

# Corporate Governance Report

China Coal Energy Company Limited (the “**Company**”) is dedicated in establishing good corporate governance, and has implemented effective risk management, thereby enabling shareholders to benefit from a high level of corporate governance, which is an important element in the Company’s quality management. The Company has complied with and adopted the code provisions under the “Code on Corporate Governance Practices” as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“**Listing Rules**”) in accordance with the relevant regulatory requirements. In addition, the Company has established and implemented corporate governance measures in line with its business operations and growth

to further regularize the operation of its internal management, create stability, practicality and creditability, so as to increase the corporate value of the Company. The Company will regularly review its corporate governance practices, ensure its continued compliance with the Code of Corporate Governance Practices, thereby enabling its management to become more effective, and protect the overall interests of shareholders to the greatest extent.



## I. OVERVIEW OF CORPORATE GOVERNANCE

### 1. Summary of Corporate Governance

In 2006, the Company adopted the Company Law of the PRC and other relevant laws and regulations as the basic guidelines for the Company’s corporate governance. At the same time, as a Hong Kong listed company incorporated in the PRC, we have been in strict compliance with the regulatory requirements of the jurisdiction where we are listed with reference to the standard of corporate governance of international enterprises. Our Articles of Association have incorporated both the Listing Rules and the regulatory requirements of the PRC, which forms the basis of the Company’s corporate governance structure.

### 2. Overall structure for corporate governance

Since the listing of the Company on the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 19 December 2006, the Company has fully complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. Its overall internal structure for corporate governance is as follows: the board of directors and the supervisory committee sit under the shareholders’ meeting, with various committees established sitting under the board of directors, namely, the audit committee, the remuneration committee, the strategic planning committee and the safety, health and environmental protection committee. The board of directors is authorized by the Articles of Association to make important decisions in relation to the Company’s operations, and oversees day-to-day management carried out by senior management. The supervisory committee is mainly responsible for supervising the Company’s financial affairs and overseeing the performance of duties by the board of directors and senior management. Each of the board of directors and the supervisory committee is independently accountable to the meeting of shareholders.



## II. OPERATION OF THE CORPORATE GOVERNANCE STRUCTURE

### Shareholders' Meeting

In 2006, the Company convened four general meetings, including the first general meeting and three extraordinary general meetings ("EGMs").

The first general meeting of the Company, being the first inauguration meeting, held on 18 August 2006 were attended by the representatives of promoters. The meeting considered and approved the report of the restructuring team of China National Coal Group Corporation ("China Coal Group") regarding the establishment of the Company, explanatory memorandum on the drafting of the Company's Articles of Association (draft), and the Articles of Association (draft) for filing and registration with the registration authority of joint stock limited companies. The meeting passed the composition of the first board of directors (excluding independent non-executive directors) and the first supervisory Committee, and decided to authorize the board of directors to handle the relevant matters on the establishment of the Company as a joint stock limited company.

The First EGM held on 23 August 2006 mainly passed the following special and ordinary resolutions: the resolution proposed by the board of directors regarding the application for the conversion of the Company to a public joint stock limited company and the offering and listing of shares overseas; the resolution on the appointment of three independent directors; the resolution proposed by the board of directors on the prospectus (revised draft) for the Company's overseas listing; the resolution on the Company's investment development plan and use of proceeds; the resolution on a reduction in State-owned shares by the holders of State-owned Shares of the Company; resolutions on agreements relating to connected transactions; the resolution on the establishment of special committees under the board of directors and the resolution regarding authorizing the board of directors to handle all matters at its absolute discretion in relation to the public offering and listing of shares overseas.

The Second EGM held on 21 November 2006 mainly passed the following special and ordinary resolutions: the resolution regarding the appointment of two additional independent directors, and the corresponding amendment to the Articles of Association.

The Third EGM held on 22 November 2006 mainly passed the following special and ordinary resolutions: the resolution proposed by the board of directors on making further amendments to the Articles of Association; the resolution on authorizing the board of directors to issue domestic shares and/or H Shares; the resolution on the remuneration of directors and supervisors and the resolution on the adjustment to the number of members in the board of directors, in particular, the change in the number of members of the board of directors from 13 to 9 was approved.

### *Board of directors*

The board of directors is the decision making body for the Company's operations, responsible for leading and supervising the Company so as to protect and enhance the long-term benefits of shareholders. Members of the board of directors shall discharge their duties honestly, diligently and prudently, and shall, upon material breach of fiduciary duty or gross negligence on a recurring basis, be liable under the relevant laws and the Articles of Association.

### *Management functions*

The board of directors is mainly responsible for developing and approving strategies, objectives, policies and business plans of the Company, supervising the execution of the above objectives by the management, supervising and overseeing the Company's operating and financial performance. In addition, the board of directors is also responsible for ensuring the Company has a sound risk management and internal control system, ensuring the Company's implementation of a prudent and effective corporate governance structure, and promoting communication among shareholders. The Company's management is responsible for the implementation of the decisions made by the board of directors and is responsible for participating in daily management and operation of the Company.



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The Company regulates the performance of duties by the board of directors and the committees in strict compliance with the Code on Corporate Governance Practices of the Listing Rules, and ensures a high standard operation of the board in terms of organization, system and personnel. The board of directors is responsible for supervising the preparation of accounts for each financial period, so that such accounts give a true and fair view of the financial position, operating results and cash flows of the Company during the period. In preparing the financial statements as at 31 December 2006, the directors selected appropriate accounting policies and made judgments and estimates which were prudent, fair and reasonable, and prepared the accounts on a going concern basis. A statement by the international auditors about their reporting responsibilities is included in the independent Auditors' Report on page 59.

As at 31 December 2006, the Company convened five meetings of the board of directors, which included three meetings of the First Session of board of directors and two extraordinary meetings.

At the first meeting of the First Session of board of directors held on 18 August 2006, all the eight directors were present, and the meeting was mainly for the purpose of appointment of the chairman of the board, the appointment of the president, executive vice-president, vice-president, chief financial officer and the secretary to the board.

At the first extraordinary meeting of the First Session of board of directors held on 22 August 2006, all the eight directors were present, and the meeting considered and approved the various proposals to be put forward at the 2006 First EGM.

At the second extraordinary meeting of the First Session of board of directors held on 21 November 2006, it was approved that two additional independent non-executive directors be appointed, who also became members of the First board of directors.

At the second meeting of the First Session of board of directors held on 22 November 2006, 12 directors (including independent non-executive directors) were physically present and one director entrusted another director to attend and vote on his behalf at the meeting. Supervisors of the Company attended the meeting, and the meeting approved the various proposals to be put forward at the 2006 Third EGM. The meeting also approved the resolution regarding the composition of various committees under the board of directors, considered and passed the resolution regarding the appointment of Zhang Baoshan, a non-executive director, as the Vice-chairman.

At the third meeting of the First Session of board of directors held on 22 November 2006, eight directors (including independent non-executive directors) were physically present, and one director entrusted another director to attend and vote on his behalf at the meeting. Supervisors of the Company attended the meeting, and the meeting mainly passed matters relating to the issuance of H Shares, the issue quantity and percentage, the arrangement on the public offering of H Shares in Hong Kong, confirmed and approved the relevant documents in respect of the listing and offering of H Shares by the Company on the Hong Kong Stock Exchange.

## *Composition and meetings of the board of directors*

The board of directors comprises nine directors of which five are independent non-executive directors. Each director has a term of three years. Pursuant to the proposed best practices under the Code on Corporate Governance Practices, independent non-executive directors shall represent more than one half of the number of members in the board of directors, which further enhanced the independence of the board of directors. The Company has received confirmations from each of the independent non-executive directors in relation to his/her independence in accordance with the Listing Rules, and confirms that all the independent non-executive directors are independent.



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Like other members of the board of directors, non-executive directors contributed to the board of directors and their respective committees their technical and professional expertise and their respective backgrounds and qualifications through attending meetings on regular basis, and actively participating in the affairs of the Company. Through the provision of independent, constructive and informed opinions, the non-executive directors made their active contributions to the development of the Company.

The board of directors convenes at least four meetings annually, which are regular board meetings, including Annual Result board Meeting and Interim Result board Meeting. If necessary, extraordinary meetings will be convened. From the issue of the notice of meetings until the convening of the meetings, the secretary to the board shall be responsible for or make arrangement for communication and contact with all directors, in particular with external directors; to obtain opinions or suggestions on the relevant resolutions from directors, and to convey such opinions or suggestions to those who propose the resolutions in a timely manner, so as to clarify the relevant resolutions put forward by them. The secretary to the board will also provide supplemental information required for making corresponding decisions in a timely manner on the contents of the resolutions to be considered, including the related background information of the agenda and other information that may be helpful for the directors to make sensible, prompt and prudent decisions. In order to ensure that decisions made by the board of directors are in line with the interests of the Company and the Articles of Association, for any resolutions in which the directors or their connected parties have a material interest, such directors or connected parties shall abstain from voting, and shall not be counted in the quorum.

The Company has adopted the "Model Code for Securities Transactions by directors of Listed Issuers" as set out in Appendix 10 of the Listing Rules (the "**Model Code**"). Based on the confirmation from the directors, all the directors of the Company have fully complied with the Model Code.

The table below sets out the structure of the board, the list and the attendance of directors (including attendance with written proxies) at board meetings in 2006:

Number of directors: 9  
Number of meetings: 5

	Attendance in person	Attendance by proxies	Attendance rate
<b>Executive directors</b>			
Jing Tianliang	5/5		100%
Yang Lieke	5/5		100%
Peng Yi	5/5		100%
<b>Independent non-executive directors</b>			
Gao Shangquan	1/3	2/3	100%
Zhang Ke	3/3		100%
Peng Ru Chuan	3/3		100%
Wu Rongkang	2/2		100%
Li Yanmeng	2/2		100%
<b>Non-executive director</b>			
Zhang Baoshan	5/5		100%



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Save for their respective service contracts, none of the directors and supervisors of the Company has any substantial direct or indirect interests in the material contracts entered into by the Company or any of its subsidiaries in 2006.

The Company has always placed emphasis on the training of directors, supervisors and senior management, strengthening the responsibility of individual directors and of the entire board of directors, promoting the supervision of and maintaining necessary control over the activities and performance of the management personnel. In 2006, the Company organized a series of training for directors, supervisors and senior management on securities regulations such as the Company Law of the PRC, the Hong Kong Listing Rules and the Corporate Governance regulations.

## *Separation of duties of the Chairman and the President*

The Company's Chairman is Mr. Jing Tianliang, while the President is Mr. Yang Lieke. Duties between the Chairman and the Chief Executive are clearly defined in the Articles of Association and the related rules of procedures. The Chairman is mainly responsible for the management and effective operation of the board of directors, discharge of other duties assigned by the board of directors, and ensuring that all key and related matters are handled in a timely manner by the board of directors. The President is mainly responsible for the production operation and management of the Company, organizing the implementation of the board resolutions and the daily management of the Company's operations.

## *Terms of non-executive directors*

All the above independent non-executive directors have a term of three years.

## *Committees under the board*

### *Audit Committee*

The Company set up the audit committee in 2006, comprising three independent non-executive directors and one non-executive director, namely Zhang Ke, Gao Shangquan, Peng Ru Chuan, Zhang Baoshan, with Mr. Zhang Ke, an independent non-executive director, as the chairman. Each member of the Audit Committee has a term of office of three years. The Audit Committee shall be accountable to the board of directors and will regularly report its work to the board of directors.

The principal duties of the Audit Committee include:

- (1) appointing independent auditors of the Company and supervising their work, and approving in advance all non-auditing services provided by the independent auditors;
- (2) reviewing the Company's annual and interim financial reports, results announcement, major accounting policies and practices adopted in the preparation of financial reports, selection and handling of financial information, disclosure control and the effectiveness of the disclosure procedure, as well as major trends and developments regarding the practices and requirements of the relevant financial reports;



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- (3) reviewing internal audit plans and personnel arrangement, composition of the internal audit team, responsibility, plan, result, budget and personnel arrangement, and examining the elements and effectiveness of the internal control of the Company;
- (4) reviewing the Company's risk assessment and management policies;
- (5) establish a procedure for handling complaints in respect of accounting, internal accounting control, audits, potential illegal acts and doubtful accounting or audit matters; and
- (6) other matters as delegated by the board of directors.

As the Company was listed in December 2006, as at 31 December 2006, no meeting has yet been convened by the Audit Committee.

The board of directors has passed the terms of reference of the Audit Committee on 22 November 2006 in compliance with the Code.

## *Remuneration Committee*

The Company set up the Remuneration Committee in 2006, comprising three independent non-executive directors and one executive director, namely Peng Ru Chuan, Zhang Ke, Li Yanmeng, Peng Yi, with Mr. Peng Ru Chuan, an independent non-executive director, as the chairman. Each member of the Remuneration Committee has a term of office of three years. The Remuneration Committee is responsible for determining, supervising and verifying the Company's remuneration policy for senior management. The Remuneration Committee is accountable to the board of directors and regularly reports on its work to the board of directors.

The principal duties of the remuneration committee include:

- (1) formulate the remuneration plan or scheme for senior management of the Company, assess the performance of senior management and make recommendations to the board of directors on the annual remuneration, benefits and share incentive plans for senior management;
- (2) make recommendations to the board of directors on the remuneration, benefits and share incentive plans for directors;
- (3) manage and regularly review the long-term remuneration incentive plans or share incentive plans for the relevant directors, staff, senior management, and make recommendations to the board of directors;
- (4) review the objectives, strategies and principles on the remuneration of senior management, and prepare annual reports in respect of the remuneration of senior management of the Company;
- (5) other matters as delegated by the board of directors.



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As the Company was listed in December 2006, as at 31 December 2006, no meeting has yet been convened by the Remuneration Committee.

The board of directors has passed the terms of reference of the remuneration committee on 22 November 2006 in compliance with the Code.

## *Strategic Planning Committee*

The Company set up the strategic planning committee in 2006, comprising two executive directors, one non-executive director and three independent non-executive directors, namely Jing Tianliang, Zhang Baoshan, Yang Lieke, Gao Shangquan, Wu Rongkang and Li Yanmeng, with Mr. Jing Tianliang, the chairman of the board and an executive director, as the chairman. Each member of the strategic planning committee has a term of office of three years. The strategic planning committee shall be accountable to the board of directors and will regularly report its work to the board of directors.

The principal duties of the strategic planning committee include:

- (1) conduct researches and make recommendations on the Company's medium-to-long term development strategies and significant investment decisions;
- (2) conduct researches and make recommendations on significant investment financing and capital operation plans that require approval by the board of directors;
- (3) conduct researches and make recommendations on significant capital expenditure, investments and asset disposal projects that require approval by the board of directors;
- (4) conduct researches and make recommendations on significant matters affecting the Company's development;
- (5) examine the implementation of the above matters; and
- (6) other matters as delegated by the board of directors.

## *Safety, Health and Environmental Protection Committee*

The Company set up the safety, health and environment protection committee in 2006, comprising one independent non-executive director, one non-executive director and one executive director, namely Wu Rongkang, Zhang Baoshan, Yang Lieke, with Mr. Wu Rongkang, an independent non-executive director, as the chairman. Each member of the committee has a term of office of three years. The safety, health and environmental protection committee shall be accountable to the board of directors and will regularly report on its work to the board of directors.



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The principal duties of the safety, health and environmental protection committee include:

- (1) supervise the implementation of the safety, health and environmental protection plans of the Company, at the same time monitor the potential liabilities of the Company in safety, health and environmental protection related problems, changes in regulations and technical reforms;
- (2) make recommendations on major issues affecting the safety, health and environmental protection aspects of the Company;
- (3) make enquiries about major incidents and responsibilities involving the Company's production operations, property assets, staff or other facilities, and inspect and supervise the handling of the incidents; and
- (4) other matters as delegated by the board of directors.

### *Nomination Committee*

As at 31 December 2006, the Company has not set up a Nomination Committee. Pursuant to the Articles of Association, nominations made by directors of the Company shall be submitted to the general meeting of the Company for approval by way of resolutions. Since the Company was listed on 19 December 2006 and the directors of the Company are newly appointed, the board has not conducted any discussion on the nomination of directors for the period between the date of its listing and 31 December 2006.

### *Supervisory Committee*

The Company set up its first supervisory committee in 2006 in compliance with the Company Law of the PRC. Currently the supervisory committee comprises three supervisors, including two supervisors representing shareholders and one supervisor representing employees. The supervisory committee is accountable to the general meeting and report its work to the general meeting. The supervisory committee normally holds at least two meetings in a year.

The principal duties of the supervisory committee is to supervise, inspect and assess the Company's finance in accordance with the law, and the legality of the discharge of duties by the directors and senior management of the Company.

The Company held the first meeting of the first session supervisory committee on 18 August 2006. All the three supervisors attended the meeting, and the meeting elected the chairman of the first supervisory committee.

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## *Members of the Supervisory Committee*

Du Ji'an	<i>Chairman of the supervisory committee</i>
Zhou Litao	<i>Supervisor</i>
Chen Xiangshan	<i>Employee Representative Supervisor</i>

Number of meetings convened by the supervisory committee: 1

	Attendance	Attendance rate
Du Ji'an	1/1	100%
Zhou Litao	1/1	100%
Chen Xiangshan	1/1	100%

## *The Responsibility of directors and Auditors in the Preparation of Accounts*

The directors confirm that they are required to prepare a financial statement for each financial year, which gives a true and fair view of the Company's status and results and cash-flow in that financial year. When preparing the financial statement for the year ended 31 December 2006, the directors have selected and consistently adopted appropriate accounting policies, made prudent and reasonable judgments and estimations, and prepared the financial statement on a going concern basis. The directors shall be responsible for keeping accounting records properly, so as to reasonably and truly disclose the financial position of the Company at any time. Details regarding the responsibility of external auditors are set out in page 59.

## *External auditors*

The Company's international auditor is PricewaterhouseCoopers, while its domestic auditor is Yuehua CPAs.

For the year ended 31 December 2006, the remuneration received by the external auditor for the provision of audit and non-audit services to the Company are analyzed as follows:

	Unit: RMB millions
Service item	Charges
Audit services	17.70
Non-audit services (capital verification services)	0.15

Non-audit services provided by the auditors to the Company have been approved in advance by the Audit Committee.

At the forthcoming 2006 annual general meeting, the board of directors will put forward a resolution to propose the re-appointment of PricewaterhouseCoopers as its international auditor for the year 2007, and Yuehua CPAs as its domestic auditor for the year 2007.



### III. Establishment and implementation of the ancillary mechanism

#### (1) Strengthening the supervisory function of the board of directors

The board of directors of the Company leads and supervises the Company with a strong sense of responsibility. All the directors are aware of the need to be objective, prudent in decision making, highly efficient in operation so as to be in line with the benefits of the Company and the overall interests of shareholders. In order to strengthen the leadership and supervisory functions of the board of directors in respect of corporate governance, the Company has adopted a number of measures to strengthen the supervisory function of the board of directors, thereby making it more standardized and systematic and a flow-based procedure.

#### (2) Clearly defining the duties between the board of directors and the Management

The board of directors and the management have specific powers and duties under different internal control and balancing mechanisms. The board of directors is the decision making body of the Company, operates and manages the Company on behalf of the shareholders, and exercises its duties in accordance with the law. Major issues requiring decisions by the board of directors pursuant to the Articles of Association include: operating plans, investment plans, financial plans and policies of the Company, the establishment of the Company's internal management body and branches and the appointment of senior management, important rules and systems of the Company. The management is responsible for implementing these strategic planning in order to ensure the board of directors discharges its duties effectively. The management is engaged by the board of directors to organize the implementation of the board resolutions and the Company's annual operation plans and investment plans within the scope of authorization of the board of directors. The management regularly submits its business operation report to the board of directors, and the board of directors may contact the management at any time to request the management to provide detailed explanations in respect of the business operations of the Company.

#### (3) Establishment of the internal control system

In order to meet the relevant regulatory requirements of the Stock Exchange, and strengthen the internal control and management of the Company and protect against operational risks of the Company, the Company shall further facilitate the establishment of the internal control system relating to financial reporting, including but not limited to the establishment of the risk management system, the information disclosure system and the long-term incentive mechanism. The board of directors has reviewed the effectiveness of the internal control system of the Company and its subsidiaries.

#### (4) Risk management system

In order to further improve the internal control environment, avert corporate operating risks, and pursuant to the relevant requirements of the Stock Exchange regarding corporate internal control and risk management, the Company will soon commence specialized studies on comprehensive risk management, and send staff from departments such as finance, legal, and internal audit to participate in training as corporate risk appraisers, thus providing a pool of qualified personnel necessary for the Company to introduce the comprehensive risk management concept, and gradually upgrade the corporate risk management system.

Pursuant to the framework of the "Guideline of Comprehensive Risk Management for State Enterprises (中央企業全面風險管理指引)" prescribed by the Government, the Listing Rules and the requirements for corporate internal control, the Company will, based on the actual situation, further strengthen the establishment of the corporate risk management system, regularize and improve the comprehensive risk management mechanism.

The Company has established a solid foundation for internal control. However, the Company will continue to improve and upgrade its comprehensive risk management system, and gradually implement it in the ordinary and daily course of business, and continuously improve the risk management system.

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## (5) Information disclosure system

The Company attaches great importance to high transparency of information, and the board of directors has approved and adopted the "Information Disclosure Management System of China Coal Energy Company Limited" in April 2007, which will constitute the information disclosure management system together with other related systems.

## IV. Long-term incentive mechanism

In order to motivate and award the Company's management and other key personnel, the board of directors and the shareholders of the Company intend to adopt a long-term incentive plan, which will be implemented subject to improvements in the relevant laws and policies by the State and obtaining all applicable approvals. The Company believes that the mechanism will to a certain extent strengthen the long-term development awareness of the directors and staff, and avoid any short-term actions by the management of the enterprise.

## V. Substantial interests and short positions in the Company's shares and underlying shares

As at 31 December 2006, the interests or short positions of parties (not being a director or supervisor of the Company) who are entitled to exercise or control the exercise of 5% or more of the voting right at general meetings of the Company in shares or underlying shares of equity derivatives of the Company as recorded in the register of interests required to be kept by the Company pursuant to section 336 of the Securities and Futures Ordinance, were as follows:

Shareholders	Number of shares	Class of shares	Nature of interests	Percentage of the issued class shares (%)	Percentage of the total issued shares (%)
China National Coal Group Corporation	7,626,667,000	Domestic Shares	Long positions	100.00	65.00
National Council for Social Security Fund	373,333,000	H Shares	Long positions	9.09	3.18
AMCI Capital GP Limited	239,995,000	H Shares	Long positions	5.84	2.05
AMCI Capital L.P.	239,995,000	H Shares	Long positions	5.84	2.05
AMCI H&F (Cayman) Ltd.	239,995,000	H Shares	Long positions	5.84	2.05
First Reserve Corporation	239,995,000	H Shares	Long positions	5.84	2.05
FR XI Offshore AIV, L.P.	239,995,000	H Shares	Long positions	5.84	2.05
FR XI Offshore GP Limited	239,995,000	H Shares	Long positions	5.84	2.05
FR XI Offshore GP, L.P.	239,995,000	H Shares	Long positions	5.84	2.05

Save as disclosed above, as at 31 December 2006, there are no records of other parties who were interested or held short positions in the shares or underlying shares of equity derivatives of the Company as recorded in the register of interests required to be kept by the Company pursuant to section 336 of the Securities and Futures Ordinance.