

During the period under review, in accordance with the PRC Company Law and the Articles of Association of the Company, all of the Supervisors of the Company have fulfilled their supervising responsibilities, preserved the rights of the Company and its shareholders, followed the principles of honesty and trustworthiness, and carried out their duties with care and diligence. The Supervisory Committee held six meetings and has independently carried out the following work during the period under review:

1. A Supervisory Committee Meeting was held on 4th February, 2002 at the Company's headquarters, at which progress of the internal investigation as required by the Jilan Securities Regulatory Office of the China Securities Regulatory Commission was reviewed and an opinion of the Supervisory Committee was formed.
2. A Supervisory Committee Meeting was held on 4th March, 2002 at the Company's headquarters, at which members of the new Supervisory Committee were recommended.
3. A Supervisory Committee Meeting was held on 8th April, 2002 at the Company's head quarters, at which the Supervisory Committee's Report, the resolutions of the Supervisory Committee, the 2001 Annual Report, the audited financial report for 2001, the proposed allocation of the profits of 2001 and the policies for the allocation of the profits of 2002 were considered for approval.
4. A Supervisory Committee Meeting was held on 22nd April, 2002 at the Company's headquarters, at which the Chairman of the Second Supervisory Committee was elected and resolutions of the Supervisory Committee Meeting were passed and an announcement of the Supervisory Committee was made.
5. A Supervisory Committee Meeting was held on 16th August, 2002 at the Company's headquarters, reviewing the Company's 2002 Interim Report and the Supervisory Committee's Explanations on the Retrospective Adjustments to the Financial Statements of 2002.
6. A Supervisory Committee Meeting was held on 16th August, 2002 at the Company's headquarters, at which the Company's 2002 Interim Report and the Supervisory Committee's explanations regarding retrospective adjustments to the financial statements of 2002 were reviewed.
7. From 9th September to 24th September, 2002, the Supervisory Committee conducted a comprehensive review on the Company's financial statements for the first six months of 2002 and gave reasonable suggestions and advice in respect thereto in accordance with the Company Law and the Articles of Association of the Company and the relevant requirements of the laws and regulations.

The Supervisory Committee gave independent opinion on the following:

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

Pursuant to the relevant laws and regulations of the State, the Supervisory Committee of the Company has carried out investigation and supervision on the procedures on convening the Company's shareholders and directors meetings, resolutions made and the implementation of the resolutions of the shareholders meetings by the Board of Directors, the carrying out of duties by the senior management and the management system of the Company, and no act against the law, regulations and the Articles of Association of the Company has been found. The Directors and managers have not violated any laws, regulations when carrying out their duties. The Supervisory Committee considered that the performance of the Company's Board of Directors in 2002 were in compliance with relevant laws and regulations and the Articles of Association of the Company, and that they were serious and responsible, their decision procedures were systematic. The Company had further upgraded the internal management and 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 supervision and inspections on the financial system and financial situation of the Company, and considered that the Company has independent financial accounts and financial employees. The Supervisory Committee has noted the unqualified auditors' opinion from Deloitte Touche Tohmatsu Certified Public Accountants Ltd. The Supervisory Committee was of the view that the financial statements truly, accurately and objectively reflected the Company's financial situation and operating results. The Company's results were true; all expenses and costs were in accordance with relevant laws, regulations, the Articles of Association of the Company and were in compliance with the relevant related financial standards and accounting systems.

3. Use of proceeds

Issue of new shares

The issue of A shares with proceeds of RMB961 million had been used to finance the acquisition of Jining III coal mine in 2001, whereas the issue of H shares with proceeds of RMB494 million had been used to finance the acquisition of Jining III Coal Mine in 2002.

The use of proceeds in 2002 was strictly in accordance with promise made by the Company. The explanation for the use of proceeds made by the board of directors was objective and true.

4. Acquisition and Disposal of Assets

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

The purchase price of the Railway Assets was settled by the Company by a long term loan and cash in hand in 2002.

Transaction price of the above-mentioned acquisition of the Railway Assets by the Company was determined by valuation and was reasonable, and no insider dealing and impairment to shareholders' interests was found.

5. Connected transactions

The connected transactions between the Company and the Parent Company and its subsidiaries were just, fair and lawful, and did not impair the interest of the Company.

Meng Xianchang

Chairman of the Supervisory Committee

Zoucheng, PRC, 11th April, 2003