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Wang Xin
Chairman

Dear Shareholders,

It is my pleasure to report that the Company has achieved significant growth in its performance in 2004. Net income for the year 2004 was RMB3,154.3 million, representing a 127.5% increase over that of 2003.

The board of directors of the Company (the "Board") recommends, in addition to declaring a cash dividend to the shareholders of the Company (the "Shareholders") in accordance with the dividend policy persisted by the Company, a bonus issue of shares through the conversion of the capital reserve of the Company as a return to the long-term support of the Shareholders, that is a cash dividend of RMB0.26 (tax included) per share is recommended to be declared and 6 shares for every 10 shares are recommended to be issued to the Shareholders. The above proposed plans will be submitted for approval in the 2004 annual general meeting of the Company and, if approved, will be implemented within 2 months after the 2004 annual general meeting of the Company.

ACHIEVEMENTS IN 2004

In 2004, in both domestic and overseas coal markets, demand thrived but supply fell short of demand, prices recorded a significant increase.

The Company, by successfully stabilizing the production volume, balancing the sales in both domestic and overseas markets, optimizing product mix and use mix, optimizing transportation structure and port flow, continuously enhanced the product quality and strengthened a series of operating strategies such as cost controls, resulting in the significant growth of the Company's profits.

In 2004, the Company produced 39.15 million tonnes of raw coal, representing a 9.5% decrease from 2003 and sold 38.00 million tonnes of coal, representing a 3.6% decrease from 2003. The average coal price was RMB272.31/tonne, representing a 57.9% increase over 2003. The Company's net sales in 2004 were RMB10,575.1 million, representing a 52.2% increase over 2003 whereas its net income was RMB3,154.3 million in 2004, representing a 127.5% increase over 2003.

In December 2004, the Company acquired the Austar Coal Mine in Australia, which is the first successful acquisition of overseas coal mine assets by a Chinese coal mine company. This acquisition set up the platform for the Company's overseas development, which is beneficial to the Company's further development of overseas coal resources and the promotion of the capitalization of Longwall Top Coal Caving mining techniques.

In July 2004, the Company issued 204 million new H shares and raised net proceeds of RMB1,757 million. The proceeds were used in the development of the new coal mine projects in Shandong Province and Shaanxi Province and the methanol project in Shaanxi Province. The new projects is beneficial to enhance the scale of operation of the Company and its profitability and continuously increase the return to the Shareholders.

The Board is satisfied with the successful implementation of the operating strategies, the expansion of the business scale and the increase in profits in 2004.

OUTLOOK FOR 2005

In 2005, the demand for coal in both domestic and overseas markets is expected to be strong and the coal price is expected to maintain a high level.

Supply falls short of demand in the domestic coal market. The supply of certain types of coal products such as prime steam coal and coking coal falls short of demand and coal price is expected to be higher than the average price in 2004. The Chinese government estimated the economic growth of China will maintain at 8% in 2005. The increased demand in coal of certain coal-demanding industries such as power and metallurgical industries is expected to exceed 150 million tonnes for the whole year. The Chinese government will strengthen the safety and management of coal mines, control the over-capacity production of coal mine enterprises, continue to consolidate and close unqualified coal mines and maintain an equilibrium between the increase in coal demand and the increase in coal supply. The encouragement of large coal enterprises and the implementation of measures such as the linkage between coal and electricity prices by the State will be beneficial to the maintenance of the long-term development of the coal industry and the enhancement of the competitiveness of large coal enterprises.

The demand for coal in the international market will increase and the coal prices will maintain at a high level. The overall world's economy recovers, in particular, the continuous growth of the U.S.A., Europe and Japan, the demand of power in the international market increases, the coal prices maintain a high level, the demand for coal in metallurgical and power industries increases, the supply of coking coals falls short of supply and the demand for steam coals thrives. The lack of increase in export volume of the world's major coal producers and China's continued control in coal exports and the ever increasing sea freight will push up the coal prices in the Asian market, increasing the Company's competitiveness in the northeast Asian coal market.

In 2005, the Company has so far signed domestic coal sale contracts, letters of intent and made coal export plans, totaled 39.80 million tonnes, which is 4.7% higher than the actual sales volume in 2004, amongst which domestic sale contracts of 10.89 million tonnes have been signed, domestic letters of intent of 19.91 million tonnes have been signed. The coal export plan of the Company in 2005 is 9 million tones. Currently the coal export negotiations have not yet concluded.

The average sale prices of coal of the Company are expected to achieve a significant growth in 2005, compared to that of 2004. The consolidated average coal price of signed domestic sale contracts so far this year increased by approximately 32.7% over that of 2004. Certain coal prices of signed domestic letters of intent will fluctuate in response to market changes.

OPERATING STRATEGIES

The Company will use best endeavors to increase its profitability and Shareholders' return through its internal development and external expansion. In 2005, the Company will focus on the following two operating strategies:

- i) **Speeding up the pace of the existing external resources development projects and continuing to look for new acquisition opportunities.** The Company will endeavour to accomplish the preparatory works for development and extraction prior to the commencement of production by Austar Coal Mine, creating the necessary conditions for operating the productions. The Company will also increase the pace of construction progress of the methanol project in Shaanxi Province, push forward the business negotiations of the two new coal mine projects in Shandong and Shaanxi Province and expedite the development and construction of new coal mine projects. . The Company will continue to look for new acquisition opportunities in coal and other relating industries, expand the scale of its coal mine assets, develop coal deep processing business, extend the coal industry chains and enhance the development potentials of the Company.
- ii) **Improving operation and management and enhancing the profitability of the existing coal mines.** The Company aims to achieve growth in its results by stabilizing its existing coal output and sales volume, deepening the "Four Optimizations" for the sale of coal and strengthening cost control measures.

Firstly, stabilizing the existing coal output and sales volume. The Company aims to maintain the stability of the existing coal production volume by optimizing and adjusting mine production system, improving the Long-wall Top Coal Caving mining techniques and auxiliary facilities and improving the mining techniques for medium and thick coal seams by applying 2-legged shields. The Company will, pursuant to the trends in domestic and overseas markets, build up a reasonable coal sales network and complete its sale targets of 38 million tonnes for the whole year.

Secondly, deepening the "Four Optimizations" for sales of coal and increasing net product prices. The Company will continue to improve the quality of its products and to enhance the brand and market image of the Company. The Company will optimize its products mix and user mix to increase the sale price of its products and optimize the transportation structure and port flow structure to reduce sale cost and increase net product sale prices.

Thirdly, tightening the cost control measures. The Company will improve the financial control system and the budget management system, implement the budgeting management for its capital, costs and currency funds and control the risk in capital, aiming at reducing the increase in costs and expenses resulting from the increase in commodities prices.

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. I am confident that the Company will attain great achievement in the development and construction of new projects in 2005 and that the Company's existing coal mines will achieve good economic efficiency and stronger competitiveness.

On behalf of the Board

Wang Xin
Chairman

Zoucheng, PRC,
25th April, 2005