NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. GENERAL

The Company was established as a joint stock company with limited liability in the People's Republic of China (the "PRC") and operates six coal mines, namely the Xinglongzhuang coal mine, Baodian coal mine, Nantun coal mine, Dongtan coal mine, Jining II coal mine, and Jining III coal mine. These six 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. The Company acquired the Jining III coal mine from the Parent Company effective January 1, 2001. This acquisition was financed as set out below.

On January 3, 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 have been listed on the Shanghai Securities Exchange ("SSE") since February 2001. On May 11, 2001, the Company placed an aggregate of 170,000,000 H shares to independent investors and the H shares were listed on the Hong Kong Stock Exchange. The total net proceeds from the A share and H share offerings were approximately RMB960,607,000 and HK$458,595,000 (equivalent to approximately RMB490,696,000), respectively. The proceeds were applied towards the purchase price of Jining III of approximately RMB2,583 million. The purchase price includes the costs of Jining III of approximately RMB2,450,905,000 and the costs of the mining rights of approximately RMB132,479,000.

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

(i) Initial installment

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

(ii) Second installment

The net proceeds of RMB960,607,000 of the A Share Issue were paid over on January 22, 2001.

(iii) Third installment

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

(iv) Fourth installment

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

1. GENERAL – continued

The consideration for the cost of the mining rights of RMB132,479,000 is to be settled over ten years by equal annual installments before December 31 of each year, commencing from 2001.

In April 2001, the status of the Company was changed to that of a sino-foreign joint stock limited company.

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 Shares ("ADS", one ADS represents 50 H shares) are listed on the New York Stock Exchange.

2. BASIS OF PRESENTATION

The condensed financial statements have been prepared in accordance with International Accounting Standard 34 ("IAS 34") Interim Financial Reporting and with the applicable disclosures requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules"). The accounting policies adopted, as described below, differ from those used in the management accounts of the Company, which have been prepared in accordance with the relevant accounting principles and regulations applicable to PRC enterprises ("PRC GAAP"). The principal adjustments to the management accounts made to conform to IAS are summarized in note 32.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention.

Except for the following new accounting policies adopted by the Company during the current period, the accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2000.

Mining rights

Mining rights of Jining III are stated at cost less accumulated amortization and 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.

Negative goodwill

Negative goodwill, which represents the excess of the fair value ascribed to the Company's share of the separable net assets at the date of acquisition of Jining III over the purchase consideration is presented as a deduction from the assets of the Company. Negative goodwill is released to income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets.

4. SALES AND TRANSPORTATION COSTS

	Six months ended June 30,	
	2001	2000
	RMB'000	RMB'000
Domestic sales, gross	1,575,927	1,187,578
Less: Transportation costs	227,892	115,344
Domestic sales, net	1,348,035	1,072,234
Export sales, gross	1,462,742	920,200
Less: Transportation costs	475,349	306,728
Export sales, net	987,393	613,472
Net sales	2,335,428	1,685,706

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 six months ended June 30, 2000 and 2001 amounted to RMB15,479,000 and RMB19,954,000, respectively.

4. SALES AND TRANSPORTATION COSTS – continued

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 the Company and National Coal Corporation.

5. COST OF GOODS SOLD

	Six months ended June 30, 2001 RMB'000	Six months ended June 30, 2000 RMB'000
Materials	312,487	194,150
Wages and employee benefits	281,635	190,558
Electricity	111,476	90,880
Depreciation	373,446	246,998
Land subsidence, restoration, rehabilitation and environmental costs	105,345	78,717
Repairs and maintenance	114,831	72,627
Annual fee and amortization of mining rights	9,802	6,490
Others	53,196	47,313
	1,362,218	927,733

6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended June 30, 2001 RMB'000	Six months ended June 30, 2000 RMB'000
Retirement benefits scheme contributions (note 27)	131,681	83,475
Wages and employee benefits	44,938	37,006
Depreciation	16,695	14,425
Amortization of goodwill	389	389
Amortization of negative goodwill	(18,426)	–
Distribution charges	32,402	34,265
Provision for doubtful debts	4,308	–
Resource compensation fees	15,023	13,720
Repairs and maintenance	3,913	3,208
Research and development	12,483	12,503
Others	116,169	95,112
	359,575	294,103

7. INTEREST EXPENSES

	Six months ended June 30, 2001 RMB'000	2000 RMB'000
Interest expenses on bills receivable discounted without recourse	1,314	2,473
Deemed interest expenses (note 24)	22,565	–
	23,879	2,473

No interest was capitalized during the relevant periods.

8. OTHER INCOME

	Six months ended June 30, 2001 RMB'000	2000 RMB'000
Gain on sales of auxiliary materials	16,916	16,447
Interest income from bank deposits	9,831	18,880
Others	1,116	–
	27,863	35,327

9. INCOME BEFORE INCOME TAXES

	Six months ended June 30, 2001 RMB'000	2000 RMB'000
Income before income taxes has been arrived at after charging:		
Depreciation of land use rights and property, plant and equipment	390,141	261,423
Amortization of mining rights	3,312	–
Amortization of goodwill	389	389
Repairs and maintenance	118,744	75,835
Research and development	12,483	12,503
and after crediting:		
Release of negative goodwill to income	18,426	–

10. INCOME TAXES

	Six months ended June 30, 2001 RMB'000	2000 RMB'000
Income taxes	**171,837**	145,881
Deferred tax credit	**(1,216)**	(7,920)
	170,621	137,961

The Company is subject to a standard income tax rate of 33%. However, the effective income tax rate of the Company for the current period is 28% (six months ended June 30, 2000: 28%). The major reconciling item is the deduction claimed on the deemed appropriation to future development fund which is not charged to income under PRC tax regulation but is eligible for tax deduction.

11. DIVIDEND

	Six months ended June 30, 2001 RMB'000	2000 RMB'000
Final dividend approved	**235,340**	231,400

Pursuant to the annual general meeting held on June 15, 2001, a final dividend of approximately RMB235,340,000 or RMB0.082 per share in respect of the year ended December 31, 2000 was approved.

12. EARNINGS PER SHARE AND ADS

The calculation of the earnings per share for the six months ended June 30, 2000 and 2001 is based on the net income for the period of RMB358,763,000 and RMB446,998,000 and on the weighted average number of 2,600,000,000 shares and 2,743,977,901 shares in issue, respectively, during the period.

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

13. BILLS AND ACCOUNTS RECEIVABLE

	At June 30, 2001 RMB'000	At December 31, 2000 RMB'000
Total bills receivable	99,930	16,799
Total accounts receivable	821,581	906,957
Less: Provision for doubtful debts	(88,859)	(87,044)
Total bills and accounts receivable, net	832,652	836,712

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 provision for doubtful debts of RMB1,815,000 for the six months ended June 30, 2001. No provision was made for the six months ended June 30, 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 bills and accounts receivables at the reporting date:

	At June 30, 2001 RMB'000	At December 31, 2000 RMB'000
1 – 180 days	548,324	529,457
181 – 365 days	182,107	198,180
1 – 2 years	176,194	178,003
2 – 3 years	8,210	10,262
Over 3 years	6,676	7,854
	921,511	923,756

14. INVENTORIES

	At June 30, 2001 RMB'000	At December 31, 2000 RMB'000
Auxiliary materials, spare parts and small tools	211,300	215,517
Coal products	135,839	47,385
	347,139	262,902

15. PREPAYMENTS AND OTHER CURRENT ASSETS

	At June 30, 2001 RMB'000	At December 31, 2000 RMB'000
Advance to suppliers	102,008	121,665
Prepaid freight charges	129,127	28,091
VAT refundable	246,162	221,500
Temporary advances	15,996	8,837
Others	136,419	180,326
	629,712	560,419

16. MINING RIGHTS

	RMB'000
Cost	
Acquisition of Jining III and at June 30, 2001	132,479
Amortization	
Provided for the period and at June 30, 2001	3,312
Net book values	
At June 30, 2001	129,167
At December 31, 2000	–

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

17. LAND USE RIGHTS

	Land use rights RMB'000
Cost	
At January 1, 2001	310,242
Addition on acquisition of Jining III	88,929
At June 30, 2001	399,171
Depreciation	
At January 1, 2001	19,263
Provided for the period	3,942
At June 30, 2001	23,205
Net book values	
At June 30, 2001	375,966
At December 31, 2000	290,979

The land use rights have a term of fifty years from the date of grant of land use rights certificates.

18. PROPERTY, PLANT AND EQUIPMENT, NET

	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 January 1, 2001	1,517,732	2,553,751	4,597,987	87,086	249,783	9,006,339
Addition on acquisition of Jining III	303,365	994,538	1,026,636	47,986	–	2,372,525
Additions	140	–	5,165	87	39,736	45,128
Disposals	(1,729)	–	(17,554)	(59)	–	(19,342)
At June 30, 2001	1,819,508	3,548,289	5,612,234	135,100	289,519	11,404,650
Depreciation						
At January 1, 2001	509,338	1,119,078	2,097,554	70,826	–	3,796,796
Provided for the period	46,124	42,748	318,546	4,756	–	412,174
Eliminated on disposals	(62)	–	(12,907)	(27)	–	(12,996)
At June 30, 2001	555,400	1,161,826	2,403,193	75,555	–	4,195,974
Net book values						
At June 30, 2001	1,264,108	2,386,463	3,209,041	59,545	289,519	7,208,676
At December 31, 2000	1,008,394	1,434,673	2,500,433	16,260	249,783	5,209,543

19. GOODWILL

	At June 30, 2001 RMB'000	At December 31, 2000 RMB'000
Cost		
Opening balance and closing balance	15,545	15,545
Amortization		
Opening balance	2,331	1,554
Provided for the period/year	389	777
Closing balance	2,720	2,331
Net book values		
Closing balance	12,825	13,214

20. NEGATIVE GOODWILL

	Negative goodwill RMB'000
Cost	
Addition on acquisition of Jining III and at June 30, 2001	138,101
Released to income	
In the period and at June 30, 2001	18,426
Net book values	
At June 30, 2001	119,675
At December 31, 2000	–

21. DEFERRED TAX ASSET

	At June 30, 2001 RMB'000	At December 31, 2000 RMB'000
Opening balance	85,161	76,846
Credit for the period/year	1,216	8,315
Closing balance	86,377	85,161

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

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

22. ACCOUNTS PAYABLE

	At June 30, 2001 RMB'000	At December 31, 2000 RMB'000
Bills payable	52,800	10,000
Accounts payable	382,282	538,387
	435,082	548,387

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

	At June 30, 2001 RMB'000	At December 31, 2000 RMB'000
1 – 180 days	285,814	438,709
181 – 365 days	139,677	102,388
1 – 2 years	9,591	7,290
	435,082	548,387

23. 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 At June 30, 2001	Number of shares At December 31, 2000
Domestic invested shares	– State legal person shares (held by the Parent Company)	1,670,000,000	1,670,000,000
	– A shares	180,000,000	80,000,000
Foreign invested shares	H shares (including H shares represented by ADS)	1,020,000,000	850,000,000
	Total	2,870,000,000	2,600,000,000

Each share has a par value of RMB1.

23. SHAREHOLDERS' EQUITY – continued

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

The Company shall set aside 10% of its net income for the statutory common reserve fund (except where the fund has reached 50% of the Company's registered capital) and 5% to 10% of its net income for the statutory common welfare fund. The appropriation is done once a year based on the results for the year, and accordingly, no appropriation is made at the interim dates. The statutory common reserve fund can be used for the following purposes:

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

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

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

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

The Company's distributable reserve as at June 30, 2001 is the retained earnings computed under PRC GAAP which amounted to approximately RMB1,516,960,000.

The Company's distributable reserve as at December 31, 2000 is also the retained earnings computed under PRC GAAP which have been restated from approximately RMB1,333,963,000 to approximately RMB1,070,322,000 as a result of the dividends distributed to the additional 170,000,000 H shares issued on May 11, 2001 and change of accounting policy for the accrual of land subsidence, restoration, rehabilitation and environmental costs as disclosed in note 32.

24. ANALYSIS OF THE NET OUTFLOW OF CASH AND CASH EQUIVALENTS IN RESPECT OF THE ACQUISITION OF JINING III

	Six months ended June 20, 2001 RMB'000	Six months ended June 30, 2000 RMB'000
Bills and accounts receivable	2,920	–
Inventories	6,078	–
Prepayments and other current assets	1,362	–
Mining rights	132,479	–
Land use rights	88,929	–
Property, plant and equipment, net	2,372,525	–
Accounts payable	(7,062)	–
Other payables and accrued expenses	(13,847)	–
Total net assets acquired	2,583,384	–
Negative goodwill	(138,101)	–
Consideration	2,445,283	–
Satisfied by:		
Cash consideration	1,354,136	–
Amounts due to Parent Company and its subsidiary companies		
– due within one year	451,449	–
Amounts due to Parent Company and its subsidiary companies		
– due after one year	639,698	–
Total consideration	2,445,283	–

The total consideration of RMB2,445,283,000 disclosed above represents the present value of the installments payable in respect of the acquisition cost of Jining III. The difference between this amount and the gross payments due of RMB2,583,384,000, amounting to RMB138,101,000 represents a deemed interest charge on the acquisition which is charged to income in proportion to the balance outstanding each period.

25. RELATED PARTY TRANSACTIONS

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

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

	At June 30, 2001 RMB'000	At December 31, 2000 RMB'000
Within one year	461,110	137,487
More than one year, but not exceeding five years	598,642	–
Exceeding five years	41,056	–
Total due	1,100,808	137,487
Less: amount due within one year	461,110	137,487
Amount due after one year	639,698	–

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

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

	Six months ended June 30,	
	2001 RMB'000	2000 RMB'000
Income		
Sales of coal	45,595	45,388
Sales of auxiliary materials and spare parts	5,272	4,493
Utilities and facilities	2,905	2,320
Expenditure		
Utilities and facilities	300	300
Annual fee for mining rights	6,490	6,490
Purchases of supply materials	38,155	36,010
Railway transportation services for export sales	118,505	108,451
Repairs and maintenance services	60,603	35,818
Social welfare and support services	75,861	59,584
Technical support and training	7,565	7,565
Road transportation services	4,502	4,596

25. RELATED PARTY TRANSACTIONS – continued

Certain expenditure for social welfare and support services (excluding medical and child care expenses) of RMB34,770,000 for the six months ended June 30, 2001 (six months June 30, 2000: RMB33,750,000) and for technical support and training of RMB7,565,000 for each of the six months ended June 30, 2000 and 2001 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.

On January 1, 2001, the Company acquired Jining III mine from Parent Company. The purchase price include the costs of Jining III of approximately RMB2,450,905,000 and the costs of the mining rights of approximately RMB132,479,000.

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

26. COMMITMENTS

At June 30, 2001, the Company had capital commitments of approximately RMB138,261,000 (December 31, 2000: RMB26,355,000 excluding the commitments to acquire Jining III) contracted for but not provided in the condensed financial statements in respect of the acquisition of property, plant and equipment.

27. RETIREMENT BENEFITS

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

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

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

28. HOUSING SCHEME

The Parent Company is responsible for providing accommodation to its employees and the employees of the Company. The Company and the Parent Company share the incidental expenses relating to the accommodation at a negotiated amount for the six months ended June 30, 2000 and 2001. Such expenses, amounting to RMB14,850,000 and RMB15,485,000 for the six months ended June 30, 2000 and 2001, respectively, 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.

29. 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 or are stated at present value discounted using market rates.

30. CONCENTRATION OF CREDIT RISK

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

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

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

As the Company does not currently have direct export rights, all of its export sales must be made through National Coal Corporation. The quality, prices and final customer destination of the Company's export sales are determined by the Company and 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.

30. CONCENTRATION OF CREDIT RISK – continued

For the six months ended June 30, 2000 and 2001, net sales to the Company's five largest domestic customers accounted for approximately, 25% and 25%, 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 16% and 15% of the Company's net sales for the six months ended June 30, 2000 and 2001, 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 16% and 14% of the Company's net sales for the six months ended June 30, 2000 and 2001, respectively.

Details of the amounts receivable from the five customers with the largest receivable balances at June 30, 2001 and December 31, 2000 are as follows:

	Percentage of accounts receivable	
	At June 30, 2001	At December 31, 2000
Five largest receivable balances	**23%**	9%

31. 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 was 20,753 at June 30, 2000 and 23,855 at June 30, 2001. 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 the Company and National Coal Corporation.

32. SUMMARY OF DIFFERENCES BETWEEN IAS AND PRC GAAP

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

(i) 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;

(ii) the installments payable to the Parent Company for the acquisition of Jining III have been stated at present value discounted using market rates under IAS 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 IAS.

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

32. SUMMARY OF DIFFERENCES BETWEEN IAS AND PRC GAAP – continued

(iv) negative goodwill arising under IAS 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.

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

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

	Net income for		Net assets	
	Six months ended June 30, 2001 RMB'000	Six months ended June 30, 2000 RMB'000 (restated – see note below)	**as at June 30, 2001 RMB'000**	as at December 31, 2000 HK$'000 (restated - see note below)
As per condensed financial statements prepared under IAS	**446,998**	358,763	**8,532,586**	6,869,625
Impact of IAS adjustment in respect of:				
– revaluation surplus on low-priced consumables recognized on the establishment of the Company under PRC GAAP	**(3,672)**	(918)	**–**	3,672
– amortization of goodwill	**389**	389	**2,720**	2,331
– deferred tax effect on temporary differences not recognized under PRC GAAP	**(1,216)**	(7,920)	**(86,377)**	(85,161)
– release of negative goodwill to income	**(18,426)**	–	**(18,426)**	–
– deemed interest expenses	**22,565**	–	**22,565**	–
– proposed final dividend	**–**	–	**–**	(235,340)
– others	**–**	–	**10**	9
As per condensed financial statements prepared under PRC GAAP	**446,638**	350,314	**8,453,078**	6,555,136

32. SUMMARY OF DIFFERENCES BETWEEN IAS AND PRC GAAP – continued

Note:

The Company's net assets as at December 31, 2000 prepared under PRC GAAP had been restated and reduced by RMB13,940,000 as a result of the dividends distributed to the additional 170,000,000 H shares issued on May 14, 2001. Also, in prior years under PRC GAAP, land subsidence, restoration, rehabilitation and environmental costs were charged to income before income taxes when the costs had been paid and agreements reached between the respective Government departments and the Company. According to the respective accounting guidelines, an estimate of such costs is recognized in the period in which the obligation is identified and is charged as an expense in proportion to the coal extracted. The effect of adoption of these new accounting guidelines, which has been applied retrospectively, on the profit for the six months ended June 30, 2000 and the net assets as at December 31, 2000, are reductions of RMB 22,199,000 and RMB258,062,000, respectively.

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

33. SUMMARY OF DIFFERENCES BETWEEN IAS AND US GAAP

The Company's condensed 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 acquisitions of Jining II and Jining III, the revaluation of property, plant and equipment and land use rights and related adjustments to deferred taxation.

Under IAS, the acquisition of Jining III has been accounted for using the purchase method which accounts for the assets and liabilities of Jining III at their fair value at the date of acquisition. Any excess of the fair value of the assets acquired over the purchase consideration of Jining III is recorded as negative goodwill, which is presented as a deduction from the assets of the Company in the balance sheet. The Company released 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 both the Company and Jining III are entities under the common control of the Parent Company, the assets and liabilities of Jining III are required to be included in the balance sheet of the Company at historical cost. The difference between the historical cost of the assets and liabilities of Jining III acquired and the purchase price paid is recorded as an adjustment to shareholders' equity.

33. SUMMARY OF DIFFERENCES BETWEEN IAS AND US GAAP – continued

In applying the pooling of interest method, the financial statement items of the combining enterprises for the period in which the combination occurs and for any comparative periods disclosed should be included in the financial statements of the combined enterprises as if they had been combined from the beginning of the earliest period presented. The effect of accounting for the acquisition of Jining III using the pooling of interest under US GAAP on the gross sales and net income for the six months ended June 30, 2000 is as follows:

	Six months ended June 30, 2000 RMB'000
Gross sales	
As previously reported	2,107,778
Pooling of interest adjustment	49,386
As restated	2,157,164
Net income	
As previously reported	358,763
Pooling of interest adjustment	(3,406)
As restated	355,357

Under IAS, excess of the fair value of the assets acquired over the purchase consideration of Jining III, which is calculated based on the installments payable to the Parent Company that have been stated at present value discounted using market rates, is presented as a deduction from the assets of the Company as negative goodwill. Under US GAAP, the amount of the value of Jining III based on historical cost over purchase consideration is eliminated against the equity of the Company.

Under IAS, 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 live estimated based on the total proven and probable reserves of the coal mine. Under US GAAP, as both the Company and Jining III are entities under the common control of the Parent Company, the mining rights are to be restated at nil cost and no amortization on mining rights will be recognized.

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 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.

33. SUMMARY OF DIFFERENCES BETWEEN IAS AND US GAAP – continued

Under IAS, the excess of 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 June 30, 2001 additional accrual for land subsidence, restoration, rehabilitation and environmental costs of approximately RMB76,000,000 is reasonably possible.

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

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

	Six months ended June 30,	
	2001	2000
	RMB'000	RMB'000
Net income as reported under IAS	**446,998**	358,763
US GAAP adjustments:		
Depreciation charge on revalued property, plant and equipment and land use rights	**81,241**	82,552
Amortization of goodwill on acquisition of Jining II	**389**	389
Additional deferred tax charge due to a higher tax base resulting from the revaluation of property, plant and equipment	**(26,810)**	(27,242)
Loss of Jining III included in the Company using pooling of interest	**–**	(3,406)
Amortization of negative goodwill on acquisition of Jining III	**(18,426)**	–
Amortization of mining rights of Jining III	**3,312**	–
Net income under US GAAP	**486,704**	411,056
Earnings per share under US GAAP	**RMB0.18**	RMB0.16
Earnings per ADS under US GAAP	**RMB8.87**	RMB7.90

33. SUMMARY OF DIFFERENCES BETWEEN IAS AND US GAAP – continued

	At June 30, 2001 RMB'000	At December 31, 2000 RMB'000
Shareholders' equity as reported under IAS	**8,532,586**	6,869,625
US GAAP adjustments:		
Revaluation of property, plant and equipment and land use rights	**(1,982,444)**	(1,912,164)
Depreciation charged on revalued property, plant and equipment and land use rights	**665,708**	584,467
Additional deferred tax assets due to a higher tax base resulting from the revaluation of property, plant and equipment	**411,331**	438,141
Goodwill arising on acquisition of Jining II	**(12,825)**	(13,214)
Net asset of Jining III incorporated under pooling of interest		
– current assets	**–**	12,504
– property, plant and equipment and land use rights, net	**–**	2,391,174
– current liabilities	**–**	(20,909)
	–	2,382,769
Negative goodwill arising on acquisition of Jining III, net	**119,675**	–
Mining rights of Jining III	**(129,167)**	–
Shareholders' equity under US GAAP	**7,604,864**	8,349,624

Under US GAAP, the Company's total assets would have been RMB9,604,592,000 and RMB9,780,012,000 at December 31, 2000 and June 30, 2001, respectively.

In addition, the Company has not adopted the following new accounting standards:

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations". SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling of interest method.

In July 2001, the FASB also issued SFAS No.142, "Goodwill and Other Intangible Assets", which requires that upon adoption, amortization of goodwill will cease and instead, the carrying value of goodwill will be evaluated for impairment on an annual basis. Identifiable intangible assets will continue to be amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". SFAS No. 142 is effective for fiscal years beginning after December 15, 2001.

The Company is evaluating the impact of the adoption of these standards and has not yet determined the effect of adoption on its financial positions and results of operations.