

Dear Shareholders,

The year 2000 brought most satisfactory achievement to our Company. Not only did we manage to report a satisfactory profit and cashflow despite the deep trough in coal prices, but we were able to strengthen our core competitiveness through the successful acquisition of Jining III coal mine.

Net income for the year ended 31st December 2000 was RMB748.4 million or 9.3% lower than in 1999, mainly due to the decrease of the Company's coal price by 8.8% as compared with 1999. Based on industry data, the worldwide coal prices declined by about 23% since 1998 resulting in an increasing number of loss-making coal producers. Domestically, over 80% of coal mines were in the red.

The Company has overcome these very challenging market conditions. Though the Company's average coal price decreased by 16.5% and the net profit decreased by 19.5% in the first half of 2000 compared with the same period last year, we were able to increase production and sales volume in the second half of the year, when coal prices started to gradually recover, which resulted in substantial profit for the whole year.

I am pleased to report that coal prices continue to improve in the first quarter of 2001 following the small increase in the second half of last year, by 8% domestically and about 10% on the export spot price as compared with 2000. Based on this improvement we are optimistic about our future performance.

The Board of Directors proposes to declare a final dividend of RMB221.4 million (before tax), or RMB0.082 per share (before tax). This final dividend will be declared and paid to all shareholders after the approval by the shareholders at the annual general meeting to be held on 15th June, 2001. Since listing, the Company has consistently implemented the dividend policy distributing approximately 35% of the Company's net income to the shareholders, after the deduction of statutory reserves for the relevant year.



Zhao Jingche
Chairman

"In 2000, the Company overcame these very challenging market conditions and the overall performance is satisfactory."

MAJOR ACHIEVEMENTS IN 2000

In 2000, total raw coal production reached 27.46 million tonnes, a 14.4% increase as compared with that of 1999. Total sales volume reached 26.52 million tonnes, a 17.3% increase as compared with that of 1999, realizing net sales of RMB3,599.7 million. The substantial increases of production and sales volume were principally attributable to: i) improved productivity thanks to advanced mining technology and equipment; ii) increased sales to the coastal power customers realized by our five expanded sales branches located in Shanghai, Qingdao, Guangdong, Rizhao, and Jinan; and iii) increased export sales underpinned by our reputation as a quality and reliable supplier. Annual export volume reached 10.08 million, representing a 62.6% increase year on year.

At the beginning of 2001, the Company successfully completed the acquisition of Jining III coal mine ("Jining III"). The importance of this strategic acquisition is far reaching. It enhances the Company's operating scale and strengthens the Company's position as the largest producer in China. The Company has become even more competitive in meeting the market demand. The acquisition occurred at the time when coal prices were recovering from their lowest levels. In the first quarter of 2001, Jining III has already produced 1.32 million tonnes of raw coal and is on track in reaching its designed production capacity and contributing positively to the Company within the year.

The Company is committed to the continuous improvement of the quality of its products. In 2000, the Company's product was ranked as the "No. 1 Well-known Brand" in the coal industry by the China Commodities Association and the National Quality Association.

The Board of Directors of the Company is satisfied with the Company's overall performance in 2000.

OUTLOOK FOR 2001

The current year 2001 has been generally encouraging. The Company is well positioned to gain benefits from the rising coal prices and the Jining III acquisition.

According to the PRC government's five-year plan, average economic growth in China will reach about 7% annually. Growth in the economy will continue to stimulate demand for energy, which will in turn stimulate the consumption of coal – a dominant prime energy accounting for over 67% of total energy supplies in China. Through the implementation of the Government policies of "shutting down small mines and reducing coal production", "limiting coal production and reducing coal inventories" from 1998, 47,300 small coal mines have been shut down and annual coal production has been reduced by 348 million tonnes by the end of 2000. In 2001, total coal production in China will be controlled within 950 million tonnes, and it is also

"Jining III is on track in contributing positively to the Company in 2001"

targeted that coal exports will increase to 63 million tonnes from 58.84 million tonnes in 2000. The supply and demand condition in the domestic coal market is becoming more stable. For certain regions and certain type of coal products, the supply conditions became very tight. With China continuing to import crude oil combined with the uncertainty in the oil price, the PRC government is likely to reinforce the importance of coal in the overall energy consumption structure.

The international coal market is developing in the direction favorable to the Company. In the last few years, coal producers were hit by depressed coal prices resulting in chronic under-investment. High oil prices impacts on the overall energy structure and demand for coal is increasing. With oil prices remaining high, resulting in sustained increase in freight rates, the competitiveness of our Company and other Chinese producers selling to the East Asian markets is further enhanced.

On the international front, the coal industry appears to have entered an era of unparalleled consolidation. In 2000, the ownership of international export coal mines were further concentrated. Anglo American acquired the coal interests of Shell. Rio Tinto acquired Peabody's Australian coal assets. More recently Billiton and BHP have proposed a merger. This is a worrying trend for the buyer market in that further concentration of ownership and reduced mine investment and capacity expansion usually results in increased prices. We remain one of the few pure coal companies untainted by other mining sector activities and will be a major beneficiary of this trend.

The mood amongst coal industry players is the most upbeat that we have seen in the last six years, indicating producers are expecting very robust outcomes for the industry this year. This would represent the first export coal price increase in over 5 years. Chinese producers are even better positioned than the other major exporting countries by virtue of the much closer proximity to key markets, such as Japan, South Korea, Taiwan and so on.

The Board of Directors of the Company is confident that both overseas and domestic coal markets will continue to realize a steady increase in demand and coal prices and the Company's competitiveness in East Asian markets will be further enhanced. The Company has so far generated substantial orders for 2001, including sales contracts and letters of intent for 33.2 million tonnes of coal. This will represent an increase of 6.68 million tonnes, or 25.2% in comparison with the actual sales of 2000. The average sales price of domestic coal in the first quarter of 2001 has increased by some RMB10 per tonne, or about 8% as compared with that in the end of 2000. The Company's annual export sales are likely to exceed 13.2 million tonnes, and the export to Japan will reach historical high levels of 10 million tonnes. Export contract price negotiations have concluded with a US\$5.54 per tonne increase, or about 19.4% in comparison with that in 2000.

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OPERATING STRATEGY

The Company's core strategies are to expand our core business scale, to enhance domestic and export market shares, to deliver economies of scale and business synergy, to continuously reduce cost and enhance profitability, and to reward our shareholders with high long term stable returns. The Company strives to becoming one of the top 5 coal export producers in the world.

The Company intends to focus on the following four operating strategies in 2001: i) increasing both coal production and sales volume, especially to the coastal power customers in China and enlarging export volumes, especially to the power customers and the steel companies using PCI coal in Japan, South Korea and Taiwan; ii) acquiring high-grade assets at home and abroad especially in situations where we can leverage our competitive position and enhance investment returns; iii) further improving and perfecting the top caving mining technology and improving efficiency; and iv) reviewing the potential to introduce clean coal technology, which can process coal into clean energy used in electricity generation, chemical industry, transportation and so on.

In 2001, the Company will take the following measures to control operating costs: i) reducing the number of work force; ii) increasing coal production and thereby reducing fixed unit costs and decreasing the consumption of materials and power through advanced mining technology; iii) further upgrading roof support and auxiliary transportation system and enlarging bolting net scales to increase productivity; and iv) strengthening the operation and management and reinforcing the implementation of cost reduction measures.

Finally, I would like to express my heartfelt gratitude to the management and all staff of the Company for their hard work as well as to all our shareholders for their kind support. Already challenged by the weak market in 1998, 1999 and 2000, the Company now becomes leaner, more efficient, and better equipped with more advanced world-class technology. With rising coal prices and increasing sales volume, we are confident of delivering a significantly improved performance in 2001.

On behalf of the Board

Zhao Jingche

Chairman

Zoucheng, PRC, 20th April, 2001

“Focusing on four operating strategies should realize a sustained and stable profit growth”

“With rising coal prices and increasing sales volume, we are confident of delivering a significantly improved performance in 2001”