Notes to the Financial Statements

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 from 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 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, 2001.

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.

1. GENERAL (Continued)

On January 1, 2002, the Company acquired from the Parent Company the assets of the special purpose coal railway transportation business (the "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 years ended December 31, 2003 and 2002, the Railway Assets' actual capacity were more than 28,000,000 tonnes and 25,000,000 tonnes, respectively, and accordingly the consideration has been adjusted to approximately RMB1,322,586,000 and RMB1,282,586,000, respectively.

At December 31, 2003 and 2002, 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.

At December 31, 2003, the Company acquired a 92% interest in the registered capital of Shandong Yanmei Shipping Co., Ltd. (formerly known as Zoucheng Nanmei Shipping Co., Ltd.) ("Yanmei Shipping") for a cash consideration of RMB11,692,000. Yanmei Shipping is a limited liability company established and operated in the PRC and is principally engaged in the transportation business via rivers and lakes and sale of coal and construction materials. Yanmei Shipping 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 45.

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 46.

Notes to the Financial Statements (Cont'd)

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 as of 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 accumulated 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
Harbour works and craft	40 years
Railway structure	15 to 25 years
Plant, machinery and equipment	5 to 15 years
Transportation equipment	6 to 18 years

Transportation equipment includes vessels which are depreciated over the estimated lives of 18 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.

Notes to the Financial Statements (Cont'd)

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, the Railway Assets and Yanmei Shipping. 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 the acquisition of the Railway Assets will be amortized on a straight line basis over the remaining life of the original period of ten years.

Negative goodwill

Negative goodwill, which represents the excess of the fair value ascribed to the Company's share of the identifiable assets and liabilities 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.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortized cost, less any impairment loss recognized to reflect irrecoverable amounts. The annual amortization of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognized in each period represents a constant yield on the investment.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in securities (Continued)

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.

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

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes (Continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the coal railway transportation business. Commencing from December 31, 2003, the Group is also engaged in the transportation business via rivers and lakes. 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"), Minmetals Trading Co., Ltd. ("Minmetals Trading") or Shanxi Coal Imp. & Exp. Group Corp. ("Shanxi Coal Corporation"). The final customer destination of the Company's export sales is determined by the Company, National Coal Corporation, Minmetals Trading or Shanxi Coal Corporation. The Company's 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.

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.

Notes to the Financial Statements (Cont'd)

4. SEGMENT INFORMATION (Continued)

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, 2003			
	Coal mining	Coal railway transportation	Eliminations	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
GROSS REVENUE				
External	**8,386,629**	**154,585**	**–**	**8,541,214**
Inter-segment	**–**	**400,048**	**(400,048)**	**–**
Total	**8,386,629**	**554,633**	**(400,048)**	**8,541,214**

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

	Coal mining	Coal railway transportation	Eliminations	Consolidated
RESULT				
Segment results	**2,013,688**	**245,041**	**–**	**2,258,729**
Unallocated corporate expenses				**(246,469)**
				2,012,260
Unallocated corporate income				**22,624**
Operating income				**2,034,884**
Interest expenses				**(59,966)**
Income before income taxes				**1,974,918**
Income taxes				**(587,710)**
Income before minority interest				**1,387,208**

BALANCE SHEET

	At December 31, 2003			
	Coal mining	Coal railway transportation	Corporate and others	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS				
Segment assets	**10,440,480**	**1,115,491**	**2,353,833**	**13,909,804**
LIABILITIES				
Segment liabilities	**1,818,585**	**11,929**	**992,311**	**2,822,825**

4. SEGMENT INFORMATION (Continued)

OTHER INFORMATION

	For the year ended December 31, 2003			
	Coal mining RMB'000	Coal railway transportation RMB'000	Corporate and others RMB'000	Consolidated RMB'000
Capital additions	**1,255,070**	**82,616**	**14,144**	**1,351,830**
Amortization of goodwill	**777**	**8,880**	**–**	**9,657**
Release of negative goodwill to income	**(27,620)**	**–**	**–**	**(27,620)**
Depreciation of property, plant and equipment and land use rights	**850,994**	**79,445**	**3,774**	**934,213**
Amortization of mining rights	**6,624**	**–**	**–**	**6,624**
(Gain) loss on disposal of property, plant and equipment	**(7,113)**	**185**	**56**	**(6,872)**
Allowance for doubtful debts	**80,272**	**–**	**–**	**80,272**

INCOME STATEMENT

	For the year ended December 31, 2002			
	Coal mining RMB'000	Coal railway transportation RMB'000	Eliminations RMB'000	Consolidated 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 RMB'000	Coal railway transportation RMB'000	Eliminations RMB'000	Consolidated RMB'000
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

Notes to the Financial Statements (Cont'd)

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	1,206,898	5,547	2,014,535
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

Note:

No segment information for the year ended December 31, 2001 is presented as the Group was engaged primarily in the coal mining business during that year.

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

	At December 31,		
	2003	2002	2001
Coal mining	**24,810**	24,623	23,689
Coal railway transportation	**3,151**	3,249	–
	27,961	27,872	23,689

5. NET SALES OF COAL

	Year ended December 31,		
	2003	2002	2001
	RMB'000	RMB'000	RMB'000
Domestic sales of coal, gross	**4,840,317**	3,939,953	3,014,933
Less: Transportation costs	**503,228**	525,998	415,121
Domestic sales of coal, net	**4,337,089**	3,413,955	2,599,812
Export sales of coal, gross	**3,546,312**	3,832,362	3,354,716
Less: Transportation costs	**1,089,066**	1,032,416	1,078,518
Export sales of coal, net	**2,457,246**	2,799,946	2,276,198
Net sales of coal	**6,794,335**	6,213,901	4,876,010

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, 2003, 2002 and 2001 amounted to RMB49,925,000, RMB44,712,000 and RMB40,351,000, respectively.

6. COST OF SALES AND SERVICE PROVIDED

	Year ended December 31,		
	2003	2002	2001
	RMB'000	RMB'000	RMB'000
Materials	**899,602**	752,513	643,664
Wages and employee benefits	**863,707**	757,532	572,202
Electricity	**278,507**	278,407	218,579
Depreciation	**836,120**	813,761	784,477
Land subsidence, restoration, rehabilitation and environmental costs	**264,158**	232,030	210,939
Repairs and maintenance	**374,855**	346,290	276,791
Annual fee and amortization of mining rights (note)	**19,604**	19,604	19,604
Transportation costs	**48,231**	43,239	22,632
Others	**170,239**	119,525	63,695
	3,755,023	3,362,901	2,812,583

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.

Notes to the Financial Statements (Cont'd)

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,		
	2003	2002	2001
	RMB'000	RMB'000	RMB'000
Retirement benefits scheme contributions (note 40)	**349,377**	334,120	265,825
Wages and employee benefits	**115,456**	164,549	75,717
Additional medical insurance	**27,814**	29,710	–
Depreciation	**44,339**	37,358	35,161
Amortization of goodwill	**9,657**	777	777
Distribution charges	**37,779**	54,524	57,970
Allowance for doubtful debts	**80,272**	66,204	2,508
Resource compensation fees (note)	**84,941**	73,762	31,240
Repairs and maintenance	**13,918**	8,668	8,247
Research and development	**46,144**	30,657	23,026
Staff training costs	**26,780**	26,272	23,991
Freight charges	**14,862**	14,016	5,532
Others	**413,519**	390,442	229,637
	1,264,858	1,231,059	759,631

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,		
	2003	2002	2001
	RMB'000	RMB'000	RMB'000
Dividend income	**4,810**	–	–
Gain on sales of auxiliary materials	**35,197**	21,277	21,233
Gain on disposal of property, plant and equipment	**6,872**	–	–
Government grants (note)	**8,194**	20,157	–
Interest income from bank deposits	**13,631**	28,737	39,863
Interest income from investments in securities	**–**	1,481	–
Interest income on loan receivable	**4,183**	–	–
Release of negative goodwill to income	**27,620**	27,620	27,620
Write back of allowance for doubtful debts	**–**	–	29,180
Others	**5,338**	4,457	–
	105,845	103,729	117,896

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,		
	2003	2002	2001
	RMB'000	RMB'000	RMB'000
Interest expenses on:			
– bank borrowings wholly repayable within 5 years	**53,682**	3,666	1,924
– bank borrowings not wholly repayable within 5 years	**–**	72,072	–
– bills receivable discounted without recourse	**1,023**	2,235	–
Deemed interest expenses (note 36)	**5,261**	39,956	59,595
	59,966	117,929	61,519

No interest was capitalized during the relevant periods.

10. INCOME BEFORE INCOME TAXES

	Year ended December 31,		
	2003	2002	2001
	RMB'000	RMB'000	RMB'000
Income before income taxes has been arrived at after charging:			
Amortization of mining rights	**6,624**	6,624	6,624
Auditors' remuneration	**5,000**	3,500	2,200
Staff costs, including directors' and supervisors' emoluments	**1,437,682**	1,354,251	937,735
Loss on disposal of property, plant and equipment	**–**	1,093	5,811
and crediting:			
Gain on disposal of investments in securities	**1,424**	2,209	–

Notes to the Financial Statements (Cont'd)

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,		
	2003	2002	2001
	RMB'000	RMB'000	RMB'000
Independent non-executive directors			
Fees	**248**	239	128
Executive directors			
Fees	**–**	–	–
Salaries, allowance and other benefits in kind	**989**	825	846
Retirement benefits scheme contributions (note 40)	**445**	371	381
Discretionary bonuses	**–**	–	–
	1,434	1,196	1,227
Supervisors			
Fees	**–**	–	–
Salaries, allowance and other benefits in kind	**426**	400	209
Retirement benefits scheme contributions (note 40)	**191**	180	94
Discretionary bonuses	**–**	–	–
	617	580	303

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, 2003, 2002 and 2001.

(b) Employees' emoluments

The five highest paid individuals in the Group in 2003 included five directors (2002: three; 2001: five), details of whose emoluments are included in the disclosures in note 11(a) above. The emoluments of the remaining two individuals for the year ended December 31, 2002 were as follows:

	2002
	RMB'000
Salaries, allowance and other benefits in kind	314
Retirement benefits scheme contributions (note 40)	141
Discretionary bonuses	–
	455

Emoluments of each of these employees were 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,		
	2003	2002	2001
	RMB'000	RMB'000	RMB'000
Income taxes	**587,775**	524,534	391,488
Deferred tax credit (note 28)	**(65)**	(1,386)	(2,260)
	587,710	523,148	389,228

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,		
	2003	2002	2001
	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	**651,723**	576,910	448,857
Reconciling items:			
Transfer to future development fund deductible for tax purposes but not charged to income under IFRS	**(85,692)**	(76,101)	(67,364)
Amortization of the revaluation surplus of low-priced consumables deductible for tax purposes but not for accounting purposes under IFRS	**–**	–	(1,212)
Release of negative goodwill not subject to tax	**(9,115)**	(9,115)	(9,115)
Deemed interest not deductible for tax purposes	**1,736**	13,185	19,666
Allowance for doubtful debts not deductible for tax purposes	**25,731**	23,681	–
Government grants received not subject to tax	**(2,704)**	(6,652)	–
Others	**6,031**	1,240	(1,604)
Income taxes	**587,710**	523,148	389,228
Effective income tax rate	**30%**	30%	29%

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 subsidiaries acquired during the years ended December 31, 2001 and 2003 did not have any significant impact on the income taxes provided for the years ended December 31, 2001, 2002 and 2003.

Notes to the Financial Statements (Cont'd)

13. DIVIDEND

	Year ended December 31,		
	2003	2002	2001
	RMB'000	RMB'000	RMB'000
Final dividend approved	**298,480**	287,000	235,340

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.

Pursuant to the annual general meeting held on June 27, 2003, a final dividend of approximately RMB298,480,000 or RMB0.104 per share proposed by the board of directors in respect of the year ended December 31, 2002 was approved and paid to the shareholders of the Company.

The board of directors proposes to declare a final dividend and special dividend of approximately RMB327,180,000 and RMB143,500,000 calculated based on a total number of 2,870,000,000 shares issued at RMB1 each, at RMB0.114 per share and at RMB0.050 per share, respectively, in respect of the year ended December 31, 2003. The declaration and payment of the final dividend and special 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 purpose 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, 2003, 2002 and 2001 is based on the net income for the year of RMB1,386,686,000, RMB1,221,999,000 and RMB970,945,000 and on the weighted average of 2,870,000,000 shares, 2,870,000,000 shares and 2,807,507,000 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 represents 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		THE COMPANY	
	At December 31,		At December 31,	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Total bills receivable	**657,090**	239,974	**656,490**	239,974
Total accounts receivable	**682,961**	639,038	**682,826**	639,038
Less: Allowance for doubtful debts	**(100,627)**	(76,083)	**(100,627)**	(76,083)
Total bills and accounts receivable, net	**1,239,424**	802,929	**1,238,689**	802,929

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 2003 and 2002 follows:

	THE GROUP AND THE COMPANY	
	At December 31,	
	2003	2002
	RMB'000	RMB'000
Balance at January 1	**76,083**	57,864
Additional allowance charged to income	**71,125**	64,604
Direct write-off charged against allowance	**(46,581)**	(46,385)
Balance at December 31	**100,627**	76,083

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

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

	THE GROUP		THE COMPANY	
	At December 31,		At December 31,	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
1 – 180 days	**961,307**	551,795	**960,572**	551,795
181 – 365 days	**177,571**	182,371	**177,571**	182,371
1 – 2 years	**114,887**	99,633	**114,887**	99,633
2 – 3 years	**78,919**	38,388	**78,919**	38,388
Over 3 years	**7,367**	6,825	**7,367**	6,825
	1,340,051	879,012	**1,339,316**	879,012

Notes to the Financial Statements (Cont'd)

17. INVESTMENTS IN SECURITIES

	THE GROUP AND THE COMPANY At December 31,	
	2003	2002
	RMB'000	RMB'000
Available-for-sale investments		
NON-CURRENT		
Equity investments	1,760	1,760
CURRENT		
Fixed maturity investments	–	88,702

The non-current investments in securities represents unlisted equity investments with no quoted market price and the amount is stated at cost subject to impairment recognition. The current investments in securities represented investments in listed fixed maturity securities at December 31, 2002 and were redeemed during the year. At December 31, 2002, the carrying amounts of these fixed maturity securities approximated their quoted market prices.

18. INVENTORIES

	THE GROUP At December 31,		THE COMPANY At December 31,	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
COST				
Auxiliary materials, spare parts and small tools	**204,466**	309,246	**199,068**	302,164
Coal products	**297,562**	267,333	**297,562**	267,333
	502,028	576,579	**496,630**	569,497

19. OTHER LOAN RECEIVABLE

The amount represents a loan receivable from a minority shareholder of a subsidiary of the Company. The amount is guaranteed by another independent third party, bears interest at 6% per annum and is secured by shares of a private PRC company (equivalent to approximately 16% of the share capital of that company) in which the borrower is a shareholder. The amount is full settled in April 2004.

20. PREPAYMENTS AND OTHER CURRENT ASSETS

	THE GROUP		THE COMPANY	
	At December 31,		At December 31,	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advances to suppliers	**70,785**	133,687	**69,692**	133,687
Prepaid freight charges and related handling charges	**103,680**	153,191	**103,680**	153,191
Value added tax ("VAT") refund	**275,624**	342,596	**275,624**	342,596
Prepayments for purchase of property, plant and equipment	**3,163**	7,311	**3,163**	7,311
Prepaid land subsidence, restoration, rehabilitation and environmental costs	**24,510**	23,967	**24,510**	23,967
Receivables for utilities charges	**6,838**	8,162	**6,838**	8,162
Receivables for sales of auxiliary materials	**15,057**	7,835	**15,057**	7,835
Others	**34,816**	79,270	**30,816**	78,300
	534,473	756,019	**529,380**	755,049

Included in the above balances of the Group and of the Company as of December 31, 2003 and 2002 were allowances for doubtful debts of RMB12,686,000 and RMB3,539,000, respectively. During the year ended December 31, 2003, the Group and the Company made an allowance for doubtful debts of RMB9,147,000. 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.

Notes to the Financial Statements (Cont'd)

21. MINING RIGHTS

	THE GROUP AND THE COMPANY RMB'000
COST	
At January 1, 2003 and December 31, 2003	132,479
AMORTIZATION	
At January 1, 2003	13,248
Provided for the year	6,624
At December 31, 2003	19,872
NET BOOK VALUES	
At December 31, 2003	112,607
At December 31, 2002	119,231

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.

22. LAND USE RIGHTS

	THE GROUP AND THE COMPANY RMB'000
COST	
At January 1, 2003 and December 31, 2003	658,549
DEPRECIATION	
At January 1, 2003	40,343
Provided for the year	13,294
At December 31,2003	53,637
NET BOOK VALUES	
At December 31, 2003	604,912
At December 31, 2002	618,206

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

The land use rights of Railway Assets were acquired from the Parent Company during the year ended December 31, 2002. The registration process in respect of the land use rights of the Railway Assets has not yet been completed at December 31, 2003.

23. PROPERTY, PLANT AND EQUIPMENT, NET

THE GROUP

	Buildings	Harbour works and craft	Railway structure	Mining structure	Plant, machinery and equipment	Trans- portation equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST								
At January 1, 2003	2,024,122	–	720,704	3,646,069	6,602,377	270,740	124,923	13,388,935
Acquisition of a subsidiary	–	–	–	–	1,708	10,843	–	12,551
Additions	–	–	–	–	19,992	704	1,267,421	1,288,117
Transfers	28,805	250,231	425	258,391	742,378	26,366	(1,306,596)	–
Disposals	–	–	(645)	–	(51,881)	(26,909)	–	(79,435)
At December 31, 2003	2,052,927	250,231	720,484	3,904,460	7,314,574	281,744	85,748	14,610,168
DEPRECIATION								
At January 1, 2003	706,902	–	52,286	1,300,221	2,935,073	117,512	–	5,111,994
Provided for the year	90,943	–	54,893	108,197	646,177	33,499	–	933,709
Eliminated on disposals	–	–	(276)	–	(35,531)	(16,101)	–	(51,908)
At December 31,2003	797,845	–	106,903	1,408,418	3,545,719	134,910	–	5,993,795
NET BOOK VALUES								
At December 31, 2003	1,255,082	250,231	613,581	2,496,042	3,768,855	146,834	85,748	8,616,373
At December 31, 2002	1,317,220	–	668,418	2,345,848	3,667,304	153,228	124,923	8,276,941

Notes to the Financial Statements (Cont'd)

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

THE COMPANY

	Buildings	Harbour works and craft	Railway structure	Mining structure	Plant, machinery and equipment	Trans-portation equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST								
At January 1, 2003	2,024,122	–	720,704	3,646,069	6,602,142	270,310	124,923	13,388,270
Additions	–	–	–	–	19,984	704	1,267,421	1,288,109
Transfers	28,805	250,231	425	258,391	742,378	26,366	(1,306,596)	–
Disposals	–	–	(645)	–	(51,881)	(26,909)	–	(79,435)
At December 31, 2003	2,052,927	250,231	720,484	3,904,460	7,312,623	270,471	85,748	14,596,944
DEPRECIATION								
At January 1, 2003	706,902	–	52,286	1,300,221	2,935,026	117,492	–	5,111,927
Provided for the year	90,943	–	54,893	108,197	646,138	33,413	–	933,584
Eliminated on disposals	–	–	(276)	–	(35,531)	(16,101)	–	(51,908)
At December 31,2003	797,845	–	106,903	1,408,418	3,545,633	134,804	–	5,993,603
NET BOOK VALUES								
At December 31, 2003	1,255,082	250,231	613,581	2,496,042	3,766,990	135,667	85,748	8,603,341
At December 31, 2002	1,317,220	–	668,418	2,345,848	3,667,116	152,818	124,923	8,276,343

24. GOODWILL

	THE GROUP At December 31,		THE COMPANY At December 31,	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
COST				
At January 1	**55,545**	15,545	**55,545**	15,545
Subsequent adjustment to contingent consideration payment in respect of the acquisition of Railway Assets (note 35)	**40,000**	40,000	**40,000**	40,000
Acquisition of Yanmei Shipping (note 34)	**11,162**	–	**–**	–
At December 31	**106,707**	55,545	**95,545**	55,545
AMORTIZATION				
At January 1	**3,885**	3,108	**3,885**	3,108
Provided for the year	**9,657**	777	**9,657**	777
At December 31	**13,542**	3,885	**13,542**	3,885
NET BOOK VALUES				
At December 31	**93,165**	51,660	**82,003**	51,660

25. NEGATIVE GOODWILL

	THE GROUP AND THE COMPANY	
	2003	2002
	RMB'000	RMB'000
COST		
At January 1 and December 31	**138,101**	138,101
RELEASED TO INCOME		
At January 1	**55,240**	27,620
Released for the year	**27,620**	27,620
At December 31	**82,860**	55,240
NET BOOK VALUES		
At December 31	**55,241**	82,861

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

Notes to the Financial Statements (Cont'd)

26. INVESTMENT IN SUBSIDIARIES

	THE COMPANY At December 31,	
	2003	2002
	RMB'000	RMB'000
Unlisted investments, at cost	**14,402**	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.

In addition, at December 31, 2003, the Company holds a 92% interest in the registered capital of Yanmei Shipping, a limited liability company established and operated in the PRC. Yanmei Shipping is engaged in transportation via rivers and lakes and the sale of coal and construction materials.

27. 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 Company is entitled to the dividend paid by Shenergy Company Limited. The unpaid consideration at December 31, 2003 is shown as a capital commitment in note 39.

28. DEFERRED TAX ASSET

	THE GROUP AND THE COMPANY	
	2003	2002
	RMB'000	RMB'000
Balance at January 1	**88,807**	87,421
Credit for the year (note 12)	**65**	1,386
Balance at December 31	**88,872**	88,807

At the balance sheet date, the deferred tax asset represents the tax effect of temporary differences on the excess of the land subsidence, restoration, rehabilitation and environmental costs charged as expenses that is eligible for tax deduction over the amounts already claimed for tax deduction.

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

29. BILLS AND ACCOUNTS PAYABLE

	THE GROUP At December 31,		THE COMPANY At December 31,	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bills payable	**–**	100,982	**–**	100,982
Accounts payable	**427,608**	501,743	**427,771**	501,507
	427,608	602,725	**427,771**	602,489

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,	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
1 – 180 days	**239,593**	315,257	**239,756**	315,021
181 – 365 days	**135,942**	201,272	**135,942**	201,272
1 – 2 years	**52,073**	86,196	**52,073**	86,196
	427,608	602,725	**427,771**	602,489

Included in the Company's balance sheet at December 31, 2003 is an amount due from its subsidiary of RMB1,206,000.

30. OTHER PAYABLES AND ACCRUED EXPENSES

	THE GROUP At December 31,		THE COMPANY At December 31,	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Customers' deposits	**598,315**	155,153	**597,617**	155,153
Accrued wages	**70,633**	46,389	**70,633**	46,389
Other taxes payable	**211,474**	149,273	**211,285**	149,273
Payables in respect of purchases of property, plant and equipment and construction materials	**84,745**	118,632	**84,745**	118,632
Utilities deposits received	**–**	4,784	**–**	4,784
Accrued freight charges	**60,093**	12,732	**60,093**	11,267
Accrued repairs and maintenance	**37,254**	28,201	**37,254**	28,201
Accrued utility expenses	**15,175**	10,372	**15,175**	10,372
Staff welfare payable	**39,512**	51,163	**39,512**	51,163
Accrued land subsidence, restoration, rehabilitation and environmental costs	**4,996**	4,468	**4,996**	4,468
Others	**52,616**	53,623	**62,081**	53,623
	1,174,813	634,790	**1,183,391**	633,325

Notes to the Financial Statements (Cont'd)

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

	THE GROUP AND THE COMPANY	
	2003	2002
	RMB'000	RMB'000
Balance at January 1	**83,044**	120,196
Additional provision in the year	**268,330**	238,297
Transfers to prepayments and accrued expenses	**(266,352)**	(275,449)
Balance at December 31	**85,022**	83,044

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.

32. UNSECURED BANK BORROWINGS

During the year ended December 31, 2002, the Group and the Company obtained a new bank loan in the amount of RMB1,200,000,000. The loan bore interest at 6.21% per annum subject to adjustments and was originally repayable in installments over a period of 7 years, the first repayment instalment of which was due in August 2004. The proceeds were used to finance the acquisition of the Railway Assets (see note 1).

During the year ended December 31, 2003, the interest rate of the bank loan has been adjusted to 5.76% per annum. The Company has made a partial repayment of RMB600,000,000 during the year and according to the terms of the loan agreement, any early settlement would be deemed to settle the latest instalments due. The balance of the loan is therefore repayable in instalments over the next 3 years, the first repayment instalment of which is due in August 2004.

The above loan is repayable as follows:

	THE GROUP AND THE COMPANY	
	2003	2002
	RMB'000	RMB'000
Within one year	**200,000**	–
More than one year, but not exceeding two years	**200,000**	200,000
More than two years, but not exceeding five years	**200,000**	600,000
Exceeding five years	**–**	400,000
	600,000	1,200,000
Less: Amount due within one year and included in current liabilities	**(200,000)**	–
Amount due after one year	**400,000**	1,200,000

33. 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, 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
Balance at January 1, 2003	2,870,000	3,272,527	855,237	388,120	194,060	2,412,369	9,992,313
Net income	–	–	–	–	–	1,388,054	1,388,054
Appropriations to reserves	–	–	259,674	110,536	55,268	(425,478)	–
Dividends	–	–	–	–	–	(298,480)	(298,480)
Balance at December 31, 2003	2,870,000	3,272,527	1,114,911	498,656	249,328	3,076,465	11,081,887

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, 2003 and 2002
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.

Notes to the Financial Statements (Cont'd)

33. SHAREHOLDERS' EQUITY (Continued)

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, 2003 is the retained earnings computed under PRC GAAP which amounted to approximately RMB2,691,181,000.

The Company's distributable reserve as at December 31, 2002 is also the retained earnings computed under PRC GAAP which amounted to approximately RMB2,050,188,000 (note 45).

34. ACQUISITION OF YANMEI SHIPPING

	2003 RMB'000
The net assets of Yanmei Shipping at the date of acquisition were as follows:	
Bank balances and cash	506
Bills and accounts receivable	735
Inventories	1,254
Prepayments and other current assets	16,423
Property, plant and equipment, net	12,551
Other payables and accrued expenses	(4,259)
Amounts due to Parent Company and its subsidiaries	(26,151)
Taxes payable	(483)
Minority interest	(46)
Total net assets acquired	530
Goodwill arising on acquisition	11,162
	11,692
Consideration:	
Satisfied by cash	11,692
Net cash outflow arising on acquisition:	
Cash paid	(11,692)
Bank balances and cash acquired	506
	(11,186)

During the year ended December 31, 2003, the Group acquired 92% of the issued share capital of Yanmei Shipping for a cash consideration of RMB11,692,000. The net assets acquired had been included in the coal mining segment. Yanmei Shipping did not have any significant impact on the Group's results or cash flows for the year.

Notes to the Financial Statements (Cont'd)

35. 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	80,000
	1,322,586
Satisfied by:	
Cash consideration paid on acquisition	1,242,586
Subsequent adjustment to contingent consideration payment	80,000
	1,322,586
Net cash outflow arising on acquisition:	
Cash paid on acquisition	(1,282,586)
Cash paid during the year ended December 31, 2003	(40,000)
Bank balances and cash acquired	141
	(1,322,445)

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 was 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 consideration has been further adjusted to RMB1,322,586,000 as the annual transportation volume of the Railway Assets reached the volume milestone target of 28,000,000 tonnes for the year ended December 31, 2003.

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.

36. 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.

Notes to the Financial Statements (Cont'd)

37. ACQUISITION OF ZHONGYAN

	2001
	RMB'000
The net assets of Zhongyan at the date of acquisition were as follows:	
Bank balances 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 the year ended December 31, 2001.

38. 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, 2003 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).

38. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

	THE GROUP		THE COMPANY	
	At December 31,		At December 31,	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts due to Parent Company and its subsidiary companies				
Within one year	**369,620**	285,308	**343,469**	285,308
More than one year, but not exceeding two years	**9,802**	10,483	**9,802**	10,483
More than two years, but not exceeding five years	**26,101**	27,721	**26,101**	27,721
Exceeding five years	**14,956**	23,137	**14,956**	23,137
Total due	**420,479**	346,649	**394,328**	346,649
Less: amount due within one year	**369,620**	285,308	**343,469**	285,308
Amount due after one year	**50,859**	61,341	**50,859**	61,341

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,		
	2003	2002	2001
	RMB'000	RMB'000	RMB'000
Income			
Sales of coal	**229,730**	110,403	73,675
Sales of auxiliary materials	**472,899**	–	–
Gain on sales of auxiliary materials	**–**	12,385	11,586
Utilities and facilities	**29,000**	5,000	5,810
Railway transportation services	**66**	496	–
Expenditure			
Utilities and facilities	**285,166**	1,350	600
Annual fee for mining rights	**12,980**	12,980	12,980
Purchases of supply materials and equipment	**373,710**	409,117	143,213
Railway transportation services	**–**	–	248,876
Repair and maintenance services	**225,408**	239,297	207,550
Social welfare and support services	**188,825**	186,657	150,860
Technical support and training	**15,130**	15,130	15,130
Road transportation services	**17,216**	33,208	6,302
Construction services	**507,824**	–	–

Notes to the Financial Statements (Cont'd)

38. 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,		
	2003	2002	2001
	RMB'000	RMB'000	RMB'000
Sales of coal by the Group	**77,155**	37,693	35,440
Transaction services provided to the Group	**74,783**	–	–

Certain expenditure for social welfare and support services (excluding medical and child care expenses) of RMB63,530,000, RMB66,500,000 and RMB56,220,000 for each of the three years ended December 31, 2003, 2002 and 2001, respectively, and for technical support and training of RMB15,130,000 for each of the three years ended December 31, 2003, 2002 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).

On January 1, 2002, the Company acquired the 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 40).

39. COMMITMENTS

	THE GROUP AND THE COMPANY At December 31,	
	2003	2002
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– acquisition of property, plant and equipment	**163,342**	257,382
– acquisition of an equity investment	**30,137**	30,137
	193,479	287,519

40. 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 subsidiaries are participants in a state-managed retirement scheme pursuant to which the subsidiaries pay a fixed percentage of its qualifying staff's wages as a contribution to the scheme. The subsidiaries' financial obligations under this scheme are limited to the payment of the employer's contribution. During the year, contributions payable by the subsidiaries 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.

41. 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, 2003, 2002 and 2001. Such expenses, amounting to RMB37,200,000, RMB37,200,000 and RMB30,970,000 for each of the three years ended December 31, 2003, 2002 and 2001, respectively, have been included as part of the social welfare and support services expenses summarized in note 38.

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.

42. 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 bank borrowings approximate their fair value as the interest rates approximate the market rate.

Notes to the Financial Statements (Cont'd)

43. 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 Minmetals Trading. 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 Minmetals Trading. 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, 2003, 2002 and 2001, net sales to the Group's five largest domestic customers accounted for approximately, 18.5%, 21.2% 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 11.3%, 13.3% and 15.7% of the Group's net sales for the years ended December 31, 2003, 2002 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 9.6%, 12.6 % and 14.9% of the Group's net sales for the years ended December 31, 2003, 2002 and 2001, respectively.

Details of the amounts receivable from the five customers with the largest receivable balances at December 31, 2003 and 2002 are as follows:

	Percentage of accounts receivable At December 31,	
	2003	2002
Five largest receivable balances	**46%**	52%

44. POST BALANCE SHEET EVENT

Under the relevant regulations and policies, the VAT charge is made at 13% on the export sales of coal products of the Group and is currently set off with the VAT refund at the same rate. Starting from January 1, 2004, the VAT refund rate has been revised to 11% by the relevant authorities.

45. 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 33), 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; and

(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 are recognized under PRC GAAP.

Notes to the Financial Statements (Cont'd)

45. 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,	
	2003	2002	2001	**2003**	2002
	RMB'000	RMB'000	RMB'000	**RMB'000**	RMB'000 (restated- see note below)
As per consolidated financial statements prepared under IFRS	1,386,686	1,221,999	970,945	11,083,239	9,995,033
Impact of IFRS adjustments in respect of:					
– transfer to future development fund which is charged to income before income taxes under PRC GAAP	(259,674)	(230,610)	(204,134)	–	–
– amortization of revaluation surplus on low-priced consumables recognized on the establishment of the Company under PRC GAAP	–	–	(3,672)	–	–
– deferred tax effect on temporary differences not recognized under PRC GAAP	(65)	(1,386)	(2,260)	(88,872)	(88,807)
– release of negative goodwill to income	(27,620)	(27,620)	(27,620)	(82,860)	(55,240)
– deemed interest expenses	5,261	39,956	59,595	104,812	99,551
– others	777	777	3,399	7,292	6,517
As per consolidated financial statements prepared under PRC GAAP					
As restated	1,105,365	1,003,116	796,253	11,023,611	9,957,054

Note: Prior to January 1, 2003, 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. During the year, the Group has adopted a revised accounting policy issued by the Ministry of Finance, of which dividends proposed or declared after the balance sheet date are not recognized as a liability at the balance sheet date, but are disclosed as a separate component of equity under PRC GAAP. This change in accounting policy has been applied retrospectively, resulting in a prior period adjustment which increases the net assets of the Group at 1 January 2003 by RMB298,480,000 under PRC GAAP.

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

46. 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 the Railway Assets have been accounted for using the purchase method which accounts for the assets and liabilities of Jining II, Jining III and the 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 the Railway Assets are entities under the common control of the Parent Company, the assets and liabilities of Jining II, Jining III and the 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 the Railway Assets acquired and the purchase price paid is recorded as an adjustment to shareholders' equity.

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 bases of the assets are the fair value amount at the date of acquisition.

Notes to the Financial Statements (Cont'd)

46. 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,		
	2003	2002	2001
	RMB'000	RMB'000	RMB'000
Net income as reported under IFRS	**1,386,686**	1,221,999	970,945
US GAAP adjustments:			
Additional depreciation charged on fair valued property, plant and equipment and land use rights	**188,191**	188,178	164,684
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	**(64,289)**	(64,284)	(56,532)
Amortization of negative goodwill on acquisition of Jining III	**(27,620)**	(27,620)	(27,620)
Amortization of mining rights of Jining III	**6,624**	6,624	6,624
Amortization of goodwill arising on acquisition of Jining II	**777**	777	777
Amortisation of goodwill arising on acquisition of the Railway Assets	**8,880**	–	–
Profit of Railway Assets included in the Group using the pooling of interest method	**–**	–	168,675
Net income under US GAAP	**1,499,249**	1,325,674	1,227,553
Earnings per share under US GAAP	**RMB0.52**	RMB0.46	RMB0.44
Earnings per ADS under US GAAP	**RMB26.12**	RMB23.10	RMB21.86

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

	At December 31, 2003 RMB'000	2002 RMB'000
Shareholders' equity as reported under IFRS	**11,083,239**	9,995,033
US GAAP adjustments:		
Difference in cost bases of property, plant and equipment and land use rights	**(2,561,032)**	(2,561,032)
Additional depreciation charged on fair valued property, plant and equipment and land use rights	**1,125,520**	937,329
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	**473,719**	535,822
Goodwill arising on acquisition of Jining II	**(10,883)**	(11,660)
Negative goodwill arising on acquisition of Jining III, net	**55,241**	82,861
Mining rights of Jining III	**(112,607)**	(119,231)
Additional deferred tax asset due to a higher tax base resulting from capitalization of mining rights	**37,160**	39,346
Goodwill arising on acquisition of Railway Assets	**(71,120)**	(40,000)
Shareholders' equity under US GAAP	**10,019,237**	8,858,468

Under US GAAP, the Group's total assets would have been RMB12,845,802,000 and RMB11,787,480,000 at December 31, 2003 and 2002, respectively.

Details of effect of recent accounting pronouncements in the US GAAP are as follows:

In August 2001, the Financial Accounting Standards Board ("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 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, 2003 and 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 adopted FIN No. 45 during the year ended December 31, 2003 and it did not have a material effect on the Group's financial statements.

Notes to the Financial Statements (Cont'd)

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

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements" and provides guidance on the identification of entities for which control is achieved through means other than voting rights ("variable interest entities" or "VIEs") and how to determine when and which business enterprise should consolidate the VIEs. This new model for consolidation applies to an entity in which either: (1) the equity investors (if any) lack one or more characteristics deemed essential to a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. FIN 46 was applicable for periods ending December 15, 2003. In December 2003 the FASB issued FIN 46R which defers the implementation date to the end of the first reporting period after March 15, 2004 unless the Company has a special purpose entity in which case the provisions must be applied for fiscal years ending December 31, 2003. The Company does not have a special purpose entity therefore they will adopt the provisions in December 2004.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities." The statement amends and clarifies accounting for derivative instruments, including certain derivatives instruments embedded in other contracts and for hedging activities under SFAS No. 133. This Statement is generally effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS No. 149 did not have a material impact on the Company's financial position, cash flow or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". The statement establishes standards for how an issuer classifies and measures certain financial instruments. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The statement requires that certain financial instruments that, under previous guidance, could be accounted for as equity be classified as liabilities, or assets in some circumstances. This statement does not apply to features embedded in a financial instrument that is not a derivative in its entirety. The statement also requires disclosures about alternative ways of settling the instruments and the capital structure of entities whose shares are mandatory redeemable. The adoption of SFAS No. 150 did not have a material impact on the Company's financial position, cash flow or results of operations.