

Report of the Directors

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, 2003.

PRINCIPAL ACTIVITIES

The Company is engaged in underground coal mining, preparation and processing, and sales and railway transportation 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, 2003, 2002, 2001, 2000 and 1999, which are prepared in accordance with the International Financial Reporting Standards("IFRS"), are set out in the section headed "Financial Highlights" of this report.

PROPOSED PROFIT APPROPRIATION

The profit appropriation of the Company for the year ended 31st December, 2003 as proposed by the board of Directors is as follows:

<i>Prepared in accordance with PRC GAAP</i>	RMB'000
Net Income	1,105,365
Unappropriated profits at the beginning of year	1,751,708
Appropriation to statutory surplus reserve	110,580
Appropriation to statutory public welfare fund	55,312
Distributable profits	2,691,181
Proposed cash dividends after the date of the balance sheet	470,680
Unappropriated profits	2,220,501

The proposed profit appropriation will be presented to the Shareholders for approval at the forthcoming annual general meeting of the Company for 2003 (the "2003 AGM").

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 dividends payable to the Shareholders in a relevant year, the lower of the profits after taxation in these accounting standards will be applied for the relevant year. For this purpose, audited profits after taxation in accordance with the PRC GAAP will be applied to determine the proposed cash dividends for the year ended 31st December, 2003.

Report of the Directors (Cont'd)

DIVIDENDS

The directors of the Company have decided to recommend at the 2003 AGM on 25th June, 2004, a payment of cash dividends for the year 2003 of RMB470.7 million (before tax) or RMB0.164 (before tax) per share, which including (1) cash dividends of RMB327.2 million (before tax) or RMB0.114 (before tax) per share in accordance with the Company's consistent dividend policy; and (2) a special cash dividends of RMB143.5 million (before tax) or RMB0.05 (before tax) per share. Following the approval by the Shareholders at the 2003 AGM, the above dividends will be declared and paid to all Shareholders within two months after the 2003 AGM.

Pursuant to the Company's Articles of Association, dividends payable to the Shareholders shall be calculated and declared in RMB. Dividends payable to holders of the Company's domestic shares shall be paid in RMB, while dividends payable to holders of the Company's H shares shall be paid in Hong Kong dollars.

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 2003.

Net sales to the Company's five largest domestic customers accounted for less than 30% of the Company's net sales in 2003.

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 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 for the purpose of financing the acquisition of the Railway Assets from the Parent Company.

In accordance with the Borrowing Contract, the interest rate of the loans is 6.21% per annum and should be adjusted in accordance with the statutory interest rate adjusted by or the change of statutory method of interest calculation made by the State during the term of the Borrowing Contract. According to the latest statutory interest rate announced by the People's Bank of China, the interest rate of the loan has been adjusted to 5.76% per annum starting from 1st January, 2003.

The term of the Borrowing Contract commenced on the date of the signature of the Borrowing Contract and will expire on the date on which the last installment of principal and interest is repaid, which should be no more than 96 months. During the year ended 31st December, 2003, the Company has repaid RMB600 million.

The details of the borrowings are set out in note 32 to the financial statements prepared in accordance with the IFRS contained herein.

EXTERNAL GUARANTEES

As at 31st December, 2003, the Company did not have any external guarantees and this has been confirmed by the Company's Independent Non-executive Directors.

STATEMENTS OF THE AUDITORS FOR THE MUTUAL USE OF FUND BETWEEN THE COMPANY AND ITS AFFILIATES

Pursuant to the "Notice on Several Issues Concerning the Regulation of the Flow of Funds Between Listed Companies and Their Affiliates and the Provision of External Guarantee by Listed Companies" issued by China Securities Regulatory Commission and the State-Owned Assets Supervision and Administration Commission of the State Council, Deloitte Touche Tohmatsu Certified Public Accountants Ltd. (the Company's domestic auditor) has issued a statement in respect of the use of fund by the controlling Shareholders of the Company and the Company's other affiliates. As at 31st December, 2003, the Company and its controlling subsidiaries did not share the use of fund with the controlling Shareholders of the Company and the Company's other affiliates.

INTEREST CAPITALIZATION

No interest has been capitalized by the Company during the year ended 31st December, 2003.

RESERVES

Details of movements in the reserves of the Company for the year ended 31st December, 2003 and details of the distributable reserves of the Company as at 31st December, 2003 are set out in the note 33 to the financial statements prepared in accordance with the IFRS contained herein.

STATUTORY COMMON WELFARE FUND

Details of the statutory common welfare fund are set out in note 33 to the financial statements prepared in accordance with the IFRS contained herein.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company during the year ended 31st December, 2003 are set out in note 23 to the financial statements prepared in accordance with the IFRS contained herein.

EMPLOYEES' PENSION SCHEME

Details of the Company's employees' pension scheme are set out in note 40 to the financial statements prepared in accordance with the IFRS contained herein.

Report of the Directors (Cont'd)

CONNECTED TRANSACTIONS

1. On-going Supply of Materials and Services

The second supplemental agreement to the materials and services supply agreement was entered into between the Company and the Parent Company on 29th May, 2003 (the "Second Supplemental Agreement") (contents of which were disclosed in the circular to Shareholders dated 30th May, 2003) and was approved by the independent Shareholders at the annual general meeting for the year 2002 held on 27th June, 2003.

The Materials and Services Supply Agreement, the Supplemental Agreement (both entered into between the Company and the Parent Company and contents of such agreements were disclosed in the combined offering prospectus dated 24th March, 1998 and the circular to Shareholders dated 22nd November, 2001) and the Second Supplemental Agreement defined the on-going supply of materials and services between the Company and the Parent Company.

The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") has granted a conditional waiver (the "Waiver") to the Company on 11th July, 2003 from strict compliance with the requirements of disclosure by way of press announcement and Shareholders' approval as stipulated in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in respect of the connected transactions under the above agreements between the Company and the Parent Company for a period of three financial years ending 31st December, 2005. 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 13% of the Company's audited consolidated net sales in the immediately preceding financial year, and the aggregate value of connected transactions relating to the provision of materials and services by the Parent Company to the Company shall not exceed 26% of the Company's audited consolidated net sales in the immediate preceding financial year.

For the year ended 31st December, 2003, the value of connected transactions relating to the provision of materials and services by the Company to the Parent Company is RMB731.7 million and accounted for 11.5% of the Company's audited consolidated net sales in the year ended 31st December, 2002, and the value of connected transactions relating to the provision of materials and services by the Parent Company to the Company is RMB1,613.3 million and accounted for 25.4% of the Company's audited consolidated net sales in the year ended 31st December, 2002.

The Company's Independent Non-executive Directors have reviewed the connected transactions of on-going supply of materials and services in the year ended 31st December, 2003 and confirmed that: (1) all such connected transactions are: (a) entered into by the Company in the ordinary and usual course of its business; (b) conducted either on normal commercial terms, or where there is no available comparison, on terms that are fair and reasonable so far as the Company and its subsidiaries, and the Shareholders of the Company are concerned; and (c) entered into either in accordance with the terms of the above agreements, or where there are no such agreements, on terms no less favorable than those available to or from independent third parties; and (2) the value of all such connected transactions did not exceed the upper limits of the Waiver as imposed by the Hong Kong Stock Exchange.

2. Mining Rights Fee

During the year ended 31st December, 2003, the Company has 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.

3. Fees in respect of Assets Acquired from the Parent Company

Pursuant to the Jining III Coal Mine Acquisition Agreement which was entered into between the Company and the Parent Company, the consideration of the mining right of Jining III coal mine is approximately RMB132.5 million, which shall be paid to the Parent Company in ten equal annual interest free installments, commencing from 2001. As at 31st December, 2003 the Company has paid RMB39.744 million to the Parent Company as mining right consideration.

Pursuant to the Railway Assets Acquisition Agreement which was entered into between the Company and the Parent Company, 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 annually from 2003 for three consecutive years. Annual transportation volume of the Railway Assets during the year ended 31st December, 2003 was 28.26 million tonnes and the Company, pursuant to the Railway Assets Acquisition Agreement, has paid RMB40 million to the Parent Company before 30th June, 2003.

HOUSING SCHEME

According to the Materials and Services Supply Agreement (as amended by the supplemental agreements) entered into between the Company and the Parent Company, which is set out in the paragraph headed "On-going Supply of Materials and Services" of the section headed "Connected Transactions", 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 RMB37.2 million and RMB37.2 million in 2002 and 2003, 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. During the year ended 31st December, 2003, the employees' housing allowances paid by the Company amounted to RMB136.5 million in total.

Details of the housing scheme are set out in note 41 to the financial statements prepared in accordance with the IFRS contained herein.

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DISCLOSURE OF SIGNIFICANT EVENTS

Acquisition of Equity Interest in Zoucheng Nanmei Shipping Co., Ltd.

Pursuant to the approval given by the Company's board of Directors at a meeting held on 15th August, 2003, the Company has acquired 80% equity interest in Zoucheng Nanmei Shipping Co., Ltd. for RMB10.164 million by internal resources. Details were disclosed in the announcement in domestic *China Securities and Shanghai Securities*, and *Wen Wei Po* and *South China Morning Post* of Hong Kong on 18th August, 2003.

Zoucheng Nanmei Shipping Co., Ltd. changed its name to Shandong Yanmei Shipping Co., Ltd. on 29th December, 2003.

The Company acquired another 12% equity interest of Shandong Yanmei Shipping Co., Ltd., which was formerly held by Shandong Chuangye Investment & Development Co., Ltd., with RMB1.528 million on 30th December, 2003. Currently, the Company has 92% equity interest in Shandong Yanmei Shipping Co., Ltd..

Investment for Construction of Jining Sihe Coal Port

Pursuant to the approval given by the Company's board of Directors at a meeting held on 11th April, 2003, the Company, in April 2003, started to construct the Jining Sihe Coal Port adjacent to Jining III coal mine and to open an inland river route connecting the Jinghang Grand Canal.

The Company invested RMB250 million by internal resources in the construction of the first phase of the Jining Sihe Coal Port, which had been finished by the end of December, 2003 (including a dock with loading capacity of 1,000 tonnes and a coal stockpile of 180 thousand tonnes) with annual handling capacity of 3 million tonnes and has been put into operation since January 2004. Depending on the operation of the first phase of the project, the Company may carry out feasibility study on, and the construction of, the second phase of the project.

Change of Place of Business in Hong Kong

The Company's place of business in Hong Kong has been changed to Rooms 805-808, Alexandra House, 16-20 Chater Road, Central, Hong Kong on 28th July, 2003.

Material Contracts

The Second Supplemental Agreement was entered into between the Company and the Parent Company on 29th May, 2003, details of which are set out in the paragraph headed "On-going Supply of Materials and Services" of the section headed "Connected Transactions".

Save as disclosed above, the Company was not a party to any other material contract during the period of this report.

Material Litigation and Arbitration

The Company was not involved in any material litigation or arbitration during the period of this report.

PRE-EMPTIVE RIGHTS

The Articles of Association of the Company and the laws of the PRC contain no provision for any pre-emptive rights, requiring the Company to offer new shares to its Shareholders on a pro-rata basis to their shareholdings.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 33 to the financial statements prepared in accordance with the IFRS contained herein.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

Changes in share capital

(Shares) Par value per share: RMB1.00

	Number of shares before the changes (1st January, 2003)	Changes during the year under review (increase/decrease)	Numbers of shares after the changes (31st December, 2003)
A: Shares not listed for public dealings			
Subscriber shares of which:			
State legal person shares	1,670,000,000	–	1,670,000,000
Total numbers of the shares not listed for public dealings	1,670,000,000	–	1,670,000,000
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
Total numbers of the shares listed for public dealings	1,200,000,000	–	1,200,000,000
C: Total numbers of shares	2,870,000,000	–	2,870,000,000

As at 31st December, 2003, the Company had a total of 57,904 Shareholders, of which one was the holder of state legal person shares, 57,814 were holders of A shares and 89 were holders of H shares.

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Top Ten Shareholders and Top Ten Shareholders Holding Listed Shares of the Company

According to the register of Shareholders as at 31st December, 2003, which was provided by Shanghai Branch of China Securities Depository and Clearing Corporation Limited and Hong Kong Registrars Limited, the top ten Shareholders and the top ten Shareholders holding listed shares of the Company are as follows:

(as at 31st December, 2003)

Name	Class of shares	Number of shares at the end of the period	Percentage holding (%)	Changes in the number of shares during the period under review	Listing status (listed/ unlisted)
				(increase/ decrease)	
Yankuang Group Corporation Limited	State legal person shares	1,670,000,000	58.19	0	Unlisted
HKSCC Nominees Limited	H shares	1,017,983,899	35.47	723,900	Listed
Xinghua Securities Investment Fund	A shares	7,899,255	0.28	7,479,769	Listed
Huaxia Growth Securities Investment Fund	A shares	6,206,957	0.22	5,206,904	Listed
Yinfeng Securities Investment Fund	A shares	5,039,823	0.18	3,437,019	Listed
Haifutong Choiceness Securities Investment Fund	A shares	4,251,938	0.15	4,251,938	Listed
Guangda Securities Co., Ltd.	A shares	3,295,405	0.11	3,295,405	Listed
Jintai Securities Investment Fund	A shares	3,088,820	0.11	3,088,820	Listed
Yulong Securities Investment Fund	A shares	3,000,000	0.10	3,000,000	Listed
Tianyuan Securities Investment Fund	A shares	2,762,549	0.10	1,609,559	Listed
Guotai Jinying Growth Securities Investment Fund	A shares	2,400,088	0.08	2,400,088	Listed

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 as having an interest of 5% or more of the Company's public shares as at 31st December, 2003.

None of the shares held by Yankuang Group Corporation Limited were pledged or restricted or under any trust arrangement during the period under review. It is uncertain as to whether the shares held by other Shareholders as disclosed above were pledged or restricted or under any trust arrangement during the period.

Xinghua Securities Investment Fund and Huaxia Growth Securities Investment Fund are both under the management of Huaxia Fund Management Co., Ltd.. Jintai Securities Investment Fund and Guotai Jinying Growth Securities Investment Fund are both under the management of Guotai Fund Management Co., Ltd.. Related party relationships and concert actions among the other Shareholders are not known.

As the clearing and settlement agent for the Company's H Shares, HKSCC Nominees Limited held the Company's H Shares in a nominee capacity.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2003, the following persons (other than a Director, chief executive or Supervisor of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance (the "SFO"):

Name of substantial Shareholder	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in	
					the relevant class of share capital	Percentage in total share capital
Yankuang Group Corporation Limited	Domestic Shares (State legal person shares)	1,670,000,000 (L)	Beneficial Owner	Corporate	90.27%	58.19%
J.P Morgan Chase & Co. (Note 1)	H Shares	121,258,160 (L) (including 69,161,235 (P)) (Note 2)	Interest of controlled corporations	Corporate	11.89%	4.23%
The Capital Group Companies, Inc. (Note 3)	H Shares	149,760,000 (L)	Interest of controlled corporations	Corporate	14.68%	5.22%

Notes:

1. As at 31st December 2003, J.P Morgan Chase & Co. was taken to be interested in 11.89% of the Company's total H Shares or 4.23% of the Company's total share capital through the following companies:
 - (a) 150,000 H Shares (representing approximately 0.01% of the Company's total H Shares) in a long position held by JF Asset Management (Singapore) Limited, which is a controlled corporation of J.P Morgan Chase & Co.
 - (b) 43,582,000 H Shares (representing approximately 4.27% of the Company's total H shares) in a long position held by JF Asset Management Limited, which is a controlled corporation of J.P Morgan Chase & Co.
 - (c) 242,000 H Shares (representing approximately 0.02% of the Company's total H Shares) in a long position held by J.P Morgan Fleming Asset Management (UK) Limited, which is a controlled corporation of J.P Morgan Chase & Co.
 - (d) 1,248,000 H Shares (representing approximately 0.12% of the Company's total H Shares) in a long position held by J.P Morgan Investment Management Inc., which is a controlled corporation of J.P Morgan Chase & Co.
 - (e) 2,676,000 H Shares (representing approximately 0.26% of the Company's total H Shares) in a long position held by J.P Morgan Investment Management Limited, which is a controlled corporation of J.P Morgan Chase & Co.
 - (f) 3,333,700 H Shares (representing approximately 0.33% of the Company's total H Shares) in a long position held by J.P Morgan Whitefriars Inc., which is a controlled corporation of J.P Morgan Chase & Co.
 - (g) 444,000 H Shares (representing approximately 0.04% of the Company's total H Shares) in a long position held by J.P Morgan Securities Ltd., which is a controlled corporation of J.P Morgan Chase & Co.

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- (h) 421,225 H Shares (representing approximately 0.04% of the Company's total H Shares) in a long position held by J.P Morgan (Suisse) S.A., which is a controlled corporation of J.P Morgan Chase & Co.
- 2. The total numbers of H Shares held included interest in 69,161,235 H Shares (representing approximately 6.78% of the Company's total H Shares) held by JPMorgan Chase Bank in a lending pool.
- 3. As at 31 December 2003, The Capital Group Companies, Inc. was taken to be interested in 14.68% of the Company's total H Shares or 5.22% of the Company's total share capital through the following companies:
 - (a) 81,400,000 H Shares (representing approximately 7.98% of the Company's total H Shares) in a long position held by The Capital Research and Management Company, which is a controlled corporation of The Capital Group Companies, Inc.
 - (b) 68,360,000 H Shares (representing approximately 6.70% of the Company's total H Shares) in a long position held by The Capital International, Inc., which is a controlled corporation of The Capital Group Companies, Inc.
- 4. The letter "L" denotes a long position. The letter "P" denotes interest in a lending pool.

LEGAL PERSON SHAREHOLDERS WITH SHAREHOLDINGS OF 10% OR MORE

As at 31st December, 2003, the Parent Company held 1,670,000,000 state legal person shares of the Company, without any changes during the report period, representing 58.19% of the total share capital of the Company. The Parent Company, a State wholly-owned enterprise, is the controlling Shareholder and is principally engaged in coal production, building and building materials, chemical and machinery processing businesses. The Parent Company's legal representative is Mr. Geng Jiahuai and its registered capital is RMB 3,090.336 million.

During the period of this report, the controlling Shareholder or actual controller of the Company remained unchanged.

As at 31st December, 2003, HKSCC Nominees Limited held 1,017,983,899 H Shares of the Company, representing 35.47% 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.

SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Save as disclosed below, as at 31st December 2003, none of the Directors, chief executive or Supervisors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) as recorded in the register required to be kept under section 352 of the SFO; or (ii) as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (which shall be deemed to apply to the Company's supervisors to the same extent as it applies to the Company's directors).

Name	Capacity	Title	Number of domestic shares held at the beginning of this reporting period	Number of domestic shares held at the end of this reporting period	Reasons for changes
Mo Liqi	Beneficial owner	Chairman of the board	10,000	10,000	No change
Yang Deyu	Beneficial owner	Vice Chairman of the Board and General Manager	10,000	10,000	No change
Geng Jiahuai	–	Director	0	0	No change
Wang Bangjun	Beneficial owner	Director	10,000	10,000	No change
Yang Jiachun	Beneficial owner	Director	10,000	10,000	No change
Wu Yuxiang	Beneficial owner	Director and Chief Financial Officer	10,000	10,000	No change
Dong Yunqing	–	Director	0	0	No change
Fan Weitang	–	Independent Non-executive Director	0	0	No change
Cui Jianming	–	Independent Non-executive Director	0	0	No change
Wang Xiaojun	–	Independent Non-executive Director	0	0	No change
Meng Xianchang	Beneficial owner	Chairman of the Supervisor Committee	10,000	10,000	No change
Xiao Shuzhang	Beneficial owner	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	–	Vice General Manager	0	0	No change
Tian Fengze	–	Vice General Manager	0	0	No change
Chen Guangshui	Beneficial owner	Chief secretary of the Board of directors	1,000	1,000	No change
Shi Chengzhong	–	Vice General Manager	0	0	No change
Ni Xinghua	–	Chief Engineer	0	0	No change

All the interests disclosed above represent long position in the shares of the Company.

None of the Directors, chief executive or Supervisors of the Company or their spouses or children under the age of 18 was given the right to acquire shares or debentures of the Company or any associated corporation (within the meaning of the SFO) or had exercised any such right as at 31 December 2003.

The above shareholdings of the Company's senior management is disclosed in accordance with the regulation in PRC (excluding Hong Kong). As at 31 December 2003, total A share numbers held by the Directors, Supervisors or senior management of the Company is 71,000, representing 0.0025% of the total share capital of the Company.

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BRIEF BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

MO Liqi, aged 59, an engineering technique application researcher, is the Chairman of the Board of Directors of the 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. Mr. Mo became the Deputy Director of Yanzhou Mining Bureau in 1987, and 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 in 2002. Mr. Mo was the Vice-Chairman of the Board of Directors and the Party Committee Secretary of the Parent Company from 2002 to December 2003. He graduated from Shandong Mining Institute.

YANG Deyu, aged 54, an engineering technique application researcher, is the Vice Chairman of the Board of Directors and 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 an 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 53, an engineering technique application researcher, is a director of the Company and the Chairman of the Board of Directors and the Party Committee Secretary of the Parent Company. During the period from 1985 to 2002, Mr. Geng acted as the Deputy Director, the Director of the Safety and Supervision Bureau and the Director of Zibo Mining Bureau. Mr. Geng joined 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. Mr. Geng became a Director of the Company in 2002. Mr. Geng became the Chairman of the Board of Directors and the Party Committee Secretary of the Parent Company in 2003. He graduated from Shandong Mining Institute.

WANG Bangjun, aged 59, a senior engineer, is a Director of the Company. Mr. Wang joined the Predecessor in 1970, and became an Deputy Manager and the Party Committee Deputy Secretary of Yanzhou Coal Infrastructure Company between 1983 and 1987. Mr. Wang 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. Mr. Wang became a Director of the Company in 1997. Mr. Wang was the Vice-Chairman of the Board of Directors of the Parent Company from 2002 to December 2003 and became an investigator of the Parent Company in December 2003. He graduated from Shandong Mining Institute.

YANG Jiachun, aged 49, 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 in 2002, became a director of the Parent Company and a vice-chairman of the Board of Directors of Yankuang Guizhou Energy and Chemicals Company Limited. He graduated from Yunnan Education University.

WU Yuxiang, aged 42, 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 48, a senior engineer, is a Director and the Chairman of Labor Union of the Company. Mr. Dong joined the Predecessor in 1981. Mr. Dong was the Vice Chairman of Labor Union of the Parent Company from 2001 to April, 2003. 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 68, 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 once served as the deputy director of the Ministry of Coal Industry of China, 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. Mr. Fan became a Independent Non-executive Director of the Company in 2002. 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 71, 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 became a Committee Member of the 8th Chinese People's Political Consultative Conference. Mr. Cui became a Independent Non-executive Director of the Company in 2002. Mr. Cui graduated from People's University of China.

WANG Xiaojun, aged 49, 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 has practiced PRC law in Beijing, and was admitted in the PRC, Hong Kong and England and Wales in 1988, 1995 and 1996, respectively. Mr. Wang has worked as a legal adviser in the Hong Kong Stock Exchange and Richards Butler and has worked in investment banking activities in BNP Paribas Peregrine and ING Barings. Mr. Wang became a Independent Non-executive Director of the Company in 2002. He graduated from the People's University of China and the Graduate School of the Chinese Academy of Social Sciences and holds a bachelor degree in laws and a master degree in laws.

Supervisors

MENG Xianchang, aged 56, a senior engineer, is the Chairman of the Supervisory Committee of the Company 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 60, a senior engineer, is a Supervisor of the Company. Mr. Xiao joined the Predecessor in 1970, became the secretary of the Disciplinary Committee of Yanzhou Coal Infrastructure Company and the secretary of the Disciplinary Committee of Yanzhou Mining Bureau in 1986 and 1987, respectively. Mr. Xiao was a supervisor and Disciplinary Committee Secretary of the Predecessor and a supervisor and the Secretary of the Disciplinary Committee of the Parent Company from 1996 to November, 2003. Mr. Xiao became a Supervisor of the Company in 1997. He graduated from Jiaozuo Mining Institute.

ZHANG Shengdong, aged 47, 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.

Report of the Directors (Cont'd)

LIU Weixin, aged 53, a senior accountant, is a Supervisor of the Company and the director of the Audit Department of the Parent Company. Mr. Liu joined the Predecessor in 1971, and became the Deputy Director of the Audit Office of the Parent Company in 2001. Mr. Liu became a Supervisor of the Company in 2002, and became the Director of Audit Department of the Parent Company in 2003. He graduated from Shandong Youth Cadre Institute.

XU Bentai, aged 45, 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 an Employee Supervisor of the Company in 2002. He graduated from the Central Communist Party School Correspondence Institute.

Senior management

ZHANG Yingmin, aged 50, 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 51, 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 47, 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 38, a senior economist, is the Secretary of the Board of Directors and the director of the secretariat of the Board of Directors of the Company. Mr. Chen joined the Predecessor in 1990 and become the Secretary of the Board of Directors and the director of the secretariat of the Board of Directors of the Company in 1997. He graduated from Fuxin Mining Institute.

SHI Chengzhong, aged 41, 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 47, 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 prepared in accordance with the IFRS 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, 2003.

ARRANGEMENT TO PURCHASE EQUITY OR DEBT SECURITIES

At no time during the year ended 31st December, 2003, 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 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 Directors and Supervisors of the Company has entered into a service contract with the Company. Under such contracts, each 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 Directors and other employees of the Company (including but not limited to other Directors, Supervisors and senior managements of the Company) does not exceed 1% of the aggregate of net profit after taxation and extraordinary losses but before extraordinary gains for that year.

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, 2003.

REPURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

During the year ended 31st December, 2003, the Company and its subsidiaries did not repurchase, sell or redeem any shares of the Company.

UNDERTAKING OF SHAREHOLDERS WITH SHAREHOLDINGS OF 5% OR MORE

During the period of this report, the Company amended the transactions of on-going supply of materials and services with the Parent company, and made an application to Hong Kong Stock Exchange for a waiver from strict compliance with the requirements of disclosure and approval as stipulated in the Listing Rules in respect of such on-going connected transactions. Pursuant to the requirements of Hong Kong Stock Exchange, the Company's auditors should confirm such on-going connected transactions annually and provide a report to the board of Directors of the Company and the Hong Kong Stock Exchange.

The Parent Company undertook on 13th May, 2003 that it would allow the Company's auditors to have access to its appropriate financial statements and accounting records when the Company's auditors carry out its work on the confirmation in respect to the implementation of such on-going connected transactions. The Parent Company has honoured its obligation in accordance with its undertaking.

Report of the Directors (Cont'd)

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information, indicating that the Company was not, for the year ended 31st December, 2003, in compliance with the Code of Best Practice set out in Appendix 14 of 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 unified floating exchange rate which is under the State's supervision. Since 2003, exchange rate for RMB to US dollars varied slightly and has no main influence on the Company's business.

EMPLOYEES

As at 31st December, 2003, the Company had 27,961 employees, of whom 1,847 were administrative personnel, 923 were technicians, 21,419 were directly involved in coal production and 3,772 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)), were the Company's international and domestic auditors, respectively, in 2003. A resolution to reappoint Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants Ltd. as the Company's international and domestic auditors, respectively, for the year 2004 will be proposed at the forthcoming 2003 AGM.

The Company has paid a financial audit and review fees of HKD5.0 million to Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants Ltd. in 2003.

Auditors of the Company have not been changed in recent three years. Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants Ltd. have been the Company's international and domestic auditors for consecutive seven years. There was no registered accountant of Deloitte Touche Tohmatsu Certified Public Accountants Ltd. providing audit services to the Company for more than five years.

On behalf of the Board

MO Liqi

Chairman

Zoucheng, PRC, 16th April, 2004