

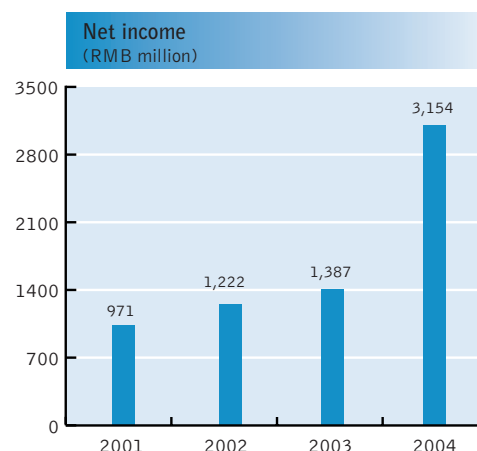
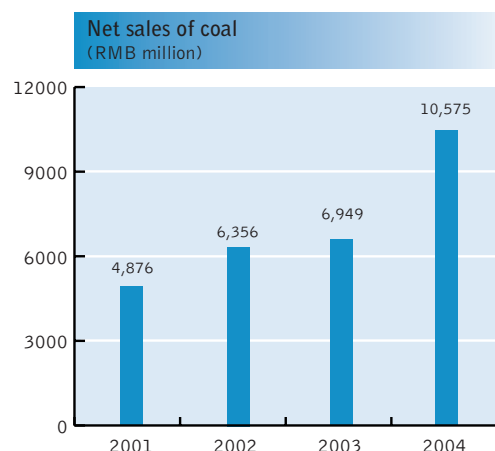
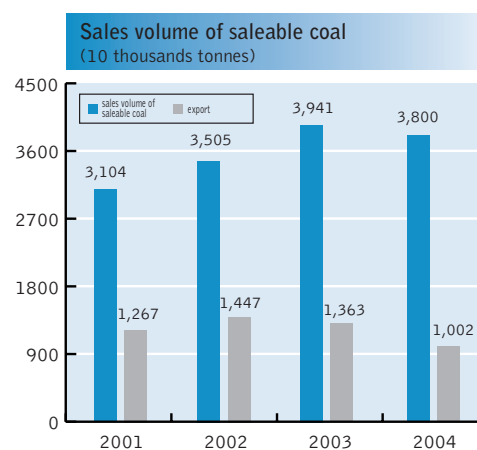
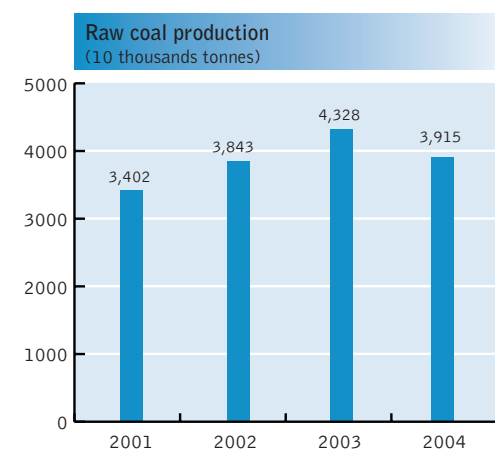


Yang Deyu
Vice Chairman, General Manager

The following discussion is based on the Company's audited results of 2004 and 2003, which were prepared in accordance with International Financial Report Standards ("IFRS").

OVERVIEW

In 2004, the Company produced 39.15 million tonnes of raw coal, sold 38.00 million tonnes of coal and the railway transportation of coal achieved 30.28 million tonnes. In 2004, net sales of the Company was RMB10,575.1 million, among which net sales of coal was RMB10,354.3 million and net income of railway service was RMB220.8 million, and the net income of the Company was RMB3,154.3 million.



COAL PRODUCTION

The Company's raw coal production decreased by 4.13 million tonnes, or 9.5%, to 39.15 million tonnes in 2004 as compared with that of 2003. The decrease was mainly due to: the adjustment of coal mine production system layout and the frequent assembly and disassembly of workface in 2004 for the purpose of stabilizing the coal output in future, resulting in the decrease in the output of raw coal.

The output of salable coal was 36.75 million tonnes in 2004, representing a decrease of 3.14 million tonnes, or 7.9%, as compared with that of 2003.

PRODUCT PRICES AND SALES

The following table sets out the Company's net sales by product category for the years ended 31st December, 2004 and 2003:

	Year ended 31st December					
	2004		2003			
	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	631.3	220,480	2.1	513.8	128,216	1.9
No. 2	6,329.2	2,013,510	19.5	6,729.2	1,287,636	18.9
Domestic	2,326.7	805,435	7.8	636.5	151,823	2.2
Export	4,002.5	1,208,075	11.7	6,092.7	1,135,813	16.7
No. 3	11,861.9	3,484,026	33.7	11,952.7	2,126,320	31.3
Domestic	6,027.9	1,800,193	17.4	4,858.3	899,710	13.2
Export	5,834.0	1,683,833	16.3	7,094.4	1,226,610	18.1
Lump coal	752.3	284,314	2.7	583.4	130,257	1.9
Domestic	572.7	228,873	2.2	138.8	35,434	0.5
Export	179.6	55,441	0.5	444.6	94,823	1.4
Subtotal for clean coal	19,574.7	6,002,330	58.0	19,779.1	3,672,429	54.0
Domestic	9,558.6	3,054,981	29.5	6,147.4	1,215,183	17.8
Export	10,016.1	2,947,349	28.5	13,631.7	2,457,246	36.2
Screened raw coal	14,936.6	3,862,010	37.3	13,937.5	2,499,436	36.8
Mixed coal and others	3,492.6	484,479	4.7	5,690.9	622,470	9.2
Total	38,003.9	10,348,819	100.0	39,407.5	6,794,335	100.0
Including: Domestic	27,987.8	7,401,470	71.5	25,775.8	4,337,089	63.8

Notes: The net sales of coal of year 2004 are data before consolidating the financial statements of Yanmei Shipping.

The Company sold 38.00 million tonnes of coal in 2004, representing a decrease of 1.41 million tonnes, or 3.6%, as compared with that of 2003. Domestic sales were 27.99 million tonnes, representing an increase of 2.21 million tonnes, or 8.6%, as compared with that of 2003. Export sales were 10.01 million tonnes, representing a decrease of 3.62 million tonnes, or 26.5%, as compared with that of 2003.

The change in sale structure is principally due to the timely adjustment of product mix by the Company in light of the market needs.

The following table sets out the average coal prices of the Company for the years ended 31st December, 2004 and 2003:

	2004 (RMB per tonne)	2003 (RMB per tonne)
Cleaned coal		
No. 1	349.26	249.57
No. 2	318.13	191.35
Domestic	346.17	238.54
Export	301.83	186.42
No. 3	293.71	177.89
Domestic	298.64	185.19
Export	288.62	172.90
Lump coal	377.92	223.26
Domestic	399.60	255.15
Export	308.75	213.30
Subtotal for cleaned coal	306.64	185.67
Domestic	319.60	197.67
Export	294.26	180.26
Screened raw coal	258.56	179.33
Mixed coal and others	138.71	109.38
Average price	272.31	172.41
Including: Domestic	264.45	168.26

Note: 1. The average coal prices represent the invoice prices deducted by sale taxes, transportation cost from the Company to ports, port charges and miscellaneous fees for sales.

2. The average coal price of year 2004 is data before consolidating the financial statements of Yanmei Shipping.

The average coal price of the Company was RMB272.31/tonne in 2004, representing an increase of RMB99.90/tonne, or 57.9%, as compared with that of 2003. The average domestic coal price was RMB264.45/tonne, representing an increase of RMB96.19/tonne, or 57.2%, as compared with that of 2003. The average export coal price was RMB294.26/tonne, representing an increase of RMB114.00/tonne, or 63.2%, as compared with that of 2003.

The increase in average coal price of the Company was principally due to the increase of coal price in domestic and overseas markets and the increase of net sale price through the implementation of sales strategies such as the optimization of product mix and transportation structure.

The Company's coal products are mainly exported to East Asian countries, such as Japan and Korea. Net export sales of coal in 2004 accounted for 28.5% of the Company's total net sales of coal.

Most of the Company's coal products in the domestic market are sold to power plants, metallurgical producers, chemical companies and fuel companies etc..

The following table sets out the Company's net sales classified by industries for the year ended 31st December, 2004 and 2003:

	Year ended 31st December			
	2004		2003	
	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	2,121,493	20.5	1,421,390	20.9
Metallurgical producers	656,895	6.3	294,909	4.3
Construction material companies/Coke chemical companies	784,063	7.6	329,815	4.9
Fuel trading companies/Others	3,839,019	37.1	2,290,975	33.7
Export				
Power plants	1,683,833	16.3	1,226,610	18.1
Metallurgical producers	1,208,075	11.7	1,135,812	16.7
Others	55,441	0.5	94,824	1.4
Total	10,348,819	100.0	6,794,335	100.0

Note: The net sales of coal classified by industries above for the year 2004 are data before consolidating the financial statements of Yanmei Shipping.

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

The following table sets out the Company's net sales classified by areas for the years ended 31st December, 2004 and 2003:

	Year ended 31st December			
	2004		2003	
	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	5,008,912	48.4	2,443,697	36.0
Jiangsu Province	738,088	7.1	546,622	8.0
Zhejiang Province	700,560	6.8	495,548	7.3
Shanghai Municipality	351,589	3.4	365,472	5.4
Other provinces in Eastern China	316,786	3.1	86,909	1.3
Subtotal	7,115,935	68.8	3,938,248	58.0
South China	285,535	2.7	398,841	5.8
Export	2,947,349	28.5	2,457,246	36.2
Total sales of coal	10,348,819	100.0	6,794,335	100.0

Note: (1) Other provinces in Eastern China include Anhui province, Fujian Province and Jiangxi Province whereas South China includes Guangdong Province, Hainan Province and Hunan Province.

(2) The net sales of coal classified by areas above for the year 2004 are data before consolidating the financial statements of Yanmei Shipping.

RAILWAY ASSETS

In 2004, railway transportation volume of the Company was 30.28 million tonnes, representing an increase of 2.02 million tonnes, or 7.1%, as compared with that of 2003. Net income from railway transportation service of the Company was RMB220.8 million in 2004, representing an increase of RMB66.186 million, or 42.8%, as compared with that of 2003.

JINING SIHE PORT

Jining Sihe Port was invested by the Company in 2003 and came into operation in January 2004. The coal handling volume was 1.47 million tonnes in 2004.

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, 2004 and 2003:

	Year ended 31st December			
	2004 (RMB'000)	2003	2004 (% of total net sales)	2003
Net sales				
Net sales of coal	10,354,337	6,794,335	97.9	97.8
Net income of railway transportation service	220,771	154,585	2.1	2.2
Total net sales	10,575,108	6,948,920	100.0	100.0
Costs of coal sales and railway transportation service				
Materials	1,088,683	899,602	10.3	12.9
Wages and employee welfare	1,022,614	863,707	9.7	12.4
Electric supply	298,274	278,507	2.8	4.0
Depreciation	918,360	836,120	8.7	12.0
Repairs and maintenance	455,782	374,855	4.3	5.4
Land subsidence, restoration, rehabilitation, and environmental costs	323,240	264,158	3.1	3.8
Mining right expenses	19,604	19,604	0.2	0.3
Other transportation fee	119,737	48,231	1.1	0.7
Other manufacturing costs	305,409	170,239	2.8	2.5
Total Cost of coal sales and railway transportation service	4,551,703	3,755,023	43.0	54.0
Sales, general and management expenses	1,479,863	1,264,858	14.0	18.2
Total operating expenses	6,031,566	5,019,881	57.0	72.2

In 2004, the total operating expenses of the Company were RMB6,031.6 million, representing an increase by RMB1,011.7 million, or 20.2%, as compared with that of 2003. Costs of coal sales and railway transportation service and sales, general and management expenses increased by 21.2% and 17.0%, as compared with that of 2003, respectively. Total operating expenses to total net sales reduced to 57.0% in 2004 from 72.2% in 2003.