

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 2001.

PRINCIPAL ACTIVITIES

The Company is engaged in the underground coal mining, coal preparation and processing and sales.

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, 1997, 1998, 1999, 2000 and 2001, which are prepared in accordance with the IAS, are set out in the financial highlights section of the report.

PROPOSED PROFIT APPROPRIATION

The profit appropriation of the Company for the year ended 31st December, 2001 as proposed by the Board of Directors is as follows:

| <i>(Prepared in accordance with PRC GAAP)</i> | RMB'000 |
|--|-----------|
| Net income | 1,000,387 |
| Unappropriated profits at beginning of year | 1,070,322 |
| Appropriation to statutory surplus reserve | 100,039 |
| Appropriation to statutory public welfare fund | 50,019 |
| Distributable profits | 1,920,651 |
| Dividends payable | 287,000 |
| Unappropriated profits | 1,633,651 |

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 2001.

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 IAS or the accounting standards and regulations of the places in which its shares are listed. For the purpose of determining the final dividend payable to the Shareholders, the lower of the net income figures in these accounting standards will be applied for the relevant year. For this purpose, for the year ended 31st December, 2001, the profit audited in accordance with the IAS will apply to determine dividends payment.

DIVIDENDS

The directors of the Company have decided to recommend at the forthcoming AGM, scheduled to be held on 7th June, 2002, a payment in cash of a final dividend of RMB287.0 million (before tax) or RMB0.100 per share (before tax). Following approval by the shareholders at the AGM, the final dividend will be declared and paid to all shareholders on or before 30th June 2002.

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 2000 and 2001.

Net sales to the Company's five largest domestic customers accounted for less than 30% of the Company's net sales in 2000 and 2001.

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 totalling RMB1.2 billion from the Bank of China on 4th January, 2002. The loans were applied to finance the acquisition of 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 term of the Borrowing Contract commenced on the date of 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.

INTEREST CAPITALIZATION

No interest has been capitalized by the Company during the year ended 31st December 2001.

RESERVES

Details of movements in the reserves of the Company for the year ended 31st December, 2001 and details of the distributable reserves of the Company as at 31st December, 2001 are set out in the statement of changes in shareholders' equity contained herein.

STATUTORY PUBLIC WELFARE FUND

Details in relation to the statutory public welfare fund are set out in note 30 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, 2001 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 35 to the financial statements contained herein.

HOUSING SCHEME

According to the Materials and Services Supply Agreement, which was disclosed in the Company's offering prospectus dated 24th March, 1998 and issued in Hong Kong in connection with the Combined Offering, between the Company and the Parent Company on 17th October, 1997, 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 the prevailing head count and negotiation. Such expenses amounted to RMB29.7 million and RMB30.97 million for 2000 and 2001, respectively.

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 33 to the financial statements contained herein, and confirmed that all connected transactions entered into by the Company during 2001 were entered into in its ordinary and usual course of business, and that 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.

During the year ended 31st December, 2001, 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.

DISCLOSURE OF SIGNIFICANT EVENTS

Acquisition of Jining III Coal Mine

The Company completed the acquisition of Jining III coal mine on 1st January, 2001 with a purchase price of RMB2,451 million. The purchase price had been partially settled by the Company with its cash in hand of RMB867 million and the net proceeds of RMB961 million raised from the new issue of A Shares as at 31st December, 2001. The balance of the purchase price will be paid before 31st December, 2002 without interest.

The consideration of the mining right of Jining III coal mine is RMB132 million, of which RMB13.248 million had been partially settled by the Company during the period covered by this report in compliance with the agreement to pay ten equal installments without interest over ten years.

Acquisition of Railway Assets

The Company entered into the acquisition agreement for railway assets (the "Railway Agreement") with the Parent Company on 30th October, 2001, which was approved by the independent shareholders on 17th December, 2001.

In accordance with the Railway Agreement, the Company completed the acquisition of Railway Assets on 1st January, 2002. The purchase price of approximately RMB1,221 million was determined based on the valuation as at 30th June, 2001 being the Valuation Date, and confirmed by the Department of Finance of the Shandong province. After adjustment based on the current assets value of the Railway Assets on 31st December, 2001, the

purchase price after adjustment was RMB1,243 million. In addition, 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 the Parent Company an amount of RMB40 million for each year before 30th June in the three years from 2003.

The purchase price has been partially settled by the Company with the long term loan of RMB1.2 billion on 4th January, 2002. The balance of the purchase price will be paid before 30th June, 2002 from the Company's cash in hand.

Issue of New Shares

The Issues of 100,000,000 new A shares and 170,000,000 new H shares were completed on 3rd January, 2001 and 11th May, 2001 respectively. Details are as follows:

| | A Shares | H Shares |
|--------------------------------|--|--|
| Par value | RMB1.00 per share | RMB1.00 per share |
| Quantities of new issue shares | 100,000,000 | 170,000,000 |
| Issue price | RMB10.00 per share | HK\$2.925 per share |
| Net proceeds | RMB961 million | RMB494 million |
| Use of proceeds | Finance the acquisition of Jining III coal mine | Finance the acquisition of Jining III coal mine |

Amendments to the Articles of Association of the Company

After the issue of new A shares, the Company had amended the Articles of Association of the Company and disclosed that in the 2000 Annual Report. Due to the issue of new H shares, the Board of Directors had made amendments to the Articles 15, 16 and 19 to reflect the new capital structure of the Company in accordance with the authorization granted in the Annual General Meeting for the year 1999, held on 16th June, 2000. (The changes of the capital structure are set out in the "Change in Share Capital and Shareholders" section of the report.)

Amendments to the Articles of Association and Change of Board of Directors and Supervisory Committee

The Company's board of directors held a meeting on 4th March, 2002, at which it has passed resolutions to propose amendment to the Articles of Association of the Company and proposed changes to the composition of board directors.

The Company's supervisory committee held a meeting on 4th March, 2002, at which it passed a resolution to change the composition of the supervisory committee.

The above mentioned proposals will be submitted to the first extraordinary general meeting in 2002 for approval (the details of which were published in "Wen Wei Po" and "South China Morning Post" on 5th March, 2002).

Appropriation Rate to Endowment Insurance Fund

In accordance with the "Agreement for Endowment Insurance Fund" entered into by the Company and the Parent Company on 17th October, 1997, the Parent Company and the Company agreed that the contribution rate for endowment insurance fund should still be 45% of the employees' total wages from 1st January, 2002 to 31st December, 2006.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

Changes in share capital

(In share) Par value per share: RMB 1.00

| | Number of shares before the changes (1st January, 2001) | Changes during the period under review (Increase/ Decrease) new issues | Number of shares after the changes (31st December, 2001) |
|--|---|---|--|
| A. Shares not listed for public dealings | | | |
| 1. Subscriber shares of which: | | | |
| State legal person shares | 1,670,000,000 | | 1,670,000,000 |
| 2. Shares issued to senior management of the Company | 221,000 | | 221,000 |
| Total number of shares not listed for public dealings | 1,670,221,000 | | 1,670,221,000 |
| B. Shares listed for public dealings | | | |
| 1. A Shares | 79,779,000 | 100,000,000 | 179,779,000 |
| 2. H Shares | 850,000,000 | 170,000,000 | 1,020,000,000 |
| Total number of shares listed for public dealings | 929,779,000 | 270,000,000 | 1,199,779,000 |
| C. Total shares | 2,600,000,000 | 270,000,000 | 2,870,000,000 |

As at 31st December, 2001, the Company had a total of 76,826 shareholders, of which 1 was holder of state legal person shares, 76,696 were holders of A Shares and 129 were holders of H Shares.

Top Ten Shareholders of the Company

(As at 31st December, 2001)

| Name | Class of Shares held | 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 | 1,018,156,000 | 35.48 |
| China National Petroleum Corporation | A shares | 16,219,698 | 0.57 |
| Haitong Securities | A shares | 6,786,729 | 0.24 |
| Huaan Chuangxin Fund | A shares | 2,348,639 | 0.08 |
| United Securities | A shares | 2,324,430 | 0.08 |
| Anshun Fund | A shares | 2,108,760 | 0.07 |
| Anxin Fund | A shares | 2,012,818 | 0.07 |
| Dongfeng Automobile Co., Ltd. | A shares | 1,779,748 | 0.06 |
| Puhui Fund | A shares | 1,402,042 | 0.05 |
| Total | | 2,723,138,864 | 94.88 |

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, 2001.

None of the shares held by Yankuang Group Corporation Limited were pledged or restricted during the period under review.

As the clearing and settlement agent for the Company's H Shares, HKSCC Nominees Limited holding the Company's H Shares as nominees.

LEGAL PERSON SHAREHOLDERS WITH SHAREHOLDINGS OF 10% OR MORE

As at 31st December, 2001, 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, restructured from Yanzhou Mining (Group) Co., Ltd. in 1996, is the holding company 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, 2001, HKSCC Nominees Limited held 1,018,156,000 H Shares of the Company, representing 35.48% 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 SHARES

The Company did not purchase or redeem any of its shares during the year ended 31st December, 2001. The details of sale of shares are set out in the "Issue of New Shares" section of the report.

SHARE CAPITAL

Details of the registered and issued share capital of the Company are set out in note 30 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 require the Company to offer new shares to existing shareholders in proportion to their shareholding.

SHAREHOLDINGS OF DIRECTORS, SUPERVISORY AND SENIOR MANAGEMENT OF THE COMPANY

As at 31st December, 2001, the Directors, Supervisors and senior management of the Company, save for two Independent Non-executive Directors who did not have any beneficial interest in the issued share capital of the Company, held 221,000 A Shares of the Company as a result of the placement of the employee shares in 1998.

| Name | Position | Number of shares held at the beginning of the year (as at 1st January, 2001) | Number of shares held at the end of the year (as at 31st December, 2001) | Reason for Change |
|----------------|---|--|--|-------------------|
| ZHAO Jingche | Chairman of the Board of Directors | 10,000 | 10,000 | No change |
| YANG Deyu | Executive Director and General Manager | 10,000 | 10,000 | No change |
| DU Mingshan | Executive Director | 10,000 | 10,000 | No change |
| LUO Taiyan | Executive Director | 10,000 | 10,000 | No change |
| XIAO Lifang | Executive Director and Financial Controller | 10,000 | 10,000 | No change |
| WANG Bangjun | Director | 10,000 | 10,000 | No change |
| MO Liqi | Director | 10,000 | 10,000 | No change |
| LIU Yubin | Director | 10,000 | 10,000 | No change |
| WU Zezhi | Director | 10,000 | 10,000 | No change |
| CHEN Yongge | Director | 10,000 | 10,000 | No change |
| MA Houliang | Director | 10,000 | 10,000 | No change |
| XU Tianen | Director | 10,000 | 10,000 | No change |
| YANG Jiachun | Director | 10,000 | 10,000 | No change |
| MENG Xianchang | Chairman of the Supervisory Committee | 10,000 | 10,000 | No change |
| XIAO Shuzhang | Supervisor | 10,000 | 10,000 | No change |
| QIAN Xiulan | Supervisor | 10,000 | 10,000 | No change |
| XU Xinmin | Supervisor | 10,000 | 10,000 | No change |
| ZHOU Hongbin | Supervisor | 10,000 | 10,000 | No change |
| KONG Qing | Deputy General Manager | 10,000 | 10,000 | No change |
| ZHANG Xingzu | Deputy General Manager | 10,000 | 10,000 | No change |
| FAN Guoqiang | Chief Engineer | 10,000 | 10,000 | No change |
| WU Yuxiang | Finance Manager | 10,000 | 10,000 | No change |
| CHEN Guangshui | Secretary of the Board of Directors | 1,000 | 1,000 | No change |

Save as disclosed herein, none of the Company's directors or supervisors had, as at 31st December, 2001, 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 of are deemed to have under Section 31 or Part I of the Schedule to the SDI Ordinance), 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 the Company's directors 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

Executive Directors

ZHAO Jingche, aged 65, a professor-level senior engineer, is the Chairman of the Board of Directors of the Company and the Chairman of the Board of Directors of the Parent Company. Mr. Zhao joined the entity that held all assets and liabilities of the Company and the Parent Company prior to the restructuring of the Company in preparation for its listing in Hong Kong and New York in 1998 (the "Predecessor") in 1980 and acted as the Chief Engineer, Deputy Director and Director of Xinglongzhuang Coal Mine. He became Deputy Director and Director of Yanzhou Mining Bureau in 1985 and 1991, respectively, and became the Chairman and General Manager of the Predecessor in 1996, and became the Chairman of the Board of Directors of the Parent Company in 2002. Mr. Zhao graduated from Hefei Industry University.

YANG Deyu, aged 52, an engineering technique application researcher, is the General Manager and a Executive Director of the Company. Mr. Yang joined the Predecessor in 1968, became the Deputy Director of Yanzhou Mining Bureau in 1994 and became the Assistant General Manager and Director of the Safety and Supervision Bureau of the Predecessor in 1996. He graduated from Shandong Mining Institute.

DU Mingshan, aged 59, a senior engineer, is a Executive Director of the Company. Mr. Du joined the Predecessor in 1965 and became an Assistant Manager of Yanzhou Coal Infrastructure Company, the Deputy Director of Yanzhou Mining Bureau and an Executive Director of the Predecessor in 1985, 1987 and 1996 respectively. He graduated from Beijing Mining Institute.

LUO Taiyan, aged 61, an assistant researcher, is a Executive Director of the Company. Mr. Luo joined the Predecessor in 1997 as an Executive Director and, prior to joining the Predecessor, was the Deputy Dean of the Jinan branch of Shandong Mining Institute and the Deputy Principal of China Coal Economics Institute between 1983 and 1997. He graduated from Shandong Mining Institute.

XIAO Lifang, aged 63, a senior accountant, is a Director and the Financial Controller of the Company. Mr. Xiao joined the Predecessor in 1972 and became its Chief Accountant in 1984. He graduated from Jiangsu Coal Mining Professional Training School.

Non-executive Directors

WANG Bangjun, aged 57, 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 Assistant Manager and the Party Committee Deputy Director of Yanzhou Coal Infrastructure Company between 1983 and 1987, successively became the Deputy Director and a Party Committee Assistant Secretary of Yanzhou Mining Bureau between 1987 and 1996 and became the Vice-Chairman and a Party Committee Secretary of the Predecessor in 1996, and became the Vice-Chairman of the Board of Directors of the Parent Company in 2002. He graduated from Shandong Mining Institute.

MO Liqi, aged 57, an engineering technique application researcher, is a Director 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 Director and a 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 and the Deputy General Manager of the Predecessor in 1996, and became the General Manager of the Predecessor in 1997, and became 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.

LIU Yubin, aged 60, a senior economist, is a Director of the Company. Mr. Liu joined the Predecessor in 1975, successively became the Deputy Director and Party Committee Assistant Secretary of Yanzhou Mining Bureau between 1985 and 1996 became a Director and the Party Committee Assistant Secretary of the Predecessor in 1996. He was promoted to Vice-Chairman and Party Committee Secretary of the Parent Company in 1998. He graduated from China Language Institute.

WU Zezhi, aged 60, a professor-level senior engineer, is a Director of the Company. Mr. Wu joined the Predecessor in 1972, successively became the Deputy Director of Yanzhou Mining Bureau in 1983 and a Director and Assistant General Manager of the Predecessor in 1996. He graduated from Jiangxi Mining Institute.

CHEN Yongge, aged 60, an engineer, is a Director of the Company. Mr. Chen joined the Predecessor in 1982, successively became a Party Committee Assistant Secretary and Chairman of the Labor Union of Yanzhou Mining Bureau in 1983 and 1993 respectively, and became a Director and Chairman of the Labor Union of the Predecessor in 1996. He graduated from Beijing Coal Cadre Institute.

MA Houliang, aged 44, is a Director of the Company. Mr. Ma joined the Predecessor in 1985, became a Director of the Predecessor in 1996, and became a Party Committee Assistant Secretary of the Parent Company in 1998. He graduated from Qufu Education University.

XU Tianen, aged 53, a senior Accountant, is a Director of the Company and the Vice Chief Accountant of the Parent Company. Mr. Xu joined the Predecessor in 1968 and became the Director of Finance Department of Yanzhou Mining Bureau and the Vice Chief Accountant of the Predecessor in 1994 and 1996 respectively. He graduated from Shandong Mining Institute.

YANG Jiachun, aged 47, 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 the Director of the Politics and Regulations Department of Yanzhou Mining Bureau, the Supervisor of the Office of the Board of Directors of the Predecessor and the executive director of the Parent Company in 1994, 1996 and 1999, respectively. He became a director of the Parent Company in 2002. He graduated from Yunnan Education University.

Independent Non-executive Directors

GUAN Weili, aged 59, is a Director of the Company, and the President of China Enterprise Consultants. Mr. Guan worked with manufacturing firms as an engineer for many years. He once was the Dean of Business Management Department at Beijing Polytechnic University, the Director of Enterprise Department at National Administrative Bureau of State-Owned Property under the State Council of PRC, and the Vice President of GE Capital Pacific Asia. Mr. Guan graduated from China University of Science and Technology, and earned a Master of Business Administration degree at Northeastern University in Boston, United States. He is currently a member of the Asian Executive Board, Wharton Business School at University of Pennsylvania.

LAW Kin Ming, Alfred, aged 53, a solicitor, is a Director of the Company. Mr. Law was first called to the Bar in England in 1975 and to the Bar in Hong Kong in the following year. Mr. Law once acted as a Deputy District Court Judge in Hong Kong, and in March 1990, he switched to the solicitors' branch of the legal profession. He has been the legal adviser of South China Industry (Canada) Inc. since December 1993 and the Director of HMM China Investments Limited since September 1995.

Supervisors

The Company has a supervisory committee whose primary duty is the supervision of senior management of the Company, including the Board of Directors, managers and senior officers. The function of the supervisory committee is to ensure that senior management of the Company acts in the interests of the Company, its shareholders and employees, and does not perform acts that violate PRC laws. The supervisory committee reports to the shareholders of the Company in general meetings. The Articles of Association of the Company provide the supervisory committee with the right to investigate the business and financial affairs of the Company and to convene shareholders' meetings from time to time. The supervisory committee currently comprises five members, one of whom is an employee representative. The members of the supervisory committee are:

MENG Xianchang, aged 54, is the Chairman of the Supervisory Committee of the Company and a Supervisor and Party Committee Assistant Secretary of the Parent Company. Mr. Meng joined the Predecessor in 1981 and was promoted to Party Committee Assistant Secretary and Supervisor of the Predecessor in 1996. He graduated from Shandong Mining Institute.

XIAO Shuzhang, aged 58, 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. He graduated from Jiaozuo Mining Institute.

QIAN Xiulan, aged 56, is a Supervisor of both the Company and the Parent Company. Ms. Qian became the Deputy Chairperson of the Labor Union of Yanzhou Mining Bureau in 1979 and became the Deputy Chairperson of the Labor Union and Supervisor of the Predecessor in 1996. She graduated from the Central Communist Party School Correspondence Institute.

XU Xinmin, aged 62, a senior auditor, is a Supervisor of both the Company and the Parent Company. Mr. Xu joined the Predecessor in 1972, became the Director of the Audit Department of Yanzhou Mining Bureau in 1992 and became a Supervisor and the Director of the Audit Department of the Predecessor in 1996. He graduated from Taian School of Coal Industry.

ZHOU Hongbin, aged 59, a senior auditor, is a Supervisor of the Company. Mr. Zhou joined the Predecessor in 1966 and became the Director of the Audit Department of the Predecessor in 1996. He graduated from Jiangsu Coal Mining Professional Training School.

Other Executive Officers

KONG Qing, aged 49, a senior economist, is a Deputy General Manager of the Company. Mr. Kong joined the Predecessor in 1974 and became an Assistant General Manager of the Predecessor in 1996. He graduated from Shandong Television University.

ZHANG Xingzu, aged 53, a senior engineer, is a Deputy General Manager of the Company. Mr. Zhang joined the Predecessor in 1971 and became an Assistant General Manager of the Predecessor in 1996. He graduated from China University of Mining and Technology.

FAN Guoqiang, aged 63, a professor-level senior engineer, is the Chief Engineer of the Company. Mr. Fan joined the Predecessor in 1981 and became the Chief Engineer of the Predecessor in 1994. He graduated from Chongqing University.

WU Yuxiang, aged 40, a senior accountant, is the Manager of the Finance Department of the Company. Mr. Wu joined the Predecessor in 1981 and became the Chief Accountant of the Finance Department of the Predecessor in 1996. He graduated from Shandong Television University.

CHEN Guangshui, aged 36, an engineer, is the Secretary of the Board of Directors of the Company and the Chief of the Secretary Office to the Board of Directors. Mr. Chen joined the Predecessor in 1990 and became the Secretary of the Office to the Board of Directors of the Predecessor in 1996. He graduated from Fuxin Mining Institute.

DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' and supervisors' remuneration and the five highest paid individuals in the Company are set out in note 10 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, 2001.

ARRANGEMENT TO PURCHASE EQUITY OR DEBT SECURITIES

At no time during the year ended 31st December, 2001, 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, 2001.

CHANGING INTO SINO-FOREIGN JOINT STOCK LIMITED COMPANY

The Company was changed into a sino-foreign joint stock limited company in April, 2001.

COMPLIANCE WITH CODE OF BEST PRACTICE

As at 31st December, 2001, the Board of Directors of the Company had not established an audit committee. However, the Company's organizational structure has, in lieu, a supervisory committee which carries out functions similar to that of an audit committee. The differences being that the Company's supervisory committee comprises five members (one of which shall be an employee representative) who are elected and removed in the general meeting of shareholders, and which reports to the general meeting of shareholders instead of the Board of Directors, whereas an audit committee is appointed amongst the non-executive directors of a company.

Except for the above mentioned, so far as the directors of the Company are aware, 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") issued by the Hong Kong Stock Exchange in 2001.

THE INFLUENCE OF CHINA'S ACCESSION TO WTO TO THE COMPANY

After China's entry into WTO, coal import tariffs of China and the major coal importers the Company sells to will not be materially changed. Tariffs variations after China's entry into WTO therefore impose very limited influence over coal imports and exports into and out of China.

With China's entry into the WTO, the Chinese government and industrial regulatory authorities will further encourage Chinese companies to compete and expand in the international markets. This will facilitate the Company's obtaining of a direct coal export license. Located in the largest coal consumption centers of both internationally and in China, the Company is better positioned in transportation compared with other international coal suppliers. Leveraging on the world leading long-wall top coal caving technology and advanced management, the Company will become increasingly competitive in domestic and overseas markets.

As the purchasing cost of domestic coal products is generally lower than that of imported products. Chinese coal suppliers who can supply a full range of coal products at competitive prices are unlikely to be adversely affected by overseas coal suppliers.

MATERIAL CONTRACTS

The Company entered into the H Shares Placing and Underwriting Agreement with the SG Securities (HK) Limited on 9th May, 2001. The details are set out in the "Issue of New Shares" section of the report.

The Company entered into the Acquisition Agreement for Railway Assets with the Parent Company on 30th October, 2001. The details are set out in the "Acquisition of Railway Assets" section of the report.

The Company entered into the Borrowing Contract with the Bank of China on 3rd December, 2001. The details are set out in the "Borrowings" section of the report.

Save as disclosed herein, the Company was not a party to any material contract during the year ended 31st December, 2001.

MATERIAL LITIGATION AND ARBITRATION

The Company was not involved in any material litigation or arbitration during the year ended 31st December, 2001.

EMPLOYEES

As at 31st December, 2001, the Company had 23,689 employees, of whom 1,765 were administrative personnel, 711 were technicians, 18,656 were directly involved in coal production and 2,557 were supporting staff. Among the Company's staff, more than 15% of all the employees graduated from junior college or above.

AUDITORS

Deloitte Touche Tohmatsu (certified public accountants in Hong Kong) and Deloitte Touche Tohmatsu Shanghai CPA (registered accountants in the PRC (excluding Hong Kong)), were the Company's international and domestic auditors, respectively, in 2001. A resolution to reappoint Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Shanghai CPA as the Company's international and domestic auditors, respectively, for 2002 will be proposed at the AGM which is scheduled to be held on 7th June, 2002.

The Company has paid the financial audit and review fee of HK\$3.5 million and consulting expenses for internal control and accounting system of HK\$0.9 million to Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Shanghai CPA in 2001.

The Company will pay the financial audit and review fee of HK\$3.5 million to Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Shanghai CPA in 2002. Others reasonable consulting expenses will be determined by the board of directors of the Company in accordance with the actual requirements.

On behalf of the Board

ZHAO Jingche

Chairman

Zoucheng, PRC, 8th April, 2002