The following discussion and analysis should be read in conjunction with the audited financial statements and the audited 1999 financial statements of the Company and the notes thereto included elsewhere in this report. Such financial statements have been prepared in accordance with IAS. For a discussion of certain differences between IAS and US Generally Accepted Accounting Principles ("US GAAP"), please refer to note 34 to the financial statements contained herein or the Company's Annual Report on Form 20-F filed with the Securities and Exchange Commission of the United States of America, which will be provided to any shareholder upon written request.

YEAR ENDED 31ST DECEMBER, 2000 COMPARED WITH YEAR ENDED 31ST DECEMBER, 1999

Net sales increased by RMB237.3 million, or 7.1%, to RMB3,599.7 million in 2000 from RMB3,362.4 million in 1999. The increase of sales was principally due to a 17.3% increase in coal sales volume, resulting in net sales of the Company increasing by RMB582.7 million. However, this was partially offset by a RMB345.4 million decrease in net sales from an 8.8% decrease in the average coal price.

Cost of goods sold increased by RMB369.7 million, or 22.9% to RMB1,983.5 million in 2000 from RMB1,613.8 million in 1999. The increase in cost of goods sold was principally due to: i) significant increases in production resulted in an increase of cost of goods sold by RMB261.6 million; ii) in 2000, installment and removing of working panels caused additional materials and electricity consumption, which increased cost of goods sold by RMB17 million; and iii) the provisions of land subsidence in 2000 increased by RMB91.97 million compared with that in 1999, mainly due to an one off adjustment in 1999 based on a revised provision policy reflecting lower actual historical expense. The unit cost of goods sold increased by RMB3.4/tonne to RMB74.8/tonne in 2000 from RMB71.4/tonne in 1999, mainly attributable to the above-mentioned difference of land subsidence provision that resulted in an increase of RMB2.96/tonne of cost of goods sold.

Cost of goods sold as percentage of net sales increased from 48.0% in 1999 to 55.1% in 2000.

Selling, general and administrative expenses increased by RMB11.1 million, or 1.8%, to RMB636.4 million in 2000 from 1999's RMB625.3 million. The increase mainly reflected higher contribution to retirement benefit scheme and distribution charges.

The Company's operating income decreased by RMB143.5 million, or 12.8%, to RMB979.8 million in 2000 from RMB1,123.3 million in 1999.

Interest expenses decreased by RMB5.438 million, or 52.0%, to RMB5.012 million from RMB10.45 million in 1999, as a result of the stronger financial position of the Company.

Other income increased by RMB13.309 million, or 28.0%, to RMB60.883 million from RMB47.574 million in 1999. The increase was principally due to higher gains on sales of auxiliary materials.

Income before income taxes decreased by RMB124.7 million, or 10.7% to RMB1,035.7 million in 2000 from RMB1,160.4 million in 1999.

Net income decreased by RMB76.70 million, or 9.3% to RMB748.4 million from RMB825.1 million in 1999. Net income margin in 2000 was 20.8%, representing a decrease of 3.7% compared with 24.5% in 1999.

Total assets increased by RMB504.4 million, or 6.6%, to RMB8,103.7 million as at 31st December, 2000 from RMB7,599.3 million as at 31st December, 1999, principally due to the assets increment by the Company's operating activities.

Total liabilities of the Company decreased by RMB12.60 million, or 1.0%, to RMB1,234.1 million as at 31st December, 2000 from RMB1,246.7 million as at 31st December, 1999. There is no bank borrowing for the Company as at 31st December, 2000.

Shareholders' equity increased by RMB516.9 million, or 8.1%, to RMB6,869.6 million as at 31st December, 2000 from RMB6,352.7 million as at 31st December, 1999, principally due to an increase in appropriation to surplus reserve, common welfare fund and unappropriated profits.

LIQUIDITY AND CAPITAL RESOUCES

The Company's principal source of capital has been cash flow from operations. The Company's principal uses of capital have been payment of shareholders' dividend, and acquisition of property, plant and equipment.

As at 31st December, 2000, the Company's accounts receivable and bills receivable totaled RMB836.7 million, a decrease of RMB26.9 million from the total accounts receivable and bills receivable of RMB863.6 million as at 31st December, 1999. While more new customers and significantly higher sales volume were achieved, the Company at the same time tightened the collection of receivables. Improved sales conditions also reduced total bills receivable, which resulted in overall decrease of annual bills and accounts receivable compared with 1999.

As at 31st December, 2000, inventories decreased by RMB47.5 million to RMB262.9 million from RMB310.4 million as at 31st December 1999, principally due to the decrease of coal stocks.

As at 31st December, 2000, prepayment and other current assets increased by RMB259.7 million to RMB560.4 million from RMB300.7 million as at 31st December 1999, principally due to the increase in prepayment and rebate of export VAT to be received.

As at 31st December, 2000, accounts payable increased by RMB38.5 million to RMB548.4 million from RMB509.9 million as at 31st December, 1999, principally due to longer credit terms offered by the suppliers of the Company.

As at 31st December, 2000, other payables and accrued expenses decreased by RMB2.6 million to RMB398.5 million from RMB395.9 million as at 31st December, 1999, principally due to the increase of advanced payment made by the Company's customers.

The Company's capital expenditures were RMB468.5 million and RMB523.0 million during 1999 and 2000, respectively, principally applied to the purchases of mining machinery and equipment and additional property.

The Company's most significant budgeted capital expenditure relates to the consideration for the acquisition of the Jining III coal mine. The purchase price of the Jining III coal mine is approximately RMB2,451 million. In accordance with the terms in the Acquisition Agreement signed with Yankuang Group Corporation Limited (the "Parent Company" or "Yankuang Group"), the purchase price has been partially paid off by the Company' cash in hand of RMB244 million and the net proceeds of RMB961 million raised from the A share issue. The rest of the purchase price will be paid in cash before 31st December, 2001 and 31st December, 2002 in two equal installments without interest.

The Company may also incur capital requirements in respect of potential acquisitions of high-grade assets or investments in new coal mines. The Company intends to finance any such acquisitions or investments principally from i) operating cash flow; ii) additional borrowings; and iii) if necessary, from the issuance of new equity.

The Board of Directors of the Company has recommended a final dividend of RMB221.4 million to be paid out of the Company's cash flow from operations on or before 30th June, 2001.

Taking into account the available supplier financing and banking facilities, the Company believes that it will have sufficient working capital for its present requirements.

TAXATION

The Company is still subject to an income tax rate of 33% on its taxable profits in 2000.

US GAAP RECONCILIATION

The Company's audited financial statements are prepared in compliance with IAS, which differs in certain respects from US GAAP. Please refer to note 34 to the financial statements contained herein for a description of the differences between IAS and US GAAP, and a reconciliation to US GAAP of net income for the year ended, and the shareholders' equity, as at 31st December, 2000.