Year ended December 31, 2001

1. GENERAL

The Company is 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 ("Jining II") and Jining III coal mine ("Jining III"). 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 Jining II from the Parent Company for cash in 1998. The Company acquired Jining III 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 14, 2001, the Company issued an aggregate of 170,000,000 H shares to independent investors and the H shares were listed on the Stock Exchange of Hong Kong Limited. The total net proceeds from the A share and H share offerings were approximately RMB960,607,000 and HK$461,867,000 (equivalent to approximately RMB494,197,000), respectively. The proceeds were applied towards the purchase price of Jining III at approximately RMB2,583 million. The purchase price includes the cost of Jining III of approximately RMB2,450,905,000 and the cost 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 has been 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.

The consideration for the cost of the mining rights of approximately RMB132,479,000 is to be settled over ten years by equal annual instalments before December 31 of each year, commencing from 2001 (see also note 31).

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

1. GENERAL (Continued)

Subsequent to the year end on January 1, 2002, the Company acquired from the Parent Company the assets of the special purpose coal railway transportation business ("Railway Assets"). The consideration for the acquisition of the Railway Assets is approximately RMB1,242,586,000 subject to the adjustments as follows:

> For each of the years ended December 31, 2002, 2003 and 2004, the Company will pay an extra RMB40,000,000 for each year if the Railway Assets' actual capacity reaches 25,000,000 tonnes, 28,000,000 tonnes and 30,000,000 tonnes respectively.
>
> The acquisition was funded by cash of the Company and a long-term bank loan of approximately RMB1,200,000,000, the repayment of which is guaranteed by the Parent Company.

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

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 40.

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 41.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of financial instruments.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to December 31 each year.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognized.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

Investments in subsidiaries

Investments in subsidiaries in the Company's balance sheet are stated at cost, less any identified impairment loss.

Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

Revenue recognition

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

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

Cash and cash equivalents

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

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.

Property, plant and equipment and land use rights

It is the policy of the Group 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 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 Group to perform revaluations of the property, plant and equipment and land use rights unless required by PRC government directives.

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and accumulated impairment losses. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and land use rights (Continued)

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.

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

Construction in progress

Construction in progress is stated at cost less any identified impairment loss. 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.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and of the Group. Negative goodwill is released to income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets.

Investments in securities

Investments in securities are recognized on a trade date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as either held for trading or available-for-sale, and are measured at subsequent reporting dates at fair value, based on quoted market prices at the balance sheet date. Where securities are held for trading purposes, unrealized gains and losses are included in net profit or loss for the period. For available-for-sale investments, unrealized gains and losses are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the net profit or loss for the period.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Group may relocate inhabitants from the land above the underground mining sites prior to mining those sites or the Group may compensate the inhabitants for losses or damages from land subsidence after the underground sites have been mined. The Group 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 recognized 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 Group maintains its books and records in Renminbi.

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

Use of estimates

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

4. SALES AND TRANSPORTATION COSTS

	Year ended December 31, 2001 RMB'000	2000 RMB'000	1999 RMB'000
Domestic sales, gross	3,014,933	2,414,826	2,455,844
Less: Transportation costs	415,121	324,068	153,282
Domestic sales, net	2,599,812	2,090,758	2,302,562
Export sales, gross	3,354,716	2,289,375	1,545,631
Less: Transportation costs	1,078,518	780,396	485,792
Export sales, net	2,276,198	1,508,979	1,059,839
Net sales	4,876,010	3,599,737	3,362,401

Net sales represent the invoiced value of coal sold and are 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 the imputed quantity of raw coal sold and are paid to the local tax bureau. The resource tax for each of the three years ended December 31, 1999, 2000 and 2001 amounted to RMB28,480,000, RMB33,955,000 and RMB40,351,000, respectively.

The Group exports its coal through China National Coal Industry Import and Export Corporation ("National Coal Corporation") or China National Minerals Import and Export Co., Ltd. ("National Minerals Company"). The final customer destination of the Group's export sales is determined by the Company, National Coal Corporation or National Minerals Company.

5. COST OF GOODS SOLD

	Year ended December 31, 2001 RMB'000	2000 RMB'000	1999 RMB'000
Materials	643,664	484,337	353,081
Wages and employee benefits	572,202	419,134	349,220
Electricity	218,579	185,759	156,901
Depreciation	784,477	487,623	471,363
Land subsidence, restoration, rehabilitation and environmental costs	210,939	170,229	78,258
Repairs and maintenance	276,791	174,734	136,088
Non-rebated value added taxes (note i)	–	–	21,704
Annual fee and amortization of mining rights (note ii)	19,604	12,980	12,980
Other transportation costs	22,632	23,336	16,408
Others	63,695	25,388	17,829
	2,812,583	1,983,520	1,613,832

5. COST OF GOODS SOLD (Continued)

Notes:

(i) 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. The Company paid VAT on export sales value at 13% but received a refund of the VAT paid at 9% of the sales price for the period from January 1, 1999 to April 30, 1999 and at 13% for the period from May 1, 1999 to December 31, 2001.

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

(ii) 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 Group's mines other than Jining III. The annual fee is subject to change after a ten year period.

The cost of the mining rights of Jining III of approximately RMB132,479,000 acquired in 2001 is amortized on a straight line basis over twenty years.

6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,		
	2001	2000	1999
	RMB'000	RMB'000	RMB'000
Retirement benefits scheme contributions (note 35)	**265,825**	189,372	154,410
Wages and employee benefits	**75,717**	74,946	73,215
Depreciation	**35,161**	26,580	31,986
Amortization of goodwill	**777**	777	777
Distribution charges	**57,970**	64,569	54,209
Provision for doubtful debts	**2,508**	–	55,954
Resource compensation fees (note)	**31,240**	28,409	25,810
Repairs and maintenance	**8,247**	6,518	6,345
Research and development	**23,026**	24,290	24,213
Others	**259,160**	220,975	198,361
	759,631	636,436	625,280

Note: In accordance with the relevant regulations, the Group pays resource compensation fees (effectively a government levy) to the Ministry of Geology and Mineral Resources at the rate of 1% on the imputed sales value of raw coal.

7. INTEREST EXPENSES

	Year ended December 31, 2001 RMB'000	2000 RMB'000	1999 RMB'000
Interest expenses on:			
– deemed interest expenses (note 31)	59,595	–	–
– borrowings wholly repayable within 5 years	1,924	–	–
– borrowings not wholly repayable within 5 years	–	–	274
– bills receivable discounted without recourse	–	5,012	10,176
	61,519	5,012	10,450

No interest was capitalized during the relevant periods.

8. OTHER INCOME

	Year ended December 31, 2001 RMB'000	2000 RMB'000	1999 RMB'000
Gain on sales of auxiliary materials	21,233	34,899	23,033
Interest income from bank deposits	39,863	25,984	24,541
Release of negative goodwill to income	27,620	–	–
Write back of provision for doubtful debts	29,180	–	–
	117,896	60,883	47,574

9. INCOME BEFORE INCOME TAXES

	Year ended December 31, 2001 RMB'000	2000 RMB'000	1999 RMB'000
Income before income taxes has been arrived at after charging:			
Amortization of mining rights	6,624	–	–
Amortization of goodwill	777	777	777
Auditors' remuneration	2,200	2,000	2,996
Depreciation of land use rights and property, plant and equipment	819,638	514,203	503,349
Repairs and maintenance	285,038	181,252	142,433
Research and development	23,026	24,290	24,213
Staff costs, including directors' and supervisors' emoluments	913,744	683,452	576,845
and after crediting:			
Release of negative goodwill to income	27,620	–	–

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

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

	Year ended December 31, 2001 RMB'000	2000 RMB'000	1999 RMB'000
Directors			
Fees (independent non-executive directors)	128	122	146
Salaries, allowance and other benefits in kind	846	637	581
Retirement benefits scheme contributions	381	207	229
Discretionary bonuses	–	–	–
	1,355	966	956
Supervisors			
Fees	–	–	–
Salaries, allowance and other benefits in kind	209	178	168
Retirement benefits scheme contributions	94	55	66
Discretionary bonuses	–	–	–
	303	233	234

Emoluments of each of the directors and supervisors are all within the band of Nil to RMB1,000,000 for the years ended December 31, 1999, 2000 and 2001.

The five highest paid individuals in the Group in 1999, 2000 and 2001 were all directors of the Company.

11. INCOME TAXES

	Year ended December 31, 2001 RMB'000	2000 RMB'000	1999 RMB'000
Income taxes	391,488	295,607	314,015
Deferred tax (credit) charge (note 26)	(2,260)	(8,315)	21,278
	389,228	287,292	335,293

11. INCOME TAXES (Continued)

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

	Year ended December 31,		
	2001	2000	1999
	RMB'000	RMB'000	RMB'000
Standard income tax rate in the PRC	33%	33%	33%
Standard income tax rate applied to income before income taxes	448,857	341,765	382,936
Reconciling items:			
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	(67,364)	(54,363)	(47,293)
Amortization of the revaluation surplus of low-priced consumables deductible for tax purposes but not for accounting purposes under IAS	(1,212)	(606)	(606)
Release of negative goodwill not subject to tax	(9,115)	–	–
Deemed interest not deductible for tax purposes	19,666	–	–
Others	(1,604)	496	256
Income taxes	389,228	287,292	335,293
Effective income tax rate	29%	28%	29%

The Company has received approval from the respective tax authorities for the filing of consolidated income taxes by the Parent Company prior to July 2001. Starting from July 2001, the Company submitted a separate income tax filing. The provision for income taxes of the relevant periods represents the provision calculated by the Company on the basis of a separate income tax filing. The subsidiary acquired during the year ended December 31, 2001 did not have any significant impact on the income taxes provided for the year.

12. NET INCOME

Of the Group's net income for the year, a net income of RMB970,945,000 (2000: RMB748,360,000; 1999: RMB825,120,000) has been dealt with in the financial statements of the Company.

13. DIVIDEND

	Year ended December 31, 2001 RMB'000	2000 RMB'000	1999 RMB'000
Final dividend approved	235,340	231,400	148,200

Pursuant to the annual general meeting held on June 3, 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 December 31, 1998 was approved and paid to the shareholders of the Company.

Pursuant to the annual general meeting held on June 16, 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 December 31, 1999 was approved and paid to the shareholders of the Company.

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

The board of directors proposes to declare a final dividend of approximately RMB287,000,000 calculated based on a total number of 2,870,000,000 shares issued at RMB1 each, at RMB0.10 per share in respect of the year ended December 31, 2001. The declaration and payment of the final dividend needs 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 this ordinary resolution.

14. EARNINGS PER SHARE AND PER ADS

The calculation of the earnings per share for the years ended December 31, 2001, 2000 and 1999 is based on the net income for the year of RMB970,945,000, RMB748,360,000 and RMB825,120,000 and on the weighted average of 2,807,507,000 shares, 2,600,000,000 shares and 2,600,000,000 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. RESTRICTED CASH

At the balance sheet date, the amount represented the bank deposits pledged to a bank to secure banking facilities granted to the Group and the Company (see note 27).

16. BILLS AND ACCOUNTS RECEIVABLE

	THE GROUP AND THE COMPANY At December 31, 2001 RMB'000	2000 RMB'000
Total bills receivable	155,883	16,799
Total accounts receivable	596,233	906,957
Less: Provision for doubtful debts	(57,864)	(87,044)
Total bills and accounts receivable, net	694,252	836,712

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 provisions for doubtful debts of RMB55,954,000 for the year ended December 31, 1999. No provisions for doubtful debts had been made for the year ended December 31, 2000 while RMB29,180,000 of the provision was written back in the year ended December 31, 2001.

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 receivables at the reporting date:

	THE GROUP AND THE COMPANY At December 31, 2001 RMB'000	2000 RMB'000
1 – 180 days	513,080	529,457
181 – 365 days	119,096	198,180
1 – 2 years	105,443	178,003
2 – 3 years	8,258	10,262
Over 3 years	6,239	7,854
	752,116	923,756

17. INVESTMENTS IN SECURITIES

	THE GROUP AND THE COMPANY At December 31, 2001 RMB'000	2000 RMB'000
Available-for-sale investments - unlisted		
NON-CURRENT		
Equity investments	1,760	–
CURRENT		
Fixed maturity investments	49,997	–

The investments in securities included above represent equity investments with no quoted market price and the amount was stated at cost subject to impairment recognition, and investments in fixed maturity securities that the Group does not intend or is not able to hold to maturity. The carrying values of these fixed maturity securities approximate the quoted market prices.

18. INVENTORIES

	THE GROUP At December 31, 2001 RMB'000	2000 RMB'000	THE COMPANY At December 31, 2001 RMB'000	2000 RMB'000
COST				
Auxiliary materials, spare parts and small tools	269,510	215,517	255,981	215,517
Coal products	170,372	47,385	170,372	47,385
	439,882	262,902	426,353	262,902

19. PREPAYMENTS AND OTHER CURRENT ASSETS

	THE GROUP		THE COMPANY	
	At December 31,		At December 31,	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advance to suppliers	**82,538**	121,665	**89,171**	121,665
Prepaid freight charges	**111,048**	28,091	**111,048**	28,091
VAT refundable	**419,145**	221,500	**419,145**	221,500
Others	**240,482**	189,163	**240,482**	189,163
	853,213	560,419	**859,846**	560,419

The balances of the Group and of the Company as of December 31, 2001 were arrived at after a provision for doubtful debts amounting to RMB2,508,000 was made during the year.

Included in the Company's balance as of December 31, 2001 is an amount due from its subsidiary of RMB15,614,000.

20. MINING RIGHTS

	THE GROUP AND THE COMPANY
	RMB'000
COST	
Acquisition of Jining III during the year and at December 31, 2001	132,479
AMORTIZATION	
Provided for the year and at December 31, 2001	6,624
NET BOOK VALUES	
At December 31, 2001	**125,855**
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 Group's mines other than Jining III. The annual fee is subject to change after a ten year period.

21. LAND USE RIGHTS

	THE GROUP AND THE COMPANY RMB'000
COST	
At January 1, 2001	310,242
Additions on acquisition of Jining III	88,929
At December 31, 2001	**399,171**
DEPRECIATION	
At January 1, 2001	19,263
Provided for the year	7,888
At December 31,2001	**27,151**
NET BOOK VALUES	
At December 31, 2001	**372,020**
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.

As part of the process to establish the Company referred to in note 1, the revaluation surplus arising on the revaluation of the land use rights of the four mines injected into the Company amounting to RMB237,731,000, 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 RMB59,450,000 on the land use right of Jining III has been incorporated into the fair value of the net assets acquired by the Company as of January 1, 2001.

22. PROPERTY, PLANT AND EQUIPMENT, NET

THE GROUP

	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
Additions on acquisition of Jining III	303,365	994,538	1,026,636	47,986	–	2,372,525
Additions on acquisition of a subsidiary	–	–	135	209	–	344
Additions	1,080	–	8,369	4,714	714,427	728,590
Transfers	69,551	13,349	578,477	32,144	(693,521)	–
Disposals	(2,466)	(5,314)	(266,273)	(2,642)	–	(276,695)
At December 31, 2001	1,889,262	3,556,324	5,945,331	169,497	270,689	11,831,103
DEPRECIATION						
At January 1, 2001	509,338	1,119,078	2,097,554	70,826	–	3,796,796
Provided for the year	102,198	85,056	605,627	18,869	–	811,750
Eliminated on disposals	(328)	–	(255,819)	(1,051)	–	(257,198)
At December 31,2001	611,208	1,204,134	2,447,362	88,644	–	4,351,348
NET BOOK VALUES						
At December 31, 2001	1,278,054	2,352,190	3,497,969	80,853	270,689	7,479,755
At December 31, 2000	1,008,394	1,434,673	2,500,433	16,260	249,783	5,209,543

22. PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

THE COMPANY

	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
Additions on acquisition of Jining III	303,365	994,538	1,026,636	47,986	–	2,372,525
Additions	1,080	–	8,369	4,714	714,427	728,590
Transfers	69,551	13,349	578,477	32,144	(693,521)	–
Disposals	(2,466)	(5,314)	(266,273)	(2,642)	–	(276,695)
At December 31, 2001	**1,889,262**	**3,556,324**	**5,945,196**	**169,288**	**270,689**	**11,830,759**
DEPRECIATION						
At January 1, 2001	509,338	1,119,078	2,097,554	70,826	–	3,796,796
Provided for the year	102,198	85,056	605,627	18,869	–	811,750
Eliminated on disposals	(328)	–	(255,819)	(1,051)	–	(257,198)
At December 31,2001	**611,208**	**1,204,134**	**2,447,362**	**88,644**	**–**	**4,351,348**
NET BOOK VALUES						
At December 31, 2001	**1,278,054**	**2,352,190**	**3,497,834**	**80,644**	**270,689**	**7,479,411**
At December 31, 2000	1,008,394	1,434,673	2,500,433	16,260	249,783	5,209,543

As part of the process to establish the Company referred to in note 1, the revaluation surplus arising on the revaluation of the property, plant and equipment of the four mines injected into the Company amounting to RMB1,456,853,000, 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 January 1, 1998. The revaluation surplus of RMB10,830,000 on Jining III has been incorporated into the fair value of net assets acquired by the Company as of January 1, 2001.

23. GOODWILL

	THE GROUP AND THE COMPANY At December 31, 2001 RMB'000	2000 RMB'000
COST		
At January 1 and December 31	15,545	15,545
AMORTIZATION		
At January 1	2,331	1,554
Provided for the year	777	777
At December 31	3,108	2,331
NET BOOK VALUES		
At December 31	12,437	13,214

24. NEGATIVE GOODWILL

	THE GROUP AND THE COMPANY RMB'000
COST	
Addition on acquisition of Jining III and at December 31, 2001	138,101
RELEASED TO INCOME	
For the year and at December 31, 2001	27,620
NET BOOK VALUES	
At December 31, 2001	**110,481**
At December 31, 2000	–

25. INVESTMENT IN A SUBSIDIARY

	THE COMPANY At December 31, 2001 RMB'000	2000 RMB'000
Unlisted investment, at cost	2,710	–

The Company holds a 52.38% interest in the registered capital of Qingdao Free Trade Zone Zhongyan Trade Co., Ltd. ("Zhongyan"), a limited liability company established and operated in the PRC. Zhongyan is engaged in the trading and processing of mining machinery.

26. DEFERRED TAX ASSET

	THE GROUP AND THE COMPANY At December 31, 2001 RMB'000	2000 RMB'000
Balance at January 1	85,161	76,846
Credit for the year (note 11)	2,260	8,315
Balance at December 31	87,421	85,161

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.

27. ACCOUNTS PAYABLE

	THE GROUP At December 31,		THE COMPANY At December 31,	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Bills payable	115,860	10,000	115,860	10,000
Accounts payable	520,527	538,387	518,864	538,387
	636,387	548,387	634,724	548,387

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

	THE GROUP At December 31,		THE COMPANY At December 31,	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
1 – 180 days	314,549	438,709	312,886	438,709
181 – 365 days	216,953	102,388	216,953	102,388
1 – 2 years	104,885	7,290	104,885	7,290
	636,387	548,387	634,724	548,387

28. OTHER PAYABLES AND ACCRUED EXPENSES

	THE GROUP At December 31, 2001 RMB'000	THE GROUP At December 31, 2000 RMB'000	THE COMPANY At December 31, 2001 RMB'000	THE COMPANY At December 31, 2000 RMB'000
Customers deposits	122,794	91,919	122,794	91,919
Accrued wages	36,131	34,727	36,131	34,727
Other taxes payable	54,276	9,683	54,276	9,683
Payable in respect of purchases of property, plant and equipment	96,273	45,619	96,273	45,619
Others	223,400	79,787	219,139	79,787
	532,874	261,735	528,613	261,735

29. PROVISION FOR LAND SUBSIDENCE, RESTORATION, REHABILITATION AND ENVIRONMENTAL COSTS

	THE GROUP AND THE COMPANY At December 31, 2001 RMB'000	THE GROUP AND THE COMPANY At December 31, 2000 RMB'000
Balance at January 1	136,724	188,605
Additional provision in the year	210,939	170,229
Payments made in the year	(227,467)	(222,110)
Balance at December 31	120,196	136,724

The provision 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.

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

30. SHAREHOLDERS' EQUITY (Continued)

Each share has a par value of RMB1.

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 make transfers 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 statutory common reserve fund can be used for the following purposes:

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

The Company 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 December 31, 2001 is the retained earnings computed under PRC GAAP which amounted to approximately RMB1,633,651,000.

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 14, 2001 and change of accounting policy for the provision for land subsidence, restoration, rehabilitation and environmental costs as disclosed in note 40.

31. ACQUISITION OF JINING III

	Year ended December 31, 2001 RMB'000
The net assets of Jining III at the date of acquisition were as follows:	
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 paid on acquisition	1,204,133
Installments paid during the year	601,452
Amounts due to Parent Company and its subsidiary companies – due within one year	567,242
Amounts due to Parent Company and its subsidiaries – due after one year	72,456
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.

Jining III contributed approximately RMB722,483,000 of net sales and RMB161,829,000 of income before income taxes during the year ended December 31, 2001.

32. ACQUISITION OF A SUBSIDIARY

	Year ended December 31, 2001 RMB'000
The net assets of Zhongyan at the date of acquisition were as follows:	
Bank and cash	4,651
Inventories	13,529
Prepayments and other current assets	8,981
Property, plant and equipment, net	344
Accounts payable	(1,663)
Other payables and accrued expenses	(19,875)
Tax payable	(793)
Minority interest	(2,464)
Total net assets acquired	2,710
Consideration:	
Satisfied by cash	2,710
Net cash inflow arising on acquisition:	
Cash paid	(2,710)
Bank balances and cash acquired	4,651
	1,941

During the year ended December 31, 2001, the Group acquired 52.38% of the issued share capital of Zhongyan for a cash consideration of RMB2,710,000. This transaction has been accounted for by the purchase method of accounting. Zhongyan did not have any significant impact on the Group's results or cash flows during the year.

33. RELATED PARTY TRANSACTIONS

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

The amounts due to Parent Company and its subsidiary companies as at December 31, 2001 included the present value of the outstanding balance that arose from the funding of the acquisition of Jining III and its mining right as of January 1, 2001 discounted using the market rate of bank borrowings (note 1).

	At December 31, 2001 RMB'000	2000 RMB'000
Within one year	757,387	137,487
More than one year, but not exceeding five years	40,630	–
Exceeding five years	31,826	–
Total due	829,843	137,487
Less: amount due within one year	757,387	137,487
Amount due after one year	72,456	–

33. RELATED PARTY TRANSACTIONS (Continued)

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

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

	Year ended December 31,		
	2001	2000	1999
	RMB'000	RMB'000	RMB'000
Income			
Sales of coal	73,675	66,434	60,698
Sales of auxiliary materials	11,586	9,429	8,580
Utilities and facilities	5,810	5,179	5,828
Expenditure			
Utilities and facilities	600	600	600
Annual fee for mining rights	12,980	12,980	12,980
Purchases of supply materials	143,213	67,845	150,201
Railway transportation services	248,876	209,842	168,040
Repair and maintenance services	207,550	79,316	90,477
Social welfare and support services	150,860	125,519	115,699
Technical support and training	15,130	15,130	15,130
Road transportation services	6,302	10,474	13,124

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:

	Year ended December 31,		
	2001	2000	1999
	RMB'000	RMB'000	RMB'000
Sales of coal	35,440	23,470	24,962

Certain expenditure for social welfare and support services (excluding medical and child care expenses) of RMB56,220,000 for the year ended December 31, 2001 and RMB54,950,000 for each of the two years ended December 31, 1999 and 2000, and for technical support and training of RMB15,130,000 for each of the three years ended December 31, 1999, 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 market prices or based on terms agreed by both parties.

On January 1, 2001, the Company acquired Jining III from the Parent Company (see note 1).

In addition to the above, the Company participates in a multi-employer scheme of the Parent Company in respect of retirement benefits (see notes 6 and 35).

34. COMMITMENTS

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

	THE GROUP AND THE COMPANY	
	2001	2000
	RMB'000	RMB'000
Contracted for but not provided in the financial statements	63,986	26,355

35. RETIREMENT BENEFITS

Qualifying employees of the Company are entitled to a pension, medical and other welfare benefits. The Company participates in a multi-employer scheme 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 December 31, 1999, 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.

The Company's subsidiary is a participant in a state-managed retirement scheme pursuant to which the subsidiary pays a fixed percentage of its qualifying staff's wages as contribution to the scheme. The subsidiary's financial obligation under this scheme is limited to the payment of the employer's contribution. During the year, contributions payable by the subsidiary pursuant to this arrangement were insignificant to the Group.

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

36. 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 1999, 2000 and 2001. Such expenses, amounting to RMB29,970,000, RMB29,970,000 and RMB30,970,000 for each of the three years ended December 31 and 1999 and 2000 and 2001 respectively, have been included as part of the social welfare and support services expenses summarized in note 33.

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 funds, 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.

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of bills and accounts receivable, investments in securities, accounts payable and amounts due to the Parent Company and/or its subsidiary companies of the Group and the Company approximate their fair values because of the short maturity of these amounts or because they are stated at present value discounted using market rates.

38. CONCENTRATION OF CREDIT RISK

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

The Group 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 small to medium sized new customers, the Group generally requires them to pay for the products before delivery.

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

As the Group does not currently have direct export rights, all of its export sales must be made through National Coal Corporation or National Minerals Company. The quality, prices and final customer destination of the Group's export sales are determined by the Company, National Coal Corporation or National Minerals Company. The Group 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 December 31, 1999, 2000 and 2001, net sales to the Group's five largest domestic customers accounted for approximately, 33.4%, 26.7% and 23.0%, respectively, of the Group's total net sales. Net sales to the Group's largest domestic customer, the Shandong Power and Fuel Company, accounted for 21.1%, 17.5% and 15.7% of the Group's net sales for the years ended December 31, 1999, 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 18.5%, 17.1% and 14.9 % of the Group's net sales for the years ended December 31, 1999, 2000 and 2001, respectively.

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

	Percentage of accounts receivable At December 31, 2001	2000
Five largest receivable balances	**4%**	9%

39. SEGMENT INFORMATION

The Company is engaged primarily in the coal mining business and operates only in the PRC and the number of employees of the Company at December 31, 2001 was 23,689 (2000: 20,176). 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 or National Minerals Company. The final customer destination of the Company's export sales is determined by the Company, National Coal Corporation or National Minerals Company. The Company's subsidiary is engaged in trading and processing of mining machinery in the PRC. No separate segment information about the subsidiary's business is presented in these financial statements as the underlying gross sales, results and assets of the subsidiary's business are insignificant to the Group.

40. SUMMARY OF DIFFERENCES BETWEEN IAS AND PRC GAAP

The consolidated 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 instalments payable are stated at gross amounts. 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;

(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; and

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

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

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

	Net income for the year ended December 31,			Net assets as at December 31,	
	2001 RMB'000	2000 RMB'000 (restated-see note below)	1999 RMB'000 (restated-see note below)	2001 RMB'000	2000 RMB'000 (restated-see note below)
As per consolidated financial statements prepared under IAS	**970,945**	748,360	825,120	**9,060,034**	6,869,625
Impact of IAS adjustments in respect of:					
– difference in bases of provision for land subsidence, restoration, rehabilitation and environmental costs	**–**	–	(70,549)	**–**	–
– revaluation surplus on low-priced consumables recognized on the establishments of the Company under PRC GAAP	**(3,672)**	(1,835)	(1,835)	**–**	3,672
– deferred tax effect on temporary differences not recognized under PRC GAAP	**(2,260)**	(8,315)	21,278	**(87,421)**	(85,161)
– release of negative goodwill to income	**(27,620)**	–	–	**(27,620)**	–
– deemed interest expenses	**59,595**	–	–	**59,595**	–
– proposed final dividend	**–**	–	–	**(287,000)**	(235,340)
– others	**3,399**	777	777	**5,740**	2,341
As per consolidated financial statements prepared under PRC GAAP	**1,000,387**	738,987	774,791	**8,723,328**	6,555,137

Note: The Group's net assets as at December 31, 2000 prepared under PRC GAAP have 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 were paid and agreements reached between the respective Government departments and the Group. According to the revised accounting guidelines, an estimate of such costs is now required to be recognized in the period in which the obligation is identified and is charged as an expense in proportion to the coal extracted. In arriving at the restated profit prepared under PRC GAAP for the year ended December 31, 1999, a current estimate of such costs as of January 1, 2001 made by the directors was adopted instead of that estimated as of December 31, 1999. The effect of adoption of these new accounting guidelines, which have been applied retrospectively, on the profit for the year ended December 31, 2000 and 1999 and the net assets as at December 31, 2000 as computed under PRC GAAP, are reductions by RMB25,195,000, RMB6,070,000 and RMB258,062,000, respectively.

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

41. SUMMARY OF DIFFERENCES BETWEEN IAS AND US GAAP

The consolidated 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 Group in the 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 both the Group 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 consolidated balance sheet of the Group 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.

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 method under US GAAP on the gross sales and net income for the year ended December 31, 2000 and 1999 are as follows:

	Year ended December 31,	
	2000	1999
	RMB'000	RMB'000
Gross sales		
As previously reported	**4,704,201**	4,001,475
Pooling of interest adjustment	**139,314**	9,873
As restated	**4,843,515**	4,011,348
Net income		
As previously reported	**748,360**	825,120
Pooling of interest adjustment	**(47,433)**	(1,059)
As restated	**700,927**	824,061

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 Group 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 Group.

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

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 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 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.

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 the possible loss is required. In the case of the Group, the directors estimate that at December 31, 2001 an additional provision for land subsidence, restoration, rehabilitation and environmental costs of approximately RMB61,240,000 is reasonably possible.

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

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

	Year ended December 31,		
	2001	2000	1999
	RMB'000	RMB'000	RMB'000
Net income as reported under IAS	970,945	748,360	825,120
US GAAP adjustments:			
Depreciation charged on revalued property, plant and equipment and land use rights	164,684	165,103	165,103
Additional deferred tax charge due to a higher tax base resulting from the revaluation of property, plant and equipment and land use rights and capitalization of mining rights	(56,532)	(54,484)	(54,484)
Loss of Jining III included in the Company using the pooling of interest method	–	(47,433)	(1,059)
Amortization of negative goodwill on acquisition of Jining III	(27,620)	–	–
Amortization of mining rights of Jining III	6,624	–	–
Others	777	777	777
Net income under US GAAP	1,058,878	812,323	935,457
Earnings per share under US GAAP	RMB0.38	RMB0.31	RMB0.36
Earnings per ADS under US GAAP	RMB18.86	RMB15.62	RMB17.99

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

	At December 31, 2001 RMB'000	At December 31, 2000 RMB'000
Shareholders' equity as reported under IAS	9,060,034	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	749,151	584,467
Additional deferred tax asset due to a higher tax base resulting from the revaluation of property, plant and equipment and land use rights	406,987	438,141
Goodwill arising on acquisition of Jining II	(12,437)	(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	–	2,461,454
– deduct: revaluation surplus of property, plant and equipment and land use rights	–	(70,280)
– current liabilities	–	(20,909)
	–	2,382,769
Negative goodwill arising on acquisition of Jining III, net	110,481	–
Mining rights of Jining III	(125,855)	–
Additional deferred tax asset due to a higher tax base resulting from capitalization of mining rights	41,532	–
Shareholders' equity under US GAAP	8,247,449	8,349,624

Under US GAAP, the Group's total assets would have been RMB9,604,592,000 and RMB10,370,006,000 at December 31, 2000 and 2001, respectively.

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

In addition, the Group 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.142, "Goodwill and Other Intangible Assets" which requires that upon adoption, amortization of goodwill and other intangible assets with indefinite lives will cease and instead, the carrying value of these intangible assets will be evaluated for impairment on an annual basis. Identifiable intangible assets with definitive lives 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 financial statements issued for fiscal years beginning after December 15, 2001.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" which is effective for financial statements issued for fiscal years beginning after June 15, 2002. This statement addresses the diverse accounting practices for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" which is effective for financial statements issued for fiscal years beginning after December 15, 2001. SFAS No. 144 applies to all long-lived assets (including discontinued operations) and it develops one accounting model for long-lived assets that are to be disposed of by sale.

The Group 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.