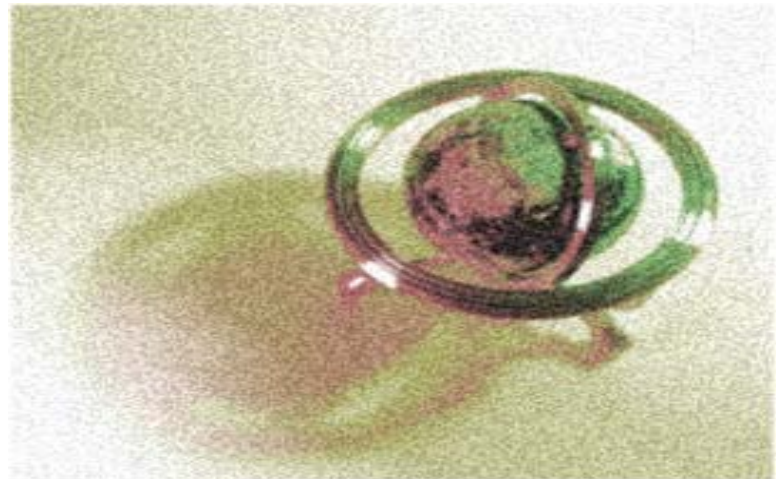


Analysis on Jinniu Energy
(Selected from China Energy
Intelligence Weekly 20070626)



Property right statement: Copyright of charts, tables and sentences in this report belongs to of Beijing Waterwood. For charts or tables marked as from other sources, original publishers own the copyright. The quoted data in this report are collected from public sources. If there is any problem related to property right, please do not hesitate to contact Beijing Waterwood.

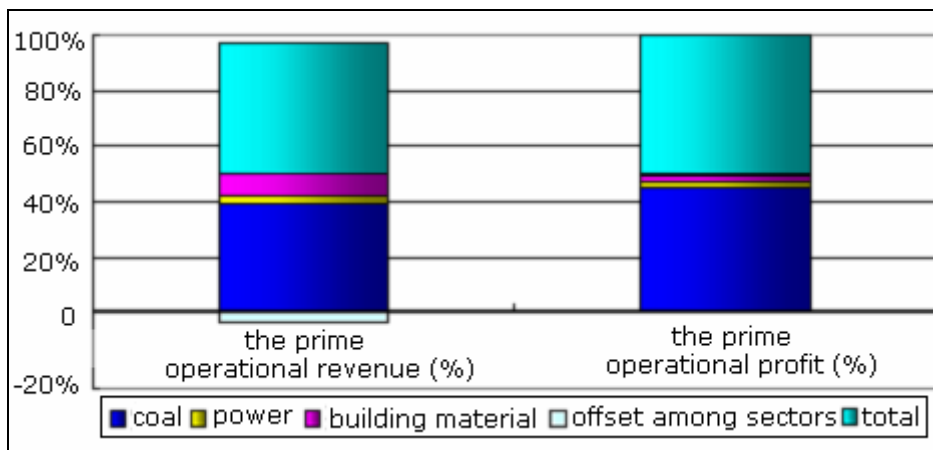
1. Brief Introduction to Jinniu Energy

Hebei Jinniu Energy Resources Co., Ltd (stock code: 000937), located in Xingtai city of North China's Hebei province, was founded in 1999. The company is mainly engaged in coal mining, washing and processing as well as marketing. Its operations include coal exploitation and operation, production and marketing of cement, production and marketing of alkali-free fiberglass and its products, open-air exploitation of cement-purposed sandstone, power generation (operated only by its branches), production and supply of steam (operated only by its branches) etc. Relying upon the rich and quality coal resources in the area, the company boasts many a coal mines, with designed output capacity being 5.4 million tons per year and proved output capacity 6.7 million tons per year.

2. Prime Assets and Business Condition of Jinniu Energy

Presently, the assets of the company mainly include coal mines, cement plants, fiberglass factories and power plant. The coal business is the most important contributor to the revenue and profit of the company.

Revenue and Prime Operational Profit Structure of Jinniu Energy, 2006



Source: ResearchInChina

2.1 The Coal Business

The coal business is the main revenue and profit source of Jinniu Energy. During 2007 and 2009, the coal output capacity of the company will be brought on stream in a fast way. In 2007, it is hoped that the output capacity can be increased by 1.2 to 1.5 million tons. In 2008, another 1.5 million tons will be increased. And the year 2009 will witness the increase peak

of coal output.

The coal business of the company is mainly supported by the six coal mines of the former Xingtai Bureau of Mine, including Dongpang Coal Mine, Xingdong Coal Mine, Xingtai Coal Mine, Gequan Coal Mine, Zhangcun Coal Mine and Xiandewang Coal Mine, and the coal mine assets purchased by the company in Shoushan County of Shanxi province in recent years. The coal products comprise one-third coking coal, fat coal, gas coal, meagre coal and anthracite.

Basic Information of Prime Coal Mines of Jinniu Energy

Name of coal mine	Coal type	Output (ton)	Output in 2006 (ton)	Exploitable reserves (ton)	Geological reserves (ton)
Xingtai Coal Mine	one-third coking coal	1,950,000	1,950,000	1,576,500	397,980,000
Dongpang Coal Mine	one-third coking coal	2,260,000	2,600,000	3,190,800	526,332,000
Xingdong Coal Mine	one-third coking coal	980,000	860,000	-	261,602,000
Gequan Coal Mine	coking coal	750,000+300,000	820,000+90,000	744,900	140,524,000
Xiandewang Coal Mine	anthracite	1,360,000	1,270,000	1,222,300	91,018,000
Zhangcun Coal Mine	anthracite	1,050,000	870,000	701,600	88,946,000
Duanwang Coal Chemical Company	meagre coal	900,000/1,800,000	100,000	140,000,000	-
Tiantai Coal Industry	meagre coal	300,000/1,050,000	-	130,000,000	

Source: ResearchInChina

As an enterprises focusing on coal exploitation, in recent years, to take more resources and improve coal output, Jinniu Energy has reformed its existing coal technology and started to successively purchase coal resources from other provinces to expand resource reserves. For instance, in 2006 and 2007, Jinniu Energy has purchased Duanwang Coal Chemical Company and Tiantai Coal Industry of Shouyang County of Shanxi province. Jinniu Energy plans to improve the crude coal output capacity of its coal mines in Shouyang County to over five

million tons within two or three years.

(1) Duanwang Coal Chemical Company, one of the subsidiaries of Jinniu Energy, is rich in coal resources and of exploitation basis. The company boasts 19.3-square-kilometer-wide mines and a geological reserve of 230 million tons that may be mined for 200 years. The proved output capacity of the company is 800,000 tons per year and the prime product is quality steam coal. The company plans to invest RMB 300 million to expand the annual output capacity of the company to 1.8 million tons, increasing by 900, 000 tons. The investment should be raised by Duanwang Coal Chemical Company itself.

(2) In 2007, the company has finished reorganization of Lujiahe Coal Mine of Shanxi Tiantai Coal Industry Co., Ltd. Lujiahe Coal Mine, with a reserve of 130 million tons of quality coal, is one of the best mines of Shouyang County. With excellent basic conditions, the mine may realize modern scale exploitation. After the reorganization, Jinniu Energy will upgrade and reform the mine to realize comprehensive and mechanical exploitation so that the output capacity of the company can be improved to 1.8 million tons per year as soon as possible. By the end of the eleventh five-year plan period (2006-2010), the annual output capacity will reach over 3 million tons. Besides, Duanwang Coal Chemical Co., Ltd plans to construct Kengkou Gas Power Plant.

(3) In 2006, Jinniu Energy co-invested to build up Zhangjiakou Jinniu Energy Co., Ltd with Xingtai Mine Industry Co., Ltd and Zhangjiakou Shengyuan Mine Industry Co., Ltd. Jinniu Energy has invested RMB 27 million, 90% of the registered capital. The joint venture is mainly to engage in coal exploitation, washing and processing, railway transportation and construction of Kengkou Power Plant etc. the newly-built coal mine has a geological reserve of 330 million tons and an exploitable reserve 140 million tons. Mainly producing brown coal, the newly-built coal mine is designed to produce coal 1.8 million tons annually, but the company is still under construction.

(4) Jinniu has also invested RMB 143.81 million to integrate the No.2 Coal Skip Mine co-invested by Shengda Company and Xipang Coal Mine and the partial No.2 coal resources. The integrated skip mine is located on the south of Dongpang Mine and its No.2 coal resources is the stretch of the same ore body with the No.2 coal body of Dongpang Mine. The two are now separated by a 40-meter-wide coal column. After the integration, the reserve of exploitable corner coal will be increased by over 720,000 tons and the Shijiazhuang Village will be moved away sooner. The movement of the village may emancipate coal reserves 2.3 million tons. The project will be finished in Oct 2007.

(5) In June 23 2005, Jinniu Energy signed *Cooperation Agreement on the Coal Gas Layer Prospecting Project in the NO.1 District of Tengger, Alasan League of Inner Mongolia*. Jinniu Energy will continue investing to finish prospecting of the coal gas layer and coal resources within the range of 1245 square kilometers in the No. 1 district of Tengger, Alasan League of Inner Mongolia on the basis of the preceding work done by the Coal Geology Bureau of Inner Mongolia. Before the mine is put into production, Jinniu shares 70% of the earnings from

projecting and the left 30% belongs to the Coal Geology Bureau of Inner Mongolia. After the projecting work is finished, the two will organize specific investigation in better target zones. When it is prepared for transfer, the projecting result will be transferred to the newly-founded holding company of Jinniu Energy.

2.2 Fiberglass

Demand for fiberglass in China is growing faster and faster year by year. In the five years to come, the growth rate will keep at 18%. Supply gap bring a stable price for consumers and Chinese fiberglass enterprises will still maintain a high gross profit margin of 30% or so. Presently, Jinniu Energy is one of the prime fiberglass manufacturers of China.

Fiberglass is of the three basic materials of modern industry, the other two being iron and cement. As a new-type inorganic non-metal material, fiberglass, light in weight but strong in performance, is erosion-proof, electricity-insulating, heat-shielding and noise-absorbing etc. It is widely used in electronics information, aviation, new-type building material, ship and automobile, oil transmission pipes, home apparatus and sports instrument, blade of wind power turbine, filter pipe of sea water desalting, and railway sleeper etc.

Either in view of nationwide or worldwide, the oligarch monopolization pattern has been seen in the fiberglass industry. As new blood, China has now shared 41% of the global fiberglass market, with output capacity averagely growing by 30% annually. During the eleventh five-year plan period, the market demand of FRP will be 300,000 tons, of alternative asbestos 30,000 tons, of electronic and electric apparatus 80,000 tons, of filter material 15,000 tons, of engineering plastic 80,000 tons, of heat-resistant material 20,000 tons, of water-proof material 60,000 tons, of enforced rubber 15,000 tons, of the building field 80,000 tons, of civil engineering material 30,000 tons, of other fields 20,000 tons. The foreign demand will be 570,000 to 870,000 tons. And the total demand will be 1.3 to 1.6 million tons.

Output Capacity Distribution of China's Leading Fiberglass Manufacturers

(unit: ton)

manufacturer	Output capacity in 2006	Electronic yarn	Alkali-free fiberglass	Boron-free and fluorine-free fiberglass	Medium-alkali fiberglass	Alkali-proof fiberglass
China Fiberglass (CFG)	380,000	15,000	275,000		90,000	
Chongqing Polycomp International	205,000	20,000	145,000	40,000		

Corp (CPIC)						
Taishan Fiberglass (CTG)	210,000	40,000	160,000			10,000
PPG (No.2 Works)	130,000	50,000	80,000			
Saint-Gobain (No.3 Works)	75,500		52,500			25,000
Jinniu Energy	46,000		46,000			

Source: ResearchInChina

In 2004, the fiberglass branch of Jinniu Energy produced product 22,700 tons and marketed product 21,200 tons. Gaining sales revenue RMB 118,931,100 and profit RMB 4,613,300, the branch has boasted a design output capacity of 15,000 tons of alkali-free fiberglass annually. After expansion, the production scale of fiberglass may exceed 40,000 tons annually, ranked the fourth in China. In 2004, the fiberglass branch produced product 37,646.72 tons and marketed 37,249.40 tons, gaining sales revenue RMB 235,415,500 and profit RMB 30,084,200. In 2006, the fiberglass branch produced raw fiberglass string 45,100 tons and realized sales revenue RMB 275.33 million, growing by 11.16% compared with the same period of 2005.

2.3 Cement and Electric Power

Cement and electric power has not yet made obvious contribution to the performance of the company. But cement may make certain contribution to the profit of the company in 2007.

In 2006, Jinniu Energy produced cement 1,050,200 tons, growing by a year-on-year 48.27%; finished cement clinkers 1,649,000 tons, growing by 39.02%; realized sales revenue RMB 301.92 million and total profit RMB 258,300. The enduring deficit was altered into positive. With the revival of the cement industry, it is hopeful that the cement business will make contribution to the profit of the company. In 2006, the power plants of the company generated electricity 887 million kWh, growing by 15.43% from the same period of 2005, and realized sales revenue and profit sequentially RMB 280,819,000 and RMB 45,437,000.

2.4 Coal Chemical

Jinniu Energy has entered the coal chemical industry by making 200,000 tons of coke-oven gas into methyl alcohol. With obvious cost advantage, the project will become a new profit source of the company.

The widely-used methyl alcohol, as a very important organic chemical raw material, can be used to produce a series of organic chemical products such as formaldehyde, synthetic rubber, methylamine, DMT, MMA, methyl chloride, acetic acid and MTBE etc. In addition, it can be

mixed into gasoline as fuel or even replace gasoline as power fuel. It can also be used to synthesize SCP. With the decrease of world oil resources and the reduction of methyl alcohol unit cost, it has become a trend to use methyl alcohol as a new source of petrochemical raw material. A latest research report shows that, in 2009, the demand of the world methyl alcohol market is hopeful to grow averagely 2% annually and the newly-increased output capacity of methyl alcohol will grow by an average 5.7% annually. That is to say, growth of output capacity is faster than growth of demand and this will ultimately lead to supply surplus in the market.

On Apr 18 2007, Jinniu Energy decided to co-construct Hebei Jinniu Xuyang Coal Chemical Co., Ltd with cash investment together with Xingtai Xuyang Coking Co., Ltd. The initial registered capital of the co-constructed company is RMB 60 million, each party sharing 50%. After the foundation, the company will construct a project to produce 200,000 tons of methyl alcohol from coal gas annually. Jinniu Energy plans to limit its investment to at most RMB 200 million to construct the joint venture.

Xuyang Coking Co., Ltd is a large-sized private coking enterprise group. In the end of 2004, the group was able to annually produce coke for metallurgy 3 million tons, tar 130,000 tons, coarse benzene 45,000 tons and gas for outward supply 600 million cubic meters. According to the five-year development planning of the company, by the end of 2005, the coke output capacity of the company reached 5 million tons. The company strives to form a 8 to 10-million-ton production scale of coke and related chemical products before 2008.

Using coke-oven gas to make methyl alcohol not only belongs to cyclic economics and energy-saving program, but also is advantageous in cost. With conventional method, each methyl alcohol cost RMB 1,600 or so; but with coke-oven gas as the raw material, the cost per ton can reduce by RMB 500 or so.

About ResearchInChina and China Energy Intelligence Weekly

ResearchInChina was established in 1999, has become a leading independent provider of China business intelligence. Our research is designed to meet the diverse planning and information needs of businesses, institutions, and professional investors worldwide. Our services are used in a variety of ways, including strategic planning, product and sales forecasting, risk and sensitivity management, and as investment research.

China Energy Intelligence Weekly is an important product of our business intelligence series. It provide latest market news, information and vital insights for anyone doing business or facing competition in China. It includes:

Corporate news: the latest on M&A, investment, corporate earnings and top-level corporate appointments

Economics & legislation: economic indicators, banking news, new legislation that will impact sales, production and import/ export activities in China

Industry focus: market status, in-depth analysis, investment opportunities and potential pitfalls

ResearchInChina provides **China Intelligence Weekly** in following industries: consumer electronics, goods retailing, agriculture, food and beverage, automotive, energy, aviation, materials, industrial machinery, construction, chemicals, biotechnology, pharmaceutical, medical, computer and software, telecommunications, cyber economy, media, banking and financing, real estate, logistics, tourism, etc.

Contact Us

TEL +86-10-82600828 +86-10-82600862 FAX +86-10-82600829

WEB www.researchinchina.com Mail: weekly@researchinchina.com