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") as well as a regional railway network that links these mines with the national railway gird. These six coal mines and the railway 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 contributed 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 of 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 was fully settled at December 31, 2002 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 was paid (without interest) prior to December 31, 2001; and

(iv) Fourth installment

The outstanding balance of the purchase price was 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 installments before December 31 of each year, commencing from 2001 (see also note 34).

1. GENERAL (Continued)

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 was approximately RMB1,242,586,000 subject to the adjustments as follows:

> For each of the years ending December 31, 2002, 2003 and 2004, the Company will pay an extra RMB40,000,000 for each year if 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 RMB1,200,000,000, the repayment of which is guaranteed by the Parent Company.

For the year ended December 31, 2002, Railway Assets' actual capacity was more than 25,000,000 tonnes, and accordingly, the consideration is adjusted to approximately RMB1,282,586,000.

At December 31, 2002 and 2001, 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. The Company acquired its stake in Zhongyan during the year ended December 31, 2001 for a cash consideration of RMB2,710,000. Zhongyan did not have any significant impact on the Group's results.

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 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 Financial Reporting Standards ("IFRS"). The Company also prepares a set of financial statements in accordance with the relevant accounting principles and regulations applicable to PRC enterprises ("PRC GAAP"). Differences between IFRS and PRC GAAP are stated in note 43.

The financial statements reflect 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 IFRS and accounting principles generally accepted in the United States of America ("US GAAP") are stated in note 44.

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 IFRS 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.

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.

Service income is recognized when services are provided.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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, the gain or loss is determined as the difference between the sales proceeds and the carrying amount of the asset and the gain or loss is included in the statement of income.

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

Buildings	15 to 35 years
Railway structure	15 to 25 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 paid over Company's share in the fair value of the identifiable assets and liabilities acquired as at the respective dates of acquisition of Jining II and Railway Assets. Goodwill is capitalized and amortized on a straight line basis over a period of ten to twenty years. Additional goodwill resulting from future contingent consideration payments in respect of acquisition of Railway Assets will be amortized on a straight line basis over the remaining life of the original period of ten to twenty years.

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 or at cost subject to impairment recognition where the fair value cannot be reliably determined. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 labor 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 activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognized only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortized on a straight line basis over its useful life.

Where no internally-generated intangible asset can be recognized, development expenditure is recognized as an expense in the period in which it is incurred.

No development expenditure has been deferred.

Land subsidence, restoration, rehabilitation and environmental costs

One consequence of coal mining is land subsidence caused by the resettlement of the land above the underground mining sites. Depending on the circumstances, the 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 recorded in the statement of income.

Government grants

Government grants are recognized over the periods necessary to match them with the related costs. If the grants do not relate to any specific expenditures incurred by the Group, they are reported separately as other operating income. If the grants subsidise an expense incurred by the Group, they are deducted in reporting the related expense. Grants relating to depreciable assets are presented as a deduction from the cost of the relevant asset.

Use of estimates

The preparation of financial statements in conformity with IFRS 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. SEGMENT INFORMATION

The Group is engaged primarily in the coal mining business and commencing from January 1, 2002, the Group is also engaged in coal railway transportation business. The Group operates only in the PRC. All the identifiable assets of the Group are located in the PRC. The Company does not currently have direct export rights and all of its export sales must be made through China National Coal Industry Import and Export Corporation ("National Coal Corporation"), China National Minerals Import and Export Co., Ltd. ("National Minerals Company") or Shanxi Coal Imp. & Exp. Group Corp. ("Shanxi Coal Corporation"). The final customer destination of the Company's export sales is determined by the Company, National Coal Corporation, National Minerals Company or Shanxi Coal Corporation. 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.

4. SEGMENT INFORMATION (Continued)

Business segments

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

Principal activities are as follows:

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

Segment information about these businesses is presented below:

INCOME STATEMENT

	For the year ended December 31, 2002			
	Coal mining	Coal railway transportation	Eliminations	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
GROSS REVENUE				
External	7,772,315	142,471	–	7,914,786
Inter-segment	–	386,823	(386,823)	–
Total	7,772,315	529,294	(386,823)	7,914,786

Inter-segment revenue is charged at prices pre-determined by the relevant governmental authority.

	Coal mining	Coal railway transportation	Eliminations	Consolidated
RESULT				
Segment results	1,791,446	271,272	–	2,062,718
Unallocated corporate expenses				(226,795)
				1,835,923
Unallocated corporate income				30,218
Operating income				1,866,141
Interest expenses				(117,929)
Income before income taxes				1,748,212
Income taxes				(523,148)
Income before minority interest				1,225,064

Note: No segment information for the years ended December 31, 2001 and 2000 is presented as the Group was engaged primarily in the coal mining business during those years.

4. SEGMENT INFORMATION (Continued)

BALANCE SHEET

	At December 31, 2002			
	Coal mining	Coal railway transportation	Corporate and others	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS				
Segment assets	9,861,375	1,162,372	1,900,298	12,924,045
LIABILITIES				
Segment liabilities	1,346,568	56,000	1,521,507	2,924,075

OTHER INFORMATION

	For the year ended December 31, 2002			
	Coal mining	Coal railway transportation	Corporate and others	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
Capital additions	802,090	1,166,898	5,547	1,974,535
Amortization of goodwill	777	–	–	777
Release of negative goodwill to income	(27,620)	–	–	(27,620)
Depreciation of property, plant and equipment and land use rights	764,470	75,519	11,130	851,119
Amortization of mining rights	6,624	–	–	6,624
Loss on disposal of property, plant and equipment	1,093	–	–	1,093
Allowance for doubtful debts	66,204	–	–	66,204

The number of employees of each of the Group's principal divisions are as follows:

	At December 31,		
	2002	2001	2000
Coal mining	24,623	23,689	20,176
Coal railway transportation	3,249	–	–
	27,872	23,689	20,176

5. SALES OF COAL AND TRANSPORTATION COSTS OF COAL

	Year ended December 31,		
	2002	2001	2000
	RMB'000	RMB'000	RMB'000
Domestic sales of coal, gross	3,939,953	3,014,933	2,414,826
Less: Transportation costs	525,998	415,121	324,068
Domestic sales of coal, net	3,413,955	2,599,812	2,090,758
Export sales of coal, gross	3,832,362	3,354,716	2,289,375
Less: Transportation costs	1,032,416	1,078,518	780,396
Export sales of coal, net	2,799,946	2,276,198	1,508,979
Net sales of coal	6,213,901	4,876,010	3,599,737

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

Sales taxes consist primarily of a resource tax calculated at the rate of 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, 2002, 2001 and 2000 amounted to RMB44,712,000, RMB40,351,000 and RMB33,955,000, respectively.

6. COST OF SALES AND SERVICE PROVIDED

	Year ended December 31,		
	2002	2001	2000
	RMB'000	RMB'000	RMB'000
Materials	752,513	643,664	484,337
Wages and employee benefits	757,532	572,202	419,134
Electricity	278,407	218,579	185,759
Depreciation	813,761	784,477	487,623
Land subsidence, restoration, rehabilitation and environmental costs	232,030	210,939	170,229
Repairs and maintenance	346,290	276,791	174,734
Annual fee and amortization of mining rights (note)	19,604	19,604	12,980
Transportation costs	43,239	22,632	23,336
Others	119,525	63,695	25,388
	3,362,901	2,812,583	1,983,520

Note: 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.

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,		
	2002	2001	2000
	RMB'000	RMB'000	RMB'000
Retirement benefits scheme contributions (note 38)	334,120	265,825	189,372
Wages and employee benefits	164,549	75,717	74,946
Additional medical insurance	29,710	–	–
Depreciation	37,358	35,161	26,580
Amortization of goodwill	777	777	777
Distribution charges	54,524	57,970	64,569
Allowance for doubtful debts	66,204	2,508	–
Resource compensation fees (note)	73,762	31,240	28,409
Repairs and maintenance	8,668	8,247	6,518
Research and development	30,657	23,026	24,290
Staff training costs	26,272	23,991	21,462
Freight charges	14,016	5,532	5,137
Others	390,442	229,637	194,376
	1,231,059	759,631	636,436

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.

8. OTHER OPERATING INCOME

	Year ended December 31,		
	2002	2001	2000
	RMB'000	RMB'000	RMB'000
Gain on sales of auxiliary materials	21,277	21,233	34,899
Government grants (note)	20,157	–	–
Interest income from bank deposits	28,737	39,863	25,984
Interest income from investments in securities	1,481	–	–
Release of negative goodwill to income	27,620	27,620	–
Write back of allowance for doubtful debts	–	29,180	–
Others	4,457	–	–
	103,729	117,896	60,883

Note: Government grants represents the amount granted to the Group in respect of its export sales activities in prior years and received during the year.

9. INTEREST EXPENSES

	Year ended December 31,		
	2002 RMB'000	2001 RMB'000	2000 RMB'000
Interest expenses on:			
– bank borrowings wholly repayable within 5 years	3,666	1,924	–
– bank borrowings not wholly repayable within 5 years	72,072	–	–
– bills receivable discounted without recourse	2,235	–	5,012
Deemed interest expenses (note 34)	39,956	59,595	–
	117,929	61,519	5,012

No interest was capitalized during the relevant periods.

10. INCOME BEFORE INCOME TAXES

	Year ended December 31,		
	2002 RMB'000	2001 RMB'000	2000 RMB'000
Income before income taxes has been arrived at after charging:			
Amortization of mining rights	6,624	6,624	–
Auditors' remuneration	3,500	2,200	2,000
Staff costs, including directors' and supervisors' emoluments	1,354,251	937,735	704,914
Loss on disposal of property, plant and equipment	1,093	5,811	11,601

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

(a) Directors' and supervisors' emoluments

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

	Year ended December 31,		
	2002	2001	2000
	RMB'000	RMB'000	RMB'000
Independent non-executive directors			
Fees	239	128	122
Executive directors			
Fees	–	–	–
Salaries, allowance and other benefits in kind	825	846	637
Retirement benefits scheme contributions (note 38)	371	381	207
Discretionary bonuses	–	–	–
	1,196	1,227	844
Supervisors			
Fees	–	–	–
Salaries, allowance and other benefits in kind	400	209	178
Retirement benefits scheme contributions (note 38)	180	94	55
Discretionary bonuses	–	–	–
	580	303	233

Emoluments of each of the directors and supervisors are all within the band of Nil to HK$1,000,000 for the years ended December 31, 2002, 2001 and 2000.

(b) Employees' emoluments

The five highest paid individuals in the Group in 2002 included three directors (2001 and 2000: five), details of whose emoluments are included in the disclosures in note 11(a) above. The emoluments of the remaining two individuals are as follows:

	2002
	RMB'000
Salaries, allowance and other benefits in kind	314
Retirement benefits scheme contributions (note 38)	141
Discretionary bonuses	–
	455

Emoluments of each of these employees are all within the band of Nil to HK$1,000,000 for the year ended December 31, 2002.

12. INCOME TAXES

	Year ended December 31, 2002 RMB'000	2001 RMB'000	2000 RMB'000
Income taxes	524,534	391,488	295,607
Deferred tax credit (note 27)	(1,386)	(2,260)	(8,315)
	523,148	389,228	287,292

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 income taxes and the actual provision for income taxes is as follows:

	Year ended December 31, 2002 RMB'000	2001 RMB'000	2000 RMB'000
Standard income tax rate in the PRC	33%	33%	33%
Standard income tax rate applied to income before income taxes	576,910	448,857	341,765
Reconciling items:			
Transfer to future development fund deductible for tax purpose but not charged to income under IFRS	(76,101)	(67,364)	(54,363)
Amortization of the revaluation surplus of low-priced consumables deductible for tax purposes but not for accounting purposes under IFRS	–	(1,212)	(606)
Release of negative goodwill not subject to tax	(9,115)	(9,115)	–
Deemed interest not deductible for tax purposes	13,185	19,666	–
Allowance for doubtful debts not deductible for tax purposes	23,681	–	–
Government grants received not subject to tax	(6,652)	–	–
Others	1,240	(1,604)	496
Income taxes	523,148	389,228	287,292
Effective income tax rate	30%	29%	28%

The Company had 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 years ended December 31, 2001 and 2002.

13. DIVIDEND

	Year ended December 31, 2002 RMB'000	2001 RMB'000	2000 RMB'000
Final dividend approved	**287,000**	235,340	231,400

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.

Pursuant to the annual general meeting held on June 7, 2002, a final dividend of approximately RMB287,000,000, or RMB0.100 per share proposed by the board of directors in respect of the year ended December 31, 2001 was approved and paid to the shareholders of the Company.

The board of directors proposes to declare a final dividend of approximately RMB298,480,000 calculated based on a total number of 2,870,000,000 shares issued at RMB1 each, at RMB0.104 per share in respect of the year ended December 31, 2002. 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, 2002, 2001 and 2000 is based on the net income for the year of RMB1,221,999,000, RMB970,945,000 and RMB748,360,000 and on the weighted average of 2,870,000,000 shares, 2,807,507,000 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 certain banks to secure banking facilities granted to the Group and the Company.

16. BILLS AND ACCOUNTS RECEIVABLE

	THE GROUP AND THE COMPANY At December 31, 2002 RMB'000	2001 RMB'000
Total bills receivable	239,974	155,883
Total accounts receivable	639,038	596,233
Less: Allowance for doubtful debts	(76,083)	(57,864)
Total bills and accounts receivable, net	802,929	694,252

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.

An analysis of the allowance for doubtful debts for 2002 and 2001 follows:

	THE GROUP AND THE COMPANY 2002 RMB'000	2001 RMB'000
Balance at January 1	57,864	87,044
Additional allowance charged to income	64,604	–
Direct write-off charged against allowance	(46,385)	–
Allowance written back to income	–	(29,180)
Balance at December 31	76,083	57,864

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

16. BILLS AND ACCOUNTS RECEIVABLE (Continued)

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

	THE GROUP AND THE COMPANY At December 31, 2002 RMB'000	2001 RMB'000
1 – 180 days	551,795	513,080
181 – 365 days	182,371	119,096
1 – 2 years	99,633	105,443
2 – 3 years	38,388	8,258
Over 3 years	6,825	6,239
	879,012	752,116

17. INVESTMENTS IN SECURITIES

	THE GROUP AND THE COMPANY At December 31, 2002 RMB'000	2001 RMB'000
Available-for-sale investments		
NON-CURRENT		
Equity investments	1,760	1,760
CURRENT		
Fixed maturity investments	88,702	49,997

The non-current investments in securities represents unlisted equity investments with no quoted market price and the amount was stated at cost subject to impairment recognition. The current investments in securities represents investments in listed fixed maturity securities that the Group does not intend or is not able to hold to maturity. The carrying amounts of these fixed maturity securities approximate their quoted market prices.

18. INVENTORIES

	THE GROUP At December 31, 2002 RMB'000	2001 RMB'000	THE COMPANY At December 31, 2002 RMB'000	2001 RMB'000
COST				
Auxiliary materials, spare parts and small tools	309,246	269,510	302,164	255,981
Coal products	267,333	170,372	267,333	170,372
	576,579	439,882	569,497	426,353

19. PREPAYMENTS AND OTHER CURRENT ASSETS

	THE GROUP At December 31, 2002 RMB'000	2001 RMB'000	THE COMPANY At December 31, 2002 RMB'000	2001 RMB'000
Advances to suppliers	133,687	82,538	133,687	89,171
Prepaid freight charges and related handling charges	153,191	146,113	153,191	146,113
Value added tax refund	342,596	419,145	342,596	419,145
Prepayments for purchase of property, plant and equipment	7,311	5,837	7,311	5,837
Prepaid land subsidence, restoration, rehabilitation and environmental costs	23,967	29,984	23,967	29,984
Receivables for utilities charges	8,162	7,670	8,162	7,670
Receivables for sales of auxiliary materials	7,835	49,991	7,835	49,991
Others	79,270	111,935	78,300	111,935
	756,019	853,213	755,049	859,846

Included in the balances of the Group and of the Company as of December 31, 2002 and 2001 were allowances for doubtful debts of RMB3,539,000 and RMB2,508,000, respectively. During the year ended December 31, 2002, the Group and the Company made an allowance for doubtful debts of RMB1,600,000 and made direct write-downs of RMB569,000 charged against the balance of the allowances. During the year ended December 31, 2001, the Group and the Company made an allowance for doubtful debts of RMB2,508,000.

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

20. MINING RIGHTS

	THE GROUP AND THE COMPANY RMB'000
COST	
At January 1, 2002 and December 31, 2002	132,479
AMORTIZATION	
At January 1, 2002	6,624
Provided for the year	6,624
At December 31, 2002	13,248
NET BOOK VALUES	
At December 31, 2002	119,231
At December 31, 2001	125,855

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, 2002	399,171
Additions on acquisition of Railway Assets	259,378
At December 31, 2002	658,549
DEPRECIATION	
At January 1, 2002	27,151
Provided for the year	13,192
At December 31, 2002	40,343
NET BOOK VALUES	
At December 31, 2002	618,206
At December 31, 2001	372,020

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

22. PROPERTY, PLANT AND EQUIPMENT, NET

THE GROUP

	Buildings RMB'000	Railway structure RMB'000	Mining structure RMB'000	Plant, machinery and equipment RMB'000	Trans-portation equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At January 1, 2002	1,889,262	–	3,556,324	5,945,331	169,497	270,689	11,831,103
Additions on acquisition of Railway Assets	48,009	720,704	–	88,388	19,760	519	877,380
Additions	7,363	–	–	432,500	10,848	387,066	837,777
Transfers	91,560	–	89,745	267,646	84,400	(533,351)	–
Disposals	(12,072)	–	–	(131,488)	(13,765)	–	(157,325)
At December 31, 2002	**2,024,122**	**720,704**	**3,646,069**	**6,602,377**	**270,740**	**124,923**	**13,388,935**
DEPRECIATION							
At January 1, 2002	611,208	–	1,204,134	2,447,362	88,644	–	4,351,348
Provided for the year	100,921	52,286	96,087	583,846	35,938	–	869,078
Eliminated on disposals	(5,227)	–	–	(96,135)	(7,070)	–	(108,432)
At December 31, 2002	**706,902**	**52,286**	**1,300,221**	**2,935,073**	**117,512**	**–**	**5,111,994**
NET BOOK VALUES							
At December 31, 2002	**1,317,220**	**668,418**	**2,345,848**	**3,667,304**	**153,228**	**124,923**	**8,276,941**
At December 31, 2001	1,278,054	–	2,352,190	3,497,969	80,853	270,689	7,479,755

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

THE COMPANY

	Buildings RMB'000	Railway structure RMB'000	Mining structure RMB'000	Plant, machinery and equipment RMB'000	Trans-portation equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At January 1, 2002	1,889,262	–	3,556,324	5,945,196	169,288	270,689	11,830,759
Additions on acquisition of Railway Assets	48,009	720,704	–	88,388	19,760	519	877,380
Additions	7,363	–	–	432,400	10,627	387,066	837,456
Transfers	91,560	–	89,745	267,646	84,400	(533,351)	–
Disposals	(12,072)	–	–	(131,488)	(13,765)	–	(157,325)
At December 31, 2002	**2,024,122**	**720,704**	**3,646,069**	**6,602,142**	**270,310**	**124,923**	**13,388,270**
DEPRECIATION							
At January 1, 2002	611,208	–	1,204,134	2,447,362	88,644	–	4,351,348
Provided for the year	100,921	52,286	96,087	583,799	35,918	–	869,011
Eliminated on disposals	(5,227)	–	–	(96,135)	(7,070)	–	(108,432)
At December 31, 2002	**706,902**	**52,286**	**1,300,221**	**2,935,026**	**117,492**	**–**	**5,111,927**
NET BOOK VALUES							
At December 31, 2002	**1,317,220**	**668,418**	**2,345,848**	**3,667,116**	**152,818**	**124,923**	**8,276,343**
At December 31, 2001	1,278,054	–	2,352,190	3,497,834	80,644	270,689	7,479,411

23. GOODWILL

	THE GROUP AND THE COMPANY 2002 RMB'000	2001 RMB'000
COST		
At January 1	15,545	15,545
Subsequent adjustment to contingent consideration payment in respect of the acquisition of Railway Assets (note 33)	40,000	–
At December 31	55,545	15,545
AMORTIZATION		
At January 1	3,108	2,331
Provided for the year	777	777
At December 31	3,885	3,108
NET BOOK VALUES		
At December 31	51,660	12,437

24. NEGATIVE GOODWILL

	THE GROUP AND THE COMPANY 2002 RMB'000	2001 RMB'000
COST		
At January 1 and at December 31	138,101	138,101
RELEASED TO INCOME		
At January 1	27,620	27,620
Released for the year	27,620	–
At December 31	55,240	27,620
NET BOOK VALUES		
At December 31	82,861	110,481

The negative goodwill is released to income on a straight line basis over a period of five years.

25. INVESTMENT IN A SUBSIDIARY

	THE COMPANY At December 31, 2002 RMB'000	2001 RMB'000
Unlisted investment, at cost	2,710	2,710

The Company holds a 52.38% interest in the registered capital of Zhongyan, a limited liability company established and operated in the PRC. Zhongyan is engaged in the trading and processing of mining machinery.

26. DEPOSIT MADE ON ACQUISITION OF INVESTMENTS IN SECURITIES

The amount represents a deposit paid by the Group and the Company in connection with the acquisition of a less than 1 percent stake in Shenergy Company Limited, a company listed on the SSE. The investment is in the form of state legal person shares, which are not tradeable on the SSE. The unpaid consideration at December 31, 2002 is shown as a capital commitment in note 37.

27. DEFERRED TAX ASSET

	THE GROUP AND THE COMPANY	
	2002	2001
	RMB'000	RMB'000
Balance at January 1	87,421	85,161
Credit for the year (note 12)	1,386	2,260
Balance at December 31	88,807	87,421

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

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

28. BILLS AND ACCOUNTS PAYABLE

	THE GROUP At December 31,		THE COMPANY At December 31,	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Bills payable	100,982	115,860	100,982	115,860
Accounts payable	501,743	520,527	501,507	518,864
	602,725	636,387	602,489	634,724

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

	THE GROUP At December 31,		THE COMPANY At December 31,	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
1 – 180 days	315,257	314,549	315,021	312,886
181 – 365 days	201,272	216,953	201,272	216,953
1 – 2 years	86,196	104,885	86,196	104,885
	602,725	636,387	602,489	634,724

29. OTHER PAYABLES AND ACCRUED EXPENSES

	THE GROUP At December 31, 2002 RMB'000	THE GROUP At December 31, 2001 RMB'000	THE COMPANY At December 31, 2002 RMB'000	THE COMPANY At December 31, 2001 RMB'000
Customers' deposits	155,153	122,794	155,153	122,794
Accrued wages	46,389	36,131	46,389	36,131
Other taxes payable	149,273	54,276	149,273	54,276
Payables in respect of purchases of property, plant and equipment and construction materials	118,632	121,852	118,632	121,852
Utilities deposits received	4,784	4,661	4,784	4,661
Accrued freight charges	12,732	29,341	11,267	29,341
Accrued repairs and maintenance	28,201	25,103	28,201	25,103
Accrued utility expenses	10,372	3,547	10,372	3,547
Staff welfare payable	51,163	8,422	51,163	8,422
Accrued land subsidence, restoration, rehabilitation and environmental costs	4,468	32,450	4,468	32,450
Others	53,623	94,297	53,623	90,036
	634,790	532,874	633,325	528,613

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

	THE GROUP AND THE COMPANY 2002 RMB'000	THE GROUP AND THE COMPANY 2001 RMB'000
Balance at January 1	120,196	136,724
Additional provision in the year	238,297	210,939
Transfers to prepayments and accrued expenses	(275,449)	(227,467)
Balance at December 31	83,044	120,196

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.

31. LONG-TERM BANK BORROWING

During the year, the Company obtained a new bank loan in the amount of RMB1,200,000,000. The loan bears interest at 6.21% per annum and is repayable in installments over a period of 7 years, the first repayment instalment of which is due in August 2004. The proceeds were used to finance the acquisition of Railway Assets (see note 1).

The above loan is repayable as follows on December 31, 2002:

	THE GROUP AND THE COMPANY RMB'000
Within one year	–
More than one year, but not exceeding two years	200,000
More than two years, but not exceeding five years	600,000
Exceeding five years	400,000
	1,200,000

32. SHAREHOLDERS' EQUITY

The movements during the year in the Company's shareholders' equity are as follows:

	Share capital RMB'000	Share premium RMB'000	Future development fund RMB'000	Statutory common reserve fund RMB'000	Statutory common welfare fund RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at January 1, 2001	2,600,000	2,087,723	111,748	244,631	122,315	1,703,208	6,869,625
Additional issue of shares, net of share issue expenses of RMB77,253,000	270,000	1,184,804	–	–	–	–	1,454,804
Net income	–	–	–	–	–	970,945	970,945
Appropriations to reserves	–	–	–	94,465	47,233	(141,698)	–
Dividends	–	–	–	–	–	(235,340)	(235,340)
Balance at December 31, 2001	2,870,000	3,272,527	111,748	339,096	169,548	2,297,115	9,060,034
Balance at January 1, 2002	2,870,000	3,272,527	111,748	339,096	169,548	2,297,115	9,060,034
Net income	–	–	–	–	–	1,219,279	1,219,279
Appropriations to reserves	–	–	743,489	49,024	24,512	(817,025)	–
Dividends	–	–	–	–	–	(287,000)	(287,000)
Balance at December 31, 2002	**2,870,000**	**3,272,527**	**855,237**	**388,120**	**194,060**	**2,412,369**	**9,992,313**

32. SHAREHOLDERS' EQUITY (Continued)

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

Class of shares	Type of shares	Number of shares at December 31, 2002 and 2001
Domestic invested shares	– State legal person shares (held by the Parent Company)	1,670,000,000
	– A shares (note 1)	180,000,000
Foreign invested shares	H shares (including H shares represented by ADS) (note 1)	1,020,000,000
	Total	2,870,000,000

Each share has a par value of RMB1.

Pursuant to regulations in the PRC, the Company is required to transfer an annual amount to a future development fund at RMB6 per tonne of raw coal mined. 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 has to 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) IFRS 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, 2002 is the retained earnings computed under PRC GAAP which amounted to approximately RMB1,751,708,000.

The Company's distributable reserve as at December 31, 2001 is also the retained earnings computed under PRC GAAP which have been restated from approximately RMB1,633,651,000 to approximately RMB1,197,704,000 as a result of the restatement of the amounts required for contribution to the future development fund as set out in note 43.

33. ACQUISITION OF RAILWAY ASSETS

	2002 RMB'000
The net assets of Railway Assets at the date of acquisition were as follows:	
Bank balances and cash	141
Bills and accounts receivable	4,586
Prepayment and other current assets	132,633
Inventories	5,461
Land use rights	259,378
Property, plant and equipment, net	877,380
Bills and accounts payable	(22,830)
Other payables and accrued expenses	(14,163)
Net assets	1,242,586
Goodwill arising on subsequent adjustment to contingent consideration payment	40,000
	1,282,586
Satisfied by:	
Cash consideration paid on acquisition	1,242,586
Subsequent adjustment to contingent consideration payment	40,000
	1,282,586
Net cash outflow arising on acquisition:	
Cash paid on acquisition	(1,282,586)
Bank balances and cash acquired	141
	(1,282,445)

On January 1, 2002, the Company acquired the Railway Assets from its Parent Company for a consideration of RMB1,242,586,000. Pursuant to the terms of the acquisition agreement, the consideration has been adjusted to RMB1,282,586,000 as the annual transportation volume of the Railway Assets reached the volume milestone target of 25,000,000 tonnes for the year ended December 31, 2002.

The contribution of the Railway Assets to the revenue and results of the Group for the year ended December 31, 2002 are set out under the heading "Coal railway transportation" in note 4.

34. ACQUISITION OF JINING III

	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
Bills and 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 ended December 31, 2001	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.

35. ACQUISITION OF ZHONGYAN

	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
Bills and 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. Zhongyan did not have any significant impact on the Group's results or cash flows for that year. Proforma results assuming Zhongyan was acquired in January 2000 would approximate the Group's actual results.

36. RELATED PARTY BALANCES AND TRANSACTIONS

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

The amounts due to the Parent Company and its subsidiary companies as at December 31, 2002 included the present value of the outstanding balance that arose from the funding of the acquisition of the mining rights of Jining III as of January 1, 2001 discounted using the market rate of bank borrowings (note 1).

36. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

Amounts due to Parent Company and its subsidiary companies	THE GROUP AND THE COMPANY At December 31, 2002 RMB'000	2001 RMB'000
Within one year	285,308	757,387
More than one year, but not exceeding two years	10,483	11,115
More than two years, but not exceeding five years	27,721	29,515
Exceeding five years	23,137	31,826
Total due	346,649	829,843
Less: amount due within one year	285,308	757,387
Amount due after one year	61,341	72,456

Except for the amounts disclosed above, the amounts due to the 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, 2002 RMB'000	2001 RMB'000	2000 RMB'000
Income			
Sales of coal	110,403	73,675	66,434
Gain on sales of auxiliary materials	12,385	11,586	9,429
Utilities and facilities	5,000	5,810	5,179
Railway transportation services	496	–	–
Expenditure			
Utilities and facilities	1,350	600	600
Annual fee for mining rights	12,980	12,980	12,980
Purchases of supply materials	409,117	143,213	67,845
Railway transportation services	–	248,876	209,842
Repair and maintenance services	239,297	207,550	79,316
Social welfare and support services	186,657	150,860	125,519
Technical support and training	15,130	15,130	15,130
Road transportation services	33,208	6,302	10,474

36. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

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,		
	2002	2001	2000
	RMB'000	RMB'000	RMB'000
Sales of coal	**37,693**	35,440	23,470

Certain expenditure for social welfare and support services (excluding medical and child care expenses) of RMB66,500,000, RMB56,220,000 and RMB54,950,000 for each of the three years ended December 31, 2002, 2001 and 2000, respectively, and for technical support and training of RMB15,130,000 for each of the three years ended December 31, 2002, 2001 and 2000, have been charged by the Parent Company at a negotiated amount per annum, subject to changes every year.

The above transactions were charged either at 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).

On January 1, 2002, the Company acquired Railway Assets 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 7 and 38).

37. COMMITMENTS

	THE GROUP AND THE COMPANY At December 31,	
	2002	2001
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– acquisition of property, plant and equipment	**257,382**	63,986
– acquisition of an equity investment	**30,137**	–
	287,519	63,986

38. 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.

The monthly contribution rate was set initially at 45% of the aggregate monthly basic salaries and wages of the Company's employees, and was fixed until December 31, 2001. Upon expiration of the initial period, the Company and the Parent Company determined that the contribution rate should remain at 45% for the period from January 1, 2002 to December 31, 2006.

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 a 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.

39. 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 each of the three years ended December 31, 2002, 2001 and 2000. Such expenses, amounting to RMB37,200,000, RMB30,970,000 and RMB29,970,000 for each of the three years ended December 31, 2002, 2001 and 2000, respectively, have been included as part of the social welfare and support services expenses summarized in note 36.

The Company currently makes a fixed monthly contribution for each of its qualifying employees to a housing fund 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. Starting from 2002, the Parent Company intends to sell the new accommodation by reference to market prices instead of cost. Accordingly, the Company paid an additional housing allowance to the employees at a percentage of their wages.

40. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of bills and accounts receivable, investments in securities, bills and accounts payable and amounts due to the Parent Company and/or its subsidiary companies of the Group and of 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. In addition, the carrying amount of the long-term bank borrowing approximates its fair value as the interest rate approximates the market rate.

41. 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 electric 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, Shanxi Coal Corporation or National Minerals Company. The quality, prices and final customer destination of the Group's export sales are determined by the Group, National Coal Corporation, Shanxi 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, 2002, 2001 and 2000, net sales to the Group's five largest domestic customers accounted for approximately, 21.2%, 23.0% and 26.7%, 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 13.3%, 15.7% and 17.5% of the Group's net sales for the years ended December 31, 2002, 2001 and 2000, respectively. The Shandong Power and Fuel Company purchases coal on behalf of several power plants in Shandong Province, the largest of which, the Zouxian Electric Power Plant, alone accounted for 12.6%, 14.9 % and 17.1% of the Group's net sales for the years ended December 31, 2002, 2001 and 2000, respectively.

Details of the amounts receivable from the five customers with the largest receivable balances at December 31, 2002 and 2001 are as follows:

	Percentage of accounts receivable At December 31, 2002	2001
Five largest receivable balances	**52%**	30%

42. POST BALANCE SHEET EVENT

Pursuant to a resolution passed by the board of directors on April 11, 2003, the Company will undertake a project to construct a port at Nanyang Lake adjacent to Jining III so that it can make use of transportation of domestic waterways connected with Jinghang Canal upon completion of the construction work. The approved capital expenditure for the project was approximately RMB250 million and expected to be incurred in 2003.

43. SUMMARY OF DIFFERENCES BETWEEN IFRS AND PRC GAAP

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

(i) adjustment of future development fund (see note 32), which is charged to income before income taxes under PRC GAAP, to shareholders' equity;

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

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

(iv) negative goodwill arising under IFRS for the acquisition of Jining III is recognized as income in the statement of income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets. No negative goodwill is recognized under PRC GAAP;

(v) the installments payable to the Parent Company for the acquisition of Jining III have been stated at present value discounted using market rates under IFRS while under PRC GAAP, the instalments payable are stated at gross amounts. Accordingly, deemed interest expense arises on the installments payable to the Parent Company under IFRS and no such interest expenses recognized under PRC GAAP; and

(vi) 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.

43. SUMMARY OF DIFFERENCES BETWEEN IFRS AND PRC GAAP (Continued)

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

	Net income for the year ended December 31,			Net assets as at December 31,	
	2002	2001	2000	**2002**	2001
	RMB'000	RMB'000 (restated-see note below)	RMB'000 (restated-see note below)	**RMB'000**	RMB'000
As per consolidated financial statements prepared under IFRS	**1,221,999**	970,945	748,360	**9,995,033**	9,060,034
Impact of IFRS adjustments in respect of:					
– transfer to future development fund which is charged to income before income taxes under PRC GAAP	**(230,610)**	(204,134)	(164,738)	**–**	–
– amortization of revaluation surplus on low-priced consumables recognized on the establishment of the Company under PRC GAAP	**–**	(3,672)	(1,835)	**–**	–
– deferred tax effect on temporary differences not recognized under PRC GAAP	**(1,386)**	(2,260)	(8,315)	**(88,807)**	(87,421)
– release of negative goodwill to income	**(27,620)**	(27,620)	–	**(55,240)**	(27,620)
– deemed interest expenses	**39,956**	59,595	–	**99,551**	59,595
– proposed final dividend	**–**	–	–	**(298,480)**	(287,000)
– others	**777**	3,399	777	**6,517**	5,740
As per consolidated financial statements prepared under PRC GAAP	**1,003,116**	796,253	574,249	**9,658,574**	8,723,328

Note: According to a clarification of the relevant regulations obtained from the Ministry of Finance during the year ended December 31, 2002, the requirement of the Company to transfer an annual amount to the future development fund was not changed upon cancellation of the requirements for contributions to NCIB and SCMIB. Such amounts, representing RMB6 per tonne of raw coal mined, were required to be charged to income before income taxes, on a retrospective basis, under PRC GAAP. Accordingly, the Group's net income for the years ended December 31, 2001 and 2000 under PRC GAAP have been restated and reduced by RMB204,134,000 and RMB164,738,000, respectively.

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

44. SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP

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

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

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

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 Railway Assets using the pooling of interest method on the gross revenue and net income under US GAAP for the year ended December 31, 2001 and 2000 is as follows:

	Year ended December 31,	
	2001	2000
	RMB'000	RMB'000
Gross revenue		
As previously reported	**6,369,649**	4,843,515
Pooling of interest adjustment:		
Gross revenue from Railway Assets	**427,430**	307,284
Less: Elimination of inter-segment transactions	**(247,756)**	(208,889)
As restated	**6,549,323**	4,941,910
Net income		
As previously reported	**1,058,878**	812,323
Pooling of interest adjustment:		
Net income from Railway Assets	**168,675**	106,249
As restated	**1,227,553**	918,572

44. SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP (Continued)

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

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

44. SUMMARY OF DIFFERENCES BETWEEN IFRS 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,		
	2002 RMB'000	2001 RMB'000	2000 RMB'000
Net income as reported under IFRS	1,221,999	970,945	748,360
US GAAP adjustments:			
Additional depreciation charged on fair valued property, plant and equipment and land use rights	188,178	164,684	165,103
Additional deferred tax charge due to a higher tax base resulting from the difference in cost bases of property, plant and equipment and land use rights and capitalization of mining rights	(64,284)	(56,532)	(54,484)
Amortization of negative goodwill on acquisition of Jining III	(27,620)	(27,620)	–
Amortization of mining rights of Jining III	6,624	6,624	–
Amortization of goodwill arising on acquisition of Jining II	777	777	777
Loss of Jining III included in the Group using the pooling of interest method	–	–	(47,433)
Profit of Railway Assets included in the Group using the pooling of interest method	–	168,675	106,249
Net income under US GAAP	1,325,674	1,227,553	918,572
Earnings per share under US GAAP	RMB0.46	RMB0.44	RMB0.35
Earnings per ADS under US GAAP	RMB23.10	RMB21.86	RMB17.66

44. SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP (Continued)

	At December 31, 2001 RMB'000	2000 RMB'000
Shareholders' equity as reported under IFRS	9,995,033	9,060,034
US GAAP adjustments:		
Difference in cost bases of property, plant and equipment and land use rights	(2,561,032)	(1,982,444)
Additional depreciation charged on fair valued property, plant and equipment and land use rights	937,329	749,151
Additional deferred tax asset due to a higher tax base resulting from the difference in cost bases of property, plant and equipment and land use rights	535,822	406,987
Goodwill arising on acquisition of Jining II	(11,660)	(12,437)
Negative goodwill arising on acquisition of Jining III, net	82,861	110,481
Mining rights of Jining III	(119,231)	(125,855)
Additional deferred tax asset due to a higher tax base resulting from capitalization of mining rights	39,346	41,532
Net assets of Railway Assets incorporated under pooling of interest		
– current assets	–	142,821
– property, plant and equipment and land use rights, net	–	1,136,758
– deduct: difference in cost bases of property, plant and equipment and land use rights	–	(578,588)
– current liabilities	–	(36,993)
	–	663,998
Consideration payable on acquisition of Railway Assets	–	(1,242,586)
Goodwill arising on acquisition of Railway Assets	(40,000)	–
Shareholders' equity under US GAAP	8,858,468	7,668,861

Under US GAAP, the Group's total assets would have been RMB11,787,480,000 and RMB11,070,997,000 at December 31, 2002 and 2001, respectively.

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. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 142 is effective for financial statements issued for fiscal years beginning after December 15, 2001. The Group adopted SFAS No. 142 during the year ended December 31, 2002 and it did not have a material effect in the Group's financial statements.

44. SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP (Continued)

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. The Group adopted SFAS No. 143 on January 1, 2003 and it did not have a material effect in the Group's financial statements.

In October 2002, 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 adopted this standard during the year ended December 31, 2002 and it did not have a material effect in the Group's financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statement No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections", to update, clarify, and simplify certain existing accounting pronouncements. Specifically, SFAS No. 145: (i) Rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt", an amendment of APB Opinion 30, and SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements", which amended SFAS No. 4, as these two standards required that all gains and losses from the extinguishment of debt be aggregate and, if material, classified as an extraordinary item. Consequently, such gains and losses will now be classified as extraordinary only if they meet the criteria for extraordinary treatment set forth in APB Opinion 30, Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extra-ordinary, Unusual and Infrequently Occurring Events and Transactions; (ii) Rescinds SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers", an amendment of Chapter 5 of Accounting Research Bulletins No. 43 and an interpretation of APB Opinions 17 and 30, because the discrete event to which the Statement relates is no longer relevant; (iii) Amends SFAS No. 13, "Accounting for leases", to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as such transactions; (iv) Makes certain technical corrections, which the FASB deemed to be non-substantive, to a number of existing accounting pronouncements. The provisions of SFAS No. 145 related to the rescission of SFAS No. 4 and No. 64 are effective for fiscal years beginning after May 15, 2002. The provisions related to the amendment of SFAS No. 13 are effective for transactions occurring after May 15, 2002. All other provisions of SFAS No. 145 are effective for financial statements issued on or after May 15, 2002. For those provisions that become effective during the year ended December 31, 2002, there was no significant impact on the Group's financial position and results of operations; for the remaining provision under SFAS No. 145, management is assessing, but has not yet determined, the impact such provisions will have, if any, on its financial position and results of operations.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" which requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Such costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS No. 146 replaces the previous accounting guidance provided by the Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Group is evaluating the impact of the adoption of this standard and has not yet determined the effect of the adoption on its financial position and results of operations.

44. SUMMARY OF DIFFERENCES BETWEEN IFRS AND US GAAP (Continued)

In October 2002, the FASB issued SFAS No. 147, "Acquisitions of Certain Financial Institutions – an amendment of FASB statements No.72 and 144 and FASB Interpretation No. 9", which relates to the application of the purchase method of accounting, and is effective for acquisitions for which the date of acquisition is on or after October 1, 2002. The provisions related to accounting for the impairment or disposal of certain long-term customers-relationship intangible assets are effective on October 1, 2002. Transition provisions for previously recognized unidentifiable intangible assets are effective on October 1, 2002, with earlier application permitted. On October 1, 2002, the Group adopted SFAS No. 147 and it did not have a material effect in the Group's financial statements.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123", which amends SFAS No.123, "Accounting for Stock-Based Compensation". SFAS No.148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No.148 amends the disclosure requirements of SFAS No. 123 to require more prominent and more frequent disclosures in financial statements of the effects of stock-based compensation. The transition guidance and annual disclosure provision of SFAS No.148 are effective for fiscal years ended after December 15, 2002, with earlier application permitted in certain circumstances. The Group did not provide stock-based compensation to its employees and accordingly the adoption of this standard will not have a material effect in the Group's financial statements.

In November 2002, the FASB issued Interpretation ("FIN") No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". This interpretation requires certain disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN No. 45 are effective for interim and annual periods after December 15, 2002. The Group had no guarantees as of December 31, 2002. The initial recognition and initial measurement requirements of FIN No. 45 are effective prospectively for guarantees issued or modified after December 31, 2002. The Group is evaluating the impact of the adoption of the recognition and initial measurement requirements of FIN No. 45 but has not yet determined the effect of the adoption on its financial position and results of operations.