

Chairman's Statement



The Company's operating results steadily grew as coal production and sales volume increased in 2003.

Mo Liqi
Chairman

Dear Shareholders:

It is my pleasure to report that the Company has steadily increased its performance results in 2003. Net income for the year ended 31st December, 2003 was RMB1,386.7 million, representing a 13.5% increase over that of 2002.

To reward the shareholders of the Company (the "Shareholders") for their long-term support to the Company, the board of Directors proposes to declare a special cash dividend to the Shareholders for the year 2003 in addition to the dividend payable in accordance with the Company's consistent dividend policy. The 2003 cash dividends payable in accordance with the Company's consistent dividend policy are RMB327.2 million (before tax) or RMB0.114 per share (before tax); and the 2003 special cash dividends payable are RMB143.5 million (before tax) or RMB0.05 per share (before tax). The above dividends totally amounted to RMB470.7 million (before tax) or RMB0.164 per share (before tax). The proposed dividends payment will be presented to the Shareholders for approval at the Company's annual general meeting for 2003, and will be paid to all Shareholders within two months after the forthcoming annual general meeting.

MAJOR ACHIEVEMENTS IN 2003

In 2003, the production and sale of coal flourished in domestic and overseas coal markets, basically achieving an equilibrium in demand and supply, while in certain regions, supply still fell short of demand. Coal price remained stable in its upward movement.

In 2003, the Company secured the domestic and overseas markets, successfully implemented operating strategies such as increasing production and sale of coal, upgrading product quality, optimizing product structures, improving marketing system and tightening cost control, and achieved stable growth in operating results.

In 2003, the Company produced 43.28 million tonnes of raw coal, representing a 12.6% increase over that of 2002; 39.41 million tonnes of saleable coal were sold, representing a 12.4% increase over that of 2002, among which sales of coal in domestic market were 25.78 million tonnes, representing an increase of 25.2% over that of 2002; export sales were 13.63 million tonnes, representing a decrease of 5.8% over that of 2002. The Company realised net sales of RMB6,948.9 million, representing a 9.3% increase over that of 2002. The unit cost of coal sales was RMB93.57, representing a decrease of 0.9% over that of 2002. The Company realised net income of RMB1,386.7 million, representing a 13.5% increase over that of 2002.

In 2003, the Company increased its profit level by the implementation of the operating strategies of improving the Long-wall Top Coal Caving mining techniques and the auxiliary facilities, resulting in the further increase of productivity and efficiency. The Company reached its target of producing 40 million tonnes of raw coal two years ahead of schedule, among which the production volume of Jining III coal mine reached 10.08 million tonnes annually, representing a 25.5% increase over that of 2002. The consolidated net prices of coal products increased as a result of optimizing the product mix, transportation structure, user mix and seaport transportation structure etc. The impurity ratio of clean coal decreased to 1.23kg/10,000 tonnes due to improved quality management in areas such as coal production, preparation and transportation. Product quality and reputation in the market were further boosted. The unit cost of coal sales decreased as compared with that of 2002 as a result of the improved management and tightened cost control. By allocating more resources to improve production safety facilities, the Company's production safety level has ranked top among its counterparts in the international market.

In 2003, the Company completed the construction of the first phase of Jining Sihe Coal Port; acquired Zoucheng Nanmei Shipping Co., Ltd. and consolidated and expanded the coal markets along the Jinghang Grand Canal and the Yangtze River, improving the Company's marketing system.

Since the listing of the Company, the Company successfully made three strategic acquisitions, namely the acquisitions of Jining II coal mine, Jining III coal mine and the Railway Assets. In 2003, the two coal mines it acquired produced 16.13 million tonnes of raw coal or 37.3% of the Company's raw coal output; whereas the transportation volume of the Railway Assets was 28.26 million tonnes. The Railway Assets, if calculated as a separate segment of the business, contributed a net income of RMB135 million to the Company in 2003. The three assets acquisitions enlarged the scale of the Company's principal operations, increased its profit level and boosted its capability to integrate and acquire quality assets, fulfilling the promises made to the Shareholders by the management of the Company.



The Company's board of Directors is satisfied with the successful implementation of operating strategies, expansion of the business scale and an increase in profit in 2003. We are optimistic on our future performance.

The Railway Assets acquired at the beginning of 2002 contributed net income of RMB135.0 million to the Company.

Chairman's Statement (Cont'd)

OUTLOOK FOR 2004

In 2004, the demand for coal in domestic and overseas markets will further increase and coal price is expected to rise significantly.

The demand and supply of coal in the domestic coal market will maintain in equilibrium. The supply of steam coal in certain regions and coking coal all over the country will fall short of demand and coal price is expected to rise. The Chinese government estimated the economic growth to stay at 7% or higher in 2004. The rapid development of certain infrastructure industries such as electric power, metallurgical, construction and chemical industries will further increase demand for coal. Such increased demand is expected to exceed 160 million tonnes for the whole year. The Chinese government encourages the development of large coal corporations. In order to raise the safety of coal mines and improve the operation of the coal industry, the country will continue to regulate and close sub-standard coal mines.

The strong demand for coal in the international market will lead to a surge in coal price. Oil price is moving upward as a result of economic recovery across the world, especially in the U.S.A. and Japan. The increase in coal consumption in electric power generation in Japan will stimulate demand for steam coal. The rapid development of the international iron and steel industry will further exert pressure on the supply of coking coal, which in turn will boost demand for semi-soft coking coal. In 2004, due to the impact from the decrease in Chinese coal exports and an increase in demand for coal in the international market, the supply in the Asian coal market will fall short of demand. The strong Australian dollars, the ever increasing sea freight and the decrease in Chinese coal exports will push up coal price in the Asian market, the Company's competitiveness in the northeast Asian coal market will be further strengthened. On 15th April 2004, the spot price of the Australian BJ steam coal was USD54.85/tonne, representing an increase of 131%.

From 1st January 2004, the Chinese government implemented a new coal export tax refund policy under which the tax refund for the Company's exported coal products will be adjusted from 13% to 11%. This will pose a negative impact on the Company's profit from coal export. From 1st July 2004, the Chinese government will implement the "Administrative Measures for Coal Export Quota". As the Company's coal products enjoy good reputation in the international market and its export volume accounts for a relatively larger proportion in the Chinese gross coal export, such policy will have little impact on the coal export of the Company in 2004.

In 2004, the Company has so far signed domestic sale contracts, letters of intent and export plans of 41.42 million tonnes, which is 5.1% higher than the actual sales volume in 2003, of which 11.92 million tonnes are for domestic sale contracts, 17.50 million tonnes are for domestic letters of intent and 12 million tonnes are for export plans.

The export and domestic sale prices of coal of the Company are predicted to rise substantially in 2004. The consolidated average coal price of signed domestic sale contracts so far this year increased by 9.9% over that of 2003. At present, the Company is still negotiating its export coal contracts. With regard to the spot price trend in the international market and the export coal contracts for 2004 signed between the Australian coal producers and the northeast Asian customers, the export coal contract prices of the Company are predicted to rise substantially in 2004. Coal prices of signed domestic letters of intent and export plans will fluctuate in response to market changes.

OPERATING STRATEGIES

The Company will continue to increase its profitability and Shareholders' return through organic growth and outward expansion of the Company. The operating strategies of the Company for 2004 will be focused on two aspects: i) investing in and acquiring high quality coal mine assets, promoting deep processing of coal and expanding its operating scale; and ii) improving its operational management and boosting the profitability of its existing coal mines.

- i) Acquiring high quality coal mines, promoting deep processing of coal and expanding the operating scale of the Company. The Company already possesses basic advantages to speed up its own development: the lead in Long-wall Top Coal Caving mining techniques in the international market, good reputation in domestic and overseas markets, sophisticated coal mine management and experience in coal mine investment. The Company's standard of investments and acquisitions of coal mines includes abundant coal reserve being suitable for Long-wall Top Coal Caving mining techniques; prime quality coking coal, steam coal or coal which is suitable for deep processing; and the investment return not being lower than the existing level of its coal mines.

The deep processing of coal which the Company intends to promote will be coking and coal chemicals. More sophisticated techniques and greater market potential are already available for deep processed coal products which can generate higher added value and better investment income than that of coal products. The Company has been engaged in technological research and development and market research for years and processes the requirements to promote deep processing of coal. Our development in deep processing of coal will be on a gradual basis to extend the coal mine industry chain and foster new economic growth for the Company.

- ii) Improving operational management and boosting profitability of the existing coal mines. The Company aims to boost its operating results by stabilizing its existing coal output and sales volume, improving operating strategies, increasing sales prices and tightening cost control.

Firstly, stabilizing the existing coal output and sales volume. The existing coal output is to be stabilized by enhancing the Long-wall Top Coal Caving mining techniques and auxiliary facilities and improving roof support system with 2 rows of pillars used in mining technology for medium and thick coal seams. The Company will build up a reasonable coal sales network in the light of trends in domestic and overseas markets as well as in different regions in the PRC.

Secondly, implementing the "Four Optimizations" for sale of coal to increase net product prices. The Company will utilize its more powerful coal washing capacity to continue improving the quality of its coal products. It will also implement the "Four Optimizations" for sale of coal such as optimizing the product mix and user mix to increase product sale prices; and optimizing the transportation structures and port flow structures to reduce sale cost and increase net product prices.

Thirdly, improving management and cost control. Cost of sale of the Company will be subject to rise in 2004. The Company will take the following measures to minimize the impact of increased expenditures: fully utilizing ERP management system, improving the financial control system and the overall budgeting management system; improving material purchase management, reducing intermediary purchases and material reserve by regulating bidding and purchase; reducing the cost of raw materials and equipment; continuing the improvements on roof support system and auxiliary transportation and enlarging bolting net utility and reducing the consumption of materials.

Chairman's Statement (Cont'd)

By implementing the above measures, the Company will strive to achieve the following objectives in 2004: sales volume to exceed 40 million tonnes and, endeavour to contain the increasing cost resulting from objective circumstances and to maintain the unit cost of production at the 2003 level.

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 support. Through the hard work of the management, I am confident that the Company will achieve good operating results and enjoy stronger competitive advantage and will strive to make improvements in areas such as foreign investments and coal mine acquisitions in the coming year.

On behalf of the Board

Mo Liqi

Chairman

Zoucheng, PRC,
16th April, 2004