

The directors of the Company are pleased to submit their report together with the audited financial statements of the Company for the year ended 31st December, 2002.

## PRINCIPAL ACTIVITIES

The company is engaged in underground mining, preparation, sale and railway transportation service of coal.

## FINANCIAL HIGHLIGHTS

A summary of the results of the Company, the assets and liabilities of the Company and the cash flow of the Company for each of the five years ended 31st December, 1998, 1999, 2000, 2001 and 2002, which are prepared in accordance with the IFRS, are set out in the financial highlights section of the annual report.

## PROPOSED PROFIT APPROPRIATION

The profit appropriation of the Company for the year ended 31st December, 2002 as proposed by the Board of Directors is as follows:

<i>(Prepared in accordance with PRC GAAP)</i>	RMB'000
Net income	1,003,115
Unappropriated profits at beginning of year	1,197,704
Appropriation to statutory surplus reserve	100,311
Appropriation to statutory public welfare fund	50,156
Appropriation to statutory surplus reserve and public welfare fund of the subsidiaries	164
Distributable profits	2,050,188
Dividends payable	298,480
Unappropriated profits	1,751,708

The proposed profit appropriation will be presented to the shareholders of the Company (the "Shareholders") for approval at the forthcoming annual general meeting of the Company for 2002.

Pursuant to the Company's Articles of Association, the Company's financial statements should be prepared according to the PRC GAAP as well as the IFRS or the accounting standards and regulations of the places in which its shares are listed. For the purpose of determining the final dividends payable to the Shareholders, the lower of the profits after taxation in these accounting standards will be applied for the relevant year. For this purpose, for the year ended 31st December, 2002, profits after taxation audited in accordance with the PRC GAAP will apply to determine dividends payment.

## DIVIDENDS

The directors of the Company have decided to recommend at the forthcoming Annual General Meeting ("AGM") for the year 2002, a payment in cash of a final dividend of RMB298.48 million (before tax) or RMB0.104 (before tax) per share. The dates of the AGM and the payment of final dividends will be announced by the Company in due course. Notice of the AGM, the reply slip and the proxy form will be despatched to the shareholders in due course.

Pursuant to the Company's Articles of Association, dividends payable to the shareholders shall be calculated and declared in Renminbi. Dividends payable to holders of the Company's domestic shares shall be paid in Renminbi, while dividends payable to holders of the Company's H shares shall be paid in Hong Kong dollars. The exchange rate will be the average of the closing exchange rates for Renminbi to Hong Kong dollars as announced by the People's Bank of China for the five working days prior to the announcement of payment of such dividends.

## MAJOR SUPPLIERS AND CUSTOMERS

The percentage of purchases attributable to the Company's five largest suppliers was less than 30% of the total purchase of its goods and services for 2001 and 2002.

Net sales to the Company's five largest domestic customers accounted for less than 30% of the Company's total net sales in 2001 and 2002.

As far as the directors are aware, neither the directors, their associates, nor shareholders who own more than 5% of the Company's share capital had any interest in the five largest suppliers or customers of the Company.

## BORROWINGS

The Company entered into a long term borrowing contract (the "Borrowing Contract") with the Bank of China on 3rd December, 2001 and borrowed RMB1.2 billion from the Bank of China on 4th January, 2002. The loan was applied to finance the acquisition of the Railway Assets from the Parent Company.

The interest rate of the loans is 6.21% per annum, subject to adjustment in accordance with the adjustment of statutory interest rate or method of calculation of interest made by the State during the term of the Borrowing Contract. The Loan Period commenced on the date of the signing of the Borrowing Contract and will expire on the date on which the last instalment of principal and interest is paid, which should be no more than 96 months.

The details of the borrowings are set out in note 31 to the financial statements contained herein.

## INTEREST CAPITALIZATION

No interest has been capitalized by the Company during the year ended 31st December, 2002.

## RESERVES

Details of movements in the reserves of the Company for the year ended 31st December, 2002 and details of the distributable reserves of the Company as at 31st December, 2002 are set out in the note 32 to the financial statements contained herein.

## STATUTORY COMMON WELFARE FUND

Details related to the statutory common welfare fund are set out in note 32 to the financial statements contained herein.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company during the year ended 31st December, 2002 are set out in note 22 to the financial statements contained herein.

## EMPLOYEES' PENSION SCHEME

Details of the Company's employees' pension scheme are set out in note 38 to the financial statements contained herein.

## CONNECTED TRANSACTIONS

The Company's independent non-executive directors have reviewed the connected transactions (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") (the "Listing Rules")) set out in note 36 to the financial statements contained herein, and confirmed that: 1) all such connected transactions entered into by the Company during 2002 were entered into in its ordinary and usual course of business; 2) such transactions were all entered into either (A) on normal commercial terms, or (B) on terms no less favorable than those available to (or from) independent third parties (from the point of view of the Company), or (C) where there is no available comparison for the purpose of determining whether (A) or (B) is satisfied, on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and 3) amounts of such transactions did not exceed the cap limits as imposed by the Hong Kong Stock Exchange.

In 1998, the Company obtained from the Hong Kong Stock Exchange a conditional waiver (the "Waiver") from strict compliance with the approval and disclosure requirements of the Listing Rules in respect of ongoing connected transactions with the Parent Company. The upper limits of the Waiver were as follows: the value of connected transactions relating to the provision of materials and services by the Company to the Parent Company shall not exceed 3.5% of the Company's consolidated net sales in the immediately preceding year, and the value of connected transactions relating to the provision of materials and services by the Parent Company to the Company shall not exceed 22.0% of the Company's consolidated net sales in the immediately preceding year.

In accordance with the Materials and Services Supply Agreement dated 17th October, 1997 and the Supplemental Agreement dated 30th October, 2001 (contents of such agreements were disclosed in the combined offering prospectus dated 24th March, 1998, the announcement dated 30th October, 2001 and the circular to shareholders dated 22nd November, 2001), the value of connected transactions relating to the provision of materials and services by the Company to the Parent Company in 2002 was RMB128 million, representing 2.6% of the Company's consolidated net sales in 2001, and the value of connected transactions relating to provision of materials and services by the Parent Company to the Company in 2002 was RMB885 million, representing 18.1% of the Company's consolidated net sales in 2001.

During the year ended 31st December, 2002, the Company had paid RMB12.98 million to the Parent Company in respect of mining rights pursuant to the Mining Rights Agreement dated 17th October, 1997 (as supplemented by a supplemental agreement dated 18th February, 1998) entered into between the Parent Company and the Company. The Company's independent non-executive directors have reviewed such payment and confirmed that the payment was made in accordance with the terms of such agreements.

## HOUSING SCHEME

According to the Materials and Services Supply Agreement dated 17th October, 1997 entered into between the Company and the Parent Company (as amended by a supplemental agreement dated 30th October, 2001), which was disclosed in the Company's combined offering prospectus dated 24th March, 1998 and issued in Hong Kong in connection with the Combined Offering and the announcement and circular of the Company dated 30th October, 2001 and 22nd November 2001, respectively, the Parent Company is responsible for providing accommodation to its employees and the employees of the Company. The Company and the Parent Company share the incidental expenses relating to the provision of such accommodation on a pro-rata basis based on their respective number of employees and mutual agreement. Such expenses amounted to RMB30.97 million and RMB37.2 million in 2001 and 2002, respectively.

Commencing from 2002, the Company paid to its employees a housing allowance which is based on a fixed percentage of employees' wages for their buying of residential houses. In 2002, the employees' housing allowances paid by the Company amounted to RMB129.7 million in total. Details of the housing scheme are set out in note 39 to the financial statements of this annual report.

## DISCLOSURE OF SIGNIFICANT EVENTS

### Acquisition of Jining III Coal Mine

The Company acquired Jining III coal mine from the Parent Company on 1st January, 2001. As at 31st December, 2002, the consideration of RMB2,450,905,000 has been settled by the Company.

The consideration of the mining right of Jining III is approximately RMB132.479 million, which shall be paid to the Parent Company in ten equal annual interest free installments, commencing from 2001. As at 31st December, 2002, the Company has paid mining right consideration of RMB26.496 million.

### Acquisition of Railway Assets

The Company acquired the Railway Assets from the Parent Company on 1st January, 2002. As at 31st December, 2002, the consideration of RMB1,242,586,000 has been settled by the Company.

During the year ended 31st December, 2002, transport capacity of the Railway Assets reached 27.04 million tonnes. When amounting the Railway Assets as an operating segment, the Railway Assets contributed RMB131.8 million to the Company's net profits during the year ended 31st December, 2002.

Pursuant to the Railway Assets Acquisition Agreement, when the annual transportation volume of the Railway Assets reaches the volume milestones targets of 25 million tonnes, 28 million tonnes and 30 million tonnes for the year 2002, 2003 and 2004, respectively, the Company will pay to the Parent Company an amount of RMB40 million each year before 30th June for three consecutive years from 2003. The Company has paid RMB40 million to the Parent Company.

## APPOINTMENT OF DIRECTORS AND SUPERVISORS, ELECTION OF CHAIRMAN, VICE CHAIRMAN OF THE BOARD OF DIRECTORS AND CHAIRMAN OF THE SUPERVISORY COMMITTEE AND APPOINTMENT OF GENERAL MANAGER AND OTHER MEMBERS OF THE SENIOR MANAGEMENT

The first extraordinary general meeting for 2002, meeting of the Board of Directors and meeting of the Supervisors Committee were held on 22nd April, 2002. At the meeting, the Company approved the appointment of directors and supervisors: Mo Liqi was elected as Chairman, Yang Deyu was elected as Vice-chairman and General Manager; Meng Xianchang was elected as Chairman of the Supervisor Committee; Yu Xuezhi, Zhang Yingmin, Wang Xinkun were appointed as Deputy General Managers; Wu Yuxiang was appointed as the Chief Financial Officer, Ni Xinghua was appointed as Chief Engineer and Chen Guangshui was appointed as the Secretary of the Board. Details can be found in the domestic *Shanghai Security*, and *Wen Wei Po* and *South China Morning Post* of Hong Kong on 23rd April, 2002.

Since 22nd April, 2002, the following directors, supervisors and senior management staff no longer held their respective positions in the Company:

Name	Former Position
Zhao Jingche	Chairman
Du Mingshan	Director
Luo Taiyan	Director
Xiao Lifang	Director
Liu Yubin	Director
Wu Zezhi	Director
Chen Yongge	Director
Ma Houliang	Director
Xu Tianen	Director
Guan Weili	Director
Law Kin Ming, Alfred	Director
Qian Xiulan	Supervisor
Xu Xinmin	Supervisor
Zhou Hongbin	Supervisor
Kong Qing	Vice General Manager
Zhang Xingzu	Vice General Manager
Fan Guoqiang	Chief Engineer

A meeting of the Board of Directors was held on 8th July, 2002. Two additional Deputy General Managers, Tian Fengze and Shi Chengzhong were appointed. Details can be found in the domestic *Shanghai Security* and *China Security*, *Wen Wei Po* and *South China Morning Post* of Hong Kong on 9th July, 2002.

Information about Directors, Supervisors and Senior Management of the Company is detailed in "Shareholdings of Directors, Supervisors and Senior Management of the Company" and "Brief Biography of Directors, Supervisors and Senior Management" contained herein.

## AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY

On 22nd April, 2002, the Company held its first extraordinary general meeting for 2002 and approved the Revised Bill of the Articles of Association of the Company passed earlier at the Board of Directors meeting on 4th March, 2002. The Articles of Association of the Company were amended in accordance with the rules and regulations issued by domestic supervisors authorities since the Company's shares were listed, while also taking into consideration the actual operations of the Company. This is to ensure that the articles could better meet the

requirements of domestic/foreign regulators and to improve its practicality. Details of the Revised Bill of the Articles of Association was set out in domestic *Shanghai Security*, and *Wen Wei Po* and *South China Morning Post* of Hong Kong on 5th March, 2002.

## EMPLOYEES' BASIC MEDICAL INSURANCE SCHEME

In accordance with the notice of Shandong Provincial People's Government relating to the issue of the "Notice on the Implementation Plan for the Establishment of Cities and Towns Employee Basic Medical Insurance Scheme of Shandong Province" (Lu Zheng Fa [1999] No.94), the "Provisional Rules for Cities and Towns Employee Basic Medical Insurance Scheme of Jining City" (Ji Zheng Fa [2000] No.46) issued by Jining People's Government, the "Implementation Provisions for Employee Medical Insurance of Yanzhou Coal Mining Company Limited" and the "Notice of the Ministry of Finance and the Ministry of Labour Protection relating to Enterprise Supplementary Medical Insurance" (Cai She [2002] No.18) jointly issued by the Ministry of Finance and the Ministry of Labour Protection, the Company established and commenced to implement the employees' basic medical insurance scheme on 1 January, 2002.

The Company's basic medical insurance scheme comprises basic medical insurance and supplementary medical insurance schemes: 1. basic medical insurance scheme – since the listing of the shares of the Company, a fund of 14% of the total wages of employees ("benefit expenses") was set aside and charged to "Wages and Employees' Benefits" under "Cost of Sale and services provided" and "Selling, General and Administrative Expenses". The employees' medical fees were paid out from the benefit expenses. After the implementation of the basic medical insurance scheme, 8% of the total wages of employees were set aside and charged by the Company as basic medical insurance fund, which was still paid out from the benefit expenses and charged to "Wages and Employee Benefits" under "Cost of Sale and services provided" and "Selling, General and Administrative Expenses", which did not have impact on the earnings of the Company in 2002 as compared to the previous year; 2. supplementary medical insurance scheme – in accordance with the relevant regulations, a supplementary medical insurance fund of 4% the total wages of employees was set aside by the Company and charged to "Supplementary Medical Insurance" under "Selling, General and Administrative Expenses". In 2002, the Company set aside RMB29.71 million as supplementary medical insurance fund, resulting in a decrease in the net earnings of the Company by RMB19.906 million.

## ADJUSTMENT OF ORGANIZATION STRUCTURE

As approved by the meeting of board of directors on 8th July, 2002, the Company has undergone an internal amalgamation. The Company restructured the former 12 functional departments into 7 functional departments, namely the Secretariat of the Board of Directors, Department of Coordination, Department of Human Resources, Department of Financial Planning, Department of Production Technology, Department of Safety Scrutiny and Department of Economic Operation.

As approved by the meeting of the Board of Directors on 29th October, 2002, the Company has established an Audit Committee and an Audit Department. The Audit Committee consists of 5 members, including 3 independent non-executive directors (one is an accounting professional), an external director and an employee director. The head of the Audit Committee is to be selected from the independent non-executive directors. The main duty of the Audit Committee is to audit the Company's internal audit regulations, internal control regulations, financial reporting procedures, financial information and its disclosure on behalf of the Company. The Audit Department is the internal audit organization of the Company.

## CONSTRUCTION OF JINING SIHE COAL PORT

The Company's board of directors held a meeting on 11th April, 2003, at which a resolution has been passed to approve the opening of an inland river route connecting Jining III coal mine to the Jinghang Grand Canal by the construction of the Jining Sihe Coal Port which is adjacent to Jining III coal mine.

The handling capacity of the Jining Sihe Coal Port is expected to be 5 million tonnes per year. Its construction consists of two phases. The first phase of this project will mainly include a dock with loading capacity of 1,000 tonnes and a coal stockpile of 180 thousand tonnes. Its handling capacity is expected to be 3 million tonnes per year. It is expected that construction of the first phase of the Jining Sihe Coal Port will commence in April 2003 and will complete in December 2003. Depending on the operation of the first phase of the Jining Sihe Coal Port, the Company may carry out feasibility study on, and the construction of, the second phase of the project.

The Company will use its internal resources to construct the Jining Sihe Coal Port.

After the construction of the Jining Sihe Coal Port, it will create the shortest water transportation route from the Company to the customers along the Jinghang Grand Canal and the Changjiang River, and will provide the following benefits to the Company: (1) improve its business operation system and increase the capacity of its coal transportation; (2) further enhances and develops the Company's coal market along the Jinghang Grand Canal and the Changjiang River; (3) the cost of coal transportation via the Jinghang Grand Canal is lower than railway transportation and seaport transportation and will increase the profitability of the Company; and (4) when the transportation capacity of the Jining Sihe Coal Port reaches its full capacity, it could also provide river transportation service to third parties, creating additional income for the Company.

## CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

### Changes in share capital

	<i>(Shares) Par value per share: RMB1.00</i>		
	Number of shares before the changes (1st January 2002)	Changes during the period under review (increase/decrease)	Number of shares after the changes (31st December, 2002)
A: Shares not listed for public dealings			
Subscriber shares of which:			
State legal person shares	1,670,000,000		1,670,000,000
	<hr/>		<hr/>
Total number of shares not listed for public dealings	1,670,000,000		1,670,000,000
	<hr/>		<hr/>
B : Shares listed for public dealings			
1. A shares	180,000,000		180,000,000
2. H shares	1,020,000,000		1,020,000,000
	<hr/>		<hr/>
Total number of shares listed for public dealings	1,200,000,000		1,200,000,000
	<hr/>		<hr/>
C: Total number of shares	2,870,000,000		2,870,000,000
	<hr/> <hr/>		<hr/> <hr/>

As at 31st December, 2002, the Company had a total of 68,027 shareholders, of which one was holder of state legal person shares, 67,874 were holders of A Shares and 152 were holders of H Shares.

## TOP TEN SHAREHOLDERS OF THE COMPANY

Name	Class of shares held	(As at 31st December, 2002)	
		Number of shares at the end of this period	Percentage holding (%)
Yankuang Group Corporation limited	State legal person shares	1,670,000,000	58.19
HKSCC Nominees Limited	H shares	1,017,259,999	35.44
Fenghe Value Securities Investment Fund	A shares	3,475,366	0.12
Jingfu Securities Investment Fund	A shares	2,330,432	0.08
Anxin Securities Investment Fund	A shares	1,781,615	0.06
Dongfeng Automobile Co., Ltd.	A shares	1,779,748	0.06
Huaan Chuangxin Securities Investment Fund	A shares	1,607,793	0.06
Yinfeng Securities Investment Fund	A shares	1,602,804	0.06
South Group Securities Investment Fund	A shares	1,515,329	0.05
Shanghai International Trust Co., Ltd	A shares	1,510,000	0.05
Total		<u>2,702,863,086</u>	<u>94.18</u>

Save as disclosed above, no other shareholder was recorded in the register kept pursuant to the Securities Law of the People's Republic of China Act as having an interest of 5% or more of the Company's public shares; no other shareholder was recorded in the register kept pursuant to Section 16 (1) of the Securities (Disclosure of Interests) Ordinance of Hong Kong (the "SDI Ordinance") as having an interest of 10% or more of the Company's domestic invested shares or foreign invested shares as at 31st December, 2002.

Among the top 10 shareholders, the fund manager of both Anxin Securities Investment Fund and Huaan Chuangxin Securities Investment Fund is Huaan Fund Administration Co., Ltd.

None of the shares held by Yankuang Group Corporation Limited (the "Parent Company") were pledged or restricted during the period under review. As the clearing and settlement agent for the Company's H Shares, HKSCC Nominees Limited held the Company's H Shares as nominees. It is uncertain as to whether the shares held by other shareholders were pledged or restricted during the period.

## LEGAL PERSON SHAREHOLDERS WITH SHAREHOLDINGS OF 10% OR MORE

As at 31st December, 2002, the Parent Company held 1,670,000,000 state legal person shares of the Company, representing 58.19% of the total share capital of the Company.

The Parent Company, a State wholly-owned enterprise, is the controlling shareholder of the Company and is principally engaged in coal production, building and building materials, chemical and machinery processing businesses. The Parent Company's legal representative is Mr. ZHAO Jingche and its registered capital is RMB3,090.336 million.

As at 31st December, 2002, HKSCC Nominees Limited held 1,017,259,999 H Shares of the Company, representing 35.44% of the total share capital of the Company. HKSCC Nominees Limited is a common nominee and trustee for participants of the Central Clearing and Settlement System.



## PURCHASE, REDEMPTION OR SALE OF SHARES

The Company did not purchase, redeem or sell any of its shares during the year ended 31st December, 2002.

## SHARE CAPITAL

Details of the registered and issued share capital of the Company are set out in note 32 to the financial statements contained herein.

## PRE-EMPTIVE RIGHTS

Under the Articles of Association of the Company and the laws of the PRC, no pre-emptive rights exist that requires the Company to offer new shares to existing shareholders in proportion to their shareholding.

## SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

As at 31st December, 2002, the Directors, Supervisors and senior management of the Company held 71,000 A Shares of the Company, representing 0.0025% of the Company's total issued share capital.

Name	Position	Number of shares held at the beginning of the year (as at 1st January, 2002)	Number of shares held at the end of the year (as at 31st December 2002)	Reason for change
MO Liqi	Chairman of the Board of Directors	10,000	10,000	No change
YANG Deyu	Vice Chairman of the Board of Directors, General Manager	10,000	10,000	No change
GENG Jiahuai	Director	0	0	No change
WANG Bangjun	Director	10,000	10,000	No change
YU Xuezhi	Director, Deputy General Manager	0	0	No change
YANG Jiachun	Director	10,000	10,000	No change
WU Yuxiang	Director and Chief Financial Officer	10,000	10,000	No change
DONG Yunqing	Director	0	0	No change
FAN Weitang	Independent Director	0	0	No change
CUI Jianmin	Independent Director	0	0	No change
WANG Xiaojun	Independent Director	0	0	No change
MENG Xianchang	Chairman of Supervisory Committee	10,000	10,000	No change
XIAO Shuzhang	Supervisor	10,000	10,000	No change
ZHANG Shengdong	Supervisor	0	0	No change
LIU Weixin	Supervisor	0	0	No change
XU Bentai	Supervisor	0	0	No change
ZHANG Yingmin	Executive Deputy General Manager	0	0	No change
WANG Xinkun	Deputy General Manager	0	0	No change
TIAN Fengze	Deputy General Manager	0	0	No change
CHEN Guangshui	Secretary of the Board of Directors	1,000	1,000	No change
SHI Chengzhong	Deputy General Manager	0	0	No change
NI Xinghua	Chief Engineer	0	0	No change

Save as disclosed herein, none of the Company's directors, chief executives or supervisors had, as at 31st December, 2002, any interests in any shares in or debentures of the Company or any associated corporation (within the meaning of the SDI Ordinance) which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Section 28 of the SDI Ordinance (including interests which they are taken or are deemed to have under Section 31 or Part I of the Schedule thereto), or which are required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or, in the case of supervisors or the associates of directors or supervisors, which would be required to be named as described above if they had been directors. The Company has not granted to any of its directors, chief executives or supervisors or their spouses or children under 18 years of age any right to subscribe for equity or debts securities of the Company.

## BRIEF BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### Directors

**MO Liqi**, aged 58, an engineering technique application researcher, is the Chairman of the Board of Directors of the Company and the Managing Vice-Chairman of the Board of Directors and the Party Committee Secretary of the Parent Company. Mr. Mo joined the Predecessor in 1970, successively became the Party Committee Deputy Secretary and Manager of Yanzhou Coal Infrastructure Company in 1983 and 1985, respectively, and became the Deputy Director of Yanzhou Mining Bureau in 1987. Mr. Mo became the Vice-Chairman of the Board of Directors and the Deputy General Manager of the Predecessor in 1996, and became the General Manager of the Predecessor in 1997. Mr. Mo became a director of the Company in 1997. He became the Chairman of the Board of Directors of the Company, the Managing Vice-Chairman of the Board of Directors and the Party Committee Secretary of the Parent Company in 2002. He graduated from Shandong Mining Institute.

**YANG Deyu**, aged 53, an engineering technique application researcher, is the Vice Chairman of the Board of Directors, the General Manager of the Company. Mr. Yang joined the Predecessor in 1968, became the Deputy Director of Yanzhou Mining Bureau in 1994 and became the Deputy General Manager and Director of the Safety and Supervision Bureau of the Predecessor in 1996. Mr. Yang become Executive Director and General Manager of the Company in 1997, and become the Vice Chairman of the Board of Directors and General Manager of the Company in 2002. He graduated from Shandong Mining Institute.

**GENG Jiahuai**, aged 52, an engineering technique application researcher, is a Director of the Company and General Manager, the Vice Chairman of the Board of Directors and the Party Committee Deputy Secretary of the Parent Company. From 1985 to 2002, Mr. Geng acted as Director of the Safety and Supervision Bureau and the Deputy Director of Zibo Mining Bureau. Mr. Geng joined of the Parent Company in 2002, and became the General Manager the Vice Chairman of the Board of Directors and the Party Committee Deputy Secretary of the Parent Company in 2002. Mr. Geng became a Director of the Company in 2002. He graduated from Shandong Mining Institute.

**WANG Bangjun**, aged 58, an engineer, is a Director of the Company and the Vice-Chairman of the Board of Directors of the Parent Company. Mr. Wang joined the Predecessor in 1970, became an Deputy Manager and the Party Committee Deputy Secretary of Yanzhou Coal Infrastructure Company between 1983 and 1987, successively became the Deputy Director and a Party Committee Deputy Secretary of Yanzhou Mining Bureau between 1987 and 1996 and became the Vice-Chairman of the Board of Directors and a Party Committee Secretary of the Predecessor in 1996, and became a Director of the Company in 1997. Mr. Wang became the Vice-Chairman of the Board of Directors of the Parent Company in 2002. He graduated from Shandong Mining Institute.

**YU Xuezhi**, aged 58, an engineer, is a Director, Deputy General Manager of the Company, and the Party Committee Deputy Secretary of the Parent Company. Mr. Yu joined the Parent Company in 2000. Mr. Yu acted as the Chairman of the Labor Union and the Party Committee Deputy Secretary of Feicheng Mining Bureau, and became the Party Committee Secretary and the Vice Chairman of the Board of Directors of Feicheng Mining Group from 1993 to 2000. Mr. Yu became the Party Committee Deputy Secretary of the Parent Company in 2000, and became a Director, Deputy General Manager and the Party Committee Secretary of the Company in 2002. He graduated from Shandong Mining Institute.

**YANG Jiachun**, aged 48, a senior economist, is a Director of the Company and a Director of the Parent Company. Mr. Yang joined the Predecessor in 1988 and became a Director of the Company in 1997. Mr. Yang became the executive director of the Parent Company in 1999, and became a director of the Parent Company in 2002. He graduated from Yunnan Education University.

**WU Yuxiang**, aged 41, a senior accountant, is a Director and the Chief Financial Officer of the Company. Mr. Wu joined the Predecessor in 1981 and became the Chief Accountant of the Finance Department of the Predecessor in 1996. Mr. Wu became the Manager of the Finance Department of the Company in 1997, and became a Director and the Chief Financial Officer of the Company in 2002. He graduated from Shandong Television University.

**DONG Yunqing**, aged 47, a senior engineer, is a Director and the Chairman of Labor Union of the Company, and is the Vice Chairman of Labor Union of the Parent Company. Mr. Dong joined the Predecessor in 1981, became the Vice Chairman of Labor Union of the Parent Company in 2001. Mr. Dong became a Director and the Chairman of Labor Union of the Company in 2002. He graduated from Shandong Mining Institute.

#### Independent Non-executive Directors

**FAN Weitang**, aged 67, a member of the China Engineering Academy, is an Independent Non-executive Director of the Company. Mr. Fan is the chairman of the China Coal Industry Association, the chairman of the China Science and Engineering Association and the vice director of the China Energy Research Association. Mr. Fan had served as the deputy director of the Ministry of Coal Industry, a member of the presidium of the China Engineering Academy, Head of the Energy and Mining Engineering Department and a Committee Member of the 8th and 9th Chinese People's Political Consultative Conference. He graduated from Beijing Steel Institution and was granted an associate doctorate in Technology and Science by Moscow Mining Institution of the former USSR.

**CUI Jianmin**, aged 70, a senior auditor and certified accountant, is an Independent Non-executive Director of the Company. Mr. Cui is the chairman of the Association of China Certified Accountant. Mr. Cui has extensive experience in financial accounting and audit management and has been the deputy chief auditor of the National Audit Office of the PRC. Mr. Cui graduated from People's University of China.

**WANG Xiaojun**, aged 48, admitted as a solicitor in England and Wales and Hong Kong, is an Independent Non-executive Director of the Company. Mr. Wang is a partner of the Wang & Co., X. J. in Hong Kong. He had practiced PRC law in Beijing. He was admitted as a solicitor in England and Wales and in Hong Kong in 1998 and 1992, respectively. He was a member of a panel of legal advisers advising The Stock Exchange of Hong Kong Limited in 1992. Mr. Wang had also served in ING Barings as a director of the investment banking division. He graduated from the People's University of China.

#### Supervisors

**MENG Xianchang**, aged 55, a senior engineer, is the Chairman of the Supervisory Committee of the Company and a Supervisor and Party Committee Deputy Secretary of the Parent Company. Mr. Meng joined the Predecessor in 1981 and was promoted to Party Committee Deputy Secretary and Supervisor of the Predecessor in 1996, and became the Chairman of the Supervisory Committee of the Company in 1997. He graduated from Shandong Mining Institute.

**XIAO Shuzhang**, aged 59, a senior engineer, is a Supervisor of the Company and a Supervisor and Disciplinary Committee Secretary of the Parent Company. Mr. Xiao joined the Predecessor in 1970, became a Disciplinary Committee Secretary of Yanzhou Coal Infrastructure Company and a Disciplinary Committee Secretary of Yanzhou Mining Bureau in 1986 and 1987, respectively, and became a Supervisor and Disciplinary Committee Secretary of the Predecessor in 1996, and became a Supervisor of the Company in 1997. He graduated from Jiaozuo Mining Institute.

**ZHANG Shengdong**, aged 46, a senior accountant, is a Supervisor of the Company and the Deputy Chief Accountant of the Parent Company. Mr. Zhang joined the Predecessor in 1981 and became the Deputy Chief Accountant of Parent Company in 1997. Mr. Zhang became a Supervisor of the Company in 2002. He graduated from China University of Mining and Technology.

**LIU Weixin**, aged 52, a senior accountant, is a Supervisor of the Company and the Chief of Audit Department of the Parent Company. Mr. Liu joined the Predecessor in 1971, and became the Deputy Chief of Audit Office of the Parent Company; Mr. Liu became the Chief of Audit Department of the Parent Company in 2003, and became a Supervisor of the Company in 2002. He graduated from Shandong Youth Cadre Institute.

**XU Bentai**, aged 44, a senior engineer, is an Employee Supervisor of the Company and the chairman of Jining III coal mine's Labor Union. Mr. Xu joined the Predecessor in 1978 and became the chairman of Jining III coal mine's Labor Union in 1999. He became a Supervisor of the Company in 2002. He graduated from the Central Communist Party School Correspondence Institute.

## OTHER EXECUTIVE OFFICERS

**ZHANG Yingmin**, aged 49, a senior engineer, is the Executive Deputy General Manager of the Company. Mr. Zhang joined the Predecessor in 1971. He became the Head and the Party Committee Deputy Secretary of Baodian coal mine in 2000. Mr. Zhang became the Executive Deputy General Manager of the Company in 2002. He graduated from Tianjin University.

**WANG Xinkun**, aged 50, a senior economist, is a Deputy General Manager of the Company. Mr. Wang joined the Predecessor in 1977. He became the Party Committee Deputy Secretary and Manager of the Sales Department of the Company in 2000. He became a Deputy General Manager of the Company in 2002. He graduated from Tianjin University.

**TIAN Fengze**, aged 46, a senior economist, is a Deputy General Manager of the Company. Mr. Tian joined the Predecessor in 1976. He became the Head and the Party Committee Deputy Secretary of Beixu coal mine in 1991. Mr. Tian became a Deputy General Manager of the Company in 2002. He graduated from Beijing Coal Cadre Institute.

**CHEN Guangshui**, aged 37, an engineer, is the Secretary of the Board of Directors and the Chief of the secretariat of the Board of Directors of the Company. Mr. Chen joined the Predecessor in 1990 and became the Secretary of the Board of Directors and the Chief of the secretariat of the Board of Directors of the Company in 1997. He graduated from Fuxin Mining Institute.

**SHI Chengzhong**, aged 40, a senior engineer, is a Deputy General Manager of the Company. Mr. Shi joined the Predecessor in 1983 and became Vice Chief Engineer of the Parent Company in 2000, and became a Deputy General Manager of the Company in 2002. He graduated from Shandong Mining Institute.

**NI Xinghua**, aged 46, a senior engineer, is the Chief Engineer of the Company. Mr. Ni joined the Predecessor in 1975 and became Vice Chief Engineer of the Parent Company in 2000, and became the Chief Engineer of the Company in 2002. He graduated from Tianjin University.

## DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' and supervisors' remuneration and the five highest paid individuals of the Company are set out in note 11 to the financial statements contained herein.

There were no arrangements under which a director or supervisor of the Company had waived or agreed to waive any remuneration in respect of the year ended 31st December, 2002.

## ARRANGEMENT TO PURCHASE EQUITY OR DEBT SECURITIES

At no time during the year ended 31st December, 2002, was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors or supervisors of the Company to acquire benefits by means of the acquisition of equity or debt securities of the Company or any other body corporate with the exceptions of the A shares issued to the directors, supervisors and senior management of the Company. Details of which are set out in the section headed "Shareholdings of Directors, Supervisors and Senior Management of the Company".

## SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the executive directors of the Company has entered into a service contract with the Company. Under such contracts, each executive director will receive a salary and a discretionary year-end bonus, the amount of which shall be recommended by the board of directors and approved by the shareholders in general meetings, provided that the discretionary year-end bonuses paid to the executive directors and other employees of the Company (including but not limited to other directors, supervisors and senior managements of the Company) do not exceed 1% of the aggregate of net profit after taxation and extraordinary losses but before extraordinary gains for that year.

Save as disclosed herein, no director or supervisor of the Company has entered into any service contract with the Company, which is not terminable by the Company within one year without payment other than statutory compensation.

## INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS

None of the Directors or Supervisors of the Company had a material interest directly or indirectly in any contract of significance to which the Company was a party during the year ended 31st December, 2002.

## COMPLIANCE WITH CODE OF BEST PRACTICE

The Audit Committee of the Board of Directors has been established during the period under review. The details are set out in "Disclosure of significant event" and "Adjustment of Organization Structure" contained herein.

The Directors of the Company are of the view that the Company has complied with the Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules").

## IMPACT OF FLUCTUATIONS IN EXCHANGE RATES ON THE COMPANY

Coal exports of the Company are all settled in US dollars. China adopts a floating exchange rate which is under the State's supervision. During the year ended 31st December, 2002, exchange rate for RMB to US dollars varied slightly and has no main influence on the Company's business.

## MATERIAL CONTRACTS

During the year ended 31st December, 2002, the Company has not entered into any material contract.

## MATERIAL LITIGATION AND ARBITRATION

The Company was not involved in any material litigation or arbitration during the year ended 31st December, 2002.

## EMPLOYEES

As at 31st December, 2002, the Company had 27,872 employees, of whom 2,007 were administrative personnel, 811 were technicians, 21,252 were directly involved in coal production and 3,802 were supporting staff.

## AUDITORS

Deloitte Touche Tohmatsu (certified public accountants in Hong Kong) and Deloitte Touche Tohmatsu Certified Public Accountants Ltd. (certified public accountants in the PRC (excluding Hong Kong), whose name was changed from Deloitte Touche Tohmatsu Shanghai CPA to Deloitte Touche Tohmatsu Certified Public Accountants Ltd. on May 1, 2002), were the Company's international and domestic auditors, respectively, in 2002. A resolution to reappoint Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accounts Ltd. as the Company's international and domestic auditors, respectively, for 2003 will be proposed at the forthcoming AGM. Auditors of the Company have not been changed in recent three years.

The Company has paid a financial audit and review fees of HK\$5.0 million, and other expenses of RMB300 thousand to Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accounts Ltd. in 2002.

The Company will pay a financial audit and review fees of HK\$5.0 million to Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Shanghai CPA in 2003. Other expenses will be determined by the Board of Directors of the Company in accordance with the actual requirements.

On behalf of the Board

**MO Liqi**

*Chairman*

Zoucheng, PRC, 11th April, 2003