

The following discussion is based on the Company's audited results of 2002 and the Company's audited results of 2001, which were prepared in accordance with International Financial Report Standard ("IFRS").

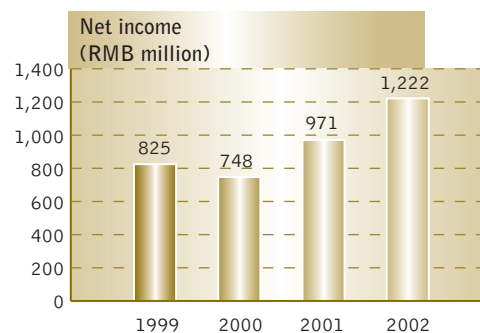
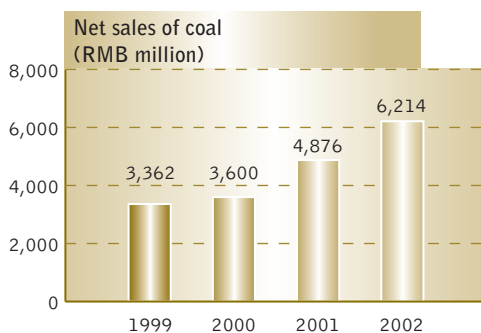
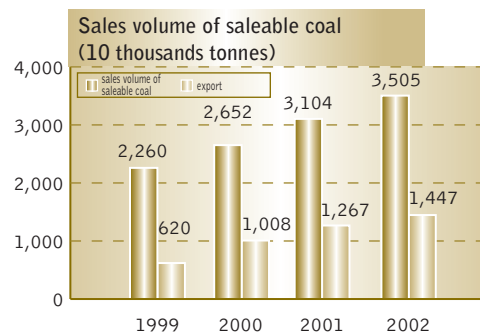
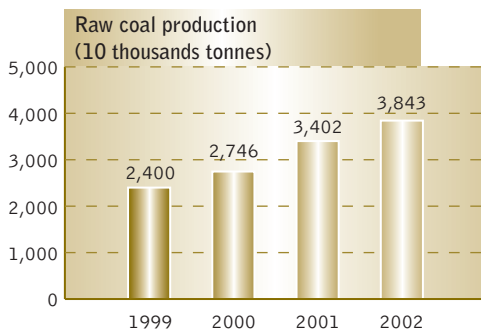
**OVERVIEW**

In 2002, the Company produced 38.43 million tonnes of raw coal, sold 35.05 million tonnes of coal and the railway transportation of coal achieved 27.04 million tonnes. Realized net sales of RMB6,354.4 million, among which net sales of coal was RMB6,213.9 million and net income of railway service was RMB142.5 million, and net income of RMB1,220 million.

In 2002, the Company acquired from the Parent Company the assets of the special purpose coal railway transportation business ("Railway Assets") which provide railway transportation services to the Company and others. Prior to the acquisition, the Company would pay the Parent Company for the railway transportation services provided. The Railway Assets operate as a segment of the Company after the acquisition and impose inter-segment charges for the railway transportation services provided on the sales of coal of the Company. The operating results of the Railway Assets as a segment of the Company are set out in page 13 of the annual report.



Yang Deyu  
Vice Chairman, General Manager



## COAL PRODUCTION

The Company continuously carried out measures to increase production capacity in 2002, resulting in steady increase in coal output. The Company's coal production increased by 4.41 million tonnes, or 13.0%, to 38.43 million tonnes in 2002 as compared with that of the same period in 2001. The increase in coal output was mainly due to: 1. The raw coal output of Jining III coal mine was increased by 2.92 million or 57.1%; 2. The output of the other five coal mines was increased by 1.49 million tonnes or 5.2%. The output of salable coal was 35.82 million tonnes, increased by 3.69 million tonnes or 11.5%, as compared with the same period of last year.

## PRODUCT PRICES AND SALES

The following table sets out the Company's net sales by product category for the years ended 31st December, 2002 and 2001:

	Year ended 31st December			Year ended 31st December				
	2002			2002			2001	
	Sales	Net sales	% of total	Excluding the effects		Sales volume	Net sales	% of
	volume	of coal	net sales	Net sales	% of			
	('000 tonnes)	(RMB million)	of coal	of coal	total net	('000 tonnes)	(RMB million)	total net
				(RMB million)	sales of coal			sales of coal
Clean coal								
No. 1	422.5	100,131	1.6	95,142	1.6	257.9	56,209	1.2
No. 2	6,086.4	1,245,883	20.0	1,166,298	19.5	3,782.4	715,525	14.7
Domestic	222.8	51,697	0.8	51,227	0.8	262.7	58,491	1.2
Exports	5,863.6	1,194,186	19.2	1,115,071	18.7	3,519.7	657,034	13.5
No. 3	12,369.0	2,300,063	37.1	2,167,851	36.4	11,838.4	2,053,686	42.1
Domestic	3,766.3	694,303	11.2	672,291	11.3	2,692.5	434,522	8.9
Exports	8,602.7	1,605,760	25.9	1,495,560	25.1	9,145.9	1,619,164	33.2
Subtotal for								
clean coal	18,877.9	3,646,077	58.7	3,429,291	57.5	15,878.7	2,825,420	58.0
Domestic	4,411.6	846,131	13.6	818,660	13.7	3,213.1	549,222	11.3
Exports	14,466.3	2,799,946	45.1	2,610,631	43.8	12,665.6	2,276,198	46.7
Screened								
raw coal	12,628.6	2,213,372	35.6	2,189,767	36.7	12,169.1	1,785,999	36.6
Mixed coal								
and others	3,541.5	354,452	5.7	347,146	5.8	2,987.6	264,591	5.4
Total	35,048.0	6,213,901	100.0	5,966,204	100.0	31,035.4	4,876,010	100.0
Including:								
Domestic	20,581.7	3,413,955	54.9	3,355,573	56.2	18,369.8	2,599,812	53.3

The Company has achieved substantial sales increase of coal in 2002 by keeping on carrying out the measure to enlarge sales volume and export volume. The Company sold 35.05 million tonnes of coal in 2002, representing an increase of 4.01 million tonnes, or 12.9%, from 31.04 million tonnes in 2001, among which, sales of export coal was 14.47 million tonnes, representing an increase of 1.80 million tonnes, or 14.2% over that of 2001. The increase in export sales was mainly due to the increase in export of No. 2 clean coal by 2.34 million tonnes and

the decrease in export of No.3 clean coal by 0.54 million tonnes. Sales to the domestic market was 20.58 million tonnes, an increase of 2.21 million tonnes, or 12.0%, over that of 2001. The increase in domestic markets was mainly due to the sales increase of No.1 clean coal, No.3 clean coal, raw coal, mixed coal and others by 0.16 million tonnes, 1.07 million tonnes, 0.46 million tonnes and 0.55 million tonnes over that of last year, respectively.

The following table sets out the Company's product prices for the years ended 31st December, 2001 and 2002:

	2002		2001
	Average price (RMB per tonne)	Average price (Excluding the effects of the acquisition of the Railway Assets) (RMB per tonne)	Average price (RMB per tonne)
Clean coal			
No. 1	237.0	225.2	217.9
No. 2	204.7	191.6	189.2
Domestic	232.0	229.9	222.7
Exports	203.7	190.2	186.7
No. 3 clean coal	186.0	175.3	173.5
Domestic	184.4	178.5	161.4
Exports	186.7	173.9	177.0
Subtotal for clean coal	193.1	181.7	177.9
Domestic	191.8	185.6	170.9
Exports	193.6	180.5	179.7
Screened raw coal	175.3	173.4	146.8
Mixed coal and others	100.1	98.0	88.6
Average price	177.3	170.2	157.1
Average domestic price	165.9	163.0	141.5

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

The average coal price of the Company was RMB177.30/tonne in 2002. After eliminating effects of the acquisition of the Railway Assets, the Company's average price was RMB170.23/tonne, representing an increase of RMB13.12/tonne, or 8.4% as compared with that of 2001, among which the average domestic coal price was RMB163.04/tonne, representing an increase of RMB21.51, or 15.2% as compared with that of 2001. The average export coal price was RMB180.46, representing an increase of RMB0.75, or 0.4% as compared with that of 2001.

The increase in average coal price in 2002 was principally due to: 1. In 2002, the domestic coal price picked up and the prices of all kinds of coal products of the Company were higher than the average annual coal price of the Company in 2001; 2. The sales volume of higher-priced clean coal increased as the Company adjusted its products structures to meet the market demand.

The Company's major export customers are located in East Asian countries and regions, such as Japan and South Korea. The Company's realized net sales of export coal accounted for 45.1% of total net sales in 2002. After eliminating effects of the acquisition of the Railway Assets, the Company's realized net sales of export coal accounted for 43.8% of total net sales in 2002, presenting an decrease of 2.9% over the same period of 2001.

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

The following table sets out the Company's net sales by industry for years ended 31st December, 2002 and 2001 (eliminating the effects of the acquisition of the Railway Assets, and all of the following items are calculated in the same way as last year):

	Year ended 31st December			
	2002		2001	
	Net sales of coal (RMB million)	% of total net sales of coal (%)	Net sales of coal (RMB million)	% of total net sales of coal (%)
Domestic				
Electric power plants	1,496,857	25.1	1,288,146	26.4
Metallurgical producers	317,445	5.3	174,663	3.6
Construction material companies/ Coke chemical companies	340,903	5.7	217,858	4.5
Fuel trading companies/Others	1,200,368	20.1	919,145	18.8
Export	2,610,631	43.8	2,276,198	46.7
Total	<u>5,966,204</u>	<u>100.0</u>	<u>4,876,010</u>	<u>100.0</u>

Domestic sales of the Company's products are concentrated in the Eastern China region, particularly in Shandong province. The following table sets out the Company's net sales by geographical break-up for the years ended 31st December, 2002 and 2001 (eliminating the effects of the acquisition of the Railway Assets, and all of the following items are calculated in the same way as last year):

	Year ended 31st December			
	2002		2001	
	Net sales of coal (RMB million)	% of total net sales of coal (%)	Net sales of coal (RMB million)	% of total net sales of coal (%)
Eastern China				
Shandong province	1,720,036	28.8	1,553,379	31.9
Jiangsu province	347,731	5.8	255,908	5.2
Zhejiang province	390,125	6.5	174,222	3.6
Shanghai	397,289	6.7	226,287	4.6
Other provinces in Eastern China <sup>(1)</sup>	78,705	1.4	87,600	1.8
Subtotal	2,933,886	49.2	2,297,396	47.1
Southern China <sup>(2)</sup>	421,687	7.1	302,416	6.2
Export	2,610,631	43.7	2,276,198	46.7
Total sales of coal	<u>5,966,204</u>	<u>100.0</u>	<u>4,876,010</u>	<u>100.0</u>

- (1) includes Anhui province, Fujian province and Jiangxi province.  
 (2) includes Guangdong province, Hainan province and Hunan province.

## RAILWAY ASSETS

The Company acquired the Railway Assets from the Parent Company at the beginning of 2002. To reflect the contributions of the acquired Railway Assets, the operating results of the Railway Assets in 2002 were presented as an operating segment.

Before the acquisition of the Railway Assets, for coal products sold to customers through the ports and transported by the Railway Assets, the Company settled the accounts with the customers at FOB prices. The Company bore the transportation expenses incurred on the Railway Assets and made payments to the Parent Company. Such expenses are regarded as sale/transportation cost of the Company. For coal products transported directly to the customers by trains, the Company settled the accounts with the customers at ex-mine prices. The customers bore the transportation expenses incurred on the Railway Assets and made payment to the Parent Company through the Company.

After the acquisition of the Railway Assets, the Company bears expenses relating to the Railway Assets for coal products sold on FOB terms. When accounting the Railway Assets as an operating segment, transportation through the Railway Assets is defined as internal transportation. The transportation charges are calculated as the Railway Assets' income from internal transportation, which are off-set against the sale/transportation cost of the Company when consolidating the statements. The cost of such transportation are included in the internal transportation cost of the Railway Assets before the consolidation of the statements, and included into the sales/transportation cost of the Company when consolidating the statements. For the settlement of the coal products sold on ex-mine terms, the customers bear the transportation expenses incurred on the Railway Assets. When accounting the Railway Assets as an operating segment, transportation through the Railway Assets is defined as an external transportation and the transportation income less sales tax are included in the transportation service income of the Railway Assets. The cost of such transportation is included as the cost of goods sold of the Company.

Main operation figures of the Railway Assets as an operating segment are as follows:

Items	2002
I. Net income from Railway Transportation (RMB'000)	529,294
1. Income from Railway Transportation (RMB'000)	534,156
Transportation Volume (tonne)	27,044,733
Freight (RMB/tonne)	19.75
Including:	
(1) Income from External Transportation (RMB'000)	147,333
Transportation Volume (tonne)	8,557,925
Freight (RMB/tonne)	17.22
(2) Income from Internal Transportation (RMB'000)	386,823
Transportation Volume (tonne)	18,486,808
Freight (RMB/tonne)	20.92
2. Sales Tax (RMB'000)	4,862
II. Cost of Railway Transportation (RMB'000)	192,116
1. Cost of External Transportation (RMB'000)	52,990
2. Cost of Internal Transportation (RMB'000)	139,126
III. Contribution to the net income of the Company (RMB'000) (Note)	131,795

Note: After the interests on bank borrowings raised in connection to the acquisition of Railway Assets and the enterprise income tax attributable to the income of Railway Assets.

## 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 for the years ended 31st December, 2002 and 2001:

	Year ended 31st December			
	2002 (RMB million)	2001	2002 (% of total net sales)	2001
<b>Net sales</b>				
Net sales of coal	6,213,901	4,876,010	97.8	100.0
Net income of railway transportation	142,471	–	2.2	–
<b>Total net sales</b>	<b>6,356,372</b>	<b>4,876,010</b>	<b>100.0</b>	<b>100.0</b>
<b>Cost of goods sold</b>				
Materials	752,513	643,664	11.8	13.2
Wages and employee benefits	686,967	572,202	10.8	11.7
Housing allowance	70,565	–	1.1	–
Electricity	278,407	218,579	4.4	4.5
Depreciation	813,761	784,477	12.8	16.1
Repairs and maintenance	346,290	276,791	5.4	5.7
Land subsidence	232,030	210,939	3.7	4.3
Mining right expenses	19,604	19,604	0.3	0.4
Other transportation fee	43,239	22,632	0.7	0.5
Other manufacturing costs	119,525	63,695	1.9	1.3
<b>Total cost of goods sold</b>	<b>3,362,901</b>	<b>2,812,583</b>	<b>52.9</b>	<b>57.7</b>
<b>Selling, general and administration expenses</b>	<b>1,231,059</b>	<b>759,631</b>	<b>19.4</b>	<b>15.6</b>
<b>Total operating expenses</b>	<b>4,593,960</b>	<b>3,572,214</b>	<b>72.3</b>	<b>73.3</b>

In 2002, total operating expenses were RMB4,594 million, representing an increase by RMB1,021.7 million, or 28.6% from that of 2001. Cost of goods sold and selling, general and administration expenses were increased by 19.6% and 62.1%, respectively, when compared with that in the same period of 2001. Total operating expenses to total net sales reduced to 72.3% in 2002 from 73.3% in 2001.