Year ended 31st December, 2000

1. GENERAL

The Company was established as a joint stock company with limited liability in the People's Republic of China (the "PRC") and operates five coal mines, namely the Xinglongzhuang coal mine, Baodian coal mine, Nantun coal mine, Dongtan coal mine and Jining II coal mine. These five coal mines were originally divisions of the Company's ultimate holding company, Yankuang Group Corporation Limited (the "Parent Company"), a state-owned enterprise in the PRC. The Parent Company injected the assets and liabilities of the Xinglongzhuang coal mine, Baodian coal mine, Nantun coal mine and Dongtan coal mine into the Company upon its formation. The Company acquired the Jining II coal mine from the Parent Company for cash in 1998.

On 3rd January, 2001, the Company allotted an additional 100,000,000 A shares to the public in the PRC (the "A Share Issue") and the A shares were listed on the Shanghai Securities Exchange ("SSE") since February 2001. The total net proceed from the A shares offering was approximately RMB960,610,000 and was applied towards the purchase price of approximately RMB2,538 million for a sixth mine, Jining III, which the Company acquired from the Parent Company as of January 1, 2001. The purchase price includes the costs of Jining III of approximately RMB2,450,900,000 and the costs of the mining rights of approximately RMB132,480,000.

The consideration for the costs of Jining III is to be settled as follows:

(i) Initial instalments

RMB243,526,000 was paid on 1st January, 2001, the Completion Date;

(ii) Second instalment

The net proceed of RMB960,610,000 of the A Share Issue was paid on 22nd January, 2001.

(iii) Third instalment

50% balance of the purchase price shall be paid (without interest) prior to 31st December, 2001; and

(iv) Fourth instalment

The outstanding balance of the purchase price shall be paid (without interest) prior to 31st December, 2002.

The consideration for the costs of the mining rights of RMB132,480,000 is to be settled over ten years by equal annual installments before 31st December of each year, commencing from 2001.

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

2. BASIS OF PRESENTATION

The accompanying financial statements have been prepared in accordance with International Accounting Standards ("IAS") issued by the International Accounting Standards Committee which differ from those used in the management accounts of the Company, which have been prepared in accordance with the relevant accounting principles and regulations applicable to PRC enterprises ("PRC GAAP"). The principal adjustments to the management accounts made to conform to IAS are summarized in note 33.

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

Differences between IAS and accounting principles generally accepted in the United States of America ("US GAAP") are stated in note 34.

3. ADOPTION OF IAS 10 (REVISED) AND IAS 38

The Company has adopted for the first time the IAS 10 (Revised) "Events After the Balance Sheet Date" and IAS 38 "Intangible Assets" which became effective in the current year.

IAS 10 (Revised) specifies that dividends declared after the balance sheet date but before the financial statements were authorised for issue should be disclosed either as a separate component of equity or in the notes to the financial statements. In prior periods, dividends declared after the balance sheet date have been recorded as liabilities on the balance sheet. The adoption of IAS 10 (Revised), which has been applied retrospectively, has resulted in an increase in the retained earnings and an increase in net assets of RMB69,000,000, RMB148,200,000 and RMB231,400,000 as at 1st January, 1998, 1999 and 2000, respectively.

Adoption of IAS 38 has no significant changes in or modifications to the financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of property, plant and equipment.

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

Revenue recognition

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

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

Property, plant and equipment and land use rights

It is the policy of the Company to state the property, plant and equipment and land use rights at cost. A valuation of the property, plant and equipment and land use rights of the four mines injected into the Company was carried out as at 31st July, 1997 in accordance with the PRC government directives to establish the deemed costs of the assets injected into the Company upon the establishment of the Company. It is not the intention of the Company to perform revaluations of the property, plant and equipment and land use rights unless required by the PRC government directives.

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets under construction are not depreciated until they are completed and put into commercial operation.

The Company recognizes an impairment loss on property, plant and equipment when evidence, such as the sum of expected future cash flows (undiscounted and without interest charges), indicates that future operations will not produce sufficient revenue to cover the related future costs, including depreciation, and when the carrying amount of the asset cannot be realized through sale. Measurement of the impairment loss is based on the recoverable amount of the assets.

Construction in progress

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

Goodwill

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

Inventories

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

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

Income taxes

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development

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

No research and development expenditure has been deferred.

Land subsidence, restoration, rehabilitation and environmental costs

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

An estimate of such costs is recognised in the period in which the obligation is identified and is charged as an expense in proportion to the coal extracted.

Capitalization of borrowing costs

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

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

Foreign currency translation

The Company maintains its books and records in Renminbi.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates

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

5. SALES AND TRANSPORTATION COSTS

	Year ended 31st December,		
	2000	1999	1998
	RMB'000	RMB'000	RMB'000
Domestic sales, gross	2,414,826	2,455,844	2,308,062
Less: Transportation costs	324,068	153,282	63,238
Domestic sales, net	2,090,758	2,302,562	2,244,824
Export sales, gross	2,289,375	1,545,631	1,972,405
Less: Transportation costs	780,396	485,792	530,220
Export sales, net	1,508,979	1,059,839	1,442,185
Net sales	3,599,737	3,362,401	3,687,009

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

Sales taxes consist primarily of a resource tax calculated at the rate of RMB1.20 per metric tonne ("tonne") of imputed quantity of raw coal sold and is paid to the local tax bureau. The resource tax for each of the three years ended 31st December, 1998, 1999 and 2000 amounted to RMB24,085,000, RMB28,480,000 and RMB33,955,000, respectively.

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

6. COST OF GOODS SOLD

	Year ended 31st December, 2000 RMB'000	1999 RMB'000	1998 RMB'000
Materials	484,337	353,081	392,643
Wages and employee benefits	419,134	349,220	340,827
Electricity	185,759	156,901	185,670
Depreciation	487,623	471,363	517,893
Contribution to coal industry fund (note i)	–	–	36,633
Land subsidence, restoration, rehabilitation and environmental costs	170,229	78,258	151,131
Repairs and maintenance	174,734	136,088	142,116
Non-rebated value added taxes (note ii)	–	21,704	110,551
Annual fee for mining rights (note iii)	12,980	12,980	12,980
Others	48,724	34,237	71,505
	1,983,520	1,613,832	1,961,949

Notes:

(i) Pursuant to the relevant regulation, all mines under the then control of the Ministry of Coal Industry ("MOCI". MOCI was dissolved in March 1998 and has been replaced by the NCIB) were required to contribute to an industry fund operated by MOCI. The usage of this fund was at the discretion of MOCI. The Company was required to contribute at RMB1.80 per tonne of raw coal mined to MOCI. Upon the replacement of MOCI by NCIB, the contribution continued at RMB1.00 and RMB0.80 per tonne of raw coal mined to NCIB and Shandong Coal Mining Industry Bureau, respectively. The contribution to NCIB has been cancelled since 1st July, 1998 and the contribution to Shandong Coal Mining Industry Bureau was cancelled since 1st January, 1999. The Company is no longer required to make contribution to this fund since 1st January, 1999.

(ii) Sales in the PRC are subject to a value added tax ("VAT"). The applicable VAT rate is 13% for coal products sold in the PRC before input tax credits for VAT on purchases. Effective from 1st January, 1998, the Company paid VAT on export sales value at 13% but received a refund of the VAT paid at 3% of the sales price. The Ministry of Finance and the PRC State Taxation Bureau revised the VAT refund rates from 3% of the sales price to 9% effective 1st June, 1998 and then to 13% effective 1st May, 1999.

The non-deductible input VAT tax credit has been charged as cost of goods sold during the relevant periods.

(iii) The Parent Company and the Company have entered into a mining rights agreement pursuant to which the Company has agreed to pay to the Parent Company effective from 25th September, 1997 an annual fee of RMB12,980,000 as compensation for the Parent Company's agreement to give up the mining rights associated with the Company's mines. The annual fee is subject to change after a ten year period.

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31st December,		
	2000	1999	1998
	RMB'000	RMB'000	RMB'000
Retirement benefits scheme contributions (note 28)	189,372	154,410	157,184
Wages and employee benefits	74,946	73,215	70,992
Depreciation	28,840	31,986	22,934
Amortization of goodwill	777	777	777
Distribution charges	64,569	54,209	48,461
Provision for doubtful debts	–	55,954	6,415
Resource compensation fees (note)	28,409	25,810	23,893
Repairs and maintenance	6,518	6,345	4,981
Research and development	24,290	24,213	22,110
Others	218,715	198,361	182,329
	636,436	625,280	540,076

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

8. INTEREST EXPENSES

	Year ended 31st December,		
	2000	1999	1998
	RMB'000	RMB'000	RMB'000
Interest expenses on:			
– bills receivable discounted without recourse	5,012	10,176	–
– borrowings not wholly repayable within 5 years	–	274	87,603
	5,012	10,450	87,603

No interest was capitalized during the relevant periods.

9. OTHER INCOME

	Year ended 31st December,		
	2000	1999	1998
	RMB'000	RMB'000	RMB'000
Gain on sales of auxiliary materials	34,899	23,033	36,229
Interest income from bank deposits	25,984	24,541	40,032
	60,883	47,574	76,261

10. INCOME BEFORE INCOME TAXES

	Year ended 31st December,		
	2000	1999	1998
	RMB'000	RMB'000	RMB'000
Income before income taxes has been arrived at after charging:			
Auditors' remuneration	2,000	2,996	3,371
Depreciation	516,463	503,349	540,827
Repairs and maintenance	181,252	142,433	147,097
Research and development	24,290	24,213	22,110

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

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

	Year ended 31st December,		
	2000	1999	1998
	RMB'000	RMB'000	RMB'000
Directors			
Fees (independent non-executive directors)	122	146	139
Salaries, allowance and other benefits in kind	637	581	728
Retirement benefits scheme contributions	207	229	200
Discretionary bonuses	–	–	–
	966	956	1,067
Supervisors			
Fees	–	–	–
Salaries, allowance and other benefits in kind	178	168	189
Retirement benefits scheme contributions	55	66	51
Discretionary bonuses	–	–	–
	233	234	240

Emoluments of each directors and supervisors are all within the band of HK$Nil to HK$1,000,000 for the years ended 31st December, 1998, 1999 and 2000.

The five highest paid individuals in the Company in 1998, 1999 and 2000 were all directors of the Company.

12. INCOME TAXES

	Year ended 31st December, 2000 RMB'000	1999 RMB'000	1998 RMB'000
Income taxes	295,607	314,015	371,576
Deferred tax (credit) charge (note 21)	(8,315)	21,278	(15,294)
	287,292	335,293	356,282

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

	Year ended 31st December, 2000 RMB'000	1999 RMB'000	1998 RMB'000
Standard income tax rate in the PRC	33%	33%	33%
Standard income tax rate applied to income before income taxes	341,765	382,936	387,302
Reconciling items:			
Transfer to future development fund (see note 24) charged to income under PRC accounting regulations and deductible for tax purpose but not charged to statement of income under IAS	–	–	(31,160)
Deduction claimed on the deemed appropriation to future development fund which is no longer charged to income under PRC accounting regulations but continues to be eligible for tax deduction	(54,363)	(47,293)	–
Amortization of the revaluation surplus of low-priced consumables deductible for tax purpose but not for accounting purposes under IAS	(606)	(606)	–
Amortization of goodwill not deductible for tax purpose	256	256	256
Others	240	–	(116)
Income taxes	287,292	335,293	356,282
Effective income tax rate	28%	29%	30%

12. INCOME TAXES (Continued)

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

13. DIVIDEND

	Year ended 31st December,		
	2000	1999	1998
	RMB'000	RMB'000	RMB'000
Final dividend for the previous year declared	231,400	148,200	–
Interim dividend, paid	–	–	75,400
Special interim dividend	–	–	69,000
	231,400	148,200	144,400

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

Pursuant to a board meeting held on 12th October, 1998, an interim dividend of RMB75,400,000, or RMB0.029 per share in respect of the year ended 31st December, 1998 was declared and paid to the shareholders of the Company.

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

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

According to terms of the prospectus issued during the year on the proposed issue of 100,000,000 A shares in the PRC, upon the completion of such issue, the shareholders of the new A shares are entitled to the final dividend of the Company for the year ended 31st December, 2000. The board of directors proposes to declare a final dividend of approximately RMB221,400,000, calculated based on a total number of 2,700,000,000 shares issued at RMB1 each, at RMB0.082 per share in respect of the year ended 31st December, 2000. The declaration and payment of the final dividend need to be approved by the shareholders of the Company by way of an ordinary resolution in accordance with the requirements of the Company's Articles of Association. A shareholders' general meeting will be held for the purposes of considering and, if thought fit, approving such ordinary resolution.

14. EARNINGS PER SHARE AND PROFORMA ADS

The calculation of the earnings per share for the years ended 31st December, 2000, 1999 and 1998 are based on the net income for the year of RMB748,360,000, RMB825,120,000 and RMB817,360,000 and on the weighted average of 2,600,000,000 shares, 2,600,000,000 shares and 2,355,616,000 shares in issue, respectively, during the year.

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

15. BILLS AND ACCOUNTS RECEIVABLE

	At 31st December, 2000 RMB'000	1999 RMB'000
Total bills receivable	**16,799**	57,321
Total accounts receivable	**906,957**	893,837
Less: Provision for doubtful debts	**(87,044)**	(87,517)
Total bills and accounts receivable, net	**836,712**	863,641

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

The Company made provisions for doubtful debts of RMB6,415,000 and RMB55,954,000 for the two years ended 31st December, 1998 and 1999, respectively. No provisions for doubtful debts had been made for the year ended 31st December, 2000.

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

The following is an aged analysis of accounts receivables at the reporting date:

	At 31st December, 2000 RMB'000	1999 RMB'000
1 – 180 days	**512,658**	489,073
181 – 365 days	**198,180**	247,056
1 – 2 years	**178,003**	126,527
2 – 3 years	**10,262**	18,751
Over 3 years	**7,854**	12,490
	906,957	893,897

16. INVENTORIES

	At 31st December, 2000 RMB'000	1999 RMB'000
Auxiliary materials, spare parts and small tools	215,517	213,270
Coal products	47,385	97,179
	262,902	310,449

17. PREPAYMENTS AND OTHER CURRENT ASSETS

	At 31st December, 2000 RMB'000	1999 RMB'000
Advance to suppliers	121,665	46,762
Prepaid freight charges	28,091	80,563
VAT refundable	221,500	64,774
Others	189,163	108,627
	560,419	300,726

18. LAND USE RIGHTS

	Land use rights RMB'000
COST	
At 1st January, 2000	309,827
Additions	415
At 31st December, 2000	**310,242**
DEPRECIATION	
At 1st January, 2000	13,049
Provided for the year	6,214
At 31st December,2000	19,263
NET BOOK VALUES	
At 31st December, 2000	**290,979**
At 31st December, 1999	296,778

The land use rights have a term of fifty years from the date of grant of land use rights certificates (see also note 19).

19. PROPERTY, PLANT AND EQUIPMENT, NET

	Land use rights RMB'000	Buildings RMB'000	Mining structure RMB'000	Plant, machinery and equipment RMB'000	Transportation equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1st January, 2000	309,827	1,439,928	2,498,286	4,191,973	78,855	512,865	8,721,907
Additions	415	1,864	–	7,777	3,364	509,620	522,625
Transfers	–	83,289	55,465	627,758	6,190	(772,702)	–
Disposals	–	(7,349)	–	(229,521)	(1,323)	–	(238,193)
At 31st December, 2000	**310,242**	**1,517,732**	**2,553,751**	**4,597,987**	**87,086**	**249,783**	**9,006,339**
DEPRECIATION							
At 1st January, 2000	13,049	445,656	1,050,437	1,944,888	61,682	–	3,502,663
Provided for the year	6,214	66,067	68,641	362,910	10,371	–	507,989
Eliminated on disposals	–	(2,385)	–	(210,244)	(1,227)	–	(213,856)
At 31st December,2000	19,263	509,338	1,119,078	2,097,554	70,826	–	3,796,796
NET BOOK VALUES							
At 31st December, 2000	**290,979**	**1,008,394**	**1,434,673**	**2,500,433**	**16,260**	**249,783**	**5,209,543**
At 31st December, 1999	296,778	994,272	1,447,849	2,247,085	17,173	512,865	5,219,244

As part of the process to establish the Company referred to in note 1, the property, plant and equipment together with land use rights of the four mines were revalued by a firm of independent valuers, Sallmanns (Far East) Limited as at 31st July, 1997. The revaluation surplus arising on its four mines injected into the Company amounting to RMB1,694,584,000, has been reflected in these financial statements as part of the deemed cost base of the assets of the Company upon its formation. The revaluation surplus of RMB88,611,000 on Jining II has been incorporated into the fair value of net assets acquired by the Company as of 1st January, 1998.

20. GOODWILL

	At 31st December, 2000 RMB'000	1999 RMB'000
COST		
At 1st January and 31st December	15,545	15,545
AMORTIZATION		
At 1st January	1,554	777
Provided for the year	777	777
At 31st December	2,331	1,554
NET BOOK VALUES		
At 31st December	13,214	13,991

21. DEFERRED TAXATION

	At 31st December, 2000 RMB'000	1999 RMB'000
Balance at 1st January	76,846	98,124
Credit (charge) for the year	8,315	(21,278)
Balance at 31st December	85,161	76,846

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

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

22. ACCOUNTS PAYABLE

	At 31st December, 2000 RMB'000	1999 RMB'000
Bills payable	10,000	47,360
Accounts payable	538,387	462,542
	548,387	509,902

The following is an aged analysis of accounts payable at the reporting date:

	At 31st December, 2000 RMB'000	1999 RMB'000
1 – 180 days	438,709	418,120
181 – 365 days	102,388	86,089
1 – 2 years	7,290	5,693
	548,387	509,902

23. OTHER PAYABLES AND ACCRUED EXPENSES

	At 31st December, 2000 RMB'000	1999 RMB'000
Customers deposits	91,919	59,465
Accrual for land subsidence, restoration, rehabilitation and environmental costs	136,724	188,605
Accrued wages	34,727	31,166
Others	135,089	116,634
	398,459	395,870

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

24. SHAREHOLDERS' EQUITY

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

Class of shares	Type of shares	Number of shares 2000 & 1999
Domestic invested shares	- State legal person shares (held by the Parent Company)	1,670,000,000
	- A shares (including 8,000,000 shares owned by the Company's employees)	80,000,000
Foreign invested shares	H shares (including H shares represented by ADS)	850,000,000
Each share has a par value of RMB1.00	Total	2,600,000,000

The Company issued an additional 100,000,000 A shares subsequent to the balance sheet date (see note 1).

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

The Company shall set aside 10% of its net income for the statutory common reserve fund (except where the fund has reached 50% of the Company's registered capital) and 5% to 10% of its net income for the statutory common welfare fund. The statutory common reserve fund can be used for the following purposes:

- to make good the losses in previous years; or
- to convert into capital, provided such conversion is approved by a resolution at a shareholders' general meeting and the balance of the statutory common reserve fund does not fall below 25% of the registered capital.

The statutory common welfare fund, which is to be used for the welfare of the staff and workers of the Company, is of a capital nature.

In accordance with its Articles of Association, the net income for the purpose of appropriation will be deemed to be the lesser of the amounts determined in accordance with (i) PRC accounting standards and regulations and (ii) IAS or the accounting standards of the places in which its shares are listed.

24. SHAREHOLDERS' EQUITY (Continued)

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

The Company's distributable reserve is the retained earnings computed under PRC GAAP which amounted to RMB1,333,963,000 as at 31st December, 2000 (1999: RMB905,808,000).

25. RELATED PARTY TRANSACTIONS

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

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

	Year ended 31st December,		
	2000	1999	1998
	RMB'000	RMB'000	RMB'000
Income			
Sales of coal	**89,904**	85,660	69,980
Sales of auxiliary materials and spare parts	**9,429**	8,580	25,590
Utilities and facilities	**5,179**	5,828	4,670
Expenditure			
Utilities and facilities	**600**	600	5,380
Annual fee for mining rights	**12,980**	12,980	12,980
Purchases of supply materials	**67,845**	150,201	114,030
Railway transportation services for export sales	**209,842**	168,040	173,180
Repair and maintenance services	**79,316**	90,477	81,700
Social welfare and support services	**125,519**	115,699	117,810
Technical support and training	**15,130**	15,130	15,130
Road transportation services	**10,474**	13,124	18,250

Certain expenditure for social welfare and support services (excluding medical and child care expenses) of RMB54,950,000 for each of the three years ended 31st December, 1998, 1999 and 2000, and for technical support and training of RMB15,130,000 for each of the three years ended 31st December, 1998, 1999 and 2000, 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 plan of the Parent Company in respect of retirement benefits (see note 7 and 28).

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

	2000	1999	1998
	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	–	–	3,552
Bills and accounts receivable	–	–	34,135
Inventories	–	–	21,024
Prepayments and other current assets	–	–	2,224
Property, plant and equipment, net	–	–	1,911,854
Accounts payable	–	–	(19,067)
Other payables and accrued expenses	–	–	(13,400)
Total net assets acquired	–	–	1,940,322
Goodwill	–	–	15,545
Cash consideration	–	–	1,955,867
Satisfied by:			
Cash consideration	–	–	1,955,867
Bank balances and cash acquired	–	–	3,552
Net outflow of cash and cash equivalents in respective of the acquisition of Jining II	–	–	1,952,315

27. COMMITMENTS

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

	2000	1999
	RMB'000	RMB'000
Contracted for but not provided in the financial statements	**26,355**	8,732
Authorised but not contracted for	–	439,040
	26,355	447,772

In addition, at 31st December, 2000, the Company had capital commitment of RMB2,583 million in respective of the acquisition of the Jining III mine as detailed in note 1.

28. RETIREMENT BENEFITS

Qualifying employees of the Company are entitled to a pension, medical and other welfare benefits. The Company participates in a multi-employer plan of the Parent Company and pays a monthly contribution to the Parent Company in respect of retirement benefits at an agreed contribution rate based on the monthly basic salaries and wages of the qualified employees. The Parent Company is responsible for the payment of all retirement benefits to the retired employees of the Company. All obligations for past service costs of the employees of the business contributed to the Company have been assumed by the Parent Company.

For the three years ended 31st December, 1998, 1999 and 2000, the monthly contribution rate has been set initially at 45% of the aggregate monthly basic salaries and wages of the Company's employees, and is fixed until 31st December, 2001. In respect of each five-year period following the expiration of the initial period, the Parent Company and the Company will determine a new contribution rate. If the Parent Company and the Company cannot agree on the level of contribution for any such subsequent five-year period, then the contribution rate will be fixed by arbitration.

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

29. 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 for 1998 and at a negotiated amount for 1999 and 2000. Such expenses, amounting to RMB29,700,000 for each of the three years ended 31st December, 1998, 1999 and 2000, have been included as part of the social welfare and support services expenses summarized in note 25.

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.

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

31. CONCENTRATION OF CREDIT RISK

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

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

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

As the Company does not currently have direct export rights, all of its export sales must be made through National Coal Corporation. The quality, prices and final customer destination of the Company's export sales are determined by National Coal Corporation. The Company intends to apply for direct export rights although there can be no assurance that such rights will be obtained on a timely basis.

For the years ended 31st December, 1998, 1999 and 2000, net sales to the Company's five largest domestic customers accounted for approximately, 30.3%, 33.4% and 26.7%, respectively, of the Company's total net sales. Net sales to the Company's largest domestic customer, the Shandong Power and Fuel Company, accounted for 22.9%, 21.1% and 17.5% of the Company's net sales for the years ended 31st December, 1998, 1999 and 2000, respectively. The Shandong Power and Fuel Company purchases coal on behalf of several power plants in Shandong Province, the largest of which, the Zouxian Electric Power Plant, alone accounted for 18.9%, 18.5% and 17.1% of the Company's net sales for the years ended 31st December, 1998, 1999 and 2000, respectively.

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

	Percentage of accounts receivable At 31st December, 2000	1999
Five largest receivable balances	9%	11%

32. SEGMENT INFORMATION

The Company is engaged solely in the coal mining business and operates only in the PRC and the number of employees of the Company at 31st December, 2000 was 23,258 (1999: 20,786). All the identifiable assets of the Company are located in the PRC. The Company does not currently have direct export rights and all of its export sales must be made through National Coal Corporation. The final customer destination of the Company's export sales is determined by National Coal Corporation.

33. SUMMARY OF DIFFERENCES BETWEEN IAS AND PRC GAAP

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

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

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

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

(iv) deferred tax asset recognized for the tax consequence of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities under IAS; and

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

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

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

	Net income for the year ended 31st December,		Net assets as at 31st December,	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
As per financial statements prepared under IAS:				
As previously reported	748,360	825,120	6,869,625	6,121,265
Proposed dividend	–	–	–	231,400
As restated	748,360	825,120	6,869,625	6,352,665
Impact of IAS adjustment in respect of:				
– provision for land subsidence, restoration, rehabilitation and environmental costs	25,195	(64,479)	258,071	232,876
– revaluation surplus on low-priced consumables recognized on the establishment of the Company under PRC GAAP	(1,835)	(1,835)	3,672	5,507
– amortization of goodwill	777	777	2,331	1,554
– deferred tax effect on additional provision for land subsidence, restoration, rehabilitation and environmental cost	(8,315)	21,278	(85,161)	(76,846)
– proposed final dividend	–	–	(221,400)	(231,400)
As per financial statements prepared under PRC GAAP standards and regulations	764,182	780,861	6,827,138	6,284,356

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

34. SUMMARY OF DIFFERENCES BETWEEN IAS AND US GAAP

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

Under IAS, earnings per share is computed by dividing net income for the period by the weighted average number of shares in issue during the period. Under US GAAP, earnings per share for the years ended 31st December, 1998 is computed by dividing net income for the period by the aggregate of the weighted average outstanding shares in issue during the period adjusted for the equivalent shares which would be issued for the acquisition of Jining II. Weighted average number of shares applied in computing earnings per share under US GAAP for the year ended 31st December, 1998 is 2,542,959,582, which have been adjusted for the 749,374,330 equivalent shares deemed issued at RMB2.61 per share for the purchase consideration of Jining II of RMB1,955,867,000. Earnings per share for the years ended 31st December, 1999 and 2000 is computed by dividing the net income for the year computed under US GAAP of RMB936,516,000 and RMB859,755,000 by the weighted average of 2,600,000,000 shares in issue during the two years.

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

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

Under US GAAP, if there is a reasonable possibility that an additional loss may have been incurred, then disclosure of the additional amount of possible loss is required. In the case of the Company, the directors estimate that at 31st December, 2000 additional accrual for land subsidence, restoration, rehabilitation and environmental costs of approximately RMB75,000,000 is reasonably possible.

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

In June 1998, the Financial Accounting Standards Board of the US ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 establishes new accounting and reporting standards for derivative financial instruments and for hedging activities. SFAS No. 133 requires the Company to measure all derivatives at fair value and to recognize them in the balance sheet as an asset or liability, depending on the Company's rights or obligations under the applicable derivative contract. In June 1999, the FASB issued SFAS No. 137, which deferred the effective date of adoption of SFAS No. 133 for one year. The Company will apply SFAS No. 133 for fiscal year 2001. Adoption of the new method of accounting for derivatives and hedging activities is not expected to have a material impact on the Company's financial position.

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

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

	Year ended 31st December,		
	2000	1999	1998
	RMB'000	RMB'000	RMB'000
Net income as reported under IAS	**748,360**	825,120	817,360
US GAAP adjustments:			
Depreciation charge on revalued property, plant and equipment and land use rights	**165,103**	165,103	167,377
Amortization of goodwill on acquisition of Jining II	**777**	777	777
Additional deferred tax charge due to a higher tax base resulting from the revaluation of property, plant and equipment and land use rights	**(54,484)**	(54,484)	(25,992)
Net income under US GAAP	**859,756**	936,516	959,522
Earnings per share under US GAAP	**RMB0.33**	RMB0.36	RMB0.38
Earnings per proforma ADS under US GAAP	**RMB16.53**	RMB18.01	RMB18.87

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

	At 31st December, 2000 RMB'000	1999 RMB'000
Shareholders' equity as reported under IAS:		
As previously reported	6,869,625	6,121,265
Proposed final dividend	–	231,400
As restated (see note 3)	6,869,625	6,352,665
US GAAP adjustments:		
Revaluation of property, plant and equipment and land use rights	(1,912,164)	(1,912,164)
Depreciation charged on revalued property, plant and equipment and land use rights	584,467	419,364
Additional deferred tax assets due to a higher tax base resulting from the revaluation of property, plant and equipment and land use rights	438,141	492,625
Goodwill arising on acquisition of Jining II	(13,214)	(13,991)
Shareholders' equity under US GAAP	5,966,855	5,338,499

Under US GAAP, the Company's total assets would have been RMB6,585,196,000 and RMB7,200,914,000 at 31st December, 1999 and 2000, respectively.