

Dear Shareholders:

It is my pleasure to report that the Company significantly improved its performance over 2001. Net income for the year ended 31st December, 2001 was RMB970.9 million, representing a 29.7% increase over that of 2000.

In accordance with the Company's consistent dividend policy, the Board of Directors of the Company proposes to declare a final dividend of RMB287 million (before tax), or RMB0.100 per share (before tax). The final dividend will be declared and paid to all shareholders of the Company after approval by the shareholders at the forthcoming annual general meeting (the "AGM") to be held on 7th June, 2002.

MAJOR ACHIEVEMENTS IN 2001

In 2001, we successfully took advantage of the strengthening domestic and overseas coal markets when the coal prices started to pick up and implemented operating strategies with increasing production and sales volume of coal, enlarging export volumes and upgrading product quality. The Company has also made progress in participating in the further industry consolidation.

In 2001, the Company produced 34.02 million tonnes of raw coal, representing a 23.9% increase over 2000 and sold 31.04 million tonnes of coal, representing a 17.0% increase over 2000, among which sales of export coal were 12.67 million tonnes, an increase of 25.6% year on year. The Company's net sales was RMB4,876 million and net income was RMB970.9 million in 2001, representing a 35.5% and 29.7% increase over 2000, respectively. The Company improved its sales and marketing strategy and reduced accounts receivable significantly in 2001.

In 2001, we had carried out various measures to improve operation standards in coal production, preparation and transportation to promote the Company's reputation as a quality and reliable coal supplier. We had invested in improving auxiliary transportation systems, safety conditions and coal mining related facilities.



Zhao Jingche
Chairman

Net income for the year ended 31st December, 2001 was RMB970.9 million, representing a 29.7% increase over that of 2000.

The Company purchased Jining III coal mine and special purpose coal transportation railway assets at the beginning of 2001 and 2002, respectively, after the acquisition of Jining II coal mine on 1st January, 1998. Through the above-mentioned three acquisitions, the Company was able to avoid competition with the Parent Company, reduce connected transactions with the Parent Company, and increase the Company's earnings ability. In addition, the Company's position as the most profitable coal enterprise in China was further strengthened. In 2001, Jining III coal mine produced 5.11 million tonnes of coal with net sales and profit before tax reached RMB722.5 million and RMB161.8 million, respectively, in line with the performance target we set for the acquisition.

To partially finance the acquisition of Jining III coal mine, the Company has issued 100 million A shares and 170 million H shares in 2001.

Directors of the Company are satisfied with the successful implementation of operating strategies, expansion of the Company's business scale and increasing profit in 2001.

OUTLOOK FOR 2002

In 2002, the demand for coal in domestic and overseas markets should increase which should translate into firmer coal prices compared to that of last year. The Company will benefit from the increase in coal demand.

In general supply and demand of coal in China will be in balance, and the price is estimated to be generally higher than that of last year. In 2001, the Chinese Government strengthened its measures to shut down small coal mines. From 1998 to the end of 2001, 58,000 small coal mines throughout China were shut down, reducing annual coal production capacity by approximately 300 million tonnes. This led to the rise of coal price and increase of coal import volume in areas such as East and South China. To alleviate the shortage of coal supply in these areas, the Chinese Government had approved 10,500 small coal mines with annual production capacity of 100 million tonnes to resume production at the end of 2001. Coal price in 2001 was in the rising trend. The Chinese government estimated GDP growth for the country will be 7% or higher. Stable and continuous growth of the economy will continue to support strong demand for coal. At the end of 2001, total national coal inventory had dropped to the lowest historical level of 115 million tonnes. In 2002, it is estimated that coal export volume and demand for thermal will further increase, demand and supply of coal in the domestic coal market will be in equilibrium, resulting in a stable price. Overall coal price in 2002 is likely to be higher than that of last year.

The demand for coal in domestic and overseas markets is increasing. The Company has received satisfactory orders.

The Company will benefit from the stable international coal market. Coal retains its position as the leading power energy source in the world due to its low cost and stable supply, with a 44% share of the global electricity generation. As major coal importers in East Asia, Japan and South Korea increased their coal import requirements, and the market remained stable with an increasing price trend. On the basis of substantial increase in the coal export volume for the last 2 consecutive years, the Chinese government continues to encourage increase in coal export volume. It is estimated that the coal export from China in 2002 will exceed 90 million tonnes. The world coal industry is in the trend of consolidation and the controlling power of the top 10 suppliers will be further strengthened, which is beneficial to the stability of the coal price. The stabilization of the international coal market will also be beneficial for the Company's steady development.

The Company has received satisfactory orders. The Company has so far signed sales contracts and letters of intent for 35 million tonnes of coal, which is 12.8% higher than the total sales volume in 2001, of which approximately 14 million tonnes are earmarked for export. The composite average coal price of sale contracts implemented in the first quarter of 2002 was approximately 12% higher than that of 2001.

Keeping on carrying
out the Four
Operating Strategies
and improving returns
to shareholders.

OPERATING STRATEGIES

Promoting output, sales volumes and export volumes. Coal products of the Company are enjoying good reputation among East Asian customers and is benefiting from short transportation distances to the markets and low freight rates. The Company will further expand the sales volumes in East Asia markets, increase sales volumes to electricity customers in coastal areas in China and raise the sales ratio of clean coal.

Further innovation of the long-wall top coal caving ("LTCC") technology. Through integrating facilities and improving processes, the LTCC equipment will be upgraded to increase the annual output from a single working-panel from 3 to 4 million tonnes to 4 to 7 million tonnes, resulting in productivity improvement. This will be in addition to the improvement of hoisting systems, underground transportation systems, surface storage, loading and unloading and transportation systems and preparation systems that will enhance production capacity of the mines, reliability of systems and operation safety standards.

In 2002, the Company will take the following measures to reduce costs: i) increasing production capacity, coal output and unit efficiency through technology innovation to reduce unit fixed costs; ii) innovating roof support system and auxiliary transportation system, and enlarging bolting net utilisation to decrease consumption of materials and reduce labor costs; and iii) applying ERP management system to improve the management standard and keep costs and expenses under strict control.

Proactively seeking acquisition opportunities. The Company has successfully expanded its operating scale through acquisitions. Now, the Chinese government is actively promoting the implementation of the Tenth Five-Year Plan of Coal Industry, and promoting the acceleration of the coal industry consolidation. The Company will leverage on its advantages in technology, market position, management, etc. to seek further opportunities to acquire assets in line with the consolidation trend, to further improve its earnings and expand the business scale.

We endeavor to achieve a total sales volume exceeding 34 million tonnes in 2002 and a reduction in unit cost as compared with that of 2001.

By taking the above measures, we endeavor to achieve a total raw coal output of 37 tonnes, a total sales volume exceeding 34 million tonnes in 2002, and a reduction in unit cost as compared with that of 2001.

I will retire from the Chairmanship of the Board after the first extraordinary general meeting in 2002, which will be held on 22nd April, 2002, and I shall concentrate myself to the management of Yankuang Group Corporation Limited. Being the Chairman of the Board of Directors of the holding company, I shall continue to support the development and management of the Company. I am fully confident that the new directors to be elected are capable to lead the Company to a new era. Finally, I would like to express my sincere gratitude to the management and all staff of the Company for their hard work and to all our shareholders for their sincere support.

On behalf of the Board

ZHAO Jingche

Chairman

Zoucheng, PRC, 8th April, 2002