

The following discussion is based on the Company's audited results of 2001 and the Company's audited results of 2000, which were prepared in accordance with IAS.

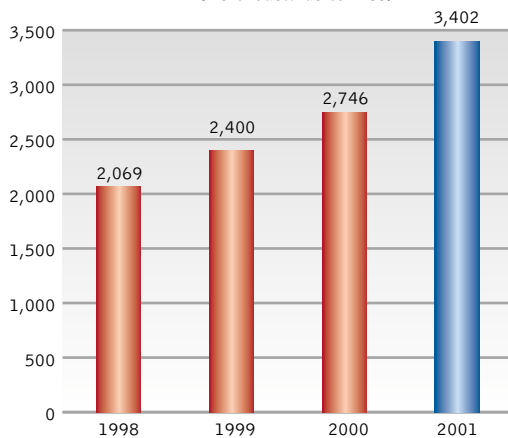
OVERVIEW

The Company produced 34.02 million tonnes of raw coal and sold 31.04 million tonnes of coal in 2001, realizing net sales of RMB4,876 million and net income of RMB970.9 million in 2001.

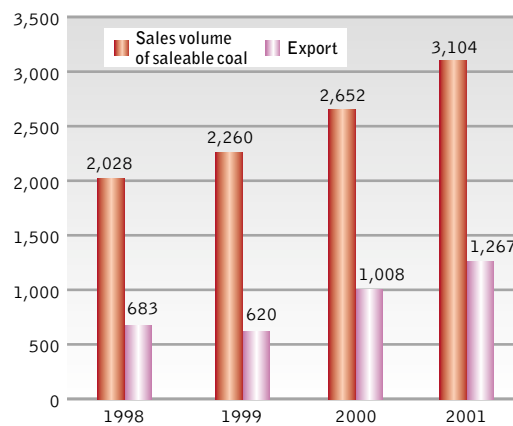


Yang Deyu
General Manager

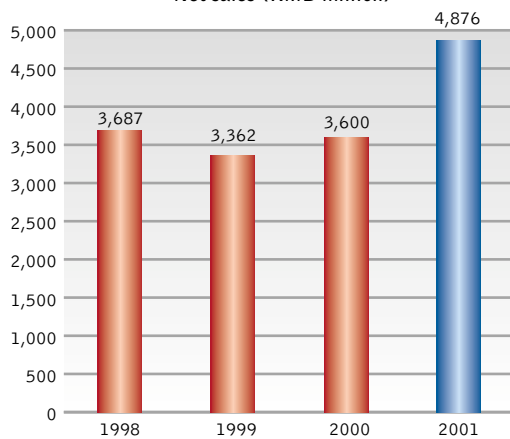
Raw coal production
(10 thousands tonnes)



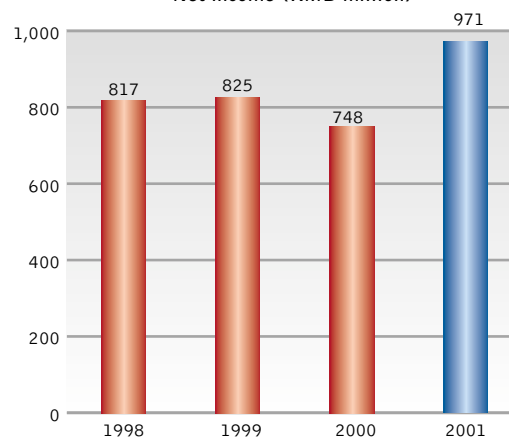
Sales volume of saleable coal
(10 thousands tonnes)



Net sales (RMB million)



Net income (RMB million)



RAW COAL PRODUCTION

The Company continuously carried out measures to increase production capacity in 2001, resulting in steady increase in raw coal output. The Company's coal production increased by 6.57 million tonnes, or 23.9%, to 34.02 million tonnes in 2001 as compared with that of the same period in 2000. Jining III coal mine, acquired at the beginning of 2001, produced 5.11 million tonnes of coal in its first year and boosted the overall output of the Company. By applying advanced mining techniques and equipment to improve productivity, the output of the five existing coal mines also increased.



PRODUCT PRICES AND SALES

The following table sets out the Company's net sales by product category for the years ended 31st December, 2000 and 2001:

(prepared in accordance with IAS)

	Year ended 31st December					
	2001			2000		
	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	257.9	56.2	1.2	250.0	54.2	1.5
No. 2	3,782.4	715.5	14.7	2,500.3	432.4	12.0
Domestic	262.7	58.5	1.2	416.5	90.8	2.5
Exports	3,519.7	657.0	13.5	2,083.8	341.6	9.5
Thermal coal	11,838.4	2,053.7	42.1	9,289.4	1,364.2	37.9
Domestic	2,692.5	434.5	8.9	1,288.6	196.8	5.5
Exports	9,145.9	1,619.2	33.2	8,000.8	1,167.4	32.4
Subtotal for clean coal	15,878.7	2,825.4	58.0	12,039.7	1,850.8	51.4
Domestic	3,213.1	549.2	11.3	1,955.1	341.8	9.5
Exports	12,665.6	2,276.2	46.7	10,084.6	1,509.0	41.9
Screened raw coal	12,169.1	1,786.0	36.6	12,661.5	1,631.0	45.3
Mixed coal and others	2,987.6	264.6	5.4	1,814.0	117.9	3.3
Total	31,035.4	4,876.0	100.0	26,515.2	3,599.7	100.0

The Company has achieved substantial sales increases of coal in 2001 by successfully implementing its strategies to penetrate domestic and overseas markets. The Company sold 31.04 million tonnes of coal in 2001, representing an increase of 4.52 million tonnes, or 17.0%, from 26.52 million tonnes in 2000, among which, sales of export coal was 12.67 million tonnes, representing an increase of 2.58 million tonnes, or 25.6% over that of 2000. The increase in export sales was mainly due to the increase in export of No. 2 clean coal by 1.44 million tonnes or 68.9% and export of thermal coal by 1.14 million tonnes or 14.3%. Sales to the domestic

market was 18.37 million tonnes, an increase of 11.8% over that of 2000. Sales increase in domestic market was mainly due to the sales increase of thermal coal and mixed coal and others by 108.9% and 64.7% over that of last year, respectively. The proportion of sales volume of export coal to sales volume of salable coal increased to 40.8% in 2001 from 38.0% in 2000.

The change in sales structure resulted from the timely adjustment of product mix by the Company to meet the market demand conditions.

The following table sets out the Company's product prices for the years ended 31st December, 2000 and 2001:

(prepared in accordance with IAS)

	Year ended 31st, December		% increase or decrease
	2001 Average price (RMB per tonne)	2000 Average price (RMB per tonne)	
Clean coal			
No. 1	217.9	216.9	0.5
No. 2	189.2	172.9	9.4
Domestic	222.7	217.9	2.2
Exports	186.7	163.9	13.9
Thermal coal	173.5	146.9	18.1
Domestic	161.4	152.8	5.6
Exports	177.0	145.9	21.3
Subtotal for clean coal	177.9	153.7	15.7
Domestic	170.9	174.8	-2.2
Exports	179.7	149.6	20.1
Screened raw coal	146.8	128.8	13.9
Mixed coal and others	88.6	65.0	36.3
Average price	157.1	135.8	15.7

Note: The average prices represent the invoice prices minus sale taxes, transportation cost from the Company to ports, port charges and miscellaneous fees.

The Company's product prices in 2001 showed a continuous upward trend. The average coal price of the Company was RMB157.11/tonne in 2001, representing an increase of RMB21.35/tonne, or 15.7% as compared with that of 2000. The average domestic coal price increased by 11.2% and the average export coal price increased by 20.1%.

The increase in average coal price in 2001 was principally due to: i) the Chinese government had strengthened its measures to shut down and reorganize small coal mines and reduce coal production. In addition, the increase in coal exports has also assisted in restoring the demand and supply balance resulting in a recovery in domestic coal prices; ii) international coal price commenced its recovery in 2001 after five years of depressed prices; and iii) the sales volume of higher-priced clean coal increased as the Company was able to adjust its product mix to meet changing market demand for different coal products.

The Company's major export customers are located in East Asian countries and regions, such as Japan, South Korea and Taiwan. The Company's realized net export sales accounted for 46.7% of total net sales, representing an increase of 4.8% over that of 2000.

Most of the Company's domestic sales were made to electric power plants, fuel trading companies, metallurgical producers and chemical companies. The following table sets out the Company's net sales by industry for years ended 31st December, 2000 and 2001:

(prepared in accordance with IAS)

	Year ended 31st December			
	2001		2000	
	Net sales (RMB million)	% of net sales	Net sales (RMB million)	% of net sales
Domestic				
Electric power plants	1,288.1	26.4	1,065.2	29.6
Metallurgical producers	174.7	3.6	212.8	5.9
Construction material companies/ Coke chemical companies	217.9	4.5	138.6	3.9
Fuel trading companies/Others	919.1	18.8	674.1	18.7
Export	2,276.2	46.7	1,509.0	41.9
Total	<u>4,876.0</u>	<u>100.0</u>	<u>3,599.7</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 break-up for the years ended 31st December, 2000 and 2001:

	Year ended 31st December			
	2001		2000	
	Net sales (RMB million)	% of total net sales	Net sales (RMB million)	% of total net sales
East China				
Shandong province	1,553.4	31.9	1,187.7	33.0
Jiangsu province	255.9	5.2	172.8	4.8
Zhejiang province	174.2	3.6	233.8	6.5
Shanghai city	226.3	4.6	197.2	5.5
Other provinces in East China ⁽¹⁾	87.6	1.8	119.5	3.3
Subtotal	<u>2,297.4</u>	<u>47.1</u>	<u>1,911.0</u>	<u>53.1</u>
South China ⁽²⁾	302.4	6.2	179.7	5.0
Export	2,276.2	46.7	1,509.0	41.9
Total	<u>4,876.0</u>	<u>100.0</u>	<u>3,599.7</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 total net sales for the years ended 31st December, 2000 and 2001:

(prepared in accordance with IAS)

	Year ended 31st December			
	2001 (RMB million)	2000	2001 (% of total net sales)	2000
Net sales	<u>4,876.0</u>	<u>3,599.7</u>	<u>100.0</u>	<u>100.0</u>
Cost of goods sold				
Materials	643.7	484.3	13.2	13.5
Salaries, wages and employee benefits	572.2	419.1	11.7	11.6
Electricity	218.6	185.8	4.5	5.2
Depreciation	784.5	487.6	16.1	13.5
Repairs and maintenance	276.8	174.7	5.7	4.9
Land subsidence	210.9	170.2	4.3	4.7
Other manufacturing costs	105.9	61.8	2.2	1.7
Total cost of goods sold	<u>2,812.6</u>	<u>1,983.5</u>	<u>57.7</u>	<u>55.1</u>
Selling, general and administrative expenses	<u>759.6</u>	<u>636.4</u>	<u>15.6</u>	<u>17.7</u>
Total operating expenses	<u>3,572.2</u>	<u>2,619.9</u>	<u>73.3</u>	<u>72.8</u>
Operating income	<u><u>1,303.8</u></u>	<u><u>979.8</u></u>	<u><u>26.7</u></u>	<u><u>27.2</u></u>

In 2001, total operating expenses increased by RMB952.3 million, or 36.3% from that of 2000. Cost of goods sold and selling, general and administrative expenses increased by 41.8% and 19.4%, respectively, when compared with that in the same period of 2000, resulting in total operating expenses to net sales increasing to 73.3% in 2001 from 72.8% in 2000.