

REPORT OF THE DIRECTORS

The Board is pleased to submit the Report of the Directors of Year 2005 together with the audited financial statements of the Company for the year ended 31st December, 2005.

PRINCIPAL ACTIVITIES

The Company is 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, 2005, 2004, 2003, 2002 and 2001, 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, 2005 as proposed by the Board is as follows:

<i>Prepared in accordance with PRC GAAP</i>	RMB'000
Net Income	2,495,481
Unappropriated profits at the beginning of year	3,722,813
Appropriation to statutory surplus reserve	249,548
Appropriation to statutory public welfare fund	124,774
Distributable profits	5,843,972
Proposed cash dividends after the date of the balance sheet	1,082,048
Unappropriated profits	4,761,924

The proposed profit appropriation will be presented to the shareholders of the Company (the “Shareholders”) for approval at the forthcoming 2005 annual general meeting of the Company (the “2005 AGM”).

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 and 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 2005.

DIVIDENDS

The directors of the Company have decided to propose at the 2005 AGM, a payment of cash dividends for the year 2005 of RMB1,082 million (tax included) or RMB0.220 (tax included) per share, which includes (1) a cash dividends of RMB737.7 million (tax included) or RMB0.150 (tax included) per share in accordance with the Company’s consistent dividend policy; and (2) a special cash dividends of RMB344.3 million (tax included) or RMB0.07 (tax included) per share. Following the approval by the Shareholders at the 2005 AGM, the above dividends will be declared and paid to all Shareholders within two months after the 2005 AGM (if so approved).

REPORT OF THE DIRECTORS (Cont'd)

Pursuant to the Articles, cash dividends payable to the Shareholders shall be calculated and declared in RMB. Cash dividends payable to holders of the Company's domestic shares shall be paid in RMB, while cash dividends 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 2005.

Net sales to the Company's five largest domestic customers accounted for less than 30% of the Company's net sales in 2005.

As far as the directors of the Company (the "Directors") are aware, neither the Directors, their associates, nor Shareholders who own more than 5% of the Company's share capital had any right and interest in the five largest customers of the Company.

EXTERNAL GUARANTEES BY THE COMPANY

As at 31st December, 2005, 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 external guarantee by the Company constitutes a disclosure under requirement by relevant laws of China (except Hong Kong).

INTEREST CAPITALIZATION

No interest has been capitalized by the Company during the year ended 31st December 2005.

RESERVES

Details of changes in the reserves of the Company for the year ended 31st December, 2005 and details of the distributable reserves of the Company as at 31st December, 2005 are set out in the note 35 to the financial statements prepared in accordance with the IFRS contained herein.

STATUTORY COMMON WELFARE FUND

Details of the statutory common welfare fund are set out in note 35 to the financial statements prepared in accordance with the IFRS contained herein.

NET VALUE OF PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company during the year ended 31st December, 2005 are set out in note 24 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 41 to the financial statements prepared in accordance with the IFRS contained herein.

ON-GOING CONNECTED TRANSACTIONS

The on-going connected transactions between the Company and the Parent Company for the year 2005 including the following three aspects.

1. On-going Supply of Materials and Services

The connected transactions of on-going supply of materials and services between the Company and the Parent Company were carried out in accordance with The Materials and Services Supply Agreement signed on 17th October, 1997 and its subsequent supplemental agreement, as approved by independent shareholders.

The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") 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 ended 31st December 2005. The upper limits of the Waiver in respect of the on-going supply of material and services by the Company to the Parent company should 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 should not exceed 26% of the Company's audited consolidated net sales in the immediate preceding financial year.

For the year ended 31st December, 2005, the value of connected transactions relating to the provision of materials and services by the Company to the Parent Company was RMB1,255.4 million and accounted for 11.87% of the Company's audited consolidated net sales for the year ended 31st December, 2004, and the value of connected transactions relating to the provision of materials and services by the Parent Company to the Company was RMB1,293.2 million and accounted for 12.23% of the Company's audited consolidated net sales for the year ended 31st December, 2004.

2. Mining Rights Fee

During this reporting period, pursuant to the Mining Rights Agreement dated 17th October, 1997 and its supplemental agreement dated 18th February, 1998 entered into between the Parent Company and the Company, the Company paid RMB12.98 million to the Parent Company.

REPORT OF THE DIRECTORS (Cont'd)

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 Parent Company undertakes to be responsible for the management of the old age insurance fund to the employees and payments of the pension and other benefits to the retirees of the Company (the "Endowment Insurance Fund") on a free of charge basis. In this reporting period and pursuant to the Agreement of Endowment Insurance Fund, the Company has paid the Endowment Insurance Fund of RMB522.7 million.

The Company's independent non-executive Directors have reviewed the connected transactions of on-going connected transaction in the year 2005 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 have not exceeded the cap under the Waiver granted by the Hong Kong Stock Exchange.

The auditors of the Company, as reported to the Board in a letter, have performed certain agreed upon procedures on the above on-going connected transactions between the Company and the Parent Company in relation to the compliance of these transactions on: (a) have received approval by the Board; (b) are in accordance with the pricing 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.

APPROVAL OF NEW ON-GOING CONNECTED TRANSACTION AGREEMENTS AND THE ANNUAL CAPS FOR YEAR 2006 TO 2008

Pursuant to the regulations of Hong Kong Stock Exchange and Shanghai Stock Exchange on on-going connected transactions and the operation developments of the Company and the Parent Company, the Company completed the review of its on-going connected transactions as required by law and entered into six new on-going connected transaction agreements ("New On-going Connected Transaction Agreements") with the Parent Company in the first quarter 2006. It also determined the caps on the connected transactions for each New On-going Connected Transaction Agreements in each year ("the Annual Caps") from 2006 to 2008.

The New On-going Connected Transaction Agreements and the Annual Caps were approved by the independent shareholders on 24th March, 2006. The term for each of the New On-going Connected Transaction Agreements is from 1st January, 2006 till 31st December, 2008. The Materials and Services Supply Agreement and its supplementary agreement and the Agreement of Endowment Insurance Fund originally entered into between the Company and the Parent Company have been terminated.

ACQUISITION OF CONNECTED ASSETS

Acquisition of Equity Interest of Heze Neng Hua

The 2005 first extraordinary general meeting of the Company was held on 19th August, 2005, in which the "Equity Transfer Agreement between Yankuang Group Corporation Limited and Yanzhou Coal Mining Company Limited" and its "Supplemental Agreement" (collectively the "Acquisition Agreement") were approved. According to the Acquisition Agreement, the Company has acquired 95.67% equity interest in Heze Neng Hua at the consideration of RMB584.01 million. Heze Neng Hua is responsible for coal development in Juye coalfield in Shandong province for the Company.

Mining Right Consideration of Jining III Coal Mine

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. During this reporting period, the Company paid RMB13.248 million to the Parent Company.

HOUSING SCHEME

According to the Materials and Services Supply Agreement (as amended by the supplemental agreement) 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 2004 and 2005, 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 2005, the employees' housing allowances paid by the Company amounted to RMB136.9 million in total.

Details of the housing scheme are set out in note 42 to the financial statements prepared in accordance with the IFRS contained herein.

DISCLOSURE OF SIGNIFICANT EVENTS

Material Litigation and Arbitration

On 13th December 2004, the Company made an entrusted loan of RMB640 million to Shandong Xin Jia Industrial Company Limited ("Shandong Xin Jia") through the Bank of China Jining Branch (the "Entrusted Loan"). Since Shandong Xin Jia failed to duly repay the principal and interest of the Entrusted Loan, the Higher People's Court of Shandong Province appointed Shandong Yinxing Auction Company Limited and auctioned the 289 million shares held by Lianda Group Limited, the guarantor, in Huaxia Bank Company Limited (the "Pledged Shares") in accordance with the relevant laws on 6th September, 2005. The final auction price is RMB3.5 per Pledged Share and total final auction amount is RMB1,011.5 million.

After the qualification approval procedures of China Banking Regulatory Commission and the transfer procedures of the Pledged Shares have been completed, the successful bidder of the Pledged Shares will pay the auction amount. The auction amount will be administered by the People's High Court of Shandong Province. After the completion of the legal procedures, the Company will get back the principal, interest, penalty interest and relevant expenses of the Entrusted Loan and upon which the Company will timely publish an announcement. As at the date of this report, the legal procedures and the transfer of the pledged shares still have not been completed yet.

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

REPORT OF THE DIRECTORS (Cont'd)

Share Reform Plan

The Share Reform Plan of the Company was carried out on 31st March, 2006. Yankuang Group has paid a consideration of 2.5 non-tradable shares for every 10 shares held by each holder of A shares whose name appear on the register of member of A share on 30th March, 2006 in exchange for the right to list and trade the non-tradable shares of the Parent Company on the Shanghai Stock Exchange. The non-tradable shares held by the Yankuang Group were granted the right to listing and trading on the Shanghai Stock Exchange since 3rd April, 2006.

In addition to the statutory undertakings, Yankuang Group also undertook the following: (1) the original non-tradable shares of the Company held by the Parent Company would be subject to a trading moratorium of 48 months from the date of the completion of the Share Reform Plan; (2) the Parent Company would, in accordance with the relevant governmental procedures, assign part of its operations including coal and power operations together with new projects, which are in line with the Company's development strategies to the Company in 2006 and support the Company in the implementation of such assignment; and the Company would be invited to invest in the coal liquefaction project which is being developed by the Yankuang Group; (3) All related expenses arising from the Share Reform Plan would be borne by the Parent Company.

The financial indicators of the Company including assets, liabilities, ownership interest, total share capital and net profit remain unchanged upon implementation of the revised Share Reform Plan of the Yankuang Group.

Election of New Session of Directors and Supervisors

At the 2004 annual general meeting of the Company held on 28th June, 2005, Mr. Wang Xin, Mr. Geng Jiahuai, Mr. Yang Deyu, Mr. Shi Xuerang, Mr. Chen Changchun, Mr. Wu Yuxiang, Mr. Wang Xinkun, Mr. Chen Guangshui and Mr. Dong Yunqing were elected as directors of the third session of the Board, Mr. Pu Hongjiu, Mr. Cui Jianmin, Mr. Wang Xiaojun and Mr. Wang Quanxi were elected as independent non-executive directors of the third session of the Board, and Mr. Meng Xianchang, Mr. Song Guo, Mr. Zhang Shengdong and Mr. Liu Weixin were elected as shareholders representative supervisors of the third session of the supervisory committee. At the employees' representative conference of the Company held in May 2005, Mr. Xu Bentai was elected as the employee representative supervisor of the third session of the supervisory committee.

The term of office for the directors of the third session of the Board and that of the supervisors of the third session of the supervisory committee are both three years, commencing from the conclusion of the 2004 annual general meeting to the shareholders' meeting appointing the directors of the fourth session of the Board and the supervisors of the fourth session of the supervisory committee.

Election of Chairman, Vice Chairman and Appointment of Senior Management

At the first meeting of the third session of the Board held on 28th June, 2005, Mr. Wang Xin was elected as the chairman of the third session of the Board; Mr. Geng Jiahuai and Mr. Yang Deyu were elected as the vice-chairmen of the third session of the Board; Mr. Yang Deyu was appointed as the general manager of the Company; Mr. Jin Tai, Mr. Zhang Yingmin, Mr. He Ye, Mr. Wang Xinkun, Mr. Tian Fengze, Mr. Shi Chengzhong and Mr. Lai Cunliang were appointed as the deputy general managers; Mr. Wu Yuxiang was appointed as the chief financial officer; Mr. Chen Guangshui was appointed as the secretary of the Board; Mr. Ni Xinghua was appointed as the chief engineer; Mr. Wu Yuxiang and Mr. Chen Guangshui were appointed as the Company's authorized representatives.

REPORT OF THE DIRECTORS (Cont'd)

Establishment of Special Committee of the Board and Adjustment of Functioning Departments

At the first meeting of the third session of the Board, the establishment of the audit committee of the third session of the Board was approved. Mr. Cui Jianmin, Mr. Pu Hongjiu, Mr. Wang Xiaojun, Mr. Wang Quanxi, Mr. Chen Changchun and Mr. Dong Yunqing were appointed as members of the audit committee with Mr. Cui Jianmin being the chairman.

The establishment of the remuneration committee of the third session of the Board was approved. Mr. Wang Quanxi, Mr. Wang Xiaojun and Mr. Dong Yunqing were appointed as members of the remuneration committee with Mr. Wang Quanxi being the chairman.

Adjustment of some functioning departments of the Company was approved: abolition of the original economic operation department; establishment of the general coordination department, enterprise management department, project department and the enterprise community office.

Election of Chairman and Vice Chairman of the Supervisor Committee

At the first meeting of the third session of the supervisor committee held on 28th June, 2005, Mr. Meng Xianchang was elected as the chairman of the supervisor committee, and Mr. Song Guo was elected as the vice chairman of the supervisor committee.

Amendments to the Articles of Association of the Company

Pursuant to the approval of the 2004 annual general meeting, the Company amended the articles of association of the Company (the "Articles of Association") 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 of Association were posted to the shareholders of the Company on 13th May, 2005 and were published in the domestic China Securities Journal, Shanghai Securities News and Wen Wei Po, South China Morning Post of Hong Kong on 13th May, 2005.

Pursuant to the authorization granted at the 2004 annual general meeting of the Company, the Company amended Articles 16, 17 and 20 of the Articles of Association at the second meeting of the third session of the Board held on 19th August, 2005 so as to reflect the changes in the total share capital and the share capital structure of the Company upon completion the Bonus Share Issue approved by the shareholders at the 2004 annual general meeting of the Company. Details of the amendments to the Articles of Association were published in the domestic China Securities Journal, Shanghai Securities News and Wen Wei Po, South China Morning Post of Hong Kong on 22nd August, 2005.

Upon approval at the first extraordinary general meeting in 2006 dated on 24th March, 2006, the Company amended the Articles of Association. Details of the amendments to the Articles of Association were published in the domestic China Securities Journal, Shanghai Securities News and Wen Wei Po, South China Morning Post of Hong Kong on 27th March, 2006.

MATERIAL CONTRACTS

Besides the Acquisition Agreement disclosed in the section headed "Acquisition of Equity Interest of Heze Neng Hua", the Company was not a party to any material contract during this reporting period.

PRE-EMPTIVE RIGHTS

The Articles of Association of the Company 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.

REPORT OF THE DIRECTORS (Cont'd)

SHARE CAPITAL

Details of the share capital of the Company are set out in the note 35 to the financial statements prepared in accordance with the IFRS contained herein.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

Changes in Share Capital

Bonus Issue of Shares

At the 2004 annual general meeting of the Company held on 28th June, 2005, the shareholders of the Company approved the issue of bonus shares on the basis of six bonus shares for every ten existing shares based on the total share capital of 3,074,000,000 shares of the Company as at 31st December, 2004, thereby increasing the Company's total share capital to 4,918,400,000 shares. The bonus shares were listed for public dealing from 28th July, 2005. During this reporting period, the changes in share capital of the Company were as follows.

	As at 1st January 2005	Unit: shares (Par value per share: RMB1.00) Changes during this reporting period (+ /-)	As at 31st December 2005
State legal person shares (Shares not listed for public dealings)	1,670,000,000	+1,002,000,000	2,672,000,000
A shares	180,000,000	+108,000,000	288,000,000
H shares	1,224,000,000	+734,400,000	1,958,400,000
Total numbers of shares	3,074,000,000	+1,844,400,000	4,918,400,000

As at 31st December, 2005, the Company had a total of 48,013 Shareholders, of which one was the holder of state legal person shares, 47,870 were holders of A shares and 142 were holders of H shares.

Share Reform Plan

Upon the implementation of the Share Reform Plan on 31st March, 2006, changes in the share capital are as follows.

	Before 31st March, 2006	Unit: shares (Par value per share: RMB1.00) Changes (+ /-)	As at 31st March, 2006
State legal person shares (Tradable shares subject to a trading moratorium)	2,672,000,000	-72,000,000	2,600,000,000
A shares	288,000,000	+72,000,000	360,000,000
H shares	1,958,400,000	0	1,958,400,000
Total numbers of shares	4,918,400,000	0	4,918,400,000

REPORT OF THE DIRECTORS (Cont'd)

Top Ten Shareholders and Top Ten Shareholders Holding Listed Shares of the Company

According to the register of Shareholders as at 31st December, 2005, which was provided by 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 were as follows:

(as at 31st December, 2005)

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 (%)
Yankuang Group Corporation Limited	State legal person share	2,672,000,000	54.33
HKSCC Nominees Limited	H Shares	1,953,593,196	39.72
DEUTSCHE BANK AKTIENGESELLSCHAFT	A Shares	11,543,201	0.23
Yanjiang Xizhilang Pudding Manufacturing Co., Ltd.	A Shares	9,851,987	0.20
CREDIT SUISSE FIRST BOSTON (HONG KONG) LIMITED	A Shares	8,788,357	0.18
China Merchants Bank Co., Ltd. – Zhongxin Classic Allocation Securities Investment Fund	A Shares	8,500,000	0.17
LEHMAN BROTHERS INTERNATIONAL (EUROPE)	A Shares	8,000,000	0.16
Industrial and Commercial Bank of China – Shangzheng 50 Tradable Open Index Securities Investment Fund	A Shares	6,957,018	0.14
UBS LIMITED	A Shares	5,899,113	0.12
Shanghai Bao Steel Group Corporation	A Shares	5,335,250	0.11
Bank of Communications – Yifangda 50 Index Securities Investment Fund	A Shares	4,669,413	0.09

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, 2005.

None of the shares held by the Parent Company was pledged or restricted or under any trust arrangement during the reporting period under review. It is uncertain as to whether the shares held by other Shareholders as disclosed above were pledged or restricted or under any trust arrangement during the reporting period.

Related party relationships and concert actions among the Shareholders as disclosed above are not known.

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

REPORT OF THE DIRECTORS (Cont'd)

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31st December, 2005, no other person (other than a director, chief executive or supervisor 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 (Note 1)	Domestic Shares (state-owned legal person shares)	2,672,000,000 ^(L)	Beneficial Owner	Corporate	90.27%	54.33%
JPMorgan Chase & Co.	H Shares	231,968,318 ^(L) (including 65,598,770 ^(P))	Beneficial owner, Investment manager and Custodian corporation/ Approved lending agent	Corporate	11.84%	7.84%
Credit Suisse Group	H Shares	116,552,620 ^(L) (including 2,460,700 ^(P)) 60,187,774 ^(S)	Interest of controlled corporations	Corporate	9.02%	5.97%
Citigroup Inc.	H Shares	110,617,841 ^(L) (including 5,852,000 ^(P)) 7,403,400 ^(S)	Beneficial owner, Person having a security interest in shares and Custodian corporation/ Approved lending agent	Corporate	6.03%	3.93%

Notes:

- Upon the authorization and appointment of the Parent Group, the Company implemented a Share Reform Plan on 31st March 2006. Details of the Share Reform Plan are set out in the paragraph headed "Share Reform Plan" under the section "Disclosure of Significant Events". Upon the implementation of the Share Reform Plan and on 31st March, 2006, the shareholding of the Parent Company changed from 2,672,000,000 Domestic Shares to 2,600,000,000 Domestic Shares, representing 87.84% of the Company's total Domestic Shares and 52.86% of the Company's total share capital.
- The letter "L" denotes a long position. The letter "S" denotes a short position. The letter "P" denotes interest in a lending pool.

REPORT OF THE DIRECTORS (Cont'd)

LEGAL PERSON SHAREHOLDERS WITH SHAREHOLDING OF 10% OR MORE

As at 31st December, 2005, Yankuang Group held 2,672,000,000 state legal person shares of the Company, representing 54.33% of the total share capital of the Company.

Yankuang Group, a state wholly-owned enterprise, is a controlling Shareholder of the Company. Its legal representative is Mr. Geng Jiahui 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, 2005, HKSCC Nominees Limited held 1,953,593,196 H shares of the Company, representing 39.72% 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 4,918,400,000 shares, of which 2,318,400,000 shares were held by the public, representing 47.14% of the Company's total share capital. Among the 2,318,400,000 shares held by the public, 1,958,400,000 of them were H shares, representing 39.82% of the Company's total share capital whereas 360,000,000 were A shares, representing 7.32% of the Company's total share capital.

REPORT OF THE DIRECTORS (Cont'd)

SHAREHOLDING OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Save as disclosed below, as at 31st December 2005, 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 Issuers ("the Model Code") (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	16,000	bonus shares
Shi Xuerang	–	Director	0	0	No change
Chen Changchun	–	Director	0	0	No change
Wu Yuxiang	Beneficial owner	Director and Chief Financial Officer	10,000	16,000	bonus shares
Wang Xinkun	–	Director and Deputy General Manager	0	0	No change
Chen Guangshui	Beneficial owner	Director and Secretary to the Board	1,000	1,600	bonus shares
Dong Yunqing	–	Director	0	0	No change
Pu Hongjiu	–	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 Supervisor Committee	10,000	16,000	bonus shares
Song Guo	–	Vice-Chairman of the Supervisor Committee	0	0	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
He Ye	–	Deputy General Manager	0	0	No change
Tian Fengze	–	Deputy General Manager	0	0	No change
Shi Chengzhong	–	Deputy General Manager	0	0	No change
Lai Cunliang	–	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, 2005, the total number of domestic shares of the Company held by the Directors, supervisors and senior management of the Company is 49,600, representing 0.001% of the total share capital of the Company.

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As at 31st December, 2005, 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).

BRIEF BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

WANG Xin, aged 47, an engineering technique application researcher, doctor of engineering technology, 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 in 1982 and became the vice general manager of the Parent Company in 2000. He was appointed as the director of the board of directors and vice general manager of the Parent Company in 2002, and promoted to be the vice chairman of the board of directors and the general manager of the Parent Company in 2003. In 2004, he became a director and the chairman of the Board of the Company. He graduated from China University of Mining and Technology.

GENG Jiahuai, aged 55, an engineering technique application researcher, 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 general 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 the directors and the party committee secretary of the Parent Company in 2003. Mr. Geng became a director of the Company in 2002 and the vice chairman of the Company in 2004. He graduated from Shandong Mining Institute.

YANG Deyu, aged 57, an engineering technique application researcher, is the vice chairman of the Board and the general manager of the Company, and a director of the board of the Parent 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 an 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 became a director of the board of directors of the Parent Company in 2004. He graduated from Shandong Mining Institute.

Shi Xuerang, aged 51, a senior engineer, is a director of the Company and deputy general manager of the Parent Company. From 2001 to 2003, Mr. Shi has successively acted as the deputy general manager of Xinkuang Group. He joined the Parent Company as the deputy general manager of the Parent Company in 2003 and became a director of the Company in 2005. He graduated from Shandong Mining Institute.

Chen Changchun, aged 53, a senior accountant, is a director of the Company and a director and the chief accountant of the Parent Company. Mr. Chen joined the Predecessor in 1984 and became the chief accountant of the Parent Company in 1998 and became a director of the Parent Company in 2004. Mr. Chen became a director of the Company in 2005. He graduated from Beijing Coal Cadre Institute.

WU Yuxiang, aged 44, a senior accountant, 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 Manager of the finance department of the Company in 1997, and was promoted to be a director and the chief financial officer of the Company in 2002. He graduated from Shandong TV University.

WANG Xinkun, aged 53, a senior economist, 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, and the deputy general manager of the Company in 2002. He became a director of the Company in 2004. He graduated from Tianjin University.

REPORT OF THE DIRECTORS (Cont'd)

CHEN Guangshui, aged 40, a senior economist, is a director, the secretary to the Board. Mr. Chen joined the Predecessor in 1990, became the secretary to the Board and the head of the Secretariat of the Board of the Company in 1997. Mr. Chen became a director of the Company in 2005. He graduated from Fuxin Mining Institute.

DONG Yunqing, aged 50, a senior administrative officer, 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. He graduated from Shandong Mining Institute.

Independent Non-executive Directors

Pu Hongjiu, aged 69, professor-level senior engineer, is an independent non-executive director of the Company. He is the first vice chairman of the China Coal Industry Association, the chairman of Coal Industry Association of China International Association, the board chairperson of China Coal Academy. Mr. Pu was a party group member and the head of disciplinary inspection group in State Administration of Work Safety and State Administration of Coal Mine Safety in 2001. He has been the board chairperson of China Coal Academy since 2001, the first vice chairman of the China Coal Industry Association since 2003 and the board chairperson of China Miner Pneumoconiosis Treatment Foundation since 2004. He became an independent non-executive director of the Company in 2005. He graduated from Hefei Mining Institute. He also acts as an independent non-executive director in Shanghai Datun Energy Company Limited and Shenhua Ningxia Coal Mining Group Corporation Limited.

CUI Jianmin, aged 73, a senior auditor and certified accountant, is a consultant for China Tax Expert Association, and part-time professor for colleges such as Central Finance and Economics University. Mr. Cui had previously been the deputy chief auditor of National Audit Office of the PRC, the chairman of the Association of China Certified Accountant, and a committee member of the 8th National Committee of the Chinese People's Political Consultative Conference. Mr. Cui became an independent non-executive director of the Company in 2002 and he has been a consultant in China Tax Expert Association since September 2004. Mr. Cui graduated from People's University of China. Mr. Cui also acts as an independent non-executive director both in China Power Co., Ltd and CITIC Guoan Information Industry Co., Ltd..

WANG Xiaojun, aged 51, admitted as a solicitor in England and Wales and Hong Kong, is an independent non-executive director and a partner of the Wang & Co., X. J. in Hong Kong and is an independent non-executive director of the Company. He has practiced PRC law in Beijing, and 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 Bulter. He became an independent non-executive Director of the Company in 2002. He 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. Meanwhile, he also acts as independent non-executive director of the Guangzhou Guangchuan International Company Limited and Hong Kong Zhengqi Investment Company Limited.

WANG Quanxi, aged 50, professor of Nankai University, is an independent non-executive director of the Company. He is the director of financial management department of Nankai University, the director of Enterprise Research Center of Nankai University, the vice director of MBA Center of Nankai University, and the secretary-general of Association of Management of Tianjin City. Mr. Wang became the independent non-executive director of the Company in 2004. He graduated from Tianjin Finance and Economics University. Meanwhile, he also acts as independent non-executive director of YinuoBohai Group Co., Ltd.

SUPERVISORS

MENG Xianchang, aged 58, a senior administrative officer, is the chairman of the supervisory committee of the Company and party committee deputy secretary of the Parent Company. Mr. Meng joined the Predecessor in 1981 and was promoted as party committee deputy secretary and a supervisor of the Predecessor in 1996, and became the chairman of the supervisory committee of the Company in 1997. He graduated from Shandong Mining Institute.

SONG Guo, aged 51, a senior administrative officer, is the vice chairman of the supervisory committee of the Company, and the party committee deputy secretary and the secretary of disciplinary inspection committee of the Parent Company. Mr. Song was the director of the office of Coal Management Bureau of Shandong Province in 2002. He joined the Parent Company as secretary of the disciplinary inspection committee in 2002, and became the deputy secretary of party committee of the Parent Company. He became the vice chairman of the supervisory committee of the Company in 2005. He graduated from Shandong university.

ZHANG Shengdong, aged 49, a senior accountant, 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 in 1997. He became a supervisor of the Company in 2002. He graduated from China University of Mining and Technology.

LIU Weixin, aged 55, a senior accountant, is a supervisor of the Company and the vice director of the audit department of the Parent Company. Mr. Liu joined the Predecessor in 1971, and became the vice director of the audit affair office of the Parent Company in 2001, the chief of audit department of the Parent Company in 2003, and the deputy director of audit department of the Parent Company in 2005. Mr. Liu became a supervisor of the Company in 2002. He graduated from Shandong Youth Cadre Institute.

XU Bentai, aged 47, a senior administrative officer, 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 and became the chairman of Jining III Coal Mine's labor union in 1999. He became an employee supervisor of the Company in 2002. He graduated from the Central Communist Party School Correspondence Institute.

SENIOR MANAGEMENT

JIN Tai, aged 54, a senior engineer, is the deputy general manger 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. Mr. Jin became the deputy general manager of the Company in 2004. He graduated from China University of Mining and Technology.

ZHANG Yingmin, aged 52, an engineering technology application researcher, is the executive deputy general manager of the Company and a director of the Parent 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 and the deputy general manager of the Parent Company in 2003. Mr Zhang became a director of the board of directors of the Parent Company in 2004. He graduated from Tianjin University.

He Ye, aged 48, 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 was promoted to be a deputy general manager of the Company in 2002. He graduated from Guizhou Institute of Technology.

REPORT OF THE DIRECTORS (Cont'd)

TIAN Fengze, aged 49, 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.

SHI Chengzhong, aged 43, a senior engineer, is a deputy general manager of the Company. Mr. Shi joined the Predecessor in 1983 and became a deputy chief engineer of the Parent Company in 2000 and a deputy general manager of the Company in 2002. He graduated from Shandong Mining Institute. Mr. Shi also acts as a director of Guizhou Panjiang Coal Power Company Limited.

Lai Cunliang, aged 45, a senior engineer, master of mining engineer, is a deputy general manager of the Company. Mr. Lai joined the Predecessor in 1980 and became the head of Xinglongzhuang coal mine of the Company in 2000. Then he became a director and the general manager of YanCoal Australia Pty Limited in 2004. And he became a deputy general manager of the Company in 2005. He graduated from China University of Mining & Technology.

NI Xinghua, aged 49, an engineering technology application researcher, is the chief engineer of the Company. Mr. Ni joined the Predecessor in 1975 and became the deputy chief engineer of the Parent Company in 2000. He was promoted to be 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 14 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, 2005.

ARRANGEMENT TO PURCHASE EQUITY OR DEBT SECURITIES

At no time during the year ended 31st December, 2005, 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 to 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 Shareholders".

REPORT OF THE DIRECTORS (Cont'd)

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, 2005.

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.

IMPACT OF FLUCTUATIONS IN EXCHANGE RATES ON THE COMPANY

Starting from 21st July, 2005, China reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. RMB will no longer be pegged to the US dollar.

Impact of RMB appreciation to the Company is mainly reflected in (a) income through coal export after conversion into RMB since coal exports of the Company are calculated in US dollar; (b) conversion loss of foreign currency deposit; and (c) the Company's import costs of equipment and fittings.

The Company has no plan to make hedging arrangements for the exchange rates of RMB to foreign currencies.

POLICY OF REMUNERATION

The remuneration for the directors, supervisors and senior management should be proposed to the Board by remuneration committee of the Board. Upon review and approval by the Board, the proposal of remuneration for the directors and supervisors has to be approved in the shareholders' general meeting; while the remuneration for the senior management should be approved by the Board.

The Company adopts a combined annual remuneration and risk control system for assessing and rewarding the 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 a monthly basis and are cashed after the assessment to be carried out in the following year.

The remuneration policy of the other employees of the Company is principally a position and skill remuneration system, which determines the remuneration of the employees on the basis of their positions and responsibilities and their quantified assessment results. Rewards are linked to the Company's overall economic efficiency.

REPORT OF THE DIRECTORS (*Cont'd*)

EMPLOYEES

As at 31st December, 2005, the Company had 30,063 employees, of whom 1,995 were administrative personnel, 1,069 were technicians, 23,060 were directly involved in coal production and 3,939 were supporting staff.

On behalf of the Board

WANG Xin
Chairman

Zoucheng, PRC, 21st April, 2006