

The Board is pleased to submit the Report of the Directors of Year 2004 together with the audited financial statements of the Company for the year ended 31st December, 2004.

### PRINCIPAL ACTIVITIES

The Company is principally engaged in underground coal mining, preparation and processing, and sales and railway transportation of coal.

### FINANCIAL HIGHLIGHTS

A summary of the results of the Company, the assets and liabilities of the Company and the cash flow of the Company for each of the five years ended 31st December, 2004, 2003, 2002, 2001 and 2000, which are prepared in accordance with the International Financial Reporting Standards ("IFRS"), are set out in the section headed "Financial Highlights" of this report.

### PROPOSED PROFIT APPROPRIATION

The profit appropriation of the Company for the year ended 31st December, 2004 as proposed by the Board is as follows:

<i>Prepared in accordance with PRC GAAP</i>	RMB'000
Net Income	2,707,785
Unappropriated profits at the beginning of year	2,220,501
Appropriation to statutory surplus reserve	270,811
Appropriation to statutory common welfare fund	135,422
Distributable profits	4,522,053
Proposed cash dividends after the date of the balance sheet	799,240
Unappropriated profits	3,722,813

The proposed profit appropriation will be presented to the Shareholders for approval at the 2004 annual general meeting of the Company .

Pursuant to the articles of association of the Company (the "Articles"), the Company's financial statements should be prepared according to the PRC GAAP as well as the IFRS or the accounting standards and regulations of the places in which its shares are listed.

For the purpose of determining the dividends payable to the Shareholders in a relevant year, the lower of the profits after taxation in these accounting standards will be applied for the relevant year. For this purpose, audited profits after taxation in accordance with the PRC GAAP will be applied to determine the proposed cash dividends after the date of balance sheet for the year 2004.

## DIVIDENDS AND A BONUS ISSUE

The Board has decided to recommend at the 2004 annual general meeting of the Company, a declaration of cash dividend to the Shareholders in accordance with the dividend policy persisted by the Company and a bonus issue of shares through the conversion of the capital reserve of the Company, that is a cash dividend of RMB799.2 million (tax included) or 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 implemented after the approval by the Shareholders in the 2004 annual general meeting of the Company.

Pursuant to the Articles, cash dividend payable to the Shareholders shall be calculated and declared in RMB. Cash dividend payable to holders of the Company's domestic shares shall be paid in RMB, while cash dividend payable to holders of the Company's H shares shall be paid in Hong Kong dollars.

## MAJOR SUPPLIERS AND CUSTOMERS

The percentage of purchases attributable to the Company's five largest suppliers was less than 30% of the total purchase of its goods and services for 2004.

Net sales to the Company's five largest domestic customers accounted for less than 30% of the Company's net sales in 2004.

## THE MUTUAL USE OF FUND BETWEEN THE COMPANY AND ITS AFFILIATES AND EXTERNAL GUARANTEES BY THE COMPANY

Pursuant to the "Notice on Several Issues Concerning the Regulation of the Flow of Funds Between Listed Companies and Their Affiliates and the Provision of External Guarantee by Listed Companies" issued by China Securities Regulatory Commission and the State-Owned Assets Supervision and Administration Commission of the State Council, Deloitte Touche Tohmatsu Certified Public Accountants Ltd. (the Company's domestic auditor) has issued a statement in respect of the use of fund by the controlling Shareholders and the Company's other affiliates. As at 31st December 2004, resulting from the daily operational transactions between the Company and the controlling shareholders, the accounts receivable, bills receivable and other receivables amounted to RMB349 million, the prepayments were RMB3.34 million, and the prepayment for long-term investments were RMB574 million.

As at 31st December, 2004, no external guarantees has been made by the Company, which has been confirmed by the Company's independent non-executive directors.

The above information concerning the mutual use of fund between the Company and its affiliates and the external guarantee by the Company constitute a disclosure under requirement by relevant laws of China (except Hong Kong).

## ENTRUSTED LOANS

In the reporting period, the Company has undertaken entrusted loans as follows:

No.	Bank Entrusted	Borrower	Amount of Entrusted Loan (RMB'000)	Term of the Loan	Annual Interest	Whether through Statutory Process	Whether there is a provision for devaluation	Whether principals have been repaid	Interest Income RMB'000
1	Bank of China Jining Branch	Shandong Chuangye Investment and Development Co., Ltd.	100,000	From 7th April 2003 to 7th April 2004	6%	Yes	No	Yes	1,800
2	Bank of China Jining Branch	Shandong Xinjia Industrial Co., Ltd.	200,000	From 1st April 2004 to 25th June 2004	7%	Yes	No	Yes	11,868
3	Bank of China Jining Branch	Shandong Chuangye Investment and Development Co., Ltd.	100,000	From 9th April 2004 to 28th June 2004	6%	Yes	No	Yes	1,333
4	Bank of China Jining Branch	Shandong Chuangye Investment and Development Co., Ltd.	150,000	From 5th July 2004 to 20th December 2004	6%	Yes	No	Yes	2,150
5	The Industrial & Commercial Bank of China Linyi Branch	Shandong Xianglong Industrial Co., Ltd.	160,000	From 22nd September 2004 to 22nd September 2005	5.31%	Yes	No	No	4,248
6	Industrial Bank Co., Ltd. Jinan Branch	Shandong Cement Factory Co., Ltd	50,000	From 30th September 2004 to 20th September 2005	5.05%	Yes	No	No	427
7	Bank of China Jining Branch	Shandong Xinjia Industrial Co., Ltd.	640,000	From 20th December 2004 to 19th January 2005	7%	Yes	No	No	0

Besides the entrusted loans mentioned above, the Company has no other plan for entrusted loans. The disclosure of the above entrusted loans occurred during the reporting period is required under the relevant laws of China (except Hong Kong).

## INTEREST CAPITALIZATION

No interest has been capitalized by the Company during the year ended 31st December 2004.

## RESERVES

Details of movements in the reserves of the Company for the year ended 31st December, 2004 and details of the distributable reserves of the Company as at 31st December, 2004 are set out in note 34 to the financial statements prepared in accordance with the IFRS contained herein.

The amount proposed by the directors of the Company (the "Directors") to be carried to the reserve for the year 2004 was RMB737.7 million.

## STATUTORY COMMON WELFARE FUND

Details of the statutory common welfare fund are set out in note 34 to the financial statements prepared in accordance with the IFRS contained herein.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company during the year ended 31st December, 2004 are set out in note 23 to the financial statements prepared in accordance with the IFRS contained herein.

## EMPLOYEES' PENSION SCHEME

Details of the Company's employees' pension scheme are set out in note 40 to the financial statements prepared in accordance with the IFRS contained herein.

## ON-GOING CONNECTED TRANSACTIONS

The on-going connected transaction between the Company and the Parent Company occurred for the year 2004 includes the following three aspects.

### 1. On-going Supply of Materials and Services

The Materials and Services Supply Agreement entered into between the Company and the Parent Company on 17th October, 1997 and its supplemental agreement subsequently signed defined the connected transactions of on-going supply of materials and services between the Company and the Parent Company (details and terms of the Materials and Services Supply Agreement were published in the prospectus of the Company dated 24 March 1998, the Shareholders' circular dated 22 November 2001 and the Shareholders' circular dated 30 May 2003).

The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") has granted a conditional waiver (the "Waiver") to the Company on 11th July, 2003 from strict compliance with the requirements of disclosure and approval as stipulated in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in respect of the connected transactions under the above agreements between the Company and the Parent Company for a period of three financial years ending 31st December 2005. The upper limits of the Waiver were as follows: the value of connected transactions relating to the provision of materials and services by the Company to the Parent Company shall not exceed 13% of the Company's audited consolidated net sales in the immediately preceding financial year, and the aggregate value of connected transactions relating to the provision of materials and services by the Parent Company to the Company shall not exceed 26% of the Company's audited consolidated net sales in the immediate preceding financial year.

For the year ended 31st December, 2004, the value of connected transactions relating to the provision of materials and services by the Company to the Parent Company is RMB902.9 million and accounted for 12.99% of the Company's audited consolidated net sales in the year ended 31st December, 2003, and the value of connected transactions relating to the provision of materials and services by the Parent Company to the Company is RMB1,326.9 million and accounted for 19.1% of the Company's audited consolidated net sales in the year ended 31st December, 2003.

## 2. Mining Rights Fee

Pursuant to the Mining Rights Agreement dated 17th October, 1997 (as supplemented by a supplemental agreement dated 18th February, 1998) entered into between the Parent Company and the Company, the Company shall, every year within the ten years after its establishment, pay to the Parent Company the mining rights fees of five mines at RMB12.98 million. During this reporting period, the Company has paid RMB12.98 million to the Parent Company.

## 3. Payment of Endowment Insurance Fund

Pursuant to Agreement of Endowment Insurance Fund entered into between the Company and the Parent Company dated 17th October, 1997, the Company has, each month, withdrawn and remitted endowment insurance fund, amounting to 45% over the total monthly wages of the employees, to the special account for endowment insurance fund of the Parent Company, which manages the social endowment insurance fund and the expenses of the retirement benefits.

In this reporting period, the Company has paid endowment insurance fund of RMB408.5 million to the Parent Company.

The letter, as submitted by the auditors of the Company to the Board on 18th April, 2005, has confirmed that the above on-going connected transactions between the Company and the Parent Company (a) have received the approval by the Board; (b) are in accordance with the price policies of the Company; (c) have been entered into in accordance with the relevant agreement governing the connected transactions, and (d) have not exceeded the cap disclosed in the previous announcement.

The Company's independent non-executive Directors have reviewed the Company's on-going connected transaction with the Parent Company in the year 2004 and confirmed that: (1) all such connected transactions have been: (a) entered into by the Company in the ordinary and usual course of its business; (b) conducted either on normal commercial terms, or where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from independent third parties; and (c) entered into in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole; (2) the value of the connected transaction in respect of the on-going supply of materials and services has not exceeded the cap under the Waiver granted by the Hong Kong Stock Exchange on 11 July 2003.

## EXPENSES IN RESPECT OF ASSETS ACQUIRED FROM THE PARENT COMPANY

Pursuant to the Jining III Coal Mine Acquisition Agreement entered into between the Company and the Parent Company, the consideration of the mining right of Jining III coal mine is approximately RMB132.5 million, which shall be paid to the Parent Company in ten equal annual interest free installments, commencing from 2001. As at 31st December, 2004, the Company has paid RMB52.992 million to the Parent Company as the mining right consideration of Jining III coal mine.

Pursuant to the Railway Assets Acquisition Agreement entered into between the Company and the Parent Company, when the annual transportation volume of the Railway Assets reaches the volume milestones targets of 25 million tonnes, 28 million tonnes and 30 million tonnes for the year 2002, 2003 and 2004, respectively, the Company will pay to the Parent Company an amount of RMB40 million each year before 30th June annually from 2003 for three consecutive years. Annual transportation volume of the Railway Assets during the year 2004 was 30.28 million tonnes and the Company, pursuant to the Railway Assets Acquisition Agreement, has paid RMB40 million to the Parent Company.

## HOUSING SCHEME

According to the Materials and Services Supply Agreement (as amended by the supplemental agreements) entered into between the Company and the Parent Company, which is set out in the paragraph headed "On-going Supply of Materials and Services" of the section headed "On-going Connected Transactions", the Parent Company is responsible for providing accommodation to its employees and the employees of the Company. The Company and the Parent Company share the incidental expenses relating to the provision of such accommodation on a pro-rata basis based on their respective number of employees and mutual agreement. Such expenses amounted to RMB37.2 million and RMB37.2 million in 2003 and 2004, respectively.

Commencing from 2002, the Company paid to its employees a housing allowance, which is based on a fixed percentage of employees' wages, for their purchase of residential houses. During the year ended 31st December, 2004, the employees' housing allowances paid by the Company amounted to RMB137.3 million in total.

Details of the housing scheme are set out in note 41 to the financial statements prepared in accordance with the IFRS contained herein.

## DISCLOSURE OF SIGNIFICANT EVENTS

### Appointment of Additional Directors, Appointment of the Chairman and an Additional Vice Chairman of the Board and Engagement of Additional Deputy General Managers

At the 2003 annual general meeting of the Company held on 25th June, 2004, Mr. Wang Xin and Mr. Wang Xinkun were elected as the Company's additional Directors and Mr. Wang Quanxi was elected as the additional independent non-executive Director.

A meeting of the Board was held on 25th June, 2004, in which Mr. Wang Xin was elected to be the chairman of the Board and Mr. Geng Jiahui was elected to be the vice chairman of the Board.

A meeting of the Board was held on 16th April, 2004, in which Mr. Jin Tai and Mr. He Ye were engaged as the additional deputy general managers.

### Placing of New Shares

Pursuant to the authorization of the 2003 annual general meeting of the Company held on 25th June, 2004 and the approval of the meeting of the Board held on 7th July, 2004, the Company entered into the Placing and Underwriting Agreement with BNP Paribas Peregrine Capital Limited on 7th July, 2004, pursuant to which the Company placed 204,000,000 new H shares with a Renminbi-denominated par value of RMB1.00 each at a price of HK\$8.30 per share (the "Placing"), the total nominal value of the new H shares is RMB204 million. The Company raised net proceeds of HK\$1,656,335,800 (approximately RMB1,756,875,383) from the Placing, the net price of each Placing share was HK\$8.12. As at 6 July 2004, the closing price of the H shares of the Company was HK\$9.25 per share. The placees were not less than six in number and were located in countries and regions such as Hong Kong, Europe and the US. The proceeds from the Placing will be used for investments in two new coalmine projects in Shandong Province and Shaanxi Province, and the methanol project in Shaanxi Province.

The Placing shares were listed on the Hong Kong Stock Exchange on 15th July, 2004. The total share capital of the Company increased to 3,074 million shares from 2,870 million shares. The percentage of the listed share capital of the Company to the total share capital of the Company increased from the original 41.81% to 45.67%. The change of share capital structure of the Company after the Placing is shown in the table of the "Changes in Share Capital" under the section headed "Changes In Share Capital and Shareholding of Shareholders".

Details of the Placing were published in the domestic China Securities Journal and Shanghai Securities News and Wen Wei Po and South China Morning Post of Hong Kong on 8th July, 2004 and 9th July, 2004.

#### **Amendments to the Articles**

Pursuant to the approval of the 2003 annual general meeting of the Company held on 25th June, 2004, the Company amended the Articles in accordance with the new requirements of domestic and overseas supervising authorities and the needs of daily operations of the Company. Details of the amendments to the Articles were despatched to the Shareholders on 19th April 2004 and were published in the domestic China Securities Journal, Shanghai Securities News and Wen Wei Po, South China Morning Post of Hong Kong on 19th April, 2004.

After the Placing, the Board amended the Articles pursuant to the authorization granted in the 2003 annual general meeting of the Company so as to reflect the changes in the share capital structure of the Company after the Placing. Details of the amendments to the Articles were published in the domestic China Securities Journal, Shanghai Securities News and Wen Wei Po, South China Morning Post of Hong Kong on 8th July, 2004.

#### **Acquisition of Australian Coal Asset**

The Company entered into the Southland Coal Mine Asset Sale Agreement with the receivers and managers and the liquidators of Southland Coal Pty Limited in Australia, pursuant to which the Company would acquire the entire Southland Coal Mine owned by Southland Coal Pty Limited. The aggregate consideration for the agreement is AUD32 million.

The Company has completed the transfer of Southland Coal Mine asset by 24th December 2004, which is the first successful acquisition of overseas coal mine by Chinese coal mine company. Southland Coal Mine was renamed as Austar Coal Mine.

The Austar Coal Mine is situated at the mining area in Hunter Valley, New South Wales, Australia, with main coal products of hard coking coal and semi soft coking coal. Based on the standards of estimation of the reserves in Australia, it has recoverable reserves of approximately 41 million tonnes (the information regarding the reserve is extracted from the "Information Memorandum - Southland Coal Pty Ltd" provided by the vendor of the Southland Coal Mine). The Company believes that the acquisition of the Southland Coal Mine is beneficial to the Company's profit potential.

#### **Establishment of Subsidiaries**

During this reporting period, the Company invested RMB776 million in establishing a controlled subsidiary company, namely Yanzhou Coal Yulin Power Chemical Co. Ltd., in Yulin City of Shaanxi Province with a registered capital of RMB800 million, mainly engaged in the construction of the project of the production of 600,000 tonnes of methanol and 200,000 tonnes of acetic acid and its ancillary project.

During this reporting period, the Company has solely invested and set up Yancoal Australia Pty Limited in Sidney of Australia, mainly engaged in the management of the Company's investments in Australia. The current capital investment of the Company in Yancoal Australia Pty Limited is AUD30 million. Yancoal Australia Pty Limited has solely invested AUD30 million in establishing Austar Coal Mine Pty Limited, which is responsible for the production and operation of Austar Coal Mine.

## MATERIAL CONTRACTS

Save as the disclosure regarding the Placing and Underwriting Agreement in the paragraph headed "Placing of New Shares" in the section headed "Disclosure of Significant Events" and the Entrusted Loan Agreement in the section headed "Material Litigation and Arbitration", the Company was not a party to any other material contract during this reporting period.

## MATERIAL LITIGATION AND ARBITRATION

For the purpose of increasing the utilization rate of the Company's own capital, after the approval by the Board, the Company entered into the Entrusted Loan Agreement with Bank of China Jining Branch, Shandong Xin Jia Industrial Company Limited ("Shandong Xin Jia") and Lianda Group Limited ("Lianda Group") on 13 December 2004. The Company made an entrusted loan of RMB640 million to Shandong Xin Jia through the Bank of China Jining Branch, which was secured by a guarantee provided by Lianda Group. The annual interest of the entrusted loan is 7% per annum and the period of the entrusted loan is from 20 December 2004 to 19 January 2005.

To avoid risk and to ensure repayment of the principal and interest of the entrusted loan, the Company has applied and obtained an order from the People's High Court of Shandong Province to freeze 289 million shares held by Lianda Group in Huaxia Bank Company Limited ("Huaxia Bank Shares").

Since Shandong Xin Jia failed to duly repay the principal or the interests, the Company on 22 January 2005 lodged an application with the Higher People's Court of Shandong Province. The Higher People's Court of Shandong Province gave a verdict on 28 March 2005 allowing a lawful auction of the frozen Huaxia Bank Shares held by Lianda Group in order to receive the principal, the interest, the penalty interest and the related costs and expenses of the entrusted loan. As at the date of this report, the Higher People's Court of Shandong Province has not yet completed the procedure for the auction and the Company has not yet received the principal, the interest, the penalty interest and the related costs and expenses of the entrusted loan.

For details of the above entrusted loan, please refer to the announcement published in the domestic China Securities Journal and Shanghai Securities News on 28th December 2004, the announcement published in Wen Wei Po and South China Morning Post of Hong Kong on 29th December 2004 and the announcement published in the domestic China Securities Journal and Shanghai Securities News and Wen Wei Po and South China Morning Post of Hong Kong on 20th January 2005.

Save as disclosed above, the Company was not involved in other significant litigation and arbitration during the reporting period.

## PRE-EMPTIVE RIGHTS

The Articles and the laws of the PRC contain no provision for any pre-emptive rights, requiring the Company to offer new shares to the Shareholders on a pro-rata basis to their shareholdings.

## SHARE CAPITAL

Details of the share capital of the Company are set out in the note 34 to the financial statement prepared in accordance with the IFRS contained herein.



## CHANGES IN SHARE CAPITAL AND SHAREHOLDING OF SHAREHOLDERS

## Changes in Share Capital

	Unit: shares ( <i>Par value per share: RMB1.00</i> )		
	1st January 2004	Changes during the this reporting period (increase/decrease)	31st December 2004
A: Shares not listed for public dealings			
Subscriber shares			
Of which: State legal person shares	1,670,000,000		1,670,000,000
Total numbers of the shares not listed for public dealings	1,670,000,000		1,670,000,000
B: Shares listed for public dealings			
1. A shares	180,000,000		180,000,000
2. H shares	1,020,000,000	204,000,000	1,224,000,000
Total numbers of the shares listed for public dealings	1,200,000,000	204,000,000	1,404,000,000
C: Total numbers of shares	2,870,000,000	204,000,000	3,074,000,000

As at 31st December, 2004, the Company had a total of 22,821 Shareholders, of which one was the holder of state legal person shares, 22,739 were holders of A shares and 81 were holders of H shares.

## TOP TEN SHAREHOLDERS AND TOP TEN SHAREHOLDERS HOLDING LISTED SHARES OF THE COMPANY

According to the register of Shareholders as at 31st December, 2004, which was provided by the Shanghai Branch of China Securities Depository and Clearing Corporation Limited and Hong Kong Registrars Limited, the top ten Shareholders and the top ten Shareholders holding listed shares of the Company are as follows:

Name	Class of shares held	Number of shares at the end of this reporting period (shares)	Percentage holding of the total capital of the Company (%)	(as at 31st December, 2004)	
				Changes in the number of shares during the period under review (increase/decrease) (shares)	Listing Status (listed /unlisted)
Yankuang Group Corporation Limited	State legal person share	1,670,000,000	54.33	–	Unlisted
HKSCC Nominees Limited	H Shares	1,222,493,999	39.77	204,510,100	Listed
Zhongxin Classic Allocation Securities Investment Fund	A Shares	11,478,184	0.37	11,478,184	Listed
Changsheng Dynamic Choiceness Securities Investment Fund	A Shares	10,987,203	0.36	10,987,203	Listed
Haifutong Returns Growth Securities Investment Fund	A Shares	7,361,391	0.24	7,361,391	Listed
Tongyi Securities Investment Fund	A Shares	5,468,890	0.18	5,468,890	Listed
Jutian Fundamental Industry Securities Investment Fund	A Shares	4,607,686	0.15	4,607,686	Listed
Dacheng Blue Chip Steadiness Securities Investment Fund	A Shares	4,600,000	0.15	4,600,000	Listed
Jinghong Securities Investment Fund	A Shares	4,568,058	0.15	3,368,057	Listed
Yanjiang Xizhilang Pudding Manufacturing Co., Ltd.	A Shares	4,128,653	0.13	4,128,653	Listed
Tongsheng Securities Investment Fund	A Shares	3,977,118	0.13	3,977,118	Listed

Save as disclosed above, no other Shareholder was recorded in the register kept pursuant to the Securities Law of the People's Republic of China as having an interest of 5% or more of the Company's public shares as at 31st December, 2004.

None of the shares held by Yankuang Group Corporation Limited were pledged or restricted or under any trust arrangement during the period under review. It is uncertain as to whether the shares held by the Shareholders other than those disclosed above were pledged or restricted or under any trust arrangement during the period.

The fund manager of the shareholders disclosed above, namely Changsheng Dynamic Choiceness Securities Investment Fund; Tongyi Securities Investment Fund; and Tongsheng Securities Investment Fund, is Changsheng Fund Management Company Limited. Related party relationships and concert actions amongst the other Shareholders are not known.

As the clearing and settlement agent for the Company's H shares, HKSCC Nominees Limited held the Company's H Shares the capacity as a nominee.

## SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 December 2004, no other person (other than the Directors, chief executive or supervisors of the Company) had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance (the "SFO").

Name of substantial shareholder	Class of shares	Number of shares held (shares)	Capacity	Type of interest	Percentage in the relevant class of share capital	Percentage in total share capital
Yankuang Group Corporation Limited	Domestic shares (State legal person shares)	1,670,000,000 (L)	Beneficial Owner	Corporate	90.27%	54.33%
J.P. Morgan Chase & Co. (Note 1)	H shares	132,319,983 (L) (including 72,150,783 (P)—Note 2) 22,916,000 (S)	Interest of controlled corporations	Corporate	12.68%	5.05%

### Notes:

- As at 31 December 2004, J.P. Morgan Chase & Co. was taken to be interested in 12.68% of the Company's total H shares or 5.05% of the Company's total share capital through the following companies:
  - 2,000,000 H shares (representing approximately 0.16% of the Company's total H shares) in a long position and 2,000,000 H shares (representing approximately 0.16% of the Company's total H shares) in a short position held by J.P. Morgan Securities Ltd., which is a controlled corporation of J.P. Morgan Chase & Co.
  - 48,560,000 H shares (representing approximately 3.97% of the Company's total H shares) in a long position held by JF Asset Management Limited, which is a controlled corporation of J.P. Morgan Chase & Co.
  - 9,609,200 H shares (representing approximately 0.79% of the Company's total H shares) in a long position and 20,000,000 H shares (representing approximately 1.63% of the Company's total H shares) in a short position by J.P. Morgan Whitefriars Inc., which is a controlled corporation of J.P. Morgan Chase & Co.
  - 916,000 H shares (representing approximately 0.08% of the Company's total H shares) in a short position held by J.P. Morgan International Derivatives Ltd., which is a controlled corporation of J.P. Morgan Chase & Co.
- The total number of H shares held included interest in 72,150,783 H shares (representing approximately 5.89% of the Company's total H shares) held by JPMorgan Chase Bank, N.A. in a lending pool.

3. As at 31st December, 2004, State Street Corporation filed a corporate substantial shareholder notice on 23rd July, 2004 in which it was noted that State Street Corporation was, via its controlled corporation, State Street Bank & Trust Company, taken to be interested in 51,034,521 H shares in a long position or 5.00% of the Company's total H shares. The 5.00% mentioned store was calculated based on the total number of H shares prior to the listing of the Company's 204,000,000 Placing shares on 15th July 2004. The correct percentage interest taken to be held by State Street Corporation (of the Company's total H shares) as at 31st December, 2004 should be 4.17% (based on the enlarged number of 1,224,000,000 H shares after the placing of an additional 204,000,000 H shares by the Company in July 2004). As at 31st December, 2004, no corporate substantial shareholder notice had been filed, indicating that State Street Corporation had ceased to have an interest in at least 5% in the H shares.
4. The information disclosed is based on the information available on the website of the Hong Kong Stock Exchange.
5. The letter "L" denotes a long position. The letter "S" denotes a short position. The letter "P" denotes interest in a lending pool.

## LEGAL PERSON SHAREHOLDERS WITH SHAREHOLDING OF 10% OR MORE

As at 31st December, 2004, Yankuang Group Corporation Limited held 1,670,000,000 state legal person shares of the Company, without any changes during the reporting period, representing 54.33% of the total share capital of the Company.

Yankuang Group Corporation Limited, a state wholly-owned enterprise, is a controlling Shareholder of the Company. Its legal representative is Mr. Geng Jiahuai and its registered capital is RMB3,090.336 million. It is principally engaged in coal production, building and building materials, chemical and machinery processing businesses. Its actual controller is the State-owned Assets Supervision and Administration Commission of the People's Government of Shandong Province.

During the reporting period, the Company's controlling Shareholder or its actual controller remained unchanged.

As at 31st December, 2004, HKSCC Nominees Limited held 1,222,493,999 H shares of the Company, representing 39.77% of the total share capital of the Company.

HKSCC Nominees Limited is a participant of the Central Clearing and Settlement System and provides securities registrations and trustee services to its customers.

## SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, the total share capital of the Company consisted of 3,074,000,000 shares, of which 1,404,000,000 shares were held by the public, representing 45.67% of the Company's total share capital. Among the 1,404,000,000 shares held by the public, 1,224,000,000 of them were H shares, representing 39.82% of the Company's total share capital; whereas 180,000,000 were A shares, representing 5.85% of the Company's total share capital.

## SHAREHOLDING OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Save as disclosed below, as at 31st December, 2004, none of the Directors, chief executive or supervisors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) as recorded in the register required to be kept under section 352 of the SFO; or (ii) as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (which shall be deemed to apply to the Company's supervisors to the same extent as it applies to the Company's Directors).

Name	Capacity	Title	Number of domestic shares held at the beginning of this reporting period (shares)	Number of domestic shares held at the end of this reporting period (shares)	Reasons for changes
Wang Xin	–	Chairman of the Board	0	0	No change
Geng Jiahuai	–	Vice Chairman of the Board	0	0	No change
Yang Deyu	Beneficial owner	Vice Chairman of the Board and General Manager	10,000	10,000	No change
Mo Liqi	Beneficial owner	Director	10,000	10,000	No change
Wang Bangjun	Beneficial owner	Director	10,000	10,000	No change
Yang Jiachun	Beneficial owner	Director	10,000	10,000	No change
Wu Yuxiang	Beneficial owner	Director and Chief Financial Officer	10,000	10,000	No change
Wang Xinkun	–	Director and Vice General Manager	0	0	No change
Dong Yunqing	–	Director	0	0	No change
Fan Weitang	–	Independent Non-executive Director	0	0	No change
Cui Jianmin	–	Independent Non-executive Director	0	0	No change
Wang Xiaojun	–	Independent Non-executive Director	0	0	No change
Wang Quanxi	–	Independent Non-executive Director	0	0	No change
Meng Xianchang	Beneficial owner	Chairman of the Supervisory Committee	10,000	10,000	No change
Xiao Shuzhang	Beneficial owner	Supervisor	10,000	10,000	No change
Zhang Shengdong	–	Supervisor	0	0	No change
Liu Weixin	–	Supervisor	0	0	No change
Xu Bentai	–	Supervisor	0	0	No change
Jin Tai	–	Deputy General Manager	0	0	No Change
Zhang Yingmin	–	Executive Deputy General Manager	0	0	No Change
Tian Fengze	–	Deputy General Manager	0	0	No Change
Chen Guangshui	Beneficial owner	Secretary to the Board	1,000	1,000	No Change
Shi Chengzhang	–	Deputy General Manager	0	0	No Change
Ni Xinghua	–	Chief Engineer	0	0	No Change

All the interests disclosed above represent long position in the shares of the Company.

As at 31st December, 2004, the total number of domestic shares of the Company held by the Directors, supervisors and senior management of the Company is 71,000, representing 0.0023% of the total share capital of the Company.

As at 31st December, 2004, none of the Directors, chief executive or supervisors of the Company or their spouses or children under the age of 18 was given the right to acquire shares or debentures of the Company or any associated corporation (within the meaning of the SFO) or had exercised any such right as at 31st December, 2004.

## BRIEF BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### Directors

WANG Xin, aged 46, an engineering technique application researcher, doctor of engineering technology. Mr. Wang is the chairman of the Board and the vice chairman of the board of directors and the general manager of the Parent Company. Mr. Wang joined the predecessor of the Company (the "Predecessor") in 1982 and became the vice general manager of the Parent Company in 2000, a director and the deputy general manager of the Parent Company in 2002, and the vice chairman of the board of directors and the general manager of the Parent Company in 2003. In 2004, Mr. Wang became a director of the Company as well as the chairman of the Board and of Shandong Yankuang International Coking Limited. Mr. Wang graduated from China University of Mining and Technology.

GENG Jiahuai, aged 54, an engineering technique application researcher. Mr. Geng is the vice chairman of the Board and the chairman of the board of directors and the party committee secretary of the Parent Company. During the period from 1985 to 2002, Mr. Geng successively acted as the deputy director of Zibo Mining Bureau, the director of the Safety and Supervision Bureau and the director of Zibo Mining Bureau. Mr. Geng joined the Parent Company in 2002 and became the general manager, the vice chairman of the board of directors and the party committee deputy secretary of the Parent Company. Mr. Geng became the chairman of the board of directors and the party committee secretary of the Parent Company in 2003. Mr. Geng became a director of the Company in 2002 and became the vice chairman of the Board in 2004. Mr. Geng graduated from Shandong Mining Institute.

YANG Deyu, aged 55, an engineering technique application researcher. Mr. Yang is the vice chairman of the Board and the general manager of the Company. Mr. Yang joined the Predecessor in 1968 and became the deputy director of Yanzhou Mining Bureau in 1994 and the deputy general manager of the Predecessor and the director of the Safety and Supervision Bureau in 1996. Mr. Yang became the executive Director and the general manager of the Company in 1997 and the vice chairman of the Board and the general manager of the Company in 2002. Mr. Yang graduated from Shandong Mining Institute.

MO Liqi, aged 60, an engineering technique application researcher, is a Director and the counselor of the People's Government of Shandong Province. Mr. Mo joined the Predecessor in 1970, became the manager of Yanzhou Coal Infrastructure Company in 1985, respectively. Mr. Mo became the deputy director of Yanzhou Mining Bureau in 1987 the vice chairman of the board of directors and the deputy general manager of the Predecessor in 1996, and the general manager of the Predecessor in 1997. Mr. Mo became a Director in 1997. Mr. Mo was the vice chairman of the board of directors and the party committee secretary of the Parent Company from 2002 to December 2003. He was the chairman of the Board from 2002 to June 2004. He became the director of the Company in June 2004 and was appointed as the counselor of the People's Government of Shandong Province. He graduated from Shandong Mining Institute.

WANG Bangjun, aged 60, a senior engineer, is a Director and the researcher of the Parent Company. Mr. Wang joined the Predecessor in 1970, and became a deputy manager of Yanzhou Coal Infrastructure Company in 1983. Mr. Wang became the deputy director of Yanzhou Mining Bureau in 1987 and the vice chairman of the board of directors and a party committee secretary of the Predecessor in 1996. Mr. Wang became a Director in 1997. Mr. Wang was the vice chairman of the board of directors of the Parent Company from 2002 to December 2003 and became an investigator of the Parent Company in December 2003. He graduated from Shandong Mining Institute.

YANG Jiachun, aged 50, a senior economist, is a Director and a director of the Parent Company. Mr. Yang joined the Predecessor in 1988 and became a Director in 1997. Mr. Yang became the executive director of the Parent Company in 1999, and a director of the Parent Company and a vice chairman of the board of directors and party committee secretary of Yankuang Guizhou Energy and Chemicals Company Limited in 2002. He graduated from Yunnan Education University.

WU Yuxiang, aged 43, a senior accountant. Mr. Wu is a Director and the chief financial officer of the Company. Mr. Wu joined the Predecessor in 1981 and became the chief accountant of the finance department of the Predecessor in 1996. Mr. Wu became the head of the finance department of the Company in 1997 and a director of the Company and the chief financial officer of the Company in 2002. Mr. Wu graduated from Shandong TV University.

WANG Xinkun, aged 52, a senior economist. Mr. Wang is a Director and the deputy general manager of the Company. Mr. Wang joined the Predecessor in 1977. Mr. Wang became the manager of the coal transportation and sales department of the Company in 2000, the deputy general manager of the Company in 2002, and a Director in 2004. Mr. Wang graduated from Tianjin University.

DONG Yunqing, aged 49, a senior human relations coordinator. Mr. Dong is a director and the chairman of labor union of the Company. Mr. Dong joined the Predecessor in 1981 and was the vice chairman of labor union of the Parent Company from 2001 to April 2003. Mr. Dong became a director and the chairman of labor union of the Company in 2002. Mr. Dong graduated from Shandong Mining Institute.

#### Independent Non-executive Directors

FAN Weitang, aged 69, a member of the China Engineering Academy, an academician with foreign nationality of Sweden Royal Engineering Science Institute and an independent non-executive Director. Mr. Fan is the chairman of the China Coal Industry Association, the director of the China Energy Research Association, the vice chairman of International Organizing Committee of World Mining Convention. Mr. Fan once served as the deputy director of the Ministry of Coal Industry of China, a member of the presidium of the China Engineering Academy, head of the Energy and Mining Engineering Department and a committee member of the 8th and 9th Chinese People's Political Consultative Conference. Mr. Fan became an independent non-executive Director of the Company in 2002. He graduated from Beijing Steel Institution and was granted an associate doctorate in technology and science by Moscow Mining Institution of the former USSR.

CUI Jianmin, aged 72, a senior auditor and certified accountant. Mr. Cui is an independent non-executive director of the Company. Mr. Cui is also a consultant for China Tax Expert Association, and a part-time professor for colleges such as Central Finance and Economics University. Mr. Cui has been the deputy chief auditor of the National Audit Office of the PRC, the chairman of the Association of China Certified Accountant, and a committee member of the 8th Chinese People's Political Consultative Conference. Mr. Cui became an independent non-executive director of the Company in 2002. Mr. Cui graduated from People's University of China.

WANG Xiaojun, aged 50, admitted as a solicitor in England and Wales and Hong Kong. Mr. Wang is an independent non-executive director of the Company. Mr. Wang is a partner of Wang & Co., X. J. in Hong Kong. Mr. Wang was admitted in the PRC, Hong Kong and England and Wales in 1988, 1995 and 1996, respectively. Mr. Wang has worked as a legal adviser in the Hong Kong Stock Exchange and Richards Butler. Mr. Wang became an independent non-executive director of the Company in 2002. Mr. Wang graduated from the People's University of China and the Graduate School of the Chinese Academy of Social Sciences and holds a bachelor degree in laws and a master degree in laws. Mr. Wang is also an independent non-executive director of Euro-Asia Agricultural (Holdings) Company Limited.

WANG Quanxi, aged 49, professor of Nankai University. Mr. Wang is an independent non-executive director of the Company. Mr. Wang is also the chief of the financial management department of Nankai University, the chief of the enterprise research center of Nankai University, the deputy chief of the MBA center of Nankai University, and the secretary-general of the Association of the Study of Management of Tianjin City. Mr. Wang became the independent non-executive director of the Company in 2004. Mr. Wang graduated from Tianjin Finance and Economics University. Mr. Wang is also an independent non-executive director of Yinzuobohai Group Co., Ltd and Hainan Huandao Industrial Company Limited.

### Supervisors

MENG Xianchang, aged 57, a senior human relations coordinator. Mr. Meng is the chairman of the supervisory committee of the Company and the party committee deputy secretary of the Parent Company. Mr. Meng joined the Predecessor in 1981 and became the party committee deputy secretary and a supervisor in 1996, and became the chairman of the supervisory committee of the Company in 1997. Mr. Meng graduated from Shandong Mining Institute.

XIAO Shuzhang, aged 61, a senior engineer, is a supervisor of the Company. Mr. Xiao joined the Predecessor in 1970, became the secretary of the disciplinary committee of Yanzhou Coal Infrastructure Company and the secretary of the disciplinary committee of Yanzhou Mining Bureau in 1986 and 1987, respectively. Mr. Xiao was a supervisor and disciplinary committee secretary of the Predecessor and a supervisor and the secretary of the disciplinary committee of the Parent Company from 1996 to November, 2003. Mr. Xiao became a supervisor of the Company in 1997. He graduated from Jiaozuo Mining Institute.

ZHANG Shengdong, aged 48, a senior accountant. Mr. Zhang is a supervisor of the Company and the deputy chief accountant of the Parent Company. Mr. Zhang joined the Predecessor in 1981 and became the deputy chief accountant of Parent Company in 1997. Mr. Zhang became a supervisor of the Company in 2002. Mr. Zhang graduated from China University of Mining and Technology.

LIU Weixin, aged 54, a senior accountant. Mr. Liu is a supervisor of the Company and the director of the audit department of the Parent Company. Mr. Liu joined the Predecessor in 1971, and became the deputy director of the audit office of the Parent Company in 2001. Mr. Liu became the director of audit division of the Parent Company in 2003, and became the deputy director of audit department of the Parent Company in 2005. Mr. Liu became a supervisor of the Company in 2002. Mr. Liu graduated from Shandong Youth Cadre Institute.

XU Bentai, aged 46, a senior human relations coordinator. Mr. Xu is an employee supervisor of the Company and the chairman of Jining III Coal Mine's labor union. Mr. Xu joined the Predecessor in 1978, became the chairman of Jining III Coal Mine's labor union in 1999, and became an employee supervisor of the Company in 2002. Mr. Xu graduated from the Central Communist Party School Correspondence Institute.



### Senior Management

JIN Tai, aged 53, a senior engineer, is the deputy general manager of the Company. Mr. Jin joined the Predecessor in 1968. He became the director of the dispatching office of the Predecessor in 1996, and became the head of Xinglongzhuang Coal Mine in 1998, and became the deputy general manager of the Parent Company in 2000. He became the deputy general manager of the Company in 2004. He graduated from China University of Mining and Technology.

ZHANG Yingmin, aged 51, an engineering technology application researcher, is the executive deputy general manager of the Company. Mr. Zhang joined the Predecessor in 1971. He became the head of Baodian Coal Mine in 2000. Mr. Zhang became the executive deputy general manager of the Company in 2002. He graduated from Tianjin University.

HE Ye, aged 47, a senior engineer, is a deputy general manager of the Company. Mr. He joined the Predecessor in 1993. He became the head of Jining II Coal Mine in 1999, and became the executive deputy general manager of an industrial company subordinated to the Parent Company in 2002. Mr. He became a deputy general manager of the Company in 2002. He graduated from Guizhou Institute of Technology.

TIAN Fengze, aged 48, a senior economist, is a deputy general manager of the Company. Mr. Tian joined the Predecessor in 1976. He became the head of Beixu Coal Mine in 1991. Mr. Tian became a deputy general manager of the Company in 2002. He graduated from Beijing Coal Cadre Institute.

CHEN Guangshui, aged 39, a senior economist, is the secretary of the Board and the director of the secretariat of the Board. Mr. Chen joined the Predecessor in 1990 and became the secretary of the Board and the director of the secretariat of the Board in 1997. He graduated from Fuxin Mining Institute.

SHI Chengzhong, aged 42, an engineering technology application researcher, is a deputy general manager of the Company. Mr. Shi joined the Predecessor in 1983 and became vice chief engineer of the Parent Company in 2000 and became a deputy general manager of the Company in 2002. He graduated from Shandong Mining Institute.

NI Xinghua, aged 48, an engineering technology application researcher, is the chief engineer of the Company. Mr. Ni joined the Predecessor in 1975 and became vice chief engineer of the Parent Company in 2000 and became the chief engineer of the Company in 2002. He graduated from Tianjin University.

### INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received the letter of annual confirmation issued by each of the independent non-executive Directors as to his/her independence pursuant to Rule 3.13 of the Listing Rules. All of the four independent non-executive Directors are considered by the Company as independent persons.

### DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors and the supervisors of the Company and the five highest paid individuals of the Company are set out in note 12 to the financial statements prepared in accordance with the IFRS contained herein.

There were no arrangements under which a Director or supervisor of the Company had waived or agreed to waive any remuneration in respect of the year ended 31st December, 2004.

## ARRANGEMENT TO PURCHASE EQUITY OR DEBT SECURITIES

At no time during the year ended 31st December, 2004, was the Company, its holding company, or any of its subsidiaries involved or a party to any arrangement to enable the Directors or supervisors of the Company to acquire benefits by means of the acquisition of equity or debt securities of the Company or any other body corporate with the exceptions of the A shares held by the Directors, supervisors and senior management of the Company. Details are set out in the paragraph headed "Shareholdings of Directors, Supervisors and Senior Management of the Company" of the section headed "Changes in Share Capital and Shareholdings of Shareholders".

## SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors and supervisors of the Company has entered into a service contract with the Company. Under such contracts, each Director will receive a salary and a discretionary year-end bonus, the amount of which shall be recommended by the Board and approved by the Shareholders in general meetings, provided that the discretionary year-end bonuses paid to the Directors and other employees of the Company (including but not limited to other Directors, supervisors and senior managements of the Company) does not exceed 1% of the aggregate of net profit after taxation and extraordinary losses but before extraordinary gains for that year.

No Director or supervisor of the Company has entered into any service contract with the Company, which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

## INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS

None of the Directors or supervisors of the Company had a material interest directly or indirectly in any contract of significance to which the Company was a party during the year ended 31st December, 2004.

## REPURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

During this reporting period, the Company and its subsidiaries did not repurchase or redeem any shares of the Company.

Details of placing 204,000,000 new H shares are set out in the paragraph headed "Placing of New Shares" in the section headed "Disclosure of Significant Events".

## UNDERTAKING OF SHAREHOLDERS WITH SHAREHOLDINGS OF 5% OR MORE

### Allowing the Company's auditors to view accounting records

Pursuant to the requirements of the Hong Kong Stock Exchange, the Company's auditors should confirm annually the condition of implementation of the on-going connected transactions in respect of the supply of materials and services between the Company and the Parent Company, and provide a report to the Board. The Parent Company undertook on 13th May, 2003 that it would allow the Company's auditors to have access to its appropriate financial statements and accounting records when the Company's auditors carry out its work on the confirmation in respect to the implementation of the said on-going connected transactions in respect of the supply of materials and services. In the reporting period, the Parent Company has honoured its obligation in accordance with its undertaking.

### The exploitation of coal resources in Juye coalfield

Pursuant to the restructuring agreement and the non-competing undertakings entered into between the Parent Company and the Company, the Parent Company has undertaken to inform the Company all possible opportunities in respect of any future acquisition, merger, development, construction or other ways of operations of coal mines (which may result in competition with the Company) and to carry out such opportunities in accordance with the terms agreed by the Company.

In the prospectus dated 24th March, 1998 of the Company, the relevant arrangement as to the exploitation of resources in Juye coalfield by the Parent Company on behalf of the Company was disclosed as follows: the Parent Company has undertaken that if and when it enters into a definitive agreement which competes or is likely to compete, directly or indirectly, with the Company's business, its rights and obligations provided by such agreement will be assumed by the Company; and that if it enters into a joint venture project in exploiting the Juye coalfield which is or is likely to be in direct or indirect competition with the business of the Company, the Parent Company will, on behalf of and in consultation with the Company, continue to negotiate the terms of the joint venture project.

In view of the above undertakings, the Company and the Parent Company further agreed that the initial stage of exploitation of Zhaolou Coal Mine and Wanfu Coal Mine in Juye coalfield shall be conducted by the Parent Company, which includes obtaining the approvals for coal mine project; applying for the right to explore coal; and preparing for the construction work of the coal mines.

For the purpose of honouring the above undertakings, in October 2002, the Parent Company established Yankuang Heze Power Chemical Company Limited ("Heze"), with an investment capital of RMB574 million representing 95.67% of the total registered capital. As the principle responsible for the exploitation and construction of the Zhaolou Coal Mine, Heze has fundamentally completed preparing for the construction work of the coal mine. The Parent Company has already been granted the right to explore the Zhaolou Coal Mine and Wanfu Coal Mine.

For the purpose of obtaining the coal resources in Zhaolou Coal Mine and enhancing the profitability of the Company, the Company intends to acquire 95.67% equity interest in Heze owned by the Parent Company and to pay the Parent Company a down payment of RMB574 million for the transfer of such equity interest during the reporting period. The meeting of the Board has arranged for the relevant work in respect of the acquisition of equity interests in Heze and will carry out audit and valuation of the equity interest in Heze. The final consideration for the acquisition of equity interest will be based on the amount of RMB574 million and be adjusted according to the audited and valued financial indicator of Heze.

## COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors is aware of any information, indicating that the Company was not, during this reporting period, in compliance with the Code of Best Practice set out in Appendix 14 of the Listing Rules (before the amendments made to Appendix 14 of the Listing Rules by the Hong Kong Stock Exchange).

## COMPLIANCE WITH MODEL CODE

Having made specific enquiry of all Directors, during this reporting period, the Directors have strictly complied with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. The Company has not adopted a code of conduct regarding the securities transactions of the Directors on terms no less exacting than the required standard set out in the Model Code.

## AUDIT COMMITTEE OF THE BOARD

The audit committee of the Board comprises three independent non-executive Directors, namely Mr. Cui Jianmin (being the Chairman of the audit committee of the Board), Mr. Fan Weitang and Mr. Wang Xiaojun, and two directors of the Company, namely Mr. Wang Bangjun and Mr. Dong Yunqing. The audit committee of the Board has reviewed the results of the Company for the year 2004.

## IMPACT OF FLUCTUATIONS IN EXCHANGE RATES ON THE COMPANY

Coal exports of the Company are all settled in US dollars. China adopts a unified floating exchange rate under the State's supervision. Since 2004, exchange rate for RMB to US dollars varied slightly and basically has no main influence on the Company's business.

## POLICY OF REMUNERATION

The Company adopts an examination and stimulating system, which is a combination of an annual remuneration and a safety risks pledge, for Directors and senior management of the Company. The annual remuneration consists of basic salary and benefit income: basic salary is determined according to the operational scale of the Company with reference to the market wages and the income of employees whereas benefit income is determined by the actual operational achievement of the Company. The annual remunerations for the Directors and senior management of the Company are pre-paid on monthly basis and are encashed after the examination to be carried out next year.

The remuneration for the Directors is to be approved in the Shareholders' general meeting while the remuneration for the senior management of the Company is to be approved by the Board.

The remuneration policy of the other employees of the Company is principally a position and skills remuneration system, which determines the remuneration of the employees on the basis of the positions and responsibilities and the examination results of the employees. Such system also interacts with the consolidated awards of the Company and the Company's overall economic efficiency.

## EMPLOYEES

As at 31st December, 2004, the Company had 29,266 employees, of whom 2,055 were administrative personnel, 1,023 were technicians, 22,369 were directly involved in coal production and 3,819 were supporting staff.

## AUDITORS

As for the year 2004, the Company retained Deloitte Touche Tohmatsu Certified Public Accountants Ltd. (certified public accountants in the PRC (excluding Hong Kong)) and Deloitte Touche Tohmatsu (certified public accountants in Hong Kong) as its domestic and international auditors, respectively. A resolution to reappoint Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants Ltd. as the Company's international and domestic auditors, respectively, for the year 2005 will be proposed at the 2004 annual general meeting of the Company.

The Company has paid a financial audit and review fees of HKD5 million to Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants Ltd. in 2004.

Auditors of the Company have not been changed for the last three years. Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants Ltd. have been the Company's international and domestic auditors for eight consecutive years. There was no registered accountant of Deloitte Touche Tohmatsu Certified Public Accountants Ltd. providing audit services to the Company for more than five years.

## COMPLIANCE AND EXEMPTION OF CORPORATE GOVERNANCE STANDARDS IMPOSED BY THE NEW YORK STOCK EXCHANGE

As of the date of this Annual Report, 54.33% of the Company's voting rights are vested in the Parent Company. The Company therefore is exempt from certain requirements of Section 303A of the NYSE Listed Company Manual: (i) the Company is not required to comply with Section 303A.01's requirements to form a Board with the majority of independent directors, (ii) the Company is not required to comply with Section 303A.04's requirements to form a nominating/corporate governance committee entirely consisted of independent directors, and (iii) the Company is not required to comply with Section 303A.05's requirements to form a compensation committee entirely consisted of independent directors, and disclose herein.

The Company has established an audit committee pursuant to the requirements of Sections 303A.06 of the NYSE Listed Company Manual. The Company's audit committee is not in full compliance with the requirements of Sections 303A.06. The Company relies on the exemption under Section 303A of the NYSE Listed Company Manual which allows foreign private issuers until 31st July, 2005, to comply with the relevant audit committee standards set out in Section 303A.06.

As a foreign private issuer, the Company sets out below material differences between its corporate governance practices and the NYSE's corporate governance requirements as set out in Section 303A of the Listed Company Manual:

	NYSE Listed Company Manual Requirements on Corporate Governance	Company's Practices
Non-management directors must meet at regularly scheduled executive sessions without management	Section 303A.03 of the NYSE Listed Company Manual requires non-management directors of each listed company to meet at regularly scheduled executive sessions without management participation.	There is no identical corporate governance requirement in the PRC. The Company has established a reporting system to the Board to ensure that the directors are informed of the Company's business and operations. The Company believes that the convening of Board meetings on a regularly basis offers the non-management directors a well-established communication forum to voice their concerns and engage in full and open discussions regarding the Company's affairs.
Corporate Governance Guidelines	Section 303A.09 of the NYSE Listed Company Manual requires that a listed company must adopt and disclose corporate governance guidelines. In addition, Section 303A.09 lists out matters that must be addressed in the guidelines: <ul style="list-style-type: none"> <li>• Director qualification standards;</li> <li>• Director responsibilities;</li> <li>• Director access to management and independent advisors;</li> <li>• Director compensation;</li> <li>• Director orientation and continuing education;</li> <li>• Management succession; and</li> <li>• Annual performance evaluation of the Board.</li> </ul>	Although the Company has not adopted a separate set of corporate governance guidelines encompassing all corporate governance requirements required by the NYSE, the Company has however, drafted (i) the Rules of Procedures for the Shareholders' Meeting, the Rules of Procedures for the Board and the Rules of Procedures for the Supervisory Committee, all of which will be submitted for shareholders approval in the 2004 annual general meeting of the Company; and (ii) the Rules for the Work of the Independent Non-Executive Directors, the Rules for Disclosure of Information and the Rules for the Approval and the Disclosure of the Connected Transactions of the Company, all of which have been approved by the Board. The Company believes that collectively, the aforementioned rules and measures have adequately addressed the corporate governance requirements required by the NYSE and provide wider, more detailed corporate governance requirements that can further facilitate the effective operation of the Company.
Code of Business Conduct and Ethics	Section 303A.10 of the NYSE Listed Company Manual requires that a listed company must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.	The Company has adopted a Code of Ethics in compliance with PRC laws and regulations as well as the rules of the relevant listing stock exchanges. The Code of Ethics is published on the Company's website. Although the Code of Ethics adopted by the Company does not completely conform to the NYSE rules, the Company believes that the existing Code of Ethics can adequately protect the interests of both the Company and its Shareholders.

On behalf of the Board

**WANG Xin**

*Chairman*

Zoucheng, PRC, 25th April, 2005