

# Notes to the Financial Statements (under PRC GAAP)

For the year ended December 31, 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 RMB 2,870,000,000, including RMB1,670,000,000 state legal person shares (representing 58.19% of the total share capital); RMB1,020,000,000 H Shares and American Depository Shares listed on overseas stock exchanges (representing 35.54% of the total share capital); and RMB180,000,000 A Shares (representing 6.27% of the total share capital) listed on domestic stock exchange. Details of the Company’s share capital are set out in note 29 to the financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

### Accounting system and accounting standards adopted

The Company has adopted the Accounting Standards for Business Enterprises, the “Accounting System for Business Enterprises” and the supplementary regulations thereto.

### Accounting year

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

### Reporting currency

The recording currency of the Company is Renminbi.

### Basis of accounting and principle of measurement

The Company has adopted 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### Cash equivalents

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

### Accounting for bad debts

#### 1) Criteria for recognition of bad debts

The irrecoverable amount of a bankrupt debtor after pursuing the statutory procedures; the irrecoverable amount of a debtor who has deceased and has insufficient estate to repay; the amount owed by a debtor who is unable to repay the obligations after the debts fall due, and the amount is irrecoverable or unlikely to be recovered as demonstrated by sufficient evidence.

#### 2) Accounting treatment for bad debt losses

Bad debt is accounted for using the allowance method and provided according to the recoverability of receivables at the year-end. The provision for bad debts relating to significant receivable accounts, amounts due from related parties and deposit on packing materials for long-term use are individually identified 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. The percentages of the general provision are as follows:

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 conversion 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 the 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.

# Notes to the Financial Statements (under PRC GAAP) (Cont'd)

For the year ended December 31, 2003

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### 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. When the net realizable value is lower than the cost, the difference is recognized as a 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 the related taxes necessary to make the sale.

### Current investments

A current investment is initially recorded at its cost of acquisition. The initial cost of an investment is the total price paid on acquisition, including incidental expenses such as tax payments and handling charges. However, cash dividends declared but unpaid or bonds interests due but unpaid that are included in the acquisition cost 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 a third party and is 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 an asset's net selling price and 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### 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 has arisen after the investment was 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 the current period is recognized according to the attributable share of the net profit or loss of the investee enterprises. The attributable share of net losses incurred by the investee enterprise is recognized to the extent that the carrying amount of the investment is reduced to zero. If the investee enterprise realizes net profits in subsequent periods, the carrying amount of the investment is resumed by the excess of the Company's attributable share of profits over the share of unrecognized losses.

When a long-term equity investment is accounted for using the equity method, the difference between the initial investment cost of the Company and its share of owners' equity of the investee enterprise is accounted for as "equity investment difference". An excess of the initial investment cost over the Company's share of owners' equity of the investee enterprise is debited to "long-term equity investment – equity investment difference" and amortized on a straight-line basis and charged to the income statement accordingly. The amortization period is the investing period if it is stipulated in the investment contract. Otherwise, it is amortized over a period of not more than 10 years. A shortfall of the initial investment cost below the Company's share of owners' equity of the investee enterprise arising before the issuance of Caikuai [2003] 10, is credited to "long-term equity investment – equity investment difference", and amortized on a straight-line basis and charged to the income statement accordingly. The amortization period is the investing period if it is stipulated in the investment contract. Otherwise, it is amortized over a period of not less than 10 years. The shortfall of the initial investment cost below the Company's share of owners' equity of the investee enterprise arising after the issuance of Caikuai [2003] 10 is credited to "capital reserves – provision for equity investment".

# Notes to the Financial Statements (under PRC GAAP) (Cont'd)

For the year ended December 31, 2003

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### Long-term investments (Continued)

#### (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 (a) are 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 have reached the working condition for their intended 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%
Habour works and craft	40 years	2.43%
Plant, machinery and equipment	5–15 years	6.47–19.40%
Transportation equipment (Note)	6–18 years	5.39–16.17%

### Fixed assets and depreciation

Note: Vessels of Shandong Yanmei Shipping Co., Ltd. are depreciated over 18 years. All the other transportation equipments are depreciated over 6 to 9 years.

Mining structures are depreciated using production volume method at RMB 2.5 per tonne of raw coal mined.

### Impairment of fixed assets

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

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### Fixed assets under construction

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

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

Where the work on a fixed asset under construction has been suspended for a long period of time and is not expected to re-commence within three years; or it is technically and physically obsolete and its economic benefits to the Company is uncertain; or there is other evidence indicating a decline in value on the fixed asset under construction, an impairment loss is recognized for the shortfall of the recoverable amount of the fixed asset under construction below 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. Additional of such goodwill acquired in future are amortized over the remaining life of the original amortization period.

### Impairment loss on intangible assets

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

### Provisions

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

- (1) the 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.

# Notes to the Financial Statements (under PRC GAAP) (Cont'd)

For the year ended December 31, 2003

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### **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.

### **Wei Jian Fei**

According to the relevant regulations, Wei Jian Fei is accrued at RMB 6 per tonne of raw coal mined and is recorded in cost of sales and other current liabilities. Wei Jian Fei is used for purchase of coal production equipment and refurbishment of coal mining structure and the corresponding amounts are transferred from other current liabilities to capital reserves when the construction facilities are put into use. Pursuant to the relevant regulations, the capital reserve can only be used for the future development of the coal mining business.

### **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.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### Income taxes

Income taxes is provided under the 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 (collectively referred to as the “Group”) 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 whose operating are controlled by the Company through other mechanisms.

#### (2) Accounting for consolidation

The accounting policies used by subsidiaries conform to 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 interest and share of results of minority shareholders are disclosed in the consolidated financial statements separately.

## 3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

According to the Caikui [2003] No.12 of “Accounting Standards for Business Enterprises – Subsequent Events of Balance Sheet” issued by Ministry of Finance, a profit distribution to investors proposed in a profit distribution plan declared by the board of directors between the balance sheet date and the date on which the financial statements are authorized for issuance, is presented as a separate component of equity on the balance sheet, whereas such profit distribution was regarded as an adjusting event and recognized as dividends payable on the balance sheet date in prior years. This change in accounting policy has adopted retrospectively and does not have effect on current year’s profit.



# Notes to the Financial Statements (under PRC GAAP) (Cont'd)

For the year ended December 31, 2003

### 3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

The effect of RMB298,480,000 on opening balance of shareholders' equity in consolidated balance sheet resulted from above-mentioned changes in accounting policies is as follows:

	Shareholders' equity RMB	Including: Cash dividend proposed after the balance sheet date RMB
At January 1, 2002 before retrospective adjustment	8,723,327,579	–
Cash dividend proposed after the balance sheet date	<u>287,000,000</u>	<u>287,000,000</u>
At January 1, 2002 after retrospective adjustment	9,010,327,579	287,000,000
At December 31, 2002 before retrospective adjustment	9,658,573,023	–
Cash dividend proposed after the balance sheet date	<u>298,480,000</u>	<u>298,480,000</u>
At December 31, 2002 after retrospective adjustment	<u><u>9,957,053,023</u></u>	<u><u>298,480,000</u></u>

### 4. TAXES

#### Value added tax

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

The calculation method of "Payment first and refund afterwards" was adopted for 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. For current year, 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.

#### 4. TAXES (Continued)

##### 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 assessable income of the Company.

#### 5. SCOPE OF CONSOLIDATION AND DETAILS OF SUBSIDIARIES

The Company owns the following subsidiaries:

Name of subsidiaries	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
Shangdong Yanmei Shipping Co., Ltd. ("Yanmei Shipping")	RMB5,500,000	RMB11,690,000	92%	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).

Nature of business of Yanmei Shipping: transportation service via river and lakes within the province of Shandong, Jiangsu, Anhui, Zhejiang and Shanghai and sales of coal.

Yanmei Shipping is included in the consolidated financial statements since it was acquired by the Company on December 31, 2003, so the results of operations and cash flows for current year are excluded from the consolidated statements of income and cash flows. See note 47 for cash outflow arising on acquisition of Yanmei Shipping.

# Notes to the Financial Statements (under PRC GAAP) (Cont'd)

For the year ended December 31, 2003

## 5. SCOPE OF CONSOLIDATION AND DETAILS OF SUBSIDIARIES (Continued)

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

## 6. BANK BALANCES AND CASH

	December 31, 2003			December 31, 2002		
	Foreign currency	Exchange rate	RMB equivalent	Foreign currency	Exchange rate	RMB equivalent
Cash on hand						
RMB	-	-	406,196	-	-	311,649
Cash in bank						
RMB	-	-	1,253,549,388	-	-	544,649,269
USD	87,703,457	8.2767	725,895,203	117,994,555	8.2773	976,676,330
EUR	78,107	10.3383	807,494	76,655	8.6360	661,993
HKD	56,663,540	1.0657	60,386,335	64,592,801	1.0611	68,539,421
Other monetary assets						
RMB	-	-	248,697	-	-	5,095,066
			<u>2,041,293,313</u>			<u>1,595,933,728</u>

## 7. CURRENT INVESTMENTS

	December 31, 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 (Note1)	-	-	-	88,702,100	-	88,702,100
Other investments						
- Designated deposit (Note 2)	100,000,000	-	100,000,000	-	-	-
	<u>100,000,000</u>	<u>-</u>	<u>100,000,000</u>	<u>88,702,100</u>	<u>-</u>	<u>88,702,100</u>

Note 1: In November 2003, the national bonds were due and redeemed, which resulted in a gain of RMB1,423,858.

Note 2: The designated deposit represents an instructed deposit with Bank of China to Shandong Chuangye Investment Co., Ltd. (minority shareholder of a fellow subsidiary) at interest rate of 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% of interest in Shandong Huaju Energy Co., Ltd. owned by Shandong Chuangye Investment Co., Ltd.. The related interest income generated from the designated deposit during the year is RMB4,183,333. Both the principal and interest of the designated deposit have been settled before the issuance date of this report.

## 8. NOTES RECEIVABLE

	December 31, 2003 RMB	December 31, 2002 RMB
Bank acceptance bills	700,388,322	234,521,923
Commercial acceptance bills	—	5,452,300
	<u>700,388,322</u>	<u>239,974,223</u>

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

## 9. ACCOUNTS RECEIVABLE

The aging analysis of accounts receivable is as follows:

Aging	December 31, 2003				December 31, 2002			
	Amount RMB	%	Bad debt	Net	Amount RMB	%	Bad debt	Net
			provision RMB	book value RMB			provision RMB	book value RMB
Within 1 year	491,927,103	71	19,334,770	472,592,333	504,683,920	78	20,176,674	484,507,246
1 to 2 years	114,886,911	17	34,466,073	80,420,838	99,632,835	15	29,887,980	69,744,855
2 to 3 years	78,919,348	11	39,459,674	39,459,674	38,388,185	6	19,194,093	19,194,092
Over 3 years	7,366,106	1	7,366,106	—	6,824,655	1	6,824,655	—
Total	<u>693,099,468</u>	<u>100</u>	<u>100,626,623</u>	<u>592,472,845</u>	<u>649,529,595</u>	<u>100</u>	<u>76,083,402</u>	<u>573,446,193</u>

Balance of the 5 largest debtors is as follows:

Total amount of the 5 largest debtors RMB	Percentage in accounts receivable balance
312,606,269	45%

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

# Notes to the Financial Statements (under PRC GAAP) (Cont'd)

For the year ended December 31, 2003

## 10. OTHER RECEIVABLES

Aging analysis of other receivables is as follows:

Aging	December 31, 2003				December 31, 2002			
	Amount	%	Bad debt provision	Net book value	Amount	%	Bad debt provision	Net book value
	RMB		RMB	RMB	RMB		RMB	RMB
Within 1 year	71,508,302	58	2,336,498	69,171,804	183,629,621	81	135,725	183,493,896
1 to 2 years	26,979,729	22	2,786,432	24,193,297	31,234,251	14	1,176,619	30,057,632
2 to 3 years	14,376,386	12	4,162,587	10,213,799	9,156,961	4	1,896,615	7,260,346
Over 3 years	9,908,571	8	3,400,000	6,508,571	2,659,824	1	329,912	2,329,912
Total	<u>122,772,988</u>	<u>100</u>	<u>12,685,517</u>	<u>110,087,471</u>	<u>226,680,657</u>	<u>100</u>	<u>3,538,871</u>	<u>223,141,786</u>

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
24,070,682	20%

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

## 11. PROVISION FOR BAD DEBTS

	January 1, 2003	Addition	Reversal	Other transfer out	December 31, 2003
	RMB	RMB	RMB	RMB	RMB
Bad debt provision:					
Accounts receivable	76,083,402	71,124,922	-	(46,581,701)	100,626,623
Other receivables	3,538,871	9,146,646	-	-	12,685,517
Total	<u>79,622,273</u>	<u>80,271,568</u>	<u>-</u>	<u>(46,581,701)</u>	<u>113,312,140</u>

Pursuant to the minutes of Board of Directors, the Company has written off bad debts of RMB46,581,701 in this year, including RMB18,211,532 due to business fraud, RMB16,564,481 due to debtors' failure to repay nevertheless the Company recovered in the lawsuits, RMB11,276,688 due to bankruptcy of debtors, and RMB529,000 due to death of debtors.

## 12. PREPAYMENTS

The aging analysis of prepayments is as follows:

Aging	December 31, 2003		December 31, 2002	
	RMB	%	RMB	%
Within 1 year	<b>53,175,910</b>	<b>72</b>	113,227,188	77
1 to 2 years	<b>18,904,541</b>	<b>26</b>	27,936,386	19
2 to 3 years	<b>1,904,689</b>	<b>2</b>	5,176,057	4
Total	<b><u>73,985,140</u></b>	<b><u>100</u></b>	<b><u>146,339,631</u></b>	<b><u>100</u></b>

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
36,510,642	49%

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

## 13. SUBSIDIES RECEIVABLE

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

## 14. INVENTORIES

	December 31, 2003			December 31, 2002		
	Amount RMB	Provision RMB	Net book value RMB	Amount RMB	Provision RMB	Net book value RMB
Raw materials	<b>204,466,522</b>	-	<b>204,466,522</b>	309,246,183	-	309,246,183
Finished goods	<b>297,562,021</b>	-	<b>297,562,021</b>	267,333,120	-	267,333,120
	<b><u>502,028,543</u></b>	<b><u>-</u></b>	<b><u>502,028,543</u></b>	<b><u>576,579,303</u></b>	<b><u>-</u></b>	<b><u>576,579,303</u></b>

# Notes to the Financial Statements (under PRC GAAP) (Cont'd)

For the year ended December 31, 2003

## 15. DEFERRED EXPENSES

	December 31, 2003 RMB	December 31, 2002 RMB
Harbour transportation fee	<u>94,646,431</u>	<u>110,560,888</u>

## 16. LONG-TERM EQUITY INVESTMENTS

		December 31, 2003 RMB	December 31, 2002 RMB
Other equity investments	(1)	31,897,684	31,897,684
Discrepancy on consolidation	(2)	<u>11,161,512</u>	—
Total		<u>43,059,196</u>	<u>31,897,684</u>
Less: Impairment loss on long-term equity investments		—	—
Long-term equity investments – net		<u>43,059,196</u>	<u>31,897,684</u>

### (1) Other equity investments

Name of investees	Share in the registered capital of the investee (%)	December 31, 2003 RMB	December 31, 2002 RMB
Jiangsu Lianyungang Port Co., Ltd.	1%	1,760,419	1,760,419
Shenergy Company Limited (Note)	0.83%	<u>30,137,265</u>	<u>30,137,265</u>
		<u>31,897,684</u>	<u>31,897,684</u>

Note: The Company acquired 14,882,600 legal person shares of Shenergy Company Limited at RMB4.05 per share 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 balance sheet date.

## 16. LONG-TERM EQUITY INVESTMENTS (Continued)

### (2) Discrepancy on consolidation

Name of investee	Original amount RMB	Amortization period	Amortization for the year RMB	At December 31, 2003 RMB	Arising from
Yanmei Shipping	<u>11,161,512</u>	10 years	<u>-</u>	<u>11,161,512</u>	Acquisition of subsidiary (See note 47)

## 17. FIXED ASSETS AND ACCUMULATED DEPRECIATION

	Buildings RMB	Mining structure RMB	Railway structure RMB	Harbor works and craft RMB	Plant, machinery and equipment RMB	Transportation equipment RMB	Total RMB
<b>Cost</b>							
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	-	-	-	-	19,992,285	704,380	20,696,665
Transfer from fixed assets under construction	28,805,278	258,390,890	425,226	250,230,769	742,377,423	26,366,200	1,306,595,786
Acquired on acquisition of a subsidiary	-	-	-	-	2,562,411	15,935,217	18,497,628
Disposals	-	-	(644,805)	-	(51,880,795)	(26,909,684)	(79,435,284)
At December 31, 2003	<u>2,082,464,800</u>	<u>3,908,554,834</u>	<u>870,381,181</u>	<u>250,230,769</u>	<u>7,461,700,148</u>	<u>325,820,032</u>	<u>14,899,151,764</u>
<b>Accumulated depreciation</b>							
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 year	90,942,873	108,197,403	54,893,448	-	646,176,377	33,498,853	933,708,954
Increase resulting from acquisition of a subsidiary	-	-	-	-	854,212	5,092,138	5,946,350
Eliminated on disposals	-	-	(276,275)	-	(35,530,934)	(16,101,423)	(51,908,632)
At December 31, 2003	<u>827,379,902</u>	<u>1,412,513,208</u>	<u>256,799,917</u>	<u>-</u>	<u>3,692,845,454</u>	<u>178,987,256</u>	<u>6,368,525,737</u>
<b>Net book value</b>							
At January 1, 2003	<u>1,317,222,493</u>	<u>2,345,848,139</u>	<u>668,418,016</u>	<u>-</u>	<u>3,667,303,025</u>	<u>153,226,231</u>	<u>8,152,017,904</u>
At December 31, 2003	<u>1,255,084,898</u>	<u>2,496,041,626</u>	<u>613,581,264</u>	<u>250,230,769</u>	<u>3,768,854,694</u>	<u>146,832,776</u>	<u>8,530,626,027</u>



## Notes to the Financial Statements (under PRC GAAP) (Cont'd)

For the year ended December 31, 2003

## 18. MATERIALS HELD FOR CONSTRUCTION OF FIXED ASSETS

Category	December 31, 2003 RMB	December 31, 2002 RMB
Materials held for construction	<u>1,721,281</u>	<u>1,899,659</u>

## 19. FIXED ASSETS UNDER CONSTRUCTION

Category	At January 1, 2003 RMB	Additions RMB	Transfers upon completion RMB	At December 31, 2003 RMB	Budget RMB	Proportion to budget %	Source of funds
Equipment to be installed	98,213,885	766,477,177	(804,809,935)	59,881,127	69,887,000	85.68	internally generated fund
Buildings under construction	1,057,977	491,814,699	(485,949,750)	6,922,926	7,527,000	91.97	internally generated fund
Others	23,750,895	9,308,015	(15,836,101)	17,222,809	25,632,000	67.19	internally generated fund
Total	<u>123,022,757</u>	<u>1,267,599,891</u>	<u>(1,306,595,786)</u>	<u>84,026,862</u>	<u>103,046,000</u>		

No interest was capitalized for the year.

## 20. INTANGIBLE ASSETS

Category	Original amount RMB	At January 1, 2003 RMB	Addition RMB	Amortization for the year RMB	Accumulated amortization RMB	At December 31, 2003 RMB	Remaining amortization period
Land use rights	310,242,143	278,555,473	-	(6,240,279)	(37,926,949)	272,315,194	43 years and 11 months
Land use rights of Jining III	88,928,996	85,371,836	-	(1,778,580)	(5,335,740)	83,593,256	47 years
Mining rights of Jining III	132,478,800	119,230,820	-	(6,623,934)	(19,871,914)	112,606,886	17 years
Land use rights of Railway Assets	259,378,500	254,278,500	-	(5,275,140)	(10,375,140)	249,003,360	48 years
Goodwill	80,000,000	40,000,000	40,000,000	(8,880,000)	(8,880,000)	71,120,000	8 years
	<u>871,028,439</u>	<u>777,436,629</u>	<u>40,000,000</u>	<u>(28,797,933)</u>	<u>(82,389,743)</u>	<u>788,638,696</u>	

The original land use rights are injected by Yankuang Group. The land use rights of Jining III and Railway Assets and mining rights of Jining III were acquired from Yankuang Group at revaluated amount. At December 31, 2003, the registration process in respect of the land use rights of Railway Assets has not yet been completed.

## 20. 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", when the Railway Assets' actual transportation volume reached 25,000,000 tonnes for the year 2002, the Company should pay an extra RMB 40,000,000. According to the above agreement, when the Railway Assets' actual transportation volume reaches 28,000,000 tonnes for the year 2003, the Company should pay an extra RMB 40,000,000, details of which are set out in note 50(4)(b).

## 21. NOTES PAYABLE

	<b>December 31, 2003</b>	December 31, 2002
	<b>RMB</b>	RMB
Bank acceptance bills	—	108,001,674
Notes payable due within one year	—	108,001,674

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

## 22. ACCOUNTS PAYABLE

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

## 23. ADVANCES FROM CUSTOMERS

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

# Notes to the Financial Statements (under PRC GAAP) (Cont'd)

For the year ended December 31, 2003

## 24. TAXES PAYABLE

	December 31, 2003 RMB	December 31, 2002 RMB
Income tax	114,903,415	56,866,726
Value added tax	97,297,037	43,268,288
City construction tax	50,940,509	49,177,153
Others	63,236,759	56,827,775
	<u>326,377,720</u>	<u>206,139,942</u>

## 25. OTHER PAYABLES

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

## 26. PROVISIONS

Category	At January 1, 2003 RMB	Accrual for the year RMB	Payment for the year RMB	At December 31, 2003 RMB
Land subsidence, restoration, rehabilitation and environmental costs	83,043,947	268,329,558	(266,351,483)	85,022,022

The consequence of coal mining activities is land subsidence caused by the resettlement of the land above the underground mining sites. Depending on the circumstances, the Company may relocate inhabitants from the land above the underground mining sites prior to mining those sites or the Company may compensate the inhabitants for losses or damages from land subsidence after the underground sites have been mined.

The provision for land subsidence, restoration, rehabilitation and environmental costs has been determined by management based on their past experience and estimation on future expenditure and accrued on a certain ratio of raw coal mined. However, in so far as the effect on the land and the environment from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to change in the near term.

## 27. LONG-TERM LOAN

Lender	December 31,	January 1,	Period	Annual	Condition for Loan
	2003	2003		Interest Rate	
	RMB	RMB			
Bank of China	<u>600,000,000</u>	<u>1,200,000,000</u>	96 months	5.76%	Guaranteed by Yankuang Group
Less: Long-term loan due within one year	200,000,000	-			
Long-term loan due after one year	<u>400,000,000</u>	<u>1,200,000,000</u>			
	<u>600,000,000</u>	<u>1,200,000,000</u>			

On January 4, 2002, the Company obtained a new bank loan in the amount of RMB1,200,000,000 from 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.

## 28. LONG-TERM PAYABLE

	December 31, 2003	December 31, 2002
	RMB	RMB
Payable for acquisition of Jining III's mining rights	<u>92,735,160</u>	<u>105,982,960</u>
Less: Long-term payable due within one year	<u>13,247,800</u>	13,247,800
Long-term payable due after one year	<u>79,487,360</u>	<u>92,735,160</u>
	<u>92,735,160</u>	<u>105,982,960</u>

The above balances represent the remaining balances of payable to Yankuang Group for acquisition of Jining III's mining rights, details of which are set out in note 50(4)(c).

# Notes to the Financial Statements (under PRC GAAP) (Cont'd)

For the year ended December 31, 2003

## 29. SHARE CAPITAL

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

	<b>January 1, 2002, December 31, 2002 and December 31, 2003</b>	
	RMB	%
(1). Shares not listed for public dealings		
Subscriber shares		
– State legal person shares	<u>1,670,000,000</u>	<u>58.19</u>
(2). Shares listed for public dealings		
(i) Ordinary shares listed on a domestic stock exchange (A shares)	180,000,000	6.27
(ii) Ordinary shares listed on an overseas stock exchange (H shares)	<u>1,020,000,000</u>	<u>35.54</u>
Total shares listed for public dealings	<u>1,200,000,000</u>	<u>41.81</u>
(3). Total share capital	<u><u>2,870,000,000</u></u>	<u><u>100.00</u></u>

Each share has a par value of RMB 1. The share capital has been verified by Deloitte Touche Tohmatsu Certified Public Accountants Ltd. (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.

## 30. CAPITAL RESERVES

Changes in capital reserves from January 1, 2003 to December 31, 2003 are as follows:

	<b>Share premium RMB</b>	<b>Transfer from Wei Jian Fei (Note) RMB</b>	<b>Total RMB</b>
At January 1, 2003	<b>3,549,258,855</b>	<b>905,262,485</b>	<b>4,454,521,340</b>
Addition	<u>–</u>	<u>259,673,766</u>	<u>259,673,766</u>
At December 31, 2003	<u><u>3,549,258,855</u></u>	<u><u>1,164,936,251</u></u>	<u><u>4,714,195,106</u></u>

### 30. CAPITAL RESERVES (Continued)

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	<u>3,549,258,855</u>	<u>905,262,485</u>	<u>4,454,521,340</u>

Note: Wei Jian Fei is used for purchase of coal production equipment and refurbishment of coal mining structure and the corresponding amounts are transferred from other current liabilities to capital reserves when the construction facilities are put into use. Pursuant to the relevant regulations, this capital reserve can only be used for the future development of the coal mining business.

### 31. SURPLUS RESERVES

Changes in surplus reserves from January 1, 2003 to December 31, 2003 are as follows:

	Statutory common reserve fund RMB	Statutory common welfare fund RMB	Total RMB
At January 1, 2003	<b>388,201,586</b>	<b>194,141,761</b>	<b>582,343,347</b>
Additions	<b>110,580,272</b>	<b>55,312,039</b>	<b>165,892,311</b>
At December 31, 2003	<u><b>498,781,858</b></u>	<u><b>249,453,800</b></u>	<u><b>748,235,658</b></u>

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	<u>388,201,586</u>	<u>194,141,761</u>	<u>582,343,347</u>

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

# Notes to the Financial Statements (under PRC GAAP) (Cont'd)

For the year ended December 31, 2003

## 32. CASH DIVIDEND PROPOSED AFTER THE BALANCE SHEET DATE

	2003 RMB	2002 RMB
At January 1 (Re-stated, refer to note 3)	<b>298,480,000</b>	287,000,000
Less: Transferred to dividends payable	<b>298,480,000</b>	287,000,000
Add: Cash dividend proposed after the balance sheet date (Note)	<b>470,680,000</b>	298,480,000
At December 31	<b>470,680,000</b>	298,480,000

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

According to the minute of Board of Directors dated April 16, 2004, final dividend of RMB1.14 and special dividend of RMB0.5 per ten shares, i.e. RMB1.64 per ten shares in all for year 2003, is proposed 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 are subject to the approval of the shareholders' meeting of the Company.

## 33. UNAPPROPRIATED PROFITS

	2003 RMB	2002 RMB
At January 1	<b>1,751,708,336</b>	1,197,704,033
Add: Net profit for the year	<b>1,105,364,647</b>	1,003,115,498
Less: Appropriations to:		
Statutory common reserve fund (Note i)	<b>110,536,465</b>	100,311,550
Statutory common welfare fund (Note ii)	<b>55,268,232</b>	50,155,775
Statutory common reserve fund of the subsidiary (Note iii)	<b>43,807</b>	81,935
Statutory common welfare fund of the subsidiary (Note iii)	<b>43,807</b>	81,935
Profit available for distribution	<b>2,691,180,672</b>	2,050,188,336
Less: Cash dividend proposed after the balance sheet date	<b>470,680,000</b>	298,480,000
At December 31	<b>2,220,500,672</b>	1,751,708,336

### 33. UNAPPROPRIATED PROFITS (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 current year's net profit as statutory common welfare fund.

Note iii: Appropriations to statutory common reserve fund and statutory common welfare fund of the subsidiary.

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

### 34. REVENUE FROM PRINCIPAL OPERATIONS

	<b>2003</b>	2002
	<b>RMB</b>	RMB
Revenue from domestic sales of coal products	<b>4,918,043,729</b>	4,008,864,774
Revenue from export sales of coal products	<b>3,587,417,218</b>	3,899,061,202
Revenue from railway transportation services	<b>159,771,257</b>	147,332,930
	<b><u>8,665,232,204</u></b>	<u>8,055,258,906</u>
<b>Total amount of the 5 largest customers</b>		<b>Percentage in total revenue</b>
RMB		%
1,670,330,727		19%

The Company exports its coal through China National Coal Industry Import and Export Corporation, Minerals Trading Co., Ltd. and Shanxi Coal Import and Export Group Corporation. 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.



## Notes to the Financial Statements (under PRC GAAP) (Cont'd)

For the year ended December 31, 2003

**35. COST OF PRINCIPAL OPERATIONS**

	<b>2003</b>	2002
	<b>RMB</b>	RMB
Cost of sales of coal products	<b>3,947,107,054</b>	3,540,520,892
Cost of the railway transportation services	<b>67,589,146</b>	52,990,246
	<b><u>4,014,696,200</u></b>	<b><u>3,593,511,138</u></b>

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

	<b>2003</b>	2002
	<b>RMB</b>	RMB
Materials	<b>885,333,208</b>	744,556,976
Wages	<b>754,893,943</b>	663,219,828
Employee welfare	<b>89,909,331</b>	82,970,676
Electricity	<b>275,856,678</b>	275,828,859
Depreciation	<b>817,768,904</b>	794,423,499
Land subsidence, restoration, rehabilitation and environmental costs	<b>264,158,442</b>	232,030,188
Repairs	<b>364,692,980</b>	340,633,532
Others	<b>234,819,802</b>	176,247,388
	<b><u>3,687,433,288</u></b>	<b><u>3,309,910,946</u></b>
Subtotal	<b>3,687,433,288</b>	3,309,910,946
Wei Jian Fei	<b>259,673,766</b>	230,609,946
	<b><u>3,947,107,054</u></b>	<b><u>3,540,520,892</u></b>
Total	<b>3,947,107,054</b>	3,540,520,892

**36. SALES TAXES AND SURCHARGES**

	<b>2003</b>	2002
	<b>RMB</b>	RMB
Business tax	<b>5,184,955</b>	4,419,988
City construction tax	<b>48,235,735</b>	63,914,620
Education fee	<b>20,672,458</b>	27,426,892
Resource tax	<b>49,925,052</b>	44,711,641
	<b><u>124,018,200</u></b>	<b><u>140,473,141</u></b>

### 37. PROFITS FROM OTHER OPERATIONS

	2003 RMB	2002 RMB
Sales of raw materials		
– Sales	626,746,635	521,801,637
– Cost of sales	591,550,143	500,524,833
	<u>35,196,492</u>	<u>21,276,804</u>
Others		
– Income	28,348,624	62,888,946
– Cost	20,524,780	54,012,529
	<u>7,823,844</u>	<u>8,876,417</u>
	<u><b>43,020,336</b></u>	<u><b>30,153,221</b></u>

### 38. OPERATING EXPENSES

	2003 RMB	2002 RMB
Selling expense of domestic sales of coal products	503,228,749	525,997,969
Selling expense of export sales of coal products	1,089,065,698	1,032,416,088
Others	66,780,344	89,033,211
	<u>1,659,074,791</u>	<u>1,647,447,268</u>

### 39. FINANCIAL EXPENSES

	2003 RMB	2002 RMB
Interest expenses	53,682,000	75,737,500
Less: interest income	13,631,237	28,736,909
Others	1,319,656	2,560,585
	<u>41,370,419</u>	<u>49,561,176</u>

## Notes to the Financial Statements (under PRC GAAP) (Cont'd)

For the year ended December 31, 2003

**40. INVESTMENT INCOME**

	<b>2003</b>	2002
	<b>RMB</b>	RMB
Short-term investment income		
– Interest income from designated deposit	<b>4,183,333</b>	–
– Gains on debt investment	<b>1,423,858</b>	3,687,968
Long-term investment income		
– Profits declared by invested under cost method	<b>4,809,780</b>	–
	<b>10,416,971</b>	3,687,968

**41. SUBSIDY INCOME**

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

**42. NON-OPERATING INCOME**

	<b>2003</b>	2002
	<b>RMB</b>	RMB
Gain on disposal of fixed assets	<b>13,050,762</b>	8,203,377
Others	<b>4,290,828</b>	370,389
	<b>17,341,590</b>	8,573,766

**43. NON-OPERATING EXPENSES**

	<b>2003</b>	2002
	<b>RMB</b>	RMB
Loss on disposal of fixed assets	<b>6,179,251</b>	9,296,739
Donations	<b>338,570</b>	528,060
Fines	<b>1,664,874</b>	2,933,795
Others	<b>14,587,773</b>	9,085,587
	<b>22,770,468</b>	21,844,181

**44. INCOME TAXES**

	<b>2003</b>	2002
	<b>RMB</b>	RMB
Income tax of the Company	<b>586,884,118</b>	523,566,759
Income tax of the subsidiary	<b>891,453</b>	967,462
	<b><u>587,775,571</u></b>	<b><u>524,534,221</u></b>

**45. OTHER CASH RECEIVED RELATING TO OPERATING ACTIVITIES**

	<b>2003</b>
	<b>RMB</b>
Other operating income	<b>655,095,259</b>
Interest income	<b>13,631,237</b>
Others	<b>222,665,956</b>
	<b><u>891,392,452</u></b>
Total	<b><u>891,392,452</u></b>

**46. OTHER CASH PAID RELATING TO OPERATING ACTIVITIES**

	<b>2003</b>
	<b>RMB</b>
Cash payments for operating expenses and administrative expenses	<b>2,021,384,952</b>
Other operating expenses	<b>612,074,923</b>
Others	<b>29,856,749</b>
	<b><u>2,663,316,624</u></b>
Total	<b><u>2,663,316,624</u></b>

# Notes to the Financial Statements (under PRC GAAP) (Cont'd)

For the year ended December 31, 2003

## 47. ACQUISITION OF SUBSIDIARY

On April 18, 2003, the Company entered into an Equity Transfer Agreement with the original shareholders of Shangdong Yanmei Shipping Co. Ltd., i.e. Nantun Coal Mining Labor Service Company, Nantun Coal Mining Labors' Union and 45 personal shareholders, to acquire 80% equity interest of Yanmei Shipping. On December 30, 2003, the Company entered into another Equity Transfer Agreement with the other investor of Yanmei Shipping to acquire its 12% equity interest of Yanmei Shipping. By the forsaied two acquisitions, the Company obtained 92% equity interest of Yanmei Shipping for the aggregate consideration of RMB11,692,000, which has been paid off before the year-end of 2003. The acquisition is completed at December 31, 2003.

The financial position at the date of acquisition is as follows:

	<b>December 31, 2003</b>
	<b>RMB</b>
Bank balances and cash	<b>506,371</b>
Notes receivable	<b>600,000</b>
Accounts receivable	<b>134,690</b>
Other receivables	<b>18,070,157</b>
Inventories	<b>1,253,966</b>
Fixed assets	<b>12,551,278</b>
	<hr/>
Total assets	<b>33,116,462</b>
Advances from customers	<b>80,000</b>
Taxes payable	<b>1,078,206</b>
Other payables	<b>31,381,765</b>
	<hr/>
Total liabilities	<b>32,539,971</b>
Minority interest	<b>46,119</b>
	<hr/>
The Company's share of net assets	<b>530,372</b>
	<hr/>
Discrepancy on consolidation (See note 16(2))	<b>11,161,512</b>
	<hr/>
Total	<b>11,691,884</b>
	<hr/> <hr/>
Consideration:	
Cash	<b>11,691,884</b>
	<hr/> <hr/>
Net cash outflow arising on acquisition of subsidiary:	
Cash consideration	<b>11,691,884</b>
Bank balances and cash of the acquired subsidiary	<b>506,371</b>
	<hr/> <hr/>
	<b>11,185,513</b>
	<hr/> <hr/>

#### 48. CASH AND CASH EQUIVALENTS

	December 31, 2003 RMB	December 31, 2002 RMB
Bank balances and cash	<b>2,041,293,313</b>	1,595,933,728
Less: Restricted cash (Note)	<b>17,521,242</b>	51,760,596
	<b><u>2,023,772,071</u></b>	<b><u>1,544,173,132</u></b>

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

#### 49. SEGMENT INFORMATION

Item	Coal mining business RMB	Railway transportation business RMB	Inter-segment elimination RMB	Unallocated items RMB	Total RMB
	1. Operating revenue				
External	8,505,460,947	159,771,257	-	-	8,665,232,204
Inter-segment	-	400,048,342	(400,048,342)	-	-
Total	<u>8,505,460,947</u>	<u>559,819,599</u>	<u>(400,048,342)</u>	<u>-</u>	<u>8,665,232,204</u>
2. Cost of sales					
External	3,947,107,054	67,589,146	-	-	4,014,696,200
Inter-segment	-	173,137,712	(173,137,712)	-	-
Total	<u>3,947,107,054</u>	<u>240,726,858</u>	<u>(173,137,712)</u>	<u>-</u>	<u>4,014,696,200</u>
3. Total operating expenses	<u>2,834,944,673</u>	<u>74,051,914</u>	<u>(226,910,630)</u>	<u>287,970,322</u>	<u>2,970,056,279</u>
4. Total operating profits	<u>1,723,409,220</u>	<u>245,040,827</u>	<u>-</u>	<u>(287,970,322)</u>	<u>1,680,479,725</u>
5. Total assets	<u>10,558,108,879</u>	<u>1,115,527,628</u>	<u>-</u>	<u>2,264,961,651</u>	<u>13,938,598,158</u>
6. Total liabilities	<u>1,889,232,684</u>	<u>11,929,412</u>	<u>-</u>	<u>1,010,085,525</u>	<u>2,911,247,621</u>

# Notes to the Financial Statements (under PRC GAAP) (Cont'd)

For the year ended December 31, 2003

## 50. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

Name of related parties	Registration address	Major business	Relationship	Quality	Status	representative
Yankuang Group	40 Fu Shan Road, Zoucheng, 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
Yanmei Shipping	Shiqiao town Rencheng district, Jining	Transportation service via river and lakes	Subsidiary	Limited company		Wang Xin Kun

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

	<b>January 1 and December 31, 2003</b>
	RMB
Yankuang Group	<u>3,090,336,000</u>
Zhongyan Trade	<u>2,100,000</u>
Yanmei Shipping	<u>5,500,000</u>

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

Name of related parties	January 1, 2003		Addition		December 31, 2003	
	RMB	%	RMB	%	RMB	%
Yankuang Group	3,090,336,000	58.19	–	–	3,090,336,000	58.19
Zhongyan Trade	1,100,000	52.38	–	–	1,100,000	52.38
Yanmei Shipping (Note)	–	–	5,060,000	92.00	5,060,000	92.00

Note: Yanmei Shipping was acquired by the Company on December 31, 2003. Prior to December 31, 2003, Yanmei Shipping and the Company, which were related parties, have common key management members. The transactions for the year from January 1, 2003 to December 31, 2003 have been disclosed in note 50(4)(d) and (g/5) as related party transactions. All significant balances between the Company and Yanmei shipping are eliminated on consolidation.

## 50. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

(a) The transactions after acquisition date between the Company and the subsidiaries 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 volume reaches the targets quoted in the agreement, the additional payment would be as follows:

- A. If the Railway Assets' actual transportation volume 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 transportation volume 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 transportation volume 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 instalments:

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



# Notes to the Financial Statements (under PRC GAAP) (Cont'd)

For the year ended December 31, 2003

## 50. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

- (b) Acquisition of railway transportation business (Continued)

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 and 28,000,000 tonnes for the year ended December 31, 2002 and 2003 respectively, an extra RMB40,000,000 and RMB40,000,000 were paid to Yankuang Group according to the agreement mentioned in term A and B.

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 December 31, 2003, the Company had paid RMB2,490,644,000 to Yankuang Group for the above acquisition, including the consideration of RMB2,450,900,000 and the mining rights of RMB39,744,000. Included in the above payment, RMB13,248,000 was paid in current year for acquisition of the mining rights.

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 is scheduled to pay for the mining rights of RMB13,248,000 as the forth instalment before December 31, 2004.

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

## 50. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

- (d) Sales and purchases

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Sales and service provided		
Sales of coal – Yanmei Shipping	<b>77,155</b>	37,693
– Yankuang Group	<b>229,730</b>	110,403
	<hr/>	<hr/>
Subtotal	<b>306,885</b>	148,096
	<hr/>	<hr/>
Railway transportation services income –		
Yankuang Group	<b>66</b>	496
Public utilities and facilities income –		
Yankuang Group	<b>29,000</b>	5,000
Material and spare parts sales (Note) –		
Yankuang Group	<b>472,899</b>	12,385
	<hr/>	<hr/>
	<b>808,850</b>	165,977
	<hr/>	<hr/>
Purchases – Yankuang Group	<b>373,710</b>	409,117
	<hr/>	<hr/>

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

Note: In year 2003, the Company and Yankuang Group signed the Second Supplemental Agreement to Materials and Service Supply Agreement (“Second Supplemental Agreement”). According to the original Material and Service Supply Agreement, the Company procures materials for Yankuang Group for a management fee of 5% of the relevant materials. While according to the Second Supplement Agreement, the Company supplies materials to Yankuang Group at market price in current year.

- (e) Construction services

		<b>2003</b>	2002
		<b>RMB'000</b>	RMB'000
Mining structure of Jining III	Yankuang Group	<b>257,593</b>	–
Harbour works in Sihekou	Yankuang Group	<b>250,231</b>	–
		<hr/>	<hr/>
		<b>507,824</b>	–
		<hr/>	<hr/>

The price of the above transaction is determined at market price.

# Notes to the Financial Statements (under PRC GAAP) (Cont'd)

For the year ended December 31, 2003

## 50. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

(f) Amount due to or from related parties

Account	Company	December 31, 2003 RMB	December 31, 2002 RMB
Notes receivable	Yankuang Group	<b>43,298,758</b>	–
Accounts receivable	Yankuang Group	<b>10,139,098</b>	10,491,800
Other receivables (Note)	Yankuang Group	<b>16,662,382</b>	54,484,900
Prepayments	Yankuang Group	<b>3,200,170</b>	12,125,593
		<b>73,300,408</b>	77,102,293
Notes payable	Yankuang Group	–	7,020,000
Accounts payable	Yankuang Group	<b>27,111,232</b>	55,433,118
Advances from customers	Yankuang Group	<b>66,515,176</b>	15,355,725
Other payables (Note)	Yankuang Group	<b>325,162,158</b>	262,964,418
Long-term payable due within one year (Note 28)	Yankuang Group	<b>13,247,800</b>	13,247,800
Long-term payables (Note 28)	Yankuang Group	<b>79,487,360</b>	92,735,160
		<b>511,523,726</b>	446,756,221

Note: Other receivables due from and other payables due to Yankuang Group are interest free and repayable on demand.

(g) 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 charged to expenses of the Company for the year of 2003 and 2002 are RMB458,072,000 and RMB437,677,000, respectively.

## 50. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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

(g) Other transactions (Continued)

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

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Electricity	<b>284,786</b>	–
Repairs and maintenance	<b>225,408</b>	239,297
Technical support and training fee	<b>15,130</b>	15,130
Mining rights fees	<b>12,980</b>	12,980
Public utilities expenses	<b>380</b>	1,350
Road transportation fee	<b>17,216</b>	33,208
Gases and eructate expenses	<b>10,800</b>	11,970
Buildings management fee	<b>37,200</b>	37,200
Children tuition fee	<b>16,600</b>	16,600
Others	<b>15,530</b>	17,330
	<hr/>	<hr/>
Total	<b>636,030</b>	385,065
	<hr/> <hr/>	<hr/> <hr/>

- (3) Total amount of salaries paid to key management, including salaries, welfare and subsidies paid in the form of cash, goods and others, for the year of 2003 and 2002 are RMB1,845,645 and RMB1,918,814, respectively.
- (4) During the years of 2002 and 2003, 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.
- (5) Yanmei Shipping provides transportation service to the Company. Expenditure relating to the transportation service occurred in current year is RMB74,783,103.

## Notes to the Financial Statements (under PRC GAAP) (Cont'd)

For the year ended December 31, 2003

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

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

		December 31, 2003 RMB	December 31, 2002 RMB
Investments in subsidiaries	(a)	4,592,496	4,774,406
Other equity investments	(b)	31,897,684	31,897,684
Equity investment difference	(b)	11,161,512	–
		<u>47,651,692</u>	<u>36,672,090</u>
Less: Impairment loss on long-term equity investments		–	–
Long-term equity investments – net		<u>47,651,692</u>	<u>36,672,090</u>

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

Name of investees	Investment cost			Profit and loss adjustment			Net book value		
	January 1, 2003		December 31, 2003	January 1, 2003	Addition of equity	Cash dividend for the year	December 31, 2003	January 1, 2003	December 31, 2003
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Zhongyan Trade	2,709,903	–	2,709,903	2,064,503	574,258	(1,286,540)	1,352,221	4,774,406	4,062,124
Yanmei Shipping	–	530,372	530,372	–	–	–	–	–	530,372
	<u>2,709,903</u>	<u>530,372</u>	<u>3,240,275</u>	<u>2,064,503</u>	<u>574,258</u>	<u>(1,286,540)</u>	<u>1,352,221</u>	<u>4,744,406</u>	<u>4,592,496</u>

(b) For details of other equity investments and equity investment difference, see note 16.

## (2) Investment income – The Company

	2003 RMB	2002 RMB
Short-term investment income		
– Interest income from designated deposit	4,183,333	–
– Gains on debt investment	1,423,858	3,687,968
Long-term investment income		
– Share of investee's profit recognized under equity method	574,258	3,371,130
– Profits declared by investee under cost method	4,809,780	–
	<u>10,991,229</u>	<u>7,059,098</u>

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

### (3) Cash and cash equivalents – The Company

	December 31, 2003 RMB	December 31, 2002 RMB
Bank balances and cash	2,039,188,498	1,592,397,958
Less: Restricted cash (Note)	<u>17,521,242</u>	<u>51,760,596</u>
	<u><b>2,021,667,256</b></u>	<u><b>1,540,637,362</b></u>

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

## 52. CAPITAL COMMITMENTS

	December 31, 2003 RMB'000	December 31, 2002 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– Purchase of assets	163,342	257,382
– Investments (See note 16(1))	<u>30,137</u>	<u>30,137</u>
	<u><b>193,479</b></u>	<u><b>287,519</b></u>

## 53. SUBSEQUENT EVENTS

The Company adopts the method of “Exemption, counteract and refund” for calculating of the VAT refund on export sales of coal products. The rates of VAT payment and refund are both 13%. Pursuant to the “Notice on The Adjustment of Export Refund Rate” (Caishui [2003] No.222), which was jointly issued by the Ministry of Finance and the State Administration of Taxation, major tax refund rate of coal exported by the Company will be reduced from 13% to 11% from January 1, 2004, which has an impact on profit from export sales.