

Chairman's Statement



Wang Xin CHAIRMAN

Thanks to the great support of all the shareholders of the Company (the "Shareholders") and the hard work of our staffs, the income attributable to equity holders of the Company for the year 2006 was RMB2,373.0 million. To reward the Shareholders, the board (the "Board") of the directors of the Company (the "Directors") proposes to declare a special cash dividend to the Shareholders for the year 2006 in addition to a cash dividend payable in accordance with the Company's persistent dividend policy.

The 2006 cash dividend payable in accordance with the Company's persistent dividend policy is RMB590.2 million (tax included) or RMB0.12 per share (tax included); and the 2006 special cash dividend is RMB393.5 million (tax included) or RMB0.08 per share (tax included) to the Shareholders. The aggregate amount of these two types of dividends is RMB983.7 million (tax included) or RMB0.20 per share (tax included). Subject to approval by the Shareholders at the 2006 Annual General Meeting (the "2006 AGM"), the dividends mentioned above will be declared and paid to all Shareholders within two months after the 2006 AGM.

The audit committee of the Company (the "Audit Committee") has reviewed the results of the Company for the year 2006.

ACHIEVEMENTS IN 2006

The Company, by successfully implementing operation strategies such as stabilizing the output and sales volume of coal, improving product quality, optimizing product mix and strengthening cost control and overcoming negative factors such as cost increase, has made comparatively good achievements for the year 2006: the output of raw coal was 36.05 million tonnes, representing an increase of 4.0% over that of 2005; sales of coal was 34.66 million tonnes, representing an increase of 6.7% over that of 2005; net income attributable to equity holders of the Company was RMB2,373.0 million, representing a decrease of 17.6% over that of 2005.

The Company's strength in sustainable development has been enhanced through the development of new projects. Both Austar Coalmine in Australia and Tianchi Coalmine in Shanxi Province have been put into operation and will make contributions to the Company in 2007. The commercial negotiation of Yushuwan Coalmine in Shaanxi Province has been completed, and the procedures regarding incorporation are being handled. The development of Zhaolou Coalmine in Shandong Province, the 0.6 million tonnes methanol project of Shaanxi Province and the 0.1 million tonnes methanol project in Shanxi Province is progressing smoothly.

The Company's brand name and image have been greatly promoted through continuously regulating the Company's operation and improving operation management. Pursuant to requirements of the US Sarbanes-Oxley Act, the Company has basically completed the construction of internal control system. After obtained the National Quality Award, the Company has been endowed with the Asia-Pacific International Quality Award by the Quality Association of Asia Pacific Region in 2006, by which the Company became the third Chinese enterprise which has won this honor. Moreover, the Company has been elected as 2005 Nifty Fifty Blue Chip Listed Companies with Most Growing potential in China by the magazine New Finance and Economics, and rated as 2005 China Top 50 A Share Listed Companies in Investors' Relationship Management by Capital Weekly.

Chairman's Statement (*Cont'd*)

OUTLOOK FOR 2007

The demand and supply of coal in the domestic market is generally in equilibrium, and the coal price maintains stable. Since China's economic growth rate is maintained above 8%, the demand of coal by electricity power, metallurgy, building materials, chemicals and other sectors in primary industry will still strong. The domestic coal resource supply will be increased due to additional production from newly constructed coalmines as well as policy adjustment by the Chinese Government, which abolished the VAT rebate for coal export, levied additional coal export tariff and reduced coal import tariff. The bottleneck of coal transportation capacity will be difficult to breakthrough radically in the short term. The Chinese Government will continue to regulate and close down sub-standard coal mines and strictly request the increase of safety investment. The Eleventh Five-Year Plan of Coal Industry encourages the development of large-scale coal enterprises under a group structure and the raising of admittance requirements for newly constructed coal mine, which is in favor of improving the centralization of China's coal industry and enhancing the competitive advantages of large-scale coal enterprises. The safety production level and operation system of the coal industry will be greatly improved.

The demand for coal will be strong in the international coal market with stable coal prices coupled with steady increase. Due to continuous growth of the world economy, steady development of electric power and metallurgy industries, and the constant growth of oil price at a high level, the coal industry is one of the fastest-growing energy industries in terms of demand. The export volume of coal from Australia will remain stable on the whole, the export volume of coal from Indonesia and Vietnam will increase; while the import volume of coal by Japan and South Korea will remain stable and the import volume of coal by China and India will increase. Therefore, the demand and supply in the East Asian coal markets will be stable on the whole, and the supply of prime coal will be slightly tight. China's adjustment in coal import and export policy in response to the strong domestic demand of coal will be in favor of the price increase in the East Asian coal market. The contract price in international coal market was higher than that of 2006 on the whole. Ever since January 2007, the spot price of the Australian BJ steam coal has been stable with an increase trend. It is expected that the international coal price in 2007 will be stable coupled with steady increase.

The average coal sales price of the Company is expected to increase slightly in 2007. Currently, the Company has signed domestic coal sales contracts of 13.03 million tonnes, with average contract price increase of RMB52.04 per tonne or 19.21% higher than that of 2006. The spot price for coal will also adjust in response to market changes. Though the negotiation for coal export has not been completed, it is expected that the Company's long-term contract price of export coal will be slightly higher than the year of 2006.

The sales target for the year 2007 of the Company is 37.5 million tonnes, including (a) the headquarters' sales target is 34.50 million tonnes among which the export target is 3 million tonnes; (b) Yancoal Australia Pty's sales target is 2 million tonnes; (c) Shanxi Nenghua's sales target is 1 million tonnes.

OPERATING STRATEGIES

The Company will continue to improve its profitability and Shareholders' return through operating strategies of organic development and external expansion in parallel. In 2007, the Company will focus on the following operating strategies:

Improving operation management and enhancing profitability of the existing coal mines. Firstly, the Company will stabilize the output and sales volume of its headquarters, focus on optimizing coal mine production system, and make great efforts in improving the output of Austar Coalmine in Australia and Tianchi Coalmine of Shanxi Nenghua Secondly, the Company will continue to implement the "Three Nil Project" and the "Four Optimizations", arrange the combination of domestic sales and coal export reasonably, adjust products variety mix, and increase the profitable sales of clean coal. Thirdly, giving prominence to management and cost control, the Company will ensure effective cost control through continuously improving the financial control systems, strengthening capital budgeting management, and improving performance assessment systems for reward and punishment.

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Expediting the existing projects construction and persisting to seek for new acquisition opportunities. The Company would strengthen project investment management in order to achieve standardization, optimization and high efficiency. Yushuwan Coalmine of Shannxi Province and 0.1 million tonnes of methanol project in Shanxi Province will be put into production in 2007 and the construction of Zhaolou Coal mine of Shandong Province and 0.6 million tonnes of methanol project of Shannxi Province will be expedited this year so that they may be put into operation in the year of 2008. Meanwhile, through expending assets scale of coal mines, developing and expanding the further processing of coal, the Company will continue to seek new investment opportunities of coal reserves and correlative industries both at home and abroad.

Regulating operations and improving the management expertise of the Company. The Company plans to continue promoting the construction of its internal control system. According to the requirements of the US Sarbanes-Oxley Act, the Guidance on Internal Control for the Listed Companies of the Shanghai Stock Exchange, the Listing Rules of the Hong Kong Stock Exchange (the "Hong Kong Listing Rules"), the relevant laws and regulations of the stock-listing places both in China and foreign countries and the requirements stipulated by the supervisory and management institutes of listed companies, the Company will continue to improve its internal control of work flow and system. The Company will also strengthen training for its Directors, Supervisors, senior management and other senior working staffs to strengthen their self-discipline and sense of responsibility, and will optimize its corporate governance for the promotion of the operations of the Company.

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 achieve good operation performance and a stronger competitive edge in 2007.

On behalf of the Board

Wang Xin
Chairman

20th April, 2007
Zoucheng, PRC