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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)*

**(Stock Code: 1171)**

**Continuing Connected Transactions**

**Entering into a New Financial Services Agreement**

**with Yankuang Group Finance**

### **The Financial Services Agreement**

Reference is made to Company's announcement dated 7 January 2011 in relation to the financial services agreement entered into between the Company and Yankuang Group Finance, pursuant to which Yankuang Group Finance agreed to provide financial services to the Group from 7 January 2011 to 31 December 2011.

On 19 August 2011, the Company entered into the Financial Services Agreement (a new financial services agreement) with Yankuang Group Finance to replace the former financial services agreement. The terms of the Financial Services Agreement are the same as the former financial services agreement entered into on 7 January 2011, except that (i) the maximum daily balance of the deposits of the Group with Yankuang Group Finance has been modified from RMB1.4 billion to RMB1.82 billion (equivalent to approximately HK\$2.22 billion); and (ii) the annual comprehensive credit facility limit to be provided by Yankuang Group Finance has been modified from RMB1.0 billion to RMB1.6 billion (equivalent to approximately HK\$1.95 billion). In addition, the term of the Financial Services Agreement has been extended to 31 December 2012. The amendments are mainly to cater for the continuously increased business operations of the Group.

Pursuant to the Financial Services Agreement, Yankuang Group Finance has agreed to provide deposit services, comprehensive credit facility services and miscellaneous financial services (including discounted note services) to the Group in accordance with the terms and conditions set out in the Financial Services Agreement. Yankuang Group Finance is a non-banking financial institution duly established with the approval of the CBRC and is a professional institution engaging in corporate financial services.

## **Implication of the Hong Kong Listing Rules**

Yankuang Group is a controlling shareholder of the Company holding approximately 52.86% of the issued share capital of the Company. As Yankuang Group holds 70% equity interest in Yankuang Group Finance, Yankuang Group Finance is an associate of Yankuang Group and therefore a connected person of the Company under the Hong Kong Listing Rules. Accordingly, the Financial Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14 of the Hong Kong Listing Rules.

As the relevant percentage ratios calculated in accordance with the Hong Kong Listing Rules for deposit services including the revised maximum daily deposit balance under the Financial Services Agreement are less than 5%, the deposit services to be provided by Yankuang Group Finance to the Group are subject to the reporting and announcement requirements under Rules 14A.45 and 14A.47 of the Hong Kong Listing Rules but are exempt from the independent shareholders' approval requirement under Rule 14A.48 of the Hong Kong Listing Rules.

As the comprehensive credit facility services to be provided by Yankuang Group Finance to the Group are on normal commercial terms similar or more favourable than those offered by independent commercial banks for the provision of comparable services in the PRC and are for the benefit of the Group, and no security over the assets of the Company is granted in respect of such services, the comprehensive credit facility services including the revised annual comprehensive credit facility limit to be provided by Yankuang Group Finance to the Group under the Financial Services Agreement are exempt from all reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(4) of the Hong Kong Listing Rules.

In respect of the provision of miscellaneous financial services (including discounted note services) by Yankuang Group Finance to the Group, the Company expects that the total annual fees payable to Yankuang Group Finance by the Group in each of the two financial years ended 31 December 2011 and 31 December 2012 would not exceed RMB28.54 million (equivalent to approximately HK\$34.757million). As each of the percentage ratios (if applicable) will be below the de minimis threshold set out in Rule 14A.33 of the Hong Kong Listing Rules, the provision of miscellaneous financial services by Yankuang Group Finance to the Group will be exempt from the reporting, announcement and independent shareholders' approval requirements under the Hong Kong Listing Rules.

## **Introduction**

Reference is made to Company's announcement dated 7 January 2011 in relation to the financial services agreement entered into between the Company and Yankuang Group Finance, pursuant to which Yankuang Group Finance has agreed to provide financial services to the Group from 7 January 2011 to 31 December 2011.

On 19 August 2011, the Company entered into the Financial Services Agreement (a new financial services agreement) with Yankuang Group Finance to replace the former financial services agreement. The terms of the Financial Services Agreement are the same as the former financial services agreement entered into on 7 January 2011, except that (i) the maximum daily balance of the deposits of the Group with Yankuang Group Finance has been

modified from RMB1.4 billion to RMB1.82 billion (equivalent to approximately HK\$2.22 billion); and (ii) the annual comprehensive credit facility limit to be provided by Yankuang Group Finance has been modified from RMB1.0 billion to RMB1.6 billion (equivalent to approximately HK\$1.95 billion). In addition, the term of the Financial Services Agreement has been extended to 31 December 2012. The amendments are mainly to cater for the continuously increased business operations of the Group.

Pursuant to the Financial Services Agreement, Yankuang Group Finance has agreed to provide deposit services, comprehensive credit facility services and miscellaneous financial services (including discounted note services) to the Group in accordance with the terms and conditions set out in the Financial Services Agreement. Yankuang Group Finance is a non-banking financial institution legally established with the approval of the CBRC and is a professional institution engaging in corporate financial services.

The Group utilizes the services of Yankuang Group Finance on a voluntary, non-exclusive basis and is not under any obligations to engage Yankuang Group Finance for any particular service. Yankuang Group Finance is merely one of a number of financial institutions providing financial services to the Group.

## **The Financial Services Agreement**

### **Date**

19 August 2011

### **Parties**

- (1) the Company; and
- (2) Yankuang Group Finance

### **Effective Date and Term**

The Financial Services Agreement shall become effective on the execution date of the Financial Services Agreement by the legal representatives or authorized representatives of the parties and remain valid until 31 December 2012.

### **Major Terms**

1. Pursuant to the Financial Services Agreement, the Group has the right to choose the financial institution for financial services and decide the financial institution for deposit services and loan services as well as the amounts with reference to its own business needs.
2. Yankuang Group Finance regards the Group as its important customer and undertakes that the terms for the provision of financial services to the Group at any time shall be no less favorable than the same type of financial services provided by the Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China and China Construction Bank and other banks (“**Major Commercial Banks in the PRC**”).

3. Yankuang Group Finance shall provide the following financial services to the Group in accordance with the above service principles:

(1) Deposit Services

- (a) the maximum daily balance (including accrued interests) of the Group on the settlement account in Yankuang Group Finance shall not exceed RMB1.82 billion (equivalent to approximately HK\$2.22 billion) in each of 2011 and 2012.
- (b) the interest rate for the deposit of the Group with Yankuang Group Finance shall be no less than the interest rate for the same kind of deposit announced by the People's Bank of China for the same period, shall be no less than the interest rate for the same kind of deposit offered by the Major Commercial Banks in PRC for the same period and no less than that the interest rate for the same kind of deposit made by other group members of Yankuang Group in Yankuang Group Finance for the same period.

(2) Comprehensive Credit Facility Services

- (a) Yankuang Group Finance shall provide an annual comprehensive credit facility limit of RMB1.6 billion (equivalent to approximately HK\$1.95 billion) (including accrued interests) to the Group;
- (b) the interest rate for the comprehensive credit facility to be provided by Yankuang Group Finance to the Group shall not exceed the interest rate for the same class of loan provided by the Major Commercial Banks in the PRC to the Group for the same period;
- (c) Yankuang Group Finance shall provide the comprehensive credit facility services to the Group on normal commercial terms and no security is to be granted by the Company over its assets.

(3) Miscellaneous Financial Services, including

(a) Discounted Note Services

- (i) Yankuang Group Finance shall provide discounted note services to the Group and the annual charge for discounted note shall not exceed RMB20.94 million (equivalent to approximately HK\$25.501 million);
  - (ii) the interest rate for the discounted note services to be provided by Yankuang Group Finance to the Group shall not exceed the interest rate for discounted note services provided by the Major Commercial Banks in the PRC.
- (b) settlement service: the Company opens a settlement account in Yankuang Group Finance, and Yankuang Group Finance will provide payment and receipt services as well as other ancillary services related to settlement services to the Group;

- (c) entrusted loans and entrusted investment services: Yankuang Group Finance can provide entrusted loans and entrusted investment services in accordance with the Group's entrustment (the provision of such services is subject to completion of the relevant approval procedures in relation to connected transactions);
  - (d) security services: Yankuang Group Finance can provide guarantee for the Group's financing, and tender and auction activities to the extent permitted by the relevant financial regulatory regulations;
  - (e) bill acceptance services, financial and financing consultation, credit certification and relevant consultation and agency services;
  - (f) other businesses approved by the CBRC.
  - (g) the fees charged by Yankuang Group Finance for the provision of aforesaid miscellaneous financial services to the Group shall be in accordance with the relevant benchmark rates determined by the People's Bank of China or the CBRC (if any). In addition, such fees shall not exceed those charged by the Major Commercial Banks in the PRC for provision of same kind of financial services to the Group;
- (4) Total fees for the aforesaid discounted note services and other financial services such as settlement services: the annual cap for each of the two financial years ended 31 December 2011 and 31 December 2012 is RMB28.54 million (equivalent to approximately HK\$34.757 million).

### **Internal Control Procedures and Corporate Governance Measures**

To secure the shareholders' interests, the Group will adopt the following internal control procedures and corporate governance measures:

1. Yankuang Group Finance will ensure the stable operation of its fund management system to safeguard the funds;
2. Yankuang Group Finance will ensure that it is in strict compliance with the risk monitoring indicators for financial institutions issued by the CBRC and that its major regulatory indicators such as gearing ratio and liquidity ratio will also comply with the requirements of the CBRC and other relevant PRC laws, regulations and regulatory documents;
3. Yankuang Group Finance shall not make investment with the Group's deposits (other than purchasing government bonds);
4. copies of the regulatory reports that Yankuang Group Finance submits to the CBRC and other relevant regulatory authorities will be provided to the Group at the same time;
5. financial statements of Yankuang Group Finance for each month will be provided to the Group within ten working days of the following month;

6. the Group has the right to review and obtain the relevant documents such as account books, financial statements and audit reports of Yankuang Group Finance in accordance with the Company Law of the PRC and the articles of association of Yankuang Group Financial; and
7. the Group shall be notified immediately on the occurrence of circumstances that may cause harms to the security of the Group's deposits or on the occurrence of any other circumstances that may jeopardize the security of the Group's deposits. The Group has the right to withdraw all deposits.

The Board considers that the above internal control procedures and corporate governance measures proposed to be adopted by the Company in respect of the continuing connected transactions are appropriate and that the procedures and measures will give sufficient assurance to the shareholders that the continuing connected transactions will be appropriately monitored by the Company.

### **Reasons and Benefits for the Financial Services Agreement**

The reasons for the Company to enter into the Financial Services Agreement with Yankuang Group Finance are as follows:

1. the rates for the fees charged by the Yankuang Group Finance for the deposit services, comprehensive credit facility services and miscellaneous financial services to be provided to the Group is equal to or more favourable than those charged by the Major Commercial Banks in the PRC for the same kind of financial services provided to the Group and no less favourable than those for the same kind of services provided to other members by Yankuang Group Finance;
2. Yankuang Group Finance is governed by the CBRC and the People's Bank of China and provides services within its approved scope in accordance with its operational requirements; and the scope of customers of Yankuang Group Finance is limited to members of Yankuang Group and members of the Group, therefore operation risks associated with Yankuang Group Finance is insignificant;
3. The Company directly holds 25% equity interest of Yankuang Group Finance, which allows it to benefit from the profits of Yankuang Group Finance.

This transaction facilitates the Group to optimize its financial management, increase the efficiency of fund utilization, and reduce the cost of financing and the financing risks. It will not be detrimental to the interests of the Company and will not affect the independency of the Company.

### **Proposed Cap and Reasons**

#### *Deposit Services*

The Board, having considered (1) the future business development plan and financial requirements of the Group; and (2) the estimated future cash flow of the Group, proposed that the maximum daily deposit balance (including the corresponding accrued interests) of the Group under the Financial Services Agreement in the settlement account with Yankuang

Group Finance shall not exceed RMB1.82 billion (equivalent to approximately HK\$2.22 billion) in each of 2011 and 2012.

#### *Comprehensive Credit Facility Services*

Pursuant to the Financial Services Agreement, the comprehensive credit facility services to be provided by Yankuang Group Finance to the Group are on normal commercial terms, and no security over the assets of the Company is to be granted in respect of such services. Therefore, comprehensive credit facility services are exempt continuing connected transactions under Rule 14A.65(4) of the Hong Kong Listing Rules, and no annual cap is required to be set in this regard.

#### *Miscellaneous Financial Services*

The Company expects that the total annual fees payable to Yankuang Group Finance by the Group in each of the two financial years ended 31 December 2011 and 31 December 2012 would not exceed RMB28.54 million (equivalent to approximately HK\$34.757 million). As each of the percentage ratios (if applicable) will be below the de minimis threshold set out in Rule 14A.33 of the Hong Kong Listing Rules, the provision of miscellaneous financial services by Yankuang Group Finance to the Group will be exempt from the reporting, announcement and independent shareholders' approval requirements under the Hong Kong Listing Rules, and no annual cap is required to be set in this regard.

#### **General**

The entering into of the Financial Services Agreement to replace the previous financial services agreement is mainly to cater for the continuously increased business operations of the Group.

The Company approved the Financial Services Agreement and the transactions contemplated thereunder in the third meeting of the fifth session of the Board held on 19 August 2011.

At the aforesaid board meeting, Mr. Wang Xin, Mr. Li Weimin, Mr. Zhang Yingmin and Mr. Shi Xuerang, being the directors of the Company, are also senior management of Yankuang Group, whom may be deemed to have material interests in the transactions contemplated under the Financial Services Agreement. Therefore, they have abstained from voting at the meeting of the Board convened for the purpose of approving such transactions. Save as disclosed above, none of the Directors has a material interest in such transactions.

The Directors (including independent non-executive Directors) consider that the Financial Services Agreement has been negotiated on arm's length basis and is on normal commercial terms. The terms of the Financial Services Agreement, the transactions contemplated thereunder, the proposed cap of the daily deposit balance (including the corresponding accrued interests) and the related financial services charges are also fair and reasonable and are in the interests of the Company and the shareholders as a whole.

#### **Implication of the Hong Kong Listing Rules**

Yankuang Group is a controlling shareholder of the Company holding approximately 52.86% of the issued share capital of the Company. As Yankuang Group holds 70% equity interest in

Yankuang Group Finance, Yankuang Group Finance is an associate of Yankuang Group and therefore a connected person of the Company under the Hong Kong Listing Rules. Accordingly, the Financial Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14 of the Hong Kong Listing Rules.

As the relevant percentage ratios calculated in accordance with the Hong Kong Listing Rules for deposit services including the revised maximum daily deposit balance under the Financial Services Agreement are less than 5%, the deposit services to be provided by Yankuang Group Finance to the Group are subject to the reporting and announcement requirements under Rules 14A.45 and 14A.47 of the Hong Kong Listing Rules but are exempt from the independent shareholders' approval requirement under Rule 14A.48 of the Hong Kong Listing Rules.

As the comprehensive credit facility services to be provided by Yankuang Group Finance to the Group are on normal commercial terms similar or more favourable than those offered by independent commercial banks for the provision of comparable services in the PRC and are for the benefit of the Group, and no security over the assets of the Company is granted in respect of such services, the comprehensive credit facility services including the revised annual comprehensive credit facility limit to be provided by Yankuang Group Finance to the Group under the Financial Services Agreement are exempt all reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(4) of the Hong Kong Listing Rules.

In respect of the provision of miscellaneous financial services by Yankuang Group Finance to the Group, the Company expects that the total annual fees payable to Yankuang Group Finance by the Group in each of the two financial years ended 31 December 2011 and 31 December 2012 would not exceed RMB28.54 million (equivalent to approximately HK\$34.757 million). As each of the percentage ratios (if applicable) is below the de minimis threshold set out in Rule 14A.33 of the Hong Kong Listing Rules, the provision of miscellaneous financial services by Yankuang Group Finance to the Group will be exempt from the reporting, announcement and independent shareholders' approval requirements under the Hong Kong Listing Rules.

## **Information of the parties**

### **The Company**

The Company is principally engaged in the business of mining, preparation, processing and sales of coal and coal chemicals. The Company's products are steam coal for use in large-scale power plants, coking coal for metallurgical production and prime quality low sulphur coal for use in pulverized coal injection.

### **Yankuang Group Finance**

The business scope of Yankuang Group Finance includes provision of finance services and financing consultancy services, credit verification and related consultancy and agency services to member companies; provision of assistance to member companies in payment and receipt of transaction proceeds; provision of approved insurance agency services; provision of guarantees to member companies; provision of draft acceptance and discounting services to member companies; provision of intra-group transfer and settlement services to member



companies and planning of clearing and settlement scheme; provision of deposit services to member companies; provision of counterpart loans.

## DEFINITIONS

In this announcement, unless the context requires otherwise, the following terms have the meanings set out below:

“A Shares”	domestic shares in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange;
“associate”	has the meaning ascribed thereto under the Hong Kong Listing Rules;
“Board”	the board of Directors;
“CBRC”	China Banking Regulatory Commission;
“Company”	兗州煤業股份有限公司, Yanzhou Coal Mining Company Limited, a joint stock limited company established under the laws of the PRC in 1997, and the H Shares, American depositary shares and A Shares of which are listed on the Hong Kong Stock Exchange, New York Stock Exchange and the Shanghai Stock Exchange, respectively;
“connected person(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules;
“Director(s)”	the director(s) of the Company;
“Financial Services Agreement”	the financial services agreement of Yankuang Group Finance and the Company entered into between the Company and Yankuang Group Finance on 19 August 2011 to replace the previous financial services agreement entered into on 7 January 2011;
“Group”	the Company and its subsidiaries;
“H Shares”	overseas listed foreign invested shares in the ordinary share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange;
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region;
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange;

“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“Yankuang Group”	Yankuang Group Corporation Limited, a wholly State-owned corporation and the controlling shareholder holding approximately 52.86% of the total issued share capital of the Company;
“Yankuang Group Finance”	Yankuang Group Finance Co., Ltd., a limited liability company incorporated in the PRC, which is owned as to 70%, 25% and 5% by Yankuang Group, the Company and China Credit Trust Co., Ltd. respectively. Yankuang Group Finance is a non-banking financial institution legally established with the approval of the CBRC and is a professional institution engaging in corporate financial services;
“%”	Percentage

*Note:* Amounts in Hong Kong dollars have been translated from Renminbi for the convenience of the readers only. And unless otherwise indicated, the translation has been made at the rate of HK\$1.00 = RMB0.82113 for the purpose of illustration only. The Company makes no representation that any amount of Renminbi has been, could have been or may be exchanged into Hong Kong dollars.

By order of the Board  
**Yanzhou Coal Mining Company Limited**  
**Li Weimin**  
*Chairman*

Zoucheng, Shandong Province, the PRC  
19 August 2011

*As at the date of this announcement, the Directors of the Company are Mr. Li Weimin, Mr. Wang Xin, Mr. Zhang Yingmin, Mr. Shi Xuerang, Mr. Wu Yuxiang, Mr. Zhang Baocai and Mr. Dong Yuning, and the independent non-executive Directors of the Company are Mr. Wang Xianzheng, Mr. Cheng Faguang, Mr. Wang Xiaojun and Mr. Xue Youzhi.*