

CORPORATE GOVERNANCE REPORT

The Company has set up a relatively regulated and reliable corporate governance system, and emphasizes the corporate governance principles of transparency, accountability and protection of the rights and interests of all the shareholders.

The Board believes that good corporate governance is very important to the operation and development of the Company. The Board will regularly review the corporate governance practices to ensure that the Company's operation is in compliance with the laws, rules and the regulations of the stocklisting places, and constantly endeavors to implement high quality corporate governance.

The Company has adopted the following corporate governance practices documentation, including, but not limited to: the Articles of Association, the Rules of Procedure for the Shareholders' Meeting, the Rules of Procedure for Board Meeting, the Rules of Procedure for Supervisory Committee Meeting, the System of Work of the Independent Directors, the Rules for Disclosure of Information, the Rules for the Approval and the Disclosure of the Connected Transactions of the Company, the Rules for the Management of the Investors' Relationships, the Code for Securities Transactions by the Management, the Standard of Conduct and Professional Ethics of the Senior Employees, etc. As at 31st December, 2005, and as of the date of this Annual Report, the corporate governance practices documentation and the governance operation adopted by the Company are in compliance with the principles and the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of Hong Kong Stock Exchange Listing Rules.

The following are the major respects in which the Company's adopted corporate governance code has a wider coverage than the CG Code:

- The provisions set out in the Code for Securities Transactions by the Management and the Standard of Conduct and Professional Ethics of the Senior Employees are stricter than those of the Model;
- The Board met 6 times during the year 2005;
- The Company is improving the set up of its internal controls system according to the requirements of the US Sarbanes-Oxley Act, in which the standards of the internal controls contained are more specific than those of the CG Code.

SECURITIES TRANSACTIONS BY DIRECTORS

Having made specific enquiry of all Directors, during this reporting period, the Directors have strictly complied with the Model Code. All Directors have confirmed that they have complied with the requirements under the Model Code during 2005.

On 21st April, 2006, the Code for Securities Transactions by the Management was approved at the 5th Board Meeting of the 3rd Session of the Board of Directors. The relevant requirements relating to the securities transactions under the PRC domestic laws, regulations and governance requirements are included in the Code for Securities Transactions by the Management which is drafted based on the Model Code. Accordingly, the Code for Securities Transactions by the Management is stricter than the Model Code.

CORPORATE GOVERNANCE REPORT (Cont'd)

BOARD OF DIRECTORS

The Board comprises thirteen Directors including four independent non-executive Directors. The names and positions of the Directors are described in the paragraph headed "Shareholding of Directors, Supervisors and Senior Management of the Company" of the section headed "Report of Directors" in this Annual Report.

The Board is mainly responsible for the decision-making of the Company and the supervision of operations of the Company and the management. The Board primarily has the powers to decide on the operation plans and investment policy, to formulate the policy for financial depository and clearing and the policy for the allocation of profits, to develop and review the internal controls system, and to confirm the management organization and the basic management system of the Company etc. The duties and powers of the Board and the management have been set out in the Articles of Association in detail.

According to the Articles of Association and the Rules of Procedure for the Board, all the Directors are entitled to include any matters in the agenda for Board meetings; the Company shall deliver a notice of the ordinary Board meeting or extraordinary Board meeting to the Directors 14 days before the ordinary Board meeting or 3 days before the extraordinary Board meeting; and the agenda and information for discussion have to be circulated to the Directors for their review 5 days before the meeting or 3 days before the extraordinary Board meeting. Draft and final versions of minutes of board meetings should be sent to all Directors for their comments and records respectively, in both cases within a reasonable time after the Board meeting is held. Any of the Directors are entitled to inspect the recorded minutes of Board meetings at any reasonable time.

The Company has set up a Special Secretary Department of the Board, through which all Directors are able to access the services of the Board secretary. The Board is entitled to resolve to seek independent professional advice in appropriate circumstances, at the Company's expense. When the Board considers any connected transaction, the interested Director shall abstain from the voting for such transaction.

As at 31st December, 2005, six board meetings were held in the year, all Directors attended the meetings in person or by means of electronic communication, representing 100% attendance of the Board.

The Company has received an annual confirmation provided by each of the independent non-executive Directors concerning his independence pursuant to Rule 3.13 of the Listing Rules. The Company confirms that it considers all of the four independent non-executive Directors are independent.

Except for the work relationship, there are no other relations such as financial, business, family relationships etc. between the Directors, Supervisors and senior management.

The Directors are responsible for preparing the financial accounts of the Company for the relevant accounting period of the Company, to reflect the Company's financial situation, operating results and cash flows truly and fairly.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Wang Xin serves as the Chairman of the Company, and Mr. Yang Deyu is the General Manager. The authorities and responsibilities between the Chairman and the General Manager are clearly divided. Details of such authorities and responsibilities of the Chairman and the General Manager are set out in the Articles of Association.

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

Each of the non-executive Directors has entered into a service contract with the Company. Pursuant to the Company's Articles of Association, the term of appointment of the members of the Board (including the non-executive Directors) is three years. The members of the Board can be reappointed consecutively after expiry of the term. However, the term of reappointment of independent non-executive Directors cannot exceed six years.

REMUNERATION OF DIRECTORS

As approved at the 1st board meeting of the 3rd Session of the Board held on 28th June, 2005, the Company set up the Remuneration Committee of the 3rd Session of the Board (the "Remuneration Committee") which comprises two independent non-executive directors Mr. Wang Quanxi and Mr. Wang Xiaojun, and one non-executive Director Mr. Dong Yunqing. Mr. Wang Quangxi serves as the Chairman of the Remuneration Committee.

The Remuneration Committee is mainly responsible for formulating the remuneration policy for the Directors, Supervisors and the senior management, and recommendations to the Board the remuneration plans for the Directors, Supervisors and the senior management. The details of the responsibilities of the Remuneration Committee are disclosed on the Company's website.

As approved by all the members of the Remuneration Committee, the relevant proposals regarding remuneration of the Directors, Supervisors and senior management for the year 2006 were submitted by the Compensation Committee to the 5th Board meeting of the 3rd Session of the Board held on 21th April, 2006. Such proposals were considered and approved by the Board.

The remuneration policy, remuneration calculation and payment methods of the Directors, Supervisors and senior management have been included in the paragraph headed "Remuneration Policy" under the section headed "Report of Directors" in this Annual Report. The remunerations of the Directors, supervisors and Senior Management have been included in the note 14 to the financial statement of this Annual Report which was prepared in accordance with the International Financial Reporting Standards.

NOMINATION OF DIRECTORS

The Company has not set up a Nomination Committee of the Board.

The Company has set up and has been strictly implementing the transparent and fair nomination and election procedures for the Directors. Pursuant to the Articles of Association, the candidates for directorship are generally proposed to the shareholders' meeting by the Board by way of a resolution. The Shareholders and the Supervisory Committee may nominate the candidate/s for directorship in accordance with the requirements under the Articles of Association.

During this reporting period, the members of the 3rd Session of the Board were elected. Details relating to the election of the Directors are set out in the paragraph headed "Appointment of New Directors and Supervisors" under the section headed "Disclosure of Significant Events" in this Annual Report.

CORPORATE GOVERNANCE REPORT (Cont'd)

AUDITORS' REMUNERATION

For the year 2005, the Company has retained Deloitte Touche Tohmatsu (Certified Public Accountants in Hong Kong) and Deloitte Touche Tohmatsu Certified Public Accountants Ltd. (Certified Public Accountants in the PRC (excluding Hong Kong)) as its international and domestic auditors, respectively.

In 2005, the Company has paid an annual financial audit and review fee of HKD7 million and a financial audit fees of RMB0.42 million relating to the acquisition by the Company of an equity interest in Heze Nenghua.

Save as disclosed above, the auditors did not provide any other non-auditing services to the Company in 2005.

The auditors of the Company have not been changed in 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 nine years consecutively. There was no registered accountant of Deloitte Touche Tohmatsu Certified Public Accountants Ltd. providing audit services to the Company for more than five years.

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 2006 will be proposed at the forthcoming 2005 AGM.

AUDIT COMMITTEE

The Company set up the Audit Committee of the 2nd Session of the Board in October 2002. The Audit Committee comprises three independent non-executive Directors, namely Mr. Cui Jianmin (being the Chairman of the Audit Committee), Mr. Fan Weitang and Mr. Wang Xiaojun, and two non-executive Directors, namely Mr. Wang Bangjun and Mr. Dong Yunqing.

As approved at the first Board meeting of the 3rd Session of the Board held on 28th June 2005, the Company set up the Audit Committee of the 3rd Board (the "Audit Committee"). The Audit Committee comprises four independent non-executive Directors, namely Mr. Cui Jianmin (the Chairman of the Audit Committee of the Board), Mr. Pu Hongjiu, Mr. Wang Xiaojun and Mr. Wang Quanxi, and two non-executive Directors, namely Mr. Chen Changchun and Mr. Dong Yunqing.

The Audit Committee is mainly responsible for proposing the appointment or replacement of the external audit agencies; reviewing the accounting policies of the Company, the disclosure of the financial information and the procedures for preparing financial reports; and reviewing the internal control system and risk management system of the Company. The details of the responsibilities of the Audit Committee have been disclosed on the Company's website.

CORPORATE GOVERNANCE REPORT (Cont'd)

4 meetings were held by the Audit Committee in the year 2005, details of the meeting are as follows:

Date	Main Topics	Member	Attendance
22nd April	Review the results of the Company for the year 2004; discuss the reappointment of the auditors and their remunerations for the year 2005; debrief the auditors' report on financial report.	Cui Jianmin, Fan Weitang, Wang Xiaojun, Wang Bangjun, Dong Yunqing	√ √ √ √
20th June	Discuss the audit service fees to be paid to the auditors for the case of the Company's acquisition of the equity interest of Heze Nenghua.	Cui Jianmin, Fan Weitang, Wang Xiaojun, Wang Bangjun, Dong Yunqing	√ √ √ √ √
21st July	Discuss the amendments to the Rules for the Organization and Work of the Audit Committee of the Board of Yanzhou Coal Mining Company Limited pursuant to the corporate governance requirements of the United States.	Cui Jianmin, Pu Hongjiu, Wang Xiaojun, Wang Quanxi, Chen Changchun, Dong Yunqing	√ √ √ √ √ √
18th August	Review the interim results of the Company for the year 2005; debrief the auditors' report on the financial report.	Cui Jianmin, Pu Hongjiu, Wang Xiaojun, Wang Quanxi, Chen Changchun, Dong Yunqing	√ √ √ √ √ √

The Audit Committee of the Board has reviewed the results of the Company for the year 2005.

INTERNAL CONTROLS

The Board and the management pay much attention to the set up and improvement of the internal control system. The Company has preliminarily set up an internal supervisory and control system on the basis of normalizing the system structure and exploiting the professional advantages of the internal organization.

Since 2005 the Company has commenced setting up a uniform internal supervisory and evaluation system and a business procedure control system in respect of the finance control, business operation, corporate compliance, risk management, etc. pursuant to the listing requirements of the United States, Hong Kong and the PRC.

The Company is expected to complete the review and evaluation of the internal control system in the second half of 2006, and realize the effective operation of the internal control system.

CORPORATE GOVERNANCE REPORT (Cont'd)

INVESTOR RELATIONS

The Company has drafted the Rules for the Management of Investors' Relationship and the Rules for Disclosure of Information to govern the management of investor relations pursuant to the laws and supervisory regulations of both the domestic and other stock listing places, and taking into account day-to-day business practices.

The Company has set up a normative and effective control procedure for the collection, reorganization, examination and approval, disclosure and feedback of information to ensure that the disclosure of information is in compliance with the governance requirements of the stock listing places and meet the investors' needs to a reasonable access to the Company's information. The Company takes an active initiative to consider the needs of investors and strives to enable investors to draw the conclusions by themselves based on the disclosed information.

The Company insists on making at least two international road-shows each year. By face to face meetings the Company reports to investors its business operation while collecting opinions and suggestions in relation to the Company from the investors and the market.

The Company pays much attention to the communication with shareholders through Shareholders' meetings, and encourages the medium and small shareholders to attend Shareholders' meetings by various means including voting on the internet. The Chairman and the Vice Chairman of the Board, the General Manager, the Chairman and the Vice Chairman of the Supervisory Committee, the relevant Directors and Supervisors generally attend the Shareholders' meetings. At the Shareholders' meetings, each individual resolution is proposed separately, all the resolutions are voted by poll.

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

As at the date of this Annual Report, 52.86% of the Company's shareholding is owned by the Parent Company. The Company is therefore exempted from certain requirements under Section 303A of Listed Company Manual of the New York Stock Exchange [the "NYSE"]: (i) the Company is not required to comply with the requirements under Section 303A.01 to form a Board with a majority of independent directors, (ii) the Company is not required to comply with the requirements under Section 303A.04 to form a nomination and corporate governance committee of the Board with all the members being independent directors, and (iii) the Company is not required to comply with the requirements under Section 303A.05 to form a remuneration committee of the Board with all the members being independent directors.

CORPORATE GOVERNANCE REPORT (Cont'd)

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

	NYSE Listed Company Manual Requirements on Corporate Governance	Differences from the corporate governance practices currently adopted by the Company
Meetings held by non-executive directors	Section 303A.03 of the NYSE Listed Company Manual requires non-executive directors of each listed company to meet regularly without the participation of executive directors at such meetings.	There is no identical corporate governance requirement in the PRC. The Company has established a reporting system to the Board of Directors to ensure that the Directors are kept informed of the Company's business and operations. The Company believes that the convention of Board meetings on a regularly basis offers the non-executive Directors a well-established communication forum to put their concerns and engage in full and open discussions regarding the Company's affairs.
Corporate Governance Guidelines	<p>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 the matters that must be addressed in the guidelines which mainly include:</p> <ul style="list-style-type: none"> • qualifications of the directors; • responsibilities and obligations of the director; • Communications between the director and the management and independent advisors; • Remuneration of the director; • orientation and continuing education of the director; • reappointment of the management ; and • annual review of the performance of the board. 	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, formulated (i) the Rules of Procedures for the Shareholders' Meeting, the Rules of Procedures for the Board, the Rules of Procedures for the Supervisory Committee, the Rules for the Work of the Independent Non-Executive Directors, the Rules for Disclosure of Information, the Rules for the Approval and the Disclosure of the Connected Transactions of the Company and other corporate governance documentation. The above corporate governance documentation has adequately addressed the corporate governance requirements required by the NYSE and provides more extensive and specific corporate governance requirements that can further facilitate the operation of the Company effectively.
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.	Although the Company has not adopted a Code of Business Conduct and Ethics which completely conforms with the NYSE requirements, the Company has adopted a suitable Code of Ethics in compliance with the PRC laws and regulations as well as the rules of the relevant listing stock exchanges. The Code of Business Conduct and Ethics is disclosed on the Company's website. The Company believes that the existing Code of Ethics can appropriately protect the interests of both the Company and its Shareholders.

CORPORATE GOVERNANCE REPORT (Cont'd)

	NYSE Listed Company Manual Requirements on Corporate Governance	Differences from the corporate governance practices currently adopted by the Company
Code of Business Conduct and Ethics	<p>In addition, Section 303A.10 lists out topics that must be addressed in the a code of business conduct and ethics:</p> <ul style="list-style-type: none">• Conflicts of Interest• Corporate Opportunities;• Confidentiality;• Fair dealing;• Protection and proper use of company assets• Compliance with laws, rules and regulations (including insider trading laws)• Encouraging the reporting of any illegal or unethical behavior.	