

The following discussion and analysis should be read in conjunction with the audited financial statements of the Company for 2003 and the notes thereto included elsewhere in this report. Such financial statements have been prepared in accordance with IFRS. For a discussion of certain differences between IFRS and US Generally Accepted Accounting Principles ("US GAAP"), please refer to note 46 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, 2004 COMPARED WITH YEAR ENDED 31ST DECEMBER, 2003

Net sales of the Company in 2004 was 10,575.1 million. Putting aside the impact from the operation of Yanmei Shipping, net sales of the Company increased by RMB3,620.7 million, or 52.1%, to RMB10,569.6 million in 2004 from RMB6,948.9 million in 2003. Net sales of coal increased by RMB3,554.5 million, or 52.3%, to RMB10,348.8 million in 2004 from RMB6,794.3 million in 2003. The increase was mainly due to: an increase of average coal prices of 57.9%, which resulted in an increase of net sales of coal by RMB3,796.6 million; and a decrease of coal sales volume of 3.7%, which resulted in the decrease of net sales of coal by RMB242.1 million. Net income (income from coal transportation volume was calculated on the ex-mine basis and on the basis of transportation expenses being borne by the customers) of railway transportation service was RMB220.8 million, representing an increase of RMB66.186 million, or 42.8%, from RMB154.6 million in 2003. Such increase was principally due to the increase in the volume of coal deliveries made by Railway Assets where transportation expenses were calculated on ex-mine basis and were borne by the customers.

Cost of goods sold and railway transportation service of the Company increased by RMB796.7 million, or 21.2%, to RMB4,551.7 million in 2004, as compared to RMB3,755 million in 2003. The cost of coal sales was RMB4,462.3 million, representing an increase of RMB774.9 million, or 21.0%, as compared to RMB3,687.4 million in 2003, principally due to the increase in commodity prices, the increase in employees' wages, the reduction of the rate of export VAT rebate and the increase in the safety inputs. The unit cost of coal sales was RMB117.38, representing an increase of RMB23.81, or 25.4%, as compared to RMB93.57 of 2003. This was principally due to (1) the increase of unit cost of coal sales of RMB8.12 as a result of the objective factors resulting in an increase of expenses, of which, the reduction of the rate of export VAT rebate resulted in the increase of unit cost of coal sales by RMB2.1, the increase of prices of raw materials resulted in the increase of unit cost of coal sales by RMB4.21, the increase in subsidence fees as a result of the increase in commodity prices resulted in the increase of unit cost of coal sales by RMB1.81; (2) the increase of unit cost of coal sales by RMB4.12 as a result of the increase of employees' wages along with the increase in the Company's efficiency; (3) the increase of the unit coal sales by RMB4.05 as a result of the increase of expenses from the implementation of the "Four Optimizations" for sales of coal; (4) the increase of the unit coal sales by RMB4.90 as a result of the increase in safety inputs; (5) the increase of the unit cost of coal sales by RMB2.81 as a result of the increase in fixed costs resulting from the decrease of 141 million tonnes of sales when compared to the sales in the previous year; (6) the setting-off of part of the above-mentioned factors which resulted in the increase of unit cost of coal sales by the Company's strengthening of cost control measures.

Sales, general and management expenses of the Company were RMB1,479.9 million in 2004, increased by RMB215.0 million, or 17.0%, from RMB1,264.9 million of 2003. This increase was mainly due to: (1) an increase in retirement benefits scheme contributions of RMB59.085 million; (2) an increase in employee's wages and employee's benefits of RMB40.044 million; (3) an increase in resources compensation fees of RMB26.018 million; (4) a loss of RMB104.6 million from the sales of properties, machinery and equipment.

Other operating income of the Company increased by RMB59.887 million, or 56.6%, to RMB165.7 million in 2004 from RMB105.8 million in 2003. This was mainly due to the increase in the interest of bank deposits.

Operating income of the Company increased by RMB2,674.4 million, or 131.4%, to RMB4,709.3 million in 2004 from RMB2,034.9 million in 2003.

Interest expenses of the Company decreased by RMB24.024 million, or 40.1%, to RMB35.942 million in 2004 from RMB59.966 million in 2003. This was principally due to the partial repayment of certain bank loans.

Income before income taxes of the Company increased by RMB2,698.4 million, or 136.6%, to RMB4,673.3 million in 2004 from RMB1,974.9 million in 2003.

Net income of the Company increased by RMB1,767.6 million, or 127.5%, to RMB3,154.3 million in 2004 from RMB1,386.7 million in 2003.

Total assets increased by RMB4,426.9 million, or 31.8%, to RMB18,336.7 million as at 31st December, 2004 from RMB13,909.8 million as at 31st December, 2003. This was principally due to the increase in capital and the issue of shares and the appreciation of asset value from the Company's production and operation activities.

Total liabilities decreased by RMB13.553 million, or 0.5%, to RMB2,809.3 million as at 31st December, 2004 from RMB2,822.8 million as at 31st December, 2003.

Shareholder's equity increased by RMB4,440.6 million, or 40.1%, to RMB15,523.8 million as at 31st December, 2004 from RMB11,083.2 million as at 31st December, 2003. This was principally due to the increase in capital and the issue of shares and the increase in Shareholder's equity caused by the profit realized by operation activities .

## LIQUIDITY AND CAPITAL RESOURCES

In 2004, the Company's principal source of capital was the cash income from operations and the placing of new H shares. The capital has been used primarily on operating activities expenditure, purchase of property, machinery and equipment, payment of Shareholders' dividends, repayment of certain long-term bank loans, and purchase of Australian Southland Coal Mine assets.

As at 31st December, 2004, the balance of bills and accounts receivable were RMB1,223.8 million, representing an decrease of RMB15.636 million, or 1.3%, from RMB1,239.4 million as at 31st December, 2003. Bills receivable increased by RMB232.9 million, or 35.4%, to RMB890.0 million as at 31st December, 2004 from the RMB657.1 million as at 31st December, 2003, principally due to the increase in bank bills of exchange from the sale of coal. Accounts receivable decreased by RMB248.6 million, or 42.7%, to RMB333.7 million as at 31st December, 2004 from RMB582.3 million as at 31st December, 2003, principally due to the reduction of newly occurred accounts receivable in this reporting period and the the Company's enhanced efforts of collecting the previous accounts receivable.

As at 31st December, 2004, inventories of the Company decreased by RMB16.599 million, or 3.3%, to RMB485.4 million as at 31st December, 2004 from RMB502.0 million as at 31st December, 2003. The decrease was due to the decrease in coal inventories.

Other loan receivable increased by RMB750 million, or 750%, to RMB850 million as at 31st December 2004, from RMB100 million as to 31st December 2003, principally due to the increase of entrusted loans during the reporting period.

Prepayment and other current assets decreased by RMB346.2 million, or 64.8%, to RMB188.3 million as at 31st December, 2004, from RMB534.5 million as at 31st December, 2003. The decrease was mainly due to the decrease of export VAT rebate receivable.

As at 31st December, 2004, total bills and accounts payable increased by RMB50.673 million, or 11.9%, to RMB478.3 million from RMB427.6 million as at 31st December, 2003.

Other accounts payable and provisions increased by RMB162.8 million, or 13.9%, to RMB1,337.6 million as at 31st December, 2004 from RMB1,174.8 million as at 31st December, 2003, principally due to increase of payables for the purchase of properties, machinery and equipment, amount payable for construction materials, resources compensation fees payable and the consideration in connection with the acquisition of the Australian Southland Coal Mine.

Long-term liabilities decreased by RMB186.7 million, or 41.4%, to RMB264.2 million as at 31st December 2004 from RMB450.9 million as at 31st December, 2003. This was principally due to the repayment of certain long-term bank loans.

The Company's capital expenditure for the purchase and construction of property, machinery and equipment was RMB1,288.1 million and RMB830.2 million in 2003 and 2004, respectively.

The capital investment of the Company in connection with the Company's acquisition of Australian Southland Coal Mine in 2004 was RMB187.3 million.

According to the Acquisition Agreement of Jining III Coal Mine, the Company has paid Yankuang Group Corporation Limited (the "Parent Company") RMB13.248 million for mining right during this reporting period.

According to the Acquisition Agreement of Railway Asset, the Company has paid the Parent Company RMB40 million during this reporting period. Details are set out in note 37 to the financial statements prepared in accordance with the IFRS of this annual report.

As at 31st December, 2004, the Company's debt to equity ratio was 2.8%, which was calculated based on the total Shareholder's equity and total amount of borrowings amounting to RMB15,523.8 million and RMB441.1 million, respectively.

Based on the total number of 3,074 million shares as at 31st December, 2004, the Board recommends, in addition to a cash dividend of RMB799.2 million (tax included) or RMB0.26 (tax included) per share in accordance with the dividend policy persisted by the Company, the issue of 6 shares for every 10 shares, by a bonus issue of shares through the conversion of the Company's capital reserve. The above proposed plans will be implemented after the approval by the Shareholders in the 2004 annual general meeting of the Company.

Taking into account the cash in hand and existing abundant capital sources, the Company believes that it will have sufficient capital for its operational and development needs.

## TAXATION

The Company is still subject to an income tax rate of 33% on its taxable profits in 2004.

## US GAAP RECONCILIATION

The Company's audited financial statements are prepared in compliance with IFRS, which differs in certain respects from US GAAP. Please refer to note 46 to the financial statements contained herein for a description of the differences between IFRS and US GAAP, and the adjusted net income for the year ended 31st December, 2004 and the Shareholders' equity as at 31st December, 2004 after reconciliation made in accordance with US GAAP.