

Review of Operations



The following discussion is based on the Company's audited results of 2003 and 2002, which were prepared in accordance with International Financial Report Standards ("IFRS").

OVERVIEW

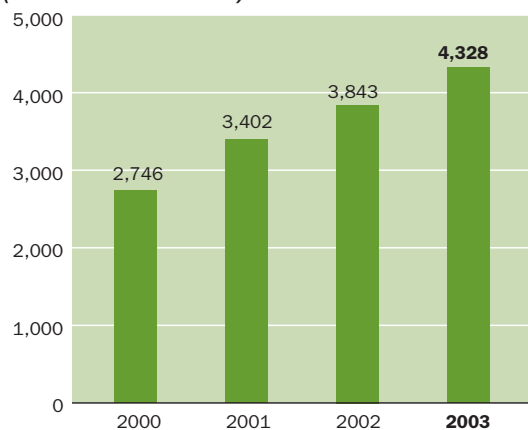
In 2003, the Company produced 43.28 million tonnes of raw coal, sold 39.41 million tonnes of coal and the railway transportation of coal achieved 28.26 million tonnes. In 2003, net sales of the Company was RMB6,948.9 million, among which net sales of coal was RMB6,794.3 million and net income of railway transportation service was RMB154.6 million, and the net income of the Company was RMB1,386.7 million.

Yang Deyu

Vice Chairman, General Manager

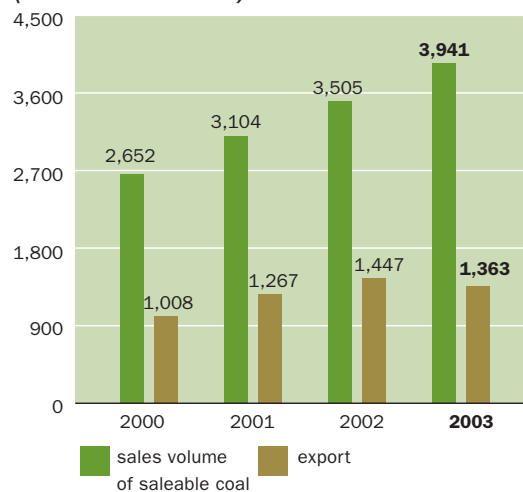
Raw coal production

(10 thousands tonnes)

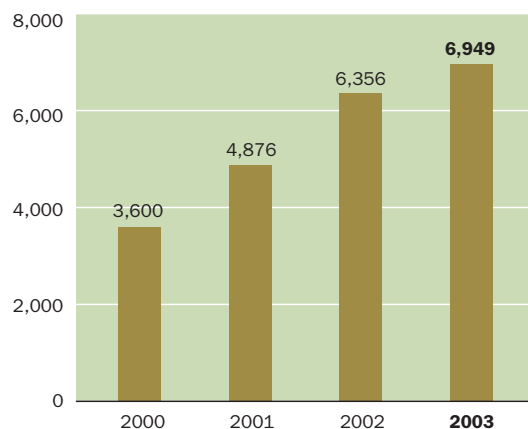


Sales volume of saleable coal

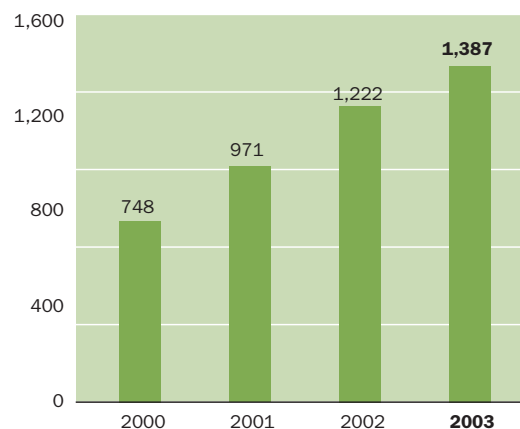
(10 thousand tonnes)



Net sales of coal (RMB million)



Net income (RMB million)



Review of Operations (Cont'd)

COAL PRODUCTION

The Company continuously carried out measures to increase coal production in 2003, resulting in steady increase in coal output. The Company's raw coal production increased by 4.85 million tonnes, or 12.6%, to 43.28 million tonnes in 2003 as compared with that of 2002. The increase in coal output was mainly contributed by: (1) the increase of raw coal output of Jining III coal mine by 2.05 million, or 25.2%; and (2) the increase raw coal output of the other five coal mines by 2.80 million tonnes, or 9.2%. The output of salable coal was 39.89 million tonnes, increased by 4.07 million tonnes, or 11.4%, as compared with that of 2002.

PRODUCT PRICES AND SALES

The following table sets out the Company's net sales by product category for the years ended 31st December, 2003 and 2002:

	Year ended 31st December					
	2003			2002		
	Sales Volume ('000 Tonnes)	Net Sales of Coal (RMB'000)	% of Total Net Sales of Coal	Sales Volume ('000 Tonnes)	Net Sales of Coal (RMB'000)	% of Total Net Sales of Coal
Clean coal						
No. 1	513.8	128,216	1.9	422.5	100,131	1.6
No. 2	6,729.2	1,287,636	18.9	6,086.4	1,245,883	20.0
Domestic	636.5	151,823	2.2	222.8	51,697	0.8
Export	6,092.7	1,135,813	16.7	5,863.6	1,194,186	19.2
No. 3	11,952.7	2,126,320	31.3	12,369.0	2,300,063	37.1
Domestic	4,858.3	899,710	13.2	3,766.3	694,303	11.2
Export	7,094.4	1,226,610	18.1	8,602.7	1,605,760	25.9
Lump coal	583.4	130,257	1.9	-	-	-
Domestic	138.8	35,434	0.5	-	-	-
Export	444.6	94,823	1.4	-	-	-
Subtotal for clean coal	19,779.1	3,672,429	54.0	18,877.9	3,646,077	58.7
Domestic	6,147.4	1,215,183	17.8	4,411.6	846,131	13.6
Export	13,631.7	2,457,246	36.2	14,466.3	2,799,946	45.1
Screened raw coal	13,937.5	2,499,436	36.8	12,628.6	2,213,372	35.6
Mixed coal and others	5,690.9	622,470	9.2	3,541.5	354,452	5.7
Total	39,407.5	6,794,335	100.0	35,048.0	6,213,901	100.0
Including: Domestic	25,775.8	4,337,089	63.8	20,581.7	3,413,955	54.9

The Company carried out measures to enlarge sales and stabilize export volume in 2003. The Company sold 39.41 million tonnes of coal in 2003, representing an increase of 4.36 million tonnes, or 12.4%, as compared with that of 2002. Domestic sales was 25.78 million tonnes, representing an increase of 5.19 million tonnes, or 25.2%, as compared with that of 2002. The increase in domestic sales was mainly due to an increase of domestic coal price and an increase of domestic coal sales by the Company. Export sales was 13.63 million tonnes, representing a decrease of 0.83 million tonnes, or 5.8%, as compared with that of 2002. The decrease in export sales was mainly due to the reduction in export sales by the Company and a decrease in price for export coal contract.

The following table sets out the Company's products' average prices for the years ended 31st December, 2003 and 2002:

	2003 (RMB per tonne)	2002 (RMB per tonne)
Cleaned coal		
No. 1	249.57	237.00
No. 2	191.35	204.70
Domestic	238.54	231.98
Export	186.42	203.66
No. 3	177.89	185.95
Domestic	185.19	184.35
Export	172.90	186.66
Lump coal	223.26	–
Domestic	255.15	–
Export	213.30	–
Subtotal for cleaned coal	185.67	193.14
Domestic	197.67	191.80
Export	180.26	193.55
Screened raw coal	179.33	175.27
Mixed coal and others	109.38	100.09
Average price	172.41	177.30
Including: Domestic	168.26	165.87

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

The average coal price of the Company was RMB172.41/tonne in 2003, representing a decrease of RMB4.89/tonne, or 2.8%, as compared with that of 2002. The average domestic coal price was RMB168.26/tonne, representing an increase of RMB2.39/tonne, or 1.4%, as compared with that of 2002. The average export coal price was RMB180.26/tonne, representing a decrease of RMB13.29/tonne, or 6.9%, as compared with that of 2002.

The decrease in average coal price of the Company in 2003 was principally due to a decrease of average price of export coal contract in 2003 as compared with that in 2002.

The Company's coal products are mainly exported to East Asian countries, such as Japan and South Korea. Net sales of export coal in 2003 accounted for 36.2% of the Company's total net sales of coal.

Most of the Company's domestic coal sales were made to power plants, fuel trading companies, metallurgical producers and chemical companies.

Review of Operations (Cont'd)

The following table sets out the Company's net sales of coal by industries for the years ended 31st December, 2003 and 2002:

	Year ended 31st December			
	2003		2002	
	Net Sales of Coal (RMB'000)	% of Total Net Sales of Coal (%)	Net Sales of Coal (RMB'000)	% of Total Net Sales of Coal (%)
Domestic				
Power plants	1,421,390	20.9	1,522,900	24.5
Metallurgical producers	294,909	4.3	322,968	5.2
Construction material companies/ Coke chemical companies	329,815	4.9	346,834	5.6
Fuel trading companies/Others	2,290,975	33.7	1,221,253	19.7
Export				
Power plants	1,226,610	18.1	1,605,760	25.8
Metallurgical producers	1,135,812	16.7	1,194,186	19.2
Others	94,824	1.4	–	–
Total	6,794,335	100.0	6,213,901	100.0

Domestic sales of the Company's coal products are concentrated in Eastern China region, particularly in Shandong province.

The following table sets out the Company's net sales of coal by geographical break-up for the years ended 31st December, 2003 and 2002:

	Year ended 31st December			
	2003		2002	
	Net Sales of Coal (RMB'000)	% of Total Net Sales of Coal (%)	Net Sales of Coal (RMB'000)	% of Total Net Sales of Coal (%)
Eastern China				
Shandong province	2,443,697	36.0	1,749,962	28.2
Jiangsu province	546,622	8.0	353,781	5.7
Zhejiang province	495,548	7.3	396,913	6.4
Shanghai	365,472	5.4	404,201	6.5
Other provinces in Eastern China ⁽¹⁾	86,909	1.3	83,674	1.3
Subtotal	3,938,248	58.0	2,988,531	48.1
South China ⁽²⁾	398,841	5.8	425,424	6.8
Export	2,457,246	36.2	2,799,946	45.1
Total sales of coal	6,794,335	100.0	6,213,901	100.0

Note: (1) Other provinces in Eastern China include Anhui province, Fujian province and Jiangxi province.

(2) South China includes Guangdong province, Hainan province and Hunan province.

RAILWAY ASSETS

In 2003, railway transportation volume of the Company was 28.26 million tonnes, representing an increase of 1.22 million tonnes, or 4.5%, as compared with that of 2002. Net income from railway transportation service of the Company was RMB 154.6 million, representing an increase of RMB 12.114 million, or 8.5%, as compared with that of 2002.

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 of the years ended 31st December, 2003 and 2002:

	Year ended 31st December			
	2003 (RMB'000)	2002	2003 (% of total net sales)	2002
Net sales				
Net sales of coal	6,794,335	6,213,901	97.8	97.8
Net income of railway transportation service	154,585	142,471	2.2	2.2
Total net sales	6,948,920	6,356,372	100.0	100.0
Cost of sale and railway transportation service				
Materials	899,602	752,513	12.9	11.8
Wages and employee welfare	863,707	757,532	12.4	11.9
Electricity	278,507	278,407	4.0	4.4
Depreciation	836,120	813,761	12.0	12.8
Repairs and maintenance	374,855	346,290	5.4	5.4
Land subsidence, restoration, rehabilitation, and environmental costs	264,158	232,030	3.8	3.7
Mining right expenses	19,604	19,604	0.3	0.3
Other transportation fee	48,231	43,239	0.7	0.7
Other manufacturing costs	170,239	119,525	2.5	1.9
Total cost of sales and railway transportation service	3,755,023	3,362,901	54.0	52.9
Sale, general and management expenses	1,264,858	1,231,059	18.2	19.4
Total operating expenses	5,019,881	4,593,960	72.2	72.3

In 2003, total operating expenses of the Company were RMB5,019.9 million, representing an increase by RMB 425.9 million, or 9.3%, as compared with that of 2002. Cost of sale and railway transportation service and sale, general and management expenses increased by 11.7% and 2.7%, as compared with that of 2002, respectively. Total operating expenses to total net sales reduced to 72.2% in 2003 from 72.3% in 2002.