

The following discussion and analysis should be read in conjunction with the audited financial statements of the Company for 2000 and 2001 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 41 to the financial statements contained herein or the Company's annual report on Form 20-F filed with the Securities and Exchange Commission of United States of America, which will be provided to any shareholder upon written request.

YEAR ENDED 31ST DECEMBER, 2001 COMPARED WITH YEAR ENDED 31ST DECEMBER, 2000

Net sales increased by RMB1,276.3 million, or 35.5%, to RMB4,876 million in 2001 from RMB3,599.7 million in 2000. The increase in sales was principally due to a 17.0% increase in coal sales volume, resulting in an increase in the net sales of the Company by RMB613.7 million and a 15.7% increase in the average coal price, resulting in an increase in the net sales by RMB662.6 million.

Cost of goods sold increased by RMB829.1 million, or 41.8% from RMB1,983.5 million in 2000 to RMB2,812.6 million in 2001. This was mainly due to the increase in raw coal output, the increased proportion of clean coal, the increase in wages and expenditure to improve auxiliary production systems and accessories of production facilities. In 2001, unit cost of goods sold of the Company was RMB90.6, representing an increase of RMB15.8 compared with that of last year. The main reasons are as followings: i) the increased proportion of washed clean coal resulted in an increase of unit cost by around RMB4.0; ii) the increase in employees' income in relation to the increase in the Company's production and profitability resulted in an increase in unit cost by around RMB3.8; iii) Jining III had yet to achieve its economies of scale. Its unit cost of RMB99.7 in 2001 under the current production levels resulted in an increase of RMB3.9 in the Company's unit cost; and iv) the existing five coal mines reached total actual annual production capacity of approximately 30 million tonnes from the original designed annual capacity of 16.4 million tonnes by applying advanced mining techniques. The Company invested RMB110 million to improve auxiliary transportation systems, accessories of production facilities and operation safety standard to ensure the sustainability of the production capacity increase, resulted in an increase in unit cost by around RMB3.5.

Selling, general and administrative expenses increased by RMB123.2 million, or 19.4%, to RMB759.6 million in 2001 from RMB636.4 million in 2000. This is mainly attributable to the increase in contribution to the retirement benefit scheme and distribution expenses.

The Company's operating income increased by RMB324 million, or 33.1%, to RMB1,303.8 million in 2001 from RMB979.8 million in 2000, principally due to the increase in net sales.

Interest expenses increased by RMB56.507 million, to RMB61.519 million from RMB5.012 million in 2000. This was principally due to the increase in deemed interest expenses for the unpaid instalments for Jining III coal mine acquisition.

Other income increased by RMB57.013 million, or 93.6%, to RMB117.9 million in 2001 from RMB60.883 million in 2000. This was mainly due to amortization of negative goodwill for the acquisition of Jining III and the write-back of certain bad debt provisions.

Income before income taxes increased by RMB324.5 million, or 31.3%, to RMB1,360.2 million in 2001 from RMB1,035.7 million in 2000.

Net income increased by RMB222.5 million, or 29.7%, to RMB970.9 million in 2001 from RMB748.4 million in 2000.

Total assets increased by RMB3,078.9 million, or 38.0%, to RMB11,182.6 million as at 31st December, 2001 from RMB8,103.7 million as at 31st December, 2000. This was principally due to the increase in capital base, acquisition of Jining III coal mine and the assets increment arising from the Company's operating activities.

Total liabilities of the Company increased by RMB886 million, or 71.8%, to RMB2,120.1 million as at 31st December, 2001 from RMB1,234.1 million as at 31st December, 2000. This was principally due to the deferred payments of RMB742 million representing the balance of the consideration due for the Jining III acquisition.

Shareholders' equity increased by RMB2,190.4 million, or 31.9%, to RMB9,060 million as at 31st December, 2001 from RMB6,869.6 million as at 31st December, 2000. This is principally due to: i) increase in the Company's share capital by RMB270 million and capital reserve fund by RMB1,184.8 million, respectively, as a result of the new issues of A shares and H shares; ii) the Company's contribution of RMB141.7 million to the statutory reserve and public welfare fund from net income; and iii) an increase in retained earnings by RMB593.9 million.



LIQUIDITY AND SOURCES OF CAPITAL

In 2001, the Company's principal sources of capital were cash generated from operations and proceeds raised from the new issues of A shares and H shares. The Company's principal uses of capital were payment for the Jining III coal mine acquisition, purchase of property, plant and equipment and payment of dividends.

As at 31st December, 2001, the Company's accounts receivable and bills receivable totalled RMB694.3 million. This was RMB142.4 million, or 17%, less than the total accounts receivable and bills receivable of RMB836.7 million as at 31st December, 2000. This was principally due to the fact that the Company strengthened its effort in the collection of receivables, resulting in a significant decrease in accounts receivable.

As at 31st December, 2001, inventories of the Company had increased by RMB177 million, or 67.3%, to RMB439.9 million from RMB262.9 million as at 31st December 2000, principally due to the increase of coal stocks.

As at 31st December, 2001, prepayment and other current assets had increased by RMB292.8 million, or 52.2%, to RMB853.2 million from RMB560.4 million as at 31st December 2000, principally due to the increase in prepaid freight fee and VAT export rebate receivable.

As at 31st December, 2001, accounts payable increased by RMB88.0 million, or 16.0%, to RMB636.4 million from RMB548.4 million as at 31st December, 2000, principally due to the increase in bills payable.

As at 31st December, 2001, other payables and accrued expenses had increased by RMB271.2 million, or 103.6%, to RMB532.9 million from RMB261.7 million as at 31st December, 2000. This increase was principally due to the increase in advances from customers and others taxes payable.

Long-term liabilities were RMB72.456 million as at 31st December, 2001, which principally comprised accounts payable for the consideration for the mining right of Jining III coal mine.

The Company's capital expenditure for purchasing property, machinery and equipment was RMB477.4 million and RMB677.9 million in 2000 and 2001, respectively.

The consideration for Jining III coal mine acquisition has been partially paid off (totalling RMB1,828 million) by the Company with cash in hand of RMB867 million and the net proceeds of RMB961 million raised from the new issue of A shares as at 31st December, 2001. The balance of the purchase price in the amount of RMB623.0 million will be paid in full before 31st December, 2002. The consideration of the mining right of Jining III coal mine is approximately RMB132 million, which shall be paid in ten equal installments without interest before 31st December in each year commencing from 2001.

The Company's major capital expenditures in 2002 will be the final payment for the acquisition of Jining III coal mine and the consideration for the acquisition of the special purpose coal transportation railway assets from the Parent Company. Details of the purchase of the special purpose coal transportation railway assets are set out in the "Acquisition of Railway Assets" section in this report.

The Company's Board of Directors had recommended a final dividend of RMB287.0 million to be paid out of the Company's cash revenue from operations on or before 30th June, 2002.

TAXATION

The Company is still subject to an income tax rate of 33% on its taxable profits in 2001.

The Company paid the income tax together with the Parent Company before July 2001. From July 2001, the Company has begun to pay income tax independently. This alteration has no effect to the Company.

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 41 to the financial statements contained herein for a description of the differences between IAS and US GAAP, and the adjusted net income for the year ended 31st December, 2001 and the shareholders' equity as at 31st December, 2001 after reconciliation made in accordance with US GAAP.