

The Company's operating results significantly improved as coal production and sales volume increased in 2002.



Mo Liqi
Chairman

Dear Shareholders:

It is my pleasure to report that the Company has significantly improved its performance in 2002. Net income for the year ended 31st December, 2002 was RMB1,222 million, representing a 25.9% increase over that of 2001.

In accordance with the Company's consistent dividend policy, the Board of Directors of the Company proposes to declare a final dividend of RMB298.5 million (before tax), or RMB0.104 per share (before tax).

MAJOR ACHIEVEMENTS IN 2002

In 2002, the Company achieved growth in operating results and secured market share in domestic and overseas coal markets, and successfully implemented operating strategies of increasing production and sales of coal, enlarging export volumes and upgrading product quality. The Company has also further improved its marketing system.

In 2002, the Company produced 38.43 million tonnes of raw coal, representing a 13.0% increase over 2001; sold 35.05 million tonnes of coal, representing a 12.9% increase over 2001, among which sales of export coal were 14.47 million tonnes, an increase of 14.2% over 2001. The Company's net sales was RMB6,356.4 million, among which net coal sales was RMB6213.9 million, and net income was RMB1,222 million in 2001, representing a 27.4% and 25.9% increase over 2001, respectively.

In 2002, the Company's over-all profitability level had increased by the implementation of the following measures regarding the production and sale of coal, such as, further increasing the ratio of clean coal products and optimizing the coal products variety structures; further raising quality management standard in coal production, preparation and transportation which raised the reputation of its products. Its coal product was

rated as "Best-selling Brand in China in 2002" by China Market Investigation and Assessment Center. The Company continued to improve the Long-wall Top Coal Caving mining techniques for medium and thick coal seams. The Company strengthened the research and development for the medium and thick coal extraction, enhance the production system and auxiliary facilities. The Company increased capital input to transform production safety facilities and to improve production safety.

The Railway Assets acquired at the beginning of 2002 contributed net income of RMB131.8 million to the Company.

At the beginning of 2002, the Company acquired the Railway Assets from the Parent Company. As a result, connected transactions between the Company and the Parent Company had been reduced, and the Company's earnings ability increased as the Company had integrated its coal production, transportation and selling system. In 2002, the Railway Assets transported 27.04 million tonnes of coal. The Railway Assets contributed net income of RMB131.8 million to the Company if the Railway Assets was presented as an operating segment.

The Company's Board of Directors is satisfied with the successful implementation of operating strategies, expansion of the Company's business scale and an increased in profit in 2002. We are optimistic on our future performance.

OUTLOOK FOR 2003

The Company aims to have a stable increase in operating results by enlarging sales volume, adjusting products structure and controlling production costs.

The coal demand in domestic and overseas markets will maintain stable and coal price is expected to reach last year's average level. The Company aims to have a stable increase in operating results by enlarging sales volume, adjusting products structure and controlling production costs.

The coal supply and demand in domestic market will maintain stable. The Chinese government estimated a 7% or more increase in GDP for 2003. The stable and continuous growth in China's economy, coupled with an increase in coal consumption in electricity power generation, construction and metallurgical industries will increase the domestic demand for coal over that of 2002. On the basis of shutting down small coal mines in the past few years, the Chinese Government will strictly regulate the production permits and production safety of small coal mines. Small coal mines will be closed for safety concerns. Coal production and operation will be further regulated and increase of coal supply will be controlled. Total domestic supply of coal in 2003 will remain as 2002. The demand and supply of coal in the domestic coal market will be in equilibrium and with a stable price.

The coal demand in domestic and overseas markets will maintain stable and coal price is expected to reach last year's average level.

Coal has an unique position in energy source in the world. Coking coal is slightly over-demanded while steam coal demand will increase steadily. Coal has an unique position in the world's energy source, with a 44% share of global electricity generation due to its low production cost and stable supply. As the major coal importers being Japan, South Korea and Taiwan district, which make up 75% of total coal import volume in Asia, will continue to increase their demand for power, the demand for thermal coal will continue to increase. We will experience a decrease in thermal coal price in 2003 as compared with 2002 due to competition from coal suppliers. There will be a slight fall in coking coal price although there will be a huge increase in demand as compared to 2002. Due to increases in both demand for and price of coking coal, the semi-soft coking coal will enjoy an increase in demand and its price is expected to maintain stable.

The Iraqi War and the OPEC oil policy will have little impact on the demand and supply of coal and coal prices in the near future. From 1st October, 2003, the Japanese Government will impose import duties on thermal coal. Import duty on thermal coal will be YEN 230/tonne. Such import duty will have little impact on the coal export of the Company.

The Chinese government will continue to encourage coal exporters to enlarge their coal export volume. It is estimated that China's coal export volume in 2003 will exceed 90 million tonnes.

Order volume of coal continues to increase. The Company has so far signed sales contracts and letters of intent for 39.26 million tonnes of coal, which is 4.21 million tonnes or 12.0% higher than the total actual sales volume in 2002, of which approximately 14 million tonnes are planned for export which is approximately the same as the last year.

Order volume of coal continues to increase in 2003.

It is predicted that the coal sales price of the Company in 2003 will be slightly lower than that of 2002. The domestic average coal sale price will remain the same as last year while the export average coal price will be slightly lower than that of 2002.

OPERATING STRATEGIES

Promoting output and sales volumes, and stabilizing export volume. Coal products of the Company enjoy good reputation in domestic and overseas coal markets with great market potentials. In 2003, the Company will further expand its production and sales volumes to meet the demand of electricity and metallurgical customers in coastal areas in China. The coal export volume for 2003 will maintain the same as 2002.

Increasing profit by improving product quality and adjusting products structure

Improving product quality and adjusting products structure. On the basis of an equilibrium in demand and supply, high quality coal products have greater market potentials and are more profitable due to the government's energy policy and increase in consumption in high quality coal products. The Company will continue to utilize more powerful coal washing capacity to increase product quality, and increase the ratio of coal products with higher selling prices in the Company's product structure, such as clean coal.

Upgrading the long-wall top coal caving ("LTCC") technology and improving the mining technology for medium and thick coal seams. The Company's aim is to reach a coal output volume of 40 million tonnes in 2005. By improving the LTCC technology, it is estimated that coal output will reach 40 million tonnes in 2003. One of the key operating strategies of the Company is to maintain its lead in LTCC technology and mining technology for medium and thick coal seams. Based on the present LTCC technique, upgrading the technological equipment to increase the annual output of single working-panel from 3 to 4 million tonnes to 4 to 7 million tonnes and to maintain the lead in LTCC technology. Based on an improved roof support system with 2 rows of pillars used in mining technology for medium and thick coal seams, to transform the hoisting systems, underground transportation systems, and surface coal handling systems; to further improve the mining technology system for medium and thick coal seams. Thus, the Company can enjoy technical advantages for outward development and maintain growth in coal output.

In 2003, the Company will take the following measures to reduce costs: i) increasing production capacity, coal output and production efficiency, and reducing unit cost of production through technological innovation; ii) innovating roof support system, auxiliary transportation system and enlarging bolting net utility, reducing the consumption of materials and reducing labor costs; iii) improving ERP management system, raising management standard and strictly control costs and expenses.

Seeking opportunities for acquisition and exploration of new coal mines. The Company has successfully expanded its operating scale through acquisitions. The Company will make good use of its advantages in technology, market share, management, etc. to seek opportunities in domestic and overseas markets and other businesses to acquire quality coal mines and explore new coal mines. In this way the Company will enhance its profitability level and expand the business scale for sustainable development.

In 2003, the Company aims to have raw coal output of 40 tonnes with sales volume of 38 million tonnes while the unit costs will be not higher than that of 2002.

In 2003, the Company will achieve the following object: raw coal output will reach 40 tonnes with sales volume of 38 million tonnes while the unit costs will be not higher than 2002.

Finally, I would like to express my sincere gratitude to the management and staff of the Company for their hard work as well as to all our shareholders for their sincere support. I am confident that the Company will achieve good operating results and a stronger competitive advantage and a stable development in 2003.

On behalf of the Board

Mo Liqi

Chairman

Zoucheng, PRC,
11th April, 2003