

Yanzhou Coal Mining Company Limited

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兗州煤業股份有限公司 YANZHOU COAL MINING COMPANY LIMITED

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

(Stock Code: 1171)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

The Board of the Company is pleased to announce the unaudited interim operating results of the Company for the six months ended 30th June, 2004:

- Net sales of the Company in the first half of 2004 was RMB4,452.4 million (or approximately US\$538.0 million, or HK\$4,196.0 million), representing an increase of 27.0% as compared to the net sales of RMB3,504.6 million (or approximately US\$423.3 million, or HK\$3,301.7 million) for the same period last year.
- Net income of the Company in the first half of 2004 was RMB1,224.4 million (or approximately US\$147.9 million, or HK\$1,153.9 million), representing an increase of 65.9% as compared to the net income of RMB738.0 million (or approximately US\$89.13 million, or HK\$695.2 million) for the same period last year.

The board of directors (the "Board") of Yanzhou Coal Mining Company Limited (the "Company") is pleased to present the Company's unaudited interim operating results for the six months ended 30th June, 2004, which have been reviewed by the audit committee of the Board.

In the first half of 2004, net sales of the Company were RMB4,452.4 million, representing an increase of RMB947.8 million, or 27.0%, over the same period last year. Net income was RMB1,224.4 million, representing an increase of RMB486.4 million, or 65.9%, as compared to the same period last year.

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SUMMARY OF UNAUDITED FINANCIAL INFORMATION

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

	For the six months ended 30th June			For the year ended 31st December 2003 (RMB'000) (audited)
	2004 (RMB'000) (unaudited)	2003 (RMB'000) (unaudited)	% change as compared to same period last year (+/-)	
Net sales				
Coal net sales	4,341,689	3,428,625	26.6	6,794,335
Including:				
Domestic	3,181,129	2,181,385	45.8	4,337,089
Export	1,160,560	1,247,240	-6.9	2,457,246
Railway transportation service income	110,731	75,989	45.7	154,585
Total net sales	4,452,420	3,504,614	27.0	6,948,920
Gross profit	2,494,683	1,635,706	52.5	3,193,897
Operating income	1,850,454	1,057,027	75.1	2,034,884
Interest expenses	(20,012)	(37,971)	-47.3	(59,966)
Income before income taxes	1,830,442	1,019,056	79.6	1,974,918
Net income	1,224,433	737,966	65.9	1,386,686
Net cash from operating activities	2,328,937	831,369	180.1	2,701,236
Earnings per share (RMB/share)	0.427	0.257	65.9	0.483

	For the six months ended 30th June			For the year ended 31st December 2003 (RMB'000) (audited)
	2004 (RMB'000) (unaudited)	2003 (RMB'000) (unaudited)		
Current assets	5,815,913	3,935,471		4,417,218
Current liabilities	2,733,414	1,676,447		2,371,966
Total assets	15,024,855	12,776,306		13,909,804
Shareholder's equity	11,836,992	10,434,519		11,083,239
Return on net assets (%)	10.34	7.07		12.51
Net asset value per share (RMB/share)	4.12	3.64		3.86

Note: All the financial data set out in this summary for the six months ended 30th June, 2004 is consolidated with the new additional financial statements of Shandong Yanmei Shipping Co., Ltd. ("Yanmei Shipping").

The gross profit and the sales taxes and surcharges of Yanmei Shipping were booked into the Company's coal transportation costs for the purpose of the consolidation of the financial statements, reducing the total coal sales. As the total sales, operating income and assets of Yanmei Shipping do not have significant impacts on the Company, they will not be separately set out and analyzed in this announcement.

REVIEW OF OPERATIONS

The following discussion is based on the Company's unaudited financial results for the first half of 2004 and 2003, which were prepared in accordance with IFRS.

Coal Production

In the first half of 2004, the Company's raw coal production was 19.81 million tonnes, representing a decrease of 2.03 million tonnes, or 9.3%, as compared to the same period last year. The decrease in raw coal production was primarily due to the new arrangements of workplace and the more frequent assembly and disassembly of workplace in the first half of 2004, especially in the second quarter, to ensure the stable coal production of the Company in the future. In the first half of 2004, the Company's saleable coal production was 18.63 million tonnes, representing a decrease of 1.67 million tonnes, or 8.2%, as compared to the same period last year.

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Coal Sales

In the first half of 2004, the Company's coal sales were 19.04 million tonnes representing a decrease of 0.94 million tonnes, or 4.7%, as compared to the same period last year. Among which, (i) sales to the domestic market were 14.21 million tonnes, representing an increase of 1.09 million tonnes, or 8.3%, as compared to the same period last year. The sales increase in the domestic market was primarily due to the increase of No.2 clean coal sales to the domestic market by 0.61 million tonnes, or 183.9%, the increase of No.3 clean coal sales to the domestic market by 0.85 million tonnes, or 36.6% and the increase of raw coal sales by 0.59 million tonnes, or 8.1%, and as partially offset by decrease of sales of mixed coals and other types of coals to the domestic market by 1.36 million tonnes, or 47.6%; and (ii) sales to the export market were 4.83 million tonnes, representing a decrease of 2.03 million tonnes, or 29.7%, as compared to the same period last year. The sales decrease in export market was primarily due to the decrease of No.2 clean coal sales to the export market by 1.21 million tonnes, or 36.6%, and the decrease of No.3 clean coal sales to the export market by 0.94 million tonnes, or 26.6%, and as partially offset by the increase of lump coal sales to the export market by 0.12 million tonnes, or 100.0%.

Coal Sales Prices

The following table sets out the selling prices of the Company's products for the six months ended 30th June, 2004, 30th June, 2003, and 31st December, 2003, and for the year ended 31st December, 2003 (prepared in accordance with IFRS):

	For the six months ended		For the six	For the
	30th June,		months ended	year ended
	2004	2003	31st December,	31st December,
			2003	2003
	Average price of coal products (RMB per tonne)			
Clean Coal				
No.1 Clean Coal	311.18	245.88	253.28	249.57
No.2 Clean Coal	258.95	191.48	191.20	191.35
Domestic	291.80	234.86	242.62	238.54
Exports	244.07	187.09	185.63	186.42
No.3 Clean Coal	240.48	179.75	176.09	177.89
Domestic	243.43	184.09	186.21	185.19
Exports	236.88	176.91	168.86	172.90
Lump Coal	336.46	–	223.26	223.26
Domestic	361.93	–	255.15	255.15
Exports	257.55	–	213.30	213.30
Subtotal for Clean Coal	253.29	185.85	185.50	185.67
Domestic	266.17	195.34	199.79	197.67
Exports	240.50	181.81	178.69	180.26
Screened Raw Coal	219.06	176.36	182.62	179.33
Mixed Coal and others	111.73	110.76	107.98	109.38
Average	227.88	171.60	173.24	172.41
Average: domestic	223.59	166.27	170.33	168.26

- Notes: 1. The average price of coal products is the invoice price minus sales taxes, transportation cost from the Company to the ports, port charges and various miscellaneous fees.
2. The historic average price per tonne of all coal products for the six months ended 31st December, 2003, was calculated based on the following formula:

$$\frac{\text{(Net sales of all coal products for the year ended 31st December, 2003) less}}{\text{(net sales of all coal products for the six months ended 30th June, 2003)}} \\ \frac{\text{(Sales volume of all coal products for the year ended 31st December, 2003) less}}{\text{(sales volume of all coal products for the six months ended 30th June, 2003)}}$$

3. Information relating to the net sales and sales volume for the six months ended 30th June, 2003 and for the year ended 31st December, 2003 was set out in the Company's 2003 interim report and 2003 annual report, respectively.

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The Company's average coal price for the first six months of 2004 was RMB227.88/tonne, representing an increase of RMB56.28/tonne or 32.8%, as compared to the same period last year. Among which, average domestic coal price was RMB223.59/tonne, representing an increase of RMB57.32/tonne or 34.5%, as compared to the same period last year; while average export coal price was RMB240.50/tonne, representing an increase of RMB58.69/tonne or 32.3%, as compared to the same period last year.

The increase in the Company's average coal price was due to the increase in coal prices in the domestic and overseas markets and the increase of coal sales net price through the implementation of sales strategies such as the optimization of product mix and transportation structures.

Net Sales of Coal

In the first half of 2004, the Company's net sales of coal were RMB4,341.7 million. Setting aside the impacts of Yanmei Shipping, the Company's net sales of coal were RMB4,338.5 million in the first half of 2004, representing an increase of RMB909.9 million, or 26.5%, as compared to the same period last year. Among which, net domestic sales were RMB3,177.9 million, representing an increase of RMB996.5 million, or 45.7%; while net export sales were RMB1,160.6 million, representing a decrease of RMB86.680 million, or 6.9%, as compared to the same period last year.

The following table sets out the sales volume and net sales in coal by product category for the six months ended 30th June, 2004 and 2003 (prepared in accordance with IFRS):

	For the six months ended 30th June, 2004 (unaudited)			For the six months ended 30th June, 2003 (unaudited)		
	Coal sales volume '000 tonnes	Net coal sales RMB'000	% of total net coal sales (%)	Coal sales volume '000 tonnes	Net coal sales RMB'000	% of total net coal sales (%)
Clean Coal						
No.1 Clean Coal	288.9	89,893	2.1	257.7	63,366	1.8
No.2 Clean Coal	3,041.9	787,697	18.2	3,634.8	695,996	20.3
Domestic	948.3	276,721	6.4	334.1	78,461	2.3
Exports	2,093.6	510,976	11.8	3,300.7	617,535	18.0
No.3 Clean Coal	5,798.0	1,394,288	32.1	5,891.2	1,058,955	30.9
Domestic	3,184.3	775,160	17.9	2,331.8	429,250	12.5
Exports	2,613.7	619,128	14.2	3,559.4	629,705	18.4
Lump Coal	484.6	163,073	3.7	-	-	-
Domestic	366.4	132,617	3.0	-	-	-
Exports	118.2	30,456	0.7	-	-	-
Subtotal of Clean Coal	9,613.4	2,434,951	56.1	9,783.7	1,818,317	53.0
Domestic	4,787.9	1,274,391	29.4	2,923.6	571,077	16.6
Exports	4,825.5	1,160,560	26.7	6,860.1	1,247,240	36.4
Screened Raw Coal	7,923.8	1,735,805	40.0	7,331.8	1,293,075	37.7
Mixed Coal and others	1,501.1	167,707	3.9	2,864.2	317,233	9.3
Total	19,038.3	4,338,463	100.0	19,979.7	3,428,625	100.0
Total: domestic	14,212.8	3,177,903	73.3	13,119.6	2,181,385	63.6

Railway Assets Specifically Used for the Transportation of Coal ("Railway Assets")

Coal deliveries made by Railway Assets in the first half of 2004 were 13.15 million tonnes, representing a decrease of 0.71 million, or 5.1%, as compared to the same period last year. The Company's railway transportation service income for the first six months of 2004 was RMB110.7 million, representing an increase of RMB34.742 million (income from coal transportation volume was calculated on the ex-mine basis and on the basis of transportation expenses being borne by the customers), or 45.7%, over the same period last year.

Jining Sihe Port

Jining Sihe Port was invested by the Company in 2003 and came into operation in January 2004. The coal handling volume was 1.18 million tonnes in the first half of 2004.

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Cost and Expenses

The following table sets out the Company's operating expenses, which are also expressed as percentages of total net sales, for each of the six months ended 30th June, 2004 and 2003:

	Six months ended 30th June,			
	2004 (RMB'000)	2003	2004 (% of total net sales)	2003
Net sales				
Net sales of coal	4,341,689	3,428,625	97.5	97.8
Net income of railway transportation service	110,731	75,989	2.5	2.2
Total net sales	4,452,420	3,504,614	100.0	100.0
Cost of sales and railway transportation service				
Materials	452,843	446,973	10.2	12.8
Wages and employee benefits	452,389	429,853	10.2	12.3
Electricity	152,393	141,058	3.4	4.0
Depreciation	447,972	434,622	10.1	12.4
Expenses for land subsidence, restoring, recovery and environmental protection	159,585	131,473	3.6	3.7
Repairs and maintenance	122,786	154,926	2.7	4.4
Mining rights expenses	9,806	9,802	0.2	0.3
Transportation fees	24,112	26,037	0.5	0.7
Other expenses	135,851	94,164	3.1	2.7
Total cost of sales and railway transportation service	1,957,737	1,868,908	44.0	53.3
Selling, general and administration expenses	713,037	636,167	16.0	18.2
Total operating expenses	<u>2,670,774</u>	<u>2,505,075</u>	<u>60.0</u>	<u>71.5</u>

The Company's total operating expenses for the first six months of 2004 were RMB2,670.8 million, representing an increase of RMB165.7 million, or 6.6%, as compared to the same period last year. Among which, cost of sales and railway transportation service increased by 4.8% while selling, general and administration expenses increased by 12.1%.

The percentage of total operating expenses to total net sales decreased from 71.5% in the same period last year to 60.0% in this reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis are based on the Company's unaudited interim financial report of 2004 and 2003. These financial reports have been prepared in accordance with IFRS. In respect of the differences between IFRS and accounting principles generally accepted in the United States of America (the "US GAAP"), please refer to note 14 to the financial statements in the announcement prepared in accordance with IFRS.

In the first half of 2004, net sales of the Company were RMB4,452.4 million. Setting aside the impacts of Yanmei Shipping, net sales of the Company in the first half of 2004 were RMB4,449.2 million, representing an increase of RMB944.6 million, or 27.0%, as compared to RMB3,504.6 million for the same period last year. Among which, (i) net sales of coal were RMB4,338.5 million, representing an increase of RMB909.9 million, or 26.5%, as compared to RMB3,428.6 million for the same period last year. The increase in net sales of coal was primarily the result of an increase of RMB1,071.5 million, which is attributable to the increase in price, as partially offset by a decrease of RMB161.6 million, which is attributable to the decrease in sales volume; and (ii) railway transportation service income was RMB110.7 million, representing an increase of RMB34.742 million, or 45.7%, from RMB75.989 million for the same period last year. The increase in railway transportation service income was primarily due to an increase of 1.79 million tonnes of coal transportation volume, the income of which was calculated on the ex-mine basis and on the basis of the transportation expenses being borne by the customers, as compared with the same period last year.

In the first half of 2004, cost of sales and railway transportation service of the Company were RMB1,957.7 million, representing an increase of RMB88.829 million, or 4.8%, as compared to RMB1,868.9 million for the same period last year. Among which, (i) coal sales cost was RMB1,916.9 million, representing an increase of RMB81.567 million, or 4.4%, as compared to

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RMB1,835.4 million for the same period last year. The increase in coal sales cost was primarily due to the decrease in the rate of export tax rebate and the increase in commodity price, wages and employee benefits; and (ii) unit cost of coal sales was RMB100.69, representing an increase of RMB8.83, or 9.6%, as compared to RMB91.86 for the same period last year. The increase in the unit cost of coal sales was primarily due to: (i) an increase in objective costs resulted in an increase of the unit cost of coal sales by RMB5.66; among which, the decrease in the rate of export tax rebate resulted in an increase of the unit cost of coal sales by RMB1.73, the increase in the price of raw materials resulted in an increase of the unit cost of coal sales by RMB2.13, and the increase of commodity price resulted in an increase of the Company's subsidence fees, which in turn resulted in an increase of the unit cost of coal sales by RMB1.80; (ii) an increase in employees' wages in line with the improvement of the Company's efficiency resulted in an increase of the unit cost of coal sales by RMB1.97; (iii) a decrease in sales volume by 0.94 million tonnes resulted in an increase of fixed cost per tonne, which in turn resulted in an increase of the unit cost of coal sales by RMB2.74; (iv) the partial setoff against the abovementioned factors resulting in the increase in the unit cost of sales by the Company's effective cost control in the first half of 2004.

The Company's selling, general and administration expenses ("SG&A") were RMB713.0 million in the first half of 2004, representing an increase of RMB76.87 million, or 12.1%, as compared to RMB636.2 million for the same period last year. The increase in SG&A was primarily due to: (i) an increase in pension scheme funds by RMB8.694 million, (ii) an increase in wages and employees' benefits by RMB17.324 million, (iii) an increase in resources compensation fees by RMB8.659 million, and (iv) an increase in repairs and maintenance expenses by RMB34.675 million.

The Company's operating income for the first six months of 2004 was RMB1,850.5 million, representing an increase of RMB793.5 million, or 75.1%, as compared to RMB1,057.0 million for the same period last year.

The Company's interest expenses for the first six months of 2004 were RMB20.012 million, representing a decrease of RMB17.959 million, or 47.3%, as compared to RMB37.971 million for the same period last year. The decrease was primarily due to the decrease in long-term bank loan expenses as compared to the same period last year.

The Company's income before tax for the first six months of 2004 was RMB1,830.4 million, representing an increase of RMB811.3 million, or 79.6%, as compared to RMB1,019.1 million for the same period last year.

The Company's net income for the first six months of 2004 was RMB1,224.4 million, representing an increase of RMB486.4 million, or 65.9%, as compared to RMB738.0 million for the same period last year.

Total assets of the Company increased from RMB13,909.8 million as at 31st December, 2003 to RMB15,024.9 million as at 30th June, 2004, representing an increase of RMB1,115.1 million, or 8.0%. The increase was primarily due to the increase of assets value resulting from the Company's operating activities.

Total liabilities of the Company increased from RMB2,822.8 million as at 31st December, 2003 to RMB3,184.3 million as at 30th June, 2004, representing an increase of RMB361.5 million, or 12.8%. The increase was primarily due to (i) the increase of other payables and accrued expenses by RMB116.6 million, (ii) the increase of taxes payable by RMB248.8 million, (iii) the increase of payables to the parent company and its subsidiaries by RMB153.6 million and (iv) the decrease of other current liabilities such as bills and accounts payable by RMB157.5 million.

Shareholders' equity of the Company increased from RMB11,083.2 million as at 31st December, 2003 to RMB11,837 million as at 30th June, 2004, representing an increase of RMB753.8 million, or 6.8%. The increase was primarily due to the increase in shareholders' equity resulting from the profits generated from the Company's operating activities.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations was the Company's major source of capital during the first half of 2004. The Company's capital was principally used for operating activities expenditure and the purchase of properties, machineries and equipment.

Bills and accounts receivable decreased from RMB1,239.4 million as at 31st December, 2003 to RMB783.2 million as at 30th June, 2004, representing a decrease of RMB456.2 million, or 36.8%. Among which, (i) bills receivable decreased from RMB657.1 million as at 31st December, 2003 to RMB424.1 million as at 30th June, 2004, representing a decrease of RMB233 million, or 35.5%. The decrease in bills receivable was primarily due to the decrease in the number of bank bills used for the settlement of sales amounts as a result of the good sales performance of the

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Company, and (ii) accounts receivable decreased from RMB582.3 million as at 31st December, 2003 to RMB359.1 million as at 30th June, 2004, representing a decrease of RMB223.2 million, or 38.3%. The decrease in accounts receivable was a result of the decrease of new accounts receivable and the Company's strengthened efforts to collect its accounts receivable of previous financial years.

Inventories increased from RMB502.0 million as at 31st December, 2003 to RMB519.4 million as at 30th June, 2004, representing an increase of RMB17.358 million, or 3.5%. The increase was primarily due to the increase of inventory materials.

Prepayment and other current assets decreased from RMB534.5 million as at 31st December, 2003 to RMB294.7 million as at 30th June, 2004, representing a decrease of RMB239.8 million, or 44.9%. The decrease was primarily due to the collection of all export tax rebate balance of previous financial years during this reporting period.

Total bills and accounts payable decreased from RMB427.6 million as at 30th June, 2003 to RMB281.7 million as at 30th June, 2004, representing a decrease of RMB145.9 million, or 34.1%. The decrease was primarily due to the partial repayment of accounts payable by the Company.

Other payables and accrued expenses increased from RMB1,174.8 million as at 31st December, 2003 to RMB1,291.4 million as at 30th June, 2004, representing an increase of RMB116.6 million, or 9.9%. The increase was primarily due to the unpaid 2003 dividends payable to the parent company.

In the first half of 2004, the Company's capital expenditure was RMB224.0 million, which was primarily used for the purchase and refurbishment of properties, machineries and equipment.

As at 30th June, 2004, the Company's debt to equity ratio was 5.5%, which was calculated based on the shareholders' equity and the total amount of loans amounting to RMB11,837 million, and RMB650.9 million, respectively.

Taking into account the cash in hand and the abundant capital sources, the Company believes that it will have sufficient operating capitals to meet its current needs.

TAXATION

The Company was subject to an income tax rate of 33% on its taxable profits during this reporting period.

US GAAP RECONCILIATION

The Company's unaudited interim financial statements are prepared in accordance with IFRS, which differs in certain aspects from the US GAAP. In respect of these differences, please refer to note 14 to the financial statements of this announcement prepared in accordance with IFRS contained herein.

OUTLOOK FOR THE SECOND HALF OF 2004

In the second half of 2004, the demand in both domestic and overseas coal markets are expected to remain strong and the price of coal is expected to move at a high level, which is favorable to the Company in achieving a significant growth in its operating results.

The Growth in Supply Falling Short of the Growth in Demand in the Domestic Coal Market, Price of Coal Moving at a High Level

It is expected that China's economy will continue to develop speedily in the second half of 2004. The continued growth of demand for electricity in China will push up the growth in demand for coals used for power generation. Although the Chinese government has implemented macroeconomic controls to slow down the growth of high consuming industries such as metallurgy and cement industries, the overall scale of such industries is still expanding, resulting in a further increase in coal demand. The Chinese government increasingly pays attention to the production safety of coal mines and the protection and reasonable exploitation of coal resources and will continue regulating coal mines which do not meet the required production safety standards. The growth in total coal supply will not be able to satisfy the growth in demand because of the limited capacity of the large-scaled coal enterprises to increase production and the long cycle of the development of new coal mines. The average coal price in the domestic market in the second half of 2004 is expected to be higher than that in the first half of 2004. The Chinese government has recently implemented certain regulations and policies relating to the coal industry, which are favorable to maintaining the long-term development of the coal industry and enhancing the competitiveness of large-scale coal enterprises.

Strong Demand in the Overseas Coal Market, Price of Coal Remaining Stable

The revival of the global economy is expected to push up the demand for power. The demand for coals used for metallurgy and power generation is expected to increase steadily. The Chinese government has recently implemented policies to reduce coal exports. International oil price is moving at a high level. As a result of the above factors, the supply of coal in the international coal market will continue to be tight, keeping the price of coal to remain stable. High international sea freight will support the price of coal in the international market, especially in the northeast Asian market, to move at a high level, which will maintain the Company's strong competitiveness in northeast Asia. The spot price of Australian BJ steam coal was US\$57.90/tonne on 19th August, 2004.

Operating Strategies in the Second Half of 2004

The Company will continue to increase its profitability and shareholders' returns through internal growth and outward expansion.

(i) Acquiring high quality coal mines, promoting deep processing of coal and expanding the operating scale of the Company. The Company will push forward the business negotiations, the construction progress and construction of auxiliary facilities of the two new coal mine projects in Shandong and Shanxi Province and the methanol project in Shanxi Province. The Company will continue to look for new acquisition opportunities in coal and other relating industries to improve the Company's profitability and to strengthen the development of the Company.

(ii) Improving operational management and boosting profitability of the existing coal mines.

Firstly, enhancing the coal production and sales in the second half of 2004 on the basis of the optimization and adjustment of the production systems in the first half of 2004.

Secondly, implementing the "Four Optimizations" for the sale of coal to increase net product prices: optimizing the product mix and user mix to increase product sale prices and optimizing the transportation structure and port flow structures to reduce sales cost and to increase net product prices.

Thirdly, improving management and cost control. The Company will fully utilize ERP management system, improve the financial control system and the overall budgeting management system, improve material purchase management, reduce material reserve, reduce the cost of raw materials and equipment, continue the improvements on roof support system and auxiliary transportation, enlarge bolting net utility, reduce the consumption of materials and reduce labor costs.

To Realize a Substantial Growth in the Operating Results of the Company

It is expected that the coal sales price of the Company in the second half of 2004 will be higher than that of the first half of 2004. The Company will enhance and stabilize production to realize a substantial growth in its operating results. With regard to the operating results of the Company in the first half of 2004 and the expectation for coal price trend in domestic and overseas markets, the Company expects that the accumulative net earnings in the first three quarters of 2004 will increase by more than 50% over the same period last year.^{Note}

Note: The Company did not prepare the projections with a view towards compliance with published guidelines of the American Institute of Certified Public Accountants ("AICPA") regarding forecasts and projections. The Company is announcing this estimate solely for the purpose of complying with the China Securities Regulatory Commission's regulation. Such projections are necessarily based upon a number of assumptions and estimates that, while considered reasonable by the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company, and upon assumptions with respect to future business decisions which are subject to change. Accordingly, the Company cannot provide any assurance and makes no representation that these results will be achieved. Actual results of the Company may vary materially from the above projections. Shareholders of the Company and public investors are cautioned not to place undue reliance on these projections.

DISCLOSURE OF SIGNIFICANT EVENTS

Final Dividends

At the 2003 annual general meeting of the Company held on 25th June, 2004, the shareholders of the Company approved final dividends of RMB470.7 million (before tax), or RMB0.164 (before tax) per share to be declared and paid to the shareholders of the Company, which comprise cash dividends of RMB327.2 million (before tax), or RMB0.114 (before tax) per share according to the Company's consistent dividend policy and special cash dividends of RMB143.5 million (before tax), or RMB0.050 (before tax) per share.

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Payments of such final dividends to the shareholders of the Company will be completed within two months after the 2003 annual general meeting of the Company.

Interim Dividends

There will be no payment of interim dividends to the shareholders of the Company for the half-year of 2004. Conversion of surplus reserves into shares of capital will not take place.

Placing of New Shares

Pursuant to the authorization of the 2003 annual general meeting of the Company held on 25th June, 2004 and the approval of the meeting of the Board held on 7th July, 2004, the Company entered into the Placing and Underwriting Agreement with BNP Paribas Peregrine Capital Limited on 7th July, 2004, pursuant to which the Company placed 204,000,000 new H shares with a Renminbi-denominated par value of RMB1.00 each at a price of HK\$8.30 per share (the "Placing").

The Placing shares were listed on The Stock Exchange of Hong Kong Limited on 15th July, 2004. The total share capital of the Company increased to 3,074 million shares from 2,870 million shares. The percentage of the listed share capital of the Company to the total share capital of the Company increased from the original 41.81% to 45.67%. The change of share capital structure of the Company after the Placing is as follows.

	Unit: shares Par value: RMB1.00 each		
	Number of shares before the Placing	Changes attributable to the Placing (+/-)	Number of shares after the Placing
A: Shares not listed for public dealings			
Promoter shares:			
Including:			
State legal person shares	1,670,000,000		1,670,000,000
Total numbers of shares not listed for public dealings	1,670,000,000		1,670,000,000
B: Shares listed for public dealings			
1. A Shares	180,000,000		180,000,000
2. H Shares	1,020,000,000	+204,000,000	1,224,000,000
Total numbers of shares listed for public dealings	1,200,000,000	+204,000,000	1,404,000,000
C: Total numbers of shares	2,870,000,000	+204,000,000	3,074,000,000

The Company raised net proceeds of HK\$1.656 billion (approximately RMB1.757 billion) from the Placing. The proceeds from the Placing will be used for investments in two new coal mine projects in Shandong Province and Shanxi Province, and the methanol project in Shanxi Province. The negotiations relating to the intended investment projects as mentioned above are still in progress. The Company will timely disclose the progress of business negotiations and the usage of the proceeds from the Placing in accordance with the requirements of domestic and overseas supervising authorities.

Details of the Placing were published in the domestic *China Securities Journal* and *Shanghai Securities News* and *Wen Wei Po* and *South China Morning Post* of Hong Kong on 8th July, 2004 and 9th July, 2004.

Amendments to the Articles of Association of the Company

Pursuant to the approval of the 2003 annual general meeting of the Company held on 25th June, 2004, the Company amended the articles of association of the Company (the "Articles of Association") in accordance with the new requirements of domestic and overseas supervising authorities and the needs of daily operations of the Company. Details of the amendments to the Articles of Association were posted to the shareholders of the Company on 19th April 2004 and were published in the domestic *China Securities Journal*, *Shanghai Securities News* and *Wen Wei Po*, *South China Morning Post* of Hong Kong on 19th April, 2004.

After the Placing, the Board amended Articles 16, 17 and 20 of the Articles of Association pursuant to the authorization granted in the 2003 annual general meeting of the Company so as to reflect the changes in the share capital structure of the Company after the Placing. Details of the amendments to the Articles of Association were published in the domestic *China Securities Journal*, *Shanghai Securities News* and *Wen Wei Po*, *South China Morning Post* of Hong Kong on 8th July, 2004.

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Material Contracts

Save as the disclosure regarding the Placing and Underwriting Agreement in the paragraph of "Placing of New Shares" in the section headed "Disclosure of Significant Events", the Company was not a party to any other material contract during this reporting period.

Material Litigation and Arbitration

The Company was not involved in any significant litigation and arbitration during this reporting period.

Connected Transactions

The Company's connected transactions during the first half of 2004 are set out in note 12 to the financial statements of this announcement prepared in accordance with the IFRS contained herein.

Purchase, Sale or Redemption of Shares of the Company

The Company and its subsidiaries did not purchase, sell or redeem any of the shares of the Company during this reporting period.

Details of the Company's placement of 204,000,000 new H shares after the end of this reporting period are set out in the paragraph of "Placing of New Shares" in the section headed "Disclosure of Significant Events".

Compliance with Model Code

Having made specific enquiry of all directors of the Company, during this reporting period, the directors of the Company have strictly complied with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company has not adopted a code of conduct regarding the securities transactions of the directors of the Company on terms no less exacting than the required standard set out in the Model Code.

Compliance with Code of Best Practice

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June, 2004, in compliance with the Code of Best Practice set out in Appendix 14 of the Listing Rules.

Impact of the Exchange Rate Fluctuations on the Company

Coal exports of the Company are all settled in US dollars. The government of the People's Republic of China adopts a unified floating exchange rate that is under the State's supervision. Since 2004, exchange rate for RMB to US dollars has varied slightly. The exchange rate fluctuations basically have no impact on the Company.

Employees

As at 30th June, 2004, the Company had 28,028 employees, of whom 1,904 were administrative personnel, 956 were technicians, 21,405 were directly involved in coal production and 3,763 were supporting staff.

Auditors

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

Audit Committee of the Board

The audit committee of the Board comprises three independent non-executive directors of the Company, namely Mr. Cui Jianmin (being the Chairman of the audit committee of the Board), Mr. Fan Weitang and Mr. Wang Xiaojun, and two directors of the Company, namely Mr. Wang Bangjun and Mr. Dong Yunqing.

On behalf of the Board
Wang Xin
Chairman

20th August, 2004
Zoucheng, People's Republic of China

Yanzhou Coal Mining Company Limited

Directors: As at the date of this announcement, the Directors of the Company are Mr. Wang Xin, Mr. Geng Jiahuai, Mr. Yang Deyu, Mr. Mo Liqi, Mr. Wang Bangjun, Mr. Yang Jiachun, Mr. Wu Yuxiang, Mr. Wang Xinkun and Mr. Dong Yunqing, and the independent non-executive Directors of the Company are Mr. Fan Weitang, Mr. Cui Jianmin, Mr. Wang Xiaojun, Mr. Wang Quanyi.

The interim report of the Company for the six-month period ended 30th June, 2004 containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited <http://www.hkex.com.hk> in due course.

INTERIM RESULTS

The unaudited interim operating results of the Company for the six months ended 30th June, 2004 prepared in conformity with (i) the relevant accounting principles and regulations applicable to PRC enterprises ("PRC GAAP") and (ii) the International Financial Reporting Standards ("IFRS").

(i) Unaudited financial information prepared under PRC GAAP.

STATEMENT OF INCOME AND PROFITS APPROPRIATION

FOR THE PERIOD FROM JANUARY 1, 2004 TO JUNE 30, 2004

	The Group		The Company	
	Six months ended June 30, 2004	2003	Six months ended June 30, 2004	2003
	RMB	RMB	RMB	RMB
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from principal operations	5,332,663,629	4,427,879,818	5,332,663,629	4,427,879,818
Less: Cost of principal operations	2,126,610,767	1,999,944,009	2,126,747,846	2,000,043,993
Sales taxes and surcharges	105,889,028	53,654,994	104,784,982	53,654,994
Profit from principal operations	3,100,163,834	2,374,280,815	3,101,130,801	2,374,180,831
Add: Profits from other operations	19,860,622	33,280,264	18,266,088	29,154,080
Less: Operating expenses	807,195,975	903,853,042	810,723,661	902,550,577
General and administrative expenses	671,022,623	599,243,171	667,739,229	598,685,387
Financial expenses	(8,002,957)	28,122,556	(8,149,010)	28,129,884
Operating profit	1,649,808,815	876,342,310	1,649,083,009	873,969,063
Add: Investment income	5,882,871	1,478,333	6,251,540	2,389,488
Subsidy income	-	4,495,207	-	4,495,207
Non-operating income	835,176	3,771,816	835,176	3,673,897
Less: Non-operating expenses	6,103,231	8,858,613	6,072,693	8,855,669
Total profits	1,650,423,631	877,229,053	1,650,097,032	875,671,986
Less: Income taxes	591,986,035	299,630,188	591,828,892	298,901,475
Minority interest	169,456	828,354	-	-
Net profit	1,058,268,140	576,770,511	1,058,268,140	576,770,511
Add: Unappropriated profits at the beginning of the year	2,220,500,672	1,751,708,336	2,220,752,156	1,751,872,206
Profits available for appropriation	3,278,768,812	2,328,478,847	3,279,020,296	2,328,642,717
Less: Appropriations to statutory common reserve fund	-	-	-	-
Appropriations to statutory common welfare fund	-	-	-	-
Profits available for appropriation to shareholders	3,278,768,812	2,328,478,847	3,279,020,296	2,328,642,717
Less: Cash dividend proposal after the balance sheet date	-	-	-	-
Unappropriated profits at the end of the period	3,278,768,812	2,328,478,847	3,279,020,296	2,328,642,717

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(ii) Unaudited Financial Information prepared under IFRS

CONDENSED CONSOLIDATED STATEMENT OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2004

	Notes	Six months ended June 30,	
		2004 RMB'000 (unaudited)	2003 RMB'000 (unaudited)
Gross sales of coal	3	5,116,043	4,298,236
Transportation costs of coal	3	(774,354)	(869,611)
Net sales of coal	3	4,341,689	3,428,625
Railway transportation service income		110,731	75,989
Cost of sales and service provided	4	(1,957,737)	(1,868,908)
Gross profit		2,494,683	1,635,706
Selling, general and administrative expenses	5	(713,037)	(636,167)
Other operating income	6	68,808	57,488
Operating income		1,850,454	1,057,027
Interest expenses	7	(20,012)	(37,971)
Income before income taxes		1,830,442	1,019,056
Income taxes	8	(605,840)	(280,262)
Income before minority interest		1,224,602	738,794
Minority interest		(169)	(828)
Net income		1,224,433	737,966
Appropriations to reserves		168,874	131,034
Dividend		470,680	298,480
Earnings per share	9	RMB0.43	RMB0.26
Earnings per ADS.	9	RMB21.33	RMB12.86

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CONDENSED CONSOLIDATED BALANCE SHEET

AT JUNE 30, 2004

	Notes	At June 30, 2004 RMB'000 (unaudited)	At December 31, 2003 RMB'000 (audited)
ASSETS			
CURRENT ASSETS			
Bank balances and cash		4,189,555	2,023,772
Restricted cash		28,483	17,521
Bills and accounts receivable	10	783,167	1,239,424
Inventories	11	519,386	502,028
Other loan receivable		-	100,000
Prepayments and other current assets		294,694	534,473
Taxes receivable		628	-
TOTAL CURRENT ASSETS		5,815,913	4,417,218
MINING RIGHTS		109,291	112,607
LAND USE RIGHTS		598,317	604,912
PROPERTY, PLANT AND EQUIPMENT, NET		8,348,072	8,616,373
GOODWILL		87,777	93,165
NEGATIVE GOODWILL		(41,431)	(55,241)
INVESTMENTS IN SECURITIES		1,760	1,760
DEPOSIT MADE ON ACQUISITION OF INVESTMENTS IN SECURITIES		30,138	30,138
DEFERRED TAX ASSET		75,018	88,872
TOTAL ASSETS		15,024,855	13,909,804
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Bills and accounts payable		281,688	427,608
Other payables and accrued expenses		1,291,412	1,174,813
Provision for land subsidence, restoration, rehabilitation and environmental costs		73,345	85,022
Amounts due to Parent Company and its subsidiary companies		523,252	369,620
Unsecured bank borrowing - due within one year		200,000	200,000
Taxes payable		363,717	114,903
TOTAL CURRENT LIABILITIES		2,733,414	2,371,966
AMOUNTS DUE TO PARENT COMPANY AND ITS SUBSIDIARY COMPANIES - DUE AFTER ONE YEAR		50,859	50,859
UNSECURED BANK BORROWING - DUE AFTER ONE YEAR		400,000	400,000
TOTAL LIABILITIES		3,184,273	2,822,825
COMMITMENTS			
SHAREHOLDERS' EQUITY		11,836,992	11,083,239
MINORITY INTEREST		3,590	3,740
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		15,024,855	13,909,804

NOTES TO THE CONDENSED FINANCIAL STATEMENTS PREPARED UNDER IFRS

1. BASIS OF PRESENTATION

The condensed financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" and with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Company also prepares a set of financial statements in accordance with the relevant accounting principles and regulations applicable to PRC enterprises ("PRC GAAP"). Differences between International Financial Reporting Standards ("IFRS") and PRC GAAP are stated in note 13.

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Differences between IFRS and accounting principles generally accepted in the United States of America ("US GAAP") are stated in note 14.

2. SEGMENT INFORMATION

The Group is engaged primarily in the coal mining business and, commencing from January 1, 2002, the Group is also engaged in coal railway transportation business. The Group operates only in the PRC. Commencing from December 31, 2003, the Group is also engaged in the transportation business via rivers and lakes. All the identifiable assets of the Group are located in the PRC. The Company does not currently have direct export rights and all of its export sales must be made through China National Coal Industry Import and Export Corporation ("National Coal Corporation"), Minmetals Trading Co., Ltd. ("Minmetals Trading") or Shanxi Coal Imp. & Exp. Group Corp. ("Shanxi Coal Corporation"). The final customer destination of the Company's export sales is determined by the Company, National Coal Corporation, Minmetals Trading or Shanxi Coal Corporation. The Company's subsidiaries are engaged in trading and processing of mining machinery and the transportation business via rivers and lakes in the PRC. No separate segment information about these businesses is presented in these financial statements as the underlying gross sales, results and assets of the these businesses, which are currently included in the coal mining business segment, are insignificant to the Group.

Business segments

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

Principal activities are as follows:

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

Segment information about these businesses is presented below:

INCOME STATEMENT

	For the six months ended June 30, 2004			
	Coal mining	Coal railway transportation	Eliminations	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
GROSS REVENUE				
External	5,116,043	110,731	-	5,226,774
Inter-segment	-	146,052	(146,052)	-
Total	<u>5,116,043</u>	<u>256,783</u>	<u>(146,052)</u>	<u>5,226,774</u>
Inter-segment revenue is charged at prices pre-determined by the relevant governmental authority.				
RESULT				
Segment results	<u>1,865,247</u>	<u>128,830</u>	<u>-</u>	1,994,077
Unallocated corporate expenses				(176,337)
Unallocated corporate income				32,714
Operating income				<u>1,850,454</u>

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

3. SALES OF COAL AND TRANSPORTATION COSTS OF COAL

	Six months ended June 30,	
	2004 RMB'000	2003 RMB'000
Domestic sales of coal, gross	3,444,406	2,507,618
Less: Transportation costs	263,277	326,233
Domestic sales of coal, net	<u>3,181,129</u>	<u>2,181,385</u>
Export sales of coal, gross	1,671,637	1,790,618
Less: Transportation costs	511,077	543,378
Export sales of coal, net	<u>1,160,560</u>	<u>1,247,240</u>
Net sales of coal	<u>4,341,689</u>	<u>3,428,625</u>

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

Sales taxes consist primarily of a resource tax calculated at the rate of RMB2.40 per metric tonne ("tonne") of the imputed quantity of raw coal sold and are paid to the local tax bureau. Prior to January 1, 2004, resource tax was charged at the rate of RMB1.20 per metric tonne of imputed quantity of raw coal sold. The resource tax for each of six months ended June 30, 2004 and 2003 amounted to RMB49,462,000 and RMB24,966,000, respectively.

4. COST OF SALES AND SERVICE PROVIDED

	Six months ended June 30,	
	2004 RMB'000	2003 RMB'000
Materials	452,843	446,973
Wages and employee benefits	452,389	429,853
Electricity	152,393	141,058
Depreciation	447,972	434,622
Land subsidence, restoration, rehabilitation and environmental costs	159,585	131,473
Repairs and maintenance	122,786	154,926
Annual fee and amortization of mining rights	9,806	9,802
Transportation costs	24,112	26,037
Others	135,851	94,164
	<u>1,957,737</u>	<u>1,868,908</u>

5. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended June 30,	
	2004 RMB'000	2003 RMB'000
Retirement benefits scheme contributions	182,973	174,279
Wages and employee benefits	69,693	52,369
Additional medical insurance	16,295	14,234
Depreciation	26,333	20,387
Amortization of goodwill	5,388	4,834
Distribution charges	19,100	20,687
Allowance for doubtful debts	30,426	30,235
Resource compensation fees	50,863	42,204
Repairs and maintenance	39,435	4,760
Research and development	49,292	49,286
Staff training costs	13,667	13,377
Freight charges	3,342	6,389
Others	206,230	203,126
	<u>713,037</u>	<u>636,167</u>

6. OTHER OPERATING INCOME

	Six months ended June 30,	
	2004 RMB'000	2003 RMB'000
Gain on sales of auxiliary materials	20,001	26,124
Interest income from bank deposits	26,273	7,356
Interest income on loan receivable	6,441	1,133
Release of negative goodwill to income	13,810	13,810
Government grants	-	4,495
Others	2,283	4,570
	<u>68,808</u>	<u>57,488</u>

7. INTEREST EXPENSES

	Six months ended June 30,	
	2004 RMB'000	2003 RMB'000
Interest expenses on:		
– bank borrowing wholly repayable within 5 years	17,737	35,154
– bills receivable discounted without recourse	-	186
Deemed interest expenses	2,275	2,631
	<u>20,012</u>	<u>37,971</u>

No interest was capitalized during the relevant periods.

8. INCOME TAXES

	Six months ended June 30,	
	2004 RMB'000	2003 RMB'000
Income taxes	591,986	299,630
Deferred tax charge (credit)	13,854	(19,368)
	<u>605,840</u>	<u>280,262</u>

The Group is subject to a standard income tax rate of 33%. The effective income tax rate of the Group for the current period is 33% (six months ended June 30, 2003: 28%). The major reconciling items are the amount claimed on the appropriation to future development fund which is eligible for tax deduction but is not charged to income under IFRS and the expenses not deductible for tax purposes.

9. EARNINGS PER SHARE AND PER ADS

The calculation of the earnings per share for the six months ended June 30, 2004 and 2003 is based on the net income for the period of RMB1,224,433,000 and RMB737,966,000, respectively, and on the number of 2,870,000,000 shares in issue during the relevant periods.

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

10. BILLS AND ACCOUNTS RECEIVABLE

	At June 30, 2004 RMB'000	At December 31, 2003 RMB'000
Total bills receivable	424,094	657,090
Total accounts receivable	490,126	682,961
Less: Allowance for doubtful debts	(131,053)	(100,627)
Total bills and accounts receivable, net	<u>783,167</u>	<u>1,239,424</u>

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

The Group made allowance for doubtful debts of RMB30,426,000 and RMB21,088,000 for the six months ended June 30, 2004 and 2003, respectively.

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

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

	At June 30, 2004 RMB'000	At December 31, 2003 RMB'000
1 – 180 days	599,652	961,307
181 – 365 days	98,884	177,571
1 – 2 years	78,335	114,887
2 – 3 years	81,619	78,919
Over 3 years	55,730	7,367
	<u>914,220</u>	<u>1,340,051</u>

11. INVENTORIES

	At June 30, 2004 RMB'000	At December 31, 2003 RMB'000
COST		
Auxiliary materials, spare parts and small tools	216,963	204,466
Coal products	302,423	297,562
	<u>519,386</u>	<u>502,028</u>

12. RELATED PARTY TRANSACTIONS

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

The amounts due to the Parent Company and its subsidiary companies as at June 30, 2004 included the present value of outstanding balance that arose from the funding of the acquisition of the mining rights of Jining III as of January 1, 2001 discounted using the market rate of bank borrowings.

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	At June 30, 2004 RMB'000	At December 31, 2003 RMB'000
Amounts due to Parent Company and its subsidiary companies		
Within one year	523,252	369,620
More than one year, but not exceeding two years	9,802	9,802
More than two years, but not exceeding five years	26,101	26,101
Exceeding five years	14,956	14,956
Total due	574,111	420,479
Less: amount due within one year	(523,252)	(369,620)
Amount due after one year	<u>50,859</u>	<u>50,859</u>

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

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

	Six months ended June 30,	
	2004 RMB'000	2003 RMB'000
Income		
Sales of coal	214,045	79,009
Sales of auxiliary materials	184,702	180,480
Utilities and facilities	14,500	14,500
Railway transportation services	-	26
Expenditure		
Utilities and facilities	165,121	154,419
Annual fee for mining rights	6,490	6,490
Purchases of supply materials and equipment	101,935	181,342
Repairs and maintenance services	47,262	92,217
Social welfare and support services	97,105	95,670
Technical support and training	7,565	7,565
Road transportation services	8,341	13,417
Construction services	<u>160,342</u>	<u>-</u>

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

	Six months ended June 30,	
	2004 RMB'000	2003 RMB'000
Sales of coal	<u>-</u>	<u>21,501</u>

Certain expenditure for social welfare and support services (excluding medical and child care expenses) of RMB31,875,000 and RMB33,973,000 for each of the six months ended June 30, 2004 and 2003, respectively, and for technical support and training of RMB7,565,000 for each of the six months ended June 30, 2004 and 2003, have been charged by the Parent Company at a negotiated amount per annum, subject to changes every year.

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

In addition to the above, the Company participates in a multi-employer scheme of the Parent Company in respect of retirement benefits.

13. SUMMARY OF DIFFERENCES BETWEEN IFRS AND PRC GAAP

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

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

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- (ii) recognition of a deferred tax asset under IFRS for the tax consequence of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities; and
- (iii) negative goodwill arising under IFRS for the acquisition of Jining III is recognized as income in the statement of income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets. No negative goodwill is recognized under PRC GAAP; and
- (iv) the installments payable to the Parent Company for the acquisition of Jining III have been stated at present value discounted using market rates under IFRS while under PRC GAAP, the installments payable are stated at gross amount. Accordingly, deemed interest expense arises on the installments payable to the Parent Company under IFRS and no such interest expenses are recognized under PRC GAAP.

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

	Net income for		Net assets as at	
	June 30, 2004	June 30, 2003	June 30, 2004	December 31, 2003
	RMB'000	RMB'000	RMB'000	RMB'000
As per condensed financial statements prepared under IFRS	1,224,433	737,966	11,836,992	11,083,239
Impact of IFRS adjustment in respect of:				
- transfer to future development fund which is charged to income before income taxes under PRC GAAP	(168,874)	(131,034)	(49,998)	-
- deferred tax effect on temporary differences not recognized under PRC GAAP	13,854	(19,368)	(75,018)	(88,872)
- release of negative goodwill to income	(13,810)	(13,810)	(96,670)	(82,860)
- deemed interest expenses	2,275	2,631	107,087	104,812
- others	390	386	7,683	7,292
As per financial statements prepared under PRC GAAP	<u>1,058,268</u>	<u>576,771</u>	<u>11,730,076</u>	<u>11,023,611</u>

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

14. SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP

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

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

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

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

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

Under IFRS, the acquisition of Yanmei Shipping has been accounted for using purchase method which accounted for the assets and liabilities of Yanmei Shipping at their fair value at the date of acquisition. The excess of the purchase consideration over the value of the net assets acquired is capitalized and amortized over a period of twenty years. Under US GAAP, goodwill is not amortized but instead tested for impairment at least annually.

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

	Six months ended June 30,	
	2004	2003
	RMB'000	RMB'000
Net income as reported under IFRS	1,224,433	737,966
US GAAP adjustments:		
Additional depreciation charged on fair valued property, plant and equipment and land use rights	93,958	94,084
Additional deferred tax charge due to a higher tax bases resulting from the difference in cost bases of property, plant and equipment and land and use rights capitalization of mining rights	(32,100)	(32,140)
Amortization of negative goodwill on acquisition of Jining III	(13,810)	(13,810)
Amortization of mining rights of Jining III	3,316	3,312
Amortization of goodwill arising on acquisition of Jining II	390	390
Amortization of goodwill arising on acquisition of Railway Assets	4,440	4,444
Amortization of goodwill arising on acquisition of Yanmei Shipping	558	-
Net income under US GAAP	<u>1,281,185</u>	<u>794,246</u>
Earnings per share under US GAAP	<u>RMB0.45</u>	<u>RMB0.28</u>
Earnings per ADS under US GAAP	<u>RMB22.32</u>	<u>RMB13.84</u>

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	At June 30, 2004 RMB'000	At December 31, 2003 RMB'000
Shareholders' equity as reported under IFRS	11,836,992	11,083,239
US GAAP adjustments:		
Difference in cost bases of property, plant and equipment and land use rights	(2,561,032)	(2,561,032)
Additional depreciation charged on fair value property, plant and equipment and land use rights	1,219,478	1,125,520
Additional deferred tax asset due to a higher tax base resulting from the difference in cost bases of property, plant and equipment and land use rights	442,712	473,719
Goodwill arising on acquisition of Jining II	(10,493)	(10,883)
Negative goodwill arising on acquisition of Jining III, net Mining rights of Jining III	41,431	55,241
Additional deferred tax asset due to a higher tax base resulting from the capitalization of mining rights	(109,291)	(112,607)
Goodwill arising on acquisition of Railway Assets	36,067	37,160
Amortization of goodwill on acquisition of Yanmei Shipping	(66,680)	(71,120)
	558	-
Shareholders' equity under US GAAP	<u>10,829,742</u>	<u>10,019,237</u>

Under US GAAP, the Group's total assets would have been RMB14,017,605,000 and RMB12,845,802,000 at June 30, 2004 and December 31, 2003, respectively.

Please also refer to the published version of this announcement in South China Morning Post dated 23 August 2004.