

# REVIEW OF OPERATIONS



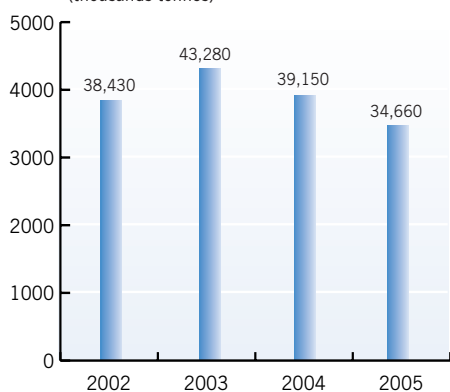
**Yang Deyu**  
Vice Chairman, General Manager

The following discussion is based on the Company's audited results of 2004 and 2005 prepared in accordance with IFRS.

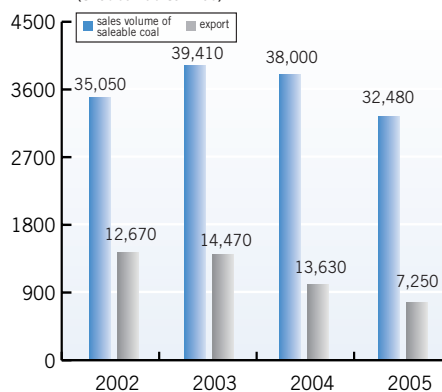
## OVERVIEW

In 2005, the Company produced 34.66 million tonnes of raw coal, sold 32.48 million tonnes of coal and the railway transportation of coal achieved 20.16 million tonnes. In 2005, net sales of the Company was RMB11,516.9 million, among which net sales of coal was RMB11,353.5 million and net income of railway service was RMB163.4 million, and the income attributable to the equity holders of the Company was RMB2,881.5 million.

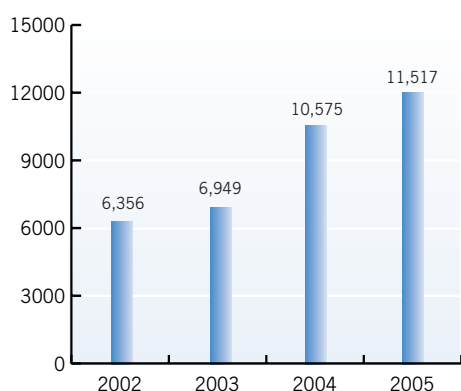
**Raw coal production**  
(thousands tonnes)



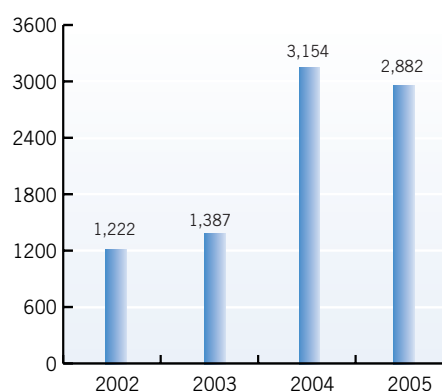
**Sales volume of saleable coal**  
(thousands tonnes)



**Net sales of coal**  
(RMB million)



**Income attributable to equity holders of the Company**  
(RMB million)



## REVIEW OF OPERATIONS (Cont'd)

### COAL PRODUCTION

The Company's raw coal production decreased by 4.49 million tonnes, or 11.5%, to 34.66 million tonnes in 2005 as compared with that of 2004. The decrease was mainly due to the delay in resettlement of certain of the villages located within the coal field of the Company, as a result, 6 among the 12 coal production systems of the Company did not achieve continuous production in the third quarter of year 2005. Upon the resettlement of 2 villages in the last quarter of year 2005, 3 coal production systems have resumed normal coal production. Upon the resettlement of the remaining 4 villages in the first quarter of year 2006, raw coal production capacity of the Company has resumed its normal level in April 2006.

The output of saleable coal of the Company was 31.94 million tonnes in 2005, representing a decrease of 4.81 million tonnes, or 13.1%, as compared with that of 2004.

### PRODUCT PRICES AND SALES

The following table sets out the average coal prices of the Company for the years ended 31st December, 2005 and 2004:

	2005 (RMB/ton)	2004 (RMB/ton)
Clean coal		
No. 1	514.20	349.26
No. 2	491.51	318.13
Domestic	513.67	346.17
Export	460.09	301.83
No. 3	370.54	293.71
Domestic	361.30	298.64
Export	381.51	288.62
Lump coal	432.26	377.92
Domestic	434.66	399.60
Export	397.53	308.75
Subtotal for clean coal	413.69	306.64
Domestic	420.26	319.60
Export	404.37	294.26
Screened raw coal	321.88	258.93
Mixed coal and others	150.45	138.71
Average coal price	349.50	272.45
Including: Domestic	333.74	264.65

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

2. The average coal price for year 2005 and 2004 has taken into account the consolidation of financial statement of Yanmei Shipping Co. Limited and adjusted the average coal price of year 2004. The adjusted average coal prices for year 2004 have been disclosed in the Company's interim report of 2005.

## REVIEW OF OPERATIONS (Cont'd)

The average coal price of the Company was RMB349.50/tonne in 2005, representing an increase of RMB77.05/tonne, or 28.3%, as compared with that of 2004. The average domestic coal price was RMB333.74/tonne, representing an increase of RMB69.09/tonne, or 26.1%, as compared with that of 2004. The average export coal price was RMB404.37/tonne, representing an increase of RMB110.11/tonne, or 37.4%, as compared with that of 2004.

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 due to the implementation of the “four optimizations” strategy.

The following table sets out the Company's net sales of coal by product category for the years ended 31st December 2005 and 2004:

	Year ended 31st December					
	2005			2004		
	Sales volume ('000 Ton)	Net sales of coal (RMB'000)	% of total net sales of coal	Sales volume ('000 Ton)	Net sales of coal (RMB'000)	% of total net sales of coal
Clean coal						
No. 1	773.9	397,957	3.5	631.3	220,480	2.1
No. 2	5,084.5	2,499,068	22.0	6,329.2	2,013,510	19.5
Domestic	2,981.3	1,531,433	13.5	2,326.7	805,435	7.8
Export	2,103.2	967,635	8.5	4,002.5	1,208,075	11.7
No. 3	11,183.0	4,143,820	36.5	11,861.9	3,484,026	33.7
Domestic	6,066.8	2,191,938	19.3	6,027.9	1,800,193	17.4
Export	5,116.2	1,951,882	17.2	5,834.0	1,683,833	16.3
Lump coal	485.5	209,862	1.8	752.3	284,314	2.7
Domestic	454.0	197,356	1.7	572.7	228,873	2.2
Export	31.5	12,506	0.1	179.6	55,441	0.5
Subtotal for clean coal	17,527.0	7,250,707	63.9	19,574.7	6,002,330	58.0
Domestic	10,276.2	4,318,684	38.0	9,558.6	3,054,981	29.5
Export	7,250.8	2,932,023	25.8	10,016.1	2,947,349	28.5
Screened raw coal	10,805.4	3,478,075	30.6	14,936.6	3,867,528	37.3
Mixed coal and others	4,152.1	624,703	5.5	3,492.6	484,479	4.7
Total	32,484.5	11,353,485	100.0	38,003.9	10,354,337	100.0
Including: Domestic	25,233.7	8,421,462	74.2	27,987.8	7,406,988	71.5

The Company sold 32.48 million tonnes of coal in 2005, representing a decrease of 5.52 million tonnes, or 14.5%, as compared with that of 2004. Domestic sales were 25.23 million tonnes, representing a decrease of 2.75 million tonnes, or 9.9%, as compared with that of 2004. Export sales were 7.25 million tonnes, representing a decrease of 2.77 million tonnes, or 27.6%, as compared with that of 2004.

The sales volume of clean coal is 54% of total coal sales volume of the Company in 2005, which is an increase from 51.5% of that in the year 2004.

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

## REVIEW OF OPERATIONS (Cont'd)

The Company's coal products are exported to East Asian countries, such as Japan and South Korea. Net export sales of coal in 2005 accounted for 25.8% of the Company's total net sales of coal.

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

The following table sets out the Company's net sales of coal by industries for the year ended 31st December 2005 and 2004:

	Year ended 31st December		2004	
	2005	of Total	Net sales	of total
	Net sales	net sales	of coal	net sales
	of coal	of coal	(RMB'000)	of coal
	(RMB'000)	(%)		(%)
Domestic	<b>8,421,462</b>	<b>74.2</b>	7,406,988	71.5
Power plants	<b>2,357,640</b>	<b>20.8</b>	2,127,011	20.5
Metallurgical mills	<b>811,426</b>	<b>7.1</b>	656,895	6.3
Construction material/ coke/chemical companies	<b>686,215</b>	<b>6.0</b>	784,063	7.6
Fuel trading companies/others	<b>4,566,181</b>	<b>40.3</b>	3,839,019	37.1
Export	<b>2,932,023</b>	<b>25.8</b>	2,947,349	28.5
Power plants	<b>967,635</b>	<b>8.5</b>	1,683,833	16.3
Metallurgical mills	<b>1,951,955</b>	<b>17.2</b>	1,208,075	11.7
Others	<b>12,433</b>	<b>0.1</b>	55,441	0.5
Total	<b>11,353,485</b>	<b>100.0</b>	10,354,337	100.0

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

## REVIEW OF OPERATIONS (Cont'd)

The following table sets out the Company's net sales of coal by geographical break-down for the years ended 31st December 2005 and 2004:

	Year ended 31st December			
	2005		2004	
	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	5,697,426	50.2	5,014,430	48.4
Jiangsu Province	674,671	5.9	738,088	7.1
Zhejiang Province	536,315	4.7	700,560	6.8
Shanghai Municipality	528,841	4.7	351,589	3.4
Other provinces in Eastern China	560,782	4.9	316,786	3.1
Subtotal	7,998,035	70.4	7,121,453	68.8
South China	423,427	3.7	285,535	2.8
Export	2,932,023	25.8	2,947,349	28.5
Total sales of coal	11,353,485	100.0	10,354,337	100.0

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

## RAILWAY ASSETS

In 2005, railway transportation volume of the Company was 20.16 million tonnes, representing a decrease of 10.12 million tonnes, or 33.4%, as compared with that of 2004. Net income from railway transportation services of the Company was RMB163.4 million in 2005, representing a decrease of RMB57.334 million, or 26.0%, as compared with that of 2004.

## REVIEW OF OPERATIONS (Cont'd)

### 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 2005 and 2004:

	Year ended 31st December			
	2005 (RMB'000)	2004 (RMB'000)	2005 (% of total net sales)	2004 (% of total net sales)
<b>Net sales</b>				
Net sales of coal	11,353,485	10,354,337	98.6	97.9
Net income of railway transportation service	163,437	220,771	1.4	2.1
<b>Total net sales</b>	<b>11,516,922</b>	<b>10,575,108</b>	<b>100.0</b>	<b>100.0</b>
<b>Costs of coal sales and railway transportation service</b>				
Materials	1,147,572	1,088,683	10.0	10.3
Wages and employee welfare	1,258,333	1,022,614	10.9	9.7
Electricity	282,492	298,274	2.5	2.8
Depreciation	891,640	918,360	7.7	8.7
Repairs and maintenance	350,953	455,782	3.0	4.3
Land subsidence, restoration, rehabilitation and environmental costs	636,590	323,240	5.5	3.1
Mining rights expenses	19,604	19,604	0.2	0.2
Transportation fee	98,787	119,737	0.9	1.1
Other costs	602,617	305,409	5.2	2.8
<b>Total cost of sales and railway transportation service</b>	<b>5,288,588</b>	<b>4,551,703</b>	<b>45.9</b>	<b>43.0</b>
<b>Sales, general and management expenses</b>	<b>1,918,788</b>	<b>1,479,863</b>	<b>16.7</b>	<b>14.0</b>
<b>Total operating expenses</b>	<b>7,207,376</b>	<b>6,031,566</b>	<b>62.6</b>	<b>57.0</b>

In 2005, the total operating expenses of the Company were RMB7,207.4 million, representing an increase by RMB1,175.8 million, or 19.5%, as compared with that of 2004. Costs of sales and railway transportation service and sales, general and management expenses increased by 16.2% and 29.7% as compared with that of 2004, respectively. Total operating expenses were increased to 62.6% over total net sales from 57.0% in 2004.