

During the period under review, all of the Supervisors of the Company have complied with the PRC Company Law and the Articles of Association of the Company, fulfilled their supervising responsibilities, preserved the rights of the Company and its shareholders, followed the principal of honesty and trustworthiness, and worked with care and diligence. The Supervisory Committee has carried out the following work during the period under review:

1. A Supervisory Committee Meeting was held on 20th April, 2001 at the Company's headquarters, during which the working report of the Supervisory Committee for the year 2000 was passed.
2. A Supervisory Committee Meeting was held on 24th August, 2001 at the Company's headquarters, during which the working report of the Supervisory Committee for the first half of the year 2001 was passed.
3. The Supervisory Committee provided suggestions on the Company's operation, technological innovation and developing strategies, effectively monitored to ensure that the guiding principles of decision-making and corresponding solutions were in accordance with the laws and regulations of the state, the Articles of Association of the Company and resolutions of the AGM and in the shareholders' interests.

The following is the independent opinion of the Supervisory Committee on the relevant issues of the Company in 2001:

1. Operations of the Company in compliance with the laws:

Pursuant to the relevant laws and regulations of the State, the Supervisory Committee of the Company has carried out supervision on the Company's shareholders meetings, the convening procedures of the Board of Directors, resolutions and the implementation of the resolutions of the shareholders meetings by the Board of Directors by attending the meeting of the Board in this report period. The Company and its directors and managers have not violated any laws, regulations and the Articles of Association of the Company. The Supervisory Committee considered that the performance of the Company's Board of Directors in 2001 were strictly in compliance with relevant laws and regulations, and that their works were serious and responsible, their operating decisions scientific and reasonable. The Company further upgraded internal management and internal control systems and reached all the operating targets successfully.

2. Inspection of the financial situation of the Company:

The Supervisory Committee of the Company carried out serious and careful inspections of the financial system and financial situation of the Company, and considered that the Company has the independent financial accounts and financial employees. The Supervisory Committee has noted the no reservations audit opinion from Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Shanghai CPA, which will be submitted to the AGM. The Supervisory Committee believed that the financial statements reflected truly and accurately the Company's financial situation and operating results and the Company's results are true; all expenses and costs are basically rational; the reserves transferred from the profit and loss accounts are in accordance with relevant laws, regulations, the Articles of Association of the Company, related financial standards and accounting systems.

3. The connected transactions between the Company and the Parent Company and its affiliates have complied with relating regulations, and there were no insider dealings or anything that would hurt the interests of shareholders or would cause the losses of assets from the Company.

4. Implementation of the resolutions of the shareholders meetings:

The members of the Supervisory Committee of the Company attended the various Board meetings and shareholders general meetings of the Company, and the Supervisory Committee of the Company has no objection to the various reports and resolutions raised for approval by the Board of Directors the shareholders' general meetings. The Supervisory Committee of the Company carried out supervision on the implementation of the resolutions of the shareholders general meetings and considered that the Board of Directors of the Company could seriously implement the relevant resolutions of the shareholders general meetings.

5. Use of proceeds in 2001

(1) Issue of new shares

The issues of new 100 million A shares and 170 million H share were successfully completed on 3rd January, 2001 and 11th May, 2001 respectively. Under the confirmation issued by Deloitte Touche Tohmatsu Shanghai CPA, the Company received net proceeds of RMB961 million from the issue of new A shares and RMB494 million from the issue of new H shares. The use of all the proceeds from issue of new shares was to finance the acquisition of Jining III coal mine.

(2) 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 use of all proceeds in 2001 was strictly in accordance with promise made by the Company. The explanation for use of proceeds made by the board of directors was objective and truly.

6. Assets acquisition

(1) 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 paid off 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 paid off by the Company during the period covered by this report in compliance with the agreement to pay in ten equal installments without interest in ten years.

(2) 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, 220.59 million, which was set based on the valuation on 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 is RMB1,243 million. If 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 shall pay the Parent Company an adjustment in the sum of RMB40 million in respect of each of these three years.

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 cash in hand.

Transaction prices of the above mentioned acquisitions of assets by the Company were reasonable, and no insider dealing was discovered to be detrimental to the interests of part of the shareholders.

Meng Xinachang

Chairman of the Supervisory Committee

Zoucheng, PRC, 8th April, 2002