | 13,079 |
| Interest income from bank deposits | 7,356 | 13,278 |
| Release of negative goodwill to income | 13,810 | 13,810 |
| Government grants | 4,495 | – |
| Others | 5,703 | 2,256 |
| | 57,488 | 42,423 |

## 9. INTEREST EXPENSES

| | Six months ended June 30, 2003 RMB'000 | 2002 RMB'000 |
|---|---|---|
| Interest expenses on: | | |
| – bank borrowing wholly repayable within 5 years | 35,154 | 3,666 |
| – bank borrowing not wholly repayable within 5 years | – | 39,639 |
| – bills receivable discounted without recourse | 186 | 705 |
| Deemed interest expenses | 2,631 | 19,978 |
| | 37,971 | 63,988 |

No interest was capitalized during the relevant periods.

## 10. INCOME BEFORE INCOME TAXES

| | Six months ended June 30, 2003 RMB'000 | 2002 RMB'000 |
|---|---|---|
| Income before income taxes has been arrived at after charging: | | |
| Amortization of mining rights | 3,312 | 3,312 |
| Loss on disposal of property, plant and equipment | 1,814 | 932 |

## 11. INCOME TAXES

| | Six months ended June 30, 2003 RMB'000 | 2002 RMB'000 |
|---|---|---|
| Income taxes | 299,630 | 288,114 |
| Deferred tax credit (note 25) | (19,368) | (2,204) |
| | 280,262 | 285,910 |

The Group is subject to a standard income tax rate of 33%. However, the effective income tax rate of the Group for the current period is 28% (six months ended June 30, 2002: 29%). The major reconciling item is the amount claimed on the appropriation to future development fund which is eligible for tax deduction but is not charged to income under IFRS.

## 12. DIVIDEND

| | Six months ended June 30, 2003 RMB'000 | 2002 RMB'000 |
|---|---|---|
| Final dividend approved | 298,480 | 287,000 |

Pursuant to the annual general meeting held on June 27, 2003, a final dividend of approximately RMB298,480,000, or RMB0.104 per share in respect of the year ended December 31, 2002 was approved.

Pursuant to the annual general meeting held on June 7, 2002, a final dividend of approximately RMB287,000,000, or RMB0.100 per share in respect of the year ended December 31, 2001 was approved and paid to the shareholders of the Company.

## 13. EARNINGS PER SHARE AND PER ADS

The calculation of the earnings per share for the six months ended June 30, 2003 and 2002 is based on the net income for the period of RMB737,966,000 and RMB696,387,000, respectively, and on the weighted average number of 2,870,000,000 shares in issue during the relevant periods.

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

## 14. RESTRICTED CASH

At the balance sheet date, the amount represents the bank deposits pledged to certain banks to secure banking facilities granted to the Group.

## 15. BILLS AND ACCOUNTS RECEIVABLE

| | At June 30, 2003 RMB'000 | At December 31, 2002 RMB'000 |
|---|---|---|
| Total bills receivable | 487,038 | 239,974 |
| Total accounts receivable | 582,218 | 639,038 |
| Less: Allowance for doubtful debts | (97,171) | (76,083) |
| Total bills and accounts receivable, net | 972,085 | 802,929 |

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

The Group made allowance for doubtful debts of RMB21,088,000 and RMB35,023,000 for the six months ended June 30, 2003 and 2002, respectively.

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

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

| | At June 30, 2003 RMB'000 | At December 31, 2002 RMB'000 |
|---|---|---|
| 1– 180 days | 705,154 | 551,795 |
| 181– 365 days | 178,458 | 182,371 |
| 1– 2 years | 107,614 | 99,633 |
| 2– 3 years | 58,011 | 38,388 |
| Over 3 years | 20,019 | 6,825 |
| | 1,069,256 | 879,012 |

## 16. INVESTMENTS IN SECURITIES

| | At June 30, 2003 RMB'000 | At December 31, 2002 RMB'000 |
|---|---|---|
| Available-for-sale investments | | |
| NON-CURRENT | | |
| Equity investments | 1,760 | 1,760 |
| CURRENT | | |
| Fixed maturity investments | 88,702 | 88,702 |

The non-current investments in securities represents unlisted equity investments with no quoted market price and the amount was stated at cost subject to recognition of impairment losses. The current investments in securities represents investments in listed fixed maturity securities that the Group does not intend or is not able to hold to maturity. The carrying amounts of these fixed maturity securities approximate their quoted market prices.

## 17. INVENTORIES

| | At June 30, 2003 RMB'000 | At December 31, 2002 RMB'000 |
|---|---|---|
| COST | | |
| Auxiliary materials, spare parts and small tools | 239,728 | 309,246 |
| Coal products | 308,039 | 267,333 |
| | 547,767 | 576,579 |

## 18. OTHER LOAN RECEIVABLE

The amount represents a loan receivable to an independent third party. The amount is guaranteed by another independent third party, bears interest at 6% per annum and is secured by shares of a private PRC company (equivalent to approximately 16% of the share capital of that company) in which the borrower is a shareholder. The amount is repayable in April 2004.

## 19. MINING RIGHTS

| | RMB'000 |
|---|---|
| COST | |
| At January 1, 2003 and June 30, 2003 | 132,479 |
| AMORTIZATION | |
| At January 1, 2003 | 13,248 |
| Provided for the period | 3,312 |
| At June 30, 2003 | 16,560 |
| NET BOOK VALUES | |
| At June 30, 2003 | 115,919 |
| At December 31, 2002 | 119,231 |

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

## 20. LAND USE RIGHTS

| | RMB'000 |
|---|---|
| COST | |
| At January 1, 2003 and at June 30, 2003 | 658,549 |
| AMORTIZATION | |
| At January 1, 2003 | 40,343 |
| Provided for the period | 6,680 |
| At June 30, 2003 | 47,023 |
| NET BOOK VALUES | |
| At June 30, 2003 | 611,526 |
| At December 31, 2002 | 618,206 |

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

## 21. PROPERTY, PLANT AND EQUIPMENT, NET

| | Buildings RMB'000 | Railway structure RMB'000 | Mining structure RMB'000 | Plant, machinery and equipment RMB'000 | Transportation equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| COST | | | | | | | |
| At January 1, 2003 | 2,024,122 | 720,704 | 3,646,069 | 6,602,377 | 270,740 | 124,923 | 13,388,935 |
| Additions | – | – | – | 10,796 | 178 | 170,214 | 181,188 |
| Transfers | 302 | – | – | 13,964 | 639 | (14,905) | – |
| Disposals | – | – | – | (47,781) | (2,081) | – | (49,862) |
| At June 30, 2003 | 2,024,424 | 720,704 | 3,646,069 | 6,579,356 | 269,476 | 280,232 | 13,520,261 |
| DEPRECIATION | | | | | | | |
| At January 1, 2003 | 706,902 | 52,286 | 1,300,221 | 2,935,073 | 117,512 | – | 5,111,994 |
| Provided for the period | 47,655 | 26,126 | 54,598 | 340,604 | 18,992 | – | 487,975 |
| Eliminated on disposals | – | – | – | (34,149) | (1,101) | – | (35,250) |
| At June 30, 2003 | 754,557 | 78,412 | 1,354,819 | 3,241,528 | 135,403 | – | 5,564,719 |
| NET BOOK VALUES | | | | | | | |
| At June 30, 2003 | 1,269,867 | 642,292 | 2,291,250 | 3,337,828 | 134,073 | 280,232 | 7,955,542 |
| At December 31, 2002 | 1,317,220 | 668,418 | 2,345,848 | 3,667,304 | 153,228 | 124,923 | 8,276,941 |

## 22. GOODWILL

| | At June 30, 2003 RMB'000 | At December 31, 2002 RMB'000 |
|---|---|---|
| COST | | |
| Opening balance | 55,545 | 15,545 |
| Subsequent adjustment to contingent consideration in respect of the acquisition of Railway Assets (note 30) | 40,000 | 40,000 |
| Closing balance | 95,545 | 55,545 |
| AMORTIZATION | | |
| Opening balance | 3,885 | 3,108 |
| Provided for the period/year | 4,834 | 777 |
| Closing balance | 8,719 | 3,885 |
| NET BOOK VALUES | | |
| Closing balance | 86,826 | 51,660 |

## 23. NEGATIVE GOODWILL

| | At June 30, 2003 RMB'000 | At December 31, 2002 RMB'000 |
|---|---|---|
| COST | | |
| Opening balance and closing balance | 138,101 | 138,101 |
| RELEASED TO INCOME | | |
| Opening balance | 55,240 | 27,620 |
| Released for the period/year | 13,810 | 27,620 |
| Closing balance | 69,050 | 55,240 |
| NET BOOK VALUES | | |
| Closing balance | 69,051 | 82,861 |

## 24. DEPOSIT MADE ON ACQUISITION OF INVESTMENTS IN SECURITIES

The amount represents a deposit paid by the Group in connection with the acquisition of a less than 1 percent stake in Shenergy Company Limited, a company listed on the SSE. The investment is in the form of state legal person shares, which are not tradeable on the SSE. The unpaid consideration at June 30, 2003 and December 31, 2002 are shown as a capital commitment in note 32.

## 25. DEFERRED TAX ASSET

| | At June 30, 2003 RMB'000 | At December 31, 2002 RMB'000 |
|---|---|---|
| Opening balance | 88,807 | 87,421 |
| Credit for the period/year | 19,368 | 1,386 |
| Closing balance | 108,175 | 88,807 |

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

## 26. BILLS AND ACCOUNTS PAYABLE

| | At June 30, 2003 RMB'000 | At December 31, 2002 RMB'000 |
|---|---|---|
| Bills payable | 15,000 | 100,982 |
| Accounts payable | 354,174 | 501,743 |
| | 369,174 | 602,725 |

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

| | At June 30, 2003 RMB'000 | At December 31, 2002 RMB'000 |
|---|---|---|
| 1– 180 days | 210,542 | 315,257 |
| 181– 365 days | 105,426 | 201,272 |
| 1– 2 years | 53,206 | 86,196 |
| | 369,174 | 602,725 |

## 27. PROVISION FOR LAND SUBSIDENCE, RESTORATION, REHABILITATION AND ENVIRONMENTAL COSTS

| | At June 30, 2003 RMB'000 | At December 31, 2002 RMB'000 |
|---|---|---|
| Opening balance | 83,044 | 120,196 |
| Additional provision in the period/year | 135,404 | 238,297 |
| Transfers to prepayments and accrued expenses | (76,713) | (275,449) |
| Closing balance | 141,735 | 83,044 |

The provision for land subsidence, restoration, rehabilitation and environmental costs has been determined by the directors based on their best estimates. However, in so far as the effect on the land and the environment from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to change in the near term.

## 28. LONG-TERM BANK BORROWING

During the year ended December 31, 2002, the Group obtained a new bank loan in the amount of RMB1,200,000,000. The loan bears interest at 6.21% per annum and is repayable in instalments over a period of 7 years, the first repayment instalment of which is due in August 2004. The proceeds were used to finance the acquisition of Railway Assets (see note 1).

During the six months ended June 30, 2003, the interest rate of the bank loan has been adjusted to 5.76%, pursuant to the terms of the loan agreement. Following an early partial repayment of the bank loan of RMB600,000,000 during the period, the remainder of the loan is repayable in instalments over a period of 3 years, the first repayment instalment of which is due in August 2004.

The above loan is repayable as follows:

| | At June 30, 2003 RMB'000 | At December 31, 2002 RMB'000 |
|---|---|---|
| Within one year | – | – |
| More than one year, but not exceeding two years | 200,000 | 200,000 |
| More than two years, but not exceeding five years | 400,000 | 600,000 |
| Exceeding five years | – | 400,000 |
| | 600,000 | 1,200,000 |

## 29. SHAREHOLDERS' EQUITY

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

| Class of shares | Type of shares | Number of shares at June 30, 2003 and at December 31, 2002 |
|---|---|---|
| Domestic invested shares | – State legal person shares (held by the Parent Company) | 1,670,000,000 |
| | – A shares (note 1) | 180,000,000 |
| Foreign invested shares | H shares (including H shares represented by ADS) (note 1) | 1,020,000,000 |
| Total | | 2,870,000,000 |

Each share has a par value of RMB1.

Pursuant to regulations in the PRC, the Company is required to transfer an annual amount to a future development fund at RMB6 per tonne of raw coal mined. The fund can only be used for the future development of the coal mining business and is not available for distribution to shareholders.

## 29. SHAREHOLDERS' EQUITY – continued

The Company has to set aside 10% of its net income for the statutory common reserve fund (except where the fund has reached 50% of the Company's registered capital) and 5% to 10% of its net income for the statutory common welfare fund. The statutory common reserve fund can be used for the following purposes:

- to make good losses in previous years; or

- to convert into capital, provided such conversion is approved by a resolution at a shareholders' general meeting and the balance of the statutory common reserve fund does not fall below 25% of the registered capital.

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

In accordance with the Company's Articles of Association, the net income for the purpose of appropriation will be deemed to be the lesser of the amounts determined in accordance with (i) PRC accounting standards and regulations and (ii) IFRS or the accounting standards of the places in which its shares are listed.

The Company can also create a discretionary reserve in accordance with its Articles of Association or pursuant to resolutions which may be adopted at a meeting of shareholders.

The Company's distributable reserve as at June 30, 2003 is the retained earnings computed under PRC GAAP which amounted to approximately RMB2,328,479,000 (as at December 31, 2002: RMB1,751,708,000).

## 30. ACQUISITION OF RAILWAY ASSETS

| | Six months ended June 30, 2002 RMB'000 |
|---|---|
| The net assets of Railway Assets at the date of acquisition were as follows: | |
| Bank balances and cash | 141 |
| Bills and accounts receivable | 4,586 |
| Prepayment and other current assets | 132,633 |
| Inventories | 5,461 |
| Land use rights | 259,378 |
| Property, plant and equipment, net | 877,380 |
| Bills and accounts payable | (22,830) |
| Other payables and accrued expenses | (14,163) |
| Net assets | 1,242,586 |
| Goodwill arising on subsequent adjustment to contingent consideration | 80,000 |
| | 1,322,586 |
| Satisfied by: | |
| Cash consideration paid on acquisition | 1,242,586 |
| Additional payment in respect of contingent consideration | 80,000 |
| | 1,322,586 |
| Net cash outflow arising on acquisition: | |
| Cash paid on acquisition | (1,242,586) |
| Bank balances and cash acquired | 141 |
| | (1,242,445) |

On January 1, 2002, the Company acquired the Railway Assets from its Parent Company for a total consideration of RMB1,242,586,000.

Pursuant to the terms of the acquisition agreement, the consideration has been adjusted to RMB1,282,586,000 as the annual transportation volume of the Railway Assets reached the volume milestone target of 25,000,000 tonnes for the year ended December 31, 2002.

As at June 30, 2003, the Company estimated that the capacity of the Railway Assets for the year ending December 31, 2003, will exceed 28,000,000 tonnes. As a result, the consideration was further adjusted to approximately RMB1,322,586,000.

## 31. RELATED PARTY TRANSACTIONS

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

The amounts due to the Parent Company and its subsidiary companies as at June 30, 2003 included the present value of outstanding balance that arose from the funding of the acquisition of the mining rights of Jining III as of January 1, 2001 discounted using the market rate of bank borrowings (note 1).

| | At June 30, 2003 RMB'000 | At December 31, 2002 RMB'000 |
|---|---|---|
| **Amounts due to Parent Company and its subsidiary companies** | | |
| Within one year | 66,576 | 285,308 |
| More than one year, but not exceeding two years | 10,483 | 10,483 |
| More than two years, but not exceeding five years | 27,721 | 27,721 |
| Exceeding five years | 23,137 | 23,137 |
| Total due | 127,917 | 346,649 |
| Less: amount due within one year | 66,576 | 285,308 |
| Amount due after one year | 61,341 | 61,341 |

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

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

| | Six months ended June 30, 2003 RMB'000 | 2002 RMB'000 |
|---|---|---|
| **Income** | | |
| Sales of coal | 79,009 | 55,788 |
| Sales of auxiliary materials | 180,480 | – |
| Gain on sales of auxiliary materials | – | 8,399 |
| Utilities and facilities | 14,500 | 2,500 |
| Railway transportation services | 26 | 266 |
| **Expenditure** | | |
| Utilities and facilities | 300 | 870 |
| Electricity | 154,119 | – |
| Annual fee for mining rights | 6,490 | 6,490 |
| Purchases of supply materials | 181,342 | 68,831 |
| Repairs and maintenance services | 92,217 | 108,437 |
| Social welfare and support services | 95,670 | 88,674 |
| Technical support and training | 7,565 | 7,565 |
| Road transportation services | 13,417 | 16,921 |

## 31. RELATED PARTY TRANSACTIONS – continued

During the periods, the Group had the following significant transactions with a related party, certain management members of which are also management members of the Group:

| | Six months ended June 30, 2003 RMB'000 | 2002 RMB'000 |
|---|---|---|
| Sales of coal | 21,501 | 20,243 |

Certain expenditure for social welfare and support services (excluding medical and child care expenses) of RMB33,973,000 and RMB31,375,000 for each of the six months ended June 30, 2003 and 2002, respectively, and for technical support and training of RMB7,565,000 for each of the six months ended June 30, 2003 and 2002, have been charged by the Parent Company at a negotiated amount per annum, subject to changes every year.

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

On January 1, 2002, the Company acquired the Railway Assets from the Parent Company (see note 1).

In addition to the above, the Company participates in a multi-employer plan of the Parent Company in respect of retirement benefits (see notes 7 and 33).

## 32. COMMITMENTS

| | At June 30, 2003 RMB'000 | At December 31, 2002 RMB'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the financial statements in respect of: | | |
| – acquisition of property, plant and equipment | 139,956 | 257,382 |
| – acquisition of an equity investment | 30,137 | 30,137 |
| | 170,093 | 287,519 |
| Capital expenditure in respect of the acquisition of property, plant and equipment authorized but not contracted for | 250,000 | – |

## 33. RETIREMENT BENEFITS

Qualifying employees of the Company are entitled to a pension, medical and other welfare benefits. The Company participates in a multi-employer scheme of the Parent Company and pays a monthly contribution to the Parent Company in respect of retirement benefits at an agreed contribution rate based on the monthly basic salaries and wages of the qualified employees. The Parent Company is responsible for the payment of all retirement benefits to the retired employees of the Company.

The monthly contribution rate has been set initially at 45% of the aggregate monthly basic salaries and wages of the Company's employees, and was fixed until December 31, 2001. Upon expiration of the initial period, the Company and the Parent Company determined that the contribution rate should remain at 45% for the period from January 1, 2002 to December 31, 2006.

The Company's subsidiary is a participant in a state-managed retirement scheme pursuant to which the subsidiary pays a fixed percentage of its qualifying staff's wages as a contribution to the scheme. The subsidiary's financial obligation under this scheme is limited to the payment of the employer's contribution. During the period, contributions payable by the subsidiary pursuant to this arrangement were insignificant to the Group.

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

## 34. HOUSING SCHEME

The Parent Company is responsible for providing accommodation to its employees and the employees of the Company. The Company and the Parent Company share the incidental expenses relating to the accommodation at a negotiated amount for each of the six months ended June 30, 2003 and 2002. Such expenses, amounting to RMB18,600,000 for each of the six months ended June 30, 2003 and 2002, have been included as part of the social welfare and support services expenses summarized in note 31.

The Company currently makes a fixed monthly contribution for each of its qualifying employees to a housing fund which is equally matched by a contribution from the employees. The contributions are paid to the Parent Company which utilizes the funds, along with the proceeds from the sales of accommodation and, if the need arises, from loans arranged by the Parent Company, to construct new accommodation. Starting from 2002, the Parent Company intends to sell the new accommodation by reference to market prices instead of cost. Accordingly, the Company paid an additional housing allowance to the employees at a percentage of their wages.

## 35. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of bills and accounts receivable, investments in securities, bills and accounts payable and amounts due to the Parent Company and/or its subsidiary companies of the Group approximate their fair values because of the short maturity of these amounts or because they are stated at present value discounted using market rates. In addition, the carrying amount of the long-term bank borrowing approximates its fair value as the interest rate approximates the market rate.

## 36. CONCENTRATION OF CREDIT RISK

The Group maintains its cash and cash equivalents with banks in the PRC.

The Group generally grants long-term customers credit terms with a range from one to four months, depending on the situations of the individual customers. For small to medium size new customers, the Group generally requires them to pay for the products before delivery.

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

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

For the six months ended June 30, 2003 and 2002, net sales to the Group's five largest domestic customers accounted for approximately, 18% and 24%, respectively, of the Group's total net sales. Net sales to the Group's largest domestic customer, the Shandong Power and Fuel Company, accounted for 11% and 15% of the Group's net sales for the six months ended June 30, 2003 and 2002, respectively. The Shandong Power and Fuel Company purchases coal on behalf of several power plants in Shandong Province, the largest of which, the Zouxian Electric Power Plant, alone accounted for 11% and 14% of the Group's net sales for the six months ended June 30, 2003 and 2002, respectively.

Details of the amounts receivable from the five customers with the largest receivable balances at June 30, 2003 and December 31, 2002 are as follows:

| | Percentage of accounts receivable | |
|---|---|---|
| | At June 30, 2003 | At December 31, 2002 |
| Five largest receivable balances | 37% | 52% |

## 37. POST BALANCE SHEET EVENT

Pursuant to a resolution passed by the board of directors on August 15, 2003, the Company entered into an agreement to acquire an 80% equity interest in Zoucheng Nanmei Shipping Co., Ltd. ("Nanmei Shipping") for a cash consideration of RMB10,164,000. Nanmei Shipping is established and operated in the PRC and is principally engaged in river and lake transportation and sales of coal and construction material.

## 38. SUMMARY OF DIFFERENCES BETWEEN IFRS AND PRC GAAP

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

(i) adjustment of future development fund (see note 29), which is charged to income before income taxes under PRC GAAP, to shareholders' equity;

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

(iii) negative goodwill arising under IFRS for the acquisition of Jining III is recognized as income in the statement of income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets. No negative goodwill is recognized under PRC GAAP;

(iv) the installments payable to the Parent Company for the acquisition of Jining III have been stated at present value discounted using market rates under IFRS while under PRC GAAP, the installments payable are stated at gross amount. Accordingly, deemed interest expense arises on the installments payable to the Parent Company under IFRS and no such interest expenses are recognized under PRC GAAP; and

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

The following table summarizes the differences between IFRS and PRC GAAP:

| | Net income for six months ended June 30, | | Net assets as at | |
|---|---|---|---|---|
| | 2003 | 2002 | June 30, 2003 | December 31, 2002 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| As per condensed financial statements prepared under IFRS | 737,966 | 696,387 | 10,434,519 | 9,995,033 |
| Impact of IFRS adjustment in respect of: | | | | |
| – transfer to future development fund which is charged to income before income taxes under PRC GAAP | (131,034) | (115,784) | – | – |
| – deferred tax effect on temporary differences not recognized under PRC GAAP | (19,368) | (2,204) | (108,175) | (88,807) |
| – release of negative goodwill to income | (13,810) | (13,810) | (69,050) | (55,240) |
| – deemed interest expenses | 2,631 | 19,978 | 102,182 | 99,551 |
| – proposed final dividend | – | – | – | (298,480) |
| – others | 386 | 379 | 6,903 | 6,517 |
| As per financial statements prepared under PRC GAAP | 576,771 | 584,946 | 10,366,379 | 9,658,574 |

Note:

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

## 39. SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP

The condensed financial statements are prepared in accordance with IFRS, which differ in certain significant respects from US GAAP. The significant differences relate principally to the accounting for the acquisitions of Jining II, Jining III and Railway Assets, the cost bases of property, plant and equipment and land use rights and related adjustments to deferred taxation.

Under IFRS, the acquisitions of Jining II, Jining III and Railway Assets have been accounted for using the purchase method which accounts for the assets and liabilities of Jining II, Jining III and Railway Assets at their fair value at the date of acquisition. Any excess of the purchase consideration over the fair value of the net assets acquired is capitalized as goodwill and amortized over a period of ten to twenty years. Any excess of the fair value of the net assets acquired over the purchase consideration is recorded as negative goodwill, which is presented as a deduction from the assets of the Group in the condensed consolidated balance sheet. The Group releases the negative goodwill to the statement of income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets.

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

Under IFRS, the mining rights of Jining III are stated at purchase consideration less amortization. Mining rights are amortized on a straight line basis over twenty years, being the useful life estimated based on the total proven and probable reserves of the coal mine. Under US GAAP, as both the Group and Jining III are entities under the common control of the Parent Company, the mining rights have to be restated at nil cost and no amortization on mining rights will be recognized. However, a deferred tax asset relating to the capitalization of mining rights is required to be recognized under US GAAP as a higher tax base resulting from the capitalization is utilized for PRC tax purposes.

Under IFRS, property, plant and equipment and land use rights are stated at their respective fair values at the date of acquisition even including transactions between entities under common control. The fair value amount becomes the new cost basis of the assets of the Company formed from the reorganization and depreciation is based on such new basis. Under US GAAP, when accounting for a transfer of assets or exchange of shares between entities under common control, the entity that receives the net assets or equity interests shall initially recognize the assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity at the date of transfer. Accordingly, property, plant and equipment and land use rights are restated at the historical cost and no additional depreciation on the fair value amounts will be recognized under US GAAP. However, a deferred tax asset relating to the difference in cost bases between the fair value at the date of acquisition and historical cost is required to be recognized under US GAAP as the tax basis of the assets is the fair value amount at the date of acquisition.

## 39. SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP – continued

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

| | Six months ended June 30, 2003 RMB'000 | 2002 RMB'000 |
|---|---|---|
| Net income as reported under IFRS | 737,966 | 696,387 |
| US GAAP adjustments: | | |
| Additional depreciation charged on property, plant and equipment and land use rights | 94,084 | 91,755 |
| Additional deferred tax charges attributable to differences in cost bases of property, plant and equipment and land use rights | (31,047) | (30,279) |
| Additional deferred tax charges attributable to capitalization of mining rights | (1,093) | (1,093) |
| Amortization of negative goodwill on acquisition of Jining III | (13,810) | (13,810) |
| Amortization of mining rights of Jining III | 3,312 | 3,312 |
| Amortization of goodwill arising on acquisition of Jining II | 390 | 389 |
| Amortization of goodwill arising on acquisition of Railway Assets | 4,444 | – |
| Net income under US GAAP | 794,246 | 746,661 |
| Earnings per share under US GAAP | RMB0.28 | RMB0.26 |
| Earnings per ADS under US GAAP | RMB13.84 | RMB13.01 |

## 39. SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP – continued

| | At June 30, 2003 RMB'000 | At December 31, 2002 RMB'000 |
|---|---|---|
| Shareholders' equity as reported under IFRS | 10,434,519 | 9,995,033 |
| US GAAP adjustments: | | |
| Difference in cost bases of property, plant and equipment and land use rights | (2,561,032) | (2,561,032) |
| Additional depreciation charged on property, plant and equipment and land use rights | 1,031,413 | 937,329 |
| Additional deferred tax assets attributable to differences in cost bases of property, plant and equipment and land use rights | 504,775 | 535,822 |
| Goodwill arising on acquisition of Jining II | (11,270) | (11,660) |
| Negative goodwill arising on acquisition of Jining III, net | 69,051 | 82,861 |
| Mining rights of Jining III | (115,919) | (119,231) |
| Additional deferred tax asset attributable to capitalization of mining rights | 38,253 | 39,346 |
| Goodwill arising on contingent consideration for acquisition of Railway Assets | (75,556) | (40,000) |
| Shareholders' equity under US GAAP | 9,314,234 | 8,858,468 |

Under US GAAP, the Group's total assets would have been RMB11,656,021,000 and RMB11,787,480,000 at June 30, 2003 and December 31, 2002, respectively.

Details of recent accounting pronouncements are as follows:

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" which is effective for financial statements issued for fiscal years beginning after June 15, 2002. This statement addresses the diverse accounting practices for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Group adopted SFAS No. 143 on January 1, 2003 and it did not have a material effect in the Group's financial statements.

## 39. SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP – continued

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statement No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections", to update, clarify, and simplify certain existing accounting pronouncements. Specifically, SFAS No. 145: (i) Rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt", an amendment of APB Opinion 30, and SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements", which amended SFAS No. 4, as these two standards required that all gains and losses from the extinguishment of debt be aggregate and, if material, classified as an extraordinary item. Consequently, such gains and losses will now be classified as extraordinary only if they meet the criteria for extraordinary treatment set forth in APB Opinion 30, Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extra-ordinary, Unusual and Infrequently Occurring Events and Transactions; (ii) Rescinds SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers", an amendment of Chapter 5 of Accounting Research Bulletins No. 43 and an interpretation of APB Opinions 17 and 30, because the discrete event to which the Statement relates is no longer relevant; (iii) Amends SFAS No. 13, "Accounting for leases", to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as such transactions; (iv) Makes certain technical corrections, which the FASB deemed to be non-substantive, to a number of existing accounting pronouncements. The provisions of SFAS No. 145 related to the rescission of SFAS No. 4 and No. 64 are effective for fiscal years beginning after May 15, 2002. The provisions related to the amendment of SFAS No. 13 are effective for transactions occurring after May 15, 2002. All other provisions of SFAS No. 145 are effective for financial statements issued on or after May 15, 2002. The Group adopted this standard and there was no significant impact on the Group's financial position and results of operations.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" which requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Such costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS No. 146 replaces the previous accounting guidance provided by the Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Group adopted this standard and it did not have material effect in the Group's financial statements.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123", which amends SFAS No.123, "Accounting for Stock-Based Compensation". SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require more prominent and more frequent disclosures in financial statements of the effects of stock-based compensation. The transition guidance and annual disclosure provision of SFAS No. 148 are effective for fiscal years ended after December 15, 2002, with earlier application permitted in certain circumstances. The Group did not provide stock-based compensation to its employees and accordingly the adoption of this standard does not have a material effect on the Group's financial statements.

## 39. SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP – continued

In November 2002, the FASB issued Interpretation ("FIN") No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". This interpretation requires certain disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN No. 45 are effective for interim and annual periods after December 15, 2002. The Group had no guarantees as of June 30, 2003 and December 31, 2002. The initial recognition and initial measurement requirements of FIN No. 45 are effective prospectively for guarantees issued or modified after December 31, 2002. The Group adopted FIN No. 45 and it did not have a material effect on the Group's financial statements.

In January 2003, the FASB issued FIN No. 46 "Consolidation of Variable Interest Entities". FIN No. 46 requires that if an entity has a controlling financial interest in a variable interest entity, the assets, liabilities and results of activities of the variable interest entity should be included in the consolidated financial statements of the entity. FIN No. 46 requires that its provisions are effective immediately for all arrangements entered into after January 31, 2003. For any arrangements entered into prior to January 31, 2003, the FIN No. 46 provisions are required to be adopted at the beginning of the first interim or annual period beginning after June 15, 2003. The adoption of FIN No. 46 did not have an impact on the operating results or financial position of the Group.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities." The statement amends and clarifies accounting for derivative instruments, including certain derivatives instruments embedded in other contracts and for hedging activities under SFAS No. 133. This Statement is generally effective for contracts entered into or modified after June 30, 2003. Management is assessing, but has not yet determined, the impact that SFAS No. 149 will have, if any, on its financial position and results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". The statement establishes standards for how an issuer classifies and measures certain financial instruments. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The statement requires that certain financial instruments that, under previous guidance, could be accounted for as equity be classified as liabilities, or assets in some circumstances. This statement does not apply to features embedded in a financial instrument that is not a derivative in its entirety. The statement also requires disclosures about alternative ways of settling the instruments and the capital structure of entities whose shares are mandatory redeemable. Management is assessing, but has not yet determined, the impact that SFAS No. 150 will have, if any, on its financial position and results of operations.

## CORPORATE INFORMATION

| | |
|---|---|
| Registered Name: | 兗州煤業股份有限公司 |
| English Name: | Yanzhou Coal Mining Company Limited |
| Registered Address: | 40 Fushan Road<br>Zoucheng,<br>Shandong Province<br>PRC |
| Post Code: | 273500 |
| Website: | http://www.yanzhoucoal.com.cn |
| E-mail address: | yzc@yanzhoucoal.com.cn |
| Legal Representative: | Mo Liqi |
| Company Secretary: | Chen Guangshui |
| Authorized Representatives: | Yang Jiachun<br>Chen Guangshui<br><br>40 Fushan Road<br>Zoucheng, 273500<br>Shandong Province<br>PRC<br>Tel: 86537-5382319<br>Fax: 86537-5383311 |
| Places of Listing: | A Shares:<br>Shanghai Stock Exchange<br>Ticker Symbol: 600188<br>Stock Abbreviation: Yanzhou Mei Ye<br><br>H Shares:<br>The Stock Exchange of Hong Kong Limited<br>Share code: 1171<br><br>ADS:<br>The New York Stock Exchange, Inc.<br>Ticker Symbol: YZC |