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HKEx Continuing connected transaction in relation to coal sales transactions

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Yancoal Australia Ltd
ACN 111 859 119

兗煤澳大利亞有限公司*

(Incorporated in Victoria, Australia with limited liability)

(Hong Kong stock code: 3668)

(Australian Stock Code: YAL)

**CONTINUING CONNECTED TRANSACTION IN RELATION TO
COAL SALES TRANSACTIONS**

THE COAL SALES TRANSACTIONS

On 19 November 2020, the Company entered into the 2021 Yanzhou Framework Agreement For Coal Sales with Yanzhou, pursuant to which the Group agreed to continue to sell coal to Yanzhou and/or its subsidiaries (excluding the Group) during the three years ending 31 December 2023.

On the same date, the Company entered into the 2021 YIT Framework Agreement For Coal Sales with YIT, pursuant to which the Group agreed to continue to sell coal to YIT and/or its associates (excluding the Yanzhou Group) during the three years ending 31 December 2023, which will become effective after and subject to Yanzhou obtaining the approvals of its board of directors and, if applicable, its shareholders, respectively, for the Yankuang Framework Agreement, of which the transactions under the 2021 YIT Framework Agreement For Coal Sales with YIT will form a part.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Yanzhou is a controlling shareholder of the Company, holding approximately 62.26% of the total issued shares of the Company. Accordingly, Yanzhou is a connected person of the Company and the transactions contemplated under the 2021 Yanzhou Framework Agreement For Coal Sales constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As at the date of this announcement, YIT is a wholly-owned subsidiary of Yankuang, the controlling shareholder of Yanzhou. Accordingly, YIT is a connected person of the Company by virtue of being an associate of Yanzhou and the transactions contemplated under the 2021 YIT Framework Agreement For Coal Sales constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

**For identification purposes only*

As the Coal Sales Transactions were entered into by the Company with parties who are connected with one another, the Coal Sales Transactions are required to be aggregated pursuant to Rule 14A.81 of the Listing Rules.

As the highest applicable percentage ratio in respect of the aggregate annual caps for the continuing connected transactions contemplated under the Coal Sales Transactions is more than 0.1% but less than 5%, such continuing connected transactions will be subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

A. INTRODUCTION

On 19 November 2020, the Company entered into the 2021 Yanzhou Framework Agreement For Coal Sales with Yanzhou, pursuant to which the Group agreed to continue to sell coal to Yanzhou and/or their subsidiaries (excluding the Group) during the three years ending 31 December 2023. On the same date, the Company entered into the 2021 YIT Framework Agreement For Coal Sales with YIT, pursuant to which the Group agreed to continue to sell coal to YIT and/or its associates (excluding the Yanzhou Group) during the three years ending 31 December 2023.

B. MATERIAL TERMS OF THE 2021 YANZHOU FRAMEWORK AGREEMENT FOR COAL SALES

(a) Subject Matter

The 2021 Yanzhou Framework Agreement For Coal Sales provides that all transactions in relation to the sale of coal by the Group to Yanzhou and/or its subsidiaries (excluding the Group) must be (i) in the ordinary and usual course of business of the Group, (ii) on an arm's length basis, (iii) on normal commercial terms or better, and (iv) in compliance with, among other things, the Listing Rules and applicable laws.

(b) Basis of Consideration

Considering the nature of coal, the sale price will be determined with reference to industry index prices and coal quality characteristics under the respective contracts.

(c) Historical Amounts

The aggregate annual transaction amounts received by the Group from Yanzhou and/or its subsidiary (excluding YIT, which ceased to be a subsidiary of Yanzhou in April 2020 and the Group) for the sale of coal for the three years ended 31 December 2017, 2018, 2019 and the six months ended 30 June 2020 were nil, nil, approximately US\$6 million and US\$11 million, respectively.

C. MATERIAL TERMS OF THE 2021 YIT FRAMEWORK AGREEMENT FOR COAL SALES

(a) Subject Matter

The 2021 YIT Framework Agreement For Coal Sales provides that all transactions in relation to the sale of coal by the Group to YIT and/or its associates (excluding the Yanzhou Group) must be (i) in the ordinary and usual course of business of the Group, (ii) on an arm's length basis, (iii) on normal commercial terms or better, and (iv) in compliance with, among other things, the Listing Rules and applicable laws.

As at the date of this announcement, YIT is a wholly-owned subsidiary of Yankuang, the controlling shareholder of Yanzhou, and accordingly, YIT is a connected person of the Company by virtue of being an associate of Yanzhou. Yanzhou and Yankuang propose to enter into the Yankuang Framework Agreement to govern the connected transactions to be entered into between them for the three years ending 31 December 2023, of which the transactions contemplated under the 2021 YIT Framework Agreement For Coal Sales will form a part.

The 2021 YIT Framework Agreement will become effective after and subject to Yanzhou obtaining the approvals of its board of directors and, if applicable, its shareholders, respectively, for the Yankuang Framework Agreement.

(b) Basis of Consideration

Considering the nature of coal, the sale price will be determined with reference to industry index prices and coal quality characteristics under the respective contracts.

(c) Historical Amounts

The aggregate annual transaction amounts received by the Group from YIT and/or its associates (excluding the Yanzhou Group) for the sale of coal for the three years ended 31 December 2017, 2018, 2019 and the six months ended 30 June 2020 were approximately US\$5 million, US\$172 million, US\$95 million and US\$39 million, respectively. In 2017, the Company only entered into one transaction with YIT in the second half of 2017 due to the competitiveness in the market.

D. AGGREGATE ANNUAL CAPS FOR THE 2021 YANZHOU FRAMEWORK AGREEMENT FOR COAL SALES AND THE 2021 YIT FRAMEWORK AGREEMENT FOR COAL SALES

The maximum annual transaction amount to be received by the Group from Yanzhou and/or its subsidiaries (excluding the Group) for the three years ending 31 December 2021, 2022 and 2023 will not exceed US\$20 million, US\$20 million and US\$20 million, respectively.

The maximum annual transaction amount to be received by the Group from YIT and/or its associates (excluding the Yanzhou Group) for the three years ending 31 December 2021, 2022 and 2023 will not exceed US\$87.5 million, US\$87.5 million and US\$87.5 million, respectively.

The annual caps set out above were determined primarily with reference to (i) the actual transaction amount during the past three years and taking into consideration the business requirements of Yanzhou and YIT, the Company expects to maintain such sales volume in future years, (ii) the expected additional spot demand for coal from Yanzhou and/or its subsidiaries (excluding the Group) and YIT and/or its associates (excluding the Yanzhou

Group) over the next three years and (iii) the estimated sale price for the coal the Company typically charges.

E. REASONS FOR, AND BENEFIT OF, THE 2021 YANZHOU FRAMEWORK AGREEMENT FOR COAL SALES AND THE 2021 YIT FRAMEWORK AGREEMENT FOR COAL SALES

The Company's principal business activity is the production of thermal and metallurgical coal. Yanzhou, a controlling shareholder of the Company, is engaged in the business of mining, preparation, processing and sales of coal and coal chemicals. YIT is engaged in the business of sales of coal and coal chemicals. Each of Yanzhou and YIT has been a consistent and a major customer of the Company in the PRC. The Company believes that through supplying coal to Yanzhou and YIT in the Company's ordinary and usual course of business, the Company could further expand its business operation in the Asia markets and generate revenue.

F. DIRECTORS' CONFIRMATION

The Directors (including the independent non-executive Directors) are of the view that the terms of the 2021 Yanzhou Framework Agreement For Coal Sales and the 2021 YIT Framework Agreement For Coal Sales (including the relevant annual caps thereunder) are fair and reasonable. The Coal Sales Transactions are in the ordinary and usual course of business of the Group, on normal commercial terms or better and in the interests of the Company and its shareholders as a whole.

Mr. Baocai Zhang, Mr. Cunliang Lai, Mr. Xiangqian Wu and Mr. Qingchun Zhao declared that they hold certain positions in Yanzhou or Yankuang. However, the articles of association of the Company does not preclude such Directors from voting. Accordingly, none of the Directors abstained from voting on the relevant resolutions of the Board approving the Coal Sales Transactions (including the relevant annual caps).

G. LISTING RULES IMPLICATIONS

As at the date of this announcement, Yanzhou is a controlling shareholder of the Company, holding approximately 62.26% of the total issued shares of the Company. Accordingly, Yanzhou is a connected person of the Company and the transactions contemplated under the 2021 Yanzhou Framework Agreement For Coal Sales constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As at the date of this announcement, YIT is a wholly-owned subsidiary of Yankuang, the controlling shareholder of Yanzhou, accordingly, YIT is a connected person of the Company by virtue of being an associate of Yanzhou and the transactions contemplated under the 2021 YIT Framework Agreement For Coal Sales constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the Coal Sales Transactions were entered into by the Company with parties who are connected with one another, the Coal Sales Transactions are required to be aggregated pursuant to Rule 14A.81 of the Listing Rules.

As the highest applicable percentage ratio in respect of the aggregate annual caps for the continuing connected transactions contemplated under the Coal Sales Transactions is more than 0.1% but less than 5%, such continuing connected transactions will be subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

H. INFORMATION IN RELATION TO THE COMPANY, YANZHOU AND YIT

The Company's principal business activity is the production of thermal and metallurgical coal for use in the power generation and steel industries in Asian markets. The shares of the Company have been listed on the Australian Securities Exchange and the Hong Kong Stock Exchange since 2012 and 2018, respectively.

Yanzhou is principally engaged in the business of mining, preparation, processing and sales of coal and coal chemicals. Yanzhou'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. The H Shares and A Shares of Yanzhou are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, respectively.

YIT is principally engaged in the business of sales of coal and coal chemicals in the PRC. As at the date of this announcement, YIT is a wholly owned subsidiary of Yankuang, the controlling shareholder of Yanzhou.

I. DEFINITIONS

“2021 Yanzhou Framework Agreement For Coal Sales”	the 2021 Yanzhou framework agreement for coal sales entered into between the Company and Yanzhou on 19 November 2020 in relation to the sale of coal by the Group to Yanzhou and/or its subsidiaries (excluding the Group)
“2021 YIT Framework Agreement For Coal Sales”	the 2021 YIT framework agreement for coal sales entered into between the Company and YIT on 19 November 2020 in relation to the sale of coal by the Group to YIT and/or its associates (excluding the Yanzhou Group)
“Board”	the board of Directors of the Company
“Coal Sales Transactions”	the coal sales transactions contemplated under the 2021 Yanzhou Framework Agreement For Coal Sales and the 2021 YIT Framework Agreement for Coal Sales
“Company”	Yancoal Australia Ltd, a company incorporated under the laws of Australia with limited liability, whose ordinary shares are listed on the Australian Securities Exchange and the Hong Kong Stock Exchange
“Director”	a director of the Company
“Group”	the Company and its subsidiaries
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time

“Yankuang”	Yankuang Group Company Limited (兗礦集團有限公司), a company with limited liability reformed and established under the laws of the PRC on 12 March 1996, the controlling shareholder of Yanzhou and the ultimate controlling shareholder of the Company
“Yankuang Framework Agreement”	the framework agreement proposed to be entered into between Yanzhou and Yankuang to govern the connected transactions between them for the three years ending 31 December 2023
“Yanzhou”	兗州煤業股份有限公司 (Yanzhou Coal Mining Company Limited), a joint stock limited company established under the laws of the PRC in 1997, and the H Shares and A Shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, respectively
“Yanzhou Group”	Yanzhou and its subsidiaries
“YIT”	兗煤國際貿易有限公司 (Yancoal International Trading Co., Ltd.), a company limited by shares incorporated under the laws of Hong Kong in 2011

By order of the Board
Yancoal Australia Ltd
Baocai ZHANG
Chairman

Hong Kong, 19 November 2020

As of the date of this announcement, the executive Director is Mr. Ning Zhang, the non-executive Directors are Mr. Baocai Zhang, Mr. Cunliang Lai, Mr. Xiangqian Wu, Mr. Qingchun Zhao and Mr. Xing Feng and the independent non-executive Directors are Mr. Gregory James Fletcher, Dr. Geoffrey William Raby and Ms. Helen Jane Gillies.