YANZHOU COAL MINING COMPANY LIMITED
INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2000

Dear shareholders,

The first half of 2000 was a difficult and challenging half year for the global coal industry. At the time of presenting the audited interim operating results of Yanzhou Coal Mining Company Limited (the "Company") for the six months ended 30th June, 2000, the board of Directors is confident to point out that the Company has become a leaner, more efficient and technologically advanced world class coal mining player. With the coal market showing signs of improvement, the Company is expected to deliver much improved second half result to reward shareholders who supported the Company during this most difficult period of very low coal prices.

Sales volume for the first six months of 2000 was 12.447 million tonnes, representing an increase of 0.942 million tonnes or 8.2% of the sales volume for the same period last year. Total net sales for the first six months of 2000 were RMB1,685.706 million, a RMB179.482 million or 9.6% decrease below those for the same period last year. Income before income taxes and net income for the first six months of 2000 were RMB496.724 million and RMB358.763 million, respectively, a RMB138.243 million or 21.8% decrease and a RMB86.738 million or 19.5% decrease below those for the same period last year, respectively.

SUMMARY OF AUDITED FINANCIAL INFORMATION

(prepared in accordance with International Accounting Standards ("IAS"))

	For the six months ended 30th June,		**% change as compared to same period last year**
	2000 **(RMB'000)**	1999 *(RMB'000)* *(unaudited)*	
Net sales			
Domestic	**1,072,234**	1,205,217	-11.0%
Export	**613,472**	659,971	-7.0%
Total net sales	**1,685,706**	1,865,188	-9.6%
Gross profit	**757,973**	902,735	-16.0%
Operating income	**463,870**	631,975	-26.6%
Interest expenses	**(2,473)**	(2,843)	-13.0%
Income before income taxes	**496,724**	634,967	-21.8%
Net income	**358,763**	445,501	-19.5%

	At 30th June, 2000	1999 (unaudited)
Total assets *(RMB'000)*	**7,679,926**	7,100,692
Shareholder's equity at 30th June *(RMB'000)*	**6,480,028**	5,973,045
Earnings per share *(RMB)*	**0.14**	0.17
Return on net assets *(%)*	**5.5**	7.46
Net asset value per share *(RMB)*	**2.49**	2.30

REVIEW OF OPERATIONS

The following discussion is based on the Company's audited historical results for the first half of 2000 and the Company's unaudited historical results for the first half of 1999, which were prepared in accordance with IAS.

Coal Production

The Company's coal production increased by 0.784 million tonnes, or 6.5%, to 12.764 million tonnes in the first half of 2000 from the coal production of 11.980 million tonnes for the same period in 1999. The steady increase was primarily achieved by applying advanced mining techniques and equipment and continuously improving production efficiency.

Product Sales

The Company's sales volume increased by 0.942 million tonnes, or 8.2%, to 12.447 million tonnes in the first half of 2000 from the sales volume for the same period last year, of which 8.392 million tonnes were sold in the domestic market, an increase of 0.295 million tonnes compared with the same period in 1999 (the principal factor being the increased sales of screened raw coal, No. 2 clean coal and washed mixed coal). As to export sales, the volume increased to 4.055 million tonnes, an increase of 0.647 million tonnes, or 19.0%, as compared with the same period of 1999. Exports of No. 2 clean coal increased by 0.184 million tonnes and No. 3 clean coal increased by 0.463 million tonnes. The proportion of the export sales volume of the Company's total sales volume increased by 3 percentage points, compared with the same period of 1999. The increase in sales volume reflected the Company's strengthened competitiveness in both domestic and overseas coal markets.

Net Sales

Net sales decreased by RMB179.482 million, or 9.6%, to RMB1,685.706 million in the first half of 2000 compared with the same period last year. Domestic net sales decreased by RMB132.983 million, or 11.0%, to RMB1,072.234 million and export net sales decreased by RMB46.499 million, or 7.0%, to RMB613.472 million. The proportion of the export sales of the Company's total net sales increased by 1 percentage point compared with the same period of 1999.

The following table sets out the Company's net sales by product category for the six months ended 30th June, 1999 and 2000, respectively:
(prepared in accordance with IAS)

	For the six months ended 30th June, 2000			For the six months ended 30th June, 1999		
	Sales Volume	**Net sales**	**% of total net sales**	Sales volume	Net sales	% of total net sales
	'000 tonnes	***RMB'000***		*'000 tonnes*	*RMB'000*	
Clean Coal						
No. 1 Clean Coal	**131.4**	**29,288**	**1.7**	135.8	34,180	1.8
No. 2 Clean Coal/ Thermal Coal						
Domestic	**791.8**	**135,081**	**8.0**	1,008.0	195,483	10.5
Export	**4,054.7**	**613,471**	**36.4**	3,408.0	659,971	35.4
Subtotal	**4,846.5**	**748,552**	**44.4**	4,416.0	855,454	45.9
Subtotal for Clean Coal	**4,977.9**	**777,840**	**46.1**	4,551.8	889,634	47.7
Screened Raw Coal	**6,632.5**	**852,835**	**50.6**	5,873.0	861,289	46.2
Mixed Coal and others	**837.0**	**55,031**	**3.3**	1,079.8	114,265	6.1
Total	**12,447.4**	**1,685,706**	**100.0**	11,504.6	1,865,188	100.0

Product Pricing

The following table sets out the Company's product prices for the six months ended 30th June, 2000, and the prices for the six months ended 30th June and 31st December, 1999, respectively *(prepared in accordance with IAS)*:

	For the six months ended 30th June,		For the six months ended 31st December,
	2000	1999	1999
	Average price	Average price	Average price(Note)
	(RMB per tonne)	*(RMB per tonne)*	*(RMB per tonne)*
Clean Coal			
No. 1 Clean Coal	**222.88**	251.60	215.11
No. 2 Clean Coal/Thermal Coal			
Domestic	**170.60**	193.93	150.07
Export	**151.30**	193.65	143.01
Screened Raw Coal	**128.58**	146.65	136.32
Mixed Coal and others	**65.75**	105.83	84.27
Average	**135.43**	162.13	134.95

Note:

The average price per tonne for the six months ended 31st December, 1999, was calculated with the following formula:

$$\frac{\text{(Net sales for the year ended 31st December, 1999) less (net sales for the six months ended 30th June, 1999)}}{\text{(Sales volume for the year ended 31st December, 1999) less (sales volume for.the six months ended 30th June, 1999)}}$$

Information relating to net sales and sales volume for the year ended 31st December, 1999 was set out in the Company's 1999 annual report.

The Company's average coal price declined by 16.5% in the first six months of 2000 as compared with the same period last year, of which the average domestic price declined by 14.2% and the average export price declined by 21.9%. The decline was principally due to: (1) the coal price remained comparatively low because of the over supply situation in the domestic and overseas coal markets, especially in the first quarter of the year; (2) the proportion of exports in the total sales volume increased. Although the coal price is rebounding gradually, the coal price for the first half of 2000 was significantly lower compared with the same period last year, resulting in a decline in the average coal price.

The Company's average coal price increased by RMB0.48 per tonne, or 0.4%, in the first six months of 2000 as compared with the second six months of 1999, even though domestic coal prices declined by 3.4%. This was principally due to the decline in the prices of the screened raw coal and mixed coal, which made up a large proportion of the Company's domestic sales. The average export coal price increased by 5.8%. This was mainly due to the rise in price of the spot coal sales and the increase of sales proportion of No. 2 clean coal, which was sold at a higher price.

The Company's average coal price declined considerably as compared with the same period last year. However, compared with the second half of 1999, the decline in domestic coal price has been stabilised, while the prices of certain products has begun to rebound. The export coal price has bottomed and is showing strong recovery. The Company's average coal price is already improving.

Cost and Expenses

Cost of goods sold for the first six months of 2000 decreased by RMB34.720 million, or 3.6%, to RMB927.733 million as compared with that in the same period of 1999. The decrease in cost of goods sold was principally achieved by applying the measures to improve efficiency and reduce costs.

Total operating expenses decreased by RMB11.377 million, or 0.9% to RMB1,221.836 million as compared with that for the same period last year. This was mainly because of the decrease in the cost of goods sold. But the decrease in the cost of goods sold was partially offset by the RMB23.343 million increase in the selling, general and administrative expenses. Total operating expenses accounted for 72.5% of the net sales, an increase of 6.4 percentage points as compared with the same period of 1999.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis are based on the audited interim financial report of 2000 and the unaudited 1999 interim financial report of the Company. These financial reports are prepared in accordance with IAS. Detailed differences between the IAS and accounting principles generally accepted in the United States of America ("US GAAP") please refer to note (30) to the financial information prepared in accordance with IAS.

Net sales of the Company in the first six months of 2000, decreased by RMB179.482 million, or 9.6%, to RMB1,685.706 million as compared with the same period of 1999. The decline of net sales was principally due to a 16.5% decrease in the average coal sale price, which resulted in net sales decreasing by RMB332.346 million as compared with the same period of 1999. An 8.2% increase in the sales volume made the net sales increased by RMB152.864 million as compared with the same period last year, and this partially offset the negative effect to the income of the Company caused by the decline in coal price.

Cost of goods sold decreased by RMB34.720 million, or 3.6%, to RMB927.733 million in the first six months of 2000 as compared with the same period last year. Unit cost of goods sold decreased by 11.0% as compared with the same period of 1999. The decrease in cost was principally due to: (1) the increase in productivity and output and the strict control of the material and maintenance expenses, which in turn resulted in a decline in the utilisation of materials of RMB1.461 million and a decline in maintenance expenses of RMB7.111 million combined with a concurrent increase in production; (2) the Company's export VAT rebate increased to 13% from the original 9% since 1st April, 1999, resulting in a reduction in the Company's cost of goods sold of RMB21.860 million as compared with the same period of 1999.

Selling, general and administrative expenses was RMB294.103 million in the first six months of 2000, an increase of RMB23.343 million as compared with the same period of 1999. The increase was principally due to an increase in distribution charges, arising from an increase in sales volume and a larger number of customers.

The Company's operating income decreased by RMB168.105 million, or 26.6%, to RMB463.870 million in the first six months in 2000 from RMB631.975 million for the first half of 1999. This was principally due to a decrease in sales income.

Interest expense decreased by RMB0.370 million to RMB2.473 million as compared with the same period of 1999.

Income before tax decreased by RMB138.243 million, or 21.8%, to RMB496.724 million from RMB634.967 million for the same period of 1999.

Net income decreased by RMB86.738 million or 19.5%, to RMB358.763 million from RMB445.501 million for the same period of 1999. Net income ratio decreased by 2.6 percentage points as compared with the same period last year. This was mainly due to the decrease in sales income.

Total assets increased by RMB80.564 million, or 1.0%, to RMB7,679.926 million as at 30th June from RMB7,599.362 million at the beinning of the year. This was principally due to the incremental asset increases arising from the Company's operating activities.

Total liabilities reduced by RMB46.799 million, or 3.8%, from RMB1,246.697 million at the beginning of the year to RMB1,199.898 million as at 30th June, 2000. The Company has no long-term debt.

Shareholders' equity increased by RMB127.363 million, or 2.0%, from RMB6,352.665 million in the beinning of the year to RMB6,480.028 million as at 30th June. This was principally attributed to the increase in undistributed profits.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal source of capital is cash flow from operations. The Company's principal uses of capital have been payment of shareholders' dividend, and acquisition of property, plant and equipment.

As at 30th June, 2000, the balance of the Company's accounts receivable was RMB976.562 million, an increase of RMB112.921 million from that at the beginning of the year. This was principally due to the increase in the number of major customers in the second quarter in the southeast coastal region, such as Shanghai Power Company, and the increase in sales volume of the Company. Meanwhile, some of the major consumers adopted the method of pay after delivery and acceptance, resulting in an increase in accounts receivable within the period of one year. In 2000, the Company will continue to apply the measures of promoting sales and adopt more flexible credit policies in accordance with various marketing situations.

Inventories decreased by RMB33.548 million to RMB276.901 million from RMB310.449 million as at the beginning of the year, principally due to the decrease of coal stocks.

Prepayment and other current assets increased by RMB214.195 million to RMB514.921million from RMB300.726 million as at the beginning of the year, principally due to the increase in prepayments.

Accounts payable decreased by RMB144.046 million to RMB365.856 million from RMB509.902 million as at the beginning of the year, mainly due to the decrease in purchasing equipment and materials.

Other accounts payable decreased by RMB30.714 million to RMB365.156 million from RMB395.870 million as at the beginning of the year, principally due to the decrease of advances on sales and decrease of the provision for land subsidence.

In the first half of 2000, the Company's capital expenditure was RMB20.698 million principally for replacement of machinery and equipment. The Company's major capital expenditure will still be used for the replacement of machinery and equipment in the second half of 2000.

Taking into account the existing abundant capital sources, the Company believes that it will have sufficient capital for its operational requirements.

TAXATION

For the period under review, the Company is still subject to an income tax rate of 33% on its taxable profits.

US GAAP RECONCILIATION

The Company's audited interim financial statements are prepared in compliance with IAS, which differs in certain respects from US GAAP. Please refer to note (30) to the interim financial statements for this period for a description of the differences between IAS and US GAAP.

HOUSING SCHEME

The Company's parent company, Yankuang Group Corporation Limited (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 on a pro-rata basis based on head count. Such expenses amounted to RMB14.850 million and RMB14.850 million for the first six months in 1999 and 2000, respectively.

OUTLOOK FOR THE SECOND HALF OF 2000

In 2000, the PRC government continues to take fiscal measures to boost domestic demand, especially through the development of the western region to stimulate the country's economical growth. In the first half of the year, GDP increased 8.2%, total retail consumption increased by 10.1% and total export volume increased by 38.3% as compared with the same period last year. With significant increases in productivity, growth in foreign trade, and a strengthening domestic market, the overall economy of the PRC is proceeding on a stronger footing. It is expected that the government will continue to apply positive fiscal policies and accelerate the reforms of the state-owned enterprises to maintain a strong outlook.

The policies taken by the government in 2000 such as the "shutting down of mines and reducing coal production", "limiting coal production and reducing coal inventories" and "encouraging export of coal" have resulted in initial success. 5,789 small coal mines have been shut down in the first half of 2000. The total raw coal output of the country was 452 million tonnes, a reduction of 39.83 million tonnes, or 8.1%, as compared with the same period last year. The total export volume of the country reached 25.88 million tonnes, an increase of 8.01 million tonnes, or 44.4%, as compared with the same period last year. National coal stocks have been reduced from 180 million tonnes at the beginning of the year to 150 million tonnes by the end of June. These improvements including the reduction in coal supply have restored the supply and demand balance.

In the second half of 2000, the PRC government will continue to implement the policy of limiting coal output and reducing coal inventories. These measures should see a further shutting down of 18,900 small coal mines and reducing coal production by 160 million tonnes and keep the total coal output of the country below 870 million tonnes in year 2000. According to the forecast of China Coal Information Research Institute, the coal demand of both 4 major coal consumption industries and residential daily consumption is expected to increase in 2000. The increase in demand and reduction in supply of coal will continue to support the domestic coal price in the second half of 2000.

The international coal market has been improving. With the growth of South East Asia economies combined with higher oil prices in the international market, demand for coal should result in an improvement in the coal price. It is predicted that the GDP growth rate of South East Asia will rise from 0.6% in 1999 to 3.8% in 2000. The Japanese economy is also recovering. Higher oil prices have led to the rise in the ocean freight charges. Coal ocean freight charges from Queensland to Japan have increased from US$3.90/tonne, in July, 1999 to US$8.70/tonne in June, 2000 representing an increase of 123%. The rise of ocean freight charges has made the major coal exporters in Australia, South Africa and the USA less competitive in Asia than Chinese coal exporters. According to the forecast of international mining experts, the coal demand of Japan, South Korea and other Asian countries will increase by 9 million tonnes as compared with that for 1999. The high oil prices together with the increase of coal demand in South East Asia will stimulate the rise of the export coal price. The coal price in the international spot coal market has already begun to rise. The Australian spot price has rebounded from US$21.5/tonne in the week of January 20, 2000 to US$24.8/tonne in the week of 3rd August, 2000.

The board of Directors believes that the balance between supply and demand in the domestic coal market has improved and domestic coal price has reversed its declining trend and has started to increase. Coal demand is also strengthening on the international coal market. The coal price in the spot market has already started to rebound. It is anticipated that the second half of this year coal prices on both domestic and international markets will continue to be steady or increase gradually.

In order to improve the profitability of the Company, the Company will continue to implement its operating strategy of increasing sales volume, reducing costs, investing in information technology and pursuing acquisition opportunities in the second half of 2000.

The Company will continue to increase its sales volume by taking full advantage of its competitiveness on both domestic and international coal markets. On the domestic market, the Company will increase sales volume to power producers in the southeast coastal region. On the international market the Company, with the increase in spot coal prices, looks to increase coal export volumes. The annual export volume is expected to reach more than 8 million tonnes. The Company will improve its transportation capacity and transport coal by trucks to Rizhao port, so as to ensure the delivery of export coal and the coal sold to southeastern and southern China.

The Company will continue its drive to reduce cost. These measures mainly include increasing productivity, reducing unit cost, reducing staff numbers, improving the technology for ongoing roof support and auxiliary transportation systems.

The Company plans to establish a high-tech joint venture company this year, in which the Company will take a majority stake. The Company is currently negotiating with Shandong Science and Technology University and China Coal Science Institute in relation to the proposed joint venture. The Company plans to invest in the high-tech industry and deploy information technology to reduce procurement costs and selling expenses, increase sales, reduce inventories and develop a new source of growth.

The Company has accelerated its acquisition of Jining III Coal Mine ("Jining III"). The transaction is expected to be completed on 1st January, 2001. The Company has signed the acquisition agreement for Jining III (the "Acquisition Agreement") with the parent company on 4th August, 2000. The Acquisition Agreement has been approved by the Company's board of Directors. The Acquisition Agreement is subject to the approval of independent shareholders at the Extraordinary General Meeting to be held on 22nd September, 2000.

The Company will continue to leverage its low operating cost position and high efficiency to enhance its competitiveness in both domestic and overseas coal markets. The Company is confident that it will continue to be the best and the most competitive coal mining company in the PRC and become one of the top 10 coal exporters and producers in the world.

CHANGE IN SHARE CAPITAL STRUCTURE AND SUBSTANTIAL SHAREHOLDERS

Change in share capital

Par value per share: RMB1.00

	Number of shares issued at the beginning the period	**Changes during the period under review (Increase/ Decrease)**	**Number of shares issued at the end of the period**
	'000 shares		*'000 shares*
1. Shares not listed for public dealings			
(1) Subscriber shares of which:	1,670,000	–	1,670,000
Domestic legal person shares	1,670,000	–	1,670,000
(2) Employee shares	–	–	–
Total number of shares not listed for public dealings	1,670,000	–	1,670,000
2. Shares listed for public dealings			
(1) Domestically listed RMB Ordinary Shares	80,000	–	80,000
(2) Foreign invested Shares Listed on overseas stock Exchange	850,000	–	850,000
Total number of shares listed for public dealings	930,000	–	930,000
3. Total shares	2,600,000	–	2,600,000

Substantial Shareholders
(as at 30th June, 2000)

Name	Class of Shares held	Number of Shares at the end of the period	Percentage Shareholding (%)
Yankuang Group Corporation Limited	State legal person shares	1,670,000,000	64.23
HKSCC Nominess Limited	H shares	847,222,000	32.59
Jingfu Fund	A shares	1,120,580	0.043
Xinghe Fund	A shares	1,058,279	0.041
Li Guichan	A shares	987,733	0.038
Liu Jiuhuan	A shares	682,453	0.026
Su Yingchun	A shares	430,100	0.017
Yu Wenjia	A shares	310,000	0.012
Peng Jianying	A shares	260,000	0.010
Woo Shu An Samuel	H shares	214,000	0.008

Save as dsclosed above, no other shareholder was recorded in the register kept pursuant to Security Act of the People's Republic of China as having an interest of 5% or more of the Company's public shares; no other shareholder was recorded in the register kept pursuant to Section 16(1) of the Securities (Disclosure of interests) Ordinance (the "SDI Ordinance") as having an interest of 10% or more of the Company's domestic invested shares or foreign invested shares.

During the period under review, the shares held by Yankuang Group Corporation Ltd. were neither mortgaged nor frozen.

DIRECTORS' AND SUPERVISORS' INTERESTS

As at 30th June, 2000 the Company's directors and supervisors held in aggregate 180,000 A shares, representing 0.0069% of the Company's total issued share capital. Details are as follows:

Name	Title	Number of A shares held
Zhao Jingche	Chairman of the board	10,000
Yang Deyu	General Manager and Executive Directors	10,000
Du Mingshan	Executive Directors	10,000
Luo Taiyan	Executive Directors	10,000
Xiao Lifang	Executive Directors and Financial Controller	10,000
Wang Bangjun	Non-executive Director	10,000
Mo Liqi	Non-executive Director	10,000
Liu Yubin	Non-executive Director	10,000
Wu Zezhi	Non-executive Director	10,000
Chen Yongge	Non-executive Director	10,000
Ma Houliang	Non-executive Director	10,000
Xu Tianen	Non-executive Director	10,000
Yang Jiachun	Non-executive Director	10,000
Meng Xianchang	Chairman of the Supervisor Committee	10,000
Xiao Shuzhang	Supervisor	10,000
Qian Xiulan	Supervisor	10,000
Xu Xinmin	Supervisor	10,000
Zhou Hongbin	Supervisor	10,000

Save as disclosed herein, none of the Company's directors or supervisors had, as at 30th June, 2000, any interests in any shares in or debentures of the Company or any associated corporation (within the meaning of the SDI Ordinance) which are required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant at Section 28 of the SDI Ordiinance (including interests which they are taken of are deemed to have under Section 31 or Part I of the Schedule to the SDI Ordinance), or which are required, pursuant to Section 29 to the SDI Ordinance, to be entered in the registed referred to therein, or which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or, in the case of supervisors or the associates of directors of supervisors, which would be required to be named as described above if they had been directors. The Company has not granted to any of the Company's directors or supervisors or their spouses or children under 18 years of age any right to subscribe for equity or debt securities of the Company.

DISCLOSURE OF SIGNIFICANT EVENTS

Final Dividends

At the 1999 annual general meeting of the Company held on 16th June, 2000, the shareholders of the Company approved a final dividend of RMB231,400,000 (including tax), or RMB0.089 per share (including tax). Such final dividend were paid to shareholders of the Company before 30th June 2000.

Interim Dividends

According to the Articles of Association of the Company, interim dividends will not be paid to the shareholders of the Company.

Plans of Acquiring Jining III Coal Mine and A Share Issue

Acquisition of Jining III

Pursuant to the option agreement for Jining III coal mine of 17th October 1997, the Company entered into the Acquisition Agreement for Jining III with the Parent Company on 4th August, 2000. The Acquisition Agreement has been approved by the Company's board of Directors, which was announced on 7th August, 2000 in Hong Kong Economic Times and South China Morning Post. The Company resolved to convene the Extraordinary General Meeting to be held on 22nd September 2000 for the independent shareholders to approve the Acquisition Agreement.

Jining III was constructed by the Parent Company. It started trial production in September, 1999. It will commence large scale commercial production in the last quarter of 2000. Jining III is forecasted to produce 4 million tonnes of raw coal in 2001 and 8 million tonnes of raw coal per annum in and after 2005.

Consideration for the Acquisition

According to the Acquisition Agreement for Jining III, the Company will acquire Jining III from the Parent Company at a total consideration of 2,567.74 million (subject to adjustment), which comprises the purchase price and consideration for the mining right.

Determination of the Purchase Price

The purchase price shall be determined in the following ways: 30th April, 2000 is set as the valuation date; the valuation of Jining III of RMB2,435.26 million as at the valuation date (subject to confirmation by the Ministry of Finance) as assessed by the PRC and international valuers is used as the basic purchase price. The purchase price will be determined after adjustments made to the basic purchase price according to the changes in asset value of Jining III in the relevant period.

The purchase price shall be paid in the form of deferred payments which shall be settled by four instalments before 31st December 2002.

Consideration for the Mining Right of Jining III and Payment

After valuation and confirmation by the Ministry of Land and Resources, the consideration for the mining right of Jining III is RMB 132.48 million, which shall be paid by the Company without interest by ten equal yearly cash instalments starting from 2001.

Completion

The Company shall proceed with completion to acquire Jining III on the date which is the later of the date of fulfillment of all the conditions of the Acquisition Agreement or 1st January, 2001.

Coal Reserves of Jining III

SRK Consulting has assessed the reserve of Jining III and considers Jining III to contain 118 million tonnes recoverable reserves that can be recovered by wide seam longwall caving method and a further 81 million tonnes of indicated and inferred resources. Jining III has a mining life more than 20 years.

Low Production Cost of Jining III Coal Mine

The Company adopts the wide seam longwall caving method, a unique and world competitive technology. The operating cost of Jining III is expected to be the lowest of the world's underground steaming coal mines when Jining III reaches a production of 8 million tonnes per annum.

Acquisition is in the Interest of the Company

The board of Directors considers that the acquisition is in the interests of the Company because:

- the acquisition is in line with the Company's stated strategy and expansion of core business;

- the potential conflict and business competition between the Parent Company and the Company will be reduced;

- Jining III is a world class asset whose operating costs are expected to be one of the lowest of the world's export mines, producing high quality steaming and PCI coal;

- the acquisition will significantly expand the total reserve base of high quality coal and will provide the Company with a further opportunity to exploit its leading technology for the wide seam longwall caving method; and

- the acquisition is expected to increase the size and scale of production of the Company and create a platform for further growth opportunities, particularly in export markets.

A Share Issue

In order to raise funds to acquire Jining III, on 4th August 2000, the Company's board of Directors approved to issue 100 million A shares, which was announced on 7 August 2000 in Hong Kong Economic Times and South China Morning Post. The details of the A share issue are as follow:

In respect of the present issue of 100 million A shares, approximately 40% of the shares under the A share issue shall be placed to institutional investors by way of placement off the trading system; approximately 60% of the shares under the A share issue shall be offered through the trading system to the holders of publicly held shares of the Company whose names appear on the register of members of the Company after the close of business on the record date (the "Eligible Shareholders") and other public investors. Eligible Shareholders are entitled to subscribe for new A shares on a preferential basis up to a certain proportion. The new A shares which are not subscribed by the Eligible Shareholders will be offered to the public investors. The number of A shares issued will be subjected to re-allocations amongst the portions offered off the trading system and through the trading system, as determined by the lead underwriter depending on the actual level of subscription.

The low end of the bidding price shall be 18 times of the forecasted earnings per share on a fully diluted basis for the year in which the issue is made.

The Company's board of Directors proposes to seek the approval of shareholders at the extraordinary general meeting to authorise the board of Directors to determine whether to grant an over-allotment option (15% of the total volume of the A share issue) to the lead underwriter.

The A share issue is to be approved by the shareholders by way of special resolutions on the extraordinary general meeting to be held on 22 September 2000. The issue of A shares is subject to the approval of CSRC.

Investment in IT Industry

The Company is in negotiation with Shandong Science and Technology University and China Coal Science Institute in relation to the establishment of a technology joint-stock company. The respective amounts of investment by them has not yet been determined. The above-mentioned company is expected to be established within the year of 2000.

Connected Transaction

The Company's connected transaction in the first half of 2000 are set out in note (22) of the financial statements prepared in accordance with IAS.

Correction of the Income Tax Policy of "Payment First and Refund Later" Formulated by the Local Government

As of 30th June 2000, the Company has not been granted any income tax policy of "payment first and refund later" formulated by the local government, correction of such policy will have no impact on the Company.

Purchase, Sale or Redemption of Shares

The Company did not purchase, sell or redeem any of its shares during the six months ended 30th June, 2000.

Compliance with Code of Best Practice

As at 30th June 2000, the board of Directors had not established an audit committee. However, within the Company's organizational structure, a board of Supervisors carries out functions similar to that of an audit committee. The differences being that the Company's board of Supervisors comprises five members (one of which shall be an employee representative) who are elected and removed in the general meeting of shareholders. The board of Supervisors is accountable to the general meeting of shareholders. Whereas, an audit committee should comprise the non-executive directors of a company.

Except for mentioned above, none of the directors is aware of any information that would reasonably indicate that the Company is not, or has not, in compliance with the "Code of Best Practice" set out in Appendix 14 of the Rules on Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Ltd. during the six months ended on 30th June, 2000.

Material Litigation and Arbitration

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

Material Contracts

Save as disclosed herein, the Company did not enter into any material contract during the period of this report.

Auditors

The Company has appointed Deloitte Touche Tohmatsu Shanghai CPA and Deloitte Touche Tohmatsu 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, financial responsible person, and accountants;
- original audited report signed by registered accountants and sealed by the accounting firm;
- the Articles of Association of the Company.

On behalf of the Board
Zhao Jingche
Chairman

21st August, 2000
Zoucheng, P.R.China

INTERIM RESULTS

The Board of Directors of Yanzhou Coal Company Limited (the "Company") has the pleasure in presenting the audited interim operating results of the Company for the six months ended 30th June, 2000 prepared in conformity with (i) the relevant accounting principles and regulations applicable to PRC enterprises ("PRC GAAP") and (ii) the International Accounting Standards ("IAS").

REPORT OF THE AUDITORS

For the period from January 1, 2000 to June 30, 2000

沪江德勤会计师事务所

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Deloitte
Touche
Tohmatsu

Deshibaozi (00) No. P0466

To the shareholders of
Yanzhou Coal Mining Company Limited

We were engaged to audit the accompanying balance sheet of Yanzhou Coal Mining Company Limited ("the Company") as of June 30, 2000 and the related statements of income, profits appropriation and cash flows for the period from January 1, 2000 to June 30, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Independent Auditing Standards for Chinese Certified Public Accountants. Our audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the practical circumstances of the Company.

In our opinion, such financial statements are prepared in conformity with "Accounting Standards for Business Enterprises" and "Accounting Regulations of the People's Republic of China for Joint Stock Limited Companies" and, in all material respects, present fairly the financial position of the Company as of June 30, 2000 and the results of its operations and cash flows for the period from January 1, 2000 to June 30, 2000. The accounting policies adopted follow the consistency principle.

Deloitte Touche Tohmatsu Shanghai CPA
Shanghai China

Registered Accountants in PRC
Liu Wei Min
Gu Hong Yu

August 18, 2000

BALANCE SHEET

(Prepared under PRC GAAP)

At June 30, 2000

	Notes	Closing balance RMB	Opening balance RMB
ASSETS			
CURRENT ASSETS			
Bank balances and cash	4	**550,094,814**	517,686,974
Bills receivable		**42,028,834**	57,320,937
Accounts receivable	5	**979,514,121**	873,227,349
Other receivable	6	**406,761,047**	380,600,396
Less: Provision for doubtful debt	5	**87,516,680**	87,516,680
Net receivable		**1,298,758,488**	1,166,311,065
Prepayments	7	**191,652,783**	111,987,457
VAT refundable	8	**101,222,755**	64,774,442
Inventories	9	**275,101,027**	310,449,561
Less: Provision for inventory		**–**	–
Inventories, net		**275,101,027**	310,449,561
Deferred expenditures	10	**202,057,678**	78,939,660
TOTAL CURRENT ASSETS		**2,660,916,379**	2,307,470,096
FIXED ASSETS			
Fixed assets cost	11	**8,035,265,032**	8,209,042,685
Less: Accumulated depreciation	11	**3,563,963,090**	3,502,662,937
FIXED ASSETS, NET	11	**4,471,301,942**	4,706,379,748
Construction materials	12	**12,726,058**	12,788,004
Construction in progress	13	**485,380,779**	500,076,594
TOTAL FIXED ASSETS		**4,969,408,779**	5,219,244,346
Intangible and other assets			
Intangible assets	14	**293,670,767**	296,777,530
Pre-operating expenses	15	**4,589,323**	5,507,185
Long-term deferred expenditures	15	**2,213,728**	–
TOTAL INTANGIBLES AND OTHER ASSETS		**300,473,818**	302,284,715
TOTAL ASSETS		**7,930,798,976**	7,828,999,157

Notes are an integral part of the financial statements.

BALANCE SHEET

(Prepared under PRC GAAP)

At June 30, 2000

	Notes	Closing balance RMB	Opening balance RMB
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Notes payable	16	**51,660,000**	47,360,000
Accounts payable	17	**341,895,573**	492,222,965
Advance from customers	18	**48,965,606**	63,444,481
Wages payable		**22,652,169**	31,165,881
Proposed dividend	19	**–**	231,400,000
Tax payable	20	**145,880,950**	323,261,088
Other payables	21	**639,549,409**	355,788,600
Accrued expenses	22	**23,325,711**	–
TOTAL CURRENT LIABILITIES		**1,273,929,418**	1,544,643,015
TOTAL LIABILITIES		**1,273,929,418**	1,544,643,015
SHAREHOLDERS' EQUITY			
Share capital	23	**2,600,000,000**	2,600,000,000
Capital reserves	24	**2,526,228,929**	2,526,228,929
Surplus reserve	25	**252,319,083**	252,319,083
Including: Statutory Common Welfare Fund		**84,106,361**	84,106,361
Unappropriated profits	26	**1,278,321,546**	905,808,130
SHAREHOLDERS' EQUITY		**6,656,869,558**	6,284,356,142
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**7,930,798,976**	7,828,999,157

Notes are an integral part of the financial statements.

STATEMENT OF INCOME AND PROFITS APPROPRIATION

(Prepared under PRC GAAP)

For the period from January 1, 2000 to June 30, 2000

		Six months ended June 30,	
	Notes	**2000** *RMB*	1999 *RMB* *(unaudited)*
Net revenue from principal operations	27	**2,148,897,507**	2,166,531,984
Less: Cost of principal operations	28	**905,532,721**	1,022,751,028
Sales taxes on principal operations	29	**41,119,715**	42,894,103
Income from principal operations		**1,202,245,071**	1,100,886,853
Add: Income from other operations	31	**16,752,321**	2,651,836
Less: Operating expenses		**456,336,972**	309,149,318
Administrative expenses		**250,486,606**	219,706,141
Financial expenses	32	**(16,323,694)**	(290,372)
Operating income		**528,497,508**	574,973,602
Add: Subsidies	33	**188,579**	–
Non-operating income	34	**1,825,436**	40,100
Less: Non-operating expenses	35	**12,117,157**	874,416
Income before income taxes		**518,394,366**	574,139,286
Less: Income taxes	36	**145,880,950**	189,466,129
Net income		**372,513,416**	384,673,157
Add: Unappropriated profits at the beginning of the period		**905,808,130**	473,476,216
Profits available for appropriation		**1,278,321,546**	858,149,373
Less: Appropriations to statutory common fund	26	**–**	–
Appropriations to public welfare fund	26	**–**	–
Profits available for appropriation to shareholders		**1,278,321,546**	858,149,373
Less: Appropriation to discretionary surplus fund		**–**	–
Dividends	26	**–**	–
Unappropriated profits at the end of the period		**1,278,321,546**	858,149,373

Notes are an integral part of the financial statements.

CASH FLOWS STATEMENT

(Prepared under PRC GAAP)

For the period from January 1, 2000 to June 30, 2000

	Notes	Six months ended June 30, 2000 *RMB*
CASH FLOW FROM OPERATING ACTIVITIES		
Cash received from sales of goods and rendering of services		**2,193,307,113**
Taxes refunded		**84,679,068**
Cash received from other operating activities		**34,750,899**
CASH INFLOW		**2,312,737,080**
Cash paid for purchase of goods and services received		**933,963,156**
Cash paid to employees and cash paid on their behalf		**281,677,627**
Value added tax paid		**201,691,826**
Income taxes paid		**314,014,916**
Other taxes paid		**50,365,887**
Cash paid for other operating activities	37	**242,786,389**
CASH OUTFLOW		**2,024,499,801**
NET CASH FLOWS FROM OPERATING ACTIVITIES		**288,237,279**
CASH FLOW FROM INVESTING ACTIVITIES		
Net cash received from disposal of fixed asset, intangible assets and other non-current assets		**982,774**
CASH INFLOW		**982,774**
Cash paid for purchases of fixed assets, intangible assets and other non-current assets		**22,938,831**
CASH OUTFLOW		**22,938,831**
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(21,956,057)**
Dividend paid		**231,400,000**
Interest paid		**2,473,382**
CASH OUTFLOW		**233,873,382**
NET CASH OUTFLOWS FROM CAPITAL RAISING ACTIVITIES		**(233,873,382)**
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH		**–**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**32,407,840**

Notes are an integral part of the financial statements.

Note:

	Six months ended June 30, 2000 *RMB*
NON-CASH INVESTING ACTIVITIES	–
RECONCILIATION OF NET INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	372,513,416
Add:	
Depreciation on fixed assets	258,315,994
Amortization of intangible assets	4,051,296
Losses on disposal of fixed assets, intangible assets and other non-current assets (net of income)	11,235,231
Decrease in deferred expenditures (net of additions)	(123,118,018)
Increase in accrued expenses (net of decrease)	23,325,711
Financial expenses	2,473,382
Decrease in inventories (net of increase)	35,348,534
Decrease in receivables (net of increase)	(233,268,959)
Increase in payables (net of decrease)	(62,639,308)
Net cash flows from operating activities	288,237,279
Analysis of net increase in cash and cash equivalents:	
Cash at the end of the period	550,094,814
Less: Cash at the beginning of the period	517,686,974
Net increase in cash and cash equivalents	32,407,840

NOTES TO THE FINANCIAL STATEMENTS

For the period from January 1, 2000 to June 30, 2000

1. General

Yanzhou Coal Mining Company Limited (the "Company") was established in the People's Republic of China (the "PRC") as a joint stock company with limited liability on September 25, 1997 by Yankuang Group Corporation Limited (the "Yankuang Group Corporation"). The Company commenced operations on October 1, 1997. The A Shares, H Shares and American Depository Shares issued by the Company are listed on the stock exchange in Shanghai, Hong Kong and New York, respectively. (For details of share capital of the Company, please refer to note 23.) The principal operations of the Company are the mining and screening of coal and sales of coal products.

2. Significant accounting policies and accounting estimates

Accounting policy

The financial statements have been prepared in accordance with "Accounting Standards for Business Enterprises" and "Accounting Regulations for Joint Stock Limited Companies".

Accounting year

The accounting year of the Company commences on January 1 and ends on December 31 each year. These financial statements are reporting for the period from January 1 to June 30, 2000.

Reporting currency

The books and records of the Company are maintained in Renminbi.

Recording principles and accounting basis

The accrual accounting method based on historical cost has been adopted by the Company.

Foreign currency translation

Transactions denominated in foreign currencies are translated into Renminbi at the applicable rates of exchange prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the applicable rates of exchange prevailing at the balance sheet dates. Exchange gains or losses arising from translation are dealt with as financial expenses in the statement of income.

Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity and subject to limited risk on changes in value.

Accounting for bad debts

(1) Recognition criteria for bad debt

The irrecoverable amount of a bankrupt debtor after pursuing the statutory recovery procedures; the irrecoverable amount of a debtor who has died and has insufficient estate to repay and/or any obligatory undertakings; the irrecoverable amount, demonstrated by sufficient evidence, of a debtor who does not comply with his/her repayment obligation after the debt fall due.

(2) Accounting for loss on bad debt

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

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

Inventories

Inventories are stated at the historical cost which includes direct materials and, where applicable, direct labour cost and those overheads that have been incurred in bringing the inventories to their present location and condition. Inventories include raw materials and finished products.

The cost of inventories is calculated on the weighted average cost method when they are issued.

Provision for loss on realization of inventories

Provision for loss on realization of inventories is made when the net realizable value is lower than the cost. Provision for loss on realization of inventories is provided as the difference between the cost of one single item and its net realizable value. Net realizable value represents the estimated selling price less the estimated cost of completion and the estimated costs to be incurred in marketing, selling and distribution.

Fixed assets and depreciation

Fixed assets include buildings, mining structures, plant, machinery and equipment, transportation equipment and other equipment used for production with useful life exceeding 1 year and non-operating equipment with unit value over RMB2,000 and useful life exceeding 2 years.

Fixed assets are stated at cost or valuation upon the restructuring. Depreciation is provided to write off the cost of each category of fixed assets, other than mining structures, over their useful lives from the month after they are put into use using the straight-line method with estimated residual value of 3% on cost. According to (89) Caigongzi No. 302, depreciation of mining structures is provided at RMB2.5 per tonne of raw coal mined. The useful life and annual depreciation rate of each category of fixed assets are as follows:

	Useful life	**Annual depreciation rate**
Buildings	15-30 years	3.23-6.47%
Plant, machinery and equipment	5-15 years	6.47-19.40%
Transportation equipment	6-9years	10.78-16.17%

Construction in progress

Construction in progress is stated at historical cost or valuation upon the restructuring. Cost includes all expenditures incurred for construction projects, relevant loan interests, and other related expenses incurred. Construction in progress is transferred to fixed assets upon completion of the project and when assets have been put into use.

Intangible assets

Intangible assets are stated at historical cost or valuation upon the restructuring. Land use rights are amortized equally over 50 years after the certificate of land use rights has been obtained.

Pre-operating expenses

Pre-operating expenses are amortized on a straight line basis over 5 years from the date when the Company commences production.

Long-term deferred expenditures

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

Revenue from principal operations

Revenue from sales of goods is recognized when the Company has transferred to the buyers the risk and ownership of the goods; and the Company neither retains the managing rights nor control over the goods sold; and the Company received or has the right to collect the sales proceeds.

Revenue from assets used by other parties is recognised when relevant economic interest is realizable and the amount of revenue can be measured precisely.

Income taxes

Income taxes are recorded on an accrued basis.The charge for taxation is based on the accounting income for the period adjusted in accordance with the relevant requirements of related tax laws and regulations.

Taxes refund income

Taxes refund income are recognized as income on the taxes refund received or receivable.

3. Taxes

Value added tax

Value added tax ("VAT") on sales is calculated at 13% on revenue from principal operations and 17% on other operating income, and paid after deducting VAT on purchases.

Resource tax

Resource tax is calculated and paid at the amount of RMB1.20 per tonne of raw coal sold or consumed to produce clean coal.

City construction tax

City construction tax is calculated and paid at 7% on VAT payable.

Education fee and others

Education fee and others is calculated and paid at 3% on VAT payable.

Income taxes

The income taxes, including the national income tax and domestic income tax, are calculated at an aggregate of 33% on the assessment income.

The tax bureau has granted the approval for the Company and Yankuang Group Corporation to pay consolidated income taxes and VAT.

4. Bank balances and cash

	Closing balance			Opening balance		
	Foreign currency amount	Exchange rate	RMB	Foreign currency amount	Exchange rate	RMB
Cash on hand						
Renminbi	–	–	258,485	–	–	281,797
Cash in bank						
Renminbi	–	–	522,274,949	–	–	445,683,062
Foreign currency						
Hong Kong dollar	51,950	1.0619	55,166	–	–	–
United States dollar	3,307,861	8.2780	27,382,475	8,647,878	8.2793	71,598,376
Other currency fund						
Renminbi	–	–	123,739	–	–	123,739
			550,094,814			517,686,974

5. Accounts receivable

The aging analysis of the accounts receivable is as follows:

Aging	Closing balance RMB	Closing balance %	Closing balance Bad debt provision *RMB*	Opening balance RMB	Opening balance %	Opening balance Bad debt provision *RMB*
Within 1 year	**817,080,365**	**83**	**27,003,391**	715,458,951	82	27,692,800
1 to 2 years	**127,478,635**	**13**	**38,243,591**	126,527,276	14	37,958,183
2 to 3 years	**25,370,845**	**3**	**12,685,422**	18,750,850	2	9,375,425
Over 3 years	**9,584,276**	**1**	**9,584,276**	12,490,272	2	12,490,272
Total	**979,514,121**	**100**	**87,516,680**	873,227,349	100	87,516,680

The Company considers the bad debt provided is sufficient, since the customers generally settle accounts receivable with the Company near year end.

Therefore, no additional bad debt provision is made for the accounts receivable arise in the period.

Balances of the largest 5 debtors are as follows:

Name	Amount *RMB*	Aging	Nature
Shandong Luneng Electricity & Fuel Company	56,438,511	Within 1 year	Trade receivable
Yanzhou Coal Store & Transport Company	43,220,000	Within 1 year	Trade receivable
China Coal Import & Export Company	25,556,809	Within 1 year	Trade receivable
Yankuang Group Corporation	24,201,051	Within 1 year	Trade receivable
Huaibei Zhonghui Material & Trade Company	20,818,301	Within 1 year	Trade receivable
	170,234,672		

For the receivables from shareholders holding more than 5% of the total shares of the Company, please refer to note 38 for details.

6. Other receivables

	Closing balance RMB	Opening balance RMB
Amounts due from related companies	**180,799,708**	182,340,475
Prepaid freight charges	**72,114,855**	80,562,947
Receivables from sales of auxiliary materials	**66,736,642**	43,747,860
Advances	**20,987,122**	12,986,232
Others	**66,122,720**	60,962,882
	406,761,047	380,600,396

Aging analysis of other receivables is as follows:

Aging	Closing balance RMB	Closing balance %	Closing balance Bad debt provision RMB	Opening balance RMB	Opening balance %	Opening balance Bad debt provision RMB
Within 1 year	**358,385,060**	**88**	**–**	307,839,357	81	–
1 to 2 years	**43,835,347**	**11**	**–**	63,588,914	17	–
2 to 3 years	**4,018,176**	**1**	**–**	7,597,734	2	–
Over 3 years	**522,464**	**–**	**–**	1,574,391	–	–
Total	**406,761,047**	**100**	**–**	380,600,396	100	–

The balances whose aging is over 2 years are mainly deposits paid for purchases of steel and other packing materials. The Company has not settled the balances to these suppliers because of the recycle applications of the deposits.

The 5 largest balances in other receivables are as follows:

Name	Amount	Aging	Nature
Yankuang Group Corporation	180,799,708	Within 1 year	Payments on its behalf
Zhongmei No. 68 Construction Department	10,040,634	Within 1 year	Receivable on sales of materials
Piuyang Town of Zhouchen City	3,237,313	Within 1 year	Prepaid electricity charges
Jining Fuel Company	1,832,759	Within 1 year	Prepaid freight charges
Chaozhou Yatai Company	1,828,293	Within 1 year	Prepaid freight charges
	197,738,707		

For others receivables from shareholders holding more than 5% of the total shares of the Company, please refer to note 38 for details.

7. Prepayments

The aging analysis of prepayments is as follows:

	Closing balance		Opening balance	
	RMB	***%***	*RMB*	*%*
Within 1 year	**164,628,547**	**86**	95,682,679	85
1 to 2 years	**18,379,586**	**10**	10,665,108	10
2 to 3 years	**4,337,061**	**2**	4,260,602	4
Over 3 years	**4,307,588**	**2**	1,379,068	1
Total	**191,652,783**	**100**	111,987,457	100

The balances with aging over 2 years are mainly the prepayments for the purchases of spare parts and materials. As the amounts are insignificant, the Company has not yet settled to the suppliers.

The 5 largest balances of advance to suppliers are as follows:

Name	**Amount**	**Aging**	**Nature**
	RMB		
China Coal Mining Equipment Import & Export Company	65,393,267	Within 1 year	Prepayment on purchase of goods/machinery
Maanshan Steel Company Limited	13,840,098	Within 1 year	Prepayment on purchase of goods
Haerbin Over Fuel Company Limited	7,600,000	Within 1 year	Prepayment on purchase of machinery
Wukuang Steel Company Limited	7,587,989	Within 1 year	Prepayment on purchase of goods
Shanghai Turbine Company Limited	6,400,000	Within 1 year	Prepayment on purchase of goods/machinery
	100,821,354		

For the prepayments to shareholders holding more than 5% of the total shares of the Company, please refer to the note 38 for details.

8. VAT refundable

VAT refundable is the VAT to be refunded on the export of coal. The calculation method of the VAT on export is "Payment first and refund afterwards". VAT refundable is calculated in accordance with the relevant regulations. The refund rate is 13%.

9. Inventories

	Closing balance		Opening balance	
	Amount	Provision for loss on realisation	Amount	Provision for loss on realisation
	RMB	***RMB***	*RMB*	*RMB*
Raw Materials	**205,720,227**	**–**	213,269,980	–
Finished Products	**69,380,800**	**–**	97,179,581	–
	275,101,027	**–**	310,449,561	–

10. Deferred Expenditures

Category	Opening balance	Addition for the year	Amortisation for the year	Closing balance
	RMB	*RMB*	*RMB*	***RMB***
Harbour transportation fee	34,678,505	257,014,406	(254,762,000)	**36,930,911**
Truck transportation fee	–	45,777,728	(22,102,000)	**23,675,728**
Prepaid land subsidence, restoration, rehabilitation and environment cost *(note)*	44,261,155	153,706,780	(56,516,896)	**141,451,039**
	78,939,660	456,498,914	(333,380,896)	**202,057,678**

Note: The amount represents prepayments for the moving of villages for mining activities and cost of land subsidence, restoration, rehabilitation or environmental protection in the future.

11. Fixed assets and accumulated depreciation

	Buildings	Mining structure	Plant, machinery and equipment	Transportation equipment	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Cost/valuation					
Opening balance	1,439,928,404	2,498,284,787	4,191,974,202	78,855,292	8,209,042,685
Additions	49,563	–	–	442,830	492,393
Transfer from construction in progress	–	–	34,963,800	–	34,963,800
Disposals	–	–	(209,233,846)	–	(209,233,846)
Closing balance	1,439,977,967	2,498,284,787	4,017,704,156	79,298,122	8,035,265,032
Accumulated Depreciation					
Opening balance	445,654,806	1,050,436,101	1,944,889,077	61,682,953	3,502,662,937
Provided for the year	34,091,577	31,909,268	188,127,420	4,187,729	258,315,994
Eliminated on disposal	–	–	(197,015,841)	–	(197,015,841)
Closing balance	479,746,383	1,082,345,369	1,936,000,656	65,870,682	3,563,963,090
Net Amount					
Opening balance	994,273,598	1,447,848,686	2,247,085,125	17,172,339	4,706,379,748
Closing balance	960,231,584	1,415,939,418	2,081,703,500	13,427,440	4,471,301,942

12. Construction materials

Category	**Closing balance**	**Opening balance**
	RMB	*RMB*
Construction materials	**12,726,058**	12,788,004

13. Construction in progress

	Opening balance RMB	Additions RMB	Transfers on completion RMB	Closing balance RMB	Progress %	Sources of funds
Equipment to be installed	380,792,503	674,198	(34,963,800)	**346,502,901**	80	internally generated funds
Buildings under construction	115,876,484	14,072,157	–	**129,948,641**	80	internally generated funds
Others	3,407,607	5,521,630	–	**8,929,237**	70	internally generated funds
Total	500,076,594	20,267,985	(34,963,800)	**485,380,779**		

14. Intangible assets

Category	Original cost RMB	Opening balance RMB	Amortization RMB	Closing balance RMB
Land use rights	309,826,741	296,777,530	(3,106,763)	**293,670,767**

15. Pre-operating expenses/long-term deferred expenditure

Category	Opening balance RMB	Additions RMB	Amortization RMB	Closing balance RMB
Pre-operating expenses	5,507,185	–	(917,862)	**4,589,323**
Long-term deferred expenditure	–	2,240,399	(26,671)	**2,213,728**
	5,507,185	2,240,399	(944,533)	**6,803,051**

16. Notes payable

For amounts due to shareholders holding more than 5% of the total shares of the Company, please refer to note 38 for details.

17. Accounts payable

For amounts due to shareholders holding more than 5% of the total shares of the Company, please refer to note 38 for details.

18. Advance from customers

For amounts advanced from shareholders holding more than 5% of the total shares of the Company, please refer note 38 for details.

19. Proposed dividend

	Closing balance *RMB*	Opening balance *RMB*
Yankuang Group Corporation	–	148,630,000
Shareholders of H shares	–	75,650,000
Shareholders of A shares	–	7,120,000
	–	231,400,000

20. Taxes payable

	Closing balance *RMB*	Opening balance *RMB*
Income taxes	145,880,950	314,014,916
Others	–	9,246,172
	145,880,950	323,261,088

21. Other payables

For amounts payable to shareholders holding more than 5% of the total shares of the Company, please refer to note 38 for details.

The balance of other payables increased by 80% as compared to the opening balance as the Company generally would not settle accounts with related parties in the middle of a year. This results in an increase of amounts due to related parties by RMB235,470,692.

22. Accrued expense

	Closing balance *RMB*	Opening balance *RMB*	Nature of closing balance
Repairs and maintenance fee	14,273,032	–	Amount accrued in the period but not paid yet
Research and development fee	9,052,679	–	Amount accrued in the period but not paid yet
	23,325,711	–	

23. Share capital

The changes in share capital of the Company during the period is as follows:

	Closing balance *(Share)*	Changes: Placement of shares	Changes: Bonus issue	Changes: Shares issued from transfer of reserves	Changes: Issue now shares	Changes: Listed	Opening balance *(Share)*
Shares not listed for public dealings							
1. Subscriber shares							
State legal person shares	1,670,000,000	–	–	–	–	–	1,670,000,000
2. Internal employee shares	–	–	–	–	–	–	–
Total shares not listed for public dealings	1,670,000,000	–	–	–	–	–	1,670,000,000
Shares list for public dealings							
1. Ordinary shares listed on a domestic stock exchange	80,000,000	–	–	–	–	–	80,000,000
2. Ordinary shares listed on overseas stock exchange *(note)*	850,000,000	–	–	–	–	–	850,000,000
Total shares listed for public dealings	930,000,000	–	–	–	–	–	930,000,000
Total share capital	2,600,000,000	–	–	–	–	–	2,600,000,000

Each share has a par value of RMB1.00.

24. Capital reserves

	Opening & closing balance ***RMB***
Share premium	**2,364,454,980**
Transfer from Wei Jian Fei	**161,773,949**
Total reserves	**2,526,228,929**

25. Surplus reserves

	Statutory common reserve fund	Statutory public welfare fund	Total
	RMB	*RMB*	*RMB*
Opening and closing balance	168,212,722	84,106,361	252,319,083

The statutory common reserve fund can be used to make good the losses in previous years or to convert into capital. The statutory public welfare fund would be used for the welfare of the staff and workers of the Company.

26. Unappropriated profits

	Amount
	RMB
Unappropriated profits at the beginning of the period	905,808,130
Add: Net income for the period	372,513,416
Less: Appropriation to statutory common fund	–
Appropriation to statutory public welfare fund	–
Proposed dividend	–
Unappropriated profits at the end of the period	1,278,321,546

27. Net revenue from principal operations

	Six months ended June 30,	
	2000	1999
	RMB	*RMB*
		(Unaudited)
Revenue from domestic sales of coal products	**1,215,304,555**	1,292,025,917
Revenue from coal products exported	**933,592,952**	874,506,067
	2,148,897,507	2,166,531,984

28. Cost of principal operations

	Six months ended June 30,	
	2000	1999
	RMB	*RMB*
		(Unaudited)
Materials	**194,149,529**	195,611,000
Wages	**167,154,793**	153,838,000
Employee benefits	**23,402,878**	21,483,000
Electricity	**90,879,776**	89,346,000
Depreciation	**246,997,854**	246,481,000
Wei Jian Fei *(Note 1)*	**–**	71,882,000
Land subsidence costs	**56,516,896**	83,862,000
Repairs	**72,626,740**	79,738,000
Non-rebated VAT *(Note 2)*	**–**	21,704,087
Others	**53,804,255**	58,805,941
Total	**905,532,721**	1,022,751,028

Note 1: As the Company is not required to pay the relevant fee to the Coal Industry Administration Bureau of the Shangdong Province and the depreciation provided is considered adequate to set aside as reserve for the purchase of the coal production equipment and renewal of the coal mining structures, the Company ceased the accrual of Wei Jian Fei from the year of 1999. The Wei Jian Fei accrued in the period from January 1, 1999 to June 30, 1999 was written off at the year end of 1999.

Note 2: The calculation method of the VAT on export is "Payment first and refund afterwards". The refund rate has been changed from 9% to 13% since May 1, 1999. No non-rebated VAT is recorded by the Company since the beginning of the period.

29. Sales taxes on principal operations

	Six months ended June 30,	
Tax item	**2000**	1999
	RMB	*RMB*
		(Unaudited)
City construction tax	**17,948,159**	19,924,798
Education fee and others	**7,692,068**	8,682,974
Resource tax	**15,479,488**	14,286,331
	41,119,715	42,894,103

30. Income from other operations

	Six months ended June 30,	
	2000	1999
	RMB	*RMB*
		(Unaudited)
Sales of raw materials		
– Sales	**214,257,199**	172,536,571
– Cost of sales	**197,810,020**	169,934,544
	16,447,179	2,602,027
Others		
– Income	**13,951,715**	6,098,271
– Cost	**13,646,573**	6,048,462
	305,142	49,809
	16,752,321	2,651,836

31. Operating expenses

Operating expenses of the current period increased 48% as compared to last year (unaudited). The reasons were the increase in sales volume and the increase in railway transportation fee. As more coal products were transported by train in the period, accordingly, the transportation fee increased.

32. Financial expenses

	Six months ended June 30,	
	2000	1999
	RMB	*RMB*
		(Unaudited)
Interest expenses	2,473,382	2,842,518
Less: interest income	18,879,947	3,232,799
Others	82,871	99,909
	(16,323,694)	(290,372)

33. Subsidies

The amount represents the subsidies granted to the Company on its export sales in 1998 and received in the period. The subsidies are granted according to the incentive policy for export enterprises and is calculated with reference to the exported amount.

34. Non-operating income

	Six months ended June 30,	
	2000	1999
	RMB	*RMB*
		(Unaudited)
Gain on disposal of fixed assets	**94,779**	–
Others	**1,730,657**	40,100
	1,825,436	40,100

35. Non-operating expenses

	Six months ended June 30,	
	2000	1999
	RMB	*RMB*
		(Unaudited)
Loss on disposal of fixed assets	**11,330,010**	333,535
Donations	**126,900**	–
Fines	**130,459**	27,822
Others	**529,788**	513,059
	12,117,157	874,416

36. Income taxes

	Six months ended June 30,	
	2000	1999
	RMB	*RMB*
		(Unaudited)
Income taxes for the year	**145,880,950**	189,466,129
Accounting profit for the year	**518,394,366**	574,139,286
Add:		
1. donation expenses	**120,900**	–
2. fines	**130,459**	27,822
	251,359	27,822
Less:		
1. Wei Jian Fei *(Note)*	**76,582,242**	–
Taxable income for current year	**442,063,483**	574,167,108
Income taxes rate	**33%**	33%
Income taxes for the year	**145,880,950**	189,466,129

Note: The Company has obtained the approval from the domestic tax bureau that since 1999, Wei Jian Fei not accrued can be deducted from taxable income.

37. Cash paid for other operating activities

	RMB
Amount paid in cash in operating expenses and administrative expenses	228,352,669
Other operating expenses	13,646,573
Other expenses paid	787,147
Total	242,786,389

38. Significant related party transactions

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

Name: Yankuang Group Corporation Limited ("Yankuang Group Corporation")

Registered address: No. 40 Fushan Road, Zhouchen, Shandong Province, PRC

Principal operations: Industrial (production)

Relationship with the company: holding company

Nature of business: state-owned

Legal representative: Mr. Zhao Jingiche

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

	At the beginning of the year		Addition		Reduction		By the end of the period	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*
Yanzhou Mining Group Company	1,670,000,000	64	–	–	–	–	1,670,000,000	64

(3) *Nature of relationship with related parties who cannot exercise control over the Company*

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

(4) *Significant transactions entered with the Company and above-mentioned related parties in period from January 1 to June 30, 2000:*

(a) Purchase and sales

Details of purchase and sales with related parties in the six months' period ended June 30, 1999 and 2000 are listed below:

	Six months ended June 30,	
	2000	1999
	RMB	*RMB*
SALES		
Zhouchen Nanmei Shing Ltd. Co.	**15,210,886**	8,823,000
Yankuang Group Corporation	**30,177,000**	13,957,000
	45,387,886	22,780,000
PURCHASE		
Yankuang Group Corporation	**36,010,000**	55,860,000

(b) Amount due to or from related parties

Account	Company	Amount by the end of the period *RMB*	Amount at the beginning of the year *RMB*
Accounts receivable	Yankuang Group Corporation	**24,201,051**	23,138,786
Other receivable	Yankuang Group Corporation	**180,799,708**	182,340,475
Prepayments	Yankuang Group Corporation	**–**	15,225,954
		205,000,759	220,705,215
Notes payable	Yankuang Group Corporation	**1,100,000**	–
Accounts payable	Yankuang Group Corporation	**26,608,749**	29,681,241
Advances from customers	Yankuang Group Corporation	**871,905**	3,979,975
Other payable	Yankuang Group Corporation	**483,880,057**	248,409,365
		512,460,711	282,070,581

(c) Other transactions

(1) Pursuant to an agreement signed between the Company and Yankuang Group Corporation, Yankuang Group Corporation manages the retirement benefits, medical benefits and other benefits of the two companies and makes combined payments of the total retirement benefits of the two companies, and the total retirement benefits to the government department in charge of the related funds. Amount included as expenses of the Company for the six months ended June 30, 1999 and 2000 are RMB 80,442,000 (unaudited) and RMB 109,309,000, respectively.

(2) Pursuant to an agreement signed by the Company and Yankuang Group Corporation, the department and subsidiary of the Yankuang Group Corporation provides and charges the services listed below:

	Six months ended June 30,	
	2000	1999
	RMB	*RMB*
		(Unaudited)
Repairs and maintenance	**35,818,000**	43,650,000
Technical support and training fee	**7,565,000**	7,570,000
Mining rights fees	**6,490,000**	6,490,000
Railway transportation fee	**108,451,000**	87,640,000
Public utilities expenses	**300,000**	1,670,000
Road transportation fee	**4,596,000**	6,800,000
Gases and erucate expenses	**5,510,000**	5,730,000
Buildings management fee	**14,850,000**	13,480,000
Children tuition fee	**6,275,000**	5,730,000
Others	**7,115,000**	7,190,000

(3) Total amount of salaries paid to key management, including salaries paid in the form of cash, goods and salaries, welfare and subsidies, for the six months ended June 30, 1999 and 2000 are RMB 261,359 and RMB 277,678, respectively.

39. Capital commitments

	Closing balance
	RMB
Capital commitment contracted for but not provided in the financial statements in respect of the purchase of assets	**125,262,000**

40. Subsequent events

Pursuant to the Acquisition Agreement of Jining III Coal Mine signed between the Company and Yankuang Group Corporation, the Company would pay RMB 2,567,740,000 as a consideration to acquire all assets of Jining III. The consideration includes the basic price amounting to RMB 2,435,260,000 and the price of mining right amounting to RMB 132,480,000. The Company expects to complete the acquisition by January 1, 2001. The Company would pay 10% of the basic price on January 1, 2001 and the remaining portion before December 31, 2002. The Company would settle the price of the mining right by 10 non-interest bearing annual installments of RMB 13,248,000 each.

To finance the acquisition of Jining III, the Company propose to issue additional 100 million A shares in the second half of the year. Each share has a par value of RMB 1. The Company is now applying for the approval from China Securities Regulatory Commission for the new A shares issue. The above proposal is subject to the approval at a shareholders' meeting.

The Board of Directors has been authorized in the last annual general meeting to allot additional H shares in a certain period up to a maximum of 20% of the total H shares issued at the date (170 million H shares) from June 16, 2000 to the earliest date listed below: the closing of next annual general meeting; 12 months after the resolution for the authorisation has been passed; the date on which a special resolution would be passed by shareholders to cancell or alter the authorisation.

41. Summary of difference between ias and prc gaap

	Net profit of the period *RMB'000*	**Net assets at June 30, 2000** ***RMB'000***
As per the financial statements prepared under *"Accounting Standards for Business Enterprises" and "Accounting Regulations for Joint Stock Limited Companies"*	372,513	**6,656,870**
Impact adjustment in respect of:		
– provision for land subsidence, restoration, rehabilitation and environmental cost	(22,199)	**(255,076)**
– amortization of deferred assets	918	**(4,589)**
– amortisation of goodwill on acquisition of Jining II	(389)	**(1,943)**
– deferred tax effect	7,920	**84,766**
As per the financial statements prepared under IAS	358,763	**6,480,028**

42. Comparative figures

Certain comparative figures have been reclassified to conform with current period's presentation.

REPORT OF THE AUDITORS

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Touche
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To the directors of

Yanzhou Coal Mining Company Limited

兗州煤業股份有限公司

(A joint stock company with limited liability established in the People's Republic of China)

We have audited the financial statements on pages 46 to 73 which have been prepared in accordance with International Accounting Standards.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at June 30, 2000 and of its profit and cash flows for the six months ended June 30, 2000.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, August 18, 2000

STATEMENT OF INCOME

		Six months ended June 30,	
	Notes	**2000**	1999
		RMB'000	*RMB'000*
			(unaudited)
Net sales	5	**1,685,706**	1,865,188
Cost of goods sold	6	**927,733**	962,453
Gross profit		**757,973**	902,735
Selling, general and administrative expenses	7	**294,103**	270,760
Operating income		**463,870**	631,975
Interest expenses	8	**(2,473)**	(2,843)
Other income	9	**35,327**	5,835
Income before income taxes	10	**496,724**	634,967
Income taxes	11	**137,961**	189,466
Net income		**358,763**	445,501
Dividend	12	**231,400**	148,200
Earnings per share	13	**RMB0.14**	RMB0.17
Earnings per pro forma ADS	13	**RMB6.90**	RMB8.57

BALANCE SHEET

	Notes	At June 30, 2000 RMB'000	At December 31, 1999 RMB'000
ASSETS			
Current assets			
Bank balances and cash		**550,095**	517,687
Bills and accounts receivable	14	**976,562**	863,641
Inventories	15	**276,901**	310,449
Prepayments and other current assets	16	**514,921**	300,726
Total current assets		**2,318,479**	1,992,503
Property, plant and equipment, net	17	**5,263,079**	5,516,022
Goodwill	18	**13,602**	13,991
Deferred tax asset	19	**84,766**	76,846
TOTAL ASSETS		**7,679,926**	7,599,362
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable		**365,856**	509,902
Other payables and accrued expenses	20	**365,156**	395,870
Amounts due to Parent Company and its subsidiary companies		**323,005**	26,910
Income taxes payable		**145,881**	314,015
Total current liabilities		**1,199,898**	1,246,697
Commitments	23		
Shareholders' equity	21	**6,480,028**	6,352,665
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**7,679,926**	7,599,362

The financial statements on pages 46 to 73 were approved by the Board of Directors on August 18, 2000 and are signed on its behalf by:

Zhao Jingche
Director

Yang Deyu
Director

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital *RMB'000*	Share premium *RMB'000*	Future develop-ment 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, 1999							
– As previously reported	2,600,000	2,087,723	111,748	90,127	45,063	592,884	5,527,545
– Prior period adjustment (Note 3)	–	–	–	–	–	148,200	148,200
– As restated	2,600,000	2,087,723	111,748	90,127	45,063	741,084	5,675,745
Net income from January 1, 1999 to June 30, 1999 (unaudited)	–	–	–	–	–	445,501	445,501
Dividend (unaudited)	–	–	–	–	–	(148,200)	(148,200)
Balance at June 30, 1999 (unaudited)	2,600,000	2,087,723	111,748	90,127	45,063	1,038,385	5,973,046
Balance at January 1, 2000							
– As previously reported	2,600,000	2,087,723	111,748	168,213	84,106	1,069,475	6,121,265
– Prior period adjustment (Note 3)	–	–	–	–	–	231,400	231,400
– As restated	2,600,000	2,087,723	111,748	168,213	84,106	1,300,875	6,352,665
Net income from January 1, 2000 to June 30, 2000	–	–	–	–	–	358,763	358,763
Dividend	–	–	–	–	–	(231,400)	(231,400)
Balance at June 30, 2000	2,600,000	2,087,723	111,748	168,213	84,106	1,428,238	6,480,028

STATEMENT OF CASH FLOWS

	Six months ended June 30,	
	2000	1999
	RMB'000	*RMB'000*
		(unaudited)
Cash flow from operating activities		
Net income	**358,763**	445,501
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**261,423**	259,553
Amortization of goodwill	**389**	389
Recognition of deferred tax asset	**(7,920)**	–
Loss on disposal of property, plant and equipment	**11,235**	294
(Increase) decrease in assets:		
Bills and accounts receivable	**(112,921)**	(343,521)
Inventories	**33,548**	70,041
Prepayments and other current assets	**(214,195)**	(147,055)
Increase (decrease) in liabilities:		
Accounts payable	**(144,046)**	(93,029)
Other payables and accrued expenses	**(30,714)**	37,419
Amounts due to Parent Company and its subsidiary companies	**296,095**	576,685
Income taxes payable	**(168,134)**	(107,960)
Net cash provided by operating activities	**283,523**	698,317
Cash flow from investing activities		
Purchase of property, plant and equipment	**(20,698)**	(295,551)
Proceeds on disposal of property, plant and equipment	**983**	660
Net cash utilized for investing activities	**(19,715)**	(294,891)
Cash flow from financing activities		
Dividend paid	**(231,400)**	(148,029)
Repayment of borrowings	**–**	(115,000)
Net cash utilized for financing activities	**(231,400)**	(263,029)
Net increase in cash and cash equivalents	**32,408**	140,397
Cash and cash equivalents, beginning	**517,687**	290,666
Cash and cash equivalents, ending	**550,095**	431,063
Additional cash flow information:		
Cash paid for		
Interest	**2,473**	3,233
Income taxes	**314,015**	297,426

NOTES TO THE FINANCIAL STATEMENTS

1. General

The Company was established as a joint stock company with limited liability in the People's Republic of China (the "PRC") and operates five coal mines, namely the Xinglongzhuang coal mine, Baodian coal Mine, Nantun Coal mine, Dongtan coal mine and Jining II coal mine. These five coal mines 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 injected 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 the Jining II coal mine from the Parent Company for cash.

The Company has an exclusive option to purchase another coal mine, the Jining III coal mine, from the Parent Company. The option is exercisable at any time before July 1, 2004 or until five years after the commencement of commercial production of Jining III for a price based on a valuation of Jining III at the time of exercise of the option. Jining III had begun trial production in October 1999 and is expected to commence commercial production in the fourth quarter of the year 2000.

The Company proposes to exercise the option to acquire Jining III from the Parent Company effective from January 1, 2001 and on August 4, 2000 has entered into a sale and purchase agreement to acquire all the assets relating to coal mining including the coal preparation plant of Jining III. The agreement is subject to a number of conditions, including the approval by the relevant regulators and by the Company's independent shareholders at an extraordinary general meeting.

The purchase price of Jining III is estimated at approximately RMB2.57 billion. The Company proposes to finance the acquisition by the issue of new A shares and other sources.

The Company's A shares are listed on the Shanghai Securities Exchange; its H shares are listed on the Hong Kong Stock Exchange, and its American Depositary shares ("ADS", one ADS represents 50 H shares) are listed on the New York Stock Exchange.

2. Basis of presentation

The accompanying financial statements have been prepared in accordance with International Accounting Standards ("IAS") issued by the International Accounting Standards Committee which differ from those used in the management accounts of the Company, which have been prepared in accordance with the relevant accounting principles and regulations applicable to PRC enterprises ("PRC GAAP"). The principal adjustments to the management accounts made to conform to IAS are summarized in note 29.

The financial statements and supplemental information reflect certain reclassifications and additional disclosures to conform with presentations customary in the United States of America.

Differences between IAS and accounting principles generally accepted in the United States of America ("US GAAP") are stated in note 30.

3. Adoption of revised International Accounting Standard

In the current year, the Company has adopted the IAS 10 (Revised) "Events after the Balance Sheet Date" for the first time.

IAS 10 (Revised) specifies that dividends declared after the balance sheet date but before the financial statements were authorized for issue should be disclosed either as a separate component of equity or in the notes to the financial statements. In prior periods, dividends declared after balance sheet date had been adjusted to the financial statements and recorded as liabilities on the balance sheet. The adoption of IAS 10 (Revised), which has been applied retrospectively, has resulted in an increase in the retained earnings and a decrease in dividend payable of RMB148,200,000 and RMB231,400,000 as at January 1, 1999 and 2000, respectively.

4. Significant accounting policies

The principal accounting policies which have been adopted in preparing these financial statements and which conform with IAS are as follows:

Revenue recognition

Sales of goods are recognized when goods are delivered and title has passed.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash accounts, interest bearing savings accounts and time deposits which are readily convertible to know amount of cash and which are subject to an insignificant risk of change in value.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, is stated at cost or valuation less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the statement of income in the period in which it is incurred. In situations where it can be clearly demonstrated that expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalized as an additional cost of the asset. When assets are sold or retired, their cost or valuation and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the statement of income.

It is the policy of the Company to state property, plant and equipment at cost. A valuation of the property, plant and equipment was carried out as at July 31, 1997 in accordance with the PRC government directives upon the establishment of the Company. It is not the intention of the Company to perform regular revaluations of property, plant and equipment unless required by the PRC government directives.

Depreciation is provided to write off the cost or valuation of property, plant and equipment over the estimated useful lives, after taking into account their estimated residual value, using the straight line method. The estimated useful lives of property, plant and equipment are as follows:

Buildings	15 to 35 years
Plant, machinery and equipment	5 to 15 years
Transportation equipment	6 to 9 years

The mining structure includes the main and auxiliary mine shafts and underground tunnels. Depreciation is provided to write off the cost or valuation of the mining structure using the units of production method based on the estimated production volume for which the structure was designed.

Land use rights are amortized over the term of the relevant rights. No amortization is provided if the term of the land use rights is unspecified.

Assets under construction are not depreciated until they are completed and ready for their intended use.

The Company recognizes an impairment loss on property, plant and equipment when evidence, such as the sum of discounted future cash flows indicates that future operations will not produce sufficient revenue to cover the related future costs, including depreciation, and when the carrying amount of the asset cannot be realized through sale. Measurement of the impairment loss is based on the recoverable value of the assets.

Construction in progress

Construction in progress is stated at cost or valuation. Cost comprises construction expenditures and other direct costs attributable to such projects, including borrowing costs, if the amount of capital expenditures and the time involved to complete the construction are significant. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policies as stated above.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Company's share of the net assets at the date of acquisition of Jining II and is capitalized and amortized on a straight-line basis over twenty years.

Inventories

Inventories of coal are physically measured and are stated at the lower of cost and net realizable value. Cost, which comprises direct materials and, where applicable, direct labor and overheads that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realizable value represents the estimated selling price less all further costs to completion and costs to be incurred in selling, marketing and distribution.

Inventories of auxiliary materials, spare parts and small tools expected to be used in production are stated at weighted average cost less provision, if necessary, for obsolescence.

Income taxes

The charge for income taxes is based on the results for the period after adjusting for items which are non-assessable or disallowed. Deferred taxation is recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement amounts and the tax bases of existing assets and liabilities.

Research and development

Expenditure on research and development is charged to the statement of income in the period in which it is incurred except where a major project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. Such development costs are deferred and written off over the life of the project from the date of commencement of commercial operation.

Relocation cost and land subsidence, restoration, rehabilitation and environmental costs
One consequence of coal mining is land subsidence caused by the resettlement of the land above the underground mining sites. Depending on the circumstances, the Company may relocate inhabitants from the land above the underground mining sites prior to mining those sites or the Company may compensate the inhabitants for losses or damages from land subsidence after the underground sites have been mined. The Company may also be required to make payments for restoration, rehabilitation or environmental protection of the land after the underground sites have been mined.

The costs of relocation of inhabitants from the land in preparation for mining activities are charged as an expense to the statement of income when incurred.

Where, due to current and previous mining activities, a clearly identified obligation exists to make payments or to carry out work for land subsidence, restoration, rehabilitation or environmental protection in the future, an estimate of such costs is charged as an expense to the statement of income in the period in which the obligation is identified.

Capitalization of borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. Capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowings costs are recognized as an expense in the period in which they are incurred.

Foreign currency translation
The Company maintains its books and records in Renminbi.

Transactions denominated in foreign currencies are translated into Renminbi at the applicable rates of exchange quoted by the People's Bank of China prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the applicable rates of exchange quoted by the People's Bank of China prevailing at the balance sheet date. Profits and losses arising on translation are dealt with in the statement of income.

Use of estimates
The preparation of financial statements in conformity with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

5. Net sales

	Six months ended June 30,	
	2000	1999
	RMB'000	*RMB'000*
		(unaudited)
Domestic sales, gross	**1,187,578**	1,261,838
Less: Transportation costs	**115,344**	56,621
Domestic sales, net	**1,072,234**	1,205,217
Export sales, gross	**920,200**	861,800
Less: Transportation costs	**306,728**	201,829
Export sales, net	**613,472**	659,971
Net sales	**1,685,706**	1,865,188

Net sales 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 its customers.

Sales taxes consist primarily of a resource tax calculated at the rate of RMB1.20 per metric tonne of imputed quantity of raw coal sold and is paid to the local tax bureau. The resource tax for each of six months ended June 30, 1999 and 2000 amounted to RMB14,287,000 (unaudited) and RMB15,479,000, respectively.

The Company exports its coal through China National Coal Industry Import and Export Corporation ("National Coal Corporation"), a company under National Coal Industry Bureau, a state organ that supervises the coal industry in the PRC. The final customer destination of the Company's export sales is determined by National Coal Corporation.

6. Cost of goods sold

	Six months ended June 30, 2000 RMB'000	1999 RMB'000 (unaudited)
Materials	**194,150**	195,611
Wages and employee benefits	**190,558**	175,321
Electricity	**90,880**	89,346
Depreciation	**246,998**	246,481
Relocation cost and land subsidence, restoration, rehabilitation and environmental costs	**78,717**	83,862
Repairs and maintenance	**72,627**	79,738
Non-rebated value added taxes *(Note i)*	**–**	21,860
Annual fee for mining rights *(Note ii)*	**6,490**	6,490
Others	**47,313**	63,744
	927,733	962,453

Notes:

(i) Sales in the PRC are subject to a value added tax ("VAT"). The applicable VAT rate is 13% for coal products sold in the PRC before input tax credits for VAT on purchases. For export sales, the Company paid VAT on export sales value at 13% but received a rebate of the VAT paid at 9% of the sales price from January 1, 1999 to April 30, 1999. The non-rebated portion has been charged as an expense. Effective May 1, 1999, the Company receives a full refund on the VAT paid on export sales.

(ii) 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 Company's mines. The annual fee is subject to change after a ten year period.

7. Selling, general and administrative expenses

	Six months ended June 30,	
	2000	1999
	RMB'000	*RMB'000*
		(unaudited)
Retirement benefits scheme contributions *(Note 24)*	**83,475**	80,442
Wages and employee benefits	**37,006**	28,412
Depreciation	**14,425**	13,072
Amortization of goodwill	**389**	389
Distribution charges	**34,265**	22,816
Provision for doubtful debts	**–**	1,579
Resource compensation fees *(Note)*	**13,720**	13,340
Repairs and maintenance	**3,208**	3,671
Research and development	**12,503**	18,156
Others	**95,112**	88,883
	294,103	270,760

Note: In accordance with the relevant regulations, the Company pays resource compensation fees to the Ministry of Geology and Mineral Resources at the rate of 1% on the imputed sales value of raw coal.

8. Interest expenses

	Six months ended June 30,	
	2000	1999
	RMB'000	*RMB'000*
		(unaudited)
Interest expenses on:		
– bills receivable discounted without recourse	**2,473**	2,569
– borrowings not wholly repayable within 5 years	**–**	274
	2,473	2,843

No interest was capitalized during the relevant periods.

9. Other income

	Six months ended June 30,	
	2000	1999
	RMB'000	*RMB'000*
		(unaudited)
Gain on sales of auxiliary materials	**16,447**	2,602
Interest income from bank deposits	**18,880**	3,233
	35,327	5,835

10. Income before income taxes

	Six months ended June 30,	
	2000	1999
	RMB'000	*RMB'000*
		(unaudited)
Income before income taxes has been arrived at after charging:		
Depreciation	**261,423**	259,553
Repairs and maintenance	**75,835**	83,409
Research and development	**12,503**	18,156

11. Income taxes

	Six months ended June 30,	
	2000	1999
	RMB'000	*RMB'000*
		(unaudited)
Income taxes	**145,881**	189,466
Deferred tax credit *(Note 19)*	**(7,920)**	–
	137,961	189,466

The Company is subject to an income tax rate of 33% on its taxable income. A reconciliation between the provision for income taxes computed by applying the standard PRC income tax rate to income before taxes and the actual provision for income taxes is as follows:

	Six months ended June 30,	
	2000	1999
	RMB'000	*RMB'000*
		(unaudited)
Standard income tax rate in the PRC	**33%**	33%
Standard income tax rate applied to income before income taxes	**163,919**	209,539
Reconciling items:		
Deduction claimed on the deemed appropriation to future development fund which is no longer charged to income under PRC accounting regulations but is eligible for tax deduction	**(25,783)**	(19,898)
Others	**(175)**	(175)
Income taxes	**137,961**	189,446
Effective income tax rate	**28%**	30%

The Company has received approval from the respective tax authorities for the filing of consolidated income taxes by the Parent Company. The provision for income taxes is calculated by the Company on the basis of a separate income tax filing.

12. Dividend

	Six months ended June 30,	
	2000	1999
	RMB'000	*RMB'000*
		(unaudited)
Final dividend declared	**231,400**	148,200

Pursuant to the annual general meeting held on June 3, 1999, a final dividend of approximately RMB148,200,000 (unaudited), or RMB0.057 per share (unaudited) proposed by the board of directors in respect of the year ended December 31, 1998 was approved and paid to the shareholders of the Company.

Pursuant to the annual general meeting held on June 16, 2000, a final dividend of approximately RMB231,400,000 or RMB0.089 per share proposed by the board of directors in respect of the year ended December 31, 1999 was approved.

13. Earnings per share and pro forma ads

The calculation of the earnings per share for the six months ended June 30, 1999 and 2000 is based on the net income for the period of RMB445,501,000 (unaudited) and RMB358,763,000, respectively, and on 2,600,000,000 shares in issue during the period.

The earnings per pro forma ADS have been calculated based on the net income for the relevant periods and on one ADS being equivalent to 50 shares in issue or assumed to be in issue during the relevant periods.

14. Bills and accounts receivable

	At June 30, 2000 *RMB'000*	At December 31, 1999 *RMB'000*
Total bills receivable	**42,029**	57,321
Total accounts receivable	**1,022,050**	893,837
Less: Provision for doubtful debts	**(87,517)**	(87,517)
Total bills and accounts receivable, net	**976,562**	863,641

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

The Company made provisions for doubtful debts of RMB1,579,000 (unaudited) and Nil for the six months ended June 30, 1999 and 2000, respectively.

15. Inventories

	At June 30, 2000 RMB'000	At December 31, 1999 RMB'000
Auxiliary materials, spare parts and small tools	**205,720**	213,270
Coal products	**71,181**	97,179
	276,901	310,449

16. Prepayments and other current assets

	At June 30, 2000 RMB'000	At December 31, 1999 RMB'000
Advance to suppliers	**191,653**	46,762
Prepaid freight charges	**132,722**	80,563
VAT refundable	**101,223**	64,774
Others	**89,323**	108,627
	514,921	300,726

17. Property, plant and equipment, net

	Land use rights	Buildings	Mining structure	Plant, machinery and equipment	Trans-portation equipment	Cons-truction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost/valuation							
At January 1, 2000	309,827	1,439,928	2,498,286	4,191,973	78,855	512,865	9,031,734
Additions	–	50	–	–	443	20,205	20,698
Transfers	–	–	–	34,964	–	(34,964)	–
Disposals	–	–	–	(209,234)	–	–	(209,234)
At June 30, 2000	309,827	1,439,978	2,498,286	4,017,703	79,298	498,106	8,843,198
Comprising:							
At cost	26,494	130,233	47,621	675,055	22,964	149,239	1,051,606
Value on establishment	283,333	1,309,745	2,450,665	3,342,648	56,334	348,867	7,791,592
Total	309,827	1,439,978	2,498,286	4,017,703	79,298	498,106	8,843,198
Depreciation							
At January 1, 2000	13,049	445,656	1,050,437	1,944,888	61,682	–	3,515,712
Provided for six months	3,107	34,090	31,909	188,129	4,188	–	261,423
Eliminated on disposals	–	–	–	(197,016)	–	–	(197,016)
At June 30, 2000	16,156	479,746	1,082,346	1,936,001	65,870	–	3,580,119
Net book values							
At June 30, 2000	293,671	960,232	1,415,940	2,081,702	13,428	498,106	5,263,079
At December 31, 1999	296,778	994,272	1,447,849	2,247,085	17,173	512,865	5,516,022

As part of the process to establish the Company referred to in note 1, the property, plant and equipment of the five mines were valued by a firm of independent valuers, Sallmanns (Far East) Limited as at July 31, 1997. The valuation surplus arising on its four mines injected into the Company, amounting to RMB1,694,584,000(, has been reflected in these financial statements). The valuation surplus of RMB88,611,000 on Jining II has been incorporated into the fair value of net assets acquired by the Company. Had the revalued assets been carried at cost less accumulated depreciation and amortization, their carrying value would have been stated at approximately RMB3,105,401,000 (December 31, 1999: RMB3,240,848,000).

The land use rights have a term of fifty years.

18. Goodwill

	At June 30, 2000 RMB'000	At December 31, 1999 RMB'000
Cost		
Opening balance and closing balance	**15,545**	15,545
Amortization		
Opening balance	**1,554**	777
Provided for the period/year	**389**	777
Closing balance	**1,943**	1,554
Net book value		
Closing balance	**13,602**	13,991

19. Deferred taxation

	At June 30, 2000 RMB'000	At December 31, 1999 RMB'000
Opening balance	**76,846**	98,124
Credit (charge) for the period/year	**7,920**	(21,278)
Closing balance	**84,766**	76,846

At the balance sheet date, the deferred tax asset represents the tax effect of temporary differences on the additional provision for land subsidence, restoration, rehabilitation and environmental costs.

There is no material unprovided deferred tax for the period or at the balance sheet date.

20. Other payables and accrued expenses

	At June 30, 2000	At December 31, 1999
	RMB'000	*RMB'000*
Customers deposits	**48,093**	59,465
Accrual for land subsidence, restoration, rehabilitation and environmental costs	**115,415**	188,605
Accrued wages	**22,652**	31,166
Others	**178,996**	116,634
	365,156	395,870

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

21. 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 December 31, 1999 and June 30, 2000**
Domestic invested shares	– State legal person shares (held by the Parent Company)	1,670,000,000
	– A shares (including 8,000,000 shares owned by the Company's employees)	80,000,000
Foreign invested shares	H shares (including H shares represented by ADS)	850,000,000
	Total	2,600,000,000

Pursuant to regulations in the PRC, the Company was required to transfer an annual amount to a future development fund prior to January 1, 1999. The Company is no longer required to transfer to this future development fund since that date. The fund can only be used for the future development of the coal mining business and is not available for distribution to shareholders.

The Company shall 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 appropriation is done once a year based on the results for the year, and accordingly, no appropriation in made at the interim dates. The statutory common reserve fund can be used for the following purposes:

- to make good the 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 its 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) IAS or the accounting standards of the places in which its shares are listed.

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

The Company's distributable reserve is the retained earnings computed under PRC GAAP which amounted to RMB1,278,322,000 as at June 30, 2000 (December 31, 1999: RMB905,808,000).

22. Related party transactions

The amounts due from/to Parent Company and/or its subsidiary companies are non-interest bearing, unsecured and have no specific terms of repayment.

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

	Six months ended June 30,	
	2000	1999
	RMB'000	*RMB'000*
		(unaudited)
Income		
Sales of coal	**45,388**	22,780
Sales of auxiliary materials and spare parts	**4,493**	861
Utilities and facilities	**2,320**	2,605
Expenditure		
Utilities and facilities	**300**	1,670
Annual fee for mining rights	**6,490**	6,490
Purchases of supply materials	**36,010**	55,860
Railway transportation services for export sales	**108,451**	87,640
Repair and maintenance services	**35,818**	43,650
Social welfare and support services	**59,584**	51,320
Technical support and training	**7,565**	7,570
Road transportation services	**4,596**	6,800

The above transactions, other than the annual fee for mining rights (see note 6), were carried out on terms set forth in "The Material and Services Supply Agreement" entered with the Parent Company. The transactions were carried out at market prices or at cost plus a percentage mark-up.

In addition to the above, the Company participates in a multi-employer plan of the Parent Company in respect of retirement benefits (see note 7 and 24).

23. Commitments

At the balance sheet date, the Company had the following capital commitments in respect of the acquisition of property, plant and equipment:

	At June 30, 2000	At December 31, 1999
	RMB'000	*RMB'000*
Contracted for but not provided in the financial statements	125,262	8,732
Authorized but not contracted for	443,519	439,040
	568,781	447,772

24. Retirement benefits

Qualifying employees of the Company are entitled to a pension, medical and other welfare benefits. The Company participates in a multi-employer plan 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. All obligations for past service costs of the employees of the business contributed to the Company have been assumed by the Parent Company.

For the six months ended June 30, 1999 (unaudited) and 2000, the monthly contribution rate has been set initially at 45% of the aggregate monthly basic salaries and wages of the Company's employees, and is fixed until December 31, 2001. In respect of each five-year period following the expiration of the initial period, the Parent Company and the Company will determine a new contribution rate. If the Parent Company and the Company cannot agree on the level of contribution for any such subsequent five-year period, then the contribution rate will be fixed by arbitration.

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

25. 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 the six months ended June 30, 1999 and 2000. Such expenses, amounting to RMB14,850,000 (unaudited) and RMB14,850,000 for the six months ended June 30, 1999 and 2000, respectively, have been included as part of the social welfare and support services expenses summarized in note 22.

Monthly wages and benefits paid to employees by the Company presently include a housing allowance, which is equally matched by a contribution from the employees. The contributions are paid to the Parent Company which utilizes the fund, 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. It is the intention of the Parent Company to sell the new accommodation to the employees at cost.

26. Fair value of financial instruments

The carrying amounts of the Company's cash and cash equivalents and amounts due to the Parent Company and/or its subsidiary companies approximate their fair values because of the short maturity of these amounts.

27. Concentration of credit risk

The Company maintains its cash and cash equivalents with banks and financial institutions in the PRC.

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

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

As the Company does not currently have direct export rights, all of its export sales must be made through National Coal Corporation. The quality, prices and final customer destination of the Company's export sales are determined by National Coal Corporation. The Company 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, 1999 and 2000, net sales to the Company's five largest domestic customers accounted for approximately, 28.2% (unaudited) and 25.2%, respectively, of the Company's total net sales. Net sales to the Company's largest domestic customer, the Shandong Power and Fuel Company, accounted for 23.5% (unaudited) and 15.8% of the Company's net sales for the six months ended June 30, 1999 and 2000, 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 20.8% (unaudited) and 15.7% of the Company's net sales for the six months ended June 30, 1999 and 2000, respectively.

Details of the amounts receivable from the five customers with the largest receivable balances at June 30, 2000 and December 31, 1999 are as follows:

	Percentage of accounts receivable	
	At June 30, 2000	At December 31, 1999
Five largest receivable balances	**15%**	11%

28. Segment information

The Company is engaged solely in the coal mining business and operates only in the PRC and the number of employees of the Company at June 30, 2000 was 20,753. All the identifiable assets of the Company are located in the PRC. The Company does not currently have direct export rights and all of its export sales must be made through National Coal Corporation. The final customer destination of the Company's export sales is determined by National Coal Corporation.

29. Summary of differences between IAS and PRC GAAP

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

(i) provision for land subsidence, restoration, rehabilitation and environmental costs is made on an accrual basis under IAS but charged to income before income taxes when incurred under PRC GAAP;

(ii) elimination of the revaluation surplus on low-priced consumables recognized on the establishment of the Company and subsequently amortized to the statement of income in 1997 under PRC GAAP;

(iii) reversal of the deferred assets taken up on the establishment of the Company and the relevant amortization charged to the statement of income under PRC GAAP;

(iv) recognition of a deferred tax asset under IAS 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; and

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

The following table summarizes the difference between IAS and PRC GAAP:

	Net income for six months		Net assets for six months	
	ended June 30, 2000	ended June 30, 1999	**as at June 30, 2000**	as at December 31, 1999
	RMB'000	*RMB'000*	***RMB'000***	*HK$'000*
		(unaudited)		
As per financial statements prepared under IAS	**358,763**	445,501	**6,480,028**	6,352,665
Impact of IAS adjustment in respect of:				
– provision for land subsidence, restoration, rehabilitation and environmental costs	**22,199**	(60,298)	**255,076**	232,876
– revaluation surplus on low-priced consumables recognized on the establishment of the Company under PRC GAAP	**(918)**	(918)	**4,589**	5,507
– amortization of goodwill	**389**	389	**1,943**	1,554
– deferred tax effect on additional provision for land subsidence, restoration, rehabilitation and environmental cost	**(7,920)**	–	**(84,766)**	(76,846)
– proposed final dividend	**–**	–	**–**	(231,400)
As per financial statements prepared under PRC GAAP standards and regulations	**372,513**	384,674	**6,656,870**	6,284,356

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

30. Summary of differences between IAS and US GAAP

The Company's financial statements are prepared in accordance with IAS, which differ in certain significant respects from US GAAP. The significant differences relate principally to the accounting for the revaluation of property, plant and equipment and related adjustments to deferred taxation and the goodwill arising on acquisition of Jining II.

Under IAS, revaluation of property, plant and equipment is generally permitted even for cases involving companies formed under reorganization of entities under common control and depreciation is based on the revalued amount. Under US GAAP, financial statements are required to be prepared on a historical cost basis. Accordingly, property, plant and equipment is restated at cost and no additional depreciation on revalued amounts will be recognized under US GAAP. However, a deferred tax asset relating to the revaluation surplus is required to be recognized under US GAAP as a higher tax base resulting from the revaluation is utilized for PRC tax purposes.

Under IAS, the purchase consideration of Jining II over the fair value of the net assets acquired is capitalized as goodwill and amortized over a period of twenty years. Under US GAAP, the amount of purchase consideration over the value Jining II based on historical cost is deducted from the equity as a deemed dividend.

Under US GAAP, if there is a reasonable possibility that an additional loss may have been incurred, then disclosure of the additional amount of possible loss is required. In the case of the Company, the directors estimate that at June 30, 2000 additional accrual for land subsidence, restoration, rehabilitation and environmental costs of RMB203,173,000 is reasonably possible.

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

The following table summarizes the effect on net income of differences between IAS and US GAAP:

	Six months ended June 30,	
	2000	1999
	RMB'000	*RMB'000*
		(unaudited)
Net income as reported under IAS	**358,763**	445,501
US GAAP adjustments:		
Depreciation charge on revalued property, plant and equipment	**82,552**	83,689
Amortization of goodwill on acquisition of Jining II	**389**	389
Additional deferred tax credit due to a higher tax base resulting from the revaluation of property, plant and equipment	**(27,242)**	(27,617)
Net income under US GAAP	**414,462**	501,962
Earnings per share under US GAAP	**RMB0.16**	RMB0.19
Earnings per pro forma ADS under US GAAP	**RMB7.97**	RMB9.65

	At June 30, 2000	At December 31, 1999
	RMB'000	*RMB'000*
Shareholders' equity as reported under IAS	**6,480,028**	6,352,665
US GAAP adjustments:		
Revaluation of property, plant and equipment	**(1,912,164)**	(1,912,164)
Depreciation charged on revalued property, plant and equipment	**501,916**	419,364
Additional deferred tax assets due to a higher tax base resulting from the revaluation of property, plant and equipment	**465,383**	492,625
Goodwill arising on acquisition of Jining II	**(13,602)**	(13,991)
Shareholders' equity under US GAAP	**5,521,561**	5,338,499

Under US GAAP, the Company's total assets would have been RMB6,585,196,000 and RMB6,721,459,000 at December 31, 1999 and June 30, 2000, respectively.

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 Zoucheng Shandong Province PRC
Postal Code	273500
Company Website	http://www.yanzhoucoal.com.cn
E-mail	YZC@yanzhoucoal.com.cn
Legal Representative	Zhao Jingche
Company Secretary	Chen Guangshui
Authorised Representative	Luo Tayyan Chen Guangshui 40 Fushan Road Zhoucheng Shandong Province 273500 PRC Tel: 86537-5383310 Fax: 86537-5383311
Places of Listing	*A Shares:* The Shanghai Securities Exchange Ticker Symbol: 600188 Stock Abbreviation: Yanzhou Mei Ye *H Shares:* The Stock Exchange of Hong Kong Limited Share Code: 1171 *ADSs:* The New York Stock Exchange, Inc. Ticker Symbol: YZC