

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



兗州煤業股份有限公司
YANZHOU COAL MINING COMPANY LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1171)

**(I) DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION
ACQUISITION OF 65% EQUITY INTEREST IN YANKUANG GROUP FINANCE
AND
(II) MAJOR AND CONTINUING CONNECTED TRANSACTION
PROVISION OF FINANCIAL SERVICES TO YANKUANG GROUP**

I. ACQUISITION OF YANKUANG GROUP FINANCE

On 28 April 2017, the Company and Yankuang Group entered into the Equity Transfer Agreement. Pursuant to the Equity Transfer Agreement, the Company agreed to acquire and Yankuang Group agreed to sell its 65% equity interest in Yankuang Group Finance at a consideration of RMB1,124,227,500.

II. PROVISION OF FINANCIAL SERVICES TO YANKUANG GROUP

On 28 April 2017, Yankuang Group Finance entered into the New Financial Services Agreement with Yankuang Group, pursuant to which, after the Closing Date, Yankuang Group Finance agreed to provide deposit services, comprehensive credit facility services and miscellaneous financial services to Yankuang Group Members in accordance with the terms and conditions set out in the New Financial Services Agreement.

According to Chapter 14A of the Hong Kong Listing Rules, the New Financial Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company.

III. IMPLICATION UNDER THE HONG KONG LISTING RULES

Yankuang Group is a controlling Shareholder of the Company, holding directly or indirectly approximately 56.59% of the issued share capital of the Company as at the date of this announcement and thus a connected person of the Company under the Hong Kong Listing Rules.

Equity Transfer Agreement

As the highest applicable percentage ratio as set out in the Hong Kong Listing Rules in respect of the Acquisition under the Equity Transfer Agreement exceeds 5% but is less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules and thus is subject to reporting and announcement requirements under the Hong Kong Listing Rules. In addition, Yankuang Group is a controlling Shareholder of the Company, holding directly or indirectly approximately 56.59% of the issued share capital of the Company as at the date of this announcement and thus is a connected person of the Company under the Hong Kong Listing Rules. Therefore, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules and is subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

New Financial Services Agreement

(1) Deposit services

As the deposit services to be provided by Yankuang Group Finance to Yankuang Group Members are on normal commercial terms, and no security over the assets of the Group is or will be granted in respect of such services, the deposit services to be provided by Yankuang Group Finance to Yankuang Group Members are fully exempt from reporting, announcement, annual review and Independent Shareholders' approval requirements under Rule 14A.90 of the Hong Kong Listing Rules, and no annual cap is required to be set for the provision of such services.

(2) Comprehensive credit facility services

As the highest applicable percentage ratio as set out in the Rule 14.07 of the Hong Kong Listing Rules with respect to the proposed annual cap in relation to the comprehensive credit facility services under the New Financial Services Agreement is more than 25% but less than 75%, such transactions, together with the proposed annual cap are subject to reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. Such transactions also constitute a major transaction under Rule 14.06(3) of the Hong Kong Listing Rules and are subject to the relevant requirements for major transactions under Chapter 14 of the Hong Kong Listing Rules.

(3) Miscellaneous financial services

As the relevant applicable percentage ratio as set out in the Rule 14.07 of the Hong Kong Listing Rules with respect to the total services fees in relation to the provision of miscellaneous financial services by Yankuang Group Finance to Yankuang Group Members under the New Financial Services Agreement is less than 0.1%, such transactions are fully exempt from reporting, announcement, annual review and Independent Shareholders' approval requirements.

A circular containing, among other things, (i) particulars of the Equity Transfer Agreement and the transactions contemplated thereunder, (ii) particulars of the New Financial Services Agreement and the transactions contemplated thereunder, (iii) a letter from the Independent Board Committee, and (iv) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders of the Company, and other relevant matters as required by the Hong Kong Listing Rules, is expected to be despatched to the Shareholders on or before 2 June 2017, as additional time is required to prepare certain information to be contained in the circular by the Company.

I. ACQUISITION OF YANKUANG GROUP FINANCE

1. Introduction

On 28 April 2017, the Company and Yankuang Group entered into the Equity Transfer Agreement. Pursuant to the Equity Transfer Agreement, the Company agreed to acquire and Yankuang Group agreed to sell its 65% equity interest in Yankuang Group Finance at a consideration of RMB1,124,227,500.

2. Equity Transfer Agreement

Date

28 April 2017

Parties

- (i) The Company; and
- (ii) Yankuang Group

Equity Interest to be Acquired

Pursuant to the Equity Transfer Agreement, the Company agreed to acquire and Yankuang Group agreed to sell its 65% equity interest in Yankuang Group Finance. As at the date of this announcement, the equity interests of Yankuang Group Finance are owned as to 70% by Yankuang Group, 25% by the Company and 5% by China Credit Trust Co., Ltd., an independent third party. After the Closing Date, Yankuang Group Finance will become a subsidiary of the Company and its financial results will be consolidated into the accounts of the Company.

Consideration

Pursuant to the Equity Transfer Agreement, the consideration for the Acquisition payable by the Company is RMB1,124,227,500, which is determined based on the entire equity value of Yankuang Group Finance as at 31 December 2016 valued at RMB1,729,580,700 as shown in the Valuation Report on Yankuang Group Finance prepared by the PRC Valuer. The consideration shall be paid by the Company to the bank account designated by Yankuang Group in a lump sum in cash on the Closing Date. The consideration will be funded by the Company's internal resources.

During the period from 1 January 2017 to the Closing Date (excluding the day), the profit and loss attributable to the 65% equity interest of Yankuang Group Finance was jointly owned and assumed by the three shareholders of Yankuang Group Finance according to their respective shareholding prior to the Closing Date (i.e. 70% by Yankuang Group, 25% by the Company and 5% by China Credit Trust Co., Ltd.).

The Valuation Report was prepared by the PRC Valuer, which is an independent qualified PRC valuer engaged by Yankuang Group for the purpose of determining the equity value of Yankuang Group Finance. As the Valuation above was valued based on the income approach, the Valuation constitutes a profit forecast under Rule 14.61 of the Hong Kong Listing Rules and Rules 14.60A and 14.62 of the Hong Kong Listing Rules are applicable. Pursuant to Rule 14.62(1) of the Hong Kong Listing Rules, the following are the details of the principal assumptions, including commercial assumptions, upon which the Valuation Report was issued:

(i) General assumptions

1. the valued enterprise operates continuously after the valuation date;
2. there is no material change to the political, economic and social environment of the state and region in which the valued enterprise is located after the valuation date;
3. there is no material change to the national macro-economic, industrial and regional development policies after the valuation date;
4. there is no material change to the relevant interest rates, exchange rates, tax base and tax rates and policy-based levies of the valued enterprise after the valuation date;
5. the management of the valued enterprise is responsible and stable, and is capable of its undertakings after the valuation date;
6. the valued enterprise fully complies with all relevant laws and regulations;
7. there is no force majeure which has material adverse effects to the valued enterprise after the valuation date.

(ii) Special assumptions

1. the accounting policies adopted by the valued enterprise after the valuation date maintain the same in material aspects as those adopted when composing the Valuation Report;
2. the valued enterprise maintain the same business scope and operation method based on the existing management method and management levels after the valuation date;
3. both the cash inflow and the cash outflow of the valued enterprise are average after the valuation date;
4. it is assumed that the valued enterprise would maintain the existing situation for market competition after the valuation date;

5. as at the valuation date, Yankuang Group Finance leased Cinda Hotel's house of 810 square meters from Yankuang Group as places for office and operation for a long lease term. It is assumed that the valued enterprise would be able to lease such house constantly after the valuation date;
6. it is assumed that the levels of the future deposit reserve ratio (1.62%), percentage of provision for loss of general loans (2.5%) and capital adequacy ratio (25%) would remain unchanged in 2016.

(iii) Quantitative assumptions:

(a) Forecasted revenue

The estimated growth rate for the amount of loans granted by Yankuang Group Finance for the period from the year 2017 to 2021 is 4.0%, 4.0%, 4.0%, 4.0%, 0%, respectively. The forecasted revenue for each of the year from 2017 to 2021 amounts to approximately RMB253.8870 million, RMB263.7933 million, RMB274.2721 million, RMB285.0652 million and RMB285.0502 million respectively, assuming that the estimated profits rate will remain above 67% and the capital adequacy ratio will remain above 25% for the same period.

As advised by the PRC Valuer, the PRC Valuer has adopted the annual growth rate of 4%, being the historical average growth rate from the year 2012 to 2016, for the deposit taking from Yankuang Group Finance's customers. The PRC Valuer also advised that they considered the gross domestic product ("GDP") growth rate of the PRC was positively correlated to the growth rate of the loans. According to the statistics of National Bureau of Statistics of China, the preliminary assessment of the PRC's GDP recorded a year-to-year growth of approximately 6.7% in 2016. The PRC Valuer has adopted the interest rate for the loans by Yankuang Group Finance as 4.35%, being the latest People's Bank of China benchmark one-year lending rate proposed on 31 December 2016.

Having considered the above, the Directors consider that this assumption adopted by the PRC Valuer in the Valuation was fair and reasonable.

The future revenue between the Group and Yankuang Group Finance was included in the forecasted revenue of the Valuation. The PRC Valuer advised that the valuation under the adoption of the income-based approach should be prepared on the existing business model of target when determining what a business of target is worth on its individual case. As such, when considering the business value of Yankuang Group Finance, in order to reflect the overall business model of Yankuang Group Finance when it is operated at its own cost, the future revenue between the Group and Yankuang Group Finance should be included in the forecasted revenue between the Group and Yankuang Group Finance. Having considered the above, the Directors consider that it is fair and reasonable to include future revenue between the Group and Yankuang Group Finance in the forecasted revenue.

(b) Forecasted cost of sales

The cost of sales represented the interest expenses for the deposit taking from Yankuang Group Finance and the Group. Based on the positive correlation of the PRC's GDP and the historical average growth rate of deposit takings as mentioned above, The historical average growth rates of Yankuang Group Finance from the year 2012 to 2016 were 10.1%, -24.3%, 1.9%, 25.6% and 6.7% respectively. The PRC Valuer has adopted the annual growth rate of 4.0%, for the deposit taking for the five years ending 31 December 2021. Relevant interest rates for the deposit are adopted according to relevant regulations of People's Bank of China. The forecasted deposit taking from the year 2017 to 2021 is RMB7,562.3665 million, RMB7,864.8611 million, RMB8,179.4556 million, RMB8,506.6338 million and RMB8,506.6338 million. The interest rates for short-term loan and long-term loan adopt the historical data of Yankuang Group Finance.

Having considered the above, the Directors consider that this assumption adopted by the PRC Valuer in the Valuation was fair and reasonable.

The future cost of sales between the Group and Yankuang Group Finance was included in the forecasted cost of sales of the Valuation. The PRC Valuer advised that the valuation under the adoption of the income-based approach should be prepared on the existing business model of target when determining what a business of target is worth on its individual case. As such, when considering the business value of Yankuang Group Finance, in order to reflect the overall business model of Yankuang Group Finance when it is operated at its own cost, the future cost of sales between the Group and Yankuang Group Finance should be included in the forecasted cost of sales between the Group and Yankuang Group Finance. Having considered the above, the Directors consider that it is fair and reasonable to include future cost of sales between the Group and Yankuang Group Finance in the forecasted cost of sales.

(c) Discount rate

The discount rate adopted by the PRC Valuer in the Valuation is 10.21%.

As advised by the PRC Valuer, the cost of equity is considered relevant to the Valuation of Yankuang Group Finance as the regulatory requirements and return on equity is fundamental to financial institutions. In estimating the cost of equity, the PRC Valuer has adopted the capital asset pricing model which is a commonly used model to compute the cost of equity as discount rate. Having considered the above, the Directors consider that this assumption adopted by the PRC Valuer in the Valuation was fair and reasonable.

The forecasted transactions between the Group and Yankuang Group Finance were included in the forecast. The PRC Valuer advised that the valuation was prepared on a market value basis, which represents the market value of Yankuang Group Finance as at the valuation date to any potential acquirer on a rational and voluntary basis. Accordingly, the forecast was conducted based on the existing business of Yankuang Group Finance as at the valuation date. Accordingly, the Directors consider that the application of the valuation methodology is fair and reasonable.

SHINEWING (HK) CPA Limited, the auditor of the Company, has conducted its work in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements

Other Than Audits or Reviews of Historical Financial Information” and has reviewed the arithmetical calculations of the profit forecast in accordance with the bases and assumptions adopted by the Directors in preparing the Valuation Report.

The Board confirms that the forecast has been made by the Directors after due and careful enquiry.

A letter from the Board and a letter from SHINEWING (HK) CPA Limited are included in the Appendix to this announcement for the purpose of Rule 14.62 of the Hong Kong Listing Rules.

As at the date of this announcement, SHINEWING (HK) CPA Limited, holds a certified public accountant practice, does not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate a person to subscribe for securities in any member of the Group. As at the date of this announcement, SHINEWING (HK) CPA Limited has given and has not withdrawn its written consent to the issue of this announcement with the inclusion of its letter or statements and references to its name in the form and context in which it appears.

Yankuang Group Finance began official operation on 12 November 2010, with the registered capital being RMB500 million (including US\$10 million), of which, RMB350 million (including US\$10 million) is contributed by Yankuang Group, accounting for 70% of the registered capital; RMB125 million is contributed by the Company, representing 25% of the registered capital; and RMB25 million is contributed by China Credit Trust Co., Ltd., representing 5% of the registered capital. In June 2014, the general meeting of Yankuang Group Finance approved to increase the registered capital to RMB1 billion (including US\$10 million) based on the original shareholding proportion of shareholders, of which, RMB700 million (including US\$10 million) is contributed by Yankuang Group, representing 70% of the registered capital; RMB250 million is contributed by the Company, representing 25% of the registered capital; and RMB50 million is contributed by China Credit Trust Co., Ltd., representing 5% of the registered capital.

Effectiveness

The Equity Transfer Agreement shall become effective when execution and on the date on which (i) it has been executed by the parties; and (ii) the Acquisition has obtained all necessary consent or approval, including but not limited to the Independent Shareholders’ approval.

Closing

The Closing Date shall be the last day of the month (calendar month) in which the effective date of the Equity Transfer Agreement falls (if the date falls on a non-working day, it shall be postponed to the first following working day).

Completion

All relevant matters of the Acquisition shall be deemed to be completed on the date on which (i) the registration of changes of the equity interest in Yankuang Group Finance with the registration authority has been completed; and (ii) the revised articles of association of Yankuang Group Finance reflecting such changes have been filed and registered with the registration authority and the new business license of Yankuang Group Finance has been issued by the registration authority (if needed).

3. Reasons for and Benefits of Entering into the Equity Transfer Agreement

The reasons for the Company to enter into the Equity Transfer Agreement with Yankuang Group are as follows:

- (i) The Acquisition will allow the Group to (a) utilise and manage its idle financial resources by Yankuang Group Finance; (b) establish a finance resources sharing platform to optimize the capital allocation and control the capital operation from a general perspective; and (c) enhance the efficiency of capital utilization, reduce financial costs and strengthen the capability in managing and controlling the capital of members of the Group;
- (ii) The Acquisition will enable the Group to provide professional and high-quality financial services to its members so as to guarantee the smooth operation of local companies and the smooth implementation of construction projects in different regions, which will promote the cross-region and cross-industry development of the Company;
- (iii) Upon closing of the Acquisition, the Group can develop its diversified financial business through Yankuang Group Finance, make its finance industry larger and stronger, and promote the collaborative development of industry and finance; and
- (iv) Yankuang Group Finance has been recording a stable profit in the past several years. After the Closing Date, the financial results of Yankuang Group Finance will be consolidated into the Group's financial statement. As such, the Acquisition will immediately increase the profitability of the Group, which is in the interests of the Company and the Shareholders as a whole.

The Directors (excluding the independent non-executive Directors, whose opinion on the matter is given in the circular after taking into account the advice of the Independent Financial Adviser in this regard) consider that the terms and conditions of the Acquisition (including the consideration) are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

II. PROVISION OF FINANCIAL SERVICES TO YANKUANG GROUP

1. Introduction

After the Closing Date, Yankuang Group Finance will become a subsidiary of the Company. Accordingly, the Original Financial Services Agreement and the transactions contemplated thereunder will no longer be continuing connected transactions of the Company in accordance with the Hong Kong Listing Rules.

On 28 April 2017, Yankuang Group Finance entered into the New Financial Services Agreement with Yankuang Group, pursuant to which, after the Closing Date, Yankuang Group Finance agreed to provide deposit services, comprehensive credit facility services and miscellaneous financial services to Yankuang Group Members in accordance with the terms and conditions set out in the New Financial Services Agreement.

According to Chapter 14A of the Hong Kong Listing Rules, the New Financial Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company.

2. New Financial Services Agreement

Date

28 April 2017

Parties

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

Effective Date and Term

The New Financial Services Agreement shall become effective upon (1) execution by the legal representatives or authorized representatives of the parties; (2) closing of the Acquisition; and (3) the approval from Independent Shareholders' at the annual general meeting for the year 2016, with effect from the Closing Date and will expire on 31 December 2019.

Major Terms and Pricing

Pursuant to the New Financial Services Agreement, Yankuang Group Finance shall provide the following financial services to Yankuang Group Members:

(i) Deposit services:

Yankuang Group Finance shall provide deposit services to Yankuang Group Members. The maximum daily balance (including accrued interests) of Yankuang Group Members on the settlement account with Yankuang Group Finance shall not exceed RMB9.4 billion, RMB10.0 billion and RMB10.7 billion respectively for each of the year from 2017 to 2019 during the term of the New Financial Services Agreement.

The interest rate for Yankuang Group Members' deposit with Yankuang Group Finance shall comply with relevant regulations of the People's Bank of China and be determined on normal commercial terms by reference to the deposits benchmark interest rate promulgated by the People's Bank of China periodically (if any), and the interest rate offered by General Commercial Banks for the provision of same type of deposit service.

(ii) Comprehensive credit facility services:

Yankuang Group Finance shall provide comprehensive credit facilities (including but not limited to loans, trade financing, bill acceptance and discounting, overdraft, factoring, guarantee, loan commitment, opening of letter of credit, etc.) with a maximum daily balance (including accrued interests) of loans of not exceeding RMB7.1 billion, RMB7.5 billion and RMB8.0 billion to Yankuang Group Members for each of 2017 to 2019 during the term of the New Financial Services Agreement.

The interest rate for the loan to be provided by Yankuang Group Finance to Yankuang Group Members' shall comply with relevant regulations of the People's Bank of China and be determined

on normal commercial terms by reference to the loan benchmark interest rate promulgated by the People's Bank of China periodically (if any), and the interest rate offered by General Commercial Banks for the provision of same type of loan service.

(iii) Miscellaneous financial services:

Yankuang Group Finance shall provide miscellaneous financial services to Yankuang Group Members which include but are not limited to, bill acceptance and discounting services, financial and financing consultation, credit certification and related consultation, agency services, fund payment and receipt, entrusted loans services, guarantee business services as well as other ancillary services relating to settlement services. The total annual fees charged by Yankuang Group Finance for the provision of miscellaneous financial services to Yankuang Group Members shall not exceed RMB3.7 million, RMB3.9 million and RMB4.0 million respectively for each of the year from 2017 to 2019 during the term of the New Financial Services Agreement.

The fees for the provision of miscellaneous financial services to Yankuang Group Members shall be charged by Yankuang Group Finance according to the prescribed rates if the People's Bank of China or the CBRC has determined relevant prescribed rates. If no such standard rates are available, the services fees shall be determined on normal commercial terms by reference to the fees charged by General Commercial Banks for the provision of the same type of financial services.

Yankuang Group Finance will (i) directly collect the information about the relevant rates set by the People's Bank of China and/or the General Commercial Banks for relevant deposit and comprehensive credit facility services and the policy promulgated by the People's Bank of China; (ii) directly collect the information about the standard fees and charges for relevant financial services as specified by the People's Bank of China or the CBRC (if applicable) and fees and charges provided by the General Commercial Banks so as to ensure that each transaction is conducted in accordance with the above pricing policy of the New Financial Services Agreement.

In addition, according to requirements of the New Financial Services Agreement, if Yankuang Group Members have not repaid such loan upon the expiry of term of such loan and in 10 working days from receiving the written repayment notice from Yankuang Group Finance, Yankuang Group Finance can convert the corresponding amounts of deposits of such Yankuang Group Members with Yankuang Group Finance as repayment of principal of such loan together with interest. If Yankuang Group Members have funding difficulty, and as a result of which can not repay the principal of loan of Yankuang Group Finance or its interest, Yankuang Group shall assume the joint liability for repayment of the principal of such loan together with interest.

In risk management, Yankuang Group Finance has established the aggregation of 151 systems in business and internal risk control, such as Administrative Measures for Settlement Business, Administrative Measures for Unit Deposit, Administrative Measures for Comprehensive Risk, to ensure that all businesses are complied with rules, the responsibility of risk body is implemented to ensure the operation of Yankuang Group Finance is complied with such systems and rules.

In information transparency, according to the requirements of China National Association of Finance Companies, Yankuang Group Finance will report data of key operating indicators and the financial statements to the association on monthly, quarterly and annual basis. China National Association of Finance Companies publishes periodically the basic operating data for finance companies sector on its official website, announces periodically the operating data and indicator ranking of finance companies with member units. Furthermore, under regulatory requirements of the CBRC and the People's Bank of China, Yankuang Group Finance reports and sends its financial statements to the regulators on a monthly basis. After the Closing Date, the Company will disclose the quarterly balance sheet and income statement of Yankuang Group Finance separately; and disclose the operating information of Yankuang Group Finance in its regular reports.

Upon closing, under the premise of meeting regulatory requirements, the Company will appoint an additional director to Yankuang Group Finance.

As such, the Directors consider that the above methodologies and procedures could ensure that the relevant continuing connected transactions will proceed according to the terms (including the pricing policy) required by the New Financial Services Agreement, and such transactions will proceed on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

Payment

The payment of the relevant interests, expenses and service fees for the above services can be settled by the parties on a one-off basis or by installment in accordance with specific circumstances. Yankuang Group Finance will use internal resources to pay the relevant interests to Yankuang Group Members for the provision of deposit services.

3. Historical Amount, Proposed Annual Caps and Reasons

Before the entering into of the Equity Transfer Agreement, Yankuang Group Finance had entered into a number of agreements with fixed terms with various Yankuang Group Members for principal businesses including deposit, loan and bills acceptance service. As at 31 December 2016, the deposit balance amounted to approximately RMB6.475 billion, the loan balance amounted to approximately RMB5.005 billion, and the balance of bills acceptance amounted to approximately RMB0.622 billion. Yankuang Group Finance will continue to make relevant transactions under such agreements, and the Company will comply with the requirements of annual review and annual reporting in accordance with the Hong Kong Listing Rules, and comply with the requirements in relation to connected transactions under the Hong Kong Listing Rules upon renewal of such agreements or amendments to terms of such agreements.

Having considered (i) the historical remaining amount of loans provided by Yankuang Group Finance to Yankuang Group Members in the year 2016 as at RMB5.0 billion; and (ii) the increasing fund demands of Yankuang Group Members to purchase raw materials driven by their projects construction and operation, the Board proposed that the maximum daily balance (including accrued interests) of loans to be provided Yankuang Group Finance to Yankuang Group Members under the comprehensive credit facility services under the New Financial Services Agreement shall not exceed RMB7.1 billion, RMB7.5 billion and RMB8.0 billion for each of the three years ending 31 December 2017, 31 December 2018 and 31 December 2019.

Having considered Yankuang Group Members' demand for the miscellaneous financial services, the Board proposed that the maximum annual fees payable for such miscellaneous financial services under the New Financial Services Agreement shall not exceed RMB3.7 million, RMB3.9 million and RMB4 million respectively for each of the three accounting years ending 31 December 2017, 31 December 2018 and 31 December 2019.

4. Reasons for and Benefits of Entering Into the New Financial Services Agreement

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

Yankuang Group Finance can enlarge its capital size for the purpose of the development of its financial business and capital operation through the way of absorbing capitals from Yankuang Group and can also increase profits of the Group through providing loan and settlement services to Yankuang Group by means of charging loan interest rate or other rates.

The Directors (including the independent non-executive Directors) consider that the transactions under the New Financial Services Agreement (excluding the provision of comprehensive credit facility services) are entered into after arm's length negotiations and based on normal commercial terms, and therefore the terms of such transactions and the proposed caps of the annual service fees for the provision of each of the miscellaneous financial services are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The Directors (excluding the independent non-executive Directors, whose opinion on the matter is given in the circular after taking into account the advice of the Independent Financial Adviser in this regard) consider that the provision of comprehensive credit facility services under the New Financial Services Agreement are entered into after arm's length negotiations and based on normal commercial terms, and therefore the terms of such transactions and the proposed annual caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

III. GENERAL

The Company convened the thirty-first meeting of the sixth session of the Board on 28 April 2017 for approving the Equity Transfer Agreement and the transactions contemplated thereunder as well as the New Financial Services Agreement and the transactions contemplated thereunder.

At the above meeting of the Board, Mr. Li Xiyong, Mr. Li Wei and Mr. Wu Yuxiang, Directors, also directors or senior management of Yankuang Group, are regarded as having a material interest in the aforesaid continuing connected transaction. Therefore, Mr. Li Xiyong, Mr. Li Wei and Mr. Wu Yuxiang have abstained from voting at the meeting of the Board convened for the purpose of approving such transactions. Save as disclosed above, none of the other Directors has a material interest in such transactions.

IV. IMPLICATION UNDER THE HONG KONG LISTING RULES

Yankuang Group is a controlling Shareholder of the Company holding directly or indirectly approximately 56.59% of the issued share capital of the Company as at the date of this announcement and thus a connected person of the Company under the Hong Kong Listing Rules.

1. Equity Transfer Agreement

As the highest applicable percentage ratio as set out in the Hong Kong Listing Rules in respect of the Acquisition under the Equity Transfer Agreement exceeds 5% but is less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules and thus is subject to reporting and announcement requirements under the Hong Kong Listing Rules. In addition, Yankuang Group is a controlling Shareholder of the Company, holding directly or indirectly approximately 56.59% of the issued share capital of the Company as at the date of this announcement and thus is a connected person of the Company under the Hong Kong Listing Rules. Therefore, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules and is subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

2. New Financial Services Agreement

(1) Deposit services

As the deposit services to be provided by Yankuang Group Finance to Yankuang Group Members are on normal commercial terms, and no security over the assets of the Group is or will be granted in respect of such services, the deposit services to be provided by Yankuang Group Finance to Yankuang Group Members are fully exempt from reporting, announcement, annual review and Independent Shareholders' approval requirements under Rule 14A.90 of the Hong Kong Listing Rules, and no annual cap is required to be set for the provision of such services.

(2) Comprehensive credit facility services

As the highest applicable percentage ratio as set out in the Rule 14.07 of the Hong Kong Listing Rules with respect to the proposed annual cap in relation to the comprehensive credit facility services under the New Financial Services Agreement is more than 25% but less than 75%, such transactions, together with the proposed annual cap are subject to reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. Such transactions also constitute a major transaction under Rule 14.06(3) of the Hong Kong Listing Rules and are subject to the relevant requirements for major transactions under Chapter 14 of the Hong Kong Listing Rules.

(3) *Miscellaneous financial services*

As the relevant applicable percentage ratio as set out in the Rule 14.07 of the Hong Kong Listing Rules with respect to the total services fees in relation to the provision of miscellaneous financial services by Yankuang Group Finance to Yankuang Group Members under the New Financial Services Agreement is less than 0.1%, such transactions are fully exempt from reporting, announcement, annual review and Independent Shareholders' approval requirements.

The opinion of the independent non-executive Directors will be contained in the circular which will be despatched to the Shareholders after taking into account the advice provided by the Independent Financial Adviser.

The Company has appointed an Independent Financial Adviser to give advice to the Independent Board Committee and the Independent Shareholders and has formed the Independent Board Committee for giving advice to the Independent Shareholders on (i) the Equity Transfer Agreement and (ii) the transactions under the comprehensive credit facility services under the New Financial Services Agreement and the proposed annual caps for the three years ending 31 December 2017, 31 December 2018 and 31 December 2019.

A circular containing, among other things, (i) particulars of the Equity Transfer Agreement and the transactions contemplated thereunder, (ii) particulars of the New Financial Services Agreement and the transactions contemplated thereunder, (iii) a letter from the Independent Board Committee, and (iv) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders of the Company, and other relevant matters as required by the Hong Kong Listing Rules, is expected to be despatched to the Shareholders on or before 2 June 2017, as additional time is required to prepare certain information to be contained in the circular by the Company.

V. INFORMATION OF THE PARTIES

The Company

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

Yankuang Group

Yankuang Group is a wholly state-controlled limited liability company with a registered capital of RMB3,353,388,000 and is principally engaged in businesses such as manufacture of coal, coal chemicals, coal aluminum, complete sets of electromechanical equipment and management of foreign investment. As at the date of this announcement, Yankuang Group is the controlling Shareholder of the Company, holding directly or indirectly approximately 56.59% of the issued share capital of the Company, and is hence a connected person of the Company.

Yankuang Group Finance

Yankuang Group Finance is a non-banking financial institution legally established in September 2010 by Yankuang Group, the Company and China Credit Trust Co., Ltd., an independent third party, with the approval of the CBRC and is a professional institution engaged in the provision of corporate financial services. The initial registered capital of Yankuang Group Finance was RMB500 million (including US\$10 million) which was contributed by Yankuang Group, the Company and China Credit Trust Co., Ltd as to RMB350 million (including US\$10 million), RMB125 million and RMB25 million, respectively. The shareholders of Yankuang Group Finance increased its registered capital by RMB500 million in June 2014 on a pro rata basis. Prior to completion of the Acquisition, the registered capital of Yankuang Group Finance was RMB1,000 million (including US\$10 million), which was contributed by Yankuang Group, the Company and China Credit Trust Co., Ltd. as to RMB700 million (including US\$10 million), RMB250 million and RMB50 million, respectively.

The business scope of Yankuang Group Finance includes provision of financial services and financing consultancy services, credit certification and related consultancy and agency services to member companies; provision of assistance to member companies in payment and receipt of transaction proceeds; provision of approved insurance agency services; provision of guarantees to member companies; provision of intra-group entrusted loan; provision of bill acceptance and discounting services to member companies; provision of intra-group transfer and settlement services and design of related clearing and settlement schemes; provision of deposit-taking services to member companies; provision of loans and finance lease to member companies; provision of inter-bank loans.

The audited net profit before and after tax and extraordinary items of Yankuang Group Finance for the two years ended 31 December 2015 and 2016 respectively were as follows:

	Year ended	<i>Unit: RMB</i>
	31 December 2015	Year ended
		31 December 2016
Net Profit (before tax and extraordinary items)	228,244,013	199,931,509
Net Profit (after tax and extraordinary items)	171,259,795	149,777,510

The carrying amount of the audited net assets of Yankuang Group Finance as at 31 December 2016 was RMB1,580,033,950. The appraised value of entire equity interest of Yankuang Group Finance as at 31 December 2016 as set out in the Valuation Report was RMB1,729,580,700.

The audited financial information of Yankuang Group Finance as set out above is prepared in accordance with China Accounting Standards for Business Enterprises.

VI. DEFINITIONS

In this announcement, unless the context requires otherwise, the following expressions have the following meaning:

“Acquisition”	the transfer of the Target Interest by Yankuang Group to the Company pursuant to and under the terms of the Equity Transfer Agreement and the Company accepting such transfer pursuant to and under the terms of the Equity Transfer Agreement;
“A Share(s)”	domestic shares in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange;
“associates”	has the meaning ascribed thereto under the Hong Kong Listing Rules;
“Board”	the board of Directors of the Company;
“Company”	Yanzhou Coal Mining Company Limited (兗州煤業股份有限公司), a joint stock limited company established under the laws of PRC in 1997, and the H Shares and A Shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, respectively;
“CBRC”	China Banking Regulatory Commission;
“Closing Date”	the last day of the month (calendar month) in which the effective date of the Equity Transfer Agreement falls (where the date falls on a non-working day, it shall be postponed to the first following working day);
“connected person(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules;
“Directors”	the directors of the Company;
“Equity Transfer Agreement”	the agreement entered into between Yankuang Group and the Company in relation to the transfer of the Target Interest on 28 April 2017;
“General Commercial Banks”	general commercial banks which provide deposit services, comprehensive credit facility services and miscellaneous financial services;
“Group”	the Company and its subsidiaries;
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange;
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“H Share(s)”	overseas listed foreign invested shares in the ordinary share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange;

“Independent Board Committee”	committee of the Board established for the purpose of considering (i) the transactions contemplated under the Equity Transfer Agreement and (ii) the provision of comprehensive credit facility service transaction under the New Financial Services Agreement and proposed annual caps for the three years ending 31 December 2017, 31 December 2018 and 31 December 2019, comprised of independent non-executive Directors who are independent in respect of the Equity Transfer Agreement, the New Financial Services Agreement and the transactions contemplated thereunder;
“Independent Financial Adviser”	Donvex Capital Limited, a corporation licensed to carry on type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the transactions contemplated under the Equity Transfer Agreement and (ii) the provision of comprehensive credit facility service transaction under the New Financial Services Agreement and proposed annual caps for the three years ending 31 December 2017, 31 December 2018 and 31 December 2019, respectively;
“Independent Shareholders”	Shareholders other than Yankuang Group and its associates, and who are not involved in, or interested in the Equity Transfer Agreement and the transactions contemplated thereunder, the provision of comprehensive credit facility service transaction under the New Financial Services Agreement;
“New Financial Services Agreement”	the “Financial Services Agreement” entered into between Yankuang Group Finance and Yankuang Group on 28 April 2017;
“Original Financial Services Agreement”	the “Financial Services Agreement” entered into between the Company and Yankuang Group Finance on 31 March 2017;
“PRC”	the People’s Republic of China;
“PRC Valuer”	Beijing Zhong Qihua Assets Valuation Co. Ltd. (北京中企華資產評估有限責任公司), an independent qualified valuer in the PRC;
“RMB”	Renminbi, the lawful currency of the PRC;
“Shareholder(s)”	shareholder(s) of the Company;
“subsidiaries”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“Target Interest”	the 65% equity interest in Yankuang Group Finance held by Yankuang Group;

“Valuation”	the entire equity value of Yankuang Group Finance as at 31 December 2016 valued at RMB1,729,580,700 as shown in the Valuation Report on Yankuang Group Finance prepared by the PRC Valuer;
“Valuation Report”	the valuation report dated 2 March 2017 on Yankuang Group Finance prepared by the PRC Valuer;
“Yankuang Group”	Yankuang Group Company Limited, a state-controlled limited liability company and the controlling shareholder of the Company holding directly and indirectly approximately 56.59% of the total issued share capital of the Company as at the date of this announcement;
“Yankuang Group Finance”	Yankuang Group Finance Co., Ltd., a limited liability company incorporated in the PRC, which is owned as to 70%, 25% and 5% by Yankuang Group, the Company and China Credit Trust Co., Ltd., an independent third party, respectively as at the date of this announcement. Yankuang Group Finance is a non-banking financial institution legally established with the approval of the CBRC and is a professional institution engaging in corporate financial services;
“Yankuang Group Members”	Yankuang Group, its subsidiaries and associates (excluding the Company and its subsidiaries);
“%”	per cent.

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

Zoucheng, Shandong Province, the PRC
28 April 2017

As at the date of this announcement, the Directors of the Company are Mr. Li Xiyong, Mr. Li Wei, Mr. Wu Xiangqian, Mr. Wu Yuxiang, Mr. Zhao Qingchun, Mr. Guo Dechun and Mr. Guojun, and the independent non-executive Directors of the Company are Mr. Kong Xiangguo, Mr. Jia Shaohua, Mr. Wang Xiaojun and Mr. Qi Anbang.

In compliance with Rule 14.60A of the Hong Kong Listing Rules, for the purpose of, among other things, inclusion in this announcement, the text of each of the letter from SHINEWING (HK) CPA Limited to the Directors confirming it has reviewed the arithmetical calculations of the profit forecast for the Valuation Report and the letter from the Board confirming the valuation in the Valuation Report had been made by the Directors after due and careful enquiry both dated 28 April 2017, for the purpose of, among other things, inclusion in this announcement are reproduced below:

APPENDIX I – LETTER FROM SHINEWING (HK) CPA LIMITED



28 April 2017

Board of Directors
Yanzhou Coal Mining Company Limited
298 Fushan South Road
Zoucheng City, Shandong Province
PRC

Dear Sirs,

INDEPENDENT ASSURANCE REPORT

We have examined the accounting policies adopted and calculations of the underlying profit forecast (the “**Underlying Forecast**”) to the business valuation dated 2 March 2017 prepared by Beijing Zhong Qihua Assets Valuation Co., Ltd* (北京中企華資產評估有限責任公司) (the “**Valuer**”) in respect of the valuation on Yankuang Group Finance Co., Ltd.* (兗礦集團財務有限公司) (the “**Target Company**”) in connection with the proposed acquisition of 65% equity interest in the Target Company by Yanzhou Coal Mining Company Limited, (the “**Company**”) as of 31 December 2016 as set out in Section I.2 of the announcement of the Company dated 28 April 2017 (the “**Announcement**”).

Directors’ Responsibilities

The directors of the Company and the Target Company (the “**Directors**”) are solely responsible for the preparation of the Underlying Forecast including the bases and assumptions, for the purpose of business valuation of the Target Company based on discounted cash flow method. The Underlying Forecast has been prepared using a set of bases and assumptions (the “**Assumptions**”) that include hypothetical assumptions about future events and management’s actions that are not necessarily expected to occur. Even if the events anticipated occur, actual results are still likely to be different from the Underlying Forecast and the variation may be material. The Directors are responsible for the reasonableness and validity of the Assumptions.

* For identification purpose only

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants, (the “**HKICPA**”) which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant’s Responsibilities

Our responsibility is to express an opinion, based on our work on the Underlying Forecast and to report our opinion solely to you, as a body, solely for the purpose of reporting under Rule 14.62 of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and for no other purpose. We have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and express no opinion on the reasonableness and validity of the Assumptions on which the Underlying Forecast is based. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

We conducted our engagement in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) (“**HKSAE 3000 (Revised)**”) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to the procedures specified in Hong Kong Standard on Investment Circular Reporting Engagements 500 “Reporting on Profit Forecast, Statements of Sufficiency of Working Capital and Statements of Indebtedness” issued by the HKICPA. We examined the consistency of accounting policies adopted and the arithmetical accuracy of the Underlying Forecast. We have planned and performed our work to obtain reasonable assurance for giving our opinion below.

We have planned and performed such procedures as we considered necessary to assist the Directors solely in evaluating whether the Underlying Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled in accordance with the Assumptions made by the Directors. Our work does not constitute any valuation of the Target Company.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Underlying Forecast has been properly compiled in accordance with the Assumptions adopted by the Directors as set out in Section I.2 of the Announcement and is presented on a basis consistent in all material aspects with the accounting policies currently adopted by the Company.

Yours faithfully,

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lau Kai Wong
Practising Certificate Number: P06623

Hong Kong

APPENDIX II – LETTER FROM THE BOARD

28 April 2017

Listing Division
The Stock Exchange of Hong Kong Limited
11th Floor, One International Finance Centre
1 Harbour View Street, Central
Hong Kong

Dear Sir/Madam,

Regarding: Acquisition of 65% equity interest in Yankuang Group Finance by Yanzhou Coal Mining Company Limited (Stock Code: 1171) (the “Company”)

We refer to the announcement of the Company dated 28 April 2017 in relation to the discloseable transaction and connected transaction on the Company’s acquisition of 65% equity interest in Yankuang Group Finance (the “**Announcement**”). Unless the context otherwise requires, terms defined in the Announcement shall have the same meanings when used herein.

We have reviewed and discussed the Valuation Report, which forms the basis for determining the consideration for the Acquisition. We note that the methodology applied in deriving the value of equity interest in Yankuang Group Finance is regarded as a profit forecast under Rule 14.61 of the Listing Rules. Pursuant to Rule 14.62 of the Hong Kong Listing Rules, we have engaged SHINEWING (HK) CPA Limited, acting as the Company’s reporting accountants, to examine the arithmetical accuracy of the calculation of the Valuation Report in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information”.

On the basis of the above, we confirm that the appraised value of equity interest in Yankuang Group Finance as contained in the Valuation Report has been made after due and careful enquiry.

Yours faithfully,
By order of the Board
Yanzhou Coal Mining Company Limited
Zhao Qingchun
Director and Authorised Representative