
REVIEW OF OPERATIONS

The following discussion is based on the Company's historical results for the first half of 1999 and the Company's historical results for the first half of 1998, which were prepared in accordance with IAS.

Production

The Company's coal production increased by 2.880 million tonnes, or 31.6%, to 11.980 million tonnes in the first half of 1999 from the same period in 1998 production of 9.100 million tonnes. The increase was principally attributable to an increase of Jining II's production, and a steady increase in the production of the four original mines as a result of an upgrading of mining techniques and equipment.

Product Sales

The Company's sales volume increased by 2.283 million tonnes, or 24.8%, to 11.505 million tonnes in the first half of 1999, of which 8.097 million tonnes were sold in the domestic market, an increase of 26.3% as compared with the same period in 1998 (the critical factor was the increase of sales of raw coal and thermal coal), and 3.408 million tonnes were exported, an increase of 21.2% as compared with the same period in 1998 (the critical factor was an increase of transactions in the spot market in the first three months in 1999). The increase in sales volume was due to: (1) the Company put emphasis on improving product quality and strengthening after sales services so as to improve its market competitiveness; and (2) the Company attentively expanded its sales network and developed new customers. The increase in sales volume reflects the Company's strengthened market competitiveness in both the domestic and overseas coal markets.

Net sales increased by RMB55.364 million, or 3.1%, to RMB1,865.188 million in the first half of 1999 on a year-on-year basis. Domestic sales and export sales accounted for 64.6% and 35.4% of total net sales, respectively. The increase was principally attributable to an increase in sales volume of 24.8%, which was partially offset by an average coal price decline of 17.4%.

The following table sets out the Company's net sales by product category for the six months ended 30th June, 1998 and 1999, respectively:

(unaudited and prepared in accordance with IAS)

	For the six months ended 30th June, 1999			For the six months ended 30th June, 1998		
	Sales volume '000 tonnes	Net sales RMB '000	% of total net sales	Sales volume '000 tonnes	Net sales RMB '000	% of total net sales
Clean Coal						
No.1 Clean Coal	135.8	34,180	1.8%	253.3	93,760	5.2%
No.2 Clean Coal/Thermal Coal						
Domestic Sales	1,008.0	195,483	10.5%	644.2	165,639	9.2%
Exports	3,408.0	659,971	35.4%	2,812.1	635,100	35.1%
Subtotal	4,416.0	855,454	45.9%	3,456.3	800,739	44.3%
Subtotal for Clean Coal	4,551.8	889,634	47.7%	3,709.6	894,499	49.5%
Screened Raw Coal	5,873.0	861,289	46.2%	4,934.8	840,455	46.4%
Mixed Coal and others	1,079.8	114,265	6.1%	577.6	74,870	4.1%
Total	11,504.6	1,865,188	100.0%	9,222.0	1,809,824	100.0%

Product Pricing

The following table sets out the Company's product prices for the six months ended 30th June, 1998 and 1999, respectively, and for the six months ended 31st December, 1998:

(unaudited and prepared in accordance with IAS)

	For the six months ended 30th June,		For the six months ended 31st December,
	1999 historical average price (RMB per tonne)	1998 historical average price (RMB per tonne)	1998 historical average price ⁽¹⁾ (RMB per tonne)
Clean Coal			
No. 1 Clean Coal	251.60	370.15	141.78 ⁽²⁾
No.2 Clean Coal/Thermal Coal			
Domestic sales	193.93	257.12	208.50
Exports	193.65	225.85	201.10
Screened Raw Coal	146.65	170.31	149.83
Mixed Coal and others	105.83	129.62	122.81
Average	162.13	196.25	169.74

- (1) The 1998 historical average price per tonne for the six months ended 31st December, 1998 was calculated on the following basis:

(Net sales for the year ended 31st December, 1998) less (net sales for the six months ended 30th June, 1998)

(Sales volume for the year ended 31st December, 1998) less (sales volume for the six months ended 30th June, 1998)

Information relating to net sales and sales volume for the year ended 31st December, 1998 was extracted in the Company's 1998 annual report.

- (2) The price of No.1 Clean Coal disclosed in the 1998 interim report included the transportation fee from the Company to the port, which was deducted in 1998 annual report. For the whole transportation fee in 1998 was deducted from the price of No.1 Clean Coal in the second half of 1998, there is a wider difference as compared with the price in the first half of 1998.

The Company's average coal price declined by 17.4% in the first six months of 1999 as compared with the same period last year. The decline was principally attributable to the oversupply situation in the domestic coal market, the substantial reduction of export coal price in the international coal market impacted by the Asian economic turmoil. The increase of sales in the spot market was also a critical factor that led to the decline of export coal price.

The Company's average coal price declined by 4.5% in the first six months of 1999 as compared with the second six months of 1998, of which domestic coal price declined by 2.0% and export coal price declined by 3.7%. The decline in domestic coal price remained stable. (Export sales increased by RMB28.870 million. The increase was principally due to: (1) an exemption from port construction fee of RMB 7.00 per tonne from 1st April, 1999; (2) a reduction of RMB 5.70 per tonne in port handling charges; (3) export agency commission decrease from a maximum of 3% to less than 1.5%; (4) an exemption from local commodity inspection fee of RMB 0.20 per tonne effective 1st June, 1999. Without taking into account of these factors, the Company's average coal price and export coal price declined by 6.0% and 7.9%, respectively, as compared with those in the second half of 1998. The measures of encouraging export taken by the PRC government enhanced the Company's competitiveness in the international coal market.)

Cost and Expenses

Cost of goods sold for the first six months of 1999 decreased by RMB6.438 million, or 0.7%, to RMB 962.453 million as compared with that in the same period in 1998. The decrease in cost of goods sold was principally due to (1) reduction in cost by improving efficiency, increasing production, and strengthening the controlling of materials and electricity; (2) a decrease of RMB7.507 million in depreciation by improving efficiency and suspension of mining equipment; (3) a decrease of RMB 6.869 million because of the cancellation of the contribution to MOCI of RMB1.00 per tonne of raw coal mined; and (4) a decrease in sales cost of RMB43.518 million because the Company's export VAT rebate was increased from 9% to 13% effective 1st April, 1999. All the expenses increases mentioned above were partially offset by the increase of other variable expense caused by increase of production.

Selling, general and administrative expenses increased by RMB12.839 million, to RMB270.760 million for the first six months of 1999 from RMB257.921 million for the same period in 1998, principally due to: (1) an increase of RMB 5.027 million in farm land encroachment tax; (2) a provision for doubtful debts of RMB1.578 million; and (3) an increase of RMB 2.121 million in resource compensation fees.

Interest expenses decreased by RMB60.220 million, or 95.5%, to RMB2.843 million for the first six months of 1999 from RMB 63.063 million for the same period in 1998.

Income

The Company's operating income increased by RMB48.963 million, or 8.4%, to RMB631.975 million for the first six months of 1999 from RMB 583.012 million for the same period in 1998. The increase was principally due to an increase in net sales and a decrease in cost of goods sold. Operating income margin increased by 1.7 percent in the first six months of 1999 as compared with the same period in 1998.

Income before income taxes increased by RMB97.138 million, or 18.1%, to RMB 634.967 million in the first half of 1999 from the results of RMB537.829 million for the same period of 1998, which was principally due to an increase in operating income and a decrease in interest expenses.

Net income increased by RMB72.878 million, or 19.6%, to RMB445.501 million in the first six months of 1999 from the result of RMB 372.623 million for the same period in 1998. The increase was principally due to an increase in sales volume and a decrease in cost and expenses. Net income margin is 33.9%, increased by 3.3 percent to 23.9% in the first six months of 1999 as compared with the same period in 1998.

Income Tax

For the period under review, the Company was subject to an income tax rate of 33% in accordance with the Provisional Regulations of the People's Republic of China ("PRC") on Enterprise Income Tax.

HOUSING SCHEME

The Company's parent company, Yankuang Group Corporation Limited (formerly known as Yanzhou Mining (Group) Corporation Limited)(the "Parent Company") is responsible for providing accommodation to its employees and the employees of the Company. The Company and the Parent Company share the incidental expenses relating to the accommodation on a pro-rata basis based on head count. Such expenses amounted to RMB14.850 million and RMB14.850 million for the first six months in 1998 and 1999, respectively.

OUTLOOK FOR THE SECOND HALF OF 1999

In 1999, the PRC government has made some new policies and introduced new measures to balance the supply and demand of coal, and to boost coal exports. These policies and measures have helped coal mining companies increase their profits.

The PRC government's policies of expanding domestic demand to stimulate economic development have successfully promoted national economic growth. The Gross National Product of the first half of 1999 increased by 7.6% as compared with the same period of 1998. The PRC government is expected to take further steps to expand domestic demand in the second half of 1999. New policies will be introduced to accelerate the economic reforms of state-owned enterprises.

From 1998 onward, the PRC government has taken a series of measures such as shutting down some coal mines and reducing coal production to overcome the oversupply problem. The implementation of these measures has achieved partial results. Total coal production is now under effective control. Up to the end of June 1999, 23,000 small coal mines had been shut

down. The total coal production for the first half of 1999 in the PRC declined by 7.89% as compared with the same period of 1998, among which the production of small coal mines declined by 27.89% as compared with the same period of 1998. In the meantime, 14 state-owned coal mine enterprises will be declared bankruptcy by the order of the government, and as a result, 40 big coal mines owned by these enterprises will be shut down this year. The reduction of supply will have a positive effect in the domestic market.

Although the Southeast Asian economic crisis has led to much more bitter competition in the international coal market and to the fall of coal price, the PRC's coal exports still tended to increase.

The Directors believe that the coal price trend will improve in the second half of 1999, because domestic supply of coal has been reduced and majority of coal enterprises have been running at a deficit. There is little room for the coal price to fall. The Company's coal price is quite stable as compared with the second half of 1998. The coal price is at the bottom. The domestic coal price for the second half of 1999 is estimated to remain at the current level.

In order to encourage coal exports, the PRC government has introduced a series of measures to help Chinese coal producers. These measures include: (1) an exemption from port construction fee of RMB 7.00 per tonne from 1st April, 1999 to 31st March, 2001; (2) an increase in the rebate on VAT payable in respect of exports, from 9% to 13% effective 1st April, 1999; (3) a reduction of RMB 5.70 in port handling charges; (4) a reduction of export agency commission from a maximum of 3% to less than 1.5%; and (5) exemption from local commodity inspection fee of RMB 0.20 per tonne from 1st June, 1999. As a result of these government measures, the company's profitability from coal exports will increase in the second half of 1999.

In the second half of 1999, the Company will continue to implement its management strategy of increasing sales volume, reducing costs and looking for acquisition opportunities to increase its profitability and improve its earnings growth prospects.

The Company will continue to take measures to enhance its sales capacity. These measures consist of increasing coal product quality, expanding sales network, accelerating the construction of coal mixing centers and offering better customer tailored after-sales service. At the same time, the Company will focus on increasing the quantity of coal exports.

The Company will reduce costs and expenses by cutting down the labor force and increasing efficiency.

The Company will consider acquisition opportunities to improve the Company's overall operative ability, reduce operating expenses, standardize company operation, reduce connected transactions so long as it's possible and expand its presence and leading position in both domestic and export markets. Special attention will be paid to the potential returns for shareholders.

The Company will take advantage of its high efficiency and low operating cost, as well as its favorable geographic location to enhance its competitive capacity. The Company is confident that it will continue to be the most profitable and competitive coal mining company in China.

CHANGE IN SHARE CAPITAL STRUCTURE AND SUBSTANTIAL SHAREHOLDERS

Change in share capital

'000 shares Par value per share: RMB 1.00

Changes during the period under review			
(Increase/Decrease)			
	Number of shares issued at the beginning of the period	Listing of Employee shares	Number of shares issued at the end of the period
1. Shares not listed for public dealings			
(1) Subscriber shares of which:	1,670,000	–	1,670,000
Domestic legal person shares	1,670,000	–	1,670,000
(2) Employee shares	8,000	–8,000	–
Total number of shares not listed for public dealings	1,678,000	–8,000	1,670,000
2. Shares listed for public dealings			
(1) Domestically listed			
RMB Ordinary Shares	72,000	8,000	80,000
(2) Foreign invested Shares listed on overseas stock exchanges	850,000	–	850,000
Total number of shares listed for public dealings	922,000	8,000	930,000
3. Total shares	2,600,000	–	2,600,000

Substantial Shareholders

As at 30th June, 1999, the following shareholders were the major shareholders of the Company:

Name	Class of shares held	Number of shares	Percentage holding (%)
Yankuang Group Corporation Limited	State legal person shares	1,670,000,000	64.23
HKSCC Nominees Limited	H shares	844,779,800	32.49
Xinghua Fund	A shares	3,184,849	0.12
Yunlong Fund	A shares	2,897,400	0.11
Xinying Company	A shares	2,441,350	0.09
Zhou Yinlan	A shares	779,000	0.03
Chow Kar Chun Eddie	H shares	462,000	0.02
You Chonghong	A shares	382,491	0.01
Wu Liecong	A shares	348,020	0.01
Zhu Liang	A shares	340,000	0.01

Save as disclosed above, no other shareholder was recorded in the register kept pursuant to the Provisional Regulations Governing the Issuance and Transaction of Securities in the PRC as

having an interest of 5% or more of the Company's public shares; no other shareholder was recorded in the register kept pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") as having an interest of 10% or more of the Company's domestic invested shares or foreign invested shares during the six months ended 30th June, 1999.

DIRECTORS' AND SUPERVISORS' INTERESTS

As of 30th June, 1999, the Company's directors and supervisors held in aggregate 180,000 A shares, representing 0.0069% of the Company's total issued share capital. Detail are as follows:

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

Save as disclosed herein, none of the Company's directors or supervisors had, as at 30th June, 1999, any interests in any shares in or debentures of the Company or any associated corporation (within the meaning of the SDI Ordinance) which are required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Section 28 of the SDI Ordinance (including interests which they are taken of are deemed to have under Section 31 of, or Part I of the Schedule to, the SDI Ordinance), or which are required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or, in the case of supervisors or the associates of directors of supervisors, which would be required to be named as described above if they had been directors.

DISCLOSURE OF SIGNIFICANT EVENTS

Listing of Employee Shares

As at 1st, January, 1999, the Company's A shares have been traded for six months. Approved by the Shanghai Securities Exchange, the Company's 8,000,000 employee shares were listed on 4th January, 1999, of which 221,000 shares held by the Company's directors, supervisors and senior management cannot be transferred temporarily.

Final Dividends

At the 1998 annual general meeting of the Company held on 3rd June, 1999, the shareholders of the Company approved a final dividend of RMB 148,200,000 (before tax), or RMB0.057 per share (before tax). Such final dividend was paid to shareholders of the Company on 17th June, 1999.

Interim Dividends

In an annual general meeting of 1998 held on 3rd June, 1999, article 147 in the Articles of Association of the Company was amended as "the Company shall distribute final dividends once a year, and the Board of Directors' power to distribute and pay such dividends requires authorisation by way of general resolutions passed at a general meeting". (the original wording was "the Company shall distribute twice a year, and the Board of Directors' power to distribute and pay interim dividends and final dividends requires authorisation by way of general resolutions passed at a general meeting").

Construction Progress of Jining III Coal Mine

The Company owns an exclusive option to purchase Jining III coal mine. The option can be exercised at any time before 1st July, 2004 or before the 6th year after the commencement of commercial production of Jining III coal mine (whichever is later). The designed annual raw coal production capacity of Jining III is 5 million tonnes. The construction progress of Jining III is at the following stage:

The mine production system will be completed by the end of September, 1999. It is expected to be ready for production.

The coal preparation plant is under construction, and is expected to be completed in 2000.

The whole railway system of the coal mine has been finished and is capable for routine transportation of coal.

In comparison with the other five coal mines of the Company, Jining III coal mine has the following characteristics:

1. The layout of the mining tunnel is suitable for the comprehensive extracting and caving techniques. Adopting production methods of mining blocks forward and working face backward, the mine will soon reach its designed production capacity.
2. As for the auxiliary transportation, free steering vehicles are used in the mine. In comparison with rail transportation, the free steering vehicles are more reliable and of higher efficiency.
3. With fully mechanized system and caving method as its core technology, the equipment for production system is sophisticated in the world.

Jining III coal mine will be in operation by the end of 1999. The company will keep a close watch on the development of both construction and production of the coal mine.

Connected Transactions

The Company's connected transactions in the first half of 1999 are set out in note (0) of the financial statements prepared in accordance with PRC GAAP.

Use of Proceeds

The net proceeds received from the Company's initial public offering in March 1998 have been applied in full to pay the purchase price for the Jining II coal mine, in the manner described in the Company's Hong Kong prospectus dated 24th March, 1998.

Year 2000 Issue

Just as disclosed in the Company's annual report of 1998, the Company has completed its targeted plan to render its computer system Y2K compliant by 30th June, 1999.

According to the "PRC Electronics Industry Standard- Specification for year 2000 compliance test", the Company has tested all the computer systems, including examination on the potential affects of some special dates such as "9/9/99". The company has developed contingency plans to deal with some potential problems which may affect the main system. There is a designated group in charge of the Y2K issue in the Parent Company. The group will brief the Board of Directors and management staff on the Y2K issue regularly.

The Parent Company is responsible for all work and related expenses for the Y2K issue. The Company will pay the Parent Company RMB 6 million for the Y2K issue expenditure by 30th June, 2000 as general expenses. RMB3 million will be paid by the Company and charged as general expenses in the second half of 1999 while the remainder will be paid and expensed in the first half of 2000.

Auditors

The Company retained Deloitte Touche Tohmatsu Shanghai CPA and Deloitte Touche Tohmatsu as its domestic and international auditors, respectively.

Purchase Sale or Redemption of Shares

The Company did not purchase, sell or redeem any of its shares during the six months ended 30th June, 1999.

Compliance with Code of Best Practice

As at 30th June, 1999, the Board of Directors of the Company had not established an audit committee. However, the Company's organizational structure has, in lieu, a Board of Supervisors which carries out functions similar to that of an audit committee, the differences being that the Company's Board of Supervisors comprises five members (one of which shall be an employee representative) who are elected and removed in the general meeting of shareholders, and which reports to the general meeting of shareholders instead of the Board of Directors, whereas an audit committee is appointed amongst the non-executive directors of a company.

Except for the above mentioned, none of the directors is aware of any information that would reasonably indicate that the Company is not in compliance, or has not during the six months ended 30th June, 1999 complied with the Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong.

Trust Deposits

As at 30th June, 1999, the Company did not have any trust deposits with any non-bank financial institutions, nor has the Company encountered any difficulties in withdrawing its deposits.

Material Litigation and Arbitration

The Company was not involved in any material litigation or arbitration during the six months ended 30th June, 1999.

Material Contracts

The Company did not enter into any material contract during the six months ended 30th June, 1999.

DOCUMENTS AVAILABLE FOR INSPECTION

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

The full text of the interim report signed by the Chairman;

Accounting statements signed by corporate representative, financial manager and accountant;

The Articles of Association of the Company.

On behalf of the Board

Zhao Jingche

Chairman

Zoucheng, P.R.China

27th August, 1999

INTERIM RESULTS

The Board of Directors of Yanzhou Coal Mining Company Limited (the “Company”) has the pleasure of presenting the interim operating results of the Company for the six months ended 30th June, 1999 prepared in conformity with (i) the relevant accounting principles and regulations applicable to PRC enterprises (“PRC GAAP”) and (ii) International Accounting Standards (“IAS”).

(i) 1. Unaudited statements of income
(prepared in accordance with PRC GAAP)

		Six months ended 30th June,	
	<i>Notes</i>	1999 <i>(RMB '000)</i>	1998 <i>(RMB '000)</i>
NET REVENUE FROM PRINCIPAL OPERATIONS		2,166,532	2,055,153
LESS: COST OF PRINCIPAL OPERATIONS		1,022,751	1,005,281
SALES TAXES ON PRINCIPAL OPERATIONS		42,894	23,177
INCOME FROM PRINCIPAL OPERATIONS		1,100,887	1,026,695
ADD: INCOME FROM OTHER OPERATIONS	5(a)	2,652	6,068
LESS: PROVISION ON NET REALISABLE VALUE OF INVENTORIES		—	—
OPERATING EXPENSES		309,149	269,416
ADMINISTRATIVE EXPENSES		219,706	214,332
FINANCIAL EXPENSES	5(b)	(290)	61,078
OPERATING INCOME		574,974	487,937
ADD: NON-OPERATING INCOME	5(c)	40	13,332
LESS: NON-OPERATING EXPENSES	5(d)	874	645
PROFIT BEFORE INCOME TAXES		574,140	500,624
LESS: INCOME TAXES	5(e)	189,466	165,206
NET INCOME		<u>384,674</u>	<u>335,418</u>

2. Unaudited balance sheet

(prepared in accordance with PRC GAAP)

	<i>Notes</i>	As of 30th June, 1999 (RMB '000)	As of 31st December, 1998 (RMB '000)
ASSETS			
CURRENT ASSETS			
Bank balances and cash		431,063	290,665
Bills receivable		21,189	168,058
Accounts receivable	5(f)	971,613	493,530
Less: Provision on doubtful debts		33,142	31,563
Accounts receivable, net		938,471	461,967
Prepayments		49,788	41,203
VAT refundable		82,464	71,267
Other receivables	5(g)	453,606	448,245
Inventories	5(h)	227,884	297,595
Deferred expenditure		–	16,412
TOTAL CURRENT ASSETS		2,204,465	1,795,412
FIXED ASSETS			
FIXED ASSETS, COST		7,763,155	7,764,126
LESS: ACCUMULATED DEPRECIATION		3,258,897	3,003,245
FIXED ASSETS, NET		4,504,258	4,760,881
CONSTRUCTION MATERIALS		6,142	1,566
CONSTRUCTION IN PROGRESS	5(i)	785,200	495,334
FIXED ASSETS TO BE DISPOSED		596	73
TOTAL FIXED ASSETS		5,296,196	5,257,854
LONG TERM DEFERRED EXPENDITURE 5(j)		6,425	7,343
INTANGIBLES		299,888	302,993
TOTAL ASSETS		7,806,974	7,363,602

2. Unaudited balance sheet

(prepared in accordance with PRC GAAP)

	Notes	As of 30th June, 1999 (RMB '000)	As of 31st December, 1998 (RMB '000)
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Notes payable		15,000	8,500
Accounts payable		402,135	498,912
Advances from customers		37,494	74,231
Wages payable		21,025	19,039
Dividends payable		95,361	148,200
Taxes payable	5(k)	239,847	359,235
Other accounts payable		772,657	405,590
Accrued expenses		30,806	—
Other current liabilities	5(l)	234,854	161,774
TOTAL CURRENT LIABILITIES		1,849,179	1,675,481
LONG-TERM LOAN	5(m)	—	115,000
TOTAL LIABILITIES		1,849,179	1,790,481
SHAREHOLDERS' EQUITY			
Share capital		2,600,000	2,600,000
Capital reserves	5(n)	2,364,455	2,364,455
Surplus reserves			
including statutory		135,190	135,190
public welfare fund		45,063	45,063
Unappropriated profits		858,150	473,476
SHAREHOLDERS' EQUITY		5,957,795	5,573,121
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		7,806,974	7,363,602

3. Unaudited statement of profit appropriation

(prepared in accordance with PRC GAAP)

	Six months ended 30th June,	
	1999 (RMB '000)	1998 (RMB '000)
Net income for the period	384,674	335,418
Add: Balance at beginning of period	473,476	56,312
Profits available for appropriation	858,150	391,730
Less: Transfer to statutory common fund	—	—
Transfer to statutory public welfare fund	—	—
Profits attributable to shareholders	858,150	391,730
Less: Transfer to discretionary surplus fund	—	—
Dividends paid	—	—
Unappropriated profits	858,150	391,730

4. Significant PRC accounting policies

(a) Accounting policy

The Company adopted “Accounting Regulations for Joint Stock Limited Companies” on 1st January, 1998. The accounting policies adopted remained unchanged during the period.

(b) Accounting year

The accounting year for the Company commences on 1st January and ends on 31st December, each year.

(c) Reporting principle and accounting basis

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

(d) Reporting currency

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

(e) Foreign currency translation

Transactions denominated in foreign currencies are translated into Renminbi at the applicable rates of exchange prevailing at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the applicable rates of exchange prevailing at the balance sheet dates. Profits and losses arising on translation are dealt with in the statement of income.

(f) Provision for doubtful debts

Provision for doubtful debts has been made based on the aging analysis of the accounts receivable.

(g) Income tax

Income tax is provided using the tax liability method.

(h) Tax refunds

Tax refunds are recognized as income for the year by the amount received and the amount confirmed but not yet received.

(i) Taxes and other additional fees

<u>Major tax item</u>	<u>Basis of provision</u>	<u>Tax rate</u>
Income tax	Assessable income	33%
Value added tax ("VAT")	The net amount of VAT on sales less VAT on purchases for the period	13%, 17%
City construction tax	Sales tax, VAT payable	7%
Educational fee	Sales tax, VAT payable	3%
Resources tax	The sum of the quantity of raw coal sold and the quantity of raw coal consumed for the production of clean coal	RMB 1.20 per tonne

5. Notes to the unaudited financial statements

(prepared in accordance with PRC GAAP)

(a) Income from other operations

	Six months ended 30th June,	
	1999	1998
	<i>(RMB '000)</i>	<i>(RMB '000)</i>
Sales of auxiliary materials	2,602	3,416
Others	50	2,652
Total	<u>2,652</u>	<u>6,068</u>

5. Notes to the unaudited financial statements

(prepared in accordance with PRC GAAP)

(b) Financial expenses

	Six months ended 30th June,	
	1999 (RMB'000)	1998 (RMB'000)
Interest expenses	275	61,023
Others	(565)	55
Total	<u>(290)</u>	<u>61,078</u>

(c) Non-operating income

	Six months ended 30th June,	
	1999 (RMB'000)	1998 (RMB'000)
Gain on disposal of fixed assets	40	406
Interest income on shares subscription payments	–	12,424
Others	–	502
Total	<u>40</u>	<u>13,332</u>

(d) Non-operating expenses

	Six months ended 30th June,	
	1999 (RMB'000)	1998 (RMB'000)
Loss on disposal of fixed assets	334	–
Penalties	28	57
Others	512	588
Total	<u>874</u>	<u>645</u>

(e) Income taxes

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

(f) Accounts receivable

The aging analysis of the gross accounts receivable is as follows:

Outstanding period	As of 30th June, 1999		As of 31st December, 1998	
	Amount <i>(RMB '000)</i>	Percentage <i>(%)</i>	Amount <i>(RMB '000)</i>	Percentage <i>(%)</i>
Within 1 year	931,383	95.9	457,680	92.7
1 to 2 years	21,476	2.2	21,282	4.3
2 to 3 years	12,836	1.3	6,307	1.3
Over 3 years	5,918	0.6	8,261	1.7
Total	<u>971,613</u>	<u>100.0</u>	<u>493,530</u>	<u>100.0</u>

(g) Other receivables

The aging analysis of the other receivables is as follows:

Outstanding period	As of 30th June, 1999		As of 31st December, 1998	
	Amount <i>(RMB '000)</i>	Percentage <i>(%)</i>	Amount <i>(RMB '000)</i>	Percentage <i>(%)</i>
Within 1 year	444,087	98.0	435,950	97.3
1 to 2 years	7,287	1.6	8,516	1.9
2 to 3 years	1,499	0.3	3,125	0.7
Over 3 years	733	0.1	654	0.1
Total	<u>453,606</u>	<u>100.0</u>	<u>448,245</u>	<u>100.0</u>

(h) Inventories

	As of 30th June, 1999 <i>(RMB '000)</i>	As of 31st December, 1998 <i>(RMB '000)</i>
Auxiliary materials, spare parts and small tools	161,586	217,858
Coal products	66,298	79,737
Total	<u>227,884</u>	<u>297,595</u>

(i) Construction in progress

The movement of construction in progress for the period is as follows:

Project	As of 1st January, 1999 (RMB'000)	Additions (RMB'000)	Transfers on completion (RMB'000)	Other deductions (RMB'000)	As of 30th June, 1999 (RMB'000)	Sources of Funds	Progress
Equipment to be installed	443,234	273,335	–	–	716,569	internally generated funds	under construction
Buildings under construction	48,692	15,676	261	–	64,107	internally generated funds	under construction
Others	3,408	1,116	–	–	4,524	internally generated funds	under construction
Total	<u>495,334</u>	<u>290,127</u>	<u>261</u>	<u>–</u>	<u>785,200</u>		

(j) Long term deferred expenditure

	As of 1st January, 1999 (RMB'000)	Additions (RMB'000)	Amortization (RMB'000)	As of 30th June, 1999 (RMB'000)
Training fee upon establishment of the Company	<u>7,343</u>	<u>–</u>	<u>(918)</u>	<u>6,425</u>

(k) Taxes payable

	As of 30th June, 1999 (RMB'000)	As of 31st December, 1998 (RMB'000)
Income tax payable	189,466	297,426
Value added tax payable	42,469	52,310
Others	7,912	9,499
Total	<u>239,847</u>	<u>359,235</u>

(l) Other current liabilities

	Plantation fee (RMB'000)	Wei Jian Fai (RMB'000)	Total (RMB'000)
Balance at 1st January, 1999	–	161,774	161,774
Increase during the period	1,834	71,246	73,080
Decrease during the period	–	–	–
Balance at 30th June, 1999	<u>1,834</u>	<u>233,020</u>	<u>234,854</u>

According to the current legislation in the territories, the Company has to accrued for “Wei Jian Fai” based on a rate of RMB6.00 per tonne of coal mined. This accrual is included in both production cost and other current liabilities.

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 refurbishment cost of the coal mining structures, will be transferred to capital surplus upon the completion of construction projects at the year end.

(m) Long-term loan

	As of 31st December, 1998 (RMB'000)	As of 30th June, 1999 (RMB'000)	Term	Interest rate	Condition
China Construction Bank Yanzhong Mining Branch	115,000	–	10 years	12.42%	Guaranteed by the Yankuang Group Corporation Ltd.

The original loan amount was RMB 1.8 billion and repayable by installments from 1st October, 1997 to 30th June, 2007. The Company had repaid the full amount of the loan in advance of the repayment schedule by 30th June, 1999.

(n) Capital reserves

	As of 30th June, 1999 and 31st December, 1998 (RMB'000)
Share premium	1,363,613
Property revaluation reserve	596,104
Capital reserves	<u>404,738</u>
Unclassified	<u>2,364,455</u>

(o) Related party transactions

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

Registered name : Yankuang Group Corporation Ltd. (the “Parent Company”)
Legal address : 40 Fushan Road, Zoucheng, Shandong Province, PRC
Principal operation : Industrial production
Relationship with
the Company : Parent Company
Economic status : Stated-owned
Authorised legal
representative : Zhao Jingche

There was no change in the shareholding of the Company held by the Parent Company.

(2) Related party which cannot exercise control over the Company

Name	Relationship with the Company
Zoucheng Nanmei Shipping Co., Ltd.	Subsidiary of the Parent Company

(3) Sales

	Six months ended 30th June, 1999 (RMB'000)	As a % of total sales	Six months ended 30th June, 1998 (RMB'000)	As a % of total sales
Yankuang Group Corporation Ltd.	13,957	0.7	16,487	0.8
Zoucheng Nanmei Shipping Co., Ltd.	8,823	0.4	15,279	0.7
	<u>22,780</u>	<u>1.1</u>	<u>31,766</u>	<u>1.5</u>

(4) Purchases

	Six months ended 30th June, 1999 (RMB'000)	As a % of total sales	Six months ended 30th June, 1998 (RMB'000)	As a % of total sales
Yankuang Group Corporation Ltd.,	<u>55,860</u>	<u>8.75</u>	<u>50,230</u>	<u>12.6</u>

(5) Balances with related parties

		As of 30th	As of 31st
	Name	June, 1999	December,
		<i>(RMB '000)</i>	1998
			<i>(RMB '000)</i>
Bills receivable	Yankuang Group Corporation Ltd.	–	8,000
Accounts receivable	Yankuang Group Corporation Ltd.	9,382	15,268
Prepayments	Yankuang Group Corporation Ltd.	22,575	29,936
Other receivables	Yankuang Group Corporation Ltd.	137,959	258,341
Accounts payable	Yankuang Group Corporation Ltd.	17,884	15,134
Receipts in advance	Yankuang Group Corporation Ltd.	–	2,228
Other accounts payable	Yankuang Group Corporation Ltd.	664,141	324,799
Dividends payable	Yankuang Group Corporation Ltd.	95,190	95,190

(6) Other matters

1. Pursuant to an agreement signed between the Company and the Parent Company, the Parent Company is responsible for the payment of pension, medical and other welfare benefits to the retired employees of the Company. The Company pays a monthly contribution to the Parent Company for such plan and the amount paid for the first six months of 1999 and 1998 were RMB 80,442,016 and RMB 75,800,000, respectively.
2. The following services were provided by subsidiaries or departments of the Parent Company and were charged to the Company in accordance with a contract signed between the Company and the Parent Company.

	Six months ended	
	30th June,	
	1999	1998
	<i>(RMB '000)</i>	<i>(RMB '000)</i>
Repairs and maintenance	43,650	41,030
Technical support and training	7,570	7,570
Railway transportation	87,640	49,610
Utilities and facilities	1,670	300
Road transportation	6,800	12,860
Social welfare and support service	51,320	42,480

(ii) 1. UNAUDITED STATEMENTS OF INCOME*(prepared in accordance with IAS)*

		Six months ended 30th June,	
	<i>Notes</i>	1999 <i>(RMB '000)</i>	1998 <i>(RMB '000)</i>
NET SALES	3(b)	1,865,188	1,809,824
COST OF GOODS SOLD	3(c)	962,453	968,891
GROSS PROFIT		902,735	840,933
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3(d)	270,760	257,921
OPERATING INCOME		631,975	583,012
INTEREST EXPENSES		(2,843)	(63,063)
OTHER INCOME	3(e)	5,835	17,880
INCOME BEFORE INCOME TAXES		634,967	537,829
INCOME TAXES	3(f)	189,466	165,206
NET INCOME		<u>445,501</u>	<u>372,623</u>
EARNINGS PER SHARE	3(g)	<u>RMB0.17</u>	<u>RMB0.18</u>
EARNINGS PER ADS	3(g)	<u>RMB8.57</u>	<u>RMB8.84</u>

According to the Articles of Association of the Company, the Board of Directors resolved not to declare an interim dividend for the six months ended 30th June, 1999.

2. UNAUDITED BALANCE SHEET

(prepared in accordance with IAS)

	As of 30th June, 1999 <i>(RMB '000)</i>	As of 31st December, 1998 <i>(RMB '000)</i>
ASSETS		
TOTAL CURRENT ASSETS	1,392,702	1,454,282
PROPERTY, PLANT AND EQUIPMENT, NET	5,595,487	5,560,774
GOODWILL	14,379	14,768
DEFERRED TAX ASSET	98,124	98,124
	<hr/>	<hr/>
TOTAL ASSETS	<u>7,100,692</u>	<u>7,127,948</u>
LIABILITIES AND EQUITY		
TOTAL CURRENT LIABILITIES	1,127,647	1,485,403
BORROWINGS - DUE AFTER ONE YEAR	–	115,000
	<hr/>	<hr/>
TOTAL LIABILITIES	1,127,647	1,600,403
SHAREHOLDERS' EQUITY	5,973,045	5,527,545
	<hr/>	<hr/>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>7,100,692</u>	<u>7,127,948</u>

3. NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

a. Basis of presentation

The accompanying financial statements have been prepared in accordance with International Accounting Standards (“IAS”) issued by the International Accounting Standards Committees except for not adopting IAS 34, “Interim Financial Reporting”, which set out the form and content of an interim financial report with the following components: (i) balance sheet; (ii) income statement; (iii) statement showing changes in equity; (iv) cash flow statement; and (v) selected explanatory notes. The Company have not adopted IAS 34 as the directors consider the time and costs involved outweigh the benefit obtained therein and the accompanying financial statements have complied with the requirements of the regulatory bodies where its shares are listed. IAS 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 (i).

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

Difference between IAS and accounting principles generally accepted in the United States of America (“US GAAP”) are stated in note (j).

b. Net sales

	Six months ended 30th June,	
	1999 (RMB '000)	1998 (RMB '000)
Domestic sales, gross	1,261,838	1,174,724
Less: Transportation costs	56,621	—
Domestic sales, net	<u>1,205,217</u>	<u>1,174,724</u>
Export sales, gross	861,800	857,252
Less: Transportation costs	201,829	222,152
Export sales, net	<u>659,971</u>	<u>635,100</u>
Net sales	<u><u>1,865,188</u></u>	<u><u>1,809,824</u></u>

c. Cost of goods sold

	Six months ended 30th June,	
	1999 <i>(RMB '000)</i>	1998 <i>(RMB '000)</i>
Materials	195,611	171,670
Wages and employee benefits	175,321	162,659
Electricity	89,346	84,677
Depreciation	246,481	253,988
Contribution to coal industry fund	11,584	18,453
Relocation cost and land subsidence, restoration, rehabilitation and environmental costs	83,862	64,005
Repairs and maintenance	79,738	80,107
Non-rebated value added taxes	21,860	65,378
Annual fee for mining rights	6,490	6,490
Others	52,160	61,464
	<u>962,453</u>	<u>968,891</u>

d. Selling, general and administrative expenses

	Six months ended 30th June,	
	1999 <i>(RMB '000)</i>	1998 <i>(RMB '000)</i>
Retirement benefits scheme contribution	80,442	75,779
Wages and employee benefits	28,412	29,315
Depreciation	13,072	12,414
Distribtuion charges	22,816	25,946
Resource compensation fees	13,340	11,219
Farm land encroachment tax	5,216	189
Repairs and maintenance	3,671	3,141
Research and development	18,156	17,300
Others	85,635	82,618
	<u>270,760</u>	<u>257,921</u>

e. Other income

	Six months ended 30th June,	
	1999 <i>(RMB'000)</i>	1998 <i>(RMB'000)</i>
Gain on sales of auxiliary materials	2,602	3,415
Interest income	3,233	14,465
	<u>5,835</u>	<u>17,880</u>

f. Income taxes

	Six months ended 30th June,	
	1999 <i>(RMB'000)</i>	1998 <i>(RMB'000)</i>
Income taxes	<u>189,466</u>	<u>165,206</u>

A reconciliation between the provision for income taxes computed by applying the standard PRC income tax rate to income before taxes and the actual provision for income taxes is as follows:

	Six months ended 30th June,	
	1999 <i>(RMB'000)</i>	1998 <i>(RMB'000)</i>
Standard income tax rate in PRC	<u>33%</u>	<u>33%</u>
Standard income tax rate applied to income before income taxes	209,539	177,484
Adjustments under IAS not deductible or subject to tax:		
Adjustment of future development fund, which is charged to income before taxes under PRC accounting regulations, to owner's equity	(19,898)	(12,009)
Others	(175)	(269)
Income taxes	<u>189,466</u>	<u>165,206</u>

g. Earnings per share and per ADS

The calculation of the earnings per share and per ADS for the six months ended 30th June, 1999 is based on the net income for the period of RMB 445,501,000 and on 2,600,000,000 shares and the equivalent 52,000,000 ADSs in issue or assumed to be in issue throughout the period.

The calculation of the earnings per share and per ADS for the six months ended 30th June, 1998 is based on the net income for the period of RMB 372,623,000 and on the weighted average number of 2,106,464,000 shares and the equivalent 42,129,000 ADSs in issue or assumed to be in issue throughout the period.

h. Provision for reserves

No transfer has been made to the statutory common reserve fund and statutory public welfare fund from profit attributable to shareholders for the period.

i. 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:

Net income

	For the six months ended 30th June, 1999 (RMB'000)	Net assets as of 30th June, 1999 (RMB'000)
As per financial statements prepared under IAS	445,501	5,973,045
Impact of IAS adjustments in respect of:		
– future development fund which is charged to income before income taxes under PRC GAAP, to shareholders' equity	(60,298)	(222,062)
– additional provision for land subsidence, restoration, rehabilitation and environmental costs	–	297,345
– deferred assets	(918)	6,425
– goodwill	389	1,166
– deferred income tax	–	(98,124)
	<hr/>	<hr/>
As per financial statements prepared under PRC GAAP	<u>384,674</u>	<u>5,957,795</u>

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

j. 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 revaluation of property, plant and equipment and related adjustments to deferred taxation.

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 purchase consideration of Jining II, a mine acquired from the Parent Company for cash consideration as at 1st January, 1998, 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 of Jining II based on historical cost is adjusted against shareholders' equity.

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

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

	Six months ended 30th June,	
	1999 <i>(RMB '000)</i>	1998 <i>(RMB '000)</i>
Net income as reported under IAS	445,501	372,623
US GAAP adjustments:		
Depreciation charge on revalued property, plant and equipment	83,689	84,826
Amortization of goodwill	389	–
Additional deferred tax charge due to a higher tax base resulting from the revaluation of property, plant and equipment	(27,617)	(27,993)
Net income under US GAAP	<u>501,962</u>	<u>429,456</u>
Net income under US GAAP per share	<u>RMB0.19</u>	<u>RMB0.20</u>
Net income under US GAAP per ADS	<u>RMB9.65</u>	<u>RMB10.19</u>
	As of 30th June, 1999 <i>(RMB '000)</i>	As of 31st December, 1998 <i>(RMB '000)</i>
Shareholders' equity as reported under IAS	5,973,045	5,527,545
US GAAP adjustments:		
Revaluation of property, plant and equipment	(1,912,164)	(1,912,164)
Depreciation charged on revalued property, plant and equipment	337,950	254,261
Additional deferred tax assets due to a higher tax base resulting from the revaluation of property, plant and equipment	519,492	547,109
Goodwill arising on acquisition of Jining II	(14,379)	(14,768)
Special final dividend	–	148,200
Shareholders' equity under US GAAP	<u>4,903,944</u>	<u>4,550,183</u>

Under US GAAP, the Company's total assets would have been RMB 6,002,386,000 and RMB 6,031,591,000 at 31st December, 1998 and at 30th June, 1999, respectively.

k. 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 RMB 14,850,000, and RMB 14,850,000 for the six months ended 30th, June 1999 and 1998, respectively, have been included as part of the social welfare and support services expenses.

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 95% of its employees own their accommodation.

CORPORATE INFORMATION

Registered Name	兖州煤業股份有限公司
English Name	Yanzhou Coal Mining Company Limited
Registered Address	40 Fushan Road Zoucheng Shandong Province 273500 PRC
Website	http://www.yanzhoucoal.com.cn
E-mail	YZC@yanzhoucoal.com.cn
Legal Representative	Zhao Jingche
Company Secretary	Chen Guangshui
Authorised Representatives	Luo Taiyan Chen Guangshui 40 Fushan Road Zoucheng Shandong Province 273500 PRC Tel: (86537)5383310 Fax : (86537)5383311
Places of Listing	A Shares: The Shanghai Securities Exchange Ticker Symbol:600188 Stock Abbreviation: Yanzhou Mei Ye H Shares: The Stock Exchange of Hong Kong Limited Share Code:1171 ADSs: The New York Stock Exchange, Inc. Ticker Symbol: YZC