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兗州煤業股份有限公司

Yanzhou Coal Mining Company Limited

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

ANNOUNCEMENT

This announcement is made by Yanzhou Coal Mining Company Limited (the "Company") pursuant to paragraph 2(2) of the listing agreement entered into between the Company and The Stock Exchange of Hong Kong Limited.

This announcement is a reproduction of the announcement made by the Company in Shanghai, the People's Republic of China (the "PRC") pursuant to the Listing Rules of the Shanghai Stock Exchange and is simultaneously published by the Company in Shanghai, PRC and in Hong Kong on 18 August 2003.

The Company and its board of directors (the "Directors") warrant the truthfulness, accuracy and completeness of this announcement, and accept joint and several responsibilities for any false representations, misleading statements or material omissions herein.

HIGHLIGHTS

- Transaction details: The Company acquired from 南屯煤礦職工勞動服務公司 (Nantun Coal Mine Staff Labour and Service Company)* (the "Labour Company") its 80% equity interest in 鄒城南煤輪船航運有限責任公司 (Zoucheng Nanmei Shipping Co. Ltd.)* ("Zoucheng Nanmei") at a consideration of approximately RMB10,164,000.
- Abstention of interested parties: According to the articles of association of the Company, any investment amounting to less than 10% of the Company's latest audited net asset value shall be approved by at least two-thirds of the Directors. There are altogether 11 Directors and four of them are interested Directors as they were nominated as Directors by 兗礦集團有限公司 (Yankuang Group Corporation Limited*) (the "Yankuang Group"), a State-owned and State solely invested company which holds approximately 58.19% of the total issued share capital of the Company. In the event of abstention by such interested Directors, those eligible for voting will be less than the two-thirds of the Directors. As advised by the competent authority, the 4 interested Directors were allowed to vote in the proposed resolution, and the 11 Directors unanimously voted in favour of the proposed resolution.
- Impact of the connected transaction on the Company: The transaction is conducive to improving the Company's transport and sales systems, expanding canal transportation, upgrading coal-delivery capacity and reducing coal transportation cost.

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1. PARTICULARS OF THE CONNECTED TRANSACTION

On 15 August 2003, the Company entered into the equity transfer agreement (the "Equity Transfer Agreement") with the Labour Company, whereby the Company has agreed to acquire from the Labour Company an 80% equity interest in the capital of Zoucheng Nanmei.

The Labour Company is a collective enterprise under the collective ownership of certain employees of the Nantun coal mine of the Yankuang Group and has no equity relationship with the Yankuang Group, except that its key management personnel were appointed by the Yankuang Group. Pursuant to the Listing Rules of the Shanghai Stock Exchange, the above transaction constitutes a connected transaction of the Company.

In the meeting of the board of Directors of the Company held on 15 August 2003, the Directors considered and approved the resolution on the acquisition by the Company of certain interests in Zoucheng Nanmei. According to the articles of association of the Company, any investment amounting to less than 10% of the Company's latest audited net asset value shall be approved by at least two-thirds of the Directors. There are altogether 11 Directors and four of them are interested Directors as they were nominated as Directors by the Yankuang Group. In the event of abstention by such interested Directors, those eligible for voting will be less than two-thirds of the Directors. As advised by the competent authority, the 4 interested Directors of the Company were allowed to vote in the proposed resolution, and the 11 Directors unanimously voted in favour of the proposed resolution.

The three independent non-executive Directors of the Company had expressed their independent opinions, and were of the view that the connected transaction was approved according to formal voting procedures, and was fair and reasonable and in the interests of the Company and its shareholders as a whole.

The aforesaid connected transaction does not require the approval from the relevant government authorities and shareholders of the Company.

2. INFORMATION ON THE CONNECTED PARTIES

The basic information of the Labour Company is as follows:

Registered Address: Nantun Station, Beisu County, Zoucheng Municipality, Shandong Province, the People's Republic of China

Business Nature: Collective enterprise

Legal Representative: Sha Wenxian

Registered Capital: RMB10,090,000

Business Scope: Principally engaged in the trading of general merchandise, chemicals for general use, apparels, grocery, pastry, canned food, non-alcoholic drinks, leather products, rubber products, metal products and glass products for general use and hardware for construction use.

The Labour Company was established in September 1983, with an initial registered capital of RMB431,700, which was further increased to RMB3,510,000 and RMB10,090,000 in 1993 and 1997 respectively. In 2002, the Labour Company recorded operating revenue and net loss of RMB1,427,700 and RMB150,000 respectively. As at 31 December 2002, its total assets and net assets amounted to RMB33,304,500 and RMB18,766,400 (both unaudited) respectively.

3. BASIC INFORMATION ON ZOUCHENG NANMEI

Pursuant to the Equity Transfer Agreement, the Company would acquire an 80% equity interest of the Labour Company in Zoucheng Nanmei. The basic information of Zoucheng Nanmei is as follows:

Zoucheng Nanmei was incorporated with limited liability on 1 September 1994, with a registered capital of RMB5,500,000. It is principally engaged in river and lake transportation, and the sales of coal and construction materials, etc. Its annual water transportation capacity is approximately 2 million tonnes.

For the year ended 31 December 2002, Zoucheng Nanmei recorded sales revenue of RMB98,550,000 with net profit of RMB1,720,000 (both unaudited). As at 31 December 2002, its total assets and net assets amounted to RMB39,830,000 and RMB12,710,000 (both unaudited) respectively, with liabilities of RMB27,120,000 (unaudited).

4. PRICING POLICY AND SALIENT POINTS OF THE CONNECTED TRANSACTION

(1) Pricing Policy

Based on the net asset value of RMB12,710,000 as shown in the financial statements of Zoucheng Nanmei as at 31 December 2002, the consideration of the acquisition is approximately RMB10,164,000.

(2) Salient Points of the Equity Transfer Agreement

Date of Agreement: 15 August 2003

Completion: The transfer of equity interest will be completed by the Labour Company and the Company upon fulfillment of all of the conditions thereof which includes, among other things, the payment of the consideration in the manner set out below.

Method of payment: The Company will deposit the full amount of the consideration in the amount of approximately RMB10,164,000 into a bank account which will be maintained jointly with the Labour Company within 25 working days from the signing of the Equity Transfer Agreement.

Within 25 working days from the deposit of the consideration into the co-managed bank account, the Labour Company and the Company will complete the transfer of equity interest.

From 31 December 2002 to the completion date of the transfer of the equity interest, in the event that the change of net asset value in Zoucheng Nanmei exceeds 10%, an audit will be performed on the financial position of Zoucheng Nanmei, and the consideration of the transfer of equity interest will be adjusted and the consideration settled on the basis of the audited net asset value.

Warranties and undertakings: The Labour Company has warranted that: 1. it has legal title on the equity interest to be transferred free of any security, pledge or any other encumbrances on such equity interest, nor is there any legal obstacles in respect of the transfer; 2. it will assist the Company in handling the formalities of completing the transfer of equity interest and other alterations; 3. it will not further dispose, transfer, pledge or deal with the equity interest to be transferred to any other third party upon the signing of the Equity Transfer Agreement. The Company has also warranted that it will not unreasonably withdraw from such acquisition of equity interest upon the signing of the Equity Transfer Agreement, and will not transfer its rights and obligations under the Equity Transfer Agreement to any other third party prior to the completion of such acquisition.

Fees and expenses: The costs relating to approving and transferring such equity interest shall be borne by the responsible party in accordance with the law, and where it is not specified by the law, 50% of the expenses should be paid by each of the parties.

Effective Date of the Equity Transfer Agreement: The effective date will fall on the day on which the Equity Transfer Agreement is signed and sealed by the legal representatives of each of the vendor and the purchaser, the vendor and the purchaser or their authorised representatives under a power of attorney.

Default: Breaching or non-performance of any of the obligations, representations, warranties and undertakings under the Equity Transfer Agreement by either of the parties shall constitute a default of the Equity Transfer Agreement, with the abiding party being compensated by the defaulting party in this respect.

5. APPROVAL, IMPLEMENTATION AND DISCLOSURE OF THE CONNECTED TRANSACTION

The Company's acquisition of equity interest of the Labour Company in Zoucheng Nanmei constitutes a "connected transaction" under the Listing Rules of the Shanghai Stock Exchange.

The consideration of this acquisition amounted to approximately RMB10,164,000, representing approximately 0.11% of the audited net asset value of the Company as at 31 December 2002. According to the Listing Rules of the Shanghai Stock Exchange, a connected transaction in such scale is subject to the following approval and disclosure requirements: the recommendations of the independent directors, the approval by a meeting of the board of Directors (with the interested directors abstained from voting), the publication of press announcement in respect of the connected transaction, and the detailed disclosure of the implementation of the transaction in the annual report.

In accordance with the articles of association of the Company, investments amounting to less than 10% of its latest audited net asset value of the Company fall within the jurisdiction of the Directors, which will be subject to the approval of two-thirds of the Directors.

6. CHANGE IN NATURE OF THE TRANSACTION BETWEEN THE COMPANY AND ZOUCHENG NANMEI PRIOR TO AND FOLLOWING THE ACQUISITION

Before the acquisition, the key management of Zoucheng Nanmei were also employees of the Company. Pursuant to the requirements as stipulated in the Standard Corporate Accounting Practice: Relationship with Related Parties and Disclosure of Related Parties Transactions issued by the Ministry of Finance of the People's Republic of China, the Company and Zoucheng Nanmei are related parties without controlling relationship and the transactions between them would constitute related party transactions.

Following the acquisition by the Company of an 80% equity interest in Zoucheng Nanmei, Zoucheng Nanmei will become a subsidiary of the Company and any transaction between the two parties will no longer constitute related party transaction on the grounds of "key management".

7. EFFECTS OF THE CONNECTED TRANSACTION ON THE COMPANY

The Directors consider that:

The connected transaction referred to in this announcement is fair and reasonable and in the interests of the Company and independent shareholders.

The Company will benefit from the acquisition mainly in the following ways: (i) the Company may directly engage in river shipment of coal. Currently, river shipment is an operation which requires special approval in the transportation industry. Approval shall be obtained from the transportation authorities before the Company may engage in river shipment as an additional business segment and it would be rather difficult in setting up such operation, and Zoucheng Nanmei had already obtained approval for river shipment from the transportation authorities; (ii) such acquisition would alleviate the pressure associated with the reliance on transportation through the national railway system and thus relieve the bottleneck of transportation constraining the sale of coal; (iii) such acquisition would improve the canal transportation and sale system and provide a synergy for the production, transportation and sale of coal in the eastern part of Jinan, resulting in a reduction in the Company's transportation costs; (iv) Zoucheng Nanmei would mainly serve the Company in the transportation of coal. Currently, Zoucheng Nanmei has its own and leased shipping fleet and in normal operation, with an annual transportation capacity of approximately 2,000,000 tonnes. After the acquisition, the Company would not need to make substantial investment in the purchase of cargo ships.

8. OPINION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors consider that the terms of and the consideration in the Equity Transfer Agreement entered into between the Company and the Labour Company are fair and reasonable. The resolution and voting procedures of and disclosure made by the board of Directors are in compliance with the relevant laws and regulations and the Company's articles of association, and are legal, valid and reflect the principles of integrity, fairness and equity. The connected transaction would contribute to cost reduction and profit enhancement and therefore is in the interests of the Company and its shareholders as a whole.

Details of the independent non-executive Directors' opinion are set out in the website of the Shanghai Stock Exchange, <http://www.sse.com.cn>

9. DOCUMENTS AVAILABLE FOR INSPECTION

- (1) Resolutions of the meeting of the board of Directors of the Company.
- (2) Opinion of the independent non-executive Directors of the Company in respect of the connected transaction.
- (3) The Equity Transfer Agreement entered into between the Company and the Labour Company.

By Order of the Board of Directors
YANZHOU COAL MINING COMPANY LIMITED
Mo Liqi
Chairman

Shandong, the PRC, 15 August 2003

* For identification purposes only

Please also refer to the published version of this announcement in South China Morning Post dated on 18-8-2003.