Contents

Company Profile

Yanzhou Coal Mining Company Limited ("Yanzhou" or the "Company") was established on 25th September, 1997, solely sponsored by Yanzhou Mining (Group) Company Limited (the "Parent Company"). Based on 1998 net income, the Company is the most profitable coal mining enterprise in the People's Republic of China ("PRC" or "China"). It is also the largest coal producer in Eastern China with total 1998 raw coal production of 20.69 million tonnes. Based on 1998 coal export sales volume, the Company is one of the largest coal exporters in the PRC. The Company's sales of coal reached 20.28 million tonnes in 1998, which represents an increase of 33.9% over 1997 actual sales of 15.15 million tonnes.

The Company is engaged in the underground mining, preparation and sales of coal. It currently owns and operates five coal mines: Nantun Coal Mine, Xinglongzhuang Coal Mine, Baodian Coal Mine, Dongtan Coal Mine and Jining II Coal Mine. The designed annual production capacity of these five coal mines totalled 16.4 million tonnes. As of 31st December, 1998, the in place proven and probable reserves totalled an estimated 1.957 million tonnes.

The Company mainly produces prime quality, low-sulphur coal, capable of yielding a product with a controlled ash content as low as 6%. The Company sells thermal coal, which is suitable for large-scale electric generation, as well as coking coal, which is used in metallurgical production.

The Company's major customers are located in the PRC's economically developed eastern provinces and in East Asian countries, such as Japan, Korea and Taiwan. Major customers include Shanghai Baoshan Iron & Steel Company and Zouxian Electric Power Plant in the PRC, and Tokyo Electric Power Co., Inc. and Nippon Steel Corp in Japan.

The Company was listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 1st April, 1998 and the New York Stock Exchange on 31st March, 1998 pursuant to a combined offering (the "Combined Offering") of its H shares ("H Shares") and American depositary receipts ("ADSs", each representing 50 H Shares) respectively. On 1st July, 1998, the Company listed its A shares ("A Shares") on the Shanghai Securities Exchange (the "A Share Offering"). Yanzhou was the only PRC company to successfully list on an overseas stock exchange in 1998.

The Company was added into the IFC Global Investable Index by International Finance Corporation in 1998 and the Company was polled to be the "Best Equity Issue from China in 1998" by Euroweek.

Financial Highlights

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

OPERATING RESULTS

	Years ended 31st December,				
	1998	1997	1996	1995	1994
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Net Sales					
Domestic	**2,244,824**	2,054,314	2,372,279	1,803,364	1,335,044
Export	**1,442,185**	1,243,843	906,407	654,857	222,237
Total Net Sales	**3,687,009**	3,298,157	3,278,749	2,458,221	1,557,281
Gross Profit	**1,725,060**	1,825,664	1,740,446	1,203,796	742,916
Operating Income	**1,184,984**	1,330,439	1,232,608	799,639	515,057
Interest Expenses	**(87,603)**	(166,726)	(159,411)	(110,380)	(85,753)
Income Before Income Taxes	**1,173,642**	1,208,444	1,106,539	718,966	442,364
Net Income	**817,360**	834,141	764,556	507,380	294,010
Earnings per Share (proforma for years ended 31st December, 1997, 1996, 1995 and 1994)	**RMB0.35**	RMB0.50	RMB0.46	RMB0.30	RMB0.18
Dividends per Share	**RMB0.086**				

ASSETS AND LIABILITIES

	As at 31st December,				
	1998	1997	1996	1995	1994
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Net Current (Liabilities) Assets	**(31,121)**	125,807	156,733	31,901	260,645
Property, Plant and Equipment, Net	**5,560,774**	3,746,535	1,908,261	1,985,575	1,840,492
Total Assets	**7,127,948**	4,776,754	2,754,610	2,687,315	2,596,449
Total Borrowings	**115,000**	1,315,000	1,800,000	1,800,000	1,800,000
Shareholders' Equity	**5,527,545**	2,640,172	264,994	227,232	318,894
Net Asset Value per Share	**RMB2.13**	RMB1.58			
Return on Net Assets (%)	**14.79**	31.59			

Financial Highlights

SUMMARY STATEMENT OF CASH FLOWS

	Years ended 31st December,				
	1998	1997	1996	1995	1994
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Net Cash provided by Operating Activities	**1,505,396**	1,161,699	869,718	1,030,690	478,582
Net Increase (Decrease) in Cash and Cash Equivalents	**78,869**	158,471	(22,399)	34,625	(26,133)

Note:

The results and summary statement of cash flows of the Company for the year ended 31st December, 1998 and the assets and liabilities of the Company as at 31st December, 1998 are extracted from the audited financial statements contained herein.

The result and summary statement of cash flows of the Company for the year ended 31st December, 1997 and the assets and liabilities of the Company as at 31st December, 1997 have been extracted from the audited financial statements of the Company's 1997 annual report and adjusted for the prior year adjustment as explaned in Note 3 to the financial statements contained herein.

The assets and liabilities as at 31st December, 1995 and 1996 and the results and summary statement of cash flows for the three years ended 31st December, 1994, 1995 and 1996 have been extracted from the audited combined financial statements of the Company included in the Hong Kong and U.S. prospectuses and international offering circular issued by the Company on 24th March, 1998 and 27th March, 1998, respectively and adjusted for the prior year adjustment as explaned in Note 3 to the financial statements contained herein.

The assets and liabilities as at 31st December, 1994 have been extracted from the unaudited combined financial information included in the Hong Kong and U.S. prospectuses and international offering circular issued by the Company on 24th March, 1998 and 27th March, 1998, respectively.

Chairman's Statement

Zhao Jingche
Chairman

"WE ARE THE FIRST CHINESE COAL COMPANY TO BE LISTED ON THREE STOCK EXCHANGES"

"WE ACHIEVED SATISFACTORY RESULTS DESPITE OF A DIFFICULT ECONOMIC AND MARKET ENVIRONMENT"

Dear Shareholders:

It is my pleasure to report that the Company's net income for the year ended 31st December, 1998 was RMB817.4 million, a 23.6% increase over 1997 proforma result.

The Board of Directors proposes to declare a final dividend of approximately RMB148,200,000 (before tax), or RMB0.057 per share (before tax). This final dividend will be declared and paid to all shareholders after the approval by the shareholders at the annual general meeting to be held on 3rd June, 1999.

In 1998, the Company successfully completed the Combined Offering with listings on the New York Stock Exchange on 31st March, 1998 and the Hong Kong Stock Exchange on 1st April, 1998. The Company also completed the A Share Offering with listing on the Shanghai Securities Exchange on 1st July, 1998. We are the first Chinese coal company to be listed on three stock exchanges.

Although Yanzhou faced an unfavorable economic and market environment in 1998, we achieved satisfactory financial results through a combination of increasing sales volume and reducing costs. With the acquisition of Jining II coal mine with effect from 1st January, 1998 and production increase in the four original coal mines, the Company's total raw coal production reached 20.69 million tonnes, or 22.6% higher than the total production in 1998 volume from the four original coal mines in 1997, making the Company the largest coal producer in eastern China. Increase in sales volume, which was principally attributable to an increase in sales of Screened Raw Coal and export clean coal sales, offset an average product price decline of 15.3% and helped us to achieve RMB3,687.0 million in net sales, an increase of 6.5% from 1997 proforma result.

In 1998, we continued our efforts in enhancing operating efficiency and reducing operating cost. Cost of goods sold only increased by 10.4% in 1998 from 1997 proforma result as compared with an increase of 25.7% in sales volume primarily due to a reduction in unit cost of production, especially material and electricity cost. A change in export VAT rebate rate from 3% to 9%, effective on 1st June, 1998, also helped us to reduce our cost. Operating income for 1998 reached RMB1,185.0 million, an increase of 3.0% from 1997 proforma result.

In 1998, we repaid RMB1.2 billion of outstanding bank borrowings with cash flow from operations and net proceeds from the A Share Offering. Interest expense savings totalled 127.2 million in 1998 and debt to equity ratio as at 31st December, 1998 declined to 2.1% from 49.8% as at 31st December, 1997. With increase in operating income and interest expense savings, our net income for 1998 reached RMB817.4 million, making the Company the most profitable coal company in China.

OUTLOOK FOR 1999

"A NUMBER OF FACTORS MAY AFFECT DOMESTIC COAL MARKET IN 1999"

According to the PRC Government's recent estimates, China's economic growth is expected to be slower in 1999 than 1998. Although monetary and fiscal stimulating measures and the PRC Government's continued expenditures in infrastructure may drive the growth of long-term domestic demand for coal products, short-term outlook remains subdued primarily due to the expected slowdown of domestic economy. On the other hand, domestic coal supply is expected to decline as the PRC Government continues to carry out its plan to close down 25,800 small, mostly inefficiently run coal mines, which is expected to reduce annual coal production by 250 million tonnes by the end of 1999. A reduction in coal supply may help to lower the amount of oversupply of coal products in domestic market and alleviate downward pressures on domestic coal product prices in 1999.

"EXPORT PRICES ARE LIKELY TO DECLINE IN 1999"

As indicated by recent negotiations between Japan and Australia, coal exporters, including Yanzhou, are likely to experience another year of declining export coal prices in 1999. This will place continued pressure on coal exporters to maintain their revenues and earnings level as well as their profit margins.

"WE WILL CONTINUE TO FOCUS ON OUR LONG-TERM STRATEGIES"

In order to preserve and enhance our revenue and profitability levels and improve our earnings growth prospects, we intend to continue to focus on our three long-term strategies: (i) increasing coal production and sales volume; (ii) reducing operating costs; and (iii) identifying potential acquisition opportunities.

Yanzhou's production level is expected to be higher in 1999 as compared to 1998 as annual coal production volume at the Jining II coal mine expects to increase from 1.8 million tonnes in 1998 to 3.2 million tonnes in 1999, while output from the other four coal mines may also increase as our operating efficiency is being further enhanced through technology and management improvements. We have signed sales contracts and letters of intent in respect of the supply of an aggregate of 24.98 million tonnes of coal for 1999, representing approximately a 23.2% increase over the total sales volume in 1998. Most of the increased demand came from two sources, namely domestic power bureaus and our export customers.

In 1999, we intend to increase sales volume through (i) strengthening our sales force and expanding our sales network in eastern China; and (ii) establishing coal mixing centers in major coal consumption areas in China, such as Shanghai, Xiaoshan and Zibo, so as to offer better sales services to customers by providing coal products tailored towards their needs. We will also study our export markets carefully to determine our sales allocation and strategies with regard to our export sales.

We intend to continue to lower our operating costs in 1999 through (i) reducing work force; and (ii) reducing material and electricity costs by upgrading mining equipment and techniques and improving production efficiency. Currently, we do not expect significant price increases for electricity and materials in 1999.

We intend to consider acquisition opportunities to expand our presence and leadership in both our domestic and export markets. We will carefully evaluate acquisition targets by focusing on potential return on our investments.

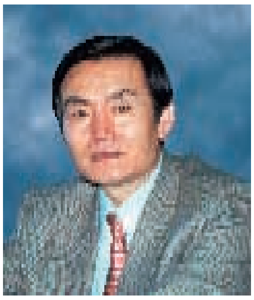
Finally, I would like to express my heartfelt gratitude to the management and all staff of the Company for their hard work as well as to all our shareholders for your kind support. I am fully confident that Yanzhou is uniquely positioned to take advantage of the current market and economic situation and our competitiveness will be further enhanced with the successful implementation of our long-term strategies.

On behalf of the Board
Zhao Jingche
Chairman

Zoucheng, PRC, 12th April, 1999

The Company was rated "The Best Asian Equity Issue" from China by *International Equity Review.*

Review of Operations



Yang Deyu
General Manager

The following discussion is based on the Company's audited results of 1998, the Company's unaudited proforma results of 1997, and the Company's audited results of 1997, which were prepared in accordance with IAS. The Board of Directors of the Company believes that the comparison of actual results of 1998 to proforma results of 1997 presents a more meaningful comparison of the Company's operating results for the period under review.

OVERVIEW

The Company acquired the Jining II coal mine with effect from 1st January, 1998. As a result, total raw coal production volume reached 20.69 million tonnes in 1998, representing a 22.6% increase, or 3.81 million tonnes, from 16.88 million tonnes produced by the Company's four original coal mines in 1997.

The Company sold 20.28 million tonnes of coal in 1998, of which 13.45 million tonnes were sold in the domestic market and 6.83 million tonnes were exported. Domestic sales and export sales accounted for 60.9% and 39.1% of total net sales, respectively.

Net sales increased by RMB224.5 million, or 6.5%, to RMB3,687.0 million in 1998 from 1997 proforma result of RMB3,462.5 million (an increase of RMB388.8 million, or 11.8%, from 1997 actual result of RMB3,298.2 million). Net income increased by RMB155.9 million, or 23.6%, to RMB817.4 million in 1998 from 1997 proforma result of RMB661.4 million (a decline of RMB16.8 million, or 2.0%, from 1997 actual result of RMB834.1 million).

Based on 1998 net income, the Company is the most profitabe coal mining company in China. The Company is also one of the largest coal exporters in the PRC based on 1998 coal export sales volume.

The Company's superior products and efficient system are well recognised.

PRODUCT PRICING AND SALES

The following table sets out the Company's net sales by product category for the years ended 31st December, 1997 and 1998:

(prepared in accordance with IAS)

	Years ended 31st December,								
	Actual 1998			1997 Proforma			Actual 1997		
	Sales volume	**Net sales**	**% of total net sales**	Sales volume	Net sales	% of total net sales	Sales volume	Net sales	% of total net sales
	('000 tonnes)	***(RMB million)***		*('000 tonnes)*	*(RMB million)*		*('000 tonnes)*	*(RMB million)*	
Clean Coal									
No.1 Clean Coal	**324.0**	**103.8**	**2.8**	342.1	115.9	3.4	342.1	115.9	3.5
No.2 Clean Coal/Thermal Coal									
Domestic sales	**1,295.5**	**301.4**	**8.2**	2,418.4	664.4	19.2	2,418.4	664.4	20.2
Exports	**6,825.5**	**1,442.2**	**39.1**	4,879.2	1,243.8	35.9	4,879.2	1,243.8	37.7
Subtotal	**8,121.0**	**1,743.6**	**47.3**	7,297.6	1,908.2	55.1	7,297.6	1,908.2	57.9
Subtotal for Clean Coal	**8,445.0**	**1,847.4**	**50.1**	7,639.7	2,024.1	58.5	7,639.7	2,024.1	61.4
Screened Raw Coal (1)	**10,398.4**	**1,659.0**	**45.0**	6,193.9	1,134.1	32.8	5,208.5	969.8	29.4
Mixed Coal and others	**1,438.1**	**180.6**	**4.9**	2,298	304.3	8.7	2,298.0	304.3	9.2
Total	**20,281.5**	**3,687.0**	**100.0**	16,131.6	3,462.5	100.0	15,146.2	3,298.2	100.0

(1) The Company's proforma net sales by product category for 1997 have been prepared based on the historical sales analysis of the Company, including coal sales from the Jining II coal mine during such period (which only comprised of Screened Raw Coal) as if the acquisition of the Jining II coal mine was completed on 1st January, 1997.

The Company sold 20.28 million tonnes of coal in 1998, an increase of 4.15 million tonnes, or 25.7%, over 1997 proforma result (an increase of 5.13 million tonnes, or 33.9%, over 1997 actual result), principally due to an increase in sales of Screened Raw Coal and export clean coal sales. This was partially offset by a decline of 1.14 million tonnes, or 41.3%, in domestic clean coal sales which was primarily caused by decisions, made by some of the Company's customers, to switch to lower quality coal products.

PRODUCT PRICING AND SALES (Continued)

The following table sets out the Company's product prices for the years ended 31st December, 1997 and 1998:

(prepared in accordance with IAS)

	Actual 1998 Average price	1997 Proforma Average price	Actual 1997 Average price
	(RMB per tonne)	*(RMB per tonne)*	*(RMB per tonne)*
Clean Coal	**218.8**	264.9	264.9
No.1 Clean Coal	**320.3**	338.9	338.9
No.2 Clean Coal/Thermal Coal	**214.7**	261.5	261.5
Domestic sales	**232.7**	274.7	274.7
Exports	**211.3**	254.9	254.9
Screened Raw Coal	**159.6**	183.1	186.2
Mixed Coal and others	**125.6**	132.4	132.4
Average price	**181.8**	214.6	217.8

The average price for the Company's products declined by 15.3% in 1998 as compared with 1997 proforma average price (a decline of 16.5% as compared with 1997 actual result) which was primarily due to (i) a deceleration in the economic growth rate which resulted in a corresponding slow down in the demand for coal products. In response to this less favorable market environment, domestic coal producers introduced steep price cuts to attract customers. The situation was worsened as some coal customers switched to lower quality coal products, which are typically cheaper, in order to reduce their operating costs; (ii) a decline in export contract prices; and (iii) an increase in sales volume as well as percentage of total export sales to export spot markets where prices are generally lower than export contract prices.

PRODUCT PRICING AND SALES (Continued)

Most of the Company's domestic sales are made to electric power plants, metallurgical producers, railway companies and construction material producers. The following table sets out the Company's net sales by customer industry for the years ended 31st December, 1997 and 1998:

(prepared in accordance with IAS)

	Years ended 31st December,					
	Actual 1998		1997 Proforma		Actual 1997	
	Net Sales	% of Net sales	Net sales	% of Net sales	Net sales	% of Net sales
	(RMB million)		*(RMB million)*		*(RMB million)*	
Domestic						
Electric power plants	**1,023.5**	**27.8%**	1,069.1	30.9%	1,069.1	32.4%
Metallurgical producers	**235.3**	**6.4%**	189.3	5.5%	189.3	5.8%
Construction material companies/coke chemical compaines	**114.2**	**3.1%**	129.6	3.7%	129.6	3.9%
Fuel trading companies/others	**871.8**	**23.6%**	830.7	24.0%	666.4	20.2%
Export	**1,442.2**	**39.1%**	1,243.8	35.9%	1,243.8	37.7%
Total	**3,687.0**	**100.0%**	3,462.5	100.0%	3,298.2	100.0%

Domestic sales of the Company's products are concentrated in eastern China, particularly in Shandong Province. The following table sets out the Company's net sales by geographical region for the years ended 31st December, 1997 and 1998:

(prepared in accordance with IAS)

	Years ended 31st December,					
	Actual 1998		1997 Proforma		Actual 1997	
	Net Sales	% of Net sales	Net sales	% of Net sales	Net sales	% of Net sales
	(RMB million)		*(RMB million)*		*(RMB million)*	
Eastern China						
Shandong Province	**1,466.1**	**39.8%**	1,461.6	42.2%	1,297.3	39.3%
Jiangsu Province	**234.5**	**6.4%**	164.8	4.8%	164.8	5.0%
Zhejiang Province	**273.2**	**7.4%**	112.0	3.2%	112.0	3.4%
Shanghai Province	**162.6**	**4.4%**	161.9	4.7%	161.9	4.9%
Other provinces in the region (1)	**31.1**	**0.8%**	67.0	1.9%	67.0	2.0%
Subtotal	**2,167.5**	**58.8%**	1,967.3	56.8%	1,803.0	54.6%
South China (2)	**77.3**	**2.1%**	251.4	7.3%	251.4	7.7%
Exports	**1,442.2**	**39.1%**	1,243.8	35.9%	1,243.8	37.7%
Total	**3,687.0**	**100.0%**	3,462.5	100.0%	3,298.2	100.0%

(1) Includes Anhui Province, Fujian Province and Jiangxi Province.

(2) Includes Guangdong Province and Hunan Province.

PRODUCT PRICING AND SALES (Continued)

Net sales to the Company's five largest domestic customers accounted for 38.1% and 30.3% of the Company's total net sales in 1997 and 1998, respectively. Net sales to the Company's largest customer, the Shandong Power and Fuel Company, accounted for 27.6% and 22.9% of the Company's net sales for 1997 and 1998, respectively.

OPERATING EXPENSES AND COST CONTROL

The following table sets forth the Company's principal operating expenses, which are also expressed as percentages of net sales for the years ended 31st December, 1997 and 1998.

(prepared in accordance with IAS)

	Years ended 31st December					
	Actual 1998	1997 Proforma	Actual 1997	**Actual 1998**	1997 Proforma	Actual 1997
	(in millions of RMB)			*(as a% of total net sales)*		
Net sales	**3,687.0**	3,462.5	3,298.2	**100.0%**	100.0%	100.0%
Materials	**392.6**	320.0	259.1	**10.6%**	9.3%	7.8%
Salaries, wages and employee benefits	**340.8**	325.3	292.3	**9.2%**	9.4%	8.9%
Electricity	**185.7**	160.5	144.3	**5.0%**	4.6%	4.4%
Depreciation	**517.9**	434.1	285.9	**14.1%**	12.5%	8.7%
Repairs and maintenance	**142.1**	138.4	124.3	**3.9%**	4.0%	3.8%
Land subsidence	**151.1**	120.6	113.2	**4.1%**	3.5%	3.4%
Non-rebated value added taxes	**110.5**	163.8	163.8	**3.0%**	4.7%	5.0%
Other manufacturing costs	**121.2**	114.5	89.6	**3.3%**	3.3%	2.7%
Selling, general and administrative	**540.1**	534.8	495.3	**14.7%**	15.4%	15.0%
Total operating expenses	**2,502.0**	2,312.0	1,967.8	**67.9%**	66.7%	59.7%
Operating income	**1,185.0**	1,150.5	1,330.4	**32.1%**	33.3%	40.3%

The Company's total operating expenses as a percentage of net sales increased from 1997 proforma result of 66.7% to 67.9% in 1998, resulting in a 1.2% decline in the operating margin (a decline of 8.2% from the 1997 actual result). The decline in operating margin was primarily due to the decline in product prices which was partially offset by a decline in unit cost of production as a result of continued operating efficiency enhancement and cost saving measures implemented by the Company as well as a higher VAT rebate rate promulgated by the PRC government with effect from 1st June, 1998.

The following discussion and analysis should be read in conjunction with the audited financial statements and the unaudited 1997 proforma financial statements of the Company and the notes thereto included elsewhere in this report. Such financial statements have been prepared in accordance with IAS. For a discussion of certain differences between IAS and US Generally Accepted Accounting Principles ("US GAAP"), please refer to note 33 to the financial statements contained herein or the Company's Annual Report on Form 20-F filed with the Securities and Exchange Commission of the United States of America, which will be provided to any shareholder upon written request.

YEAR ENDED 31ST DECEMBER, 1998 COMPARED WITH YEAR ENDED 31ST DECEMBER, 1997

Net sales increased by RMB224.5 million, or 6.5%, to RMB3,687.0 million in 1998 from 1997 proforma result of RMB3,462.5 million, principally due to a 25.7% increase in sales volume. This was partially offset by a 15.3% decline in the Company's average coal price. (Net sales increased by RMB388.8 million, or 11.8%, from 1997 actual result of RMB3,298.2 million, principally due to a 33.9% increase in sales volume. This was partially offset by a 16.5% decline in the Company's average coal price).

Cost of goods sold increased by RMB184.7 million, or 10.4% to RMB1,961.9 million in 1998 from 1997 proforma result of RMB1,777.2 million. The increase in cost of goods sold was principally due to (i) an increase in sales volume; and (ii) additional costs associated with the commencement of commercial production at the Jining II coal mine in the beginning of 1998. The increase in cost of goods sold was partially offset by (i) a decline in unit cost of material and electricity as a result of operating efficiency enhancement and mining technology upgrade; and (ii) a decline in non-rebated value added taxes as a result of an increase in the Company's export VAT rebate from 3% to 9% with effect from 1st June, 1998. (Cost of goods sold increased by RMB489.5 million, or 33.2% from 1997 actual result of RMB1,472.5 million, principally due to (i) increase in sales volume, (ii) additional costs relating to Jining II coal mine; and (iii) an increase in depreciation charges resulting from asset revaluation which took place in connection with the Combined Offering).

YEAR ENDED 31ST DECEMBER, 1998 COMPARED WITH YEAR ENDED 31ST DECEMBER, 1997 (Continued)

Selling, general and administrative expenses increased by RMB5.3 million, or 1.0%, to RMB540.1 million in 1998 from 1997 proforma result of RMB534.8 million. The increase was principally due to additional costs associated with the commencement of commerical production at the Jining II coal mine in the beginning of 1998 which was partially offset by a decline in distribution cost, resource compensation fees, farm land encroachment tax and repair and maintenance cost. (Selling, general and administrative expenses increased by RMB44.9 million, or 9.1%, from 1997 actual result of RMB495.2 million, principally due to costs attributable to Jining II coal mine.)

The Company's operating income increased by RMB34.5 million, or 3.0%, to RMB1,185.0 million in 1998 from 1997 proforma result of RMB1,150.5 million, as a result of a 6.5% increase in net sales which was partially offset by a 8.2% increase in operating costs . (The Company's operating income declined by RMB145.5 million, or 10.9%, from 1997 actual result of RMB1,330.4 million, principally as a result of a 27.2% increase in operating costs which was partially offset by a 11.8% increase in net sales.)

Interest expenses decreased by RMB127.2 million, or 59.2%, to RMB87.6 million from 1997 proforma result of RMB214.8 million as a result of RMB1,200.0 million principal repayment of bank borrowings in 1998. (Interest expenses decreased by RMB79.1 million, or 47.5% from 1997 actual result of RMB166.7 million as a result of principal repayment.)

Other income increased by RMB31.4 million, or 69.7%, to RMB76.3 million from 1997 proforma result of RMB44.9 million, principally due to an increase in interest income and gain on sales of auxiliary materials. The increase in interest income was primarily derived from interest income from subscription payments received from the A Share Offering, which, including oversubscription payments, amounted to approximately RMB12.5 million. (Other income increased by RMB31.5 million, or 70.5% from 1997 actual result of RMB44.7 million, principally due to an increase in interest income and gain on sales of auxiliary materials.)

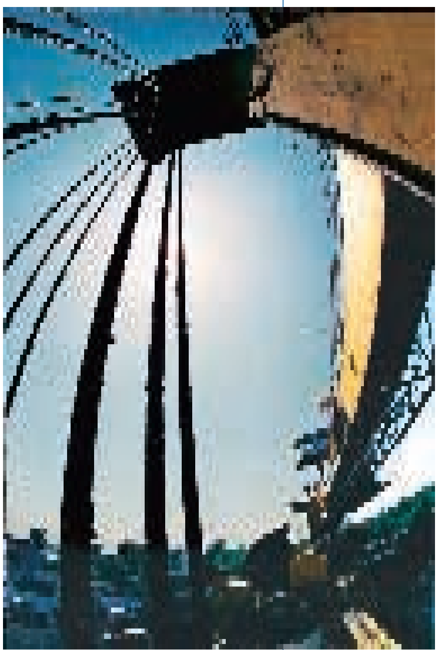
Income before income taxes increased by RMB193.1 million or 19.7% to RMB1,173.6 million in 1998 from 1997 proforma result of RMB980.5 million, principally due to a decrease in interest expenses and an increase in operating income and other income. Net income was RMB817.4 million, yielding a net income margin of 22.2%, as compared to 1997 proforma net income of RMB661.4 million, yielding a net income margin of 19.1%.

YEAR ENDED 31ST DECEMBER, 1998 COMPARED WITH YEAR ENDED 31ST DECEMBER, 1997 (Continued)

Total assets increased by RMB2,351.1 million, or 49.2%, to RMB7,127.9 million in 1998 from RMB4,776.8 million in 1997, principally due to acquisition of Jining II coal mine.

Long-term liabilities decreased by RMB1,200.0 million, or 91.3%, to RMB115.0 million in 1998 from RMB1,315.0 million in 1997, principally due to principal repayment of bank borrowings.

Shareholders' equity increased by RMB2,887.4 million, or 109.4%, to RMB5,527.5 million in 1998 from RMB2,640.2 million in 1997, principally due to an increase in share capital as a result of the Combined Offering and the A Share Offering.



LIQUIDITY AND CAPITAL RESOURCES

The Company's principal source of capital has been cash flow from operations and net proceeds from the Combined Offering and the A Share Offering, The Company's principal uses of capital have been acquisitions of Jining II coal mine, principal repayment of bank borrowings, and acquisition of property, plant and equipment.

The Company's cash flow from operations significantly exceeded its net income in both 1997 and 1998, principally due to non-cash depreciation charges. As at 31st December, 1998, the Company's bills and accounts receivable totalled RMB606.8 million, an increase of RMB425.6 million from RMB181.2 million as at 31st December, 1997. The significant increase in bills and accounts receivable was principally due to a relaxation in the Company's customer payment policy. In view of a difficult economic and market environment in 1998, the Company extended the credit period to its major customers from the original 45 days to 90 days starting from the third quarter of 1998. Increase in bills and accounts receivable was also caused by a significant increase in sales volume in the last quarter of 1998 as compared with the same period in 1997.

As at 31st December, 1998, inventories declined by RMB69.3 million to RMB297.6 million from RMB366.9 million as at 31st December, 1997, principally due to the Company's efforts in (i) increasing sales volume and (ii) reducing the level of inventory.

LIQUIDITY AND CAPITAL RESOURCES (Continued)

As at 31st December, 1998, prepayment and other current assets increased by RMB148.4 million to RMB259.3 million from RMB110.9 million as at 31st December, 1997, principally due to an increase in VAT refundable as a result of (i) an increase in export sales and (ii) an increase in export VAT rebate rate and coal transportation fees receivable with regard to transportation costs paid by the Company on behalf of its customers.

As at 31st December, 1998, accounts payable increased by RMB183.2 million to RMB492.2 million from RMB309.0 million as at 31st December, 1997, principally due to an extension of payment period offered to the Company by its major suppliers.

As at 31st December, 1998, other payables and accrued expenses increased by RMB130.4 million to RMB501.3 million from RMB370.9 million as at 31st December, 1997, principally due to an increase in customers' deposits and other tax payable.

As at 31st December, 1998, taxes payable increased by RMB224.8 million to RMB 297.4 million from 72.6 million as at 31st December, 1997, principally due to the fact that the Company was not incorporated in the PRC until 25th September, 1997. Prior to 25th September, 1997, the entity that held all assets and liabilities of the Company and the Parent Company prior to the restructuring (the "Predecessor") was responsible for the filing of consolidated income taxes with relevant PRC tax authorities.

As at 31st December, 1998, the Company's total outstanding bank loan was RMB115 million, reflecting a total of RMB1,200.0 million principal repayment made by the Company during 1998.

The Company's capital expenditures of RMB461.2 million and RMB424.0 million made during 1997 and 1998, respectively, consisted principally of purchases of additional and replacement sets of mining machinery and equipment.

The Company acquired the Jining II coal mine from the Parent Company on 1st January, 1998 for a total consideration of RMB1,956.0 million which was fully paid with the proceeds from the Combined Offering.

LIQUIDITY AND CAPITAL RESOURCES (Continued)

The Company's most significant contemplated capital expenditure relates to the potential exercise of the Jining III coal mine purchase option. The option can be exercised at any time until the later of (i) 1st July, 2004 or (ii) five years after the scheduled commencement of commercial production at Jining III coal mine. The Company does not expect to exercise such option in 1999 and intends to consider the acquisition of Jining III coal mine in connection with the scheduled commencement of commercial production at Jining III coal mine at the end of 1999 as well as the outlook for economic and market situation . The exercise price for the purchase option will be based on a joint valuation by a state-approved independent PRC valuer appointed by the Parent Company and a state-approved independent international valuer appointed by the Company, with such joint valuation subject to confirmation by the State-owned Assets Administration Bureau of the PRC. Should the Company decide to exercise the option, the Company intends to finance the acquisition of Jining III coal mine through a combination of (i) certain borrowings from the Parent Company; (ii) cash flow from operations; (iii) additional borrowings; and (iv) if necessary, the issuance of new equity. However, no assurance can be given that the Company will be able to secure sufficient financing to fund the purchase of Jining III coal mine.

The Company may also incur capital requirements in respect of potential acquisitions of other coal mines or investments in new coal mines. The Company intends to finance any such acquisitions or investments principally from (i) operating cash flow; (ii) additional borrowings; and (iii) if necessary, from the issuance of new equity.

Equity distribution in cash to the Parent Company for the first nine months of 1997 was RMB62.9 million. A special interim dividend of RMB69.0 million in respect of the period from 1st October, 1997 to 31st December, 1997 was paid to the Parent Company before 30th June, 1998. The Company paid an interim dividend of RMB75.4 million in respect of the first six months of 1998 to its shareholders on 27th October, 1998. The directors of the Company have decided to recommend a final dividend of RMB148.2 million to be paid out of the Company's cash flow from operations on or before 30th June, 1999.

Taking into account the available supplier financing and banking facilities, the Company believes that it will have sufficient working capital for its present requirements.

TAXATION

The Company is still subject to an income tax rate of 33% on its taxable profits in 1998.

US GAAP RECONCILIATION

The Company's audited financial statements are prepared in compliance with IAS, which differs in certain respects from US GAAP. Please refer to note 33 to the financial statements contained herein for a description of the differences between IAS and US GAAP, and a reconciliation to US GAAP of net income for the year ended, and the owner's equity, as at 31st December, 1998.

Report of the Directors

The directors of the Company are pleased to submit their report together with the audited financial statements of the Company for the year ended 31st December, 1998.

PRINCIPAL ACTIVITIES

The company is engaged in the underground coal mining and coal preparation for sale to the domestic and export markets.

FINANCIAL HIGHLIGHTS

A summary of the results of the Company, the assets and liabilities of the Company and the cash flow of the Company for each of the five years ended 31st December, 1994, 1995, 1996, 1997 and 1998, which are determined under IAS, is set out on page 3.

PROPOSED PROFIT APPROPRIATION

The profit appropriation of the Company for the year ended 31st December, 1998 as proposed by the directors is as follows:

(Prepared under relevant accounting principles and regulations applicable to PRC enterprises (“PRC GAAP”)	*RMB’000*
Net Income	**753,840**
Unappropriated profits at beginning of year	**56,312**
Appropriation to statutory surplus reserve	**(75,384)**
Appropriation to statutory common welfare fund	**(37,692)**
Appropriation to discretionary surplus reserve fund	**–**
Distributable profits	**697,076**
Dividends	**(223,600)**
Unappropriated profits	**473,476**

The proposed profit appropriation will be presented to shareholders for approval at the forthcoming annual general meeting of the Company the (“AGM”).

Pursuant to the relevant regulations of the Ministry of Finance and the Company’s Articles of Association, if there is any discrepancy between the profit prepared under the PRC GAAP and the IAS or the accounting standards and regulations of the places in which its shares are listed, then, for the purpose of determining profit available for distribution to shareholders the lowest of these figures will apply. For the year ended 31st December, 1998, profit prepared under the PRC GAAP is applied.

DIVIDENDS

At the extraordinary general meeting of the Company held on 12th October, 1998, the shareholders of the Company approved an interim dividend of approximately RMB75,400,000 (before tax), or approximately RMB0.029 per share (before tax). Such dividend was paid to shareholders of the Company on 27th October, 1998.

DIVIDENDS (Continued)

The directors of the Company have decided to recommend at the forthcoming AGM, scheduled to be held on 3rd June, 1999, a payment in cash of a final dividend of RMB148,200,000 (before tax) or approximately RMB0.057 per share (before tax). After receiving the approval from the shareholders at the AGM, the final dividend will be declared and paid to all shareholders of the Company on or before 30th June, 1999.

This proposed final dividend, together with the interim dividend, which had already been paid by the Company, will amount to a total dividend of RMB223,600,000 (before tax), or approximately RMB0.086 per share (before tax) for the year ended 31st December, 1998.

As disclosed in the Company's 1997 annual report, the directors of the Company did not recommend the payment of a final dividend for the year ended 31st December, 1997. A special interim dividend of RMB69 million in respect of the period from 1st October, 1997 to 31st December, 1997 payable to the Parent Company was declared on 22nd March, 1998 and paid before 30th June, 1998. As disclosed in the Company's 1998 interim report, no dividend was considered paid during the first six months in 1997 as the Company was not established as a joint stock company with limited liability in the PRC until 25th September, 1997.

Pursuant to Article 149 of the Company's Articles of Association, dividends payable to the Company's shareholders shall be declared in RMB. Dividends payable to holders of the Company's domestic shares shall be paid in RMB, while dividends payable to holders of the Company's H Shares shall be paid in Hong Kong dollars. The exchange rate will be the average of the closing exchange rates for RMB to Hong Kong dollars as announced by the People's Bank of China for the five working days prior to the announcement of payment of such dividends.

MAJOR SUPPLIERS AND CUSTOMERS

The aggregate purchase attributable to the Company's five largest suppliers was less than 30% of the total purchase of its goods and services for 1997 and 1998.

Net sales to the Company's five largest domestic customers accounted for 38.1% and 30.3% of the Company's net sales in 1997 and 1998, respectively. Net sales to the Company's largest customer, the Shandong Power and Fuel Company, accounted for 27.6% and 22.9% of the Company's net sales for 1997 and 1998, respectively.

As far as the directors are aware, neither the directors, their associates, nor those shareholders which own more than 5% of the Company's share capital had any interest in the five largest customers of the Company.

BORROWINGS

Details of borrowings of the Company as at 31st December, 1998 are set out in note 22 to the financial statements contained herein.

HOUSING SCHEME

As disclosed in the Company's offering prospectus dated 24th March, 1998 and issued in Hong Kong in connection with the Combined Offering, 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 provision of such accommodation on a pro-rata basis based on head count. Such expenses amounted to RMB24.2 million and RMB29.7 million for 1997 and 1998, respectively.

INTEREST CAPITALISED

No interest has been capitalised by the Company during the year ended 31st December, 1998.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company during the year ended 31st December, 1998 are set out in note 18 to the financial statements contained herein.

RESERVES

Details of movements in reserves of the Company for the year ended 31st December, 1998 and details of distributable reserves of the Company as at 31st December, 1998 are set out in note 23 to the financial statements contained herein.

STATUTORY COMMON WELFARE FUND

Details in relation to the statutory common welfare fund, such as the nature, the application and the movements of the fund, and the basis of its calculation, including the percentage and the profit figure used for calculating the amounts, are set out in note 23 to the financial statements contained herein.

CONNECTED TRANSACTIONS

The Company's independent non-executive directors have reviewed the connected transactions (as defined in the Listing Rules) set out in note 24 to the financial statements contained herein, and confirmed that all connected transactions entered into by the Company during 1998 were entered into in its ordinary and usual course of business, and that such transactions were all entered into either (A) on normal commercial terms, or (B) on terms no less favourable than those available to (or from) independent third parties (from the point of view of the Company), or (C) where there is no available comparison for the purpose of determining whether (A) or (B) is satisfied, on terms that are fair and reasonable so far as the shareholders of the Company are concerned. Details of such transactions are set out in note 24 to the financial statements contained herein.

During the year ended 31st December, 1998, the Company paid RMB12.98 million to the Parent Company as the annual fee in respect of mining rights, pursuant to the mining rights agreement dated 17th October, 1997 (as supplemented by a supplemental agreement dated 18th February, 1998) between the Parent Company and the Company. The Company's independent non-executive directors have reviewed such payment and confirmed that the payment was made in accordance with the terms of such agreements.

DISCLOSURE OF SIGNIFICANT EVENTS

Acquisition of Jining II coal mine

The Company acquired the Jining II coal mine from the Parent Company on 1st January, 1998 for a total consideration of RMB1,956 million (approximately US$236 million or HK$1,831 million). The Company and the Parent Company agreed to reduce the consideration from approximately RMB1,995 million (approximately US$241 million or HK$1,868 million) to reflect the net asset value of Jining II coal mine as at 1st January, 1998. The Company has paid in full the reduced consideration of RMB1,956 million with the proceeds from the Combined Offering (see "Share issue" below).

Share issue

The Company was listed on the Hong Kong Stock Exchange on 1st April, 1998 and the New York Stock Exchange on 31st March, 1998 pursuant to the Combined Offering of its H Shares and ADSs respectively. An additional 30,000,000 H Shares were subsequently issued pursuant to the exercise of the over-allotment option by the US underwriters in the Combined Offering.

On 1st July, 1998, the Company listed its A Shares on the Shanghai Securities Exchange.

Details of the Company's H share and A share issues are as follows:

	H share	**A share**
Par value	RMB1.00 per H share	RMB1.00 per A share
Number of shares issued	850,000,000 H Shares (including 30,000,000 additional H Shares issued pursuant to the exercise of an over-allotment option in connection with the Combined Offering)	80,000,000 A Shares (including 8,000,000 employees shares)
Issue price	1. HK$2.42 per H Share (for investors in the Hong Kong offering) 2. HK$2.44 per H Share (for investors who elected to receive H Shares rather than ADSs in the US offering and the international offering) 3. US$15.75 per ADS	RMB3.37 per A Share
Listing date and location	1. ADSs listed on the New York Stock Exchange on 31st March, 1998 2. H Shares listed on the Hong Kong Stock Exchange on 1st April, 1998	1. 72,000,000 A Shares listed on the Shanghai Securities Exchange on 1st July, 1998
Net proceeds	RMB2,037 million (approximately US$246 million, or HK$1,906 million)	RMB257 million (approximately US$31 million, or HK$241 million)

DISCLOSURE OF SIGNIFICANT EVENTS (Continued)

Use of proceeds

The total net proceeds from the Combined Offering were approximately RMB2,037 million (approximately US$246 million or HK$1,906 million) of which approximately RMB1,956 million (approximately US$236 million or HK$1,831 million) has been used by the Company to pay for the acquisition price of Jining II coal mine. The remaining balance has been placed in a foreign currency-denominated short-term bank deposit.

The total net proceeds from the A Share Offering were approximately RMB257 million (approximately US$31 million or HK$241 million) of which approximately RMB200 million (approximately US$24 million or HK$187 million) has been used by the Company to repay a portion of its debts and approximately RMB57 million (approximately US$7 million or HK$53 million) to supplement its working capital requirements.

(The exchange rate used for this report is approximately US$1.00 = HK$7.75 = RMB8.28. No representation is made that RMB could have been or could be converted into US dollars or Hong Kong dollars at such rates on any given date)

Dissolution of PRC ministry of coal industry ("MOCI")

As part of China's recent reform program, the MOCI was dissolved and replaced by the National Coal Industry Bureau in March 1998. Following such reorganisation, the National Coal Industry Bureau and the State Economic and Trade Committee have become jointly responsible for the planning, regulation and administration of the coal industry. The National Coal Industry Bureau is no longer to directly manage the enterprises under its jurisdiction. As a joint stock company, Yanzhou is no longer under the direct management of any PRC government body. The Company believes that the reorganisation will bring greater operating autonomy to individual coal enterprises and allow them to compete in a freer market.

Difference between 1998 forecast profit and actual 1998 audited net income prepared under the PRC GAAP

The following discussion should be read in conjunction with the Company's profit forecast section included in the A Share Offering prospectus issued by the Company in the PRC on 4th June, 1998 and the audited financial statements prepared in accordance with the PRC GAAP included elsewhere in this report. At the time of the Combined Offering or afterwards, the Company did not issue any statement or publish any figures with regard to its 1998 profit forecast prepared under IAS.

According to the A Share Offering prospectus, the Company's 1998 forecast profit, prepared under the PRC GAAP, was approximately RMB894.4 million. The Company's audited 1998 net income prepared under the PRC GAAP was RMB753.8 million. Excluding interest income from oversubscription payments received from the A Share Offering, the actual net income of 1998 prepared under the PRC GAAP was RMB745.5 million. The directors of the Company believe that the difference between 1998 forecast profit and the actual net income was principally caused by a greater than expected decline in the Company's average coal product price due to difficult economic and market environment involving both domestic and export markets. The Company was able to mitigate the impact from product price decline by increasing sales volume and reducing operating cost, details of which are set in the section headed "Management Discussion and Analysis".

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS

(In '000 shares) Par value per share: RMB 1.00

	Number of shares issued at the beginning of the period (1st January, 1998)	Changes during the period under review (Increase/Decline) New issue of shares	Placement of shares	Bonus Issue	Conversion of surplus reserves into shares	Other	Subtotal	Number of shares issued at the end of the period (31st December, 1998)
I. 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
Foreign legal person shares	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
2. Legal person shares	–	–	–	–	–	–	–	–
3. Employee shares	–	8,000	–	–	–	–	8,000	8,000
4. Preferred Shares and other	–	–	–	–	–	–	–	–
Total number of shares not listed for public dealings	1,670,000	8,000	–	–	–	–	8,000	1,678,000
II. Shares listed for public dealings								
1. Domestically listed RMB Ordinary Shares	–	72,000	–	–	–	–	72,000	72,000
2. Foreign invested Shares listed on a domestic stock exchange	–	–	–	–	–	–	–	–
3. Foreign invested Shares listed on overseas stock exchanges	–	850,000	–	–	–	–	850,000	850,000
4. Other	–	–	–	–	–	–	–	–
Total number of shares listed for public dealings	–	922,000	–	–	–	–	922,000	922,000
III. Total shares	1,670,000	930,000	–	–	–	–	930,000	2,600,000

As of 31st December, 1998, the total share capital of the Company was 2.6 billion shares. The Company had a total of 46,990 shareholders, of which 1 was holder of domestic legal person shares, of which 46,447 were holders of A Shares (including 2,186 holders of employee Shares) and 542 were holders of H Shares.

TOP TEN SHAREHOLDERS OF THE COMPANY

	Name	Number of Shares held as of 31st December, 1998	Percentage of total shareholding	Class of Shares Held
1.	Parent Company	1,670,000,000	64.23%	Domestic
2.	HKSCC Nominees limited	838,949,500	32.27%	H Shares
3.	Tianjin Trust	633,300	0.02%	A Shares
4.	GUO KONG PING	600,000	0.02%	H Shares
5.	CHOW KAR CHUN EDDIE	462,000	0.02%	H Shares
6.	Hou Yongyi	375,402	0.01%	A Shares
7.	Sang Jianping	340,000	0.01%	A Shares
8.	YEUNG MAN BUN	300,000	0.01%	H Shares
9.	YEUNG MAN FUI	300,000	0.01%	H Shares
10.	LAI HO KAI	300,000	0.01%	H Shares
	Total	2,512,260,202	96.63%	

The number of shares held by the Parent Company remained at 1,670,000,000 shares during the period under review and none of these shares were pledged or restricted.

As the clearing and settlement agent for the Company's H Shares, HKSCC Nominees Limited is the nominee of the Company's H Shares.

LEGAL PERSON SHAREHOLDERS WITH SHAREHOLDINGS OF 10% OR MORE

As at 31st December, 1998, the Parent Company was holding 1.67 billion domestic legal person shares of the Company, representing 64.23% of the total share capital of the Company.

The Parent Company is the sponsor of the Company and is principally engaged in the coal production, building materials, chemical and machining businesses.

Mr. Zhao Jingche is the authorized representative of the Parent Company.

As at 31st December, 1998, HKSCC Nominees Limited was holding 838,949,500 H Shares of the Company, representing 32.27% of the total share capital of the Company.

HKSCC Nominees Limited is a common nominee and trustee for participants of the Central Clearing And Settlement System.

Mr. Stewart Shing is the authorized representative of HKSCC Nominees Limited.

SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Save for two Independent Non-executive Directors who did not have any beneficial interest in the issued share capital of the Company, the Directors, Supervisors and senior management of the Company were holding 221,000 A Shares of the Company as a result of the placement of the employee shares in 1998. Save as disclosed below, none of the Directors, Supervisors or senior management or their associates had any beneficial interest in the issued share capital of the Company as at 31st December, 1998.

Name	Position	Number of shares held at the beginning of the year (as of 1st January, 1998)	Number of shares held at the end of the year (as of 31st December, 1998)	Reason for Change
ZHAO Jingche	Chairman of the Board of Directors	–	10,000	A Share issue
YANG Deyu	Executive Director and General Manager	–	10,000	A Share issue
DU Mingshan	Executive Director	–	10,000	A Share issue
LUO Taiyan	Executive Director	–	10,000	A Share issue
XIAO Lifang	Executive Director and Financial Controller	–	10,000	A Share issue
WANG Bangjun	Director	–	10,000	A Share issue
MO Liqi	Director	–	10,000	A Share issue
LIU Yubin	Director	–	10,000	A Share issue
WU Zezhi	Director	–	10,000	A Share issue
CHEN Yongge	Director	–	10,000	A Share issue
MA Houliang	Director	–	10,000	A Share issue
XU Tianen	Director	–	10,000	A Share issue
YANG Jiachun	Director	–	10,000	A Share issue
MENG Xianchang	Supervisor	–	10,000	A Share issue
XIAO Shuzhang	Supervisor	–	10,000	A Share issue
QIAN Xiulan	Supervisor	–	10,000	A Share issue
XU Xinmin	Supervisor	–	10,000	A Share issue
ZHOU Hongbin	Supervisor	–	10,000	A Share issue
KONG Qing	Deputy General Manager	–	10,000	A Share issue
ZHANG Xingzu	Deputy General Manager	–	10,000	A Share issue
FAN Guoqiang	Chief Engineer	–	10,000	A Share issue
WU Yuxiang	Finance Manager	–	10,000	A Share issue
CHEN Guangshui	Secretary of the Board of Directors	–	1,000	A Share issue

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company did not purchase, redeem or sell any of its shares during the year other than the issue of certain H Shares, ADSs and A Shares, details of which are set out in the section headed "Share Issue".

SHARE CAPITAL

Details of the authorised and issued share capital of the Company are set out in note 23 to the financial statements contained herein.

PRE-EMPTIVE RIGHTS

Under the Articles of Association of the Company and the laws of the PRC, no pre-emptive rights exist that require the Company to offer new shares to existing shareholders in proportion to their shareholding.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

ZHAO Jingche, aged 62, a professor-level senior engineer, is the Chairman of the Board of Directors of the Company and the Chairman of the Board of Directors of the Parent Company. Mr. Zhao joined the Predecessor in 1980 and acted as the Chief Engineer, Deputy Director and Director of Xinglongzhuang Coal Mine. He became Deputy Director and Director of Yanzhou Mining Bureau in 1985 and 1991, respectively, and became the Chairman and General Manager of the Predecessor in 1996. Mr. Zhao graduated from Hefei Industry University.

YANG Deyu, aged 49, a senior engineer, is the General Manager and a Director of the Company, and an Assistant General Manager of the Parent Company. Mr. Yang joined the Predecessor in 1968, became the Deputy Director of Yanzhou Mining Bureau in 1996 and became the Assistant General Manager and Director of the Safety and Supervision Bureau of the Predecessor in 1996. He graduated from Shandong Mining Institute.

DU Mingshan, aged 56, a senior engineer, is a Director of the Company and an Executive Director of the Parent Company. Mr. Du joined the Predecessor in 1965 and became an Assistant Manager of Yanzhou Coal Infrastructure Company, the Deputy Director of Yanzhou Mining Bureau and an Executive Director of the Predecessor in 1985, 1987 and 1996 respectively. He graduated from Beijing Mining Institute.

LUO Taiyan, aged 58, an assistant professor, is a Director of the Company and an Executive Director of the Parent Company. Mr. Luo joined the Predecessor in 1997 as an Executive Director and, prior to joining the Predecessor, was the Deputy Dean of the Jinan branch of Shandong Mining Institute and the Deputy Principal of China Coal Economics Institute between 1983 and 1997. He graduated from Shandong Mining Institute.

XIAO Lifang, aged 60, a senior accountant, is a Director and the Financial Controller of the Company and the Chief Accountant of the Parent Company. Mr. Xiao joined the Predecessor in 1972 and became its Chief Accountant in 1984. He graduated from Jiangsu Coal Mining Professional Training School.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

Non-executive Directors

WANG Bangjun, aged 54, an engineer, is a Director of the Company and the Vice-Chairman of the Board of Directors. Mr. Wang joined the Predecessor in 1970, became an Assistant Manager and the Party Committee Assistant Secretary of Yanzhou Coal Infrastructure Company between 1983 and 1987, successively became the Deputy Director and a Party Committee Assistant Secretary of Yanzhou Mining Bureau between 1987 and 1996, and became the Vice-Chairman and a Party Committee Secretary of the Predecessor in 1996. He graduated from Shandong Mining Institute.

MO Liqi, aged 54, a senior engineer, is a Director of the Company and the Vice-Chairman of the Board of Directors and the General Manager of the Parent Company. Mr. Mo joined the Predecessor in 1970, successively became the Party Committee Assistant Secretary and a Manager of Yanzhou Coal Infrastructure Company in 1983 and 1985 respectively, and became the Deputy Director of Yanzhou Mining Bureau in 1987. Mr. Mo became the Vice Chairman and Deputy General Manager of the Predecessor in 1996, and became the General Manager of the Predecessor in 1997. He graduated from Shandong Mining Institute.

LIU Yubin, aged 57, a senior economist, is a Director of the Company and the Vice Chairman and Party Committee Secretary of the Parent Company. Mr. Liu joined the Predecessor in 1975, successively became the Deputy Director and Party Committee Assistant Secretary of Yanzhou Mining Bureau between 1985 and 1996, became a Director and Party Committee Assistant Secretary of the Predecessor in 1996. He was promoted to Vice-Chairman and Party Committee Secretary of the Parent Company in 1998. He graduated from China Language Institute.

WU Zezhi, aged 57, a professor-level senior engineer, is a Director of the Company and a Director and an Assistant General Manager of the Parent Company. Mr. Wu joined the Predecessor in 1972, successively became the Deputy Director of Yanzhou Mining Bureau in 1983 and a Director and Assistant General Manager of the Predecessor in 1996. He graduated from Jiangxi Mining Institute.

CHEN Yongge, aged 57, an engineer, is a Director of the Company and a Director and Chairman of the Labor Union of the Parent Company. Mr. Chen joined the Predecessor in 1982, successively became a Party Committee Assistant Secretary and Chairman of the Labor Union of Yanzhou Mining Bureau in 1983 and 1993 respectively, and became a Director and Chairman of the Labor Union of the Predecessor in 1996. He graduated from Beijing Coal Cadre Institute.

MA Houliang, aged 41, is a Director of the Company and a Director and a Party Committ Assistant Secretary of the Parent Company. Mr. Ma joined the Predecessor in 1985, became a Director of the Predecessor in 1996, and became a Party Committee Assistant Secretary of the Parent Company in 1998. He graduated from Qufu Education University.

XU Tianen, aged 50, a senior Accountant, is a Director of the Company and the Vice Chief Accountant of the Parent Company. Mr. Xu joined the Predecessor in 1968 and became the Director of the Finance Department of Yanzhou Mining Bureau and the Vice Chief Accountant of the Predecessor in 1994 and 1996 respectively. He graduated from Shandong Mining Institute.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

YANG Jiachun, aged 44, an economist, is a Director of the Company and the Supervisor of the Office of the Board of Directors of the Parent Company. Mr. Yang joined the Predecessor in 1988 and became the Director of Politics and Regulations Department of Yanzhou Mining Bureau and the Supervisor of the Office of Board of Directors of the Predecessor in 1994 and 1996 respectively. He graduated from Yunnan Education University.

Independent Non-executive Directors

GUAN Weili, aged 56, is a Director of the Company, and the President of China Enterprise Consultants. Mr. Guan worked with manufacturing firms as an engineer for many years. He once was the Dean of Business Management Department at Beijing Polytechnic University, the Director of Enterprise Department at National Administrative Bureau of State-Owned Property under the State Council of PRC, and the Vice President of GE Capital Pacific Asia. Mr. Guan graduated from China University of Science and Technology, and earned a Master of Business Administration degree at Northeastern University in Boston, United States. He is currently a member of the Asian Executive Board, Wharton Business School at University of Pennsylvania.

LAW Kin Ming, Alfred, aged 50, a solicitor, is a Director of the Company. Mr. Law was first called to the Bar in England in 1975 and to the Bar in Hong Kong in the following year. Mr. Law once acted as a Deputy District Court Judge in Hong Kong, and in March 1990, he switched to the solicitors' branch of the legal profession. He has been the legal adviser of South China Industry (Canada) Inc. since December 1993 and the Director of HMH China Investments Limited since September 1995.

Board of Supervisors

The Company has a Board of Supervisors whose primary duty is the supervision of senior management of the Company, including the Board of Directors, managers and senior officers. The function of the Board of Supervisors is to ensure that senior management of the Company acts in the interests of the Company, its shareholders and employees, and does not perform acts which violate PRC laws. The Board of Supervisors reports to the shareholders of the Company in general meetings. The Articles of Association provide the Board of Supervisors with the right to investigate the business and the financial affairs of the Company and to convene shareholders' meetings from time to time. The Board of Supervisors currently comprises five members, one of whom is an employee representative. The members of the Board of Supervisors are:

MENG Xianchang, aged 51, is a Supervisor of the Company and an Executive Supervisor and Party Committee Assistant Secretary of the Parent Company. Mr. Meng joined the Predecessor in 1981 and was promoted to Party Committee Assistant Secretary and Supervisor of the Predecessor in 1996. He graduated from Shandong Mining Institute.

XIAO Shuzhang, aged 55, is a Supervisor of the Company and a Supervisor and Disciplinary Committee Secretary of the Parent Company. Mr. Xiao joined the Predecessor in 1970, became a Disciplinary Committee Secretary of Yanzhou Coal Infrastructure Company and a Disciplinary Committee Secretary of Yanzhou Mining Bureau in 1986 and 1987, respectively, and became a Supervisor and the Disciplinary Committee Secretary of the Predecessor in 1996. Mr. Xiao graduated from Jiaozuo Mining Institute.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

QIAN Xiulan, aged 53, is a Supervisor of the Company and a Supervisor and Deputy Chairman of the Labour Union of the Parent Company. Ms. Qian became the Deputy Chairman of the Labour Union of Yanzhou Mining Bureau in 1979 and became the Deputy Chairman of the Labour Union and Supervisor of the Predecessor in 1996. She graduated from the Central Communist Party School Correspondence Institute.

XU Xinmin, aged 59, a senior auditor is a Supervisor of both the Company and the Parent Company. Mr. Xu joined the Predecessor in 1972, became the Director of the Audit Department of Yanzhou Mining Bureau in 1992, and became a Supervisor and Director of the Audit Department of the Predecessor in l996. He graduated from Taian School of Coal Industry.

ZHOU Hongbin, aged 56, a senior auditor, is a Supervisor of the Company. Mr. Zhou joined the Predecessor in 1966 and became the Director of the Audit Department of the Predecessor in 1996. He graduated from Jiangsu Coal Mining Professional Training School.

Other Executive Officers

KONG Qing, aged 46, a senior economist, is a Deputy General Manager of the Company and an Assistant General Manager of the Parent Company. Mr. Kong joined the Predecessor in 1974 and became an Assistant General Manager of the Predecessor in 1996. He graduated from Shandong Television University.

ZHANG Xingzu, aged 50, a senior engineer, is a Deputy General Manager of the Company and an Assistant General Manager of the Parent Company. Mr. Zhang joined the Predecessor in 1971 and became an Assistant General Manager of the Predecessor in 1996. He graduated from China Mining Institute.

FAN Guoqiang, aged 60, a professor-level senior engineer, is the Chief Engineer of both the Company and the Parent Company. Mr. Fan joined the Predecessor in 1981 and became the Chief Engineer of the Predecessor in 1994. He graduated from Chongqing University.

WU Yuxiang, aged 37, a senior accountant, is the Manager of the Finance Department of the Company. Mr. Wu joined the Predecessor in 1981 and became the Accountant of the Finance Department of the Predecessor in 1996. He graduated from Shandong Television University.

CHEN Guangshui, aged 33, an engineer, is the Secretary of the Board of Directors of the Company and the Chief of the Secretary Office of the Board of Directors. Mr. Chen joined the Predecessor in 1990 and became the Secretary of the Office of the Board of Directors of the Predecessor in 1996. He graduated from Fuxin Mining Institute.

DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' and supervisors' remuneration and five highest paid individuals in the Company are set out in note 11 to the financial statements contained herein.

There were no arrangements under which a director or supervisor of the Company had waived or agreed to waive any remuneration in respect of the year ended 31st December, 1998.

ARRANGEMENT TO PURCHASE EQUITY OR DEBT SECURITIES

At no time during the year ended 31st December, 1998, was the Company, its holding company, or any of its fellow subsidiaries a party to any arrangement to enable the directors or supervisors of the Company to acquire benefits by means of the acquisition of equity or debt securities of the Company or any other body corporate, with the exceptions of the A Shares issued to the Directors, Supervisors and senior management of the Company. Details of which are shown under the section headed "Shareholdings of directors, supervisors and senior management of the Company".

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the directors and supervisors has entered into a service contract with the Company for a term of three years, subject to renewal by agreement for one or more consecutive terms. Under such contracts, each executive director will receive a salary and a discretionary year-end bonus, at such levels as are proposed by the Board of Directors and approved by shareholders of the Company in general meetings, provided that the discretionary year-end bonuses paid to the executive directors and the discretionary year-end bonuses which are paid to other employees of the Company (including, but not limited to, the other directors, supervisors and executive officers of the Company) do not, in aggregate, exceed 1% of the net profit after taxation and extraordinary losses but before extraordinary gains for that year.

Save as disclosed herein, no director or supervisor has entered into any service contract with the Company which is not terminable by the Company within one year without payment other than statutory compensation.

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS

None of the directors or supervisors of the Company had a material interest directly or indirectly in any contract of significance to which the Company was a party during the year ended 31st December, 1998.

COMPLIANCE WITH CODE OF BEST PRACTICE

So far as the directors of the Company are aware, the Company has complied with the Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") issued by the Hong Kong Stock Exchange.

EMPLOYEES' PENSION SCHEME

Details of the Company's employees' pension scheme are set out in note 27 to the financial statements contained herein.

MATERIAL CONTRACTS

The Company was not a party to any material contract during the year ended 31st December, 1998.

MATERIAL LITIGATION AND ARBITRATION

The Company was not involved in any material litigation or arbitration during the year ended 31st December, 1998.

TRUST DEPOSITS AND OVERDUE FIXED DEPOSITS

The Company did not have any trust deposit and overdue fixed deposit that had not been drawn back by the year ended 31st December, 1998, and the Company did not have any deposits with non-bank financial institutions.

YEAR 2000 ISSUE

The Company recognises that the Year 2000 ("Y2K") problem relates to the inability of certain computer programs and equipment to manage the date change from the 20th to the 21st century. As the Y2K problem affects information technology and all other systems and equipment that rely on embedded electronic chip technology, the Company recognises that the Y2K issue is not only a technical but also a business management problem.

The Company operates on the basis that "Y2K Compliant" means that neither performance nor functionality of the item is affected by dates prior to, during and after the year 2000. In particular, and without limiting the above:

(i) no value for current date will cause any interruption in operation;

(ii) date-based functionality must behave consistently for dates prior to, during and after year 2000;

(iii) in all interfaces and data storage, the century in any date must be specified either explicitly or by unambiguous algorithms or inferencing rules; and

(iv) year 2000 must be recognized as a leap year.

The nature of the coal mining industry in China has meant that the Company did not start using computers in its business operations until recently. The Company believes that all internal systems and equipment currently in use by the Company are Y2K Compliant including, but not limited to, its network systems; all relevant application software (with the exception of its financial systems, the details of its Year 2000 status are set out below); its internal communications systems; and its internal production control systems.

YEAR 2000 ISSUE (Continued)

The Company has either conducted independent tests to verify this; or relied on representations provided by its relevant major suppliers.

In relation to its financial system, the Company notes that such system is not used for billing purposes (which is still performed manually) but merely for the production of financial reports. The Company confirms that the financial system (which was developed in-house) is not Y2K Compliant and that it has engaged Qinghua University to render it Y2K Compliant by 30th June, 1999.

The Company acknowledges that should its financial system software fail to be rendered Y2K Compliant, its financial reporting system may be adversely affected. However, this should have little or even no impact on the commercial operations of the Company.

Third Party Relationships

The Company recognises that its material third-party relationships are with its suppliers of capital equipment and raw materials such as timber, steel, cement and power. The Company is of the view that it does not have any material third-party relationship with its customers. The Company is in the process of reviewing its relationships with its major suppliers to determine its exposure should its or its suppliers' computer system in turn fails to be Y2K Compliant.

The Company is of the view that Y2K non-compliance of any of its suppliers is unlikely to have a material adverse impact on its operations as there are no exclusive arrangements between the Company and any one supplier; and a diversity of alternative suppliers (in fact, an over supply) from whom it can source its raw materials and equipment without much difficulty.

The Company has not taken out insurance policies specifically against potential losses caused by the Y2K problem. It is also aware that such type of insurance cover for the coal mining industry is uncommon in the PRC.

The Company has not developed any contingency plans to deal with potential problems which may arise if its or its suppliers' computer system fails to become Y2K Compliant.

Status of Plans

On or around 31st July, 1998, the Company conducted investigations and registration of all of its computer systems, facilities with automatic date-related controls, and all its communication equipment. It has also replaced, modified or upgraded, as appropriate, all of its software, hardware or computer parts that were not Y2K Compliant.

As at 31st March, 1999, the Company believes that it has completed its targeted plans in addressing the Y2K problem. The Company estimates that all of its computer systems, including its hardware and software will become Y2K Compliant by 30th June, 1999 because that is the estimated date by which the outstanding modification work on its financial system is scheduled to be completed.

YEAR 2000 ISSUE (Continued)

Costs to Address the Company's Y2K Issues

The Parent Company will undertake all work related to and bear all costs incurred by the Company in addressing its Y2K issues. The Company estimates that total costs will be RMB6 million, which will be reimbursed to its Parent Company between 1st January, 2000 and 30th June, 2000. Such cost will be accounted for in the Company's future financial statements as a normal operating expenditure.

Risks of the Company's Y2K Issues

The Company is of the view that its technical and commercial exposure to loss or liability as a result of the Y2K problem is minimal for the reasons stated above.

INCOME TAX RATE UNIFICATION AND ABOLITION OF PREFERENTIAL REBATE FROM LOCAL GOVERNMENT

The Company has always been levied an income tax rate of 33% since it was established. Therefore, the unification of income tax rate and the abolition of preferential rebate in the PRC have no impact on the Company.

OFF BALANCE SHEET FINANCING

The Company did not use any off balance sheet financing during the year ended 31st December, 1998.

RECENT ECONOMIC DEVELOPMENT

The Asian economic crisis has not had a material adverse effect on the Company's operations and financial position.

While the Renminbi has still been under devaluation pressure owing to the Asian economic crisis, the PRC government has publicly indicated that the Renminbi will not be devalued in the near-term. However, should the Renminbi be devalued, the Company does not believe that such a devaluation would have a material adverse effect on the Company's operations and financial position. This is because (i) majority of the Company's net sales is derived from selling coal products to the PRC domestic market where such devaluation is not expected to have any material impact on the Company's domestic net sales; (ii) the remainder of the Company's net sales is derived from selling coal products to the export market, where its product prices are based on US dollars; (iii) the Company does not have any foreign currency-dominated debt; and (iv) the Company does not expect to incur a significant amount of capital expenditure in the near future which would require the Company to make foreign payments.

PRACTICE NOTE 19

The Company did not advance any money to any entity which exceeded 25% of the Company's net assets, did not provide any financial assistance and guarantees to affiliated companies which exceeded 25% of the Company's net assets, did not have any pledging of shares by the controlling shareholder to secure debts, guarantees or other support of obligations of the Company and, did not make any loan agreements imposing specific performance obligations on the controlling shareholder.

EMPLOYEES

As at 31st Decmeber, 1998, the Company had 21,435 employees, of whom 18,858 were directly involved in coal production, 1,534 were administrative personnel, 707 were technicians, 184 were sales personnel, and 152 were finance and accounting staff.

PROGRESS ON JINING III COAL MINE

The Company has an exclusive option to acquire Jining III coal mine from the Parent Company. Jining III coal mine has a designed annual raw coal production capacity of 5 million tonnes, the construction of which has been progressing on schedule. It is expected that the commercial production of Jining III will commence at the end of 1999. The Company will continue to monitor the construction and production of Jining III coal mine but does not expect to exercise its option to purchase Jining III coal mine in 1999.

AUDITORS

Deloitte Touche Tohmatsu (certified public accountants in Hong Kong) and Deloitte Touche Tohmatsu Shanghai CPA (registered accountants in the PRC), were the Company's international and domestic auditors, respectively, in 1998. A resolution to reappoint Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Shanghai CPA as the Company's international and domestic auditors, respectively, for 1999 will be proposed at the AGM of the Company which will be held on 3rd June, 1999.

On behalf of the Board
Zhao Jingche
Chairman

Zoucheng, PRC, 12th April, 1999

Supervisory Committee's Report

To Shareholders:

Since the establishment of the Supervisory Committee, each member has been performing his duty in accordance with the Company's Articles of Association and relevant PRC regulations with a view of protecting the interests of shareholders and the Company. We have given our opinions regarding the operations, technological reform and development of the Company during board meetings. We have also reviewed the operating principles of the management and considered whether the decisions made by the management were in compliance with relevant PRC laws and whether they were appropriate for the development of the Company and were in the interests of shareholders.

The Supervisory Committee has reviewed the transaction on 1st January, 1998, whereby the Company acquired Jining II coal mine from the Parent Company at a reduced consideration of RMB1,956 million (approximately US$236 million or HK$1,831 million), reflecting the net asset value of Jining II coal mine as at 1st January, 1998. The Company has also paid in full the reduced consideration with the proceeds from the Combined Offering. The Supervisory Committee considers the Company's connected transaction is fair and reasonable, so far as the shareholders of the Company are concerned, and that the usage of the proceeds from the Combined Offering is in accordance with the prospectus issued by the Company on 24th March, 1998.

The Supervising Committee has reviewed the related party transactions between the Company and the Parent Company and its affiliates during the period under review and considers these transactions are fair and reasonable, so far as the shareholders of the Company are concerned.

The Supervisory Committee has reviewed the Company's accounts, books, reports and other accounting information from time to time. In our opinion, the financial statements contained herein have been properly prepared while the accounting principles and the method of financial management adopted are in compliance with relevant PRC rules and regulations.

We have carefully examined the financial statements, the Directors' Report, auditor's report and the proposal for appropriation of profit to be presented before the forthcoming AGM by the Board of Directors. In our opinion, the chairman of the Board, Directors, General Managers and senior management of the Company have performed their duties in accordance with the Company's Articles of Association and the relevant PRC regulations, and have not engaged in any malpractices which would be prejudicial to the interests of shareholders and employees of the Company.

The Supervisory Committee agree with the explanations provided by the Board in relation to the differences between the profit forecasts and the actual results, which also reflect the actual situations the Company is facing.

Meng Xianchang
Chairman of the Supervisory Committee

Zoucheng, PRC, 12th April, 1999

Report of the Auditors

Deloitte Touche Tohmatsu

德勤・關黃陳方
會計師行

Certified Public Accountants
26th Floor, Wing On Centre,
111 Connaught Road Central,
Hong Kong

TO THE SHAREHOLDERS OF YANZHOU COAL MINING COMPANY LIMITED

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

We have audited the financial statements on pages 38 to 69 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 31st December, 1998 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 12th April, 1999

Statement of Income

	Notes	1998 RMB'000	1997 RMB'000	1996 RMB'000
			Year ended 31st December, (restated–see note 3)	
NET SALES	5	**3,687,009**	3,298,157	3,278,749
COST OF GOODS SOLD	6	**1,961,949**	1,472,493	1,538,303
GROSS PROFIT		**1,725,060**	1,825,664	1,740,446
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	7	**540,076**	495,225	507,838
OPERATING INCOME		**1,184,984**	1,330,439	1,232,608
INTEREST EXPENSE	8	**(87,603)**	(166,726)	(159,411)
OTHER INCOME	9	**76,261**	44,731	33,342
INCOME BEFORE INCOME TAXES	10	**1,173,642**	1,208,444	1,106,539
INCOME TAXES	12	**356,282**	374,303	341,983
NET INCOME		**817,360**	834,141	764,556
EARNINGS PER SHARE (proforma for years ended 31st December, 1997 and 1996)	14	**RMB0.35**	RMB0.50	RMB0.46
EARNINGS PER PROFORMA ADS	14	**RMB17.35**	RMB24.98	RMB22.89
STATEMENT OF RETAINED EARNINGS				
RETAINED EARNINGS/CAPITAL AND ACCUMULATED EARNINGS AT 1ST JANUARY				
AS PREVIOUSLY REPORTED		**123,793**	(138,726)	(109,526)
PRIOR YEAR ADJUSTMENT	3	**82,830**	93,458	68,201
AS RESTATED	23	**206,623**	(45,268)	(41,325)
NET INCOME FOR THE YEAR		**817,360**	834,141	764,556
APPROPRIATIONS TO RESERVES	23	**(207,499)**	(89,455)	(66,962)
DIVIDEND	13	**(223,600)**	(69,000)	–
TRANSFER TO PARENT COMPANY	23	**–**	(178,005)	(701,537)
TRANSFER UPON THE ESTABLISHMENT OF THE COMPANY	23	**–**	(245,790)	–
RETAINED EARNINGS/CAPITAL AND ACCUMULATED EARNINGS AT 31ST DECEMBER	23	**592,884**	206,623	(45,268)

Balance Sheet

	Notes	At 31st December, 1998 RMB'000	1997 RMB'000 (restated– see note 3)
ASSETS			
CURRENT ASSETS			
Bank balances and cash		**290,666**	211,797
Bills and accounts receivable	*15*	**606,756**	181,195
Inventories	*16*	**297,595**	366,926
Prepayments and other current assets	*17*	**259,265**	110,855
Amounts due from Parent Company and its subsidiary companies		**–**	76,616
TOTAL CURRENT ASSETS		**1,454,282**	947,389
PROPERTY, PLANT AND EQUIPMENT, NET	*18*	**5,560,774**	3,746,535
GOODWILL	*19*	**14,768**	–
DEFERRED TAX ASSET	*20*	**98,124**	82,830
TOTAL ASSETS		**7,127,948**	4,776,754
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Accounts payable		**492,279**	309,032
Other payable and accrued expenses	*21*	**501,339**	370,937
Amounts due to Parent Company and its subsidiary companies		**46,159**	–
Proposed dividend		**148,200**	69,000
Taxes payable		**297,426**	72,613
TOTAL CURRENT LIABILITIES		**1,485,403**	821,582
BORROWINGS - DUE AFTER ONE YEAR	*22*	**115,000**	1,315,000
TOTAL LIABILITIES		**1,600,403**	2,136,582
COMMITMENTS	*26*		
SHAREHOLDERS' EQUITY	*23*	**5,527,545**	2,640,172
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**7,127,948**	4,776,754

The financial statements on pages 38 to 69 were approved by the Board of Directors on 12th April, 1999 and are signed on its behalf by:

Zhao Jingche
Chairman

Yang Deyu
Director

Statement of Cash Flows

	Note	1998	1997	1996
		Year ended 31st December,		
		RMB'000	*RMB'000*	*RMB'000*
			(restated–see note 3)	
CASH FLOW FROM OPERATING ACTIVITIES				
Net income		**817,360**	834,141	764,556
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation		**540,827**	308,405	262,248
Amortization of goodwill		**777**	–	–
Utilization of deferred asset		**–**	–	9,756
(Recognition) utilization of deferred tax assets		**(15,294)**	10,628	(25,257)
Loss (gain) on disposal of property, plant and equipment		**1,400**	(5,033)	–
(Increase) decrease in assets:				
Bills and accounts receivable		**(391,426)**	47,386	(47,018)
Inventories		**69,168**	(48,766)	(47,389)
Prepayments and other current assets		**(146,186)**	(28,822)	37,253
Amounts due from Parent Company and its subsidiary companies		**76,616**	(112,664)	(20,506)
Increase (decrease) in liabilities:				
Accounts payable		**164,180**	31,781	76,082
Taxes payable		**224,813**	72,613	–
Other payable and accrued expenses		**117,002**	52,030	(140,007)
Amounts due to Parent Company and its subsidiary companies		**46,159**	–	–
Net cash provided by operating activities		**1,505,396**	1,161,699	869,718
CASH FLOW FROM INVESTING ACTIVITIES				
Acquisition of Jining II	*25*	**(1,952,315)**	–	–
Purchase of property, plant and equipment		**(424,041)**	(461,190)	(190,580)
Proceeds on disposal of property, plant and equipment		**616**	5,852	–
CASH FLOWS FROM INVESTING ACTIVITIES		**(2,375,740)**	(455,338)	(190,580)
CASH FLOW FROM FINANCING ACTIVITIES				
Issue of share capital		**2,293,613**	–	–
Repayment of borrowings		**(1,200,000)**	(485,000)	–
Dividend paid		**(144,400)**	–	–
Transfer to Parent Company		**–**	(62,890)	(701,537)
CASH FLOWS FROM FINANCING ACTIVITIES		**949,213**	(547,890)	(701,537)

Statement of Cash Flows

	Year ended 31st December,		
	1998	1997	1996
	RMB'000	*RMB'000*	*RMB'000*
		(restated–see note 3)	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**78,869**	158,471	(22,399)
CASH AND CASH EQUIVALENTS, BEGINNING	**211,797**	53,326	75,725
CASH AND CASH EQUIVALENTS, ENDING	**290,666**	211,797	53,326
Additional cash flow information:			
Cash paid during the year for			
Interest	**87,603**	166,726	159,411
Income taxes	**146,763**	291,062	367,240

1. RESTRUCTURING

The Company was established as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 25th September, 1997 (the "Restructuring") to take over and operate the coal mining business of Xinglongzhuang Coal Mine, Baodian Coal Mine, Nantun Coal Mine and Dongtan Coal Mine (hereinafter collectively referred to as the "Four Original Mines"). Prior to the formation of the Company, the Four Original Mines were divisions of the Company's ultimate holding company, Yanzhou Mining (Group) Corporation Limited (the "Parent Company"), which is a state-owned enterprise. The Parent Company was operated under the supervision of the former Ministry of Coal Industry ("MOCI") which was dissolved in March 1998. MOCI has been replaced by the National Coal Industry Bureau ("NCIB") under the State Economic and Trade Committee which would no longer directly manage the Parent Company.

Pursuant to the Restructuring, the assets and liabilities of the Four Original Mines were injected into the Company by the Parent Company in consideration of 1,670,000,000 Domestic Shares of RMB1 each. The Parent Company retained certain assets and liabilities and businesses not assumed by the Company.

On 30th March, 1998, the Company alloted 820,000,000 shares, represented by 82,000,000 H shares ("H Shares") and 14,760,000 American Depositary Shares ("ADS", one ADS represents 50 H Shares) in a combined offering and the H Shares and ADS were listed on The Stock Exchange of Hong Kong Limited ("SEHK") and the New York Stock Exchange ("NYSE") since 1st April, 1998 and 31st March, 1998, respectively. On 16th April, 1998, the Company allotted an additional 30,000,000 H Shares, represented by 600,000 ADSs, to cover over-allotments in the combined offering.

The Company applied approximately RMB1,956 million out of the net proceeds of approximately RMB2,037 million received from the combined offering (including proceeds from the over-allotment option) to settle the purchase price of a fifth mine, Jining II, which the Company acquired from the Parent Company as of 1st January, 1998.

On 12th June, 1998, the Company allotted 80,000,000 A shares ("A Shares") to the public and its employees in the PRC and the A Shares were listed on the Shanghai Securities Exchange ("SSE") since 1st July, 1998. The total net proceeds from the A Shares offering were approximately RMB257 million. The Company applied approximately RMB200 million to repay certain of its bank borrowings and approximately RMB69 million to supplement its working capital requirements.

2. BASIS OF PRESENTATION

The Restructuring has been accounted for as a reorganization of business under common control in a manner similar to a pooling of interests and the Company is regarded as a continuing entity. Accordingly, the balance sheet has been prepared to present all of the assets and liabilities of the Four Original Mines as if the Restructuring had been completed as of the beginning of the periods presented. The statements of income and cash flows for the three years ended 31st December, 1996, 1997 and 1998 include the results of operations and cash flows of the Four Original Mines as if the Company had been in existence throughout the relevant periods. Since Jining II was acquired by the Company for cash consideration, Jining II has been accounted for by the Company using the acquisition method from 1st January, 1998. The directors are of the opinion that the financial statements which have been prepared on this basis fairly present the results of operations and the state of affairs of the Company as a whole.

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 32.

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

Differences between IAS and accounting principles generally accepted in the United States of America ("US GAAP") are stated in note 33.

3. CHANGES IN ACCOUNTING POLICY

International Accounting Standard No. 12 "Income Taxes" ("IAS 12") issued by the International Accounting Standard Committee was revised with effect from 1st January, 1998. In the current year, the Company has adopted the revised IAS 12 which changed the criteria for measuring the provision for income taxes and recording deferred tax assets and liabilities on the balance sheet. Under the revised IAS 12, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect of the adoption of the revised IAS 12, which has been applied retrospectively, on the profit for the years ended 31st December, 1998, 1997 and 1996 and retained earnings at 31st December, 1997, 1996 and 1995 are as follows:

	Year ended 31st December,		
	1998	1997	1996
	RMB'000	*RMB'000*	*RMB'000*
Profit for the year increased (decreased)	**15,294**	(10,628)	25,257

	At 31st December,		
	1997	1996	1995
	RMB'000	*RMB'000*	*RMB'000*
Retained earnings increased	82,830	93,458	68,201

The effect of the adoption of revised IAS 12 on earnings per share is set out in note 14.

4. SIGNIFICANT ACCOUNTING POLICIES

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

Revenue recognition

Sales of goods are recognised 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 with an original maturity of three months or less.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are 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 the property, plant and equipment at cost. A valuation of the property, plant and equipment was carried out as at 31st July, 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 the 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 their 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 put into commercial operation.

The Company recognizes an impairment loss on property, plant and equipment when evidence, such as the sum of expected future cash flows (undiscounted and without interest charges), 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 fair value of the assets.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 capitalised 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 year or 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 year 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Relocation cost and land subsidence, restoration, rehabilitation and environmental costs (Continued)

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 that 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 borrowing costs are recognised 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

	Year ended 31st December,		
	1998	1997	1996
	RMB'000	*RMB'000*	*RMB'000*
Domestic sales, gross	**2,308,062**	2,054,314	2,372,279
Less: Transportation costs	**63,238**	–	–
Domestic sales, net	**2,244,824**	2,054,314	2,372,279
Export sales, gross	**1,972,405**	1,630,026	1,182,143
Less: Transportation costs	**530,220**	386,183	275,673
Export sales, net	**1,442,185**	1,243,843	906,470
Net sales	**3,687,009**	3,298,157	3,278,749

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 ("tonne") of imputed quantity of raw coal sold and is paid to the local tax bureau. The resource tax for each of the three years ended 31st December, 1996, 1997 and 1998 amounted to RMB20,271,000, RMB20,248,000 and RMB24,085,000, respectively.

The Company exports its coal through China National Coal Industry Import and Export Corporation ("National Coal Corporation"), a company under NCIB. The final customer destination of the Company's export sales is determined by National Coal Corporation.

6. COST OF GOODS SOLD

	Year ended 31st December,		
	1998	1997	1996
	RMB'000	*RMB'000*	*RMB'000*
Materials	**392,643**	259,078	298,288
Wages and employee benefits	**340,827**	292,307	311,114
Electricity	**185,670**	144,343	137,691
Depreciation	**517,893**	285,921	246,425
Contribution to coal industry fund (note i)	**36,633**	33,383	33,089
Relocation cost and land subsidence, restoration, rehabilitation and environmental costs	**151,131**	113,199	112,165
Repairs and maintenance	**142,116**	124,255	236,819
Non-rebated value added taxes (note ii)	**110,551**	163,755	120,130
Annual fee for mining rights (note iii)	**12,980**	3,245	-
Others	**71,505**	53,007	42,582
	1,961,949	1,472,493	1,538,303

6. COST OF GOODS SOLD (Continued)

(i) Pursuant to the relevant regulation, all mines under the then control of MOCI were required to contribute to an industry fund operated by MOCI. The usage of this fund was at the discretion of MOCI. The Company is required to continue the contribution after the replacement of MOCI by NCIB. The Company's contribution to this fund was at RMB1.80 per tonne of raw coal mined up to the first half of the year 1998. The contribution to NCIB of RMB1.00 per tonne of raw coal mined has been cancelled since 1st July, 1998. The Company is required to make RMB0.80 per tonne of raw coal mined to Shandong Coal Mining Industry Bureau.

(ii) 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. In 1996, the Company had to pay VAT of 13% on export sales but only received a refund of 3% for coal exported. Starting from 1st January, 1997, the Company was exempted from paying VAT on export sales. However, an amount equal to 10% of export sales value is excluded from the deduction for input VAT tax credit on purchases. The Ministry of Finance and the PRC State Taxation Bureau revised the VAT refund rates from 3% of the sales price to 9% effective 1st June, 1998.

The non-deductible input VAT tax credit and the differences between the VAT on export sales paid and refunded has been charged to as cost of goods sold during the relevant periods.

(iii) 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 25th September, 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

	Year ended 31st December,		
	1998	1997	1996
	RMB'000	*RMB'000*	*RMB'000*
Retirement benefits scheme contributions (note 27)	**157,184**	138,704	147,924
Wages and employee benefits	**70,992**	56,335	61,381
Depreciation	**22,934**	22,484	15,823
Amortization of goodwill	**777**	–	–
Distribution charges	**48,461**	57,760	64,680
Resource compensation fees (note i)	**23,893**	28,275	30,467
Farm land encroachment tax (note ii)	**4,103**	12,734	8,782
Repairs and maintenance	**4,981**	9,798	9,695
Research and development	**22,110**	25,009	25,625
Loss on disposal of property, plant and equipment	**1,400**	–	–
Others	**183,241**	144,126	143,461
	540,076	495,225	507,838

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Continued)

(i) 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.

(ii) When farm land subsides due to underground mining activities, the Company is considered to have encroached upon farm land and is required to pay a farm land encroachment tax at the rate of RMB8.00 per square meter.

8. INTEREST EXPENSE

The interest expense represents interest on borrowings not wholly repayable within five years. No interest was capitalized during the relevant periods.

Interest expense of the Company prior to its establishment represents the Company's proportionate share of the Parent Company's total interest expense incurred.

9. OTHER INCOME

	Year ended 31st December,		
	1998	1997	1996
	RMB'000	*RMB'000*	*RMB'000*
Gain on sales of auxiliary materials	**36,229**	24,296	15,410
Gain on disposal of property, plant and equipment	**–**	5,033	–
Interest income	**40,032**	15,402	17,932
	76,261	44,731	33,342

10. INCOME BEFORE INCOME TAXES

	Year ended 31st December,		
	1998	1997	1996
	RMB'000	*RMB'000*	*RMB'000*
Income before income taxes has been arrived at after charging:			
Auditors' remuneration	3,371	1,000	–
Amortization of goodwill	777	–	–
Depreciation	540,827	308,405	262,248
Provision for doubtful debts	6,415	8,611	247
Repairs and maintenance	147,097	134,053	246,514
Research and development	22,110	25,009	25,625
Retirement benefits scheme contributions	157,184	138,704	147,924
and after crediting:			
Interest income	40,032	15,402	17,932

11. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' and supervisors' emoluments are as follows:

	Year ended 31st December,		
	1998	1997	1996
	RMB'000	*RMB'000*	*RMB'000*
Directors			
Fees (independent non-executive directors)	**139**	–	–
Salaries, allowance and other benefits in kind	**728**	715	404
Retirement benefits scheme contributions	**200**	322	182
Discretionary bonuses	**–**	–	–
	1,067	1,037	586
Supervisors			
Fees	**–**	–	–
Salaries, allowance and other benefits in kind	**189**	195	111
Retirement benefits scheme contributions	**51**	88	50
Discretionary bonuses	**–**	–	–
	240	283	161

Emoluments of each directors and supervisors are all within the band of HK$ Nil to HK$1,000,000 for the years ended 31st December, 1996, 1997 and 1998.

11. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

The Company has not paid any remuneration to the independent non-executive directors for the years ended 31st December, 1997 and 1996.

Details of the five highest paid individuals of the Company are as follows:

	Year ended 31st December,		
	1998	1997	1996
	Number of individuals	Number of individuals	Number of individuals
Five highest paid individuals			
Directors	**5**	4	4
Supervisors	**–**	–	1
Employees	**–**	1	–
	5	5	5

The remuneration of the remaining highest paid individual for the year ended 31st December, 1997 who was not a director or a supervisor was as follows:

	RMB'000
Salaries and other benefits	67
Retirement benefits scheme contributions	30
Discretionary bonuses	–
	97

12. INCOME TAXES

	Year ended 31st December,		
	1998	1997	1996
	RMB'000	*RMB'000*	*RMB'000*
		(restated—see note 3)	
Income taxes	**371,576**	363,675	367,240
Deferred tax (credit) charge (note 20)	**(15,294)**	10,628	(25,257)
	356,282	374,303	341,983

12. INCOME TAXES (Continued)

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:

	Year ended 31st December,		
	1998	1997	1996
	RMB'000	*RMB'000*	*RMB'000*
		(restated—see note 3)	
Standard income tax rate in the PRC	**33%**	33%	33%
Standard income tax rate applied to income before income taxes	**387,302**	398,787	365,158
Adjustments under IAS not deductible or subject to tax:			
Adjustment of future development fund (see note 23), which is charged to income before taxes under PRC accounting regulations, to owner's equity	**(31,160)**	(22,223)	(22,097)
Additional provision for doubtful debts	**–**	2,841	–
Amortization of the revaluation surplus of low-priced consumables recognized under PRC accounting regulations	**–**	(4,303)	–
Amortization of goodwill	**256**	–	–
Others	**(116)**	(799)	(1,078)
Income taxes	**356,282**	374,303	341,983

The Company has applied for the approval from the respective tax authorities for the filing of consolidated income taxes and VAT by the Parent Company.

13. DIVIDEND

Prior to the establishment of the Company, the Four Original Mines of the Company were operated as divisions of the Parent Company. Accordingly, no dividend was considered paid during the period prior to the establishment of the Company.

Pursuant to a board meeting held on 22nd March, 1998, a special interim dividend of RMB69,000,000 in respect of the period from 1st October, 1997 to 31st December, 1997 was declared and paid to the Parent Company.

Pursuant to a board meeting held on 12th October, 1998, an interim dividend of RMB75,400,000, or RMB0.029 per share was declared and paid to the shareholders of the Company.

13. DIVIDEND (Continued)

The board of directors proposes to declare a final dividend of approximately RMB148,200,000, or RMB0.057 per share. The declaration and payment of the final dividend need to be approved by the shareholders of the Company by way of an ordinary resolution in accordance with the requirements of the Company's Articles of Association. An extraordinary general meeting will be held for the purposes of considering and, if thought fit, approving such ordinary resolution.

14. EARNINGS PER SHARE AND PROFORMA ADS

The calculation of the earnings per share for the year ended 31st December, 1998 is based on the net income for the year of RMB817,360,000 and on the weighted average of 2,355,616,000 shares in issue during the year.

Earnings per proforma share for the years ended 31st December, 1996 and 1997 have been calculated based on the net income for the relevant periods and assuming that the number of 1,670,000,000 shares issued in connection with the Restructuring were outstanding during the relevant periods.

The earnings per proforma 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 issued during the relevant periods.

The adjustments to the earnings per proforma share and earnings per proforma ADS arising from the changes in accounting policy as detailed in note 3 above are set out below:

	At 31st December,	
	1997	1996
	RMB	*RMB*
Reconciliation of earnings per proforma share:		
As previously reported	0.51	0.44
Adjustment arising from the adoption of IAS 12	(0.01)	0.02
Adjusted	0.50	0.46
Reconciliation of earnings per proforma ADS:		
As previously reported	25.29	22.13
Adjustment arising from the adoption of IAS 12	(0.31)	0.76
Adjusted	24.98	22.89

15. BILLS AND ACCOUNTS RECEIVABLE

	At 31st December, 1998 RMB'000	1997 RMB'000
Total bills receivable	**160,058**	142,493
Total accounts receivable	**478,261**	63,850
Less: Provision for doubtful debts	**(31,563)**	(25,148)
Total bills and accounts receivable, net	**606,756**	181,195

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 RMB247,000, RMB8,611,000 and RMB6,415,000 for the three years ended 31st December, 1996, 1997 and 1998, respectively. In 1996, the Company wrote off doubtful debts totalling of RMB24,000.

16. INVENTORIES

	At 31st December, 1998 RMB'000	1997 RMB'000
Auxiliary materials, spare parts and small tools	**217,858**	202,590
Coal products	**79,737**	164,336
	297,595	366,926

17. PREPAYMENTS AND OTHER CURRENT ASSETS

	At 31st December, 1998 RMB'000	1997 RMB'000
Advance to suppliers	**11,266**	18,212
Prepaid freight charges	**86,528**	47,418
VAT refundable	**71,267**	–
Others	**90,204**	45,225
	259,265	110,855

18. PROPERTY, PLANT AND EQUIPMENT, NET

	Land use rights RMB'000	Buildings RMB'000	Mining structure RMB'000	Plant, machinery and equipment RMB'000	Trans-portation equipment RMB'000	Con-struction in progress RMB'000	Total RMB'000
COST/VALUATION							
At 1st January, 1998	283,333	1,044,899	1,836,703	2,746,450	46,477	146,495	6,104,357
Additions	26,494	1,215	–	1,001	–	395,331	424,041
Acquisition of Jining II	–	114,582	614,144	513,162	14,898	793,375	2,050,161
Transfers	–	221,022	47,439	561,371	8,469	(838,301)	–
Disposals	–	(98)	–	(5,875)	(1,733)	–	(7,706)
At 31st December, 1998	309,827	1,381,620	2,498,286	3,816,109	68,111	496,900	8,570,853
Comprising:							
At cost	26,494	71,875	47,621	473,461	11,777	106,129	737,357
At valuation 31st July, 1997	283,333	1,309,745	2,450,665	3,342,648	56,334	390,771	7,833,496
Total	309,827	1,381,620	2,498,286	3,816,109	68,111	496,900	8,570,853
DEPRECIATION							
At 1st January, 1998	1,142	302,231	821,771	1,211,827	20,851	–	2,357,822
Provided for the year	5,691	63,216	51,714	367,806	31,213	–	519,640
Acquisition of Jining II	–	12,867	49,185	71,274	4,981	–	138,307
Eliminated on disposals	–	(89)	–	(4,165)	(1,436)	–	(5,690)
At 31st December,1998	6,833	378,225	922,670	1,646,742	55,609	–	3,010,079
NET BOOK VALUES							
At 31st December, 1998	302,994	1,003,395	1,575,616	2,169,367	12,502	496,900	5,560,774
At 31st December, 1997	282,191	742,668	1,014,932	1,534,623	25,626	146,495	3,746,535

As part of the Restructuring to establish the Company referred to in note 1, the property, plant and equipment of the Four Original Mines and Jining II were revalued by a firm of independent valuers, Sallmanns (Far East) Limited as at 31st July, 1997. The revaluation surplus on the Four Original Mines, amounting to RMB1,694,584,000, has been reflected in these financial statements as at 31st December, 1997 and 1998 (See also note 23). The revaluation surplus of RMB88,611,000 on Jining II has been incorporated into the fair value of net assets acquired by the Company as of 1st January, 1998. Had the revalued assets been carried at cost less accumulated depreciation and amortization, their carrying value would have been stated at approximately RMB3,902,871,000 (1997: RMB1,697,981,000).

The land use rights have a term of fifty years. Prior to the Restructuring, the terms of the land use rights were unspecified.

19. GOODWILL

	RMB'000
COST	
Addition on acquisition of Jining II during the year and balance at 31st December, 1998	15,545
AMORTIZATION	
Provided for the year and balance at 31st December, 1998	777
NET BOOK VALUE	
At 31st December, 1998	14,768

20. DEFERRED TAXATION

	At 31st December, 1998	1997
	RMB'000	RMB'000
Balance at 1st January	**82,830**	93,458
Credit (charge) for the year	**15,294**	(10,628)
Balance at 31st December	**98,124**	82,830

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 year or at the balance sheet date.

21. OTHER PAYABLE AND ACCRUED EXPENSES

	At 31st December, 1998	1997
	RMB'000	RMB'000
Customers deposits	**72,003**	38,851
Accrual for land subsidence, restoration, rehabilitation and environmental costs	**267,688**	251,000
Accrued wages	**19,039**	19,187
VAT payable	**61,809**	–
Others	**80,800**	61,899
	501,339	370,937

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.

22. BORROWINGS

	At 31st December,	
	1998	1997
	RMB'000	*RMB'000*
Long-term bank loan is repayable as follows:		
Between two to five years	**–**	505,000
Over five years	**115,000**	810,000
	115,000	1,315,000

The long-term bank loan is unsecured, carries interest at 12.42% per annum and is guaranteed by the Parent Company.

The Company may repay all or a portion of the bank loan ahead of the scheduled repayment dates without penalties. The Company repaid the bank loan on 21st January, 1999.

23. SHAREHOLDERS' EQUITY

	Share capital RMB'000	Share premium RMB'000	Capital and accumulated earnings RMB'000 (restated–see note 3)	Future development fund RMB'000	Revaluation reserve HK$'000	Statutory common reserve fund RMB'000	Statutory common welfare fund RMB'000	Discre-tionary surplus reserve RMB'000	Retained earnings RMB'000 (restated–see note 3)	Total RMB'000
Balance at 31st December, 1995	–	–	(41,325)	207,789	128,969	–	–	–	–	295,455
Net income	–	–	764,556	–	–	–	–	–	–	764,556
Transfer to future development fund	–	–	(66,962)	66,962	–	–	–	–	–	-
Transfer to Parent Company	–	–	(701,537)	–	–	–	–	–	–	(701,537)
Balance at 31st December, 1996	–	–	(45,268)	274,751	128,969	–	–	–	–	358,452
Net income from 1st January, 1997 to 25th September, 1997	–	–	612,537	–	–	–	–	–	–	612,537
Transfer to future development fund	–	–	(50,016)	50,016	–	–	–	–	–	–
Transfer to Parent Company	–	–	(178,005)	–	–	–	–	–	–	(178,005)
Revaluation surplus	–	–	–	–	1,694,584	–	–	–	–	1,694,584
Transfer upon establishment of the Company	1,670,000	724,110	(339,248)	(324,767)	(1,823,553)	–	–	–	93,458	–
After the establishment of the Company	1,670,000	724,110	–	–	–	–	–	–	93,458	2,487,568
Net income from 25th September, 1997 to 31st December, 1997	–	–	–	–	–	–	–	–	221,604	221,604
Appropriations to reserves	–	–	–	17,325	–	14,743	7,371	–	(39,439)	–
Dividend	–	–	–	–	–	–	–	–	(69,000)	(69,000)
At 31st December, 1997	1,670,000	724,110	–	17,325	–	14,743	7,371	–	206,623	2,640,172
Shares issued, net of expenses	930,000	1,363,613	–	–	–	–	–	–	–	2,293,613
Net income	–	–	–	–	–	–	–	–	817,360	817,360
Appropriations to reserves	–	–	–	94,423	–	75,384	37,692	–	(207,499)	–
Dividend	–	–	–	–	–	–	–	–	(223,600)	(223,600)
Balance at 31st December, 1998	2,600,000	2,087,723	–	111,748	–	90,127	45,063	–	592,884	5,527,545

The Company's distributable reserve is the retained earnings computed under PRC GAAP which amounted to RMB473,476,000 as at 31st December, 1998 (1997: RMB56,312,000).

23. SHAREHOLDERS' EQUITY (Continued)

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

		Number of shares	
Class of shares	**Type of shares**	**1998**	1997
Domestic invested shares	— State legal person shares (held by the Parent Company)	**1,670,000,000**	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**	1,670,000,000

As the Four Original Mines of the Company was operated as divisions of the Parent Company prior to the establishment of the Company, the transfers to Parent Company did not necessarily represent a distribution of profit and no dividend was considered paid during the relevant periods.

Pursuant to regulations in the PRC, the Company is required to transfer an annual amount to a future development fund at a rate of RMB4.20 per tonne of raw coal mined. The rate of transfer has been revised to RMB5.20 since 1st July, 1998. The fund can only be used for the future development of the coal mining business and is not available for distribution to shareholders.

After the establishment of the Company, 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 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 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.

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.

24. 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:

	Year ended 31st December,		
	1998	1997	1996
	RMB'000	*RMB'000*	*RMB'000*
Income			
Sales of coal	**69,980**	63,530	80,950
Sales of auxiliary materials and spare parts	**25,590**	13,920	6,880
Utilities and facilities	**4,670**	4,730	4,130
Expenditure			
Interest	**–**	119,561	159,411
Utilities and facilities	**5,380**	560	520
Annual fee for mining rights	**12,980**	3,245	–
Purchases of supply materials	**114,030**	58,030	38,870
Railway transportation services for export sales	**173,180**	86,640	49,010
Repair and maintenance services	**81,700**	80,790	135,720
Social welfare and support services	**117,810**	101,670	94,109
Technical support and training	**15,130**	15,130	14,010
Road transportation services	**18,250**	14,650	12,010

Certain expenditure for social welfare and support services (excluding medical and children care expenses) of RMB51,239,000, RMB58,630,000 and RMB54,950,000 for the three years ended 31st December, 1996, 1997 and 1998, respectively, and for technical support and training of RMB14,010,000, RMB15,130,000 and RMB15,130,000 for the three years ended 31st December, 1996, 1997 and 1998, respectively, have been apportioned between the Parent Company and the Company on the basis of the number of employees or surface area as the case may be. The Directors of the Company consider that the basis of allocation is fair and reasonable.

Interest expense of RMB159,411,000 and RMB119,561,000 for the two years ended 31st December, 1996 and 1997, respectively, have been apportioned between the Parent Company and the Company on the basis of the Parent Company's borrowings and the Company's borrowing from the Parent Company. The Directors of the Company consider that the basis of allocation is fair and reasonable.

No interest expense from the Parent Company for the year ended 31st December, 1998 has been incurred as the Company's borrowing from the Parent Company has been fully repaid in 1997.

24. RELATED PARTY TRANSACTIONS (Continued)

In addition to the above, the Company participates in a multi-employer plan of the Parent Company in respect of retirement benefits (see note 6 and 27).

In the opinion of the directors of the Company, the above transactions have been entered into in accordance with the terms of the agreement governing these transactions or, if there is no such agreement, on terms being no less favourable than those terms available to/from independent third parties.

25. ANALYSIS OF THE NET OUTFLOW OF CASH AND CASH EQUIVALENTS IN RESPECT OF THE ACQUISITION OF JINING II

	RMB'000
Cash and cash equivalents	3,552
Bills and accounts receivable	34,135
Inventories	21,024
Prepayments and other current assets	2,224
Property, plant and equipment, net	1,911,854
Accounts payable	(19,067)
Other payables and accrued expenses	(13,400)
Total net assets acquired	1,940,322
Goodwill	15,545
Cash consideration	1,955,867
Satisfied by:	
Cash consideration	1,955,867
Bank balances and cash acquired	3,552
Net outflow of cash and cash equivalents in respective of the acquisition of Jining II	1,952,315

26. CAPITAL COMMITMENTS

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

	1998	1997
	RMB'000	*RMB'000*
Contracted for but not provided in the financial statements	**14,966**	30,000
Authorised but not contracted for	**320,670**	1,644,000
	335,636	1,674,000

27. 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 three years ended 31st December, 1996, 1997 and 1998, 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 31st December, 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 year 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.

28. 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 on a pro-rata basis based on head count. Such expenses, amounting to RMB19,660,000, RMB24,200,000 and RMB29,700,000 for the three years ended 31st December, 1996, 1997 and 1998, respectively, have been included as part of the social welfare and support services expenses summarized in note 24.

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. The Company estimates that over 85% of its employees own their accommodation.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of the Company's cash and cash equivalents and amounts due from the Parent Company and/or its subsidiary companies approximate their fair values because of the short maturity of these amounts. The carrying amount of the long-term bank loan at 31st December, 1998 approximates its fair value as the interest rate approximates market rate.

30. CONCENTRATION OF CREDIT RISK

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

The Company generally requires its customers to pay for its products before delivery, except for the Company's major long-term customers, with respect to which the Company extends credit generally not exceeding 90 days.

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 years ended 31st December, 1996, 1997 and 1998, net sales to the Company's five largest domestic customers accounted for approximately, 35.2%, 38.1% and 30.3% 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 23.8%, 27.6% and 22.9% of the Company's net sales for the years ended 31st December, 1996, 1997 and 1998, 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 17.0%, 19.6% and 18.9% of the Company's net sales for the years ended 31st December, 1996, 1997 and 1998, respectively.

Details of the amounts receivable from the five customers with the largest receivable balances at 31st December, 1998 and 1997 are as follows:

	Percentage of accounts receivable At 31st December,	
	1998	1997
Five largest receivable balances	**13%**	40%

31. SEGMENT INFORMATION

The Company is engaged solely in the coal mining business and operates only in the PRC. 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.

32. 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) adjustment of future development fund (see note 23), which is charged to income before taxes under PRC GAAP, to owners' equity;

(ii) additional provision for land subsidence, restoration, rehabilitation and environmental costs;

(iii) 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;

(iv) 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; and

(v) deferred tax asset recognized 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 under IAS.

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

	Net income for the year ended 31st December, 1998	Net assets as at 31st December, 1998
	RMB'000	*RMB'000*
As per financial statements prepared under IAS	**817,360**	5,527,545
Impact of IAS adjustment in respect of:		
— future development fund which is charged to income before income taxes under PRC GAAP	**(94,423)**	(161,764)
— additional provision for land subsidence, restoration, rehabilitation and environmental costs	**47,353**	297,345
— revaluation surplus on low-priced consumables recognized on the establishment of the Company under PRC GAAP	**(1,933)**	7,342
— amortization of goodwill	**777**	777
— deferred tax effect on provision for land subsidence, restoration, rehabilitation and environmental cost	**(15,294)**	(98,124)
As per financial statements prepared under PRC GAAP standards and regulations	**753,840**	5,573,121

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

33. 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 acquisition of Jining II, the calculation of earnings per share, the revaluation of property, plant and equipment and related adjustments to deferred taxation and dividend liabilities.

Under IAS, the acquisition of Jining II has been accounted for using the purchase method. The purchase method requires an acquirer to incorporate into the income statement the results of operations of the acquiree and recognize in the balance sheet the fair value of the separable assets and liabilities of the acquiree. Any goodwill arising on the acquisition from the date of acquisition can be capitalized and amortized over a period of time. Under US GAAP, adoption of the pooling of interests method is required for the acquisition of a business under common control. In applying the pooling of interests method the financial statement items of the combining enterprises for the period in which the combination occurs and for any comparative periods disclosed should be included in the financial statements of the combined enterprises as if they had been combined from the beginning of the earliest period presented. Any difference between the amount recorded as share capital plus any additional consideration in the form of cash or other assets and the amount recorded for the share capital acquired should be adjusted against equity. The effect of accounting for the acquisition of Jining II using the pooling of interest method under US GAAP on the net sales and net income for the years ended 31st December, 1997 and 1996 are as follows:

	Year ended 31st December,	
	1997	1996
	RMB'000	*RMB'000*
Net sales		
As previously reported	**3,298,157**	3,278,749
Pooling of interest adjustment	**164,354**	72,348
As restated	**3,462,511**	3,351,097
Net Income		
As previously reported	**867,021**	777,389
Pooling of interest adjustment	**(58,324)**	(47,140)
As restated	**808,697**	730,249

Under IAS, earnings per share is computed by dividing net income for the period by the weighted average number of shares in issue during the period. Under US GAAP, earnings per share is computed by dividing net income for the period by the aggregate of the weighted average outstanding shares in issue during the period adjusted for the equivalent shares which would be issued for the acquisition of Jining II. Weighted average number of shares applied in computing earnings per share under US GAAP for the year ended 31st December, 1996, 1997 and 1998 are 2,419,374,330, 2,419,374,330 and 2,542,959,582, respectively, which have been adjusted for the 749,374,330 equivalent shares deemed issued at RMB2.61 per share for the purchase consideration of Jining II of RMB1,955,867,000.

33. SUMMARY OF DIFFERENCES BETWEEN IAS AND US GAAP (Continued)

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 are 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 special interim dividend in 1997 and the proposed final dividend for 1998 was recorded as a liability at the balance sheet date although it was not declared until after the balance sheet date. Under US GAAP, dividends are recorded as a liability on the date of declaration.

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 31st December, 1998 additional accrual for land subsidence, restoration, rehabilitation and environmental costs of RMB65,000,000 is reasonably possible.

33. SUMMARY OF DIFFERENCES BETWEEN IAS AND US GAAP (Continued)

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

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

	Year ended 31st December,		
	1998	1997	1996
	RMB'000	*RMB'000*	*RMB'000*
		(restated—see note 3)	
Net income as reported under IAS	**817,360**	834,141	764,556
US GAAP adjustments:			
Loss of Jining II included in the Company using the pooling of interest method	–	(58,324)	(47,140)
Depreciation charge on revalued property, plant and equipment	**167,377**	48,578	19,153
Amortization of goodwill on acquisition of Jining II	**777**	–	–
Additional deferred tax charge (credit) due to a higher tax base resulting from the revaluation of property, plant and equipment	**(25,992)**	(15,698)	(6,320)
Net income under US GAAP	**959,522**	808,697	730,249
Earnings per share under US GAAP	**RMB0.38**	RMB0.33	RMB0.30
Earnings per proforma ADS under US GAAP	**RMB18.87**	RMB16.71	RMB15.09

33. SUMMARY OF DIFFERENCES BETWEEN IAS AND US GAAP (Continued)

	At 31st December, 1998 RMB'000	1997 RMB'000 (restated— see note 3)
Shareholders' equity as reported under IAS	5,527,545	2,640,172
US GAAP adjustments:		
Revaluation of property, plant and equipment	**(1,912,164)**	(1,823,553)
Depreciation charged on revalued property, plant and equipment	**254,261**	86,884
Additional deferred tax assets due to a higher tax base resulting from the revaluation of property, plant and equipment	**547,109**	573,101
Net assets of Jining II incorporated under pooling of interest		
—current assets	–	60,935
—property, plant and equipment, at valuation	–	1,911,854
—deduct: revaluation of property, plant and equipment	–	(88,611)
—current liabilities	–	(32,467)
	–	1,851,711
Goodwill arising on acquisition of Jining II	**(14,768)**	–
Special interim dividend	–	69,000
Proposed final dividend	**148,200**	–
Shareholders' equity under US GAAP	**4,550,183**	3,397,315

Under US GAAP, the Company's total assets would have been RMB5,497,364,000 and RMB6,002,386,000 at 31st December, 1997 and 1998, respectively.

Unaudited Proforma Combined Financial Data

Yanzhou Coal Mining Company Limited (the "Company") was established as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 25th September, 1997 (the "Restructuring") to take over and operate the coal mining business of Xinglongzhuang Coal Mine, Baodian Coal Mine, Nantun Coal Mine and Dongtan Coal Mine (hereinafter collectively referred to as the "Four Original Mines") which were formerly divisions of Yanzhou Mining (Group) Corporation, Ltd. (the "Parent Company"). After the Restructuring, the environment in which the Company operates is different from that of the Parent Company. Also, the Company acquired a fifth mine, Jining II, from the Parent Company as of 1st January, 1998 at a consideration of approximately RMB1,956 billion. For these reasons, the Company's management believes that the presentation of Unaudited Proforma Combined Financial Data is necessary to supplement the historical financial data.

The Unaudited Proforma Statement of Income for the year ended 31st December, 1997 has been prepared based on the historical results of operations after giving effect to proforma adjustments described in the notes thereto as if the transactions and agreements described in such notes were in effect throughout the year ended 31st December, 1997. The Unaudited Proforma Combined Balance Sheet as of 31st December, 1997 has been prepared assuming the transactions and agreements described in the notes thereto took effect on 31st December, 1997.

The Unaudited Proforma Combined Statements of Income and Unaudited Proforma Combined Balance Sheet do not purport to represent what the combined results of operations and financial position of the Company would actually have been if the events described above had in fact occurred on such dates or at the beginning of 1997, or to project the combined statements of income and financial position of the Company for any future date or period.

Unaudited Proforma Combined Statement of Income

(prepared in accordance with IAS)

	Year ended 31st December, 1997				
	Company historical *RMB'000*	Jining II historical *RMB'000*	Historical combined *RMB'000*	Proforma adjustments *RMB'000* *(note 1)*	Proforma combined *RMB'000*
Net sales	3,298,157	164,354	3,462,511		3,462,511
				9,735 (a)	
Cost of goods sold	1,472,493	188,591	1,661,084	106,414 (b)	1,777,233
Gross profit	1,825,664	(24,237)	1,801,427		1,685,278
Selling, general and administrative expenses	495,225	36,547	531,772	3,048 (b)	534,820
Operating income	1,330,439	(60,784)	1,269,655		1,150,458
Interest expenses	(166,726)	–	(166,726)	(48,109) (c)	(214,835)
Other income	44,731	186	44,917		44,917
Income before income taxes	1,208,444	(60,598)	1,147,846		980,540
Income taxes	374,303	–	374,303	(55,211) (d)	319,092
Net income	834,141	(60,598)	773,543		661,448
Proforma net income per share (note 2)					RMB0.40

Unaudited Proforma Combined Balance Sheet

(prepared in accordance with IAS)

	At 31st December, 1997				
	Company historical *RMB'000*	Jining II historical *RMB'000*	Historical combined *RMB'000*	Proforma adjustments *RMB'000* *(note 1)*	Proforma combined *RMB'000*
ASSETS					
Current assets:					
Bank balances and cash	211,797	3,552	215,349	–	215,349
Bills and accounts receivable	181,195	34,135	215,330	–	215,330
Inventories	366,926	21,024	387,950	–	387,950
Prepayments and other current assets	110,855	2,224	113,079	–	113,079
Amounts due from Parent Company and its subsidiary companies	76,616	–	76,616	–	76,616
Total current assets	947,389	60,935	1,008,324	–	1,008,324
Property, plant and equipment	3,746,535	1,911,854	5,658,389		5,658,389
Goodwill	–	–	–	15,545 (g)	15,545
Deferred tax assets	82,830	–	82,830	–	82,830
Total assets	4,776,754	1,972,789	6,749,543	15,545	6,765,088
LIABILITIES AND EQUITY					
Current liabilities:					
Accounts payable	309,032	19,067	328,099	–	328,099
Other payables and accrued expenses	370,937	13,400	384,337	–	384,337
Proposed dividend	69,000	–	69,000	–	69,000
Tax payable	72,613	–	72,613	–	72,613
Borrowings - due within one year	–	–	–	1,955,867 (e)	1,955,867
Total current liabilities	821,582	32,467	854,049	1,955,867	2,809,916
Borrowing - due after one year	1,315,000	–	1,315,000	–	1,315,000
Total liabilities	2,136,582	32,467	2,169,049	1,955,867	4,124,916
Owner's equity	2,640,172	1,940,322	4,580,494	(1,940,322) (f)	2,640,172
Total liabilities and owner's equity	4,776,754	1,972,789	6,749,543	15,545	6,765,088

Notes to Unaudited Proforma Combined Financial Data

1. DESCRIPTION OF ADJUSTMENTS

(a) to adjust for an annual fee in respect of the usage of mining rights associated with the Company's five mines for the period from 1st January, 1997 to 25th September, 1997. The Company is required to pay the Parent Company an annual fee of RMB12,980,000 in respect of the usage of mining rights for a period of ten years effective from 25th September, 1997;

(b) to adjust the additional depreciation and amortization resulting from the revaluation of property, plant and equipment as at 31st July, 1997 as if the revaluation had been recorded on 1st January, 1997;

(c) to adjust for additional interest expense resulting from the bank loan of RMB1,800,000,000 at 12.42% per annum to replace the borrowings from the Parent Company upon the establishment of the Company on 25th September, 1997. The proforma adjustment is the difference between the Company's proportionate share of the Parent Company's total interest expense incurred and borrowings being charged at an interest rate of 12.42% per annum for the period from 1st January, 1997 to 25th September,1997;

(d) to adjust the income taxes using the statutory rate as a result of proforma adjustments (a) to (c);

(e) to reflect the payment to Parent Company for the acquisition of Jining II, assuming the purchase price is paid by raising a short-term loan which would be repaid from the proceeds of the combined offering;

(f) to eliminate the owner's equity on acquisition of Jining II; and

(g) to recognise the goodwill arising on acquisition of Jining II.

2. PROFORMA NET INCOME PER SHARE

The proforma net income per share for the year ended 31st December, 1997 has been computed by dividing the proforma combined net income by the number of 1,670,000,000 Domestic Shares issued in connection with the Restructuring and assumed to be outstanding following the formation of the Company.

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YANZHOU COAL MINING COMPANY LIMITED
AUDITORS' REPORT FOR THE YEAR 1998

Deshibaozi (99) No. 0241

TO THE SHAREHOLDERS OF YANZHOU COAL MINING COMPANY LIMITED

We were engaged to audit the balance sheet of your Company as of December 31, 1998 and the related statements of income, profit appropriation and cash flow for the year then ended. 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 for Joint Stock Limited Companies" and, in all material respects, present fairly the financial position of the Company as of December 31, 1998 and the results of its operations and cash flow for the year then ended. The accounting policies adopted follow the consistency principle.

Deloitte Touche Tohmatsu Shanghai CPA
Shanghai China

Chinese Certified Public Accountant
Liu Wei Min Hu Fan
6th April, 1999

Balance Sheet (Under PRC GAAP)

	Notes	At 31st December, 1998 RMB	1997 RMB
ASSETS			
CURRENT ASSETS			
Bank balance and cash	*5*	**290,665,539**	211,796,996
Bills receivable	*6*	**168,058,451**	143,792,660
Accounts receivable	*7*	**493,530,267**	72,196,868
Less: Provision for doubtful debt		**31,563,579**	24,984,635
Accounts receivable, net		**461,966,688**	47,212,233
Prepayments	*8*	**41,202,824**	86,126,909
VAT refundable	*9*	**71,266,649**	–
Other receivable	*10*	**448,244,984**	268,885,497
Inventories	*11*	**297,594,990**	365,573,443
Deferred expenditures	*12*	**16,411,566**	29,866,837
TOTAL CURRENT ASSETS		**1,795,411,691**	1,153,254,575
FIXED ASSETS			
Fixed assets cost	*13*	**7,764,126,187**	5,674,529,966
Less: Accumulated depreciation	*13*	**3,003,245,403**	2,356,679,988
FIXED ASSETS, NET	*13*	**4,760,880,784**	3,317,849,978
Construction materials	*14*	**1,566,101**	1,066,674
Construction in progress	*15*	**495,333,954**	80,745,261
Fixed assets to be disposed		**72,727**	–
TOTAL FIXED ASSETS		**5,257,853,566**	3,399,661,913
Intangible and other assets			
Intangible assets	*16*	**302,993,536**	282,190,981
Long-term deferred expenditure	*17*	**7,342,909**	9,276,339
TOTAL INTANGIBLES AND OTHER ASSETS		**310,336,445**	291,467,320
TOTAL ASSETS		**7,363,601,702**	4,844,383,808

Balance Sheet (Under PRC GAAP)

	Notes	At 31st December, 1998 RMB	1997 RMB
LIABILITIES AND SHAREHOLERS' EQUITY			
CURRENT LIABILITIES			
Notes payable		**8,500,000**	–
Accounts payable	*18*	**498,912,274**	324,667,702
Advance from customers	*19*	**74,230,909**	38,998,675
Wages payable		**19,039,085**	19,187,268
Proposed dividend	*20*	**148,200,000**	69,000,000
Tax payable	*21*	**359,234,868**	72,612,958
Other payable	*22*	**405,589,500**	188,298,612
Other current liabilities	*23*	**161,773,949**	67,350,685
TOTAL CURRENT LIABILITIES		**1,675,480,585**	780,115,900
LONG TERM LIABILITIES			
LONG TERM LOANS	*24*	**115,000,000**	1,315,000,000
		1,790,480,585	2,095,115,900
SHAREHOLDERS' EQUITY			
Share capital	*25*	**2,600,000,000**	1,670,000,000
Capital reserves	*26*	**2,364,454,980**	1,000,841,598
Surplus reserve	*27*	**135,189,921**	22,113,947
Including: Statutory Common Welfare Fund		**45,063,307**	7,371,316
Unappropriated profits		**473,476,216**	56,312,363
SHAREHOLDERS' EQUITY		**5,573,121,117**	2,749,267,908
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**7,363,601,702**	4,844,383,808

Statement of Income and Profits Appropriation (Under PRC GAAP)

	Notes	Year ended 31st December, 1998 RMB	1997 RMB
Net revenue from principal operations	*28*	**4,333,226,100**	3,730,668,135
Less: Cost of principal operations	*29*	**2,009,019,169**	1,578,662,042
Sales taxes on principal operations	*30*	**52,759,165**	46,327,702
Income from principal operations		**2,271,447,766**	2,105,678,391
Add: Income from principal operations	*31*	**40,687,202**	24,061,462
Less: Operating expenses	*32*	**641,918,843**	466,481,486
Administrative expenses		**495,446,987**	414,939,891
Financial expenses	*33*	**60,118,160**	151,398,032
Operating income		**1,114,650,978**	1,096,920,444
Add: Non-operating income	*34*	**13,368,929**	5,298,362
Less: Non-operating expenses	*35*	**2,604,377**	172,829
Income before income taxes		**1,125,415,530**	1,102,045,977
Less: Income taxes	*36*	**371,575,703**	363,675,172
Net income		**753,839,827**	738,370,805
Add: Unappropriated profits at the beginning of the year		**56,312,363**	–
Less: Profit appropriation prior to restructuring	*37*	**–**	590,944,495
Profits available for appropriation	*37*	**810,152,190**	147,426,310
Less: Appropriations to statutory common fund	*38*	**75,383,983**	14,742,631
Appropriations to public welfare fund	*39*	**37,691,991**	7,371,316
Profits available for appropriation to shareholders		**697,076,216**	125,312,363
Less: Appropriation to discretionary surplus fund		**–**	–
Dividends	*40*	**223,600,000**	69,000,000
Unappropriated profits at the end of the year		**473,476,216**	56,312,363

Statement of Cash Flows (Under PRC GAAP)

	Note	For the Year ended 31st December, 1998 RMB
CASH FLOW FROM OPERATING ACTIVITIES		
Cash received from sales of goods and rendering of services		4,831,203,140
Taxes refunded		77,437,165
Cash received from other operating activities		241,161,923
CASH INFLOW		5,149,802,228
Cash paid for purchase of goods and services received		2,448,659,460
Cash paid to employees and cash paid on their behalf		398,209,950
Value added tax paid		391,082,509
Income taxes paid		146,762,933
Other taxes paid		59,194,040
Cash paid for other operating activities	*41*	180,255,300
CASH OUTFLOW		3,624,164,192
NET CASH FLOWS FROM OPERATING ACTIVITIES		1,525,638,036
CASH FLOW FROM INVESTING ACTIVITIES		
Net cash received from disposal of fixed asset intangible assets and other non-current assets		617,724
Cash received from other investing activities		3,300,180
CASH INFLOW		3,917,904
Cash paid for purchases of fixed assets, intangible assets and other non-current assets		2,349,029,570
CASH OUTFLOW		2,349,029,570
NET CASH FLOWS FROM INVESTING ACTIVITIES		(2,345,111,666)
CASH FLOWS FROM CAPITAL RAISING ACTIVITIES		
Cash received from issue of shares		2,369,650,452
Cash received from other capital raising activities		37,323,878
CASH INFLOW		2,406,974,330
Repayments of borrowing		1,200,000,000
Cash paid for capital raising expenses		76,037,070
Dividend paid		144,400,000
Interest paid		87,603,370
CASH OUTFLOW		1,508,040,440
NET CASH OUTFLOWS FROM CAPITAL RAISING ACTIVITIES		898,933,890
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH		(591,717)
NET INCREASE IN CASH AND CASH EQUIVALENTS		78,868,543

Statement of Cash Flows (Under PRC GAAP)

	For the Year ended 31st December, 1998
Note:	*RMB*
NON-CASH INVESTING ACTIVITIES	–
RECONCILIATION OF NET INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	753,839,827
Add:	
Provision for doubtful debt or bad debt written off	6,578,944
Depreciation on fixed assets	513,949,049
Amortization of intangible assets	7,624,665
Decrease in deferred expenditures (net of additions)	13,455,271
Losses on disposal of fixed assets, intangible assets and other non-current assets (net of income)	1,400,201
Financial expenses	59,995,322
Decrease in inventories (net of increase)	67,978,453
Decrease in receivables (net of increase)	(651,301,241)
Increase in payables (net of decrease)	764,541,835
Others (interests on over-subscription monies)	(12,424,293)
Net cash flows from operating activities	1,525,638,036
Analysis of net increase in cash and cash equivalents:	
Cash at the end of the year	290,665,539
Less: Cash at the beginning of the year	211,796,996
Net increase in cash and cash equivalents	78,868,543

1. RESTRUCTURING

The Company was established as a joint stock company with limited liability in the People's Republic of China (the "PRC") to take over and operate the coal mining business of Xinglongzhuang Coal Mine, Baodian Coal Mine, Nantun Coal Mine and Dongtan Coal Mine, Material Supplies Department, Coal Products Sales and Distribution Department, Machinery and Equipment Department and other departments related to the coal productions and operations from ultimate holding company, Yanzhou Mining (Group) Corporation Limited (the "Parent Company").

The Company was established in September 25, 1997 and commenced operations on October 1, 1997. Its principal operations are the mining and screening of coal and sales of coal products. The A shares, H shares and American depositary shares of the Company are listed in Shanghai, Hong Kong and New York respectively.

On March 30, 1998, the Company allotted 820,000,000 shares, represented by 82,000,000 H shares ("H Shares") and 14,760,000 American Depositary Shares ("ADS", one ADS represents 50 H Shares) in a combined offering and the H Shares and ADS were listed on The Stock Exchange of Hong Kong Limited ("SEHK") and the New York Stock Exchange ("NYSE") since April 1, 1998 and March 31, 1998, respectively. On April 16, 1998, the Company allotted an additional 30,000,000 H Shares, represented by 600,000 ADSs, to cover over-allotments in the combined offering.

The Company applied approximately RMB1,956 million out of the net proceeds of approximately RMB2,037 million received from the combined offering (including proceeds from the over-allotment option) to settle the purchase price of a fifth mine, Jining II, which the Company acquired from the Parent Company as of January 1, 1998.

On June 12, 1998, the Company allotted 80,000,000 A shares ("A Shares") to the public in the PRC (including 8,000,000 A Shares allotted to its employees) of nominal value RMB1.0 each. The A Shares were listed on the Shanghai Securities Exchange ("SSE") since July 1, 1998. The total net proceeds from the A Shares offering were approximately RMB257 million. The Company applied approximately RMB200 million to repay certain of its bank borrowings and approximately RMB57 million to supplement its working capital requirements.

2. BASIS OF PREPARATION

The financial statements for the period from January to September1997 has been prepared as if the structure of the Company has been in existence since January 1, 1997.

3. 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.

Reporting currency

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

Recording principles and accounting basis

The accrual accounting method based on historical cost have 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. Profit and losses arising on translation are dealt with as financial expenses in the statement of income except for those relating to construction projects which are capitalized as cost of construction in progress.

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.

Provision for bad debts

Bad debts is recognised on debts that cannot be recovered from the assets repaid upon the bankruptcy or death of debtors, or the debtors have not repaid for more than three years .

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

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Inventories

(1) Inventories classification: raw materials and finished goods.

(2) The Company adopts standard costing in the daily accounting for raw materials and variances are charged as cost at end of each month. When raw materials are utilized and issued, standard cost is adjusted to actual cost by using the actual cost variance ratio of materials at the beginning of month. Low-priced consumables are expensed when used.

Cost of finished goods, which comprises direct materials, direct labour, direct costs and other overheads allocated at a fixed percentage, is calculated using the weighted average method according to their product types.

Fixed Assets and Depreciation

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

Fixed assets are stated at cost or valuation upon 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. 32, depreciation of mining structures is provided at RMB2.5 per tonne of raw coals 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 restructuring. Cost includes all expenditures incurred for construction projects, relevant loan interests, and exchange gains or losses 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 restructuring.

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

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Long-Term deferred expenditures

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

Revenue from principal operations

Revenue from principal operations represents amount received and receivable for the goods with the risk and ownership transferred to the buyers.

Revenue from principal operation is recognised when the right to receive the proceeds are established and management right and control over the goods are passed.

Income taxes

Income taxes are recorded on an accrued basis.

The charge for taxation is based on the accounting income for the year 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 and receivable.

Changes of accounting policies and estimates

The company changed its accounting policy for the calculation of bad debt provision from direct offset method to provision method. The change leads to decrease of RMB24,984,635 and RMB 6,578,944 in the opening balances of the capital reserves and income before taxes, respectively.

4. TAXATION

Major taxes item	Basis of provision	Tax rates
Income tax	assessable income	33%
Value added tax ("VAT")	the net amount of VAT on sales less VAT on purchases for the period	13% and 17%
City construction tax	sales tax, VAT	7%
Education fee and others	sales tax, VAT	3%
Resource tax	The sum of quantity of raw coal sold and quantity of raw coal consumed for the production of clean coal	RMB1.20 per tonne

4. TAXATION (Continued)

The Company has applied for the approval from the respective tax authorities for the filing of consolidated income taxes and VAT by the Parent Company.

5. BANK BALANCE AND CASH

	Closing balance			Opening balance		
	Foreign currency account	Exchange rate	RMB	Foreign currency account	Exchange rate	RMB
Cash on hand						
Renminbi	–	–	198,814	–	–	109,977
Cash in bank						
Renminbi	–	–	169,807,710	–	–	211,687,019
Foreign currency						
Hong Kong dollar	13,819,774	1.0678	14,756,755	–	–	–
United States dollar	12,281,943	8.2787	101,678,522	–	–	–
Other currency fund						
Renminbi	–	–	4,223,738	–	–	–
			290,665,539			211,796,996

6. BILLS RECEIVABLE

At the end of this year, the discounted and pledged bills but not yet received are as follows:

Issuer	Date of issue	Expiring date	Amount *RMB*	Note
Heat Supplying Administration of Dong Ying City	5.9.1998	5.3.1999	2,400,000	Bills discounted to banks
Donglin Aluminum Corporation Ltd.,Yingkou	19.10.1998	18.4.1999	2,000,000	Bills discounted to banks
Total			4,400,000	

For bills receivable from shareholders holding more than 5% of the issued shares of the Company, please refer to the note 42 for details.

7. ACCOUNTS RECEIVABLE

The ageing analysis of the accounts receivable is as follows:

Ageing	Closing balance		Opening balance	
	RMB	%	*RMB*	%
Within 1 year	457,679,819	93	44,970,905	62
1 to 2 years	21,282,544	4	7,038,441	10
2 to 3 years	6,307,045	1	12,373,323	17
Over 3 years	8,260,859	2	7,814,199	11
Total	493,530,267	100	72,196,868	100

For the receivables from shareholders holding more than 5% of the total shares of the Company, please refer to note 42 for details.

The closing balance increased by 583% as compared to the beginning balance as more credit sales were approved and more favorable credit terms were granted by the Company in order to promote sales.

8. PREPAYMENTS

The ageing analysis of prepayments is as follows:

	Closing balance		Opening balance	
	RMB	%	*RMB*	%
Within 1 year	32,813,145	80	65,453,518	76
1 to 2 years	6,110,583	15	18,023,096	21
2 to 3 years	2,279,096	5	1,272,236	1
Over 3 years	–	–	1,378,059	2
Total	41,202,824	100	86,126,909	100

For the prepayments to shareholders holding more than 5% of the total shares of the Company, please refer to the note 42 for details.

9. VAT REFUNDABLE

VAT refundable is input VAT refundable for the export of coal. According to the Jizhengzi [1998] No.52, the calculation methods on amount of input VAT has been changed from “free,exempt and return” to “Payment first and refund later” from January 1, 1998. Before June 1, 1998, the refund rate was 3%. The rate has been changed to 9% from June 1, 1998 in accordance with the Caishuizi [1998] No.102.

10. OTHER RECEIVABLE

	Closing balance *RMB*	Opening balance *RMB*
Amounts due from related companies	258,341,305	183,075,294
Prepaid freight charges	70,116,908	17,551,137
Prepaid land subsidence, restoration, rehabiliation and environment costs	36,798,598	–
Others	82,988,173	68,259,066
	448,244,984	268,885,497

Ageing analysis of other receivable is as follows:

	Closing balance		Opening balance	
	RMB	%	*RMB*	%
Within 1 year	435,949,741	97	254,803,503	95
1 to 2 years	8,516,324	2	3,221,915	1
2 to 3 years	3,125,054	1	6,271,284	2
Over 3 years	653,865	–	4,588,795	2
Total	448,244,984	100	268,885,497	100

For other receivable from shareholders holding more than 5% of the total shares of the Company, please refer to note 42 for details.

Other receivables increased by 67% as compared to the opening balance. The main reason is that the amount due from related companies for materials sold and other items increased by approximately RMB75.27 million. The payment of freight charges on behalf of customers increased by RMB52.56 million. The prepaid land subsidence, restoration, rehabiliation and environments costs increased by RMB 36.8 million. All of these reasons contributed to the increase of other receivables.

11. INVENTORIES

	Closing balance *RMB*	Opening balance *RMB*
Raw Materials	217,858,436	202,589,918
Finished Products	79,736,554	162,983,525
	297,594,990	365,573,443

12. DEFERRED EXPENDITURES

Category	Original cost *RMB*	Opening balance *RMB*	Addition for the year *RMB*	Amortisation for the year *RMB*	Closing balance *RMB*
Harbour transportation fee	29,866,837	29,866,837	16,411,566	(29,866,837)	16,411,566

13. FIXED ASSETS AND ACCUMULATED DEPRECIATION

	Buildings *RMB*	Mining structure *RMB*	Plant, machinery and equipment *RMB*	Transportation equipment *RMB*	Total *RMB*
Cost/valuation					
Opening balance	1,044,899,158	1,836,702,796	2,746,450,412	46,477,600	5,674,529,966
Transfer from purchase of Jining II	114,582,418	614,143,181	513,161,936	14,897,265	1,256,784,800
Additions	1,215,504	–	1,001,816	–	2,217,320
Transfer from construction in progress	221,022,347	47,438,810	561,371,405	8,469,195	838,301,757
Disposals	98,573	–	5,875,214	1,733,869	7,707,656
Closing balance	1,381,620,854	2,498,284,787	3,816,110,355	68,110,191	7,764,126,187
Accumulated Depreciation					
Opening balance	302,230,746	821,771,675	1,211,826,620	20,850,947	2,356,679,988
Transfer from purchase of Jining II	12,866,583	49,183,558	71,274,613	4,981,340	138,306,094
Provided for the year	63,216,044	51,713,385	367,806,360	31,213,263	513,949,052
Eliminated on disposal	89,275	–	4,135,135	1,465,321	5,689,731
Closing balance	378,224,098	922,668,618	1,646,772,458	55,580,229	3,003,245,403
Net Amount					
Opening balance	742,668,412	1,014,931,121	1,534,623,792	25,626,653	3,317,849,978
Closing balance	1,003,396,756	1,575,616,169	2,169,337,897	12,529,962	4,760,880,784

Fixed assets increased by 37% as compared to opening balance. It is mainly due to the purchase of Jining II.

14. CONSTRUCTION MATERIALS

Category	Closing balance *RMB*	Opening balance *RMB*
Construction materials	1,566,101	1,066,674

15. CONSTRUCTION IN PROGRESS

	Opening balance *RMB*	Acquisition of Jining II *RMB*	Additions *RMB*	Transfers on completion *RMB*	Other deductions *RMB*	Closing balance *RMB*	Progress %	Sources of Funds
Equipment to be installed	22,809,288	620,425,625	386,090,121	569,840,600	16,250,408	443,234,026	95	internally generated funds
Buildings under construction	56,426,930	172,949,655	87,776,893	268,461,157	–	48,692,321	80	internally generated funds
Others	1,509,043	–	1,898,564	–	–	3,407,607	90	internally generated funds
Total	80,745,261	793,375,280	475,765,578	838,301,757	16,250,408	495,333,954		

No interest was capitalized in the above construction in progress.

The balance increased by 513% as compared to opening balance. The main reason is that the Company purchased Jining II in the current year and installed many equipment.

16. INTANGIBLE ASSETS

Category	Original cost *RMB*	Opening balance *RMB*	Additions *RMB*	Amortization *RMB*	Closing balance *RMB*
Land use rights	283,332,951	282,190,981	26,493,790	(5,691,235)	302,993,536

17. LONG-TERM DEFERRED EXPENDITURE

Category	Original cost *RMB*	Opening balance *RMB*	Amortization *RMB*	Closing balance *RMB*
Training fee upon establishment of the Company	9,764,567	9,276,339	(1,933,430)	7,342,909

18. ACCOUNTS PAYABLE

For amounts due to shareholders holding more than 5% of the total share of the Company, please refer note 42 for details.

The closing balance increased by 54% as compared to that of last year. The main reason is because the settlement period is lengthened as the Company delayed the payment of accounts payable.

19. ADVANCE FROM CUSTOMERS

For amounts advanced from shareholders holding more than 5% of the total share of the Company, please refer note 42 for details.

20. PROPOSED DIVIDEND

	Closing balance *RMB*	**Opening balance** *RMB*
Yanzhou Coal Mining (Group) Corporation Limited	95,190,000	69,000,000
Shareholders of H shares	48,450,000	–
Shareholders of A shares	4,560,000	–
	148,200,000	69,000,000

The increase of proposed dividend payable is due to the final dividend proposed by the Company at year end. For details, please refer to note 40.

21. TAXES PAYABLE

	Closing balance *RMB*	**Opening balance** *RMB*
Income taxes	297,425,771	72,612,958
VAT	52,310,526	–
Others	9,498,571	–
	359,234,868	72,612,958

22. OTHER PAYABLE

Comparing to the opening balance, other payable has increased by 115%. The main reason is the increase in the payable on the transactions entered with the Parent Company which amounted to RMB257,380,000.

23. OTHER CURRENT LIABILITIES

According to the current legislation in the territories, the Company has to accrued for "Wei Jian Fai" based on a rate of RMB6.0 per tonne of coal mined. This accrual is included in both production cost and other current liabilities. The provision for this year is as follow:

	Accumulated amount for 1998 *RMB*	Accumulated amount for 1997 *RMB*
Wei Jian Fai	**124,112,124**	101,284,512

The amount of Wei Jian Fai is used for payments of production transfer fee and payment of the principal fund to the Coal Industry Administration Bureau of the Shandong Province. The remaining amount, up to the aggregate amount of the total purchase cost of coal production equipment and the refurnishment cost of the coal mining structures, will be transferred to capital surplus upon the completion of construction projects at the year end.

Out of the total Wei Jian Fai, RMB161,773,949 is provided but not used and inclueded as other current liabilities.

24. LONG-TERM LOAN

	Closing balance	Opening balance	Duration	Annual interest rate	Loan requirement
Construction Bank of China Yanzhou Mining Area Branch	115,000,000	1,315,000,000	10 years	12.42%	Guarantee by the Parent company

The original loan principal was 1.8 billion with terms from October 1, 1997 to June 30, 2007 and payable in ten equal annual installments. The Company has repaid the principal amount of RMB1.685 billion in advance of repayment schedule by the end of 1998.

25. SHARE CAPITAL

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

	Closing balance (share)	Changes: Placement of shares	Bonus Issue	Shares issued from transfer of reserves	Issue new shares	Opening balance (share)
Shares not listed for public dealings						
1. Subscriber shares						
State legal person shares	1,670,000,000	–	–	–	–	1,670,000,000
Total shares not listed for public dealings	1,670,000,000	–	–	–	–	1,670,000,000
Shares listed 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	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	–	–	–	930,000,000	1,670,000,000

Each share has a par value of RMB1.00 .

Share capital increased by 56% compared to last year. The main reason is that the company has issued H shares and A shares during the year.

26. CAPITAL RESERVES

	Opening balance *RMB*	Additions *RMB*	Reductions *RMB*	Closing balance *RMB*
Share premium	–	1,363,613,382	–	1,363,613,382
Revaluation reserve	596,103,506	–	–	596,103,506
Unclassified capital reserves	404,738,092	–	–	404,738,092
Total reserves	1,000,841,598	1,363,613,382	–	2,364,454,980

The 133% increase in capital reserve in 1998 was that the Company issued A Shares and H Shares at an issue price higher than the par value, which resulted in a premium.

26. CAPITAL RESERVES (Continued)

The unclassified capital reserves are capital reserve other than revaluation reserve at the beginning of 1998 which are not classified by its source and nature according to the provisions in the "Accounting Regulations for Joint Stock Limited Companies".

27. SURPLUS RESERVES

	Statutory common reserve fund *RMB*	**Statutory public welfare fund** *RMB*	**Total** *RMB*
Opening balance	14,742,631	7,371,316	22,113,947
Additions during the year	75,383,983	37,691,991	113,075,974
Closing balance	90,126,614	45,063,307	136,189,921

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 and is capital in nature.

28. NET REVENUE FROM PRINCIPAL OPERATIONS

	Accumulated amount in the year 1998 *RMB*	Accumulated amount in the year 1997 *RMB*
Domestic sales of coal products	**2,343,066,080**	2,085,812,226
Export sales of coal products	**1,990,160,020**	1,644,855,909
	4,333,226,100	3,730,668,135

29. COST OF PRINCIPAL OPERATIONS

	Accumulated amount in the year 1998 *RMB*	Accumulated amount in the year 1997 *RMB*
Materials	**392,643,232**	359,897,867
Wages	**298,970,190**	256,516,116
Employee benefits	**41,856,126**	35,790,715
Electricity	**185,669,992**	144,343,218
Depreciation	**517,893,257**	285,921,031
Wei Jian Fai	**131,056,155**	100,724,594
Land subsidence costs	**103,778,292**	51,206,579
Repairs	**142,116,050**	124,254,980
Non-rebated VAT	**110,551,106**	163,755,238
Others	**84,484,769**	56,251,704
Total	**2,009,019,169**	1,578,662,042

30. SALES TAXES ON PRINCIPAL OPERATIONS

Tax item	**Accumulated amount in the year 1998** ***RMB***	Accumulated amount in the year 1997 *RMB*
City construction tax	**20,067,384**	18,249,071
Education fee and others	**8,606,708**	7,830,516
Resource tax	**24,085,073**	20,248,115
	52,759,165	46,327,702

31. INCOME FROM OTHER OPERATIONS

	Accumulated amount in the year 1998	Accumulated amount in the year 1997
	RMB	*RMB*
Sales of raw materials		
– Sales	**173,092,642**	101,378,712
– Cost of sales	**136,863,577**	77,579,927
	36,229,065	23,798,785
Others		
– Income	**5,714,478**	3,960,852
– Cost	**1,256,341**	3,698,175
	4,458,137	262,677
	40,687,202	24,061,462

32. OPERATING EXPENSES

Operating expense increased by 38% as compared to last year as the Company paid the transportation fee for the domestic sales of No. 1 clean coal , part of No. 3 clean coal and part of raw coal from coal mining sites to ports in the current year. These expenses were charged to its customers last year. Also, the export sale volume increased by approximately 40% as compared to last year and the corresponding transportation fee increased accordingly.

33. FINANCIAL EXPENSES

	Accumulated amount in the year 1998	Accumulated amount in the year 1997
	RMB	*RMB*
Interest expenses	**87,603,370**	166,726,589
Less: interest income	**28,199,765**	15,418,095
Exchange losses	**591,717**	–
Less: exchange gains	**–**	–
Others	**122,838**	89,538
	60,118,160	151,398,032

Financial expense decreased by 60% as compared to last year. The main reason is that the Company repaid the loan in advance of the repayment schedule and caused the decrease in interest expenses.

34. NON-OPERATING INCOME

	Accumulated amount in the year 1998 *RMB*	Accumulated amount in the year 1997 *RMB*
Gain on disposal of fixed assets	**431,202**	5,033,554
Interest income on over subscription monies	**12,424,293**	–
Others	**513,434**	264,808
	13,368,929	5,298,362

35. NON-OPERATING EXPENSES

	Accumulated amount in the year 1998 *RMB*	Accumulated amount in the year 1997 *RMB*
Loss on disposal of fixed assets	**1,831,402**	57,041
Donations	**573,300**	–
Fines	**150,149**	–
Others	**49,526**	115,788
	2,604,377	172,829

36. INCOME TAXES

	Accumulated amount in the year 1998 *RMB*
Income taxes for the year	**371,575,703**
Prior years income tax adjustments	**–**
Income taxes for the year	**371,575,703**

37. PROFITS AVAILABLE FOR APPROPRIATION

Profit appropriation prior to restructuring is the profit distributed from January 1, 1997 to September 25, 1997, before the establishment of the Company.

Prior year profits available for appropriation was the profit arose from the commencement of operation from October 1, 1997 to December 31, 1997.

38. APPROPRIATION TO STATUTORY COMMON FUND

According to the regulation of No.177 of "Company Law" and the Articles of Association, the Company should set aside 10%of its net income for the statutory common reserve fund (except when the fund has reached 50% of the Company's register capital).

39. APPROPRIATION TO STATUTORY PUBLIC WELFARE FUND

According to the regulation of No.177 of "Company Law", the Articles of Association and the proposal from the Board of the Directors, the Company should set aside 5% of its net income for the statutory public welfare fund. The above proposal should be approved in shareholders' meeting.

40. PROPOSED DIVIDEND

Pursuant to the proposal from the Board of Directors, the Company proposed a cash dividend of RMB0.086 per share for the 2,600,000,000 shares in issued in 1998. As interim cash dividend of RMB0.029 per share has been paid during the year, proposed final dividend amounted to RMB0.057 per share. Par value of all shares are RMB1.00 each. The above proposal will be approved in shareholders' meeting.

41. CASH PAID FOR OTHER OPERATING ACTIVITIES

	RMB
Amount of transportation fee paid on behalf of customers	88,325,641
Amount paid to Parent Company for purchase of materials	22,500,000
Amount paid to related companies	42,250,000
Other expenses paid	27,179,659
	180,255,300

42. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

Name: Yanzhou Mining (Group) Corporation Limited
Registered address: No. 40 Fushan Road, Zhouchen, Shandong Province, PRC
Principal operations: Industrial Processing
Relationship with the company: parent company
Nature of business: state-owned
Legal representative: Mr. Jingiche Zhao

42. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(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 year	
	RMB	*RMB %*	*RMB %*	*RMB %*	%
Yanzhou Mining (Group) Corporation Limited	1,670,000,000	100	–	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**
Zhaozhuang Baomei Business Ltd. Co.	Common key management
Zhouchen Nanmei Shipping Co. Ltd.	Common key management

(4) Significant transactions entered with the Company and above-mentioned related parties in 1998:

(a) Purchase and sales

Details of purchase and sales with related parties in 1997 and 1998 are listed below:

	Amount incurred in year 1998	Amount incurred in year 1997
	RMB'000	*RMB'000*
SALES -		
Zhaozhuang Baomei Business Ltd. Co.	**–**	11,020
Zhouchen Nanmei Shing Ltd. Co.	**33,660**	23,810
Yanzhou Mining (Group) Corporation Limited	**36,320**	28,700
PURCHASE -		
Yanzhou Mining (Group) Corporation Limited	**114,030**	58,030
	184,010	121,560

42. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(b) Amount due to or from related parties

Account	Company	Amount by the end of the year 1998 *RMB'000*	Amount at the end of the year 1997 *RMB'000*
Notes receivable	Yanzhou Mining (Group) Corporation Limited	**8,000**	1,300
Accounts receivable	Yanzhou Mining (Group) Corporation Limited	**15,268**	8,510
Prepayments	Yanzhou Mining (Group) Corporation Limited	**29,936**	15,639
Other receivable	Yanzhou Mining (Group) Corporation Limited	**258,341**	183,075
Accounts payable	Yanzhou Mining (Group) Corporation Limited	**15,134**	15,635
Advances from customers	Yanzhou Mining (Group) Corporation Limited	**2,228**	148
Other payable	Yanzhou Mining (Group) Corporation Limited	**324,799**	67,415
Proposed dividend payable	Yangzhou Mining (Group) Corporation Limited	**95,190**	69,000

42. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(c) Other transactions

(1) Pursuant to an agreement signed between the Company and Yanzhou Mining (Group) Corporation Limited, Yanzhou Mining (Group) Corporation Limited 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 governmental unit in charge of the related funds. Amount included as expenses of the Company for 1997 and 1998 are RMB 180,528,000 and RMB 208,620,000, respectively.

(2) Pursuant an agreement signed by the Company and Yanzhou Mining (Group) Corporation Limited, the department and units of the Yanzhou Mining (Group) Corporation Limited provides and charges the services listed below:

	Total Amount incurred in 1998 *RMB'000*	Total amount incurred in year 1997 *RMB'000*
Repairs and Maintenance	**81,700**	80,790
Technical support and training fee	**15,130**	15,130
Mining rights fees	**12,980**	3,245
Railway transportation fee	**173,810**	86,640
Public utilities expenses	**5,380**	560
Road transportation fee	**18,250**	14,650
Gases and erucate expenses	**11,020**	11,060
Buildings management fee	**29,700**	24,200
Children tuition fee	**12,550**	9,120
Others	**14,230**	14,250

(3) Total amount of salaries paid to key management, including salaries paid in the form of cash, goods and salaries, welfare and subsidies, for the year 1997 and 1998 are RMB 1,320,000 and RMB 1,270,000, respectively .

43. CAPITAL COMMITMENTS

	Closing Balance *RMB'000*
Contracted for but not provided in the financial statements in respects of the purchase of assets	**14,966**

44. SUMMARY OF DIFFERENCE BETWEEN IAS AND PRC GAAP

	1998	1997
	RMB'000	*RMB'000*
As per financial statements prepared under "*Accounting Standards for Business Enterprises*" and "*Accounting Regulations for Joint Stock Limited Companies*"	**753,840**	5,573,121
Impact of IAS adjustments in respect of:		
– reversal of future development fund	**94,423**	161,764
– provision for land subsidence, restoration, rehabilitation and environmental cost	**(47,353)**	(297,345)
– amortisation of deferred assets	**1,933**	(7,342)
– amortisation of goodwill on acquisition of Jining II	(777)	(777)
– deferred tax effect	**15,294**	98,124
As per financial statements prepared under IAS	**817,360**	5,527,545

45. TAXABLE INCOME RECONCILIATION

	RMB
Accounting profit for the year	1,125,415,530
Adjustments:	
Donations	421,300
Fines	150,149
Taxable income for the year	1,125,986,979

Statement of Movements in Shareholders' Equity (Under PRC GAAP)

	At 31st December, 1998	1997
	RMB	RMB
Share Capital		
Opening balance	**1,670,000,000**	175,572,897
Additions during the year	**930,000,000**	2,090,530,609
Including: Issue new shares	**930,000,000**	–
Tansfer from the Parent Company	**–**	394,095,780
Revaluation reserve surplus	**–**	1,696,434,829
Deductions during the year	**–**	596,103,506
Including: Transfer of revaluation reserve surplus to capital reserve	**–**	596,103,506
Closing balance	**2,600,000,000**	1,670,000,000
Capital reserve		
Opening balance	**1,000,841,598**	404,738,092
Additions during the year	**1,363,613,382**	596,103,506
Including: Share premium	**1,363,613,382**	–
Revaluation reserve surplus	**–**	596,103,506
Deductions during the year	**–**	–
Closing balance	**2,364,454,980**	1,000,841,598
Statutory and discretionary surplus reserve		
Opening balance	**14,742,631**	–
Additions during the year	**75,383,983**	14,742,631
Including: Appropriation from net income	**75,383,983**	14,742,631
Deductions during the year	**–**	–
Closing balance	**90,126,614**	14,742,631
Including: Statutory surplus reserve	**90,126,614**	14,742,631
Statutory common welfare fund		
Opening balance	**7,371,316**	–
Additions during the year	**37,691,991**	7,371,316
Including: Appropriation from net income	**37,691,991**	7,371,316
Deductions during the year	**–**	–
Closing balance	**45,063,307**	7,371,316
Unappropriated profits		
Opening balance of unappropriated profits	**56,312,363**	–
Net income for the year (net loss is represented by "–")	**753,839,827**	738,370,805
Profit appropriation prior to resturcturing	**–**	590,944,495
Profit appropriation during the year	**336,675,974**	91,113,947
Closing balance of unappropriated profits (loss is represented by "–")	**473,476,216**	56,312,363

Analysis of Value Added Tax Payable (Under PRC GAAP)

		1998
		RMB
1.	Value added tax payable ("VAT")	
	Opening balance before VAT credit (represented by "–")	–
	VAT	590,524,538
	VAT credit on export sales	–
	Input VAT credit transfer out	22,496,646
	Over charged VAT transfer out	–
	Input VAT	169,628,148
	VAT paid	391,082,510
	VAT payable on export sales net of domestic sales products	–
	VAT not yet paid transfer out	52,310,526
	Closing balance before input tax credit (represented by "–")	–
2.	VAT not yet paid	
	Opening balance of VAT not yet paid (over payment is represented by "–")	–
	Transfer in during the period (over payment is represented by "–")	443,393,036
	Payment during the period	391,082,510
	Closing balance of VAT payable (over payment is represented by "–")	52,310,526

Corporate Information

Registered Name	兗州煤業股份有限公司
English Name	Yanzhou Coal Mining Company Limited
Legal Address	40 Fushan Road Zoucheng Shandong Province 273500 PRC
Place of Business in Hong Kong	Suites 3104-6, 31st Floor, Central Plaza 18 Harbour Road Hong Kong
Company Secretary	Chen Guangshui
Authorised Representatives	Luo Taiyan Chen Guangshui
Auditors	
International:	Deloitte Touche Tohmatsu Certified Public Accountants 26th Floor, Wing On Centre 111 Connaught Road Central Hong Kong
PRC:	Deloitte Touche Tohmatsu Shanghai CPA Registered Accountants 16th Floor, Shanghai Bund International Tower 99 Huangpu Road Shanghai 200080 PRC

Corporate Information

Sponsors	Bear Stearns Asia Limited 26th Floor, Citibank Tower 3 Garden Road, Central Hong Kong
	ABN AMRO Rothschild 30th Floor, Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong
	and
	4 Broadgate London EC2M 7LE England
Legal Advisers	
as to Hong Kong law and United States law:	Baker & McKenzie 14th Floor, Hutchison House 10 Harcourt Road Hong Kong
as to PRC law:	King and Wood 11th Floor, C Tower Fuhua Mansion 8 Chaoyangmen Beidajie Dongcheng District Beijing 100027 PRC

Corporate Information

Principal Bankers	The Industrial & Commercial Bank of China Zoucheng Branch Tie West Office 51 Fushan Road Zoucheng Shandong Province PRC
	China Construction Bank Yanzhou Coal Mining Bureau Special Branch 6 Kuangjian Road Zoucheng Shandong Province PRC
	Bank of China Zoucheng Branch 205 Pingyang Road Zoucheng Shandong Province PRC
Hong Kong Share Registrar	HKSCC Registrars Limited 2nd Floor, Vicwood Plaza 199 Des Voeux Road Central Hong Kong
Shanghai Share Registrar	Shanghai Securities Central Clearing & Registration Corporation 727 Pujian Road Shanghai PRC
Depositary	The Bank of New York American Depositary Receipts 101 Barclay Street, 22nd Floor West New York, NY 10286 USA

Corporate Information

Places of Listing

H Shares:	The Stock Exchange of Hong Kong Limited Stock Code: 1171
ADSs:	The New York Stock Exchange, Inc. Tick Symbol: YZC
A Shares:	The Shanghai Securities Exchange Stock Abbreviation: Yanzhou Mei Ye Tick Symbol: 600188

Publications

As required by the United States securities laws, the Company will file an annual report on Form 20-F with the United States Securities and Exchange Commission on or before 30th June, 1999. Copies of the annual report as well as the Form 20-F, once filed, will be available at:

The PRC:	Yanzhou Coal Mining Company Limited Office of the Secretary of the Board of Directors 40 Fushan Road Zoucheng Shandong Province 273500 PRC Tel:(86-537) 538-3310 Fax:(86-537) 538-3311 Website: http://www.yanzhoucoal. com.cn E-mail address YZC@yanzhoucoal.com.cn
Hong Kong:	Edelman Public Relations Worldwide (Hong Kong) Limited 3701-2, 37th Floor, Windsor House 311 Gloucester Road Causeway Bay Hong Kong Tel:(852) 2804-1338 Fax:(852) 2804-1303
The USA:	Daniel J. Edelman Inc. 1500 Broadway New York, NY10036 USA Tel:(1-212) 768-0550 Fax:(1-212) 704-0128

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that an Annual General Meeting of Yanzhou Coal Mining Company Limited (the "Company") will be held at 8:00 am on 3rd June, 1999 at 2nd Floor Conference Room, Zong He Building, 40 Fushan Road, Zoucheng, Shandong Province 273500, People's Republic of China ("PRC");

1. to consider and approve the working report of the Board of Directors of the Company for the year ended 31st December, 1998;

2. to consider and approve the working report of the Board of Supervisors of the Company for the year ended 31st December, 1998;

3. to consider and approve the audited financial statements of the Company as at and for the year ended 31st December, 1998;

4. to consider and approve the proposed profit distribution plan of the Company for the year ended 31st December, 1998;

5. to consider and approve the final dividend distribution plan for the year ended 31st December, 1998, and to authorise the Board of Directors of the Company to distribute such dividend to shareholders;

6. to determine the remuneration of the directors and supervisors of the Company for the year ended 31st December, 1999;

7. to consider and approve the appointment of Deloitte Touche Tohmatsu (certified public accountants in Hong Kong) and Deloitte Touche Tohmatsu Shanghai CPA (registered accountants in the PRC (excluding Hong Kong)) as the Company's international and domestic auditors, respectively, to hold office until the conclusion of the following annual general meeting, and to authorise the directors of the Company to determine their remuneration;

8. to consider and approve the following by way of special resolutions:

"THAT:

To authorize the Board of Directors of the Company to notify and obtain approval from the relevant PRC authorities in relation to the following amendments to the Company's Articles of Association.

(a) The second paragraph of Article 10 be amended by replacing it with the following:

The Company's scope of business includes:

The mining, selection and sale of coal; transportation of coal; production of mechanical equipment and spare parts; the manufacturing, sale and rental of mechanical and electronic products; trading of metals, petrochemical products, construction materials, timber, fuel, lubricant and rubber products; the production and sale of other mining raw materials; the production and sale of textile materials; the integrated technological services in respect of mining; and dining, lodging, travel services.

(b) Article 147 of the Articles of Association of the Company be amended by replacing it with the following:

The Company shall distribute final dividends once a year, and the Board of Directors' power to distribute and pay such dividend requires authorisation by way of general resolutions in an annual general meeting";

9. to consider and approve the Board of directors of the Company to conduct all necessary procedures to apply for the change of status of the Company to a foreign invested joint stock limited company with the Ministry of Foreign Trade and Economic Corporation;

10. to consider, if thought fit, approve the following by way of special resolutions:

"THAT:

(a) the Board of Directors of the Company be and is hereby authorised to make such amendments to the Articles of Association of the Company as it thinks fit so as to increase the registered share capital of the Company and reflect the new capital structure of the Company upon the allotment and issuance of shares of the Company as contemplated in subparagraph (b) of this Resolution;

(b) there be granted to the Directors of the Company an unconditional general mandate to issue, allot and deal with additional shares in the capital of the Company, whether Domestic Shares or H Shares, and to make or grant offers, agreements and options in respect thereof, subject to the following conditions;

(i) such mandate shall not extend beyond the Relevant Period save that the Directors of the Company may during the Relevant Period make or grant offers, agreements or options which might require the exercise of such powers after the end of the Relevant Period;

(ii) the aggregate nominal amount of shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company otherwise than pursuant to (x) a Rights Issue, or (y) any option scheme or similar arrangement adopted by the Company from time to time for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company, shall not exceed:

(aa) 20 per cent. of the aggregate nominal amount of Domestic Shares of the Company in issue; and

(bb) 20 per cent. of the aggregate nominal amount of H Shares of the Company in issue,

in each case as at the date of this Resolution; and

(iii) the Board of Directors will only exercise their power under such mandate in accordance with the Company Law of the PRC and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as the same may be amended from time to time) and only if all necessary approvals from the China Securities Regulatory Commission and/or other relevant PRC government authorities are obtained;

(c) for the purposes of this Resolution:

"Domestic Shares" means domestic invested shares in the share capital of the Company, of par value RMB1.00 each, which are subscribed for in Renminbi by PRC investors;

"H Shares" means the overseas-listed foreign invested shares in the share capital of the Company with a par value RMB1.00 each, and which are subscribed for and traded in Hong Kong dollars;

"Relevant Period" means the period from the passing of this Resolution until the earliest of:

(i) the conclusion of the next annual general meeting of the Company following the passing of this Resolution; or

(ii) the expiration of the 12-month period following the passing of this Resolution; or

(iii) the date on which the authority set out in this Resolution is revoked or varied by a special resolution of the shareholders of the Company in a general meeting; and

"Rights Issue" means the allotment or issue of shares in the Company or other securities which would or might require shares to be allotted and issued pursuant to an offer made to all the shareholders of the Company (excluding for such purpose any shareholder who is resident in a place where such offer is not permitted under the law of that place) and, where appropriate, the holder of other equity securities of the Company entitled to such an offer, pro rata (apart from fractional entitlements) to their existing holdings of shares or such other equity securities; and

(d) contingent on the Directors resolving to issue shares pursuant to sub-paragraph (b) of this Resolution, the Board of Directors be authorised to approve, execute and do or procure to be executed and done, all such documents, deeds and things as it may consider necessary in connection with the issue of such new shares including, without limitation, the time and place of issue, making all necessary applications to the relevant authorities, entering into an underwriting agreement (or any other agreement), determining the use of proceeds and making all necessary filings and registrations with the relevant PRC, Hong Kong and other authorities, including but not limited to, increasing the registered capital of the Company in accordance with the actual increase of capital by issuing shares pursuant to sub-paragraph (b) of this Resolution as confirmed in a capital verification report prepared by certified accountants and to register the increased capital with the relevant authorities in the PRC.";

11. to receive a report on the construction progress of Jining III coal mine; and

12. to consider and approve proposals (if any) put forward at such meeting by any shareholder(s) holding 5 per cent. or more of the shares carrying the right to vote at such meeting.

By order of the Board of Directors
Zhao Jingche
Chairman

Zoucheng, Shandong, PRC, 12th April, 1999

NOTES:

(A) Holders of the Company's overseas-listed foreign invested shares (in the form of H shares) whose names appear on the Company's register of members which is maintained by HKSCC Registrars Limited ("HKSCC") at the close of business on 4th May, 1999 are entitled to attend the Annual General Meeting after completing the registration procedures for attending the meeting.

(B) Holders of H shares, who intend to attend the Annual General Meeting, must deliver the written replies for attending the Annual General Meeting to the Office of the Secretary of the Board of Directors of the Company no later than 13th May, 1999. In addition to the foregoing:

(1) Such holders of H shares shall deliver copies of instruments of transfer, share certificates and their own identity cards to the Office of Secretary of the Board of Directors of the Company; and

(2) In case such holders are not represented by authorised representatives, they shall also deliver their powers of attorney and copies of the attorney's documents of identity to the registered address of the Company.

Shareholders can deliver the necessary documents for registration by the Company in person, by post or by facsimile. Upon receipt of such documents, the Company will complete the registration procedures for attending the Annual General Meeting and dispatch copies of Annual General Meeting admission cards to shareholders by post or facsimile. When attending the Annual General Meeting, shareholders or their proxies may exchange copies or facsimile copies of the Annual General Meeting admission cards for the original Annual General Meeting admission cards.

(C) Details of the Office of the Secretary of the Board of Directors of the Company are as follows:

40 Fushan Road
Zoucheng
Shandong Province 273500
PRC
Tel: 86-537-538-3310
Fax: 86-537-538-3311

(D) Each shareholder of H shares who has the right to attend and vote at the Annual General Meeting is entitled to appoint in writing one or more proxies, whether a shareholder or not, to attend and vote on his behalf at the Annual General Meeting. A proxy of a shareholder who has appointed more than one proxy may only vote on a poll. The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorised in writing. If that instrument is signed by an attorney of the appointor, the power of attorney authorising that attorney to sign, or other documents of authorisation, must be notarially certified. For holders of H shares, the power of attorney or other documents of authorisation and proxy forms must be delivered to HKSCC no less than 24 hours before the time appointed for the holding of the Annual General Meeting in order for such documents to be valid.

(E) The H share Register will be closed from 4th May, 1999 to 3rd June, 1999 (both days inclusive), during which time no transfer of H shares will be registered. Holders of H shares who wish to attend the Annual General Meeting must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates to HKSCC by no later than 4:00 p.m. on 13th May, 1999. Holders of H shares who wish to qualify for entitlement to the 1998 dividend of RMB0.057 per share (including taxation) referred to above must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates to HKSCC by no later than 4:00 p.m. on 3rd May, 1999.

HKSCC's address is as follows:

2nd Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

(F) The Annual General Meeting is expected to last half a day. Shareholders attending the Annual General Meeting are responsible for their own transportation and accommodation expenses.