

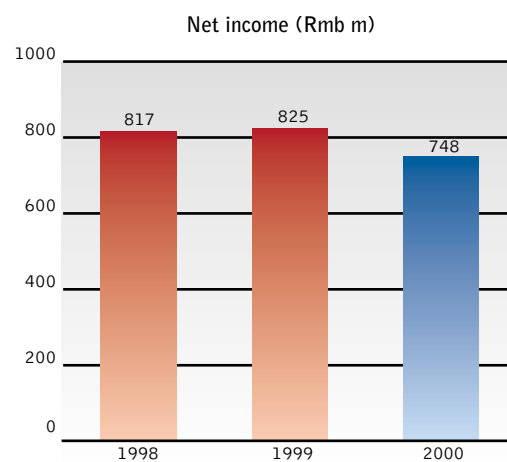
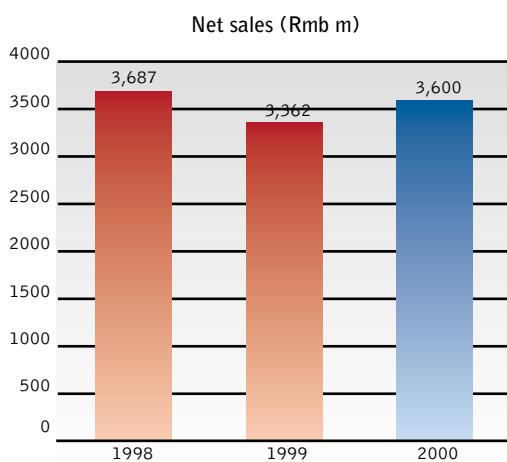
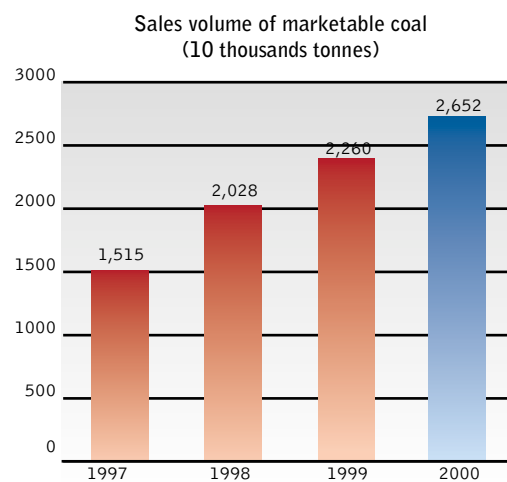
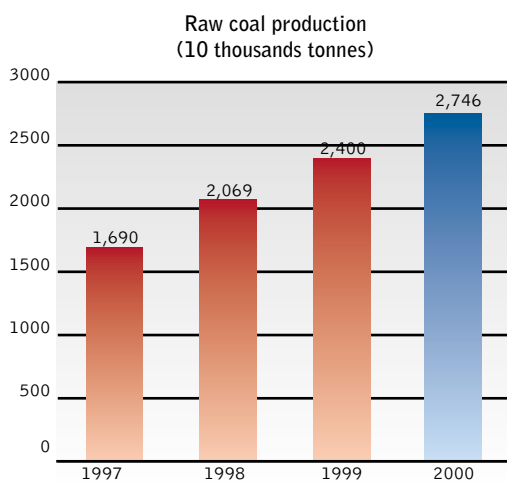
The following discussion is based on the Company's audited results of 2000 and the Company's audited results of 1999, which were prepared in accordance with IAS.

OVERVIEW

The Company produced 27.46 million tonnes of raw coal and sold 26.52 million tonnes of coal in 2000. Net sales reached RMB3,599.7 million in 2000. The Company's net income in 2000 was RMB748.4 million.



Yang Deyu
General Manager



PRODUCT PRICES AND SALES

The following table sets out the Company's net sales by product category for the years ended 31st December, 1999 and 2000:

(prepared in accordance with IAS)

	Year ended 31st December,					
	2000		1999			
	Sales volume (('000 tonnes)	Net sales (RMB million)	% of total net sales	Sales volume (('000 tonnes)	Net sales (RMB million)	% of total net sales
Clean coal						
No. 1	250.0	54.2	1.5	203.3	48.7	1.4
No. 2	2,500.3	432.4	12.0	1,912.8	368.5	11.0
Domestic	416.5	90.8	2.5	391.5	79.5	2.4
Exports	2,083.8	341.6	9.5	1,521.3	289.0	8.6
Steaming coal	9,289.4	1,364.2	37.9	6,180.9	1,019.1	30.3
Domestic	1,288.6	196.8	5.5	1,498.3	248.3	7.4
Exports	8,000.8	1,167.4	32.4	4,682.6	770.8	22.9
Subtotal for clean coal	12,039.7	1,850.8	51.4	8,297.0	1,436.3	42.7
Domestic	1,955.1	341.8	9.5	2,093.1	376.5	11.2
Exports	10,084.6	1,509.0	41.9	6,203.9	1,059.8	31.5
Screened raw coal	12,661.5	1,631.0	45.3	12,236.6	1,728.8	51.4
Mixed coal and others	1,814.0	117.9	3.3	2,065.2	197.3	5.9
Total	26,515.2	3,599.7	100.0	22,598.8	3,362.4	100.0

The Company sold 26.52 million tonnes of coal in 2000, representing an increase of 3.92 million tonnes, or 17.3% over 1999, among which, sales of export clean coal were 10.08 million tonnes, an increase of 62.6% year on year, and sales to the domestic markets were 16.43 million tonnes, an increase of 0.2% year on year. In domestic markets, the sales volume of No.1 clean coal, No.2 clean coal and screened raw coal increased by 23.0%, 6.4% and 3.5%, respectively; the sales volume of steaming coal, mixed coal and others decreased by 14.0% and 12.2%, respectively.

The change in sales structure was mainly due to the timely adjustment of the product mix by the Company to reflect market demand conditions.

The following table sets out the Company's product prices for the years ended 31st December, 1999 and 2000:

(prepared in accordance with IAS)

	2000 Average price (RMB per tonne)	1999 Average price (RMB per tonne)
Clean coal		
No. 1	216.9	239.4
No. 2	172.9	192.6
Domestic	217.9	203.1
Exports	163.9	190.0
Steaming coal	146.9	164.9
Domestic	152.8	165.8
Exports	145.9	164.6
Subtotal for clean coal	153.7	173.1
Domestic	174.8	179.9
Exports	149.6	170.8
Screened raw coal	128.8	141.3
Mixed coal and others	65.0	95.5
Average price	<u>135.8</u>	<u>148.8</u>

The average price for the Company's products was RMB135.76/tonne in 2000, representing a decrease of RMB13.03/tonne, or 8.8% compared with 1999. The average domestic coal price declined by 9.4% and the average export coal price declined by 12.4%.

The Company's average coal price in the second half of 1999 was RMB134.95/tonne, representing a 16.8% decrease from RMB162.13/tonne in the first half of 1999. While the coal price started to recover in the 1st half of 2000 reaching RMB135.43/tonne, it was still 16.5% lower than the price reached in the first half of 1999. In the second half of 2000, coal prices continued to recover, reaching RMB136.06/tonne, an increase of 0.5% compared with the 1st half of the year. While the coal price recovery was sustained, it did not reach the average price level of 1999.

The Company's major export customers are located in East Asian countries and regions, such as Japan, South Korea and Taiwan. The Company exported 10.08 million tonnes of coal in 2000, representing an increase of 62.6% over 1999. Net export sales reached 41.9% of total net sales, an increase of 10.4% year on year.

Most of the Company's domestic sales were made to electric power plants, fuel companies, metallurgical producers and chemical companies. The following table sets out the Company's net sales by industry for years ended 31st December, 1999 and 2000:

(prepared in accordance with IAS)

	Year ended 31st December,			
	2000		1999	
	Net sales (RMB million)	% of net sales	Net sales (RMB million)	% of net sales
Domestic				
Electric power plants	1,065.2	29.6	1,087.7	32.3
Metallurgical producers	212.8	5.9	190.4	5.7
Construction material companies/ Coke chemical companies	138.6	3.9	134.8	4.0
Fuel trading companies/Others	674.1	18.7	889.7	26.5
Export	1,509.0	41.9	1,059.8	31.5
Total	<u>3,599.7</u>	<u>100.0</u>	<u>3,362.4</u>	<u>100.0</u>

Domestic sales of the Company's products are concentrated in the East China region, particularly in Shandong province. The following table sets out the Company's net sales by geographical region for the years ended 31st December, 1999 and 2000:

(prepared in accordance with IAS)

	Year ended 31st December,			
	2000		1999	
	Net sales (RMB million)	% of total net sales	Net sales (RMB Million)	% of total net sales
East China				
Shandong province	1,187.7	33.0	1,273.5	37.9
Jiangsu province	172.8	4.8	244.6	7.3
Zhejiang province	233.8	6.5	389.7	11.6
Shanghai city	197.2	5.5	240.3	7.1
Other provinces in East China ⁽¹⁾	119.5	3.3	34.4	1.0
Subtotal	<u>1,911.0</u>	<u>53.1</u>	<u>2,182.5</u>	<u>64.9</u>
South China ⁽²⁾	179.7	5.0	120.1	3.6
Export	1,509.0	41.9	1,059.8	31.5
Total	<u>3,599.7</u>	<u>100.0</u>	<u>3,362.4</u>	<u>100.0</u>

(1) includes Anhui province, Fujian province and Jiangxi province.

(2) includes Guangdong province and Hunan province.

OPERATING EXPENSES AND COST CONTROL

The following table sets out the Company's principal operating expenses, which are also expressed as percentages of net sales for the years ended 31st December, 1999 and 2000:

(prepared in accordance with IAS)

	Year ended 31st December,			
	2000 (RMB million)	1999	2000 (as a% of total net sales)	1999
Net sales	<u>3,599.7</u>	<u>3,362.4</u>	<u>100.0</u>	<u>100.0</u>
Cost of goods sold				
Materials	484.3	353.1	13.5	10.5
Salaries, wages and employee benefits	419.1	349.2	11.6	10.4
Electricity	185.8	156.9	5.2	4.7
Depreciation	487.6	471.4	13.5	14.0
Repairs and maintenance	174.7	136.1	4.9	4.0
Land subsidence	170.2	78.3	4.7	2.3
Non-rebated value added taxes	–	21.7	–	0.7
Other manufacturing costs	61.8	47.1	1.7	1.4
Total cost of goods sold	<u>1,983.5</u>	<u>1,613.8</u>	<u>55.1</u>	<u>48.0</u>
Selling, general and administration	<u>636.4</u>	<u>625.3</u>	<u>17.7</u>	<u>18.6</u>
Total operating expenses	<u>2,619.9</u>	<u>2,239.1</u>	<u>72.8</u>	<u>66.6</u>
Operating income	<u>979.8</u>	<u>1,123.3</u>	<u>27.2</u>	<u>33.4</u>

In 2000, total operating expenses increased by RMB 380.8 million, or 17.0% from 1999. Cost of goods sold, selling, general and administrative expenses increased by 22.9% and 1.8%, respectively, resulting in total operating expenses as percentage of net sales increasing to 72.8% in 2000 from 66.6% in 1999.