THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Yanzhou Coal Mining Company Limited,** you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

YANZHOU COAL MINING COMPANY LIMITED

兗 州 煤 業 股 份 有 限 公 司

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

DISCLOSEABLE AND CONNECTED TRANSACTION ACQUISITION OF YANKUANG GROUP'S SPECIAL PURPOSE COAL TRANSPORTATION RAILWAY ASSETS

Financial adviser to Yanzhou Coal Mining Company Limited

N M ROTHSCHILD & SONS

Independent financial adviser to the independent board committee of Yanzhou Coal Mining Company Limited

CLSA EMERGING MARKETS

CLSA Equity Capital Markets Limited

A letter from the board of directors of Yanzhou Coal Mining Company Limited is set out on pages 4 to 22 of this circular. A letter from the independent board committee of Yanzhou Coal Mining Company Limited is set out on pages 23 and 24 of this circular. A letter from CLSA Equity Capital Markets Limited containing its advice to the independent board committee of Yanzhou Coal Mining Company Limited is set out on pages 25 to 39.

A notice convening an extraordinary general meeting of Yanzhou Coal Mining Company Limited to be held at 8:00 a.m. on 17th December, 2001 at 2nd Floor, Conference Room, Zong He Building, 40 Fushan Road, Zoucheng, Shandong Province 273500, the People's Republic of China, together with a copy of the announcement of Yanzhou Coal Mining Company Limited published on 31st October, 2001, the notice of attendance of the extraordinary general meeting of Yanzhou Coal Mining Company Limited and the proxy form, were despatched to the shareholders of Yanzhou Coal Mining Company Limited on 1st November, 2001.

If you intend to attend the extraordinary general meeting of Yanzhou Coal Mining Company Limited, please complete and return the reply slip enclosed with the notice of the meeting in accordance with the instructions printed thereon as soon as possible and in any event by no later than 26th November, 2001.

Whether or not you are able to attend, please complete and return the form of proxy enclosed with the notice of the extraordinary general meeting of Yanzhou Coal Mining Company Limited in accordance with the instructions printed thereon and return it to Hong Kong Registrars Limited at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong as soon as possible and in any event by not later than 24 hours before the time appointed for holding such meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting should you so wish.

22nd November, 2001

CONTENTS

In this circular, unless the context requires otherwise, the following expressions have the following meanings:

"Acquisition"	the acquisition of the Railway Assets by the Company from the Parent Company
"Acquisition Agreement"	the agreement dated 30th October, 2001 entered into between the Company and the Parent Company in respect of the Acquisition
"Adjustments"	the adjustments to the purchase price payable by the Company in connection with the Acquisition, details of which are set out in the section headed "The Acquisition Agreement — Consideration and payment terms"
"CLSA"	CLSA Equity Capital Markets Limited, independent financial adviser to the Independent Board Committee in respect of the Acquisition and the Supplemental Agreement
"Company"	Yanzhou Coal Mining Company Limited, a joint stock limited company incorporated in the PRC with limited liability
"Completion"	completion of the Acquisition
"Completion Date"	the date of Completion, which is the later of (i) the date of fulfillment of all the conditions set out in the section headed "Conditions precedent of Completion under the Acquisition Agreement"; or (ii) 1st January, 2002
"Directors"	the directors of the Company
"Extraordinary General Meeting"	the extraordinary general meeting of the Company proposed to be held on 17th December, 2001
"H Shares"	overseas listed foreign invested shares of RMB1.00 each in the capital of the Company, which are subscribed for and traded in HK$
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"IAS"	International Accounting Standard

"Independent Board Committee"	a committee of the board of Directors established for the purpose of considering the Acquisition and the Supplemental Agreement, comprising the independent non-executive Directors
"Independent Shareholders"	Shareholders other than the Parent Company and its associates (as defined in the Listing Rules)
"Latest Practicable Date"	15th November, 2001, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Parent Company" or "Yankuang Group"	Yankuang Group Corporation Ltd., a State-owned and State solely invested company established in the PRC
"PRC" or "China"	the People's Republic of China
"Prospectus"	the prospectus of the Company dated 24th March, 1998 and issued in Hong Kong in connection with its initial public offering
"Railway Assets"	the assets owned by the Parent Company in connection with the transportation business operated by the Railway Department, which form the subject matter of the Acquisition
"Railway Department"	the railway department of the Parent Company, a non-legal person unit of the Parent Company, which will be under the control and management of the Company upon Completion
"RMB"	Renminbi, the lawful currency of the PRC
"Rothschild" or "N M Rothschild & Sons"	N M Rothschild & Sons (Hong Kong) Limited, financial adviser to the Company in respect of the Acquisition and the Supplemental Agreement
"Sallmanns"	Sallmanns (Far East) Limited, a State-approved independent international valuer appointed by the Company in respect of the Acquisition

"SDI Ordinance"	Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
"Shandong Provincial Finance Bureau"	山東省財政廳
"Shareholders"	holders of domestic shares and holders of the H Shares of the Company
"State"	the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and instrumentality thereof
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Agreement"	the supplemental agreement dated 30th October, 2001 entered into between the Company and the Parent Company which amends the Supply Agreement
"Supply Agreement"	materials and services supply agreement dated 17th October, 1997 entered into between the Company and the Parent Company relating to the cross supply of materials and provisions of services between the Company and the Parent Company
"Technical Expert"	濟南鐵路局勘測設計院, a PRC professional institute providing railway surveying, designing and technical advice holding GB/T 19001-1994 – ISO 9001:1994 Standard Certificate valid until 22nd August, 2003
"tonnes"	metric tonnes
"Valuations"	the fair market value of the Railway Assets as jointly assessed by 山東正源和信有限責任會計師事務所, a State-approved independent PRC valuer appointed by the Parent Company, and Sallmanns
"Valuation Date"	30th June, 2001

Note: Where amounts in Hong Kong dollars have been derived from Renminbi, such translations are for the convenience of the readers only, and except as otherwise indicated, have been made at the rate of RMB1.061 to HK$1.00. No representation is made that Renminbi amounts could have been or could be converted into Hong Kong dollars at this rate or any other rate or at all.

YANZHOU COAL MINING COMPANY LIMITED
兗州煤業股份有限公司
(a joint stock limited company incorporated in the People's Republic of China with limited liability)

Directors:
Zhao Jingche
Yang Deyu
Du Mingshan
Luo Taiyan
Xiao Lifang
Wang Bangjun*
Mo Liqi*
Liu Yubin*
Wu Zezhi*
Chen Yongge*
Ma Houliang*
Xu Tianen*
Yang Jiachun*
Guan Weili**
Law Kin Ming, Alfred**

* *non-executive Directors*
** *independent non-executive Directors*

Registered office and principal place of business:
40 Fushan Road
Zoucheng
Shandong Province 273500
PRC

Place of business in Hong Kong:
Suites 3104-6, 31st Floor
Central Plaza
18 Harbour Road
Hong Kong

22nd November, 2001

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION
ACQUISITION OF YANKUANG GROUP'S SPECIAL PURPOSE COAL TRANSPORTATION RAILWAY ASSETS

INTRODUCTION

On 30th October, 2001, the Company entered into the Acquisition Agreement with the Parent Company for the acquisition from the Parent Company of the special purpose coal transportation Railway Assets. The Railway Assets are currently owned and operated by the

Railway Department through which the Parent Company provides railway transportation services to the Company. Following the Acquisition, it is anticipated that the Parent Company will utilise a small amount of railway transportation services provided by the Company and the Company will no longer rely on the Parent Company for the provision of such services. Accordingly, the Company has also entered into the Supplemental Agreement with the Parent Company to amend the Supply Agreement.

The consideration for the Acquisition of the Railway Assets is RMB1,220.59 million (equivalent to approximately HK$1,150.41 million), subject to the Adjustments. The Company intends to fund the Acquisition with its own cash and long-term bank loan. Subsequent to the announcement of the Acquisition made on 30th October, 2001, the Company has secured a letter of intent from a domestic bank in the PRC indicating that the Company may borrow up to RMB1,200 million (equivalent to approximately HK$1,131.01 million) for the purpose of funding the Acquisition. Details of the letter of intent is set out in the section headed "Financial impact of the Acquisition – Funding of the Acquisition".

After the conditions precedent set out in the Acquisition Agreement, which are set out in the section headed "Conditions precedent of Completion under the Acquisition Agreement" have been fulfilled, the Company and the Parent Company shall proceed with Completion on the date which is the later of (i) the date of fulfillment of all such conditions; or (ii) 1st January, 2002.

The Acquisition constitutes a discloseable transaction under the Listing Rules. Furthermore, as the Parent Company is the controlling shareholder of the Company holding approximately 58.19% of the total issued share capital of the Company, the Acquisition also constitutes a connected transaction of the Company and is conditional upon the approval of the Independent Shareholders. The Supplemental Agreement is also subject to the approval of Independent Shareholders. Accordingly, on 30th October, 2001, the board of Directors resolved to convene the Extraordinary General Meeting to be held on 17th December, 2001 for the approval of the Acquisition and the Supplemental Agreement.

The board of Directors considers that the Acquisition and the Supplemental Agreement are in the best interests of the Company. The board of Directors believes that the Acquisition will generate a positive impact on the earnings per share of the Company and will enhance the Company's ability to sustain its long-term growth through exercising its control over a key component of its coal sales and distribution channel.

Rothschild has been appointed as the financial adviser to the Company in respect of the Acquisition and the Supplemental Agreement. The Independent Board Committee has also been formed to consider the Acquisition and the Supplemental Agreement and the letter from the Independent Board Committee to the Independent Shareholders is included in this circular. CLSA has been appointed as the independent financial adviser to advise the Independent Board Committee in respect of the Acquisition and the Supplemental Agreement and its letter of advice to the Independent Board Committee is included in this circular.

The purpose of this circular is to provide you with further information in relation to the Acquisition and the Supplemental Agreement, to set out the recommendations of the Independent Board Committee, the letter of advice from CLSA to the Independent Board Committee and the property valuation report and plant and machinery valuation report on the Railway Assets prepared by Sallmanns.

Resolutions to approve the Acquisition and the Supplemental Agreement will be proposed at the Extraordinary General Meeting. In accordance with the Listing Rules, the Parent Company, being the controlling shareholder of the Company, and its associates (as defined in the Listing Rules) who are Shareholders will abstain from voting on the resolutions to approve the Acquisition and the Supplemental Agreement.

THE ACQUISITION AGREEMENT

On 30th October, 2001, the Company and the Parent Company entered into the Acquisition Agreement, pursuant to which the Parent Company had conditionally agreed to sell, and the Company had conditionally agreed to acquire the Railway Assets at a consideration of RMB1,220.59 (approximately HK$1,150.41 million), subject to the Adjustments.

Consideration and payment terms

The consideration for the Acquisition was negotiated on an arm's length basis between the Company and the Parent Company and comprises the base purchase price and the Adjustments.

Base purchase price

The base purchase price was determined with reference to the valuation of the Railway Assets as at the Valuation Date as jointly assessed by 山東正源和信有限責任會計師事務所, a State-approved independent PRC valuer, and Sallmanns, and confirmed by the Shandong Provincial Finance Bureau. The land use rights were assessed by 濟寧仁和土地評估事務所, a State-approved independent land valuer, and the result was adopted by 山東正源和信有限責任會計師事務所 in its valuation report.

For the purpose of this circular, Sallmanns has updated its valuation as at 30th September, 2001. The valuation is consistent with that prepared by 山東正源和信有限責任會計師事務所, except:

(i) the valuation by Sallmanns does not take into account current assets of RMB121.37 million (approximately HK$114.39 million); and

(ii) Sallmanns' valuation of plant, property and equipment is RMB1,098.98 million (approximately HK$1,035.80 million), which is lower than the valuation prepared by

山東正源和信有限責任會計師事務所 by RMB0.24 million (approximately HK$0.23 million), or 0.02%. The value difference is insignificant, mainly reflecting: (a) different valuation dates on which the valuations were based, with the valuation by 山東正源和信有限責任會計師事務所 prepared as at the Valuation Date and the valuation by Sallmanns as at 30th September, 2001, which is three months later; and (b) some minor differences on certain valuation assumptions.

Adjustments

It was agreed that upon Completion, the base purchase price shall be adjusted with reference to the difference between the asset value of the Railway Assets as determined on the date before Completion and audited by the accountants as specified by the Company and that on the Valuation Date. If the value as at the date before Completion is greater than that on the Valuation Date, the Adjustment will be positive and the Company shall, on or before 30th June, 2002, in addition to the balance of the base purchase price, pay such Adjustment to the Parent Company. Conversely, if the value as at the date before the Completion is less than that on the Valuation Date, the Adjustment will be negative and such Adjustment shall be deducted from the balance of the base purchase price which shall be payable by the Company to the Parent Company on or before 30th June, 2002. The asset value of the Railway Assets on the date before Completion shall be calculated in the following manner:

(a) Account receivables:

The value of account receivables as at the date before Completion shall be the lower of (i) one twelfth (based on 30 days divided by 360 days) of the gross revenue for the full year of 2001; and (ii) the audited book value of the account receivables;

(b) Inventories:

The value of the inventories of the Railway Assets as at the date before Completion shall be the lower of (i) one twenty-fourth (based on 15 days divided by 360 days) of the gross revenue for the full year of 2001; and (ii) the audited book value of the inventories;

(c) The value of the other assets of the Railway Assets shall be calculated based on their audited book value.

In addition, as a result of the arm's length negotiation, a conditional payment mechanism was introduced to bridge the difference in the views of price of the Railway Assets between the Company and the Parent Company. If the annual transportation volume by the Railway Department reaches the volume milestone targets of 25 million tonnes, 28 million tonnes and 30 million tonnes for the years 2002, 2003 and 2004, respectively, the Company shall pay the Parent Company an adjustment in the sum of RMB40 million (approximately HK$37.70

million) annually in respect of each of these three years. For any of these three years, if the transportation volume does not reach the target for a particular year, the Company will not be required to pay RMB40 million (approximately HK$37.70 million) adjustment for that year. This structure of conditional payments demonstrates that (a) the Parent Company, a long time original owner of the Railway Assets, is confident with the growth prospect of the performance of the Railway Assets; and (b) the Company agrees to share some upside of the performance of the Railway Assets only when it incurs.

Payment terms

The consideration for the Acquisition shall be paid by the Company in cash in five parts:

(a) 95% of the base purchase price, or RMB1,159.56 million (approximately HK$1,092.89 million) shall be paid on the Completion Date;

(b) the sum of the remaining 5% of the base purchase price, and the adjustment as calculated with reference to the difference between audited asset value of the Railway Assets as determined on the date before Completion and that on the Valuation Date, shall be paid by the Company (if the total is positive) or refunded to the Company (if the total is negative) on or before 30th June, 2002;

(c) if the annual transportation volume by the Railway Department reaches the requisite volume milestone target of 25 million tonnes during the year 2002, the Company shall pay the Parent Company a sum of RMB40 million (approximately HK$37.70 million) on or before 30th June, 2003;

(d) if the annual transportation volume by the Railway Department reaches the requisite volume milestone target of 28 million tonnes during the year 2003, the Company shall pay the Parent Company a sum of RMB40 million (approximately HK$37.70 million) on or before 30th June, 2004; and

(e) if the annual transportation volume by the Railway Department reaches the requisite volume milestone target of 30 million tonnes during the year 2004, the Company shall pay the Parent Company a sum of RMB40 million (approximately HK$37.70 million) on or before 30th June, 2005.

CONDITIONS PRECEDENT OF COMPLETION UNDER THE ACQUISITION AGREEMENT

Completion is conditional upon the fulfillment of the following conditions precedent:

(a) completion of the due diligence review being conducted by the Company on the business position of the Railway Department to the satisfaction of the Company regarding the ownership by the Railway Department of all its assets;

(b) all necessary approvals being obtained by the Company and the Parent Company from the relevant authorities of the PRC in respect of the Acquisition;

(c) approval of the Acquisition Agreement being granted by the Independent Shareholders at the Extraordinary General Meeting and completion or fulfillment of all procedures and requirements as specified under the relevant listing rules of all stock exchanges on which the securities of the Company are listed for the transactions contemplated under the Acquisition Agreement;

(d) all necessary consents being obtained from creditors and other third parties in respect of the Acquisition;

(e) no material adverse change in the business operation and technical performance of the Railway Department occurring on or before the Completion Date; and

(f) all representations, warranties and undertakings given by the Parent Company under the Acquisition Agreement remaining true, accurate, complete and effective on the Completion Date.

In the event that any of the above conditions is not fulfilled prior to 30th June, 2002, the Company may elect to terminate the Acquisition Agreement. Further announcements will be made if the Company terminates the Acquisition Agreement. The Company and the Parent Company also agreed that if the Stock Exchange or the relevant regulatory authorities of the PRC impose any conditions in granting their approvals for the Acquisition, they shall negotiate to vary the relevant terms of the Acquisition Agreement to satisfy such conditions. If both parties are unable to reach an agreement, and the continued performance of the Acquisition Agreement would cause any breaches of the laws of the PRC by either party, then such party may elect to terminate the Acquisition Agreement.

After the conditions precedent set out above have been fulfilled, the Company and the Parent Company shall proceed with Completion on the later date of: (i) the date of fulfillment of all the conditions; or (ii) 1st January, 2002. Upon Completion, the Company will obtain the ownership of the Railway Assets.

Upon Completion, the Railway Department will be under the control and management of the Company.

INTEREST TO BE ACQUIRED

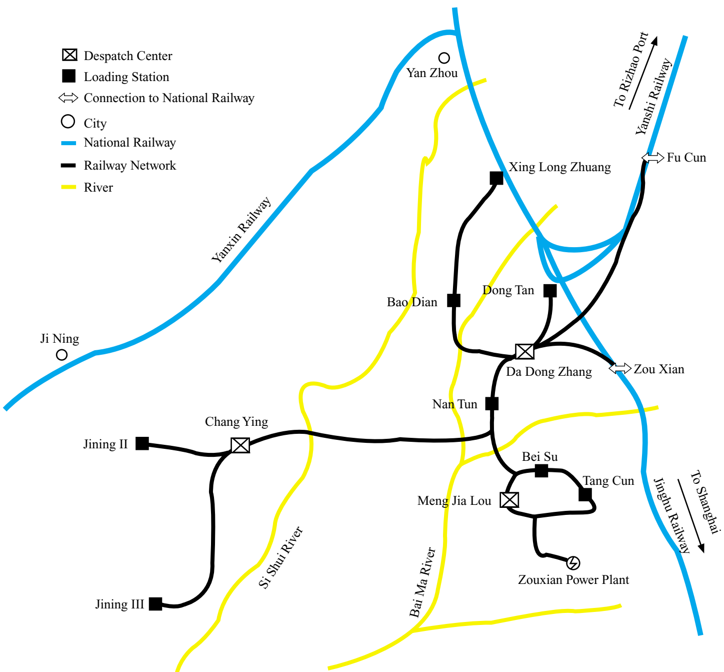
Overview of the Railway Assets

Pursuant to the Acquisition Agreement, the Company had conditionally agreed to acquire from the Parent Company the Railway Assets, which comprise all assets owned by the Parent

Company in connection with the transportation business operated by the Railway Department, including, but without limitation, all land use rights of the Railway Department and all buildings and construction erected thereon, all other assets (fixed or current, including account receivables and inventories) and all permits, licenses, approvals and approved rights of the Railway Department in connection with the operation of its business. The Railway Assets principally comprise the railway spur lines covering the coal mining areas of the Company with track length of approximately 184 km, 16 steam locomotives and 469 railway wagons, together with all rights (present and future) in connection therewith. The Railway Department employs approximately 3,846 employees.

As shown in Figure 1 below, the Railway Assets comprise a railway transportation network linking the six coal mines of the Company and the two small high sulphur coal mines of the Parent Company to the principal national railway connections and Zouxian power station. Da Dongzhang Station is the main despatch center within this transportation system. Most of the coal products are transported from the coal loading stations to Da Dongzhang Station and are then transferred either to Fucun Station or to Zouxian Station, two principal hand-off points that connect to Yan-Shi (Yanzhou to Ruzhao port) National Railway and Jing-Hu (Beijing to Shanghai) National Railway, respectively. The Company currently utilises the services of the Railway Department to transport its coal products and other materials. The railway transportation tariffs are regulated and approved by the State.

Figure 1



Performance of the Railway Assets

During the first half of 2001, the Railway Department transported 9.4 million tonnes of coal and is expected to transport 22 million tonnes of coal for the full year. In line with the Company's projected growth in coal sales, the annual transportation volume utilising the Railway Assets is expected to increase to approximately 32 million tonnes by 2005, representing a year on year compound growth of 9.8%.

For the 12 months ended 31st December, 2000, the Railway Department recorded gross revenues of RMB317.77 million (approximately HK$299.50 million) and net income of RMB105.61 million (approximately HK$99.54 million). For the 6 months ended 30th June, 2001, the Railway Department recorded gross revenues of RMB176.83 million (approximately 166.66 million) and net income of RMB65.64 million (approximately HK$61.87 million). These figures are extracted from the historical audited accounts (based on IAS) of the Railway Department for the relevant periods.

The Company had retained the Technical Expert to make a thorough technical assessment of the Railway Assets in respect of, among other things, the operating conditions, transportation and loading capacity, cost structure and cost level, and future capital requirements of the Railway Department. The Technical Expert has concluded that:

(i) the Railway Assets are class I industrial special purpose high-quality network. Its communication and signal system is also among the most advanced in PRC;

(ii) combined transportation capacity of the network is 37.3 million tonnes, which satisfies the required transportation volume growth for the future;

(iii) in the next five years, the repair and maintenance costs for the railway network can be sustained at the level similar to that of 2000, i.e., RMB12.48 million (approximately HK$11.76 million);

(iv) with the gradual replacement of steam locomotives by internal combustive locomotives, the expected capital expenditure for the Railway Department would be at around RMB10 million (approximately HK$9.43 million) each year. There is no further capital commitment other than the above stated;

(v) the Railway Department does not need to employ additional people in the next five years even if the transportation volume reaches 32 million tonnes;

(vi) with the commissioning of the Yan-Shi double-track National Railway and the enhanced speed acceleration along the Jing-Hu National Railway, there would be no further transportation bottleneck in the national trunk lines, which would facilitate the significant increase of transportation volume of the Railway Department in the next few years; and

(vii) in the past there have been no issues on environment and safety aspects in relation to the operation of the Railway Assets. No problems relating to these aspects could raise any concern so far.

The Technical Expert is independent of and not connected with the directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates (as defined under the Listing Rules).

Financial Highlights

The historical financial information of the Railway Department, prepared as if the Railway Department was a stand-alone business entity, is summarised in Table 2 (based on IAS and audited by Deloitte Touche Tohmatsu Certified Public Accountants).

Table 2

in RMB millions (except for tonnage, which are represented in 1,000 tonnes)	**1999** *(audited)*	**2000** *(audited)*	**1H 2001** *(audited)*
Net Sales (net of sales tax) *(See note)*	300.71	307.28	171.00
EBITDA	182.42	181.83	115.00
Income Before Income Tax	157.56	157.63	97.97
Net Income	105.57	105.61	65.64
Tonnage	16,242	16,482	9,400

Note: Net Sales of the Railway Department are generated from the provision of railway transportation services. Please refer to point (iii) on page 16 for further details.

With the production increase of Jining III coal mine and expected stable sales conditions, coupled with the commissioning of double-track Yan-Shi National Railway, the Company anticipates that coal sales, in particular those to the export market and coastal market in China, will grow steadily. This will result in an increase of railway transportation volume, which will, at the State approved transportation tariffs, directly translate into revenue growth in the forthcoming years. While a significant part of cost structure of the Railway Department, such as depreciation, labour costs and repair and maintenance costs, will not increase proportionally with the increase in transportation volume. Therefore, growth of revenue will contribute significantly to the bottom line performance.

FINANCIAL IMPACT OF THE ACQUISITION

Funding of the Acquisition

The Acquisition is intended to be financed out of the Company's internal cash sources and long term bank loans. Following the announcement made on 30th October 2001, the Company has accelerated the discussions with a domestic bank in the PRC, resulting in a letter of intent being provided by such domestic bank confirming that a long term loan facility of up to RMB1,200 million (approximately HK$1,131.01 million) will be made available to the Company. The loan interest rate is regulated by the People's Bank of China, which currently is 6.21% per annum. It may vary from time to time.

The main conditions of the letter of intent include:

(i) the loan facility is provided solely for the purpose of funding the Acquisition;

(ii) necessary approvals are obtained for the Acquisition;

(iii) security arrangements for the loan are acceptable to the bank; and

(iv) further approval is being given by the credit committee of the headquarter of the bank.

The Company intends to borrow approximately RMB1,000 million (approximately HK$942.5 million) to finance the Acquisition.

The Railway Department is likely to generate strong cash flow on its own for the following reasons:

(i) the transportation volume is expected to grow significantly in the next few years, reaching approximately 32 million tonnes by 2005. High growth of transportation volume translates directly into high growth of net sales;

(ii) a significant part of the operation and administration costs, such as depreciation and amortisation of assets and a major part of the labour costs and repair and maintenance costs, will not increase proportionally with the increase of transportation volume (please refer to Table 3 on page 17 and its notes);

(iii) combining (i) and (ii) with increase in net sales likely to be exceeding increase in overall costs, the Railway Department is likely to yield higher profit margin under normal business conditions; and

(iv) since the railway network is fully built and no further expansion shall be required, it is anticipated that further capital expenditure of approximately RMB10 million (approximately HK$9.43 million) each year will be required based on the assessment by the Technical Expert. This is insignificant compared with annual depreciation and amortisation charges (please refer to Table 3 on page 17 and Table 4 on page 18 and their notes). This will result in stronger cash income (before any repayment of debt) than reported net profits.

The Directors expect that under normal business conditions, additional cash flow generated by the Railway Department in the future will in itself be able to support the interest payment and principal repayment for the amount to be borrowed for funding the Acquisition. With the further backing of strong cash flow from the existing operations, the Company does not foresee any difficulties in meeting debt repayment obligation.

The Company had RMB1,204.90 million (equivalent to approximately HK$1,135.62 million) cash as at 30th June, 2001. Together with additional cash generated from the second half of 2001, the Company does not anticipate significant difficulties in funding the deferred payment of RMB473.38 million (equivalent to approximately HK$446.17 million) for Jining III coal mine acquisition due by 31st December, 2001, its own cash contribution for the Acquisition, and the working capital requirement for operations in year 2002.

The liability to pay the volume milestone linked payments for the years of 2002, 2003 and 2004 will only arise when the transportation volume milestone representing a very high throughput growth is delivered. Based on an average transportation tariff (after sales tax) of over RMB18 (approximately HK$16.97) per tonne, every million tonne increase in transportation volume will result in an increase of over RMB18 million (approximately HK$16.97 million) in net sales. Accordingly, the Directors believe that when these volume milestones are achieved, there would be a significant increase in sales and transportation cost savings for the Company translating into increased profit and cash flow. Such additional financial contribution shall be more than sufficient to compensate for the additional payments resulting from reaching the volume milestone targets to be paid to the Parent Company. In the unlikely situation that there is any shortfall of cash flow generated by the Railway Department, the Company expects to finance these payments by its own cash generated from the overall operation. Further, the Directors believe that if the relevant volume milestone target is achieved, the business scale of the Railway Department would have been significantly expanded, resulting in long term sustainable high level profitability.

The Company has no intention to issue any equity for the purpose of funding the Acquisition.

Balance sheet impact of the Acquisition

Prior to giving effect to the Acquisition, the Company's consolidated balance sheet as at 30th June, 2001 had total non-current assets of RMB7,693.34 million (approximately HK$7,251.02 million). Following the Acquisition, total non-current assets will increase by approximately RMB1,099.22 million (approximately HK$1,036.02 million), representing an increase of approximately 14.3%.

The Company's gearing ratio (long term liabilities divided by shareholders' equity) will increase from 7.5% as at 30th June, 2001, but is still expected to stay below 20%. As the historical long term liabilities are interest-free deferred payments for the acquisition of Jining III coal mine, the Company currently incurs zero long term bank borrowing. After the Acquisition, the Directors consider its balance sheet reaching as a reasonably conservative and yet more capital efficient level.

Earnings impact of the Acquisition

The board of Directors believes that the Acquisition would result in an immediate positive earnings contribution to the Company principally because of the following reasons:

(i) the revenue base of the Company would be expanded as a result of revenue generated by the Railway Department from transporting coal to its customers;

(ii) the railway transportation costs would be saved as the Company would no longer be required to pay the Parent Company for transportation services provided by the Railway Department;

(iii) the Company is required to incur the operating costs and administrative expenses of the Railway Department as well as debt funding cost for the Acquisition. On the basis of historical transportation volume, and as demonstrated in the proforma accounts (please refer to Table 4 on page 18), the overall contribution from (i) and (ii) above is more than sufficient to offset these costs; and

(iv) with the production increase of Jining III coal mine and improved market conditions, the Directors anticipate that coal sales will grow steadily in the next few years, reaching about 40 million tonnes by 2005. The Directors anticipate that based on the projected growth in coal sales, the earnings contribution from the Acquisition is also anticipated to correspondingly increase (please refer to the analysis in the section under the heading "Financial impact of the Acquisition – Funding of the Acquisition").

To assist Shareholders in assessing the earnings impact on the Company, two sets of proforma accounts were prepared with the following assumptions by the Company's accountants:

(i) the historical sales of the Railway Department reflecting as either (a) sales increase; or (b) transportation cost savings for the combined business, depending on whether the service was provided to third party or the Company;

(ii) the adjustment of sales tax as a result of the proforma adjustment as mentioned in (i) above;

(iii) specifically, in combining (i) and (ii), (1) the Railway Department recorded net sales of RMB98.39 million for the year ended 31st December, 2000 and RMB53.03 million for the six months ended 30th June, 2001 generated from the provision of railway transportation services to third parties other than the Company. These will be reflected as incremental sales for the business combining the Company and the Railway Department; (2) the Railway Department recorded net sales of 209.84 million for the year ended 31st December, 2000 and RMB118.50 million for the six months ended 30th June, 2001 by the provision of railway transportation service to the Company. These will be reflected as transportation cost savings for the business combining the Company and the Railway Department;

(iv) the historical cost of goods sold and administrative expenses of the Railway Department are augmented to the combined business accordingly. Specifically the Railway Department incurred cost of goods sold and administrative expenses of RMB149.65 million for the year ended 31st December, 2000 (among which depreciation and amortisation, labor costs and repair and maintenance costs are RMB24.20 million, RMB65.09 million and RMB13.95 million, respectively) and RMB73.04 million for the six months ended 30th June, 2001 (among which depreciation and amortisation, labor costs and repair and maintenance costs are RMB17.03 million, RMB33.27 million and RMB3.96 million, respectively);

(v) depreciation and amortisation of the Railway Assets have been adjusted upwards to reflect the impact of assets valuation. Specifically the upward adjustment for such depreciation and amortization amounted to RMB33.42 million for the year ended 31st December, 2000 and RMB11.78 million for the six month ended 30th June, 2001;

(vi) cost of debt borrowing, if any, is added into the accounts accordingly; and

(vii) the adjustment for the income taxes as a result of the proforma adjustments as mentioned in (i), (ii), (iii), (iv), (v) and (vi) (if applicable) above. Specifically (1) in the case of Table 3, the Railway Department would incur income tax of RMB41.30 million for the year ended 31st December, 2000 and RMB28.61 million for six months ended 30th June, 2001; and (2) in the case of Table 4, the Railway Department would incur income tax of RMB20.82 million for the year ended 31st December, 2000 and RMB18.36 million for the six months ended 30th June, 2001.

Table 3 shows the consolidated proforma statement of income (based on IAS) assuming that no debt finance is featured.

Table 3

in RMB million (except for earnings per share which are expressed in RMB)	**The Company Pre-Acquisition**	**Railway Department historical**	**Adjustments**	**Railway Department proforma**		**The Company Post-Acquisition proforma**
Year ended 31st December, 2000						
Net Sales (net of transportation costs and sales tax)	3,599.74	307.28	0.95	308.23	(a)	3,907.97
Income Before Income Tax	1,035.65	157.63	-32.47	125.16	(ab)	1,160.81
Net Profits	748.36	105.61	-21.75	83.86	(abd)	832.22
Earnings per share	0.29					0.32
Six months ended 30th June, 2001						
Net Sales (net of transportation costs and sales tax)	2,335.43	171.00	0.53	171.53	(a)	2,506.96
Income Before Income Tax	617.62	97.97	-11.26	86.71	(ab)	704.33
Net Profits	447.00	65.64	-7.54	58.10	(abd)	505.10
Earnings per share	0.16					0.18

Table 4 shows the consolidated proforma statement of income (based on IAS) assuming that there is RMB1,000 million (approximately HK$942.51 million) long term loan at an interest rate of 6.21% per annum which is fully supported and serviced by the Railway Department.

Table 4

in RMB million (except for earnings per share which are expressed in RMB)	**The Company Pre-Acquisition**	**Railway Department historical**	**Adjustments**	**Railway Department proforma**		**The Company Post-Acquisition proforma**
Year ended 31st December, 2000						
Net Sales (net of transportation costs and sales tax)	3,599.74	307.28	0.95	308.23	(a)	3,907.97
Income Before Income Tax	1,035.65	157.63	-94.57	63.06	(abc)	1,098.71
Net Profits	748.36	105.61	-63.37	42.24	(abcd)	790.60
Earnings per share	0.29					0.30
Six months ended 30th June, 2001						
Net Sales (net of transportation costs and sales tax)	2,335.43	171.00	0.53	171.53	(a)	2,506.96
Income Before Income Tax	617.62	97.97	-42.31	55.66	(abc)	673.28
Net Profits	447.00	65.64	-28.34	37.30	(abcd)	484.30
Earnings per share	0.16					0.18

Notes for Tables 3 and 4:

(a) proforma adjustment reflecting sales tax savings of RMB0.95 million for the year ended 31st December, 2000 and RMB0.53 million for the six months ended 30th June, 2001;

(b) proforma adjustment reflecting increase of depreciation and amortization of RMB33.42 million for the year ended 31st December, 2000 and RMB11.78 million for the six months ended 30th June, 2001 arising from the revaluation of the Railway Assets;

(c) proforma adjustment of debt interest of RMB62.10 million for the year ended 31st December, 2000 and RMB31.05 million for the six months ended 30th June, 2001 arising from a long term borrowing of RMB1,000 million fully supported and serviced by the Railway Department;

(d) proforma adjustment of income taxes based on the adjustment in (a) to (c), at corporate income rate of 33%.

With the long term loan arrangement expected to be in place, it is expected that the Company is likely to contribute no more than RMB220.59 million (approximately HK$207.91 million) to the Acquisition (subject to the Adjustments), which, based on the proforma financials of the Railway Department as shown in Table 4, represents, on a historical basis, 5.2 times earnings for year 2000 (i.e., RMB42.24 million), 5.9 times of earnings for the first half of 2001 (i.e., RMB37.30 million).

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Directors believe that the terms of the Acquisition Agreement are fair and reasonable so far as the Company and the Shareholders are concerned and that the Acquisition is in the interests of the Company because:

(a) the Acquisition is consistent with the Company's stated strategy of acquiring high quality core business assets;

(b) it is expected that the Acquisition would enhance the Company's control over a key component of the principal sales and distribution channel and would provide the Company with a new and expanding source of income;

(c) the Company is no longer required to pay any payment to the Parent Company for the provision of railway transportation services resulting in enhanced independence of the Company;

(d) the Company would be able to integrate the activities of producing, transporting, selling and distributing coal products with the potential to extract cost synergies;

(e) it is expected that the Acquisition would result in an immediate increase in the earnings per share of the Company; and

(f) based on the projected growth targets of the Company in coal sales, it is expected that Acquisition would contribute to the growth of profitability of the Company and therefore enhance the value of the Company's investment.

In addition, because the Company is no longer required to pay any amount to the Parent Company for the provision of railway transportation services, and the Company is only required to pay for the cash cost of operating the Railway Assets, the FOB (Free On Board) cash cost of the Company's coal products sold via Rizhao port (a key measure of the Company's export competitiveness) will be significantly reduced. The board of Directors believe that this enhances the Company's ability to achieve its strategy in increasing export sales and strengthening its international competitiveness.

CONNECTED PARTY RELATIONSHIP

The Acquisition

As the Parent Company is the controlling shareholder of the Company holding 58.19% of its total issued share capital, the Acquisition constitutes a connected transaction of the Company under the Listing Rules and is subject to the approval of the Independent Shareholders.

On-going connected transactions

Following the Acquisition, the Parent Company will utilise a small amount of railway transportation services provided by the Company and the Company will no longer rely on the Parent Company for the provision of the such services, resulting in variations to the nature of the on-going connected transactions between the Company and the Parent Company. Accordingly, the Company has entered into the Supplemental Agreement with the Parent Company to amend the Supply Agreement, which covers the railway transportation services provided by the Company as summarised under the section headed "The Supplemental Agreement" below. The Supplemental Agreement is subject to the approval of the Independent Shareholders and is conditional upon Completion. The board of Directors currently expects that the volume of the on-going connected transaction in respect of the provision of railway transportation services by the Company to the Parent Company and/or its subsidiaries under the Supplemental Agreement falls within the de minimis provision under Rule 14.24(5) of the Listing Rules and is therefore not subject to any disclosure and/or shareholders' approval requirements. Should the volume of such on-going connected transaction in respect of any financial year of the Company exceeds the de minimis threshold as provided for under Rule 14.24 (5) of the Listing Rule, the Company will comply with the relevant requirements of the Listing Rules.

THE SUPPLEMENTAL AGREEMENT

The Supply Agreement was entered into between the Company and the Parent Company before the commencement of the listing of the H shares on the Stock Exchange and the details of which were set out in the Prospectus. The Stock Exchange has granted a waiver from strict compliance with the relevant disclosure and/or shareholders' approval requirements under the Listing Rules in relation to, inter alia, the transactions contemplated under the Supply Agreement, the conditions of which were set out in the Prospectus.

In view of the variation which will be brought about by the Acquisition on the nature of the on-going connected transactions between the Company and the Parent Company in connection with the provision of railway transportation services, on 30th October, 2001, the Company and the Parent Company entered into the Supplemental Agreement to amend the Supply Agreement.

The principal terms of the Supplemental Agreement include:

(i) deleting the relevant provisions of the Supply Agreement concerning provision of railway transportation services by the Parent Company and/or its subsidiaries to the Company; and

(ii) adding into the Supply Agreement the provision of railway transportation services as an item of services to be provided by the Company to the Parent Company and/or its subsidiaries at the State approved rate of charges.

The Supplemental Agreement is subject to the approval of the Independent Shareholders and is conditional upon Completion.

COMPANY BACKGROUND

The Company is engaged in underground mining, preparation and sales of coal. It mainly produces prime quality low sulphur coal and has extensive coal reserves and resources. It currently operates six coal mines, that is, Nantun, Xinglongzhuang, Baodian, Dongtan, Jining II and Jining III coal mines. The principal customers of the Company include electric power plants, metallurgical producers and customers located in Eastern China, which is generally more economically developed than other areas of China, and customers located in Eastern Asia region. The Company was the PRC's most profitable coal mining company in 2000 and was the largest coal producer in Eastern China with raw coal production of 28 million tonnes. The Company was also one of the PRC's largest exporters in 2000.

RECOMMENDATIONS

The Independent Board Committee, having taken into account the advice of CLSA, considers that the terms of the Acquisition Agreement and the Supplemental Agreement are fair and reasonable insofar as the Independent Shareholders are concerned and the Acquisition and the entering into of the Supplemental Agreement are in the interests of the Company and the Shareholders. Accordingly, it recommends that the Independent Shareholders vote in favour of the resolutions to approve the Acquisition and the Supplemental Agreement and the steps required on the part of the Company to implement such agreements at the Extraordinary General Meeting.

EXTRAORDINARY GENERAL MEETING

Under the Listing Rules, the Acquisition between the Company and the Parent Company constitutes a discloseable transaction for the Company. Furthermore, as the Parent Company is the controlling shareholder of the Company holding 58.19% of the total issued share capital of the Company, the Acquisition constitutes a connected transaction of the Company within the meaning of the Listing Rules. Accordingly, approval of the Acquisition from the Independent Shareholders at the Extraordinary General Meeting will be required. The Supplemental Agreement is also conditional upon the approval by Independent Shareholders. The Parent Company and its associates (as defined in the Listing Rules) who are Shareholders will abstain from voting on the resolutions to approve the Acquisition and the Supplemental Agreement.

A notice convening an Extraordinary General Meeting of the Company to be held at 8:00 a.m. on 17th December, 2001 at 2nd Floor, Conference Room, Zhong He Building, 40 Fushan Road, Zoucheng, Shandong Province 273500, the PRC, together with a copy of the announcement of the Company published on 31st October, 2001, the reply slip and the proxy form, were dispatched to the Shareholders on 1st November, 2001.

Shareholders whose names appeared on the register of members of the Company at the close of business on 16th November, 2001 are entitled to attend the Extraordinary General Meeting after completing the relevant registration procedures. The register of members of the Company is closed from 17th November, 2001 to 16th December, 2001, both days inclusive, during which period no share transfer will be registered. Transferees of H Shares who wish to attend the Extraordinary General Meeting must have delivered their instruments of transfer together with the relevant share certificates to reach the Company's H Share registrar, Hong Kong Registrars Limited, at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong by not later than 4:00 p.m. on 16th November, 2001.

FURTHER INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee on pages 23 to 24, the letter from CLSA on pages 25 to 39 and the further information set out in the Appendices.

Yours faithfully,
By order of the Board
Zhao Jingche
Chairman

YANZHOU COAL MINING COMPANY LIMITED
兗州煤業股份有限公司
(a joint stock limited company incorporated in the People's Republic of China with limited liability)

Legal Address:
40 Fushan Road, Zoucheng
Shandong Province 273500
PRC

22nd November, 2001

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
ACQUISITION OF YANKUANG GROUP'S SPECIAL PURPOSE
COAL TRANSPORTATION RAILWAY ASSETS**

We refer to the circular of the Company to the Shareholders dated 22nd November 2001 (the "Circular"), of which this letter forms part. Terms defined therein shall have the same meaning when used in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders in connection with the Acquisition and the Supplemental Agreement, details of which are set out in the Letter from the Board contained in the Circular on pages 4 to 22, as to whether, in our opinion, the Acquisition is in the interest of the Company and whether the terms of the Acquisition Agreement and the Supplemental Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

Under the Listing Rules, the Acquisition constitutes a connected transaction of the Company. Accordingly, the Acquisition will be subject to the approval of the Independent Shareholders at the Extraordinary General Meeting.

CLSA has been appointed by the Company as the independent financial adviser to advise us regarding the terms of the Acquisition Agreement and the Supplemental Agreement. We wish to draw your attention to the letter of advice by CLSA which is set out on pages 25 to 39 of the Circular. We have discussed that letter and the opinion contained in it with CLSA.

Having considered the terms of the Acquisition Agreement and the Supplemental Agreement, the interest of the Independent Shareholders, and having taken into account the advice and recommendations of CLSA contained in its letter, we are of the opinion that the terms of the Acquisition Agreement and the Supplemental Agreement are fair and reasonable. We therefore recommend that the Independent Shareholders should vote in favor of the resolutions approving the Acquisition and the Supplemental Agreement and the steps required on the part of the Company to implement such agreements.

Yours faithfully,
Yanzhou Coal Mining Company Limited
Guan Weili
Law Kin Ming, Alfred
Independent Board Committee

CLSA
EMERGING MARKETS

ASIA • EMERGING EUROPE • LATIN AMERICA

22 November, 2001

To the Independent Board Committee of
Yanzhou Coal Mining Company Limited

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION
ACQUISITION OF YANKUANG GROUP'S SPECIAL PURPOSE COAL TRANSPORTATION RAILWAY ASSETS

We refer to our engagement under which CLSA Equity Capital Markets Limited ("CLSA") has been appointed to advise the Independent Board Committee in connection with the terms of the Acquisition (including the Supplemental Agreement). Pursuant to the Listing Rules, the Acquisition constitutes a discloseable and a connected transaction of the Company and is subject to the approval of the Independent Shareholders at the Extraordinary General Meeting. Following the completion of the Acquisition, it is anticipated that the Parent Company may utilise a small amount of the railway transportation services provided by the Company and the Company will no longer rely on the Parent Company for the provision of such services, resulting in variations to the nature of the on-going connected transactions between the Company and the Parent Company. Accordingly, the Company entered into the Supplemental Agreement with the Parent Company to amend the Supply Agreement and such Supplemental Agreement is subject to the approval of the Independent Shareholders and is conditional upon Completion. Details of the Acquisition and the Supplemental Agreement are set out in the Letter from the Board included in the circular dated 22 November, 2001 (the "Circular") issued by the Company to the Shareholders. This letter has been prepared for inclusion in the Circular and terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

In our capacity as independent financial adviser to the Independent Board Committee, our role is to give an independent opinion as to whether the terms of the Acquisition and the Supplemental Agreement are fair and reasonable insofar as the Independent Shareholders are concerned.

In formulating our opinion, we have relied on the information, opinions and facts supplied, and representations made to us by the Company (including those contained or referred to in the Circular) and have assumed that all such information, opinions, facts and representations are true and accurate. We have relied on the appraisals, opinions, projections, forecasts, analyses, reports and valuations made by Sallmanns (Far East) Limited, 山東正源和信有限責任會計師事務所 and 濟寧仁和土地評估事務所 in connection with the Railway Assets. We have relied on certain information available to the public and have assumed such information to be accurate and reliable, and we have not independently verified the accuracy of such information. Further, we have relied on the representations of the Directors that they have made all reasonable inquiries, and to the best of their knowledge and belief, that there are no other facts, the omission of which would make any statement contained in the Circular untrue or misleading. We have also assumed that statements and representations made or referred to in the Circular were accurate at the time they were made and continue to be accurate at the date of despatch of the Circular.

We consider that we have reviewed sufficient information to enable us to reach an informed view regarding the terms of the Acquisition and the Supplemental Agreement and to provide us with a reasonable basis for our opinion. We have not made any independent evaluation or appraisal of, nor have we conducted any form of independent investigation into the Railway Assets, or the business affairs or assets and liabilities of the Company. Additionally, we did not conduct any physical inspection of the Railway Assets and the properties, assets or facilities of the Company. It is not within our terms of reference to comment on the commercial feasibility of the Acquisition and the Supplemental Agreement, which remains the responsibility of the Directors. As the independent financial adviser to the Independent Board Committee, we have not been involved in the negotiations in respect of the terms of the Acquisition and the Supplemental Agreement. Our opinion with regard to the terms thereof has been made on the assumption that all obligations to be performed by each of the parties to the Acquisition and the Supplemental Agreement.

Our opinion is necessarily based upon market, economic and other conditions as they existed and could be evaluated on, and on the information publicly available to us as of the date of the opinion. We have no obligation to update this opinion to take into account events occurring after the date that this opinion is delivered to the Independent Board Committee. As a result, circumstances could develop prior to completion of the Acquisition that, if known at the time we rendered our opinion, would have altered our opinion.

CLSA is a registered investment adviser under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and together with its affiliates provide a full range of investment banking and broking services. CLSA has acted as the independent financial advisor for the Company in the past and has been compensated for such services. We will receive a fee from the Company for rendering this opinion.

Where amounts of Hong Kong dollars contained in this letter have been derived from Renminbi, such translations are for the convenience of the reader only, and except as otherwise indicated, have been made at a rate of RMB1.061 to HK$1.00. No representation is made that Renminbi amounts could have been or could be converted into Hong Kong dollars at this rate or at all.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion with regard to the terms of the Acquisition and the Supplemental Agreement, we have considered the principal factors and reasons set out below. None of these factors or reasons considered by us was assigned a greater significance than any other. We did not form a conclusion as to whether any individual factor or reason, considered in isolation, supported or failed to support our opinion. Rather, in reaching our conclusion, we have considered the results of the analyses in light of each other and ultimately reached our opinion based on the results of all analyses taken as whole.

1. The Acquisition Agreement

On 30 October, 2001, the Directors announced that the Company had entered into the Acquisition Agreement, pursuant to which, the Company had conditionally agreed to purchase the Railway Assets from the Parent Company at a consideration of RMB1,220.59 million (approximately HK$1,150.41 million), subject to the Adjustments. Details of the Acquisition, information on the Railway Assets and details of the adjustment mechanism for the purchase consideration are set out in the Letter from the Board contained in the Circular.

The total consideration for the Acquisition shall be paid in cash without interest in several parts, details of which are set out in the Letter from the Board contained in the Circular.

2. Interest to be acquired

As stated in the Letter from the Board contained in the Circular, the Railway Assets comprise a railway transportation network linking the coal mines of both the Company and the Parent Company with the principal national railway connections and Zouxian power station. The Railway Assets principally comprise a special purpose coal transportation railway track of approximately 184 km in length, 16 steam locomotives and 469 railway wagons, together with all rights (present and future) in connection therewith. The Railway Department employs approximately 3,846 employees. Under the Supply Agreement, the Company currently utilises the services of the Railway Department to transport its coal products and other materials.

During the first half of 2001, the Railway Department transported 9.4 million tonnes of coal and is expected to transport 22 million tonnes of coal for the full year. For the six months ended 30 June, 2001, the Railway Department had net sales and net income of approximately RMB171.00 million (approximately HK$161.17 million) and RMB65.64 million (approximately HK$61.87 million), respectively. For the year ended 31 December, 2000, the Railway Department had net sales and net income of approximately RMB307.28 million (approximately HK$289.61 million) and RMB105.61 million (approximately HK$99.54 million), respectively.

Further details relating to the Railway Assets are set out in the Letter from the Board contained in the Circular.

3. Funding of the Acquisition

The consideration of the Acquisition is intended to be funded out of the Company's internal cash resources and long-term bank loans. Subsequent to the announcement of the Acquisition dated 30 October, 2001, the Company has secured a letter of intent from a domestic bank in the PRC indicating that a long term loan facility of up to RMB1,200.00 million (approximately HK$1,131.00 million) will be made available to the Company at an interest rate of 6.21 per cent. per annum for the funding of the Acquisition. The Company intends to borrow approximately RMB1,000.00 million (approximately HK$942.51 million).

We note that there will be no issue of new shares for the purpose of the Acquisition. As a result, the existing shareholding structure of the Company will not be affected.

4. Consideration and valuation

The consideration for the acquisition of the Railway Assets was negotiated on an arm's length basis between the Company and the Parent Company and comprises the base purchase price and the Adjustments.

4.1 Base purchase price

The base purchase price of RMB1,220.59 million (approximately HK$1,150.41 million) ("Base Purchase Price") was determined following arms' length negotiations between the Company and the Parent Company with reference to the valuation of the Railway Assets as at 30 June, 2001 as jointly assessed by 山東正源和信有限責任會計師事務所, a State-approved independent PRC valuer (the "PRC Valuer") and Sallmanns (Far East) Limited, a State-approved independent international valuer (the "International Valuer") and confirmed by the Shandong Provincial Finance Bureau. The land use rights were assessed by 濟寧仁和土地評估事務所, a State-approved independent land valuer, and the results were adopted by the PRC Valuer in its valuation report. The International Valuer has also assessed the property, plant and machinery of the Railway Assets as at 30 September, 2001.

We note the difference between the valuations of the PRC Valuer and the International Valuer of approximately RMB121.61 million (approximately HK$114.62 million) together with the reasons mentioned in the Letter from the Board for such differences and have no reason to believe that such differences are not reasonable.

Details of the valuations by the International Valuer with the corresponding bases and assumptions are set out in the property valuation report and the plant and machinery valuation report as contained in Appendices I and II to the Circular, respectively.

4.2 Adjustments to the Base Purchase Price

Upon Completion, the Base Purchase Price shall be adjusted with reference to the difference between the asset value of the Railway Assets as determined on the date before Completion and audited by the accountants as specified by the Company and that on the Valuation Date.

In addition, if the annual volume of coal transported by the Railway Assets reaches the volume milestone targets of 25 million tonnes, 28 million tonnes and 30 million tonnes for the years 2002, 2003 and 2004, respectively, the Company shall pay the Parent Company an annual adjustment in the sum of RMB40 million (approximately HK$37.70 million) for the relevant period.

Details of the adjustment mechanism are set out in the section headed "The Acquisition Agreement – Consideration and payment terms – Adjustments" in the Letter from the Board contained in the Circular.

4.3 Valuation

In formulating our opinion, we have considered various commonly accepted valuation methodologies, which comprise the acquisition multiples method and the market multiples method.

(i) Recent acquisitions within the freight railway industry

Set out below are details of a number of recent acquisitions within the freight railway industry. These transactions have been selected as they are the most recent acquisitions involving the sale and purchase of freight railways for which information is readily available to us. We note that there have been no acquisitions of freight railways in the PRC for which public information is readily available to us since the start of 1999. Accordingly, we have reviewed acquisitions in Canada, Estonia and the United States, which we consider to be comparable.

Effective Date [1]	Target Name	Target Nation	% of Shares Acquired	Price [3]/ Earnings [11]	Price [3]/ EBITDA [4]	Price [3]/ Book Value [5]	Enterprise Value [6]/ Earnings [11]	Enterprise Value [6]/ EBITDA [4]	Enterprise Value [6]/ Book Value [5]
			%	x	x	x	x	x	x
Oct-01	StatesRail	United States	100%	N/A	6.43	N/A	N/A	6.43	N/A
Aug-01	Estonian State Railway	Estonia	66%	89.86	8.33	2.70	104.27	9.67	3.13
Oct-01	South Buffalo Railway	United States	100%	N/A	4.94	N/A	N/A	5.43	N/A
Jan-01	Wisconsin Central	Canada	100%	17.70	6.72	1.70	26.27	9.98	2.52
Dec-99	RailTex Inc.	United States	100%	15.12	4.61	1.25	26.19	7.98	2.16
Jul-99	RailLink Ltd.	Canada	100%	18.52	5.27	0.96	27.04	7.69	1.41
Max (w/o outliner) [13]				18.52	6.72	1.70	27.04	9.67	2.52
Min (w/o outliner) [13]				17.70	4.94	1.25	26.27	6.43	2.16
Mean (w/o outliner) [13]				18.11	5.84	1.47	26.65	7.94	2.34
N/A	Railway Assets (Case I) [15]	PRC	100%	11.56[9, 11]	6.71[8, 9]	1.00[7, 9]	11.55[6, 11]	6.71[6, 8]	1.00[6, 7]
	Railway Assets (Case II) [16]			12.69[9, 10, 11]	7.37[8, 9, 10]	1.10[7, 9, 10]	12.69[6, 10, 11]	7.37[6, 8, 10]	1.10[6, 7, 10]

Source: Thomson Financial, Bloomberg and various brokers' reports

Notes:

For the purpose of comparison only:

1. Effective Date refers to the date of completion of the transactions except for RailTex Inc., which refers to the date of announcement.

2. The ratios have been calculated based upon the latest publicly available information obtained directly from Bloomberg, various other brokers reports, companies' annual reports and web-sites, except for Estonian State Railway where the company's December 1998 annual report has been used.

3. Price refers to the acquisition cost divided by the percentage of the acquired equity interests (i.e. percentage of shares acquired).

4. EBITDA refers to earnings before interest, tax, depreciation and amortisation as according to the latest publicly available information.

5. Book Value refers to net book value (total assets minus total liabilities) as according to the latest publicly available information.

6. Enterprise Value refers to the sum of (i) acquisition cost divided by the percentage of acquired equity interests (except for Railway Assets (Case I) where the acquisition cost refers to the Base Purchase Price and Railway Assets (Case II) where the acquisition cost refers to the summation of the Base Purchase Price and the annual adjustment mention in note 10 below), (ii) net indebtedness (short and long term indebtedness minus cash and cash equivalent), (iii) minority interests and (iv) preferred equity, as according to the latest publicly available information.

7. In calculating the Book Value for the Railway Assets, we have used the valuation of the Railway Assets (including the land use rights, property, machinery and equipment) as at 30 June, 2001 as jointly assessed by the PRC Valuer and the International Valuer and confirmed by the Shandong Provincial Finance Bureau.

8. In calculating the EBITDA for the Railway Assets, we have used the figures for the year ended 31 December, 2000.

9. The Price for the Railway Assets refers to the Base Purchase Price and assumes 100% of this cost will be paid by cash (i.e. we have not taken into account the proposed long-term bank loan to be provided by a domestic bank in the PRC as mentioned in section 3 of this letter).

10. In reflecting the annual adjustment in an amount of RMB40.00 million for the payment to the Parent Company in the event that the coal transportation volume of the Railway Assets reaches the required milestone targets during the years 2002, 2003, and 2004, we have included these payments as the additional acquisition cost (i.e. adjustment to the Base Purchase Price) for the purpose of comparison.

11. Earnings refer to net profits excluding extraordinary items minus minority interests according to the latest publicly available information.

12. The exchange rates of Estonian Kroon to U.S. Dollar, Canadian Dollar to U.S. Dollar, Hong Kong Dollar to U.S. Dollar of 17.06, 1.51 and 7.78, respectively, have been used. All of these rates were based on the prevailing rates published on Bloomberg as at the Effective Date of the respective transactions.

13. Max (w/o outliner), Min (w/o outliner) and Mean (w/o outliner) refer to the maximum value, minimum value and simple average, after taking out in each case the extreme maximum and minimum values of the relevant comparable transactions.

14. N/A means not available.

15. Assumes that the total consideration paid for the Acquisition equals to the Base Purchase Price.

16. Assumes that the total consideration paid for the Acquisition comprises the Base Purchase Price and the three annual adjustments in a total amount of RMB120 million as mentioned in note 10 above.

For the purpose of comparison only, we have looked at Price to Earnings, Price to EBITDA, Price to Book Value, Enterprise Value to Earnings, Enterprise Value to EBITDA and Enterprise Value to Book Value, which are the most commonly used ratios in comparing the valuation of freight railway companies involving mergers & acquisitions.

- Price to Earnings $= \dfrac{\text{Acquisition cost/Percentage of Acquired Interests}}{\text{Net Profits}}$
- Price to EBITDA $= \dfrac{\text{Acquisition cost/Percentage of Acquired Interests}}{\text{EBITDA}}$
- Price to Book Value $= \dfrac{\text{Acquisition cost/Percentage of Acquired Interests}}{\text{Net Asset Value}}$
- Enterprise Value to Earnings $= \dfrac{\text{Enterprise Value}}{\text{Net Profits}}$
- Enterprise Value to EBITDA $= \dfrac{\text{Enterprise Value}}{\text{EBITDA}}$
- Enterprise Value to Book Value $= \dfrac{\text{Enterprise Value}}{\text{Net Asset Value}}$

The respective range for each of the ratios for the international comparables (after taking out the extreme maximum and minimum values) for the above acquisitions together with the comparable ratios of the Railway Assets are presented below:

Ratios	**International Comparables**	**Railway Assets (Case I)** [15]	**Railway Assets (Case II)** [16]
	x	*x*	*x*
Price to Earnings	17.70 to 18.52	11.56	12.69
Price to EBITDA	4.94 to 6.72	6.71	7.37
Price to Book Value	1.25 to 1.70	1.00	1.10
Enterprise Value to Earnings	26.27 to 27.04	11.55	12.69
Enterprise Value to EBITDA	6.43 to 9.67	6.71	7.37
Enterprise Value to Book Value	2.16 to 2.52	1.00	1.10

For the purpose of comparison only, we have calculated an implied valuation range for the Railway Assets on the basis of these ratios of the above acquisitions. This implied valuation range is calculated by using the following formula:

Implied Valuation = Trading multiples of the comparable transactions × the relevant financial data of the Railway Assets

The implied valuation of the Railway Assets would be within a range of RMB898.30 million (approximately HK$846.65 million) to RMB3,071.80 million (approximately HK$2,895.19 million).

(ii) Listed freight railway companies

Set out below are details of comparable listed companies that are engaged in the freight railway business. We have considered companies from Canada, India, New Zealand, the PRC and the United States, which we consider to be comparable.

Company Name	Company Nation	Price [2]/ Earnings [3]	Price [2]/ EBITDA [4]	Price [2]/ Book Value [5]	Enterprise Value [6]/ Earnings [3]	Enterprise Value [6]/ EBITDA [4]	Enterprise Value [6] Book/ Value [5]
		x	*x*	*x*	*x*	*x*	*x*
			International Comparables				
Canadian National Railway	Canada	17.46	8.44	2.36	23.45	11.34	3.18
Contaniner Corp of India	India	4.11	2.72	1.15	2.81	1.86	0.78
Gensee & Wyoming	United States	14.34	4.79	1.72	23.17	7.73	2.78
Kansas City Southern Inds	United States	32.25	7.19	1.29	58.21	12.98	2.33
Tranz Rail Holding	New Zealand	11.34	4.84	1.11	16.97	7.25	1.66
			PRC Comparable				
Guangshen Railway Co	PRC	11.87	7.64	0.58	8.28	5.33	0.41
Max (w/o outliner)[12]		17.46	7.64	1.72	23.45	11.34	2.78
Min (w/o outliner)[12]		11.34	4.79	1.11	8.28	5.33	0.78
Mean (w/o outliner)[12]		13.75	6.12	1.32	17.97	7.91	1.89
Railway Assets (Case I)[13]	**PRC**	**11.56**[7, 9]	**6.71**[7, 9]	**1.00**[7, 8]	**11.55**[6, 7, 9]	**6.71**[6, 7, 9]	**1.00**[6, 7, 8]
Railway Assets (Case II)[14]		**12.69**[7, 9, 10]	**7.37**[7, 9, 10]	**1.10**[7, 8, 10]	**12.69**[6, 7, 9, 10]	**7.37**[6, 7, 9, 10]	**1.10**[6, 7, 8, 10]

Source: Bloomberg and annual reports of the respective companies

Notes:

For the purpose of comparison only:

1. The ratios have been calculated based on the respective market capitalisation (share price x total shares outstanding) of the companies as at the Latest Practicable Date and the companies' financial data from the respective latest publicly available information.

2. Price refers to the market capitalisation as at the Latest Practicable Date.

3. Earnings refer to net profits excluding extraordinary items minus minority interests according to the latest publicly available information.

4. EBITDA refers to earnings before interest, tax, depreciation and amortisation according to the latest publicly available information.

5. Book Value refers to net book value (total assets minus total liabilities) according to the latest publicly available information.

6. Enterprise Value refers to the sum of (i) market capitalisation as at the Latest Practicable Date, (ii) net indebtedness (short and long term indebtedness minus cash and cash equivalent), (iii) minority interests and (iv) preferred equity, according to the latest publicly available information.

7. We have assumed the Base Purchase Price for the Acquisition to be the market capitalisation value of the Railway Assets (Case I) and have assumed that 100% of this cost will be paid by cash (i.e. we have not taken into account the proposed long-term bank loan to be provided by a domestic bank in the PRC as mentioned in section 3 of this letter).

8. In calculating the Book Value of the Railway Assets, we have used the valuation of the Railway Assets (including the land use rights, property, machinery and equipment) as at 30 June, 2001 as jointly assessed by the PRC Valuer and the International Valuer and confirmed by the Shandong Provincial Finance Bureau.

9. Based on the EBITDA and net profits of the Railway Assets for the year ended 31 December, 2000.

10. In reflecting the annual adjustment in an amount of RMB40.00 million for the payment to the Parent Company in the event that the coal transportation volume of the Railway Assets reaches the required milestone targets during the years 2002, 2003, and 2004, we have included these payment as the additional acquisition cost (i.e. adjustment to the Base Purchase Price) for the purpose of comparison.

11. The exchange rates of Canadian Dollar to U.S. Dollar, Indian Rupee to U.S. Dollar, New Zealand Dollar to U.S. Dollar, and Hong Kong Dollar to U.S. Dollar of 1.60, 47.99, 2.41 and 7.78, respectively, have been used.

12. Max (w/o outliner), Min (w/o outliner) and Mean (w/o outliner) refer to the maximum value, minimum value and simple average, after taking out in each case the extreme maximum and minimum values.

13. Assume that the total consideration paid for the Acquisition equals to the Base Purchase Price.

14. Assume that the total consideration paid for the Acquisition comprises the Base Purchase Price and the three annual adjustments in a total amount of RMB120 million as mentioned in note 10 above.

For the purpose of comparison only, we have looked at Price to Earnings, Price to EBITDA, Price to Book Value, Enterprise Value to Earnings, Enterprise Value to EBITDA and Enterprise Value to Book Value, which are the most commonly used ratios in comparing the valuation of public listed freight railway companies.

- Price to Earnings $= \dfrac{\text{Market Capitalisation}}{\text{Net Profits}}$
- Price to EBITDA $= \dfrac{\text{Market Capitalisation}}{\text{EBITDA}}$
- Price to Book Value $= \dfrac{\text{Market Capitalisation}}{\text{Net Asset Value}}$
- Enterprise Value to Earnings $= \dfrac{\text{Enterprise Value}}{\text{Net Profits}}$
- Enterprise Value to EBITDA $= \dfrac{\text{Enterprise Value}}{\text{EBITDA}}$
- Enterprise Value to Book Value $= \dfrac{\text{Enterprise Value}}{\text{Net Asset Value}}$

The respective range for each of the ratios for the international and PRC comparables (after taking out the extreme maximum and minimum values) for the above comparable listed companies together with the comparable ratios for the Railway Assets are presented below.

Ratios	**International Comparables**	**PRC Comparable**	**Railway Assets (Case I)** (13)	**Railway Assets (Case II)** (14)
	x	*x*	*x*	*x*
Price to Earnings	11.34 to 17.46	11.87	11.56	12.69
Price to EBITDA	4.79 to 7.64	7.64	6.71	7.37
Price to Book Value	1.11 to 1.72	0.58	1.00	1.10
Enterprise Value to Earnings	8.28 to 23.45	8.28	11.55	12.69
Enterprise Value to EBITDA	5.33 to 11.34	5.33	6.71	7.37
Enterprise Value to Book Value	0.78 to 2.78	0.41	1.00	1.10

For the purpose of comparison only, we have calculated an implied valuation range for the Railway Assets on the basis of these ratios of the above comparable listed companies. This implied valuation range is calculated by using the following formula:

Implied Valuation = Trading multiples of the listed companies × the relevant financial data of the Railway Assets

The implied valuation of the Railway Assets would be within a range of RMB870.13 million (approximately HK$820.11 million) to RMB3,388.00 million (approximately HK$3,193.21 million).

5. Financial impact of the Acquisition

5.1 Assets

Prior to giving effect to the Acquisition, the Company's consolidated balance sheet as at 30 June, 2001 had total non-current asset of RMB7,693.34 million (approximately HK$7,251.02 million). Following the Acquisition, the proforma combined total non-current assets of the Company will increase by approximately RMB1,099.22 million (approximately HK$1,036.02 million), representing an increase of approximately 14.29 per cent.

5.2 Gearing

According to the Company's unaudited interim results for the six months ended 30 June, 2001, the Company had total bank balances and cash of RMB1,204.90 million (approximately HK$1,135.62 million), shareholder's equity of RMB8,532.59 million (approximately HK$8,042.02 million), non-current liabilities of RMB639.70 million (approximately HK$602.92 million) and had no long-term bank borrowings as at 30 June, 2001.

Assuming that no long-term debt financing is needed and the Base Purchase Price (before the Adjustments) of RMB1,220.59 million (approximately HK$1,150.41 million) is fully funded by its internal cash resources, the Company's net gearing (total debt (interest and non-interest bearing debt plus non-current liabilities) less total bank balances and cash divided by shareholders' equity) would increase from zero to approximately 7.50 per cent and total gearing (total debt (interest and non-interest bearing debt plus non-current liabilities) divided by shareholders' equity) would remain to be approximately 7.50 per cent following the Acquisition.

Assuming that the Base Purchase Price (before the Adjustments) of RMB1,220.59 million (approximately HK$1,150.41 million) is required to be funded by the long-term bank borrowing of RMB1,000.00 million (approximately HK$942.51 million), the Company's net gearing (total debt (interest and non-interest bearing debt plus non-current liabilities) less total bank balances and cash divided by shareholders' equity) would increase from zero to approximately 7.68 per cent and total gearing (total debt (interest and non-interest bearing debt plus non-current liabilities) divided by shareholders' equity) would increase from approximately 7.50 per cent. to approximately 19.22 per cent. following the Acquisition.

The calculations above have not taken into account of (1) the deferred payment in the amount of RMB473.38 million (approximately HK$446.16 million) due by 31 December 2001, which is resulted from the Jining III coal mine acquisition announced on 7 August 2000; and (2) the additional cash generated by the Company and the Railway Assets from 1 July 2001 to the Latest Practicable Date.

5.3 Earnings

We note that the board of Directors believes that the Acquisition will have an immediate positive earnings contribution to the Company. We have discussed with the Directors regarding their bases and assumptions for this statement and have no reason to believe that such bases and assumptions are not fair and reasonable.

According to the consolidated proforma statement of income (assuming no debt financing) as set out in the Letter from the Board contained in the Circular, the net profits of the Company for the year ended 31 December, 2000 both before and after the Acquisition is RMB748.36 million (approximately HK$705.33 million) and RMB832.22 million (approximately HK$784.37 million), respectively, representing an increase of approximately 11.21 per cent. The net profits of the Company for the six months ended 30 June, 2001 both before and after the Acquisition is RMB447.00 million (approximately HK$421.30 million) and RMB505.10 million (approximately HK$476.06 million), respectively, representing an increase of approximately 13.00 per cent.

According to the consolidated proforma statement of income (assuming debt financing of RMB1,000.00 million (approximately HK$942.51 million)) as set out in the Letter from the Board contained in the Circular, the net profits of the Company for the year ended 31 December, 2000 both before and after the Acquisition is RMB748.36 million (approximately HK$705.33 million) and RMB790.60 million (approximately HK$745.15 million), respectively, representing an increase of approximately 5.64 per cent. The net profits of the Company for the six months ended 30 June, 2001 both before and after the Acquisition is RMB447.00 million (approximately HK$421.30 million) and RMB484.30 million (approximately HK$456.46 million), respectively, representing an increase of approximately 8.34 per cent.

Details of the earnings impact are set out in the section headed "Financial Impact of the Acquisition – Earnings impact of the Acquisition" in the Letter from the Board contained in the Circular.

Prior to giving effect to the Acquisition, the Company's return on equity (net profits divided by shareholders' equity) is approximately 8.77 per cent. based on the Company's shareholders' equity of RMB8,532.59 million (approximately HK$8,042.02 million) as of 30 June, 2001 and the net profits for the year ended 31 December, 2000. Following the Acquisition and assuming no debt financing, the Company's return on equity will increase to approximately 9.75 per cent. Following the Acquisition and assuming debt financing of RMB1,000.00 million (approximately HK$942.51 million), the Company's return on equity will increase to approximately 9.27 per cent.

5.4 On-going connected transactions

Prior to the Acquisition, the Railway Assets are owned and operated by the Parent Company by which the Parent Company provides railway transportation services to the Company. The amount of connected transactions between the Company and the Parent Company in relation to such transportation services was significant. According to the audited financial statements of the Company, the Company paid RMB173.18 million (approximately HK$163.22 million), RMB168.04 million (approximately HK$158.38 million) and RMB209.84 million (approximately HK$197.76 million) to the Parent Company for the railway transportation services provided by the Parent Company for the three years ended 31 December 1998, 1999 and 2000, respectively. Following the completion of the Acquisition, the Company will no longer rely on the Parent Company for the provision of such services, resulting in enhanced independence of the Company and significant reduction in the amount of connected transactions.

6. The Supplemental Agreement

Following the completion of the Acquisition, it is anticipated that the Parent Company may utilise a small amount of the railway transportation services provided by the Company and the Company will no longer rely on the Parent Company for the provision of such services, resulting in variations to the nature of the on-going connected transactions between the Company and the Parent Company. Accordingly, the Company entered into the Supplemental Agreement with the Parent Company to amend the Supply Agreement and such Supplemental Agreement is subject to the approval of the Independent Shareholders and is conditional upon Completion. In addition, the Parent Company does not have any priorities over the usage of the Railway Assets following the completion of the Acquisition.

We note that the board of Directors expects that the volume of the on-going connected transaction in respect of the provision of railway transportation services by the Company to the Parent Company and/or its subsidiaries under the Supplemental Agreement falls within the de minimus provision under Rule 14.24(5) of the Listing Rules and is therefore not subject to any disclosure and/or shareholders' approval requirements. Details of the Supplemental Agreement are set out in the Letter from the Board of the Circular.

We have discussed with the Directors regarding their bases and assumptions in relation to the terms of the Supplemental Agreement and have no reason to believe that such bases and assumptions are not fair and reasonable.

OPINION

Having considered the above-mentioned principal factors, we are of the opinion that the terms of each of the Acquisition and the Supplemental Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

Yours faithfully,
For and on behalf of
CLSA Equity Capital Markets Limited
Tim Ferdinand
Managing Director

The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this circular received from Sallmanns (Far East) Limited, an independent valuer, in connection with their valuations as at 30 September 2001 of the property occupied by Yankuang Group Corporation Ltd.

Sallmanns 西門

CHARTERED SURVEYORS, PROPERTY CONSULTANTS
LAND, BUILDING, PLANT & MACHINERY VALUERS
FINANCIAL AND INTANGIBLE ASSET VALUERS

15/F Trinity House
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22 November 2001

The Directors
Yanzhou Coal Mining Company Limited
No. 40 Fushan Road
Zoucheng City
Shandong Province 273500
The PRC

Dear Sirs,

In accordance with your instructions to value the property which Yanzhou Coal Mining Company Ltd. (the "Company") intends to acquire from Yankuang Group Corporation Limited (the "Parent Company"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of the relevant property as at 30 September 2001.

Due to a lack of evidence of comparable transactions, we are unable to attribute open market value, and therefore our valuation is our opinion of the property's fair market value. Fair market value is defined as the estimated amount at which the subject assets in their continued use might be expected to be purchased and sold between a willing buyer and a willing seller, neither being under compulsion, each having a reasonable knowledge of all relevant facts, with equity to both, for continuation of the current operation as part of an on-going business.

Where due to the nature of the buildings and structures constructed on the property, there are no market sales comparables, the property has been valued on the basis of it's depreciated replacement cost. Depreciated replacement cost is defined as "the aggregate amount of the value of the land for the existing use or a notional replacement site in the same locality, and the gross replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for the age, condition, economic or functional obsolescence and environmental factors etc; all of these might result in the existing property being worth less to the undertaking in occupation than would a new replacement." This opinion of value does not necessarily represent the amount that might be realized from the disposal of the subject assets in the open market, and this basis has been used due to the lack of an established market upon which to base comparable transactions. However, this approach generally furnishes the most reliable indication of value for a property without a known used market.

In valuing the property, we have complied with all the requirements contained in Practice Note 12 to the Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong Limited.

We have been shown copies of various title documents including Land Use Rights Certificates and official site plans relating to the property and have made relevant enquiries where possible. Due to the nature of the land registration system in the PRC, we have not examined the original documents to verify the existing title of the property or any material encumbrances that might be attached to the property. We are not in a position to advise you on the Parent Company's title to the property.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the relevant property but have assumed that the site areas shown on the documents and official site plans handed to us are correct. Based on our experience of valuation of similar properties in the PRC, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions measurements and areas are approximations. No on-site measurements have been taken.

We have inspected the exterior and, where possible, the interior of the property included in the attached valuation certificate, in respect of which we have been provided with such information, as we have required for the purpose of our valuation. However, no structural survey has been made, but in the course of our inspection we did not note any apparent serious defects. We are not, however, able to report that the property is free from rot, infestation or any other structural defects. No tests were carried out to any of the services.

No allowance has been made in our valuation report for any charges, mortgages or amounts owing on the property nor for any expenses or taxation, which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions, and outgoings of an onerous nature, which could affect its value.

We have relied to a considerable extent on the information provided by the Parent Company and the legal opinion of the Company's PRC legal adviser, King & Wood PRC Lawyers, and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupation, letting, rentals, site and floor areas and all other relevant matters.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Parent Company. We have also sought and received confirmation from the Parent Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts stated are in Renminbi (RMB).

Our valuations are summarized below and the valuation certificate is attached.

For and on behalf of
SALLMANNS (FAR EAST) LIMITED
Paul L. Brown
BSc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has18 years' of experience in the valuation of properties in the PRC and 21 years' of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

Property to be acquired by the Company

	Property	**Fair Market Value in existing state as at 30 September 2001** *RMB*
1.	Land, various buildings and structures of the Railway Transportation Plant Jining City Shandong Province The PRC	1,012,984,000

VALUATION CERTIFICATE

Property to be acquired by the Company in the PRC

Property	Description and tenure	Particulars of occupancy	Fair Market value in existing state as at 30 September 2001 *RMB*
1. Land, various buildings and structures of the Railway Transportation Plant Jining City Shandong Province The PRC	The property comprises 255 various buildings and 333 various structures erected on a parcel of land with an area of approximately 2,537,000 sq.m. The total gross floor area of the buildings is approximately 83,775sq.m.. The buildings and structures were completed in various stages between 1983 and 2001. The major buildings erected on the site include office buildings, warehouses, repair rooms, dining rooms, turbine rooms, water storage rooms, canteen, etc. Main structures include a railway line, fire control pools, walls, pipelines, water pools, water wells, etc. The railway line has a total length of approximately 184 kilometers of which, 118 kilometers was completed in 1989 and the rest was completed in 1999.	The property is currently occupied and operated by the Parent Company for transportation purposes.	1,012,984,000

Notes:

1. According to a Railway Asset Acquisition Agreement (the "Agreement") dated 30 October 2001 entered into between the Company and the Parent Company, it was agreed that the land use rights of the property together with the buildings and structures erected on the land will be transferred from the Parent Company to the Company. The total consideration of the acquisition is RMB 1,220,590,000, subject to adjustments.

2. According to the Agreement, it was stated that the transfer of the subject assets is conditional upon, among other things:–

   (a) all necessary approvals in respect of the transaction being granted to both parties by the relevant authorities of the PRC;

   (b) the Agreement being approved by the independent shareholders of the Company at an extraordinary general meeting to be held on 17 December 2001.

   The above conditions shall be fulfilled by 30 June 2002.

3. According to an opinion given by the Company's PRC legal advisers, King & Wood PRC Lawyers, the land use rights owned by the Parent Company in relation to the property are evidenced by 14 State-owned Land Use Rights Certificates.

4. As stated in the opinion given by the PRC legal advisers, according to a Document (Lu Guo Tu Zi Zi [2001] No.265) issued by the Land and Resources Bureau of Shandong Province, the Parent Company can transfer the land use rights to the Company after completion of procedure for transferring such land use rights.

5. According to 16 Building Ownership Certificates issued by the Real-estate Administration Bureau of Zoucheng City, 169 buildings with a gross floor area of approximately 49,040 sq.m. are owned by the Parent Company.

   According to the Company's PRC legal advisers' opinion, the building ownership of the 169 buildings is legally vested in the Parent Company and can be transferred by the Parent Company without any material legal impediment

6. For the remaining 86 buildings with a total gross floor area of approximately 34,734sq.m., the Parent Company has not obtained Building Ownership Certificates. However, a Title Document dated 20 September 2001 has been issued to the Parent Company by the Real-estate Administration Bureau of Zoucheng City.

   According to the opinion given by the Company's PRC legal advisers, the building ownership of the 86 buildings is evidenced by the Title Document and the subject Building Ownership Certificates in relation to the 86 buildings will be obtained by the end of 2001. There is no material legal impediment for the Parent Company to obtain such Building Ownership Certificates.

7. For the purpose of this report and as instructed by the Company, our valuation has been made on the assumption that:

   (a) all the Granted Land Use Rights Certificates and Building Ownership Certificates of the property have been issued to the Parent Company;

   (b) the property can be transferred, sub-let or mortgaged by the Parent Company without paying any additional premium; and

   (c) all required approvals necessary for the occupation and use of the property have been duly obtained and are in full force and effect.

The following is the text of a letter from Sallmanns (Far East) Limited, an independent plant and machinery valuer, in connection with their opinion of the value of the machinery and equipment as at 30 September 2001, prepared for the purpose of incorporation in this circular.

Sallmanns 西門

CHARTERED SURVEYORS, PROPERTY CONSULTANTS
LAND, BUILDING, PLANT & MACHINERY VALUERS
FINANCIAL AND INTANGIBLE ASSET VALUERS

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22 November 2001

The Directors
Yanzhou Coal Mining Company Limited
40 Fushan Road
Zoucheng
Shandong Province 273500
PRC

Dear Sirs,

In accordance with your instructions, we have conducted a valuation of machinery and equipment exhibited to us as those held by Yankuang Group Corporation Ltd. (the "Parent Company"), in which Yanzhou Coal Mining Company Limited (the "Company") intends to acquire. We confirm that we have carried out inspections, made relevant inquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the fair market value of the machinery and equipment as at 30 September 2001 for continuation of the current operation as part of an on-going concern.

We have valued the machinery and equipment on the basis of their Fair Market Value which is defined as the estimated amount at which the subject assets in their continued use might be expected to be purchased and sold between a willing buyer and a willing seller, neither being under compulsion, each having a reasonable knowledge of all relevant facts, with equity to both and contemplating the retention of the facilities at their present location for continuation of the business concern. This opinion of fair market value is not related to the earning capacity of the business. We have assumed that prospective earnings would provide a reasonable return to the machinery and equipment valued, plus the value of other assets not included in this valuation, and adequate working capital.

This summary report forms part of the detailed valuation report dated 22 November 2001, which comprises: –

– A narrative section, which identifies the machinery and equipment valued, scope and character of our investigation; the premise of the value adopted; the valuation process employed and the opinion of value;

– Limiting Conditions;

– A summary of values; and

– A schedule, with technical description of the machinery and equipment, showing for each item or group of items the appraised fair market value.

Assets Valued

Assets under review comprised the coal transportation facilities of the Parent Company under Railway Transportation Division located in Zoucheng City, Shandong Province, encompassing 6 service departments and 1 administration department. The 6 service departments comprise Crane Services Department, Train Services Department, Railway Services Department, Communication Services Department, Water & Electricity Supply Department, and Vehicle Services Department. Major machinery and equipment were sourced locally, comprising diesel engine powered locomotives, steam powered locomotives, passenger train coaches, freight rail car boxes, utility track vehicles, track repairing equipment, track signaling equipment, track shifting equipment, track hot box detecting system, communication system, and electrical distribution system. Other associated equipment includes machine shop equipment, test instruments, air-conditioners, office equipment and motor vehicles.

At the time of our inspection, the subject machinery and equipment were observed to be generally in good working condition. It is our opinion that whilst some of the equipment were obsolete, they are capable of performing efficiently the purpose for which they were designed and built.

We have excluded in this valuation land, buildings, other land improvements, furniture and fixture, spare parts, stocks, company records or any current or intangible assets.

VALUATION METHODOLOGY

There are three generally accepted approaches to value, namely:

The Cost Approach

The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence present (physical, functional or economic), taking into consideration past and present maintenance policy and rebuilding history.

The cost approach generally furnishes the most reliable indication of value for assets without a known used market.

The Market Approach

The market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised machinery and equipment relative to the market comparative.

Assets for which there is an established used market may be appraised by this approach.

The Income Approach

The income approach is the present worth of the future economic benefits of ownership. This approach is general applied to an aggregation of assets that consists of all assets of a business enterprise including working capital and tangible and intangible assets.

Analysis

We have considered and excluded the income approach due to insufficient financial data being available. In the absence of any market information regarding sales and purchases of large industrial facilities similar to the assets appraised, the most reliable approach in arriving at an opinion of value of the machinery and equipment is by using the cost approach.

Before arriving at our opinion of value, we have personally conducted an inspection of the machinery and equipment, investigated market conditions and interviewed personnel to establish condition, utility and history of the equipment. We have also given consideration to the cost of replacement new, accrued depreciation, extent, character, utility and continuation of use of the assets in their present location.

Cost of Replacement New is the estimated amount of money needed to acquire a similar new item having the nearest equivalent utility as the property being valued taking into consideration current prices of materials and manufactured equipment, shipping and handling, labour, contractor's overhead, design and supervision, profit and fees, and other attendant costs associated with its acquisition.

During our inspection, we have been provided with a list of the machinery and equipment, which we have inspected and verified. We have relied considerably on this plus on other information such as maintenance records, equipment specifications and other documents provided to us.

We have not investigated the title or any liabilities affecting the machinery and equipment appraised. No consideration was made for any outstanding amount owed under financing agreements, if any.

We hereby certify that we have neither present nor prospective interest in the assets appraised or on the value reported.

OPINION OF VALUE

Premised on the foregoing, we are of the opinion that as at 30 September 2001 the fair market value of the machinery and equipment is fairly represented in the amount of **RMB85,997,000 (RENMINBI EIGHTY FIVE MILLION NINE HUNDRED NINETY SEVEN THOUSAND)**. A breakdown is shown in the attached summary of values.

Yours faithfully,
For and on behalf of
SALLMANNS (FAR EAST) LIMITED
Mario E. Maninggo – BSME
Associate Director
Plant and Machinery Valuation

Note: Mario E. Maninggo is a mechanical engineer who has extensive experience in plant and machinery valuation in Hong Kong, the PRC and the Asia Pacific region.

SUMMARY OF VALUES

Description	Fair Market Value *(RMB)*
A. Railway Transportation Division	
Assets of:	
Crane Services Department	385,700
Train Services Department	11,693,600
Railway Services Department	3,048,000
Communication Services Department	26,292,700
Water & Electricity Supply Department	18,984,800
Vehicle Services Department	13,378,500
Administration Department	8,672,800
B. Additional Assets	3,541,000
Grand Total:	**85,997,100**
Rounded to:	**85,997,000**

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The facts and information contained in this circular relating to the Railway Department have been supplied by the Parent Company and verified by the Company. The Directors collectively and individually accept fully responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement contained in this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Save as disclosed below, as at the Latest Practicable Date, none of the Directors or Supervisors had any beneficial or non beneficial interests in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which (i) are required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which any such Director is deemed or taken to have under Section 31 of, or Part I of the Schedule to, the SDI Ordinance), or (ii) are required to be entered into the register maintained by the Company under Section 29 of the SDI Ordinance or (iii) are required, pursuant to Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

Name	Title	Number of domestic shares held (personal interest)
Zhao Jingche	Chairman of the board	10,000
Yang Deyu	General Manager and Executive Director	10,000
Du Mingshan	Executive Director	10,000
Luo Taiyan	Executive Director	10,000
Xiao Lifang	Executive Directors and Financial Controller	10,000
Wang Bangjun	Non-executive Director	10,000
Mo Liqi	Non-executive Director	10,000
Liu Yubin	Non-executive Director	10,000
Wu Zezhi	Non-executive Director	10,000
Chen Yongge	Non-executive Director	10,000
Ma Houliang	Non-executive Director	10,000
Xu Tianen	Non-executive Director	10,000
Yang Jiachun	Non-executive Director	10,000
Meng Xianchang	Chairman of the Supervisor Committee	10,000
Xiao Shuzhang	Supervisor	10,000
Qian Xiulan	Supervisor	10,000
Xu Xinmin	Supervisor	10,000
Zhou Hongbin	Supervisor	10,000

(b) Save as disclosed herein, none of the Directors nor Supervisors is materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Company and its subsidiaries.

(c) None of the Directors nor Supervisors had entered, or proposed to enter into a service contract with the Company or its subsidiaries which is not determinable by the Company or the relevant subsidiary within one year without payment of compensation, other than statutory compensation.

(d) None of CLSA, Sallmanns, 山東正源和信有限責任會計師事務所, 濟寧仁和土地評估事務所 and the Technical Expert had any shareholding in the Company or its subsidiaries or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or its subsidiaries.

(e) None of the Directors or Supervisors nor any of CLSA, Sallmanns, 山東正源和信有限責任會計師事務所, 濟寧仁和土地評估事務所 and the Technical Expert had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to the Company or its subsidiaries, or was proposed to be acquired, or disposed of by, or leased to the Company or its subsidiaries, since 31st December, 2000, the date to which the latest published audited consolidated financial statement of the Company was made up.

3. SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at the Latest Practicable Date, there is not any person (other than the Directors or Supervisors) known to the Directors or Supervisors who was directly or indirectly interested in 10 per cent. or more of the nominal value of any class of share capital of the Company or its subsidiaries carrying rights to vote in all circumstances at general meetings of the Company or its subsidiaries:

Name of shareholder	Shares	Number of shares held	Approximate percentage shareholding of total issued share capital	Approximate percentage shareholding of total issued Domestic Shares	Approximate percentage shareholding of total issued H Shares
The Parent Company	State legal person shares	1,670,000,000	58.19%	90.27%	–
HKSCC Nominees Limited	H Shares	1,018,238,000	35.48%	–	99.83%

4. LITIGATION

The Company and its subsidiaries are not engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation or arbitration of material importance is pending or threatened against the Company or any of its subsidiaries.

5. MATERIAL ADVERSE CHANGE

Save as disclosed in the Company's interim report for the six months ended 30th June, 2001, as at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Company or its subsidiaries since 31st December, 2000, the date to which the latest published audited consolidated financial statements of the Company were made up.

6. CONSENTS AND EXPERTS' QUALIFICATIONS

The following are the qualifications of the experts who have given an opinion or advice in this circular:

Names	Qualifications
CLSA	Registered investment adviser
Sallmanns	Professional surveyors and valuers
山東正源和信有限責任會計師事務所	PRC professional surveyors and valuers
濟寧仁和土地評估事務所	PRC professional land valuers
The Technical Expert	PRC professional railway surveying, designing and technical experts

The above mentioned persons have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion herein of their respective letters, report and valuation report, and references to their respective names, in the form and context in which they respectively appear.

7. MISCELLANEOUS

(a) The secretary of the Company is Mr. Chen Guangshui.

(b) The legal address of the Company is at 40 Fushan Road, Zoucheng, Shangdong Province 273500, PRC.

(c) The branch share registrar of the Company in Hong Kong is Hong Kong Registrars Limited at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Baker & McKenzie at 14th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong during normal business hours on any business days (except for public holidays) up to and including 17th December, 2001:

(a) the Acquisition Agreement;

(b) the Supplemental Agreement;

(c) the Supply Agreement;

(d) the letter from the Independent Board Committee as set out in this circular;

(e) the letter from CLSA as set out in this circular;

(f) the letters and reports from Sallmanns as set out in this circular;

(g) the written consents referred to in section 6 above;

(h) the annual report of the Company for the year ended 31st December, 2000;

(i) the interim report of the Company for the six months ended 30th June, 2001; and

(j) the articles of association of the Company.