

The directors of the Company are pleased to submit their report together with the audited financial statements of the Company for the year ended 31st December 2000.

## PRINCIPAL ACTIVITIES

The company is engaged in the underground coal mining, coal preparation and sales.

## FINANCIAL HIGHLIGHTS

A summary of the results of the Company, the assets and liabilities of the Company and the cash flow of the Company for each of the five years ended 31st December, 1996, 1997, 1998, 1999 and 2000, which are determined under IAS, are set out on the financial highlights section of the report.

## PROPOSED PROFIT APPROPRIATION

The profit appropriation of the Company for the year ended 31st December 2000 as proposed by the Board of Directors is as follows:

<i>Prepared in accordance with PRC GAAP</i>	RMB'000
Net income	764,182
Unappropriated profits at beginning of year	905,808
Appropriation to statutory surplus reserve	76,418
Appropriation to statutory common welfare fund	38,209
Distributable profits	1,555,363
Dividends	221,400
Unappropriated profits	1,333,963

The proposed profit appropriation will be presented to shareholders for approval at the forthcoming annual general meeting 2000 of the Company (the "AGM").

Pursuant to the Company's Articles of Association, the Company's financial statements should be prepared according to the PRC GAAP as well as the IAS or the accounting standards and regulations of the places in which its shares are listed. For the purpose of determining final dividend payable to shareholders, the lowest of net income figures in these accounting standards will be applied for the relevant year. For the year ended 31st December, 2000, profit prepared under the IAS is applied to dividends payment.

## DIVIDENDS

The directors of the Company have decided to recommend at the forthcoming AGM, scheduled to be held on 15th June, 2001, a payment in cash of a final dividend of RMB221.4 million (before tax) or RMB0.082 per share (before tax). After approved by the shareholders at the AGM, the final dividend will be declared and paid to all shareholders of the Company on or before 30th June 2001.

Pursuant to Article 149 of the Company's Articles of Association, dividends payable to the Company's shareholders shall be calculated and declared in RMB. Dividends payable to holders of the Company's domestic shares shall be paid in RMB, while dividends payable to holders of the Company's H shares shall be paid in Hong Kong dollars, the exchange rate will be the average of the closing exchange rates for RMB to Hong Kong dollars as announced by the People's Bank of China for the five working days prior to the announcement of payment of such dividends.

## MAJOR SUPPLIERS AND CUSTOMERS

The aggregate purchase attributable to the Company's five largest suppliers was less than 30% of the total purchase of its goods and services for 1999 and 2000.

Net sales to the Company's five largest domestic customers accounted for 33.4% and 26.7% of the Company's net sales in 1999 and 2000, respectively.

Net sales to the Company's largest customer, Shandong Power accounted for 21.1% and 17.5% of the Company's net sales for 1999 and 2000, respectively.

As far as the directors are aware, neither the directors, their associates, nor those shareholders that own more than 5% of the Company's share capital had any interest in the five largest customers of the Company.

## BORROWINGS

As at 31st December, 2000, the Company has no long-term borrowings.

## INTEREST CAPITALIZED

No interest has been capitalized by the Company during the year ended 31st December 2000.

## RESERVES

Details of movements in reserves of the Company for the year ended 31st December, 2000 and details of distributable reserves of the Company as at 31st December, 2000 are set out in the statement of changes in shareholders' equity contained herein.

## STATUTORY COMMON WELFARE FUND

Details in relation to the statutory common welfare fund are set out in note 24 to the financial statements contained herein.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company during the year ended 31st December, 2000 are set out in note 19 to the financial statements contained herein.

## EMPLOYEES' PENSION SCHEME

Details of the Company's employees' pension scheme are set out in note 28 to the financial statements contained herein.

## HOUSING SCHEME

According to the Materials and Services Supply Agreement, which was disclosed in the Company's offering prospectus dated 24th March, 1998 and issued in Hong Kong in connection with the Combined Offering, between the Company and the Parent Company, 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 provision of such accommodation on a pro-rata basis based on head count. Such expenses amounted to RMB29.7 million and RMB29.7 million for 1999 and 2000, respectively.

Currently, monthly wages and benefits paid to employees by the Company include housing allowance, which is equally matched by a contribution from the employees. The contribution is paid to the Parent Company who is responsible to construct new accommodation by utilizing the housing allowance, along with the proceeds from the sales of existing accommodation and, if necessary, from loans arranged by the Parent Company. Because the Company has no property management function, there is no impact upon the operating results or finance of the Company following to the document CaiQi [2000] 295 "The Notice of financial problems related to the reformation of enterprise housing system" issued by Finance Ministry on 6th September, 2000.

## CONNECTED TRANSACTIONS

The Company's independent non-executive directors have reviewed the connected transactions (as defined in the Listing Rules) set out in note 25 to the financial statements contained herein, and confirmed that all connected transactions entered into by the Company during 2000 were entered into in its ordinary and usual course of business, and that such transactions were all entered into either (A) on normal commercial terms, or (B) on terms no less favorable than those available to (or from) independent third parties (from the point of view of the Company), or (C) where there is no available comparison for the purpose of determining whether (A) or (B) is satisfied, on terms that are fair and reasonable so far as the shareholders of the Company are concerned. Details of such transactions are set out in note 25 to the financial statements contained herein.

During the year ended 31st December, 2000, the Company paid RMB12.98 million to the Parent Company in respect of mining rights, pursuant to the mining rights agreement dated 17th October, 1997 (as supplemented by a supplemental agreement dated 18th February, 1998) between the Parent Company and the Company. The Company's independent non-executive directors have reviewed such payment and confirmed that the payment was made in accordance with the terms of such agreements.

## DISCLOSURE OF SIGNIFICANT EVENTS

### Acquisition of Jining III Coal Mine

The Company entered into the Acquisition Agreement for Jining III Coal Mine (the "Acquisition Agreement") with the Parent Company on 4th August, 2000. The Acquisition Agreement was reviewed and approved by the Independent Board Committee on 26th August, 2000 and had further received the approval of the Independent Shareholders at an Extraordinary General Meeting held on 22nd September, 2000.

In accordance with the Acquisition Agreement, the Company completed the acquisition of Jining III on 1st January, 2001. The purchase price of approximately RMB2,434 million was set based on the valuation on 30th April, 2000 being the Valuation Date, and confirmed by the Ministry of Finance. After adjustment based on the current assets value of Jining III on 31st December, 2000, the purchase price is RMB2,451 million. The purchase price has been partially paid off by the Company with cash in hand of RMB244 million and the net proceeds of RMB961 million raised from the Issue of A Shares referred to below. 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 consideration of the mining right of Jining III is approximately RMB132 million, which shall be paid by ten equal installments without interest commencing from 2001.

Jining III commenced commercial production on 28th December, 2000. The coal mine won the Quality Prize of National Mine Construction for its construction engineering.



Quality Prize of National Mine Construction

### New Issue of 100,000,000 A Shares

Approval for the increase of the Company's capital by way of issue of 100,000,000 A shares was granted on 21st December, 2000 by the China Securities Regulatory Commission (the "CSRC"). The issuance of A shares was successfully completed on 3rd January, 2001 and the issue was priced at RMB10.00 per A share. Under the confirmation of capital verification report issued by Deloitte Touche Tohmatsu Shanghai CPA, the Company received net proceeds of RMB961 million from the issue of 100,000,000 A shares. All the net proceeds received from the A shares issue has been applied to finance the acquisition of Jining III.



The share capital of the Company was increased from 2,600,000,000 shares to 2,700,000,000 shares after the issue of the 100,000,000 A shares.

### Amendments to the Articles of Association of the Company

In accordance with the authorization made by the First Extraordinary General Meeting for the year 2000, held on 22nd September, 2000, the Board of Directors has made the following amendments to the Articles of Association of the Company to reflect the new capital structure of the Company.

**Article 15** Subject to the approval of the companies approving department authorised by the State Council, the Company issued a total of 2,700,000,000 ordinary shares, of which 1,670,000 ordinary shares, representing 61.85% of the total number of ordinary shares, were issued to the promoter of the Company at the time when the Company was established.

**Article 16** The share capital structure of the Company comprises 2,700,000,000 ordinary shares, of which (a) 1,670,000,000 shares, which represent 61.85% of the Company's share capital, are held by the promoter of the Company, Yankuang Group Corporation Ltd., in the form of state-owned legal person shares; (b) 850,000,000 shares, which represent 31.48% of the Company's share capital are held by the H shares shareholders; and (c) 180,000,000 shares, which represent 6.67% of the Company's share capital, are held by the A shares shareholders.

**Article 19** The registered capital of the Company is RMB2,700,000,000. The Company shall register its registered capital with the State Industry and Commerce Department and make the necessary filings with the companies approving department authorised by the State Council and the State Council Security Policy Committee.

## CHANGE IN SHARE CAPITAL AND SHAREHOLDERS

	<i>(In share) Par value per share: RMB1.00</i>		
	Number of shares before the changing (1st January, 2000)	Changes during the period under review (Increase/Decline)	Number of shares after the changing (31st December, 2000)
A. Shares not listed for public dealing			
1. Subscriber shares			
State legal person shares	1,670,000,000		1,670,000,000
2. Shares issued to senior management of the Company	221,000		221,000
Total number of shares not listed for public dealings	<u>1,670,221,000</u>		<u>1,670,221,000</u>
B. Shares listed for public dealings			
1. A Shares	79,779,000		79,779,000
2. H Shares	850,000,000		850,000,000
Total number of shares listed for public dealings	<u>929,779,000</u>		<u>929,779,000</u>
C. Total shares	<u><u>2,600,000,000</u></u>		<u><u>2,600,000,000</u></u>

As of 31st December, 2000, the total share capital of the Company was 2.6 billion shares. The Company had a total of 46,332 shareholders, of which 1 was holder of domestic legal person shares, of which 46,154 were holders of A Shares and 177 were holders of H Shares

## TOP TEN SHAREHOLDERS OF THE COMPANY

Name	Number of shares held as of 31st December, 2000	Percentage of total shareholding(%)	Class of shares held
Yankuang Group Corporation Limited	1,670,000,000	64.23	State legal person shares
HKSCC Nominees Limited	847,648,000	32.60	H shares
Xinghe Fund	988,392	0.04	A shares
Li Xiangqing	581,100	0.02	A shares
Sun Jing	557,800	0.02	A shares
Zhang Hong	359,801	0.01	A shares
Xinan Fund	350,200	0.01	A shares
Kang Likun	350,000	0.01	A shares
Zhu Xianyuan	301,800	0.01	A shares
Li Juhua	292,200	0.01	A shares
Total	<u>2,521,429,293</u>	<u>96.98</u>	

The number of shares held by the Parent Company remained at 1,670,000,000 shares during the period under review and none of these shares were pledged or restricted.

As the clearing and settlement agent for the Company's H Shares, HKSCC Nominees Limited is the nominee of the Company's H Shares.

## LEGAL PERSON SHAREHOLDERS WITH SHAREHOLDINGS OF 10% OR MORE

As at 31st December, 2000, the Parent Company was holding 1,670,000,000 domestic legal person shares of the Company, representing 64.23% of the total share capital of the Company.

The Parent Company is the holding company of the Company and is principally engaged in the coal production, building and building materials, chemical and machinery businesses.

As at 31st December, 2000, HKSCC Nominees Limited held 847,648,000 H Shares of the Company, representing 32.60% of the total share capital of the Company. HKSCC Nominees Limited is a common nominee and trustee for participants of the Central Clearing And Settlement System.

## SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Save for two Independent Non-executive Directors who did not have any beneficial interest in the issued share capital of the Company, the Directors, Supervisors and senior management of the Company were holding 221,000 A Shares of the Company as a result of the placement of the employee shares in 1998. Save as disclosed below, none of the Directors, Supervisors or senior management or their associates had any beneficial interest in the issued share capital of the Company as at 31st December, 2000.

Name	Position	Number of shares held at the beginning of the year (as of 1st January, 2000)	Number of shares held at the end of the year (as of 31st December, 2000)	Reason for Change
ZHAO Jingche	Chairman of the Board of Directors	10,000	10,000	No change
YANG Deyu	Executive Director and General Manager	10,000	10,000	No change
DU Mingshan	Executive Director	10,000	10,000	No change
LUO Taiyan	Executive Director	10,000	10,000	No change
XIAO Lifang	Executive Director and Financial Controller	10,000	10,000	No change
WANG Bangjun	Director	10,000	10,000	No change
MO Liqi	Director	10,000	10,000	No change
LIU Yubin	Director	10,000	10,000	No change
WU Zezhi	Director	10,000	10,000	No change
CHEN Yongge	Director	10,000	10,000	No change
MA Houliang	Director	10,000	10,000	No change
XU Tianen	Director	10,000	10,000	No change
YANG Jiachun	Director	10,000	10,000	No change
MENG Xianchang	Chairman of the Supervisory Committee	10,000	10,000	No change
XIAO Shuzhang	Supervisor	10,000	10,000	No change
QIAN Xiulan	Supervisor	10,000	10,000	No change
XU Xinmin	Supervisor	10,000	10,000	No change
ZHOU Hongbin	Supervisor	10,000	10,000	No change
KONG Qing	Deputy General Manager	10,000	10,000	No change
ZHANG Xingzu	Deputy General Manager	10,000	10,000	No change
FAN Guoqiang	Chief Engineer	10,000	10,000	No change
WU Yuxiang	Finance Manager	10,000	10,000	No change
CHEN Guangshui	Secretary of the Board of Directors	1,000	1,000	No change

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company did not purchase, redeem or sell any of its shares during 2000.

## SHARE CAPITAL

Details of the authorized and issued share capital of the Company are set out in note 24 to the financial statements contained herein.

## PRE-EMPTIVE RIGHTS

Under the Articles of Association of the Company and the laws of the PRC, no pre-emptive rights exist that require the Company to offer new shares to existing shareholders in proportion to their shareholding.

## BRIEF BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### Executive Directors

**ZHAO Jingche**, aged 64, a professor-level senior engineer, is the Chairman of the Board of Directors of the Company and the Chairman of the Board of Directors of the Parent Company. Mr. Zhao joined the Predecessor in 1980 and act as the Chief Engineer, Deputy Director and Director of Xinglongzhuang Coal Mine. He became Deputy Director and Director of Yanzhou Mining Bureau in 1985 and 1991, respectively, and became the Chairman and General Manager of the Predecessor in 1996. Mr. Zhao graduated from Hefei Industry University.

**YANG Deyu**, aged 52, an engineering technique application researcher, is the General Manager and a Director of the Company. Mr. Yang joined the Predecessor in 1968, became the Deputy Director of Yanzhou Mining Bureau in 1994 and became the Assistant General Manager and Director of the Safety and Supervision Bureau of the Predecessor in 1996. He graduated from Shandong Mining Institute.

**DU Mingshan**, aged 58, a senior engineer, is a Director of the Company and an Executive Director of the Parent Company. Mr. Du joined the Predecessor in 1965 and became an Assistant Manager of Yanzhou Coal Infrastructure Company, the Deputy Director of Yanzhou Mining Bureau and an Executive Director of the Predecessor in 1985, 1987 and 1996 respectively. He graduated from Beijing Mining Institute.

**LUO Taiyan**, aged 60, an assistant researcher, is a Director of the Company and an Executive Director of the Parent Company. Mr. Luo joined the Predecessor in 1997 as an Executive Director and, prior to joining the Predecessor, was the Deputy Dean of the Jinan branch of Shandong Mining Institute and the Deputy Principal of China Coal Economics Institute between 1983 and 1997. He graduated from Shandong Mining Institute.

**XIAO Lifang**, aged 62, a senior accountant, is a Director and the Financial Controller of the Company. Mr. Xiao joined the Predecessor in 1972 and became its Chief Accountant in 1984. He graduated from Jiangsu Coal Mining Professional Training School.



### Non-executive Directors

**WANG Bangjun**, aged 56, an engineer, is a Director of the Company and the Vice-Chairman of the Board of Directors of the Parent Company. Mr. Wang joined the Predecessor in 1970, became an Assistant Manager and the Party Committee Deputy Director of Yanzhou Coal Infrastructure Company between 1983 and 1987, successively became the Deputy Director and a Party Committee Assistant Secretary of Yanzhou Mining Bureau between 1987 and 1996 and became the Vice-Chairman and a Party Committee Secretary of the Predecessor in 1996. He graduated from Shandong Mining Institute.

**MO Liqi**, aged 56, an engineering technique application researcher, is a Director of the Company and the Vice-Chairman of the Board of Directors and the General Manager of the Parent Company. Mr. Mo joined the Predecessor in 1970, successively became the Party Committee Deputy Director and a Manager of Yanzhou Coal Infrastructure Company in 1983 and 1985 respectively, and became the Deputy Director of Yanzhou Mining Bureau in 1987. Mr. Mo became the Vice-Chairman and the Deputy General Manager of the Predecessor in 1996, and became the General Manager of the Predecessor in 1997. He graduated from Shandong Mining Institute.

**LIU Yubin**, aged 59, a senior economist, is a Director of the Company and the Vice-Chairman and Party Committee Secretary of the Parent Company. Mr. Liu joined the Predecessor in 1975, successively became the Deputy Director and Party Committee Assistant Secretary of Yanzhou Mining Bureau between 1985 and 1996 became a Director and the Party Committee Assistant Secretary of the Predecessor in 1996. He was promoted to Vice-Chairman and Party Committee Secretary of the Parent Company in 1998. He graduated from China Language Institute.

**WU Zezhi**, aged 59, a professor-level senior engineer, is a Director of the Company and a Director and an Assistant General Manager of the Parent Company. Mr. Wu joined the Predecessor in 1972, successively became the Deputy Director of Yanzhou Mining Bureau in 1983 and a Director and Assistant General Manager of the Predecessor in 1996. He graduated from Jiangxi Mining Institute.

**CHEN Yongge**, aged 59, an engineer, is a Director of the Company and a Director and Chairman of the Labor Union of the Parent Company. Mr. Chen joined the Predecessor in 1982, successively became a Party Committee Assistant Secretary and Chairman of the Labor Union of Yanzhou Mining Bureau in 1983 and 1993 respectively, and became a Director and Chairman of the Labor Union of the Predecessor in 1996. He graduated from Beijing Coal Cadre Institute.

**MA Houliang**, aged 43, is a Director of the Company and a Director and a Party Committee Assistant Secretary of the Parent Company. Mr. Ma joined the Predecessor in 1985, became a Director of the Predecessor in 1996, and became a Party Committee Assistant Secretary of the Parent Company in 1998. He graduated from Qufu Education University.

**XU Tianen**, aged 52, a senior Accountant, is a Director of the Company and the Vice Chief Accountant of the Parent Company. Mr. Xu joined the Predecessor in 1968 and became the Director of Finance Department of Yanzhou Mining Bureau and the Vice Chief Accountant of the Predecessor in 1994 and 1996 respectively. He graduated from Shandong Mining Institute.

**YANG Jiachun**, aged 46, a senior economist, is a Director of the Company and an Executive Director of the Parent Company. Mr. Yang joined the Predecessor in 1988 and became the Director of the Politics and Regulations Department of Yanzhou Mining Bureau, the Supervisor of the Office of the Board of Directors of the Predecessor and the executive director of the Parent Company in 1994, 1996 and 1999, respectively. He graduated from Yunnan Education University.

#### Independent Non-executive Directors

**GUAN Weili**, aged 58, is a Director of the Company, and the President of China Enterprise Consultants. Mr. Guan worked with manufacturing firms as an engineer for many years. He once was the Dean of Business Management Department at Beijing Polytechnic University, the Director of Enterprise Department at National Administrative Bureau of State-Owned Property under the State Council of PRC, and the Vice President of GE Capital Pacific Asia. Mr. Guan graduated from China University of Science and Technology, and earned a Master of Business Administration degree at Northeastern University in Boston, United States. He is currently a member of the Asian Executive Board, Wharton Business School at University of Pennsylvania.

**LAW Kin Ming, Alfred**, aged 52, a solicitor, is a Director of the Company. Mr. Law was first called to the Bar in England in 1975 and to the Bar in Hong Kong in the following year. Mr. Law once acted as a Deputy District Court Judge in Hong Kong, and in March 1990, he switched to the solicitors' branch of the legal profession. He has been the legal adviser of South China Industry (Canada) Inc. since December 1993 and the Director of HMH China Investments Limited since September 1995.

#### Board of Supervisors

The Company has a Board of Supervisors whose primary duty is the supervision of senior management of the Company, including the Board of Directors, managers and senior officers. The function of the Board of Directors is to ensure that senior management of the Company acts in the interests of the Company, its shareholders and employees, and does not perform acts that violate PRC laws. The Board of Supervisors reports to the shareholders of the Company in general meetings. The Articles of Association provide the Board of Supervisors with the right to investigate the business and financial affairs of the Company and to convene shareholders' meetings from time to time. The Board of Supervisors currently comprises five members, one of whom is an employee representative. The members of the Board of Supervisors are:

**MENG Xianchang**, aged 53, is the Chairman of the Supervisory Committee of the Company and an Executive Supervisor and Party Committee Assistant Secretary of the Parent Company. Mr. Meng joined the Predecessor in 1981 and was promoted to Party Committee Assistant Secretary and Supervisor of the Predecessor in 1996. He graduated from Shandong Mining Institute.

**XIAO Shuzhang**, aged 57, is a Supervisor of the Company and a Supervisor and Disciplinary Committee Secretary of the Parent Company. Mr. Xiao joined the Predecessor in 1970, became a Disciplinary Committee Secretary of Yanzhou Coal Infrastructure Company and a Disciplinary Committee Secretary of Yanzhou Mining Bureau in 1986 and 1987 respectively, and became a Supervisor and Disciplinary Committee Secretary of the Predecessor in 1996. He graduated from Jiaozuo Mining Institute.

**QIAN Xiulan**, aged 55, is a Supervisor of both the Company and the Parent Company. Ms. Qian became the Deputy Chairperson of the Labor Union of Yanzhou Mining Bureau in 1979 and became the Deputy Chairperson of the Labor Union and Supervisor of the Predecessor in 1996. She graduated from the Central Communist Party School Correspondence Institute.

**XU Xinmin**, aged 61, a senior auditor, is a Supervisor of both the Company and the Parent Company. Mr. Xu joined the Predecessor in 1972, became the Director of the Audit Department of Yanzhou Mining Bureau in 1992 and became a Supervisor and the Director of the Audit Department of the Predecessor in 1996. He graduated from Taian School of Coal Industry.

**ZHOU Hongbin**, aged 58, a senior auditor, is a Supervisor of the Company. Mr. Zhou joined the Predecessor in 1966 and became the Director of the Audit Department of the Predecessor in 1996. He graduated from Jiangsu Coal Mining Professional Training School.

#### Other Executive Officers

**KONG Qing**, aged 48, a senior economist, is a Deputy General Manager of the Company. Mr. Kong joined the Predecessor in 1974 and became an Assistant General Manager of the Predecessor in 1996. He graduated from Shandong Television University.

**ZHANG Xingzu**, aged 52, a senior engineer, is a Deputy General Manager of the Company. Mr. Zhang joined the Predecessor in 1971 and became an Assistant General Manager of the Predecessor in 1996. He graduated from China University of Mining and Technology.

**FAN Guoqiang**, aged 62, a professor-level senior engineer, is the Chief Engineer of the Company. Mr. Fan joined the Predecessor in 1981 and became the Chief Engineer of the Predecessor in 1994. He graduated from Chongqing University.

**WU Yuxiang**, aged 39, a senior accountant, is the Manager of the Finance Department of the Company. Mr. Wu joined the Predecessor in 1981 and became the Chief Accountant of the Finance Department of the Predecessor in 1996. He graduated from Shandong Television University.

**CHEN Guangshui**, aged 35, an engineer, is the Secretary of the Board of Directors of the Company and the Chief of the Secretary Office of the Board of Directors. Mr. Chen joined the Predecessor in 1990 and became the Secretary of the Office of the Board of Directors of the Predecessor in 1996. He graduated from Fuxin Mining Institute.

## DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' and Supervisors' remuneration and five highest paid individuals in the Company are set out in note 11 to the financial statements contained herein.

There were no arrangements under which a Director or Supervisor of the Company had waived or agreed to waive any remuneration in respect of the year ended 31st December, 2000.

## ARRANGEMENT TO PURCHASE EQUITY OR DEBT SECURITIES

At no time during the year ended 31st December, 2000, was the Company, its holding company, or any of its fellow subsidiaries a party to any arrangement to enable the Directors or Supervisors of the Company to acquire benefits by means of the acquisition of equity or debt securities of the Company or any other body corporate with the exceptions of the A shares issued to the directors, supervisors and senior management of the Company. Details of which are shown under the section headed "Shareholdings of Directors, Supervisors and senior management of the Company".

## SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors and Supervisors has entered into a service contract with the Company for a term of three years. Under such contracts, each executive director will receive a salary and a discretionary year-end bonus, at such levels as are proposed by the Board of Directors and approved by shareholders of the Company in general meetings, provided that the discretionary year-end bonuses paid to the Executive Directors and other employees of the Company (including, but not limited to, the other Directors, Supervisors and executive officers of the Company) do not, in aggregate, exceed 1% of the net profit after taxation and extraordinary losses but before extraordinary gains for that year.

Save as disclosed herein, no Director or Supervisor has entered into any service contract with the Company which is not terminable by the Company within one year without payment other than statutory compensation.

## INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS

None of the Directors or Supervisors of the Company had a material interest directly or indirectly in any contract of significance to which the Company was a party during the year ended 31st December, 2000.

## COMPLIANCE WITH CODE OF BEST PRACTICE

As at 31st December, 2000, the Board of Directors of the Company had not established an audit committee. However, the Company's organizational structure has, in lieu, a Board of Supervisors which carries out functions similar to that of an audit committee, the differences being that the Company's Board of Supervisors comprises five members (one of which shall be an employee representative) who are elected and removed in the general meeting of shareholders, and which reports to the general meeting of shareholders instead of the Board of Directors. Whereas an audit committee is appointed amongst the non-executive directors of a company.

Except for the above mentioned, so far as the directors of the Company are aware, the Company has complied with the Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") issued by the Hong Kong Stock Exchange.

## IMPACT OF CHINA'S WTO ENTRY ON THE COMPANY

China's WTO entry will facilitate the Company to get its own coal export license and further enhance its profitability.

After China's WTO entry, the Company will have better opportunities to increase coal export volume and participate more directly in international competition. Being a reputable company in international coal markets with advanced mining technology, quality management and service, high quality products, superior location and low production and transportation costs, the Company is well positioned.

China imports 2.02 million tonnes of coal in 2000, a negligible amount compared with the total coal consumption in China. The competition in domestic coal market will not be aggravated following China's WTO entry.

## EFFECT OF THE EXCHANGE RATE CHANGING

The China government is implementing a managed floating exchange rate system. The Company does not expect that the RMB shall depreciate in near future.

The export sales income of the Company in 2000 accounts for 41.92% of the total sales income. With improvement in the international coal market, the Company's export volume will increase further. The price of the Company's export coal is denominated in US dollars. In case RMB depreciates, the Company's profit will increase.

## MATERIAL CONTRACTS

The Company entered into the Acquisition Agreement for Jining III Coal Mine with the Parent Company on 4th August, 2000. The details are set out on the "Acquisition of Jining III Coal Mine" section of the report.

Save as disclosed herein, the Company was not a party to any material contract during the year ended 31st December, 2000.

## MATERIAL LITIGATION AND ARBITRATION

The Company was not involved in any material litigation or arbitration during the year ended 31st December, 2000.

## EMPLOYEES

As at 31st December, 2000, the Company had 20,176 employees of whom 15,616 were directly involved in coal production, 610 were technicians, 1,650 were administrative personnel, and 2,300 were supporting staff.

## AUDITORS

Deloitte Touche Tohmatsu (certified public accountants in Hong Kong) and Deloitte Touche Tohmatsu Shanghai CPA (registered accountants in the PRC (excluding Hong Kong)), were the Company's international and domestic auditors, respectively, in 2000. A resolution to reappoint Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Shanghai CPA as the Company's international and domestic auditors, respectively, for 2001 will be proposed at the AGM of the Company which will be held on 15th June, 2001.

On behalf of the Board

**Zhao Jingche**

Chairman

Zoucheng, PRC, 20th April, 2001