中 國 秦 發 集 團 有 限 公 司
CHINA QINFA GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 00866)

(I) FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014 (II) CLARIFICATION IN RESPECT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

(I) FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

The Directors refer to the profit warning announcement of the Company dated 17 February 2015 and set forth below the final results of the Group for the year ended 31 December 2014:

- Turnover was RMB6,488.3 million in 2014, representing a decrease of 40.1% from RMB10,830.1 million in 2013.
- Coal handling and trading volume was 15,935,000 tonnes in 2014, representing a decrease of 33.7% from 24,034,000 tonnes in 2013.
- Gross loss margin in 2014 was 2.9%. As compared with gross profit margin 9.8% in 2013, the gross loss was mainly due to continuous decreases in the average selling prices for thermal coal in China in 2014.
- Loss attributable to equity shareholders of the Company for the year increased to RMB1,183.4 million in 2014, as compared with RMB247.8 million in 2013. The loss included the one-off and predominately non-cash loss arising from the loss on disposal of a subsidiary, reduction of deferred tax assets and impairment losses on interest in an associate, property, plant and equipment and prepayments and other receivables in the total amount of RMB372.7 million.
- Basic and diluted loss per share for the year ended 31 December 2014 were RMB0.57, as compared with RMB0.12 in 2013.
- The Board does not recommend the payment of a final dividend.
- The auditors of the Company have set forth certain matters in relation to certain items in prior year, that result in them not being able to provide a basis for their audit opinion. Accordingly, the auditors of the Company do not express an opinion on the consolidated financial statements of the Group as to whether the financial statements give a true and fair view of the state of affairs of the Group as of 31 December 2014 and of the Group's loss and cash flows for the year ended 31 December 2014.

The board (the "**Board**") of directors (the "**Directors**") of China Qinfa Group Limited (the "**Company**") is pleased to announce the annual consolidated results and financial position of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2014 with comparative figures for the year ended 31 December 2013 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2014	2013
	Notes	***RMB'000***	*RMB'000*
			(Restated)
Revenue	*4*	**6,488,279**	10,830,133
Cost of sales		**(6,678,679)**	(9,767,117)
Gross (loss)/profit		**(190,400)**	1,063,016
Other income, gains and losses	*5*	**(46,798)**	171,981
Distribution expenses		**(88,350)**	(152,115)
Administrative expenses		**(229,398)**	(340,619)
Other expenses		**(86,673)**	(217,361)
Results from operating activities		**(641,619)**	524,902
Finance income		**50,519**	37,348
Finance costs		**(575,287)**	(573,762)
Net finance costs	*6(a)*	**(524,768)**	(536,414)
Share of loss of associates		**(11,269)**	(3,093)
Loss before taxation	*6*	**(1,177,656)**	(14,605)
Income tax expense	*7*	**(114,657)**	(121,475)
Loss for the year		**(1,292,313)**	(136,080)
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		**263**	(15,561)
Other comprehensive income for the year, net of tax		**263**	(15,561)
Total comprehensive income for the year		**(1,292,050)**	(151,641)
(Loss)/profit attributable to:			
Equity shareholders of the Company		**(1,183,426)**	(247,765)
Non-controlling interests		**(108,887)**	111,685
Loss for the year		**(1,292,313)**	(136,080)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	Notes	Year ended 31 December 2014 RMB'000	2013 RMB'000 (Restated)
Total comprehensive (loss)/income attributable to:			
Equity shareholders of the Company		**(1,183,163)**	(263,326)
Non-controlling interests		**(108,887)**	111,685
Total comprehensive (loss)/income for the year		**(1,292,050)**	(151,641)
Loss per share attributable to equity shareholders of the Company during the year			
Basic and diluted loss per share	*8*	**(RMB0.57)**	(RMB0.12)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 31 December	
		2014	2013
	Notes	***RMB'000***	*RMB'000*
Non-current assets			
Property, plant and equipment		**7,028,164**	6,108,676
Coal mining rights		**4,633,632**	4,971,400
Lease prepayments		**112,921**	129,448
Interests in associates		**77,267**	92,267
Deferred tax assets		**19,384**	151,409
		11,871,368	11,453,200
Current assets			
Inventories		**326,355**	400,430
Trade and bill receivables	*9*	**1,268,992**	2,699,343
Prepayments and other receivables		**863,461**	1,526,390
Pledged deposits		**497,129**	1,983,604
Cash and cash equivalents		**53,864**	483,310
		3,009,801	7,093,077
Current liabilities			
Trade and bill payables	*10*	**(1,048,131)**	(1,589,768)
Other payables		**(2,258,701)**	(2,386,687)
Interest-bearing bank borrowings	*11*	**(4,734,105)**	(6,483,197)
Tax payable		**(247,145)**	(468,337)
		(8,288,082)	(10,927,989)
Net current liabilities		**(5,278,281)**	(3,834,912)
Total assets less current liabilities		**6,593,087**	7,618,288
Non-current liabilities			
Other payables		**(95,782)**	(131,549)
Interest-bearing bank borrowings	*11*	**(2,917,796)**	(2,574,906)
Accrued reclamation obligations		**(74,693)**	(81,869)
Deferred tax liabilities		**(1,138,474)**	(1,139,326)
		(4,226,745)	(3,927,650)
Net assets		**2,366,342**	3,690,638

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

		At 31 December	
		2014	2013
	Notes	***RMB'000***	*RMB'000*
Capital and reserves			
Share capital		**176,531**	176,531
Perpetual subordinated convertible securities		**156,931**	156,931
Reserves		**781,592**	1,968,900
Total equity attributable to equity shareholders of the Company		**1,115,054**	2,302,362
Non-controlling interests		**1,251,288**	1,388,276
Total equity		**2,366,342**	3,690,638

NOTES TO THE FINANCIAL STATEMENTS

1 COMPANY BACKGROUND AND BASIS OF PREPARATION

1.1 General information

China Qinfa Group Limited (the "**Company**") was incorporated in the Cayman Islands on 4 March 2008 as an exempted company with limited liability under the Companies Law (2007 Revision) of the Cayman Islands. The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 3 July 2009 (the "**Listing Date**"). The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the principal place of business of the Company is 22nd Floor, South Tower, Poly International Plaza, No. 1 Pazhou East Road, Haizhu District, Guangzhou, Guangdong, People's Republic of China (the "**PRC**"). The principal activities of the Company and its subsidiaries (together the "**Group**") are coal mining, purchase and sales, filtering, storage, blending of coal, shipping transportation and port business in the PRC.

1.2 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("**IAS**") and related Interpretations, promulgated by the International Accounting Standards Board ("**IASB**"), and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of measurement

These financial statements are presented in Renminbi ("**RMB**"), and all values are rounded to the nearest thousand, except when otherwise indicated.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

(c) Going concern basis

The Group incurred a consolidated net loss of approximately RMB1,292,313,000 (2013: RMB136,080,000) for the year ended 31 December 2014 and, as of that date, the Group recorded a net current liabilities of approximately RMB5,278,281,000 (2013: RMB3,834,912,000) as at 31 December 2014. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The consolidated financial statements have been prepared on the assumptions that the Group will continue to operate as a going concern notwithstanding the conditions prevailing as at 31 December 2014 and subsequently thereto up to the date of approval of the consolidated financial statements. In order to improve the Group's financial positions, immediate liquidity and cash flows, and otherwise to sustain the Group as a going concern, the directors of the Company have adopted several measures together with other measures in progress at the date of approval of these consolidated financial statements which include, but not limited to, the followings:

(i) Apply cost control measures in cost of sales and administrative expenses;

(ii) The Group is currently in the process of negotiating with various banks to renew its existing interest-bearing bank borrowings and banking facilities with an aggregate amount of RMB1,363,500,000 and RMB300,000,000 respectively; and

(iii) The Group has renewed or obtained new interest-bearing bank borrowings and banking facilities of RMB606,490,000 and RMB600,000,000 respectively. The renewed interest-bearing bank borrowings and banking facilities would be repayable after 31 December 2015 except an interest-bearing bank borrowing of RMB71,540,000 due in August 2015.

(iv) For interest-bearing bank borrowings which will mature before 31 December 2015, the Group will actively negotiate with the banks when they fall due to secure necessary fund to meet the Group's working capital and financial requirements in the future. The directors of the Company, have evaluated all the relevant facts available to them, are of the opinion that the Group would be able to renew such interest-bearing bank borrowings upon maturity.

In addition to the above measures, the directors of the Company have prepared a cash flow forecast for the next twelve months and are of the opinion that the Group would generate positive cash inflows from its operations.

On the basis of the successful implementation of the measures described above and after assessing the Group's current and forecasted cash positions, the directors of the Company are satisfied that the Group will be able to meet in full their financial obligations in the foreseeable future. Accordingly, the directors of the Company are of the opinion that it is appropriate to prepare the consolidated financial statements for the year ended 31 December 2014 on a going concern basis.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to write down the value of assets to their estimated recoverable amounts, to reclassify non-current assets and liabilities as current assets and liabilities respectively, and to provide for any further liabilities which may arise. The effects of these potential adjustments have not been reflected in the consolidated financial statements.

(d) Use of judgements and estimates

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other resources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2 CHANGES IN ACCOUNTING POLICIES

In the preparation of the financial statements for the year ended 31 December 2014, the Group has applied, for the first time, the following revised standards and a new interpretation issued by the IASB.

- Amendments to IFRS 10, IFRS 12 and IAS 27(2011) — Investment entities
- Amendments to IAS 32 — Offsetting Financial Assets and Financial Liabilities
- Amendments to IAS 36 — Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to IAS 39 — Novation of Derivatives and Continuation of Hedge Accounting
- IFRIC 21 — Levies

None of these amendments have had a material effect on how the Group's results and financial position for the current or prior periods have been presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 NEW AND REVISED IFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

Up to the date of issue of these financial statements, the IASB has issued a few of new amendments and new standards which are not yet effective for the year ended 31 December 2014 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

		Effective for accounting periods beginning on or after
IAS 19 (2011) Amendments	Defined Benefit Plans: Employee Contributions	1 July 2014
Amendments to IFRSs	Annual Improvements to IFRSs 2010 – 2012 Cycle	1 July 2014
Amendments to IFRSs	Annual Improvements to IFRSs 2011 – 2013 Cycle	1 July 2014
IAS 16 and IAS 38 Amendments	Classification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
IAS 27 (2011) Amendments	Equity Method in Separate Financial Statements	1 January 2016
IFRS 10 and IAS 28 (2011) Amendments	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
IFRS 11 Amendments	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to IFRSs	Annual Improvements to IFRSs 2012 – 2014 Cycle	1 January 2016
IFRS 15	Revenue from Contracts with Customers	1 January 2017
IFRS 9 (2014)	Financial Instruments	1 January 2018

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

The Group has not early adopted the above amendments, new standards and interpretations. The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

4 SEGMENT REPORTING

(a) Segment results, assets and liabilities

The Group has three reportable segments – coal business, shipping transportation and port business – which are the Group's strategic business units. These strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Chief Executive Officer (the "**CEO**") reviews internal management reports on a monthly basis.

For the purposes of assessing segment performance and allocating resources between segments, the CEO monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

The measure used for reporting segment profit is adjusted profit before net finance costs and taxes. Items not specifically attributable to individual segments, such as unallocated head office and corporate administration costs are further adjusted.

Segment assets include all tangible assets, coal mining rights and current assets with the exception of deferred tax assets and other corporate assets. Segment liabilities include trade and bills payable and other payables attributable to activities of the individual segments and interest-bearing bank borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments.

	Coal business		**Shipping transportation**		**Port business**		**Total**	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		*(Restated)*				*(Restated)*
Revenue from external customers	**6,292,314**	10,698,908	**157,132**	131,225	**38,833**	–	**6,488,279**	10,830,133
Inter-segment revenue	**–**	–	**75,354**	123,699	**1,647**	–	**77,001**	123,699
Reportable segment revenue	**6,292,314**	10,698,908	**232,486**	254,924	**40,480**	–	**6,565,280**	10,953,832
Reportable segment (loss)/profit before taxation	**(503,639)**	766,341	**18,568**	(236,346)	**9,492**	–	**(475,579)**	529,995
Loss on disposal of vessels under construction	**–**	–	**–**	116,014	**–**	–	**–**	116,014
Depreciation and amortisation for the year	**159,350**	161,900	**55,163**	75,723	**22,024**	–	**236,537**	237,623
Impairment losses on property, plant and equipment	**18,674**	–	**–**	84,500	**–**	–	**18,674**	84,500
Impairment loss on interest in an associate	**19,333**	–	–	–	–	–	**19,333**	–
Impairment losses on prepayments and other receivables	**42,136**	–	–	–	–	–	**42,136**	–
Reportable segment assets	**12,399,005**	16,542,694	**896,359**	1,140,770	**1,998,886**	1,687,059	**15,294,250**	19,370,523
(including interests in associates)	**77,267**	92,267	**–**	–	**–**	–	**77,267**	92,267
Reportable segment liabilities	**(9,818,480)**	(12,463,809)	**(933,003)**	(1,185,296)	**(1,458,739)**	(1,118,059)	**(12,210,222)**	(14,767,164)

(b) Reconciliations of reportable segment revenue, loss before taxation, assets and liabilities

Revenue

	2014	2013
	RMB'000	*RMB'000*
Reportable segment revenue	**6,565,280**	10,953,832
Elimination of inter-segment revenue	**(77,001)**	(123,699)
Consolidated revenue	**6,488,279**	10,830,133

Loss before taxation

	2014	2013
	RMB'000	*RMB'000*
Reportable segment (loss)/profit before taxation	**(475,579)**	529,995
Elimination of inter-segment profit	**491**	4,104
Unallocated head office and corporate expenses	**(15,215)**	(12,290)
Loss on disposal of a subsidiary	**(162,585)**	–
Net finance costs	**(524,768)**	(536,414)
Consolidated loss before taxation	**(1,177,656)**	(14,605)

Assets

	2014	2013
	RMB'000	*RMB'000*
Reportable segment assets	**15,294,250**	19,370,523
Elimination of inter-segment receivables and inventories	**(434,207)**	(215,434)
Elimination of receivables from head office	**–**	(760,924)
Deferred tax assets	**19,384**	151,409
Unallocated assets	**1,742**	703
Consolidated total assets	**14,881,169**	18,546,277

Liabilities

	2014	2013
	RMB'000	*RMB'000*
Reportable segment liabilities	**12,210,222**	14,767,164
Elimination of inter-segment payables	**(1,086,257)**	(215,200)
Elimination of payables to head office	**–**	(1,304,077)
Tax payable	**247,145**	468,337
Deferred tax liabilities	**1,138,474**	1,139,326
Unallocated liabilities	**5,243**	89
Consolidated total liabilities	**12,514,827**	14,855,639

(c) Geographic information

The Group's total assets are primarily dominated by assets handling its coal business, shipping transportation and port business. The coal is sold primarily to the PRC domestic customers and investments in most of the coal mines are physically located in the PRC. Also, the port is physically located in the PRC. Therefore, related assets and liabilities are almost all located in the PRC. The vessels are primarily deployed across geographical markets for shipping transportation throughout the world. As a result, the directors of the Company consider that it will not be meaningful to allocate the Group's assets and their related capital expenditure to specific geographical segments. Accordingly, geographical segment information is only presented for revenue, which is based on the geographical location of customers.

Revenue from external customers

	2014	2013
	RMB'000	*RMB'000*
The PRC	**6,376,090**	10,700,050
Outside the PRC	**112,189**	130,083
Total	**6,488,279**	10,830,133

(d) Information about major customers

During the year ended 31 December 2014, sales to the Group's top three largest customers accounted for 15%, 12% and 11% of the Group's revenue respectively. During the year ended 31 December 2013, the Group's customer base is diversified and no single customer with whom transactions have exceeded 10% of the Group's revenue.

5 OTHER INCOME, GAINS AND LOSSES

		2014	2013
	Notes	***RMB'000***	*RMB'000*
			(Restated)
Leasing income	*(i)*	**103,125**	137,500
Government subsidies	*(ii)*	**7,111**	12,019
Foreign exchange (loss)/gain, net		**(16,975)**	19,107
Loss on disposal of a subsidiary		**(162,585)**	–
Others		**22,526**	3,355
		(46,798)	171,981

(i) The Group leased out an area with coal mine of Shanxi Hun Yuan Ruifeng Coal Co., Ltd. ("Ruifeng Coal") for fixed lease income on an annual basis.

(ii) The Group received unconditional subsidies from local government during the year as recognition of the Group's contribution to the development of local economy.

6 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

(a) Net finance costs

	2014	2013
	RMB'000	*RMB'000*
		(Restated)
Interest income	**(50,519)**	(37,348)
Interest on borrowings	**713,896**	621,583
Less: interest capitalised into property, plant and equipment*	**(200,160)**	(123,859)
	513,736	497,724
Bank charges	**61,551**	76,038
Finance costs	**575,287**	573,762
Net finance costs	**524,768**	536,414

* The borrowing costs have been capitalised at a rate of 6.97%-10.87% per annum (2013: 6.98%-9.15%).

(b) Other items

	2014	2013
	RMB'000	*RMB'000*
Cost of inventories (Note (i))	**6,542,537**	9,502,388
Write-down of inventories to net realisable value	**35,650**	8,012
Minimum lease payments under operating lease		
– properties	**6,374**	6,155
– vessels	**46,139**	120,394
Depreciation for the property, plant and equipment	**176,603**	178,231
Amortisation of lease prepayments (included in administrative expenses)	**140**	140
Amortisation of coal mining rights (included in cost of sales)	**43,407**	59,252
Auditors' remuneration		
– audit services	**2,000**	3,547
– non-audit services	**950**	477
(Reversal of)/impairment losses on trade and bill receivable	**(9,011)**	51,947
Other expenses		
– loss on disposal of property, plant and equipment	**–**	116,059
– impairment losses on property, plant and equipment	**18,674**	84,500
– impairment loss on interest in an associate	**19,333**	–
– impairment losses on prepayments and other receivables	**42,136**	7,838
– Property, plant and equipment written off	**48**	–

(i) Cost of inventories includes RMB376,269,000 (2013: RMB224,913,000) relating to staff costs, depreciation and amortisation expenses, which amounts are also included in the respective total amounts disclosed separately above for each of these types of expenses.

7 INCOME TAX EXPENSE

(a) Income tax expense in the consolidated statement of profit or loss and other comprehensive income represents:

	2014 *RMB'000*	2013 *RMB'000*
Current tax expense		
– PRC Corporate Income Tax	**29,410**	296,096
– Overprovision of PRC Corporate Income Tax in prior years (Note (vi))	**(86,990)**	(60,567)
Deferred tax	**172,237**	(114,054)
	114,657	121,475

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

(ii) No provision for Hong Kong Profits Tax has been made for the subsidiaries located in Hong Kong as these subsidiaries did not have assessable profits subject to Hong Kong Profits Tax during the year (2013: Nil).

(iii) No provision for income tax has been made for the subsidiary located in Macau as the subsidiary did not have assessable profits subject to income tax in Macau during the year (2013: Nil).

(iv) The provision for the PRC corporate income tax was based on the statutory rate of 25% (2013: 25%) of the assessable profits of subsidiaries which carried on businesses in the PRC.

(v) Pursuant to the Corporate Income Tax Law of the PRC, 5% (2013: 5%) withholding tax is levied on the foreign investor in respect of dividend distributions arising from a foreign investment enterprise's profits earned after 1 January 2008. As at 31 December 2014, temporary differences relating to the undistributed profits of PRC subsidiaries amounted to approximately RMB30,000 (2013: RMB762,476,000). Deferred tax liabilities of RMB2,000 (2013: RMB38,124,000) have not been recognised in respect of the withholding tax that would be payable on the distribution of these retained profits as the Company determined that it is probable that undistributed profits of these PRC subsidiaries will not be distributed in the foreseeable future.

(vi) Certain subsidiaries of the Group made provisions for PRC corporate income tax of RMB86,990,000 (2013: RMB60,567,000) in previous years. The Group implemented a business plan to enhance the subsidiaries' operations and the directors of the Company believed that the likelihood of utilisation of such PRC corporate income tax provision had become remote and therefore had decided to release it to profit or loss.

8 LOSS PER SHARE

Basic and diluted loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB1,188,054,000 (2013: RMB252,399,000) and the weighted average number of approximately 2,078,413,985 (2013: 2,076,609,000) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2014	2013
	Number of shares	*Number of shares*
Ordinary shares issued at 1 January	**2,078,413,985**	2,075,120,000
Weighted average number of ordinary shares issued in respect of scrip dividends	**–**	1,489,000
Weighted average number of ordinary shares at 31 December	**2,078,413,985**	2,076,609,000

Loss attributable to ordinary equity shareholders of the Company

	2014	2013
	RMB'000	*RMB'000*
		(Restated)
Loss attributable to equity shareholders of the Company	**(1,183,426)**	(247,765)
Less: Distribution relating to perpetual subordinated convertibles securities classified as equity	**(4,628)**	(4,634)
Loss attributable to ordinary equity shareholders of the Company	**(1,188,054)**	(252,399)

No diluted loss per share is presented as the effect of all potential ordinary shares is anti-dilutive for the year ended 31 December 2014 and 2013.

9 TRADE AND BILL RECEIVABLES

All of the trade and bill receivables are expected to be recovered within one year.

An ageing analysis of trade and bill receivables (net of impairment loss) of the Group is as follows:

	The Group	
	2014	2013
	RMB'000	*RMB'000*
Within 2 months	**519,102**	1,529,483
Over 2 months but within 6 months	**271,261**	642,999
Over 6 months but within 1 year	**285,078**	55,946
Over 1 year but within 2 years	**192,386**	470,915
Over 2 years	**1,165**	–
	1,268,992	2,699,343

Credit terms granted to customers mainly range from 0 to 60 days (2013: 0 to 60 days) depending on the customer's relationship with the Group, their creditworthiness and past settlement record.

The ageing is based on the invoice date and net of provision.

10 TRADE AND BILL PAYABLES

An ageing analysis of trade and bill payables of the Group is as follows:

	The Group	
	2014	2013
	RMB'000	*RMB'000*
Within 1 year	**1,001,631**	1,478,057
Over 1 year but within 2 years	**46,107**	111,711
Over 2 years	**393**	–
	1,048,131	1,589,768

11 INTEREST-BEARING BANK BORROWINGS

	The Group	
	2014	2013
	RMB'000	*RMB'000*
Current		
Secured bank loans and bank advances	**3,424,188**	5,471,329
Unsecured bank loans and bank advances	**514,872**	236,936
Current portion of non-current secured bank loans	**713,325**	727,211
Current portion of non-current unsecured bank loans	**81,720**	47,721
	4,734,105	6,483,197
Non-current		
Secured bank loans	**2,677,796**	2,253,325
Unsecured bank loans	**240,000**	321,581
	2,917,796	2,574,906
	7,651,901	9,058,103

12 DIVIDENDS

Dividends paid to equity shareholders attributable to the year

	2014	2013
	RMB'000	*RMB'000*
Interim dividend declared and paid in respect of the current year of HKD Nil per ordinary share (2013: HK1 cent per share)	**–**	16,439
Final dividend declared and paid in respect of the previous year of HKD Nil per ordinary share (2013: HK3 cents per share)	**–**	49,566
	–	66,005

The directors of the Company do not recommend the payment of any dividend for the year ended 31 December 2014.

At a meeting held on 22 March 2013, the Board of Directors proposed a final dividend of HK3 cents which will be satisfied by allotment of new shares of the Company, credited as fully paid, by way of scrip dividend, with an alternative to equity holders to elect to receive such final dividend (or part thereof) in cash in lieu of such allotment.

On 19 July 2013, the Group settled the final scrip dividend declared in respect of the previous financial year by cash payment of HKD59,717,200 (equivalent to RMB47,544,000) and issuance of 3,293,985 new ordinary shares at HKD0.77 (equivalent to RMB2,022,000).

13 CAPITAL COMMITMENTS

At each reporting date, capital commitments outstanding not provided for in the consolidated financial statements are as follows:

	2014	2013
	RMB'000	*RMB'000*
Property, plant and equipment	**281,312**	374,588
Interests in an associate (*Note (i)*)	**6,509**	14,153

(i) The Group was committed at 31 December 2014 to invest in Paragon Coal Pty Limited which amounted to approximately Australian dollars ("**AUD**") 1,300,000 (equivalent to approximately RMB6,509,000) (31 December 2013: AUD2,600,000 (equivalent to approximately RMB14,153,000)).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a leading non-State owned thermal coal supplier in China, and it operates an integrated coal supply chain, including coal mining, purchase and sales, filtering, storage, blending, shipping transportation and port business. During the year ended 31 December 2014, the Group continued to focus on these business activities and expanded its integrated coal supply chain through upward vertical integration.

BUSINESS REVIEW

Operating performance

China's GDP growth continued to decelerate in 2014, leading to the fall in aggregate coal demand and coal prices. The Bohai-Rim Steam-Coal Price Index has decreased from 610 at the start of the year to 525 at the year-end, representing a drop of 13.9%. In this challenging operating environment, the Group's revenue from coal handling and trading has declined significantly by 40% to approximately RMB6,488,279,000 as compared to 2013, as a result, the loss for the period has widened notably to RMB1,292,313,000. In the second half of the year, with the diminishing trade volume and weakening productivities in coal mines, the later caused by construction works carried out in coal seams, the loss in the period has worsened considerably when compared to the first half of the year. The increase in loss was also due to a one-off write-off of deferred tax assets and the loss from disposal of Ruifeng coal.

Difficult operating environment for coal trading

In 2014, the coal handling and trading volume of the Group was 15,935,000 tonnes, representing a decrease of 33.7% as compared with 24,034,000 tonnes in 2013. The monthly average selling prices of coal for the year ended 31 December 2014 ranged between RMB263 per tonne and RMB452 per tonne, which were lower than the average selling prices ranged between RMB406 per tonne and RMB489 per tonne in 2013. As the coal prices continued to fall and oversupply persisted, the number of profit-making opportunities in coal trading has decreased significantly.

Disposal of Ruifeng Coal

The Group has disposed of the Ruifeng Coal in 2014 and a loss was recorded at an amount of RMB162,585,000. The Group has acquired the Ruifeng Coal in 2010 at a consideration of RMB130,000,000 while Ruifeng Coal has generated RMB440,053,000 attributable to the Group since 2010, taking this into account, the Ruifeng Coal was able to contribute profit to the Group.

Zhuhai terminal and Hengqin Coal Exchange Center projects progressing smoothly

The Group's 100,000-tonne coal terminal of Zhuhai Qinfa Port Co., Ltd. ("**Zhuhai Port**") has successfully conducted trial operation in 2014. It will officially commence operation in the near term. In 2015, the natural depth of the 150,000-tonne main channels in the Zhuhai Gaolan Port project will reach 19m. By then, the project will enable the navigation of 150,000-tonne bulk cargo ships, and meet the unloading and navigation demands from 200,000-tonne bulk cargo ships.

In 2014, the Zhuhai Hengqin Coal Exchange Center (the "**Center**") was established and has commenced operation. The Center has already launched its portal website, completed business registration, launched its exchange system, and has a designated transaction business model. The data analysis function of the Center is well received by the industry, and the fee generation and profitability goals of the Center are achieved.

Operation capabilities in shipping being significantly enhanced

The overall operation capabilities of the shipping division has been remarkably lifted in 2014. By proactively predicting market trends and seizing contract opportunities in a timely manner, the average net daily rental of the fleets for the year has far surpassed the market average. Due to the tightened control on daily operating costs, the daily management cost was restrained within the annual target, and the number of major ship repairs was reduced to half of the annual target, both had helped to conserve the liquid capital of the Group, subsequently the Group has outperformed its annual net cash inflow target for the year.

Adjustment in the Group's management structure

To improve the effectiveness of the decision-making process and execution, and to adapt to the fast-changing market situations, the Group has segregated the management of its businesses into the Northern segment and the Southern segment. It has also implemented a new vertically-stratified management model. Following the adjustments of the management structure, the Northern and Southern segments will be responsible for their own profit and loss, and responsibilities will be assigned to management staff of different levels, thereby maximizing the incentives and responsibilities of the employees, as well as the management staff of various levels.

Strengthening internal controls

In view of the fact that signs of inadequate internal controls surfaced in the Group recently, an internal audit division was established to enhance the risk management of the Group. By performing internal inspection and consultation activities, the audit division facilitates the construction of a comprehensive auditing system for the Group. It will improve and monitor the effectiveness of the system's operation on an on-going basis. The audit division also assists the Board and the audit committee of the Board to discharge their supervision responsibilities regarding the internal control functions, for the sake of guaranteeing the long-term effectiveness of the operation management in the Group.

As of 31 December 2014, the Group owned and operated five coal mines in the PRC (Ruifeng Coal was disposed during the year 2014) and has equity interest in one company listed in Australia engaging in the coal mining business. The table sets forth certain information about these coal mines.

	Note	**Location**	**Ownership**	**Site area** *(sq. km)*	**Operation status**
Huameiao Energy – Xingtao Coal	1,2	Shuozhou Shanxi	80%	4.3	Under operation
Huameiao Energy – Fengxi Coal	1,3	Shuozhou Shanxi	80%	2.4	Under operation
Huameiao Energy – Chongsheng Coal	1,4	Shuozhou Shanxi	80%	2.9	Under operation
Ruifeng Coal	5	Datong Shanxi	– (2013: 87.88%)	2.7	Disposed during 2014
Xinglong Coal	6,7	Xinzhou Shanxi	100%	4.0	Under development
Hongyuan Coal	6,8	Xinzhou Shanxi	100%	4.1	Under operation
Tiaro Coal		Australia	26.31% (2013: 19.88%)	n.a.	Under exploration

Notes:

(1) The Group engaged an independent mineral industry consultant to estimate the total coal reserves and resources as of 30 September 2011 in accordance with the JORC Code. For the period from 1 October 2011 to 31 December 2014, there was no material change in total coal reserves and resources. The total coal reserves and resources as of 31 December 2014 were derived from the estimated figures after deducting the raw coal production for the period from 1 October 2011 to 31 December 2014.

(2) The production capacity for Xingtao coal mine of Huameiao Energy is 1.5 million tonnes per annum, with a total investment budget (excluding coal washing plant) of RMB380 million. The construction was commenced in October 2011. As of 31 December 2014, the accumulated actual investment was RMB378 million. The mine has started joint trial operation since 30 June 2014, and is now subject to testing and inspection.

(3) The production capacity for Fengxi coal mine of Huameiao Energy is 0.9 million tonnes per annum, with a total investment budget of RMB400 million. The construction was commenced in September 2011. As of 31 December 2014, the accumulated actual investment was RMB397 million. The construction of Fengxi coal mine and coal washing plant was completed on 21 January 2014 and delivered a capacity of 0.9 million tonnes per annum.

(4) The production capacity for Chongsheng coal mine of Huameiao Energy is 0.9 million tonnes per annum, with a total investment budget of RMB391 million. The construction was commenced in September 2011. As of 31 December 2014, the accumulated actual investment was RMB392 million. The construction of the coal mine and coal washing plant was completed, delivering a capacity of 0.9 million tonnes per annum. It has commenced operation on 21 January 2014.

(5) On 16 December 2014, Datong Xiejiazhuang Jinfa Trading and Transportation Co., Ltd, the holding company of Ruifeng Coal, disposed 87.88% equity interest of Ruifeng Coal at a total consideration of RMB80 million. The disposal is completed on 29 December 2014.

(6) The Group completed the establishment of two companies, Xinglong Coal and Hongyuan Coal, both wholly-owned by Shenchi Shenda Energy Investment Co., Ltd. during the first half year of 2013.

The Group engaged an independent mineral industry consultant to estimate the total coal reserves and resources as at 31 May 2013 in accordance with the JORC Code.

Pursuant to the estimation, the coal reserves and resources of two coal mines were 66.8 million tonnes and 96.5 million tonnes as of 31 December 2014 (after deduction of the raw coal production volume for the period from 1 June 2013 to 31 December 2014) respectively.

(7) The production capacity for Hongyuan coal mine is 0.9 million tonnes per annum, with a total investment budget of RMB446 million. The construction was commenced in March 2013. As of 31 December 2014, the accumulated actual investment was RMB254 million.

(8) The production capacity for Xinglong coal mine is 0.9 million tonnes per annum, with a total investment budget of RMB348 million. The construction was commenced in December 2012. As of 31 December 2014, the accumulated actual investment was RMB203 million. The mine construction, civil engineering and installation works are in progress.

COAL CHARACTERISTICS

Characteristics of the commercial coal produced by the Group's operating mines are as follows:

Coal Quality Characteristic	Huameiao Energy – Xingtao Coal	Huameiao Energy – Fengxi Coal	Huameiao Energy – Chongsheng Coal	Ruifeng Coal	Hongyuan Coal
Seam	4^{-1}	4	4	2-3	2
Moisture (%)	10.86-13.09%	2.26-2.86%	1.85-4.20%	3.12-5.26%	0.50-8.57%
Ash (%)	15.34-23.31%	20.65-29.29%	16.58-30.74%	20.90-26.00%	21.80-33.60%
Sulfur (%)	0.92-0.93%	0.63-0.87%	0.38-0.52%	0.50-0.95%	0.26-1.41%
Volatile Matter (%)	26.17-28.64%	24.25-27.96%	38.92-41.51%	21.30-27.40%	34.11-53.54%
Energy Content (MJ/kg)	19.80-21.96	17.64-21.04	20.58-22.25	20.62-22.00	19.27-20.78

OPERATING DATA

Reserves and Resources

	Huameiao Energy - Xingtao Coal	Huameiao Energy - Fengxi Coal	Huameiao Energy - Chongsheng Coal	Ruifeng Coal	Xinglong Coal	Hongyuan Coal	Total
Reserves							
Reserves as of 31 December 2013 (Mt)							
– Proven reserves	63.73	19.42	28.90	n.a.	22.49	18.53	153.07
– Probable reserves	13.86	27.26	18.22	n.a.	9.53	16.46	85.33
Total reserves as of 31 December 2014 (Mt)	77.59	46.68	47.12	n.a.	32.02	34.99	238.40
Less: Total raw coal production during 2014 (Mt)	(1.31)	(2.21)	(1.34)	n.a.	n.a.	(0.17)	(5.03)
Reserves as of 31 December 2014 (Mt)	76.28	44.47	45.78	n.a.	32.02	34.82	233.37
Resources							
Resources as of 31 December 2013 (Mt)	115.93	73.97	76.87	66.65	45.96	50.72	430.10
Less: Total raw coal production during 2014 (Mt)	(1.31)	(2.21)	(1.34)	(0.19)	n.a.	(0.17)	(5.22)
Resources as of 31 December 2014 (Mt)	**114.62**	**71.76**	**75.53**	**66.46***	**45.96**	**50.55**	**424.88**

* Ruifeng Coal was disposed of during the year ended 31 December 2014.

The following table sets forth the full-year production figures at the abovementioned mines for the years indicated:–

Raw coal production volume	Year ended 31 December 2014 ('000 tonnes)	2013 ('000 tonnes)
Huameiao Energy – Xingtao Coal	**1,313**	2,134
Huameiao Energy – Fengxi Coal	**2,212**	1,871
Huameiao Energy – Chongsheng Coal	**1,342**	1,708
Ruifeng Coal	**191**	1,091
Hongyuan Coal	**172**	1,404
Total	**5,230**	8,208

Commercial coal production volume	Year ended 31 December 2014 ('000 tonnes)	2013 ('000 tonnes)
Huameiao Energy – Xingtao Coal	**854**+	1,387+
Huameiao Energy – Fengxi Coal	**1,438**+	1,216+
Huameiao Energy – Chongsheng Coal	**873**+	1,110+
Ruifeng Coal	**191**^	1,091^
Hongyuan Coal	**136**+	1,109+
Total	**3,492**	5,913

^ : No washing process is applied to the coal produced by Ruifeng Coal.

+ : Per the competent person's report issued on 30 September 2011 and 31 May 2013, the volume of commercial coal produced by Huameiao Energy and Hongyuan Coal is calculated by a yield rate of 65% and 79% of raw coal respectively.

Exploration, Mining and Development Expenses

The Group's exploration, mining and development expenses consist of the following amounts:

	Year ended 31 December 2014 RMB'000	2013 RMB'000
Materials and consumables	**66,614**	40,037
Staff cost	**120,142**	40,232
Other direct cost	**59,244**	152,692
Overhead and others	**248,574**	156,944
Evaluation fee	**16,869**	10,468
Total	**511,443**	400,373

FINANCIAL REVIEW

Revenue and Handling and Trading Volume

Revenue	Year ended 31 December **2014** ***RMB'000***	2013 *RMB'000*
Coal business	**6,292,314**	10,698,908
Shipping transportation	**157,132**	131,225
Port service income	**38,833**	–

Handling and Trading volume	Year ended 31 December **2014** ***'000 tonnes***	2013 *'000 tonnes*
Coal Handling and Trading	**15,935**	24,034

During the year ended 31 December 2014, the volume of the Group's coal handling and trading recorded a 33.7% decrease as compared with 2013. The monthly average coal selling prices during the year ended 31 December 2014 were in range between RMB263 per tonne and RMB452 per tonne, which were lower than the average selling prices between RMB406 per tonne and RMB489 per tonne in 2013. The decrease in coal handling and trading and monthly average coal selling price were principally because of the slow down in the growth of the overall demand for coal in China during 2014, which was a result of the uncertainties in the global economic development and the slow growth in the manufacturing sector in the PRC.

The average coal selling price and the coal handling and trading volume for each of the three years ended 31 December 2014 are set forth in the table below:

	Year ended 31 December **2014**	2013	2012
Average selling price *(RMB per tonne)*	**395**	445	494
Average monthly handling and *trading volume ('000 tonnes)*	**1,328**	2,003	1,841

The Group sells blended coal which is sourced from both overseas and the PRC domestic markets to customers, including power plants, cement plants and coal traders. Most of the Group's customers are located in the coastal regions of China. Power plants purchase coal for use in the combustion processes to produce steam for power and heat. Cement plants consume coal as primary fuel in their production process. The following table sets forth information regarding the Group's coal sales by industry segment during 2014 and 2013:

	Year ended 31 December			
	2014		2013	
	Net sales	**Percentage of Net sales**	Net sales	Percentage of Net sales
	RMB'000	***% of total***	*RMB'000*	*% of total*
Power plants	**1,152,187**	**18.3**	2,928,056	27.4
Coal traders	**1,844,004**	**29.3**	2,592,693	24.2
Cement plants and others*	**3,296,123**	**52.4**	5,178,159	48.4
Total	**6,292,314**	**100.0**	10,698,908	100.0

* Others mainly represented large State-owned coal suppliers.

The segment turnover for shipping transportation from external customers for the year ended 31 December 2014 was RMB157.1 million, representing an increase of 25.9 million or 19.7% from RMB131.2 million for the same period in 2013. The increase in turnover was primarily due to the continuous increases in freight rates and increase in chartering vessels to external customers.

Gross Loss/Profit and Gross Loss/Profit Margin

The Group's gross loss was RMB190.4 million during the year ended 31 December 2014 as compared with gross profit of RMB1,063.0 million during the same period in 2013. The Group's gross loss margin was 2.9% during the year ended 31 December 2014, as compared with gross profit margin of 9.8% in the same period in 2013. The Group recorded gross loss and gross loss margin in 2014 principally because of the significant decreases in average selling prices of thermal coal by more than 10% in 2014 as compared with 2013, which was higher than the reduction in cost of material and other costs of production.

Other Income, Gains and Losses

During the year ended 31 December 2014, the Group's other income, gains and losses amounted to -RMB46.8 million, as compared with RMB172.0 million in the same period in 2013. The decrease in other income gains and losses was mainly due to the one-off loss arising from the loss on disposal of Ruifeng Coal of RMB162.6 million in 2014.

Cost of sales

Cost of sales of the Group in 2014 amounted to RMB6,678.7 million, representing a decrease of 31.6% compared with RMB9,767.1 million in 2013. The decrease was due to the fall in coal trading and handling volume during the year of 2014.

The table below set forth the cost of sales of the coal business segment:

	Year ended 31 December	
	2014	2013
	RMB million	*RMB million*
Cost of coal purchased	**5,735.8**	8,634.2
Cost of coal transportation*	**211.5**	647.2
Cost of self-produced coal	**523.6**	330.2
Materials, fuel, power	**104.2**	143.3
Staff costs	**120.1**	37.4
Transportation	**2.9**	8.9
Depreciation and amortisation	**146.3**	110.6
Others	**150.1**	30.0
Other costs	**45.7**	18.6
Total cost of sales of coal business segment	**6,516.6**	9,630.2

* Cost of coal transportation refers to the transportation cost before elimination on consolidation.

The Group purchases coal from both overseas and the PRC market. The following table sets forth information regarding the Group's origins of coal based on sales volume and net sales in 2014 and 2013:

	Year ended 31 December			
	2014		2013	
Origins of coal	**Sales volume**	**Net sales**	Sales volume	Net sales
	'000 tonnes	***RMB'000***	*'000 tonnes*	*RMB'000*
China	**14,735**	**5,751,675**	21,223	9,370,345
Indonesia	**625**	**260,122**	1,185	533,828
South Africa	**4**	**1,604**	654	306,947
Australia	**376**	**179,776**	566	273,979
Canada	**153**	**75,734**	135	79,212
Vietnam	**–**	**–**	17	9,127
Others	**42**	**23,403**	254	125,470
Total	**15,935**	**6,292,314**	24,034	10,698,908

The Group keeps expanding the network of suppliers to ensure a supply of coal with reliable and stable quantity and quality.

The Group has established stable cooperative relationships with its key overseas and PRC domestic coal suppliers and has developed business relationships with the majority of them over a period of not less than three years. The Group has also been undergoing upstream expansion through acquisition of companies holding coal mines. This enables the Group to obtain a reliable supply of quality coal.

Administrative Expenses

During the year ended 31 December 2014, the Group's administrative expenses amounted to RMB229.4 million, representing a decrease of 32.6% compared by the RMB340.6 million in the same period in 2013. The decrease was mainly due to the fact that Group has launched a series of cost saving controls during the year to lower the administrative costs and the absence of impairment losses on trade and other receivables in 2013 in the total amount of RMB59.8 million .

Distribution Expenses

Distribution expenses decreased by 41.9% to RMB88.4 million for the year ended 31 December 2014, compared by the RMB152.1 million in the same period in 2013. The decrease was in line with the decrease in coal handling and trading volume in 2014.

Net Finance Costs

Net finance costs of the Group in 2014 amounted to RMB524.8 million, representing a decrease of RMB11.6 million or 2.2% from RMB536.4 million in 2013.

Loss Attributable to Equity Shareholders

Loss attributable to equity shareholders of the Company during the year ended 31 December 2014 was RMB1,183.4 million as compared with RMB247.8 million in the same period in 2013. The increase in loss was principally due to the one-off and predominately non-cash loss arising from the loss on disposal of Ruifeng Coal amounted to RMB162.6 million, the reduction of deferred tax assets amounted to RMB130.0 million and impairment losses on interest in Tiaro Coal Limited, property, plant and equipment and prepayments and other receivables with an aggregate amount of RMB80.1 million. The increase in loss attributable to equity shareholders during the year ended 31 December 2014 was also attributable to the continuous decreases in the average selling prices of thermal coal in China in 2014.

Trade and Bills Receivable

As of 31 December 2014, trade and bills receivable of the group were RMB1,269.0 million (as of 31 December 2013: RMB2,699.3 million). The decrease was mainly due to the disposal of Ruifeng Coal in 2014 and was in line with the decrease in the coal handling and trading volume in 2014.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group adopts stringent financial management policies and strives to maintain a healthy financial condition. The Group funds its business operations and general working capital by internally generated financial resources and bank borrowings.

As of 31 December 2014, the Group recorded net current liabilities of RMB5,278.3 million which were mainly due to the payment for the construction of Zhuhai Port and the capital expenditure of property, plant and equipment of the Group's coal mines in 2014.

The Group has taken initiative to enhance the financial flexibility by diversifying the funding bases and obtain medium term loads to replace short term loans. The Group is currently in the process of negotiating with certain banks in the PRC to raise new medium to long term interest-bearing bank borrowings.

As of 31 December 2014, the cash and bank balances of the Group amounted to RMB53.9 million (as at 31 December 2013: RMB483.3 million), representing a decrease of 88.8%. The decrease in cash and bank balances was mainly due to the combined effect of payment for the construction of Zhuhai port and other capital expenditure and the repayment of short term borrowings.

As of 31 December 2014, the total bank and other borrowings of the Group were RMB7,651.9 million (as at 31 December 2013: RMB9,058.1 million), RMB4,734.1 million of which were repayable within one year (as at 31 December 2013: RMB6,483.2 million) and carried interest at market rates ranging from 2.09% to 9.00% (31 December 2013: 1.30% to 9.50%) per annum.

Non-current bank loans as at 31 December 2014 and 31 December 2013 carried at variable interest rates.

As of 31 December 2014, the Group had total banking facilities of RMB8,314.6 million (as of 31 December 2013: RMB9,951.4 million), of which RMB6,842.6 million (as at 31 December 2013: RMB7,770.9 million) were utilised.

As of 31 December 2014, the Group's cash and cash equivalents, except amounts of RMB0.12 million and RMB12.5 million in Hong Kong dollars ("**HKD**") and United States dollars ("**USD**"), respectively, were held in RMB. All the Group's interest-bearing bank borrowings made in RMB.

The gearing ratio (calculated as interest-bearing bank borrowings netted off sum of cash and cash equivalents and pledged deposits divided by total assets) of the Group as at 31 December 2014 was 47.7% (as of 31 December 2013: 37.9%). The increase in gearing ratio was mainly due to decrease of total assets as a result of disposal of Ruifeng Coal and non-cash loss arising from reduction of deferred tax assets and impairment losses on interest in an associate, property, plant and equipment and prepayments and other receivables.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group's cash and cash equivalents are held predominately in RMB, HKD and USD. Operating outgoings incurred by the Group's subsidiaries in the PRC are mainly denominated in RMB while overseas purchases are usually denominated in USD. The Group's subsidiaries usually receive revenue in RMB. Hence, the Directors do not consider that the Group faces significant exposure to foreign exchange fluctuation risk.

PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2014, the Group's assets in an aggregate amount of RMB9,782.4 million (as at 31 December 2013: RMB9,053.2 million) in forms of property, plant and equipment, coal mining rights, inventories, trade and bill receivables and bank deposits were pledged to banks for credit facilities granted to the Group.

CONTINGENT LIABILITIES

As at 31 December 2014, the Group did not have any material contingent liabilities.

FINAL DIVIDEND FOR THE YEAR ENDED 31 DECEMBER 2014

In light of the anticipated capital expenditure and investments of the Group, the Directors consider that it would be more appropriate to deploy the financial resources of the Group to further strengthen the business development of the Group. On this basis, the Directors have decided not to declare any final dividend for the year ended 31 December 2014. Hence, there will not be any resolution for the final dividend for the year ended 31 December 2014 to be tabled at the forthcoming annual general meeting of the Company (the "**Annual General Meeting**").

EMPLOYEES AND REMUNERATION

As of 31 December 2014, the Group employed 1,557 employees. The Group has adopted a performance-based reward system to motivate its staff and such system is reviewed on a regular basis. In addition to the basic salaries, year-end bonuses may be offered to staff members with outstanding performance.

Members of the Group established in the PRC are also subject to social insurance contribution plans organised by the PRC government. In accordance with the relevant national and local labour and social welfare laws and regulations, members of the Group established in the PRC are required to pay on behalf of their employees a monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance and other relevant insurance. Members of the Group incorporated in Hong Kong have participated in mandatory provident fund scheme, if applicable, in accordance with the applicable Hong Kong laws and regulations.

In addition, a Pre-IPO Share Option Scheme and Share Option Scheme were adopted in June 2009 to retain staff members who have made contribution to the success of the Group. As at the date of this announcement, the total number of share options outstanding is 20,893,369. The Directors believe that the compensation packages offered by the Group to its staff members are competitive in comparing with market standards and practices.

BUSINESS OUTLOOK

The year 2014 is the most challenging one for the Group since its establishment. The Group expects that the coal market will stabilize in 2015 as the worst has already happened for the market. Although the Group expects that the trade volume of coal will continue its downward trend during the first half of 2015, the gross profit margin is anticipated to rebound, mainly due to the concentration of trades in the high gross profit margin areas, while the trade volume in areas associated with low gross profit margins is reduced.

In 2015, the output volume of coal will resume growth after bottoming in 2014. The Group is exerting every effort to obtain approval from relevant government departments to increase the annual output for the Huameiao coal mine from 3.3 million tonnes to 4.5 million tonnes, so as to improve the business performance of the Group.

On the other hand, the Group will continue to facilitate the operation of the 100,000-tonne coal terminal of Zhuhai Port, the Center and the shipping business, so these segments will be able to contribute profit for the Group as quickly as possible.

Since 2014, the Group has reduced the amount of acceptance bills to save related finance costs. As the Chinese benchmark interest rates were lowered and the Group continues to control its finance costs, one of the major cost items in the Group's profit and loss account, the finance costs in 2015 is expected to trend downward. The Group does not rule out the possibility of asset restructuring or asset disposal if and when suitable opportunities arise. Through realizing profit from capital appreciation, maximizing the efficiency of competitive assets, and continuously exploring new fronts for future development, the Group will further cut down its liabilities and related finance costs.

The Group will strive to rejuvenate existing businesses while giving life to potential new businesses through business transformation, utilizing existing resources, consolidating competitive assets and making use of information advantages. It will also advance beyond the traditional mode of thinking, confront the challenging market environment, explore new problems, broaden the corporate's mindset, create new demands, nurture new customers, persistently establish new business models and form new commercial value chains; build up a sales force with strong team spirit, and be more sensitive towards the sales market while making an impact on it.

By planting the vertically-stratified model in its structural reform, the Group will optimize its organization structure and build a streamlined management structure that is effective, smooth in operation. Also, with active share of information and controllable risks within, a highly efficient operation can be achieved. The Group will also establish and carefully implement the internal audit programme to control the Group's risk at a reasonable level.

Last but not least, the management would like to take this opportunity to express their heartfelt gratitude to the Board, and our shareholders, all staff members and business partners for supporting the development of the Group over the years. The management believes that the high quality assets of the Group will be able to turn in considerable returns for the Group and its shareholders when the Group emerges out of this difficult period. In 2015, all staff members of the Group will work as one team, remain trustworthy and prudent, be willing to bear responsibilities and explore new frontiers so that maximum value can be delivered to our investors.

CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions in the Code on Corporate Governance Code (the "**Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") during the financial year ended 31 December 2014.

AUDIT COMMITTEE OF THE BOARD

An audit committee was established by the Board on 12 June 2009 with written terms of reference in compliance with the Code. The primary duties of the audit committee are to review and supervise the Group's financial reporting process and internal controls. The members of the audit committee of the Board are the three independent non-executive Directors, namely Mr. HUANG Guosheng, Mr. LAU Sik Yuen and Mr. XING Zhiying. Mr. LAU Sik Yuen is the chairperson of the audit committee of the Board.

The audit committee has reviewed the consolidated financial statements of the Group for the financial year ended 31 December 2014.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The independent auditor of the Company will issue a disclaimer of opinion on the consolidated financial statements of the Group. The below section set out an extract of independent auditor's report regarding the consolidated financial statements of the Group for the year ended 31 December 2014:

Basis for disclaimer of opinion

Limitation of scope in respect of certain consolidated statement of financial position items in prior year

The consolidated financial statements of the Group for the year ended 31 December 2013 were audited by another auditor whose report dated 31 March 2014 expressed a disclaimer of opinion in respect of the matters as described below.

The predecessor auditor was unable to obtain sufficient audit evidence to ascertain the following matters:

(a) the actual originating source or the payees and the nature of the bank receipts of RMB471,567,000 into the Group's bank account during the year ended 31 December 2013 in relation to settlement of trade receivable balances due from several customers of Shanxi HunYuan Ruifeng Coal Co., Ltd. ("**Ruifeng**") and the accuracy and recoverability of the outstanding trade receivable balances of RMB264,029,000 due from these customers as at 31 December 2013;

(b) validity of the leasing income of RMB137,500,000 from certain tenants of Ruifeng for the year ended 31 December 2013 and the related outstanding trade receivable balance of RMB68,750,000 as at 31 December 2013;

(c) the actual originating source or the payees or the nature of the bank receipts of RMB132,270,000 and RMB463,819,000 during the year ended 31 December 2013 and the period from 1 January 2014 to 31 March 2014 respectively in relation to settlement of trade receivable balances due from several customers of the Group and the accuracy and recoverability of the outstanding trade receivable balances of RMB752,933,000 due from these customers as at 31 December 2013 (the "**Trade Receivables**");

(d) the recoverability of an outstanding balance of RMB622,327,000 due from non-controlling shareholders (the "**Amount Due from NCI**") as at 31 December 2013; and

(e) the nature and recoverability of prepayments of RMB161,460,000 as at 31 December 2013 which was purported to be prepayments to certain suppliers for purchase of goods (the "**Prepayments**").

In relation to above matters (a) and (b), as described in Note 32 to the consolidated financial statements, the Company disposed of its entire equity interest in Ruifeng on 29 December 2014 and recognised a loss of RMB162,585,000 (the "**Loss of Ruifeng Disposal**").

In relation to above matter (c), the Trade Receivable were settled during the year ended 31 December 2014.

In relation to above matter (d), during the year and subsequent to the year ended 31 December 2014, non-controlling shareholders have made settlements amounting to RMB285,226,000.

In relation to above matter (e), the Prepayments of RMB135,171,000 were utilised during the year ended 31 December 2014. A provision for impairment of the remaining Prepayments of RMB26,289,000 was made during the year (the "**Loss of Prepayments**").

Because of the unavailability of reliable financial information, we were unable to obtain sufficient appropriate audit evidence and were unable to carry out alternative audit procedures to satisfy ourselves about the balances as of 31 December 2013 mentioned in matter (a) to (e) above. Any adjustments to these balances as of 31 December 2013 would have a consequential effect on the Loss of Ruifeng Disposal, Loss of Prepayments, if any, for the years ended 31 December 2014, and the related elements making up the consolidated statement of changes in equity, the consolidated statement of cash flows and the related disclosures in the financial statements.

Disclaimer of opinion

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion as to whether the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 and of the Group's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and as to whether the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1(c) to the consolidated financial statements which indicates that the Group incurred a consolidated net loss of RMB1,292,313,000 during the year ended 31 December 2014 and, as of that date, the Group had net current liabilities of RMB5,278,281,000. These conditions, along with other matters as set forth in Note 1(c) to the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2013 were audited by another auditor who expressed a disclaimer of opinion as described above, on those statements on 31 March 2014.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2014, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

PUBLICATION OF ANNUAL REPORT

The annual report of the Company for the financial year ended 31 December 2014 containing all the information required by Appendix 16 to the Listing Rules and any other applicable laws and regulations will be dispatched to the Shareholders and published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.qinfagroup.com) in due course.

ANNUAL GENERAL MEETING

The Company will inform the Shareholders the date of holding the annual general meeting to approve the final results of the Group for the year ended 31 December 2014.

(II) CLARIFICATION IN RESPECT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

Reference is made to the final results announcement of the Company dated 31 March 2014 ("**the 2013 Results Announcement**") in relation to the final results of the Group for the year ended 31 December 2013 ("**the 2013 Results**"). Terms used in this section shall have the same meanings as those defined in the 2013 Results Announcement unless the contexts herein require otherwise.

This section is made to clarify and supplement certain information contained in the 2013 Results Announcement.

(1) DISCLAIMER OF OPINION

The Company's auditors ("**the Auditors**") issued a disclaimer of opinion on the 2013 Results ("**the Disclaimer of Opinion**"). In the 2013 Results Announcement, the Auditors set out five bases for the Disclaimer of Opinion: i) the recoverability of trade receivables that had been purportedly settled via the personal bank account of an employee of the Group and cash deposits; ii) the validity of lease income and the corresponding trade receivables; iii) the recoverability of trade receivables that had been purportedly settled after the year-end date via the personal bank account of an employee of the Group and that of a third party; iv) the recoverability of receivable balance due from non-controlling shareholders of a subsidiary of the Group; and v) the nature and recoverability of certain prepayment balances.

(2) THE REASONS LEADING TO THE AUDIT QUALIFICATIONS AND THE RELEVANT BACKGROUND INFORMATION

The board of directors of the Company ("**the Board**") considers the reason for the Auditors to issue the Disclaimer of Opinion was that insufficient information was available to the Auditors to satisfy their audit assertions at the time when the relevant audit was prepared and/or there was miscommunication or misunderstanding between the Company and the Auditors. The relevant background information and the detailed reasons leading to the audit qualifications (including but not limited to the information requested by the Auditors and the relevant responses from the Company) are set out below.

Issue 1 (paragraph 5 on page 28 of the 2013 Results Announcement)

The relevant background information

Hunyuan Ruifeng

The Group acquired 87.88% of the shares of Shanxi Hun Yuan Ruifeng Coal Industry Company Limited (山西渾源瑞風煤業有限責任公司) ("**Hunyuan Ruifeng**") in August 2009, which was originally granted provisional underground mining licence. With the provisional mining licence, Hunyuan Ruifeng also had been granted the business registration certificate and also the tax registration certificate in 2009.

Owing to technical and safety reasons and other commercial consideration, Hunyuan Ruifeng applied to the government to change the method of extraction from underground mining to open-pit mining in 2010.

Due to the pending application on the change of method of extraction in 2010, Hunyuan Ruifeng's business registration certificate and the tax registration certificate could not be renewed. Without the valid business registration certificate, Hunyuan Ruifeng's bank account was then suspended in 2011 and later terminated in 2012. Without the valid tax registration certificate, Hunyuan Ruifeng could not issue VAT invoices to its customers.

While the open-pit mining licence has been pending, Hunyuan Ruifeng continued to develop the mine. Development coal was generated or extracted during the process and they could be sold no different from commercial coal.

For the sales of the development coal, Hunyuan Ruifeng was unable to receive direct payments from its customers as Hunyuan Ruifeng could not maintain a bank account without a valid business registration certificate.

It would not be preferable from the customers' perspective to make payments directly to Hunyuan Ruifeng and/or its fellow subsidiaries. Due to the tax implication, doing so would require the customers to maintain a current account balance with Hunyuan Ruifeng and/or its fellow subsidiaries. As Hunyuan Ruifeng was unable to issue VAT invoices to its customers, the business relationship with Hunyuan Ruifeng and/or its fellow subsidiaries could not be ascertained by means of VAT invoices or recorded by the customers in their official accounts as purchases. Other than that, the current account balance would stay for an extended period until Hunyuan Ruifeng became capable of issuing VAT invoices. Such current account balance might cause tax and accounting complications.

On the other hand, in the People's Republic of China ("**PRC**"), remittances between natural persons are generally subject to lesser restrictions/scrutinisation. Remittances between corporate entities and remittances from corporate entities to natural persons (and vice versa) are generally subject to more restrictions/scrutinisation and the remitter may be required to provide explanations/justifications to the banks before the remittance can be made. From both the payer's and payee's perspectives, providing explanations for fund remittances to and from their own staff or associated persons would be less troublesome than those to and from an independent entity (either corporates or individuals) without obvious business relationship. Further, the funds in the personal bank accounts could also be remitted by electronic banking, thereby saving time and costs for counter transactions. Indeed, when an individual custodian holds fund on behalf of a payer (say a corporate entity), the payer may account for the fund as cash in its books regardless of whether the fund is in the form of physical cash or a balance in the custodian's own bank account. So, when the payer makes a payment utilizing the fund that is held by the custodian, a cash transaction is recorded.

Therefore, Hunyuan Ruifeng received payments and cash deposits from customers in the total sums of RMB370,377,536.48 and RMB86,000,000 via personal bank accounts of the Group's own employees. Further, Hunyuan Ruifeng also received settlement in the sum of RMB15,190,000 through another individual current account.

On 16 December 2014, a sale and purchase agreement was signed with Shanxi Heng Sheng Yong Xing Gong Mao Co., Ltd. (山西恒盛永興工貿有限公司) ("**Purchaser**") pursuant to which the Group disposed its 87.88% equity interest in Hunyuan Ruifeng to the Purchaser ("**the Disposal**"). The completion of the Disposal took place on 29 December 2014. As such, all the issues in connection with the regulatory requirements in applying relevant licenses by Hunyuan Ruifeng no longer associate with the Group.

Shenchi Hongyuan

Shanxi Xinzhou Shenchi Hongyuan Coal Company Limited (山西忻州神池宏遠煤業有限公司) ("**Shenchi Hongyuan**") was established by the Group as a wholly-owned subsidiary in 2013 pursuant to a local government policy to integrate local coal mines. Shenchi Hongyuan is undergoing equipment transformation for efficiency and environmental-protection purposes.

Shenchi Hongyuan has obtained the provisional underground mining licence, the business registration certificate and the tax registration certificate. However, since the equipment transformation is still in progress, Shenchi Hongyuan has not yet been qualified to issue VAT invoices.

Shenchi Hongyuan sold the development coal and/or commercial coal extracted during the process of equipment transformation to two coal traders in the market.

Owing to the fact that Shenchi Hongyuan was unable to issue VAT invoices, its customers refrained from remitting funds directly to Shenchi Hongyuan's bank account. The Group eventually accepted to use personal bank accounts of its own staff for settlements.

In summary, Shenchi Hongyuan received via the personal bank account of one of the Group's own employees in the total sums of RMB36,000,000.00 and RMB32,200,000.00 from the two coal traders respectively.

Other than Hunyuan Ruifeng and Shenchi Hongyuan, Zhuhai Qinfa Logistics Co. Ltd. (珠海秦發物流有限公司) ("**Zhuhai Qinfa Logistics**"), a wholly owned subsidiary of the Company, also made use of the availability of the personal bank account of one of the Group's own employees to receive settlements from its customer in the sums of RMB64,069,560.00 and RMB168,186,440.00 in 2013 and 2014 respectively. Details of the transactions of Zhuhai Qinfa Logistics will be set out in the third reason for the Disclaimer of Opinion below.

Reasons leading to the Audit Qualifications

The Auditors requested for details of the transactions (including the identities of the counter-parties) stated in the bank statements of the personal bank account held by the Group's employee on behalf of the Group. The Auditors also requested for the bank statements of the personal bank accounts paying RMB502,647,000 in aggregate on behalf of the customers by transferring the money to a personal bank account held by one of the Group's employees on behalf of the Group. The Group was unable to provide the above requested details or bank statements to the Auditors.

In response to the Auditors' requests, the Group has arranged and the Auditors have obtained audit confirmations from the customers confirming that the relevant trade receivables amount and the relevant cash deposit amount was settled with the personal bank account of the designated employee of the Group.

The Auditors then requested to interview 5 selected customers to verify the identity of such customers and the content of the audit confirmations. The Group arranged and the Auditors attended the relevant interviews on 14 and 15 March 2013.

Subsequently, the Auditors requested for the bank transaction details of the personal bank account of the designated employee of the Group to verify the payee of each transaction. However, the bank could not provide such information due to the limitation of the bank's system. The bank has issued confirmation in April 2014 in relation to the said limitation of its system.

The Auditors also requested for the bank statements of the customers and their designated third parties which made payments to the Group. However, the customers refused to provide such bank statements due to the issue of confidentiality.

The Auditors also requested for supporting documents, including receipts issued to customers, to show the source of funds deposited in the amount of RMB101,190,000 (=RMB15,190,000+RMB86,000,000). The Group provided the Auditors with receipts of cash deposit of RMB101,190,000 in relation to the settlement of trade of coal issued by the Group to its customers. However, the receipts were without any formal or official acknowledgement from its customers. Thus, the Auditors considered there is insufficient evidence to demonstrate the source of funds or the payees of these bank receipts. Hence, they were unable to ascertain the nature of, and appropriate accounting for, these bank receipts, and therefore the accuracy and recoverability of the outstanding trade receivable balances due from these customers as at 31 December 2013.

Issue 2 (paragraph 6 on page 28 of the 2013 Results Announcement)

The relevant background information

Location of the Leased Areas

On or around 1 January 2013, two subcontractors entered into exploitation right agreements with Hunyuan Ruifeng. According to the terms and conditions of the exploitation right agreements, both subcontractors were granted the exploitation right in respect of the relevant specified areas of the coal mine of Hunyuan Ruifeng for the period from 1 January 2013 to 31 December 2016. The management of Hunyuan Ruifeng considered that they could share the risk of owning the mine with both subcontractors and be able to lock in the profit by entering into the two exploitation right agreements.

The granting of the exploitation right in respect of the relevant specified areas to Hunyuan Ruifeng was subject to the approval from the Department of Land Resource of Shanxi Province ("**the Department**"). However, no response was received from the Department in the first quarter of 2013. In April 2013, the two subcontractors negotiated with the Group and claimed that they could not merely wait for the response from the Department. In May 2013, Hunyuan Ruifeng agreed to substitute the specified areas granted to the subcontractors with other exploitation areas.

During the time of their audit, the Auditors were provided with a wrong/outdated map and inaccurate details of the lease areas due to the fact that the accounting department was not aware of the change of the areas granted to the two subcontractors. Thus, the accounting department simply provided a copy of the map kept in the accounting department to the Auditors during their audit, which was outdated and showed the original specified areas rather than the substituted exploitation areas. When the Auditors raised their concerns that the actual location of areas granted to the subcontractors and those shown on the map were inconsistent, the accounting department immediately coordinated the matter with the operation department and provided a correct map to the Auditors which showed the substituted exploitation areas for clarification. There was miscommunication within the Group of the change of areas granted to subcontractors that resulted in the inconsistency noted by the Auditors.

Settlement via Personal Bank Account

As stated above, Hunyuan Ruifeng had no bank account and could not issue VAT invoices. It therefore could not collect the fees for the exploitation rights through its own bank account. Due to these limitations and the market practice as mentioned in the first reason for the Disclaimer of Opinion above, a designated employee of the Group was arranged to hold a personal bank account on behalf of the Group to receive the fees for the exploitation rights from subcontractors.

Reasons leading to the Audit Qualifications

The Auditors requested for details of the transactions (including the identity of counter-parties) stated in the bank statements of the personal bank account held by the Group's employee on behalf of the Group. The Auditors also requested for the bank statements of the personal bank accounts paying RMB68,750,000 in aggregate on behalf of the subcontracting parties by transferring the money to a personal bank account held by the Group's employee on behalf of the Group. The Group was unable to provide the above requested details or bank statements to the Auditors.

In response to the Auditors' requests, the Group has arranged and the Auditors have obtained audit confirmations from subcontractors confirming the transactions. Interview had then been arranged between the Auditors and one of the subcontractors.

The Auditors requested for the bank transaction details of the personal bank account of the designated employee of the Group to verify the payee of each transaction. However, the bank could not provide such information due to the limitation of the bank's system. The bank has issued confirmation in April 2014 in relation to the said limitation of its system.

The Auditors also requested the bank statements of the subcontractors and their designated third parties which made payments to the Group. However, the subcontractors refused to provide such bank statements due to the issue of confidentiality.

In the circumstances, the Auditors considered that they were unable to ascertain the validity of the leasing income of RMB137,500,000 for the year ended 31 December 2013 and the related outstanding trade receivable balance of RMB68,750,000 reported in the consolidated financial statements as at 31 December 2013.

The Auditors further requested for explanation of the actual location of the specified areas of the coal mine of Hunyuan Ruifeng subject to the relevant exploitation rights agreements. In response to the Auditors' request, the Group requested and a representative of the Auditors conducted a site visit at the coal mine of Hunyuan Ruifeng on 29 March 2014. However, the representative of the Auditors informed the Group during the site visit that he could not locate the locations of the subcontracted areas. The Auditors were unable to ascertain the actual location of the coal mine subject to the exploitation rights agreements.

Issue 3 (paragraph 1 on page 29 of the 2013 Results Announcement)

The relevant background information

The third reason for the Disclaimer of Opinion was related to two major matters. The first matter was in relation to the partial settlement of purchase in the sum of RMB168,186,000 made by Client A to Zhuhai Qinfa Logistics via the personal bank account of an employee of the Group. The second matter was related to two sale transactions made by the Group to two separate customers in 2012 which the Group subsequently accepted the full or partial return of the goods sold in these two transactions.

Settlement via Personal Bank Account

The coal which was sold by Zhuhai Qinfa Logistics to Client A originated from the purchase by Qinhuangdao Development Zone Qinfa Trading Co. Ltd. (秦皇島開發區秦發貿易有限公司) ("**Qinhuangdao Qinfa**") (which is and was an indirect subsidiary of Zhuhai Qinfa Logistics and acted like a sourcing arm of Zhuhai Qinfa Logistics) from Supplier A. These transactions were standard back-to-back transactions.

In order to set off VAT deductibles against VAT payables recognized in the same period of time by managing the timing of the issuance of VAT invoices to customers as well as the receipt of VAT invoices from suppliers, the Group intended to issue VAT invoices to Client A at the same rate or speed as the receipt of VAT invoices from Supplier A. In doing so, the Group would be able to relax the working capital requirements by matching VAT deductibles and VAT payables.

However, Supplier A had difficulties in issuing VAT invoices to Qinhuangdao Qinfa, which affected the Group to issue the back-to-back VAT invoices to Client A in turn.

With the objective to collect the accounts receivable earlier and minimizing the VAT payable, Zhuhai Qinfa Logistics discussed with Client A for any possible option that Client A would agree to settle the outstanding trade receivables prior to the issuance of VAT invoices by Zhuhai Qinfa Logistics. Client A then agreed to settle the outstanding trade receivables via the personal bank account of an employee of the Group specified by Zhuhai Qinfa Logistics so that the payments made by Client A would not be explicitly shown in the financial records of Client A and thus, this may have less impact or inconvenience to Client A. Accordingly, there was RMB168,186,440 transferred from the personal bank account of the employee to the Group after 31 December 2013.

Deposit from Bank Accounts of Third Parties

In respect of the second matter, two customers of the Group purchased coal from the Group. However, due to poor market condition, both customers were unable to re-sell the coal. As a result, they approached Zhuhai Qinfa Logistics for the return and/or partial return of goods since the middle of 2013. The Group did not immediately accept such requests because acceptance of returns of goods was or is not common for the Group. Trade receivables were outstanding for more than one year but within two years as at 31 December 2013.

Around late 2013, Zhuhai Qinfa Logistics managed to identify three new buyers for the coal and therefore accepted the return of goods from both customers. The new buyers settled all trade receivables in the first quarter of 2014 in the total amount of RMB295,633,000. The deposit of RMB295,633,000 from bank accounts of third parties identified by the Auditors was made up of the above settlement payments from the new buyers.

Reasons leading to the Audit Qualifications

The Auditors requested for details of the transactions (including the identity of counter-parties) stated in the bank statements of the personal bank account held by the Group's employee on behalf of the Group. The Auditors also requested to review the bank statements of the personal bank accounts paying RMB168,186,000 on behalf of the customer by transferring the money to a personal bank account held by the Group's employee on behalf of the Group. The Group was unable to provide the above requested details or bank statements to the Auditors.

The Auditors requested for an interview with Client A to verify the identity of such customer and the content of the audit confirmation. The Group arranged and the Auditors attended the relevant interviews of Client A on 15 March 2013.

Subsequently, the Auditors requested for the bank transaction details of the personal bank account of the designated employee of the Group to verify the payee of each transaction. However, the bank could not provide such information due to the limitation of the bank's system. The bank has issued confirmation in April 2014 in relation to the said limitation of its system.

The Auditors also requested to obtain the bank statements of Client A and its designated third parties which made payments to the Group. However, Client A refused to provide such bank statements due to the issue of confidentiality.

The Auditors further requested for the supporting documents showing that RMB295.6 million transferred from the new buyers were indeed settlement from them. In response to the Auditors' request, the Group has provided the relevant sales contracts and supporting documents to the Auditors at a very late stage. Therefore, the Auditors could not verify the settlement of the receivables.

By reasons of the above, the Auditors may not have fully appreciated the arrangements in relation to the return of coal by the two customers and the re-sales of the returned coal to the 3 new buyers as discussed above or there were certain miscommunications between the Group and the Auditors. The Auditors therefore considered the payments from the new buyers as payments from third parties on behalf of the two customers in the original or cancelled transactions.

Issue 4 (paragraph 2 on page 29 of the 2013 Results Announcement)

The relevant background information

The fourth reason for the Auditors' Disclaimer of Opinion was related to the difference in opinion between the Auditors and the management of the Group in relation to the recoverability of certain outstanding receivables in a total sum of RMB622,327,000 due from the non-controlling shareholders of a subsidiary of the Group and the subject receivables were in fact the obligations which were assumed by the said non-controlling shareholders after they sold their shares in Shanxi Huameiao Energy Group Limited ("**Shanxi Huameiao**") to the Group.

The Auditors opined that due to the fact that the non-controlling shareholders did not make any settlement during the two years ended 31 December 2013, except for the transfer of certain equipment and properties at the value of RMB339.8 million, and in the absence of further reliable information, they disclaimed giving an opinion with regard to the recoverability of these receivables.

On the other hand, the management of the Group was confident that the full amounts due from the non-controlling shareholders are recoverable.

The Group considered various factors and was of the view that there were no recoverability concerns in relation to the receivables due from the non-controlling shareholders.

Firstly, the non-controlling shareholders explicitly indicated that they would settle the outstanding amounts. Secondly, each of them is a reputable individual and company in the market and the management could not see any reason that they would default their payment obligations. Thirdly, the net assets of Shanxi Huameiao amounted to RMB4.123 billion or more as at 31 December 2013 according to the consolidated financial statements of Shanxi Huameiao. Hence, the total value of shares held by non-controlling shareholders was worth RMB824 million, which is worth more than the total outstanding receivables of approximately RMB622 million. Fourthly, Shanxi Huameiao has been profitable and declared dividend to its shareholders in the last few years.

In addition, Shuozhou Guangfa Energy Investment Company Limited ("**Guangfa Energy**") entered into an arrangement with the non-controlling shareholders and a repayment timetable has been agreed. According to the Agreed Arrangement of the Historical Debts of Shanxi Huameiao signed by all shareholders dated 12 March 2014, the total amount due from the non-controlling shareholders was confirmed to be RMB621,826,846.58 (which is slightly different from the amount shown in the annual report) and the repayments were scheduled as follows:

1. First repayment of RMB100,000,000 would be settled on or before 30 September 2014.

2. Second repayment of RMB200,000,000 would be settled on or before 31 December 2014.

3. Third repayment of RMB321,826,846.58 will be settled on or before 30 June 2015.

The first and second repayments in the total sum of approximately RMB285,226,000 have already been settled as at the date of this announcement.

The shares held by the non-controlling shareholders in Shanxi Huameiao might be pledged to the Group if there was any breach of the repayment arrangement.

Taking into account of all of the above factors, the management of the Company has strong and reasonable grounds to argue that no provision was required to be made at this stage.

Information requested by the Auditors and Responses from the Company

The Auditors requested for information regarding subsequent cash settlement and requested the Group to demonstrate the non-controlling shareholders' financial ability to settle the balance.

As mentioned above, the Group has agreed with the non-controlling shareholders on a repayment schedule for the total amount to be paid by 3 instalments on 30 September 2014, 31 December 2014 and 30 June 2015 respectively. As the first instalment had not been overdue as at the date of the 2013 Results Announcement, the Group did not seek settlement with the non-controlling shareholders as requested by the Auditors.

The Group has requested to obtain the financial information of the non-controlling shareholders but they refused to provide due to the issue of confidentiality.

Issue 5 (paragraph 3 on page 29 of the 2013 Results Announcement)

The relevant background information

The fifth reason of the Auditors' Disclaimer of Opinion was related to long-outstanding amounts maintained in the prepayment account recording as prepayments made to 5 suppliers of the Group.

The issue may be further broken down into two matters: the first matter was related to the purchases made by Qinhuangdao Qinfa where the supplier was unable to issue VAT invoices to the Group on a timely basis; and the second matter was related to the purchases made by Datong Xiejiazhuang Jinfa Coal Trading & Transportation Co. Limited（大同解家莊晉發運銷有限公司）("**Datong Jinfa**") at Datong from 3 suppliers and/or local coal mines who were unable to issue VAT invoices on a timely basis and/or unable to settle the prepayment through deliveries.

The long-outstanding prepayment amounts in respect of the five suppliers primarily represented the VAT credit corresponding to purchases made by the Group maintained in the prepayment account pending the receipt of the relevant VAT invoices. Upon receipt of VAT invoices from suppliers, the Group would reverse the accounting entry from prepayment to VAT account as VAT deductibles.

As at the date of this announcement, majority of the relevant amounts maintained in the prepayment account have been utilised upon receipt of VAT invoices from the suppliers.

Reasons leading to the Audit Qualifications

The Auditors opined that they were unable to obtain sufficient information to ascertain the nature and recoverability of some of the outstanding balances maintained in the prepayment account. The Auditors expressed that there were either no purchase contracts signed or the purchase amount and the prepayment amount could not be reconciled. The Auditors further noted that there were insufficient records to indicate that RMB63,793,000 worth of goods purportedly received subsequent to the year-end date were originated from the related suppliers. The Auditors also noted that there had been no goods received from the suppliers in relation to some RMB97,667,000 amount prepaid.

The Auditors requested to review purchase agreements of the five suppliers. The Group provided two out of five agreements to the Auditors. However, due to the time constraint, the Group did not timely provide the three remaining agreements to the Auditors prior to the issue of the 2013 Results.

In summary, the Group had received certain goods with VAT invoices pending. Such amounts shall be reversed from the prepayment account once the relevant VAT invoices are received from the suppliers. Nevertheless, as these VAT amounts were accounting estimates arising from the Group's unique circumstances, they were unable to be matched with any of the terms found in the related purchase contracts. This could also be the reason that no independent and/or specific purchase contracts could be found in respect of these amounts as mentioned by the Auditors.

As a matter of fact, the Group had further received VAT invoices from the suppliers from May to August 2014 for the purchase amount totaling RMB164,007,380, which should sufficiently address the recoverability concern.

In May 2014, all confirmations received by Shinewing Risk Services Limited ("**Shinewing**"), an independent consultant engaged by the audit committee of the Group to review matters referred to in the Auditors' report, from the five suppliers consistently revealed that prepayments had been made by Datong Jinfa and Qinhuangdao Qinfa to them and that the relevant purchase transactions had in fact been conducted. More importantly, these confirmations indicated that: i) the "so-called" prepayments were primarily due to the outstanding VAT invoices and the accounting policy adopted by the Group; and ii) the majority of the goods (i.e. coal) in each of the transactions had been received by the Group from the five suppliers, except a provision of impairment of remaining prepayment of RMB26,289,000 was made during 2014.

(3) INTERNAL CONTROL DEFICIENCIES IDENTIFIED

The Group has appointed Shinewing in May 2014 to conduct an internal control review of the Group in view of the above five bases for the Disclaimer of Opinion. The internal control deficiencies identified are set out below:–

Issue 1

There was an internal control issue in accepting payments from customers via personal bank accounts of the employees of the Group due to the fact that both Hunyuan Ruifeng and Shenchi Hongyuan could not issue VAT invoices to its customers and collect the sales proceeds through its own bank account.

Issue 2

There was an internal control issue that the accounting department had not been informed with the latest arrangements of the two exploitation rights agreements as mentioned above.

Another internal control issue is that the address of the relevant coal mine was not clearly stated in the relevant exploitation rights agreements. Further, when the terms of some of the exploitation rights agreements have been amended, no new or supplemental agreement was signed with the sub-contractors.

Issue 3

Similarly, there may be an internal control issue in accepting payments from customer via the personal bank account(s) of employee(s) of the Group due to the fact that the relevant supplier of coal had not issued VAT invoice(s) to Zhuhai Qinfa Logistics which in turn did not issue VAT invoice(s) to customer.

Issue 4

It had not been a practice of the Investment Department of the Group to submit the relevant Feasibility Study Report containing their initial assessment on any intended investment project to the Company Secretary. Therefore, the Company Secretary may fail to arrange for the necessary disclosure in relation to the investment project in accordance with the requirements under the Listing Rules.

Issue 5

There was an internal control issue that the Finance Department of the Group only checks the accounting balances with the suppliers orally and on an irregular basis instead of issuing written statements of accounts to the suppliers on a regular basis.

(4) IMMEDIATE MEASURES ADOPTED BY THE GROUP

The following immediate measures have been adopted by the Group:

Since September 2014, the management of the Group has set up a designated department to handle and monitor all matters in relation to the application and renewal of all the relevant permits and licenses. The designated department will also keep abreast of the latest legislations so as to ensure that the operations of Hunyuan Ruifeng and Shenchi Hongyuan would fulfill the relevant legal requirements. Further, if any non-compliance of PRC law and regulations is identified, the designated department will report to the management of the Group immediately. The designated department will also seek advice from professionals, if necessary.

Starting from April 2014, the Group has discontinued the arrangements of receiving trade receivables via personal bank accounts of the Group's employees. All these personal bank accounts were closed before the end of April 2014, except the personal bank account of an employee who resigned in March 2014.

Further, as recommended by Shinewing, since September 2014, the management of the Group has appointed designated employees to monitor matters in relation to the relevant agreements and to ensure that all the data and information in the exploitation rights agreements are complete and clearly stated. The designated employees shall also make necessary amendments to the agreements when the relevant contract terms have changed. The designated employees shall also ensure that all the signed new agreements are filed properly.

Also, as recommended by Shinewing, since September 2014, the management of the Group has implemented a mechanism to monitor the receipt and issuance of all the VAT invoices. Since September 2014, the management had assigned designated employees to supervise the receipt and issuance of the VAT invoices and designated members of the management will be responsible for the approval of VAT invoices. If any discrepancy is noted, the designated employees shall follow up with the relevant sales and purchasing staff and shall report the same to the management.

The Group took the initiative to enhance its corporate governance framework and improve its internal control by arranging for their Directors to attend training sessions conducted by the Company's legal advisers in June 2014 relating to director's obligations, notifiable transactions, connected transactions and specific Listing Rules requirements in mining companies, respectively. A training session had been arranged for the newly appointed directors in October 2014.

The Group has arranged for their financial staff to attend a training session conducted by Shinewing during November 2014 regarding the essential international financial reporting standards related to the Group's operation so as to enhance the quality of internal control and financial reporting.

In order to enhance the Group's internal control, the Group has established the internal control function since May 2014 which is headed by the internal control director.

The Group has appointed Shinewing in May 2014 to conduct an internal control review in relation to the Group.

(5) LEGAL RISK OF NON-ISSUANCE OF VAT INVOICE FOR GOODS SOLD AND OPERATION WITHOUT RELEVANT PERMITS

In order to evaluate the legal risks of exploration and/or exploitation of coal mine and sales of coal without the formal permits from the relevant authorities, the Group engaged Zhonglun Law Firm ("**Zhonglun**") to provide a legal opinion.

Although certain subsidiaries of the Group have not obtained the relevant license, business registration certificate and/or tax registration certificate from the relevant authority, and it may be in breach of the relevant regulations, such as section 22 of Coal Law and section 2 of Measures for the Implementation of Coal Mine Safety Production License, given the explanations given by the Group and the independent verification conducted by Zhonglun itself, Zhonglun considers that as at the date of the issuance of the legal opinion, the relevant authorities of Shanxi Province, namely the authorities responsible for the supervision of the coal industry and other relevant administrative supervision authorities, have not issued any warning, penalty or other administrative punishment to the relevant subsidiaries and have not carried out any investigation into the operation and sales without the relevant permits. In the circumstances, Zhonglun advises that the relevant subsidiaries would not be exposed to any significant legal risks.

Further, as mentioned in Section (2) above, the completion of the Disposal of Hunyuan Ruifeng by the Group took place on 29 December 2014. As such, all the issues in connection with the regulatory requirements in applying for the relevant licenses by Hunyuan Ruifeng no longer associate with the Group.

(6) THE VIEWS OF THE BOARD AND THE AUDIT COMMITTEE

The audit committee has appointed Shinewing as an independent consultant in May 2014 to review the matters and internal control weaknesses referred to in the Auditors' report. The audit committee has taken appropriate remedial actions based on the findings provided by the independent consultant.

The audit committee is of the view that the Group had certain internal control weaknesses due to the Company's rapid expansion and new business development in coal mining during recent years. The audit committee confirms that immediate measures, as mentioned in Section (4) above, have been effectively implemented by the Group since September 2014 and the internal control function of the Group has been significantly enhanced in those areas where internal control deficiencies were identified. The Board will react promptly to implement the recommended remedial actions to ensure that the Group has adequate internal control procedures and policies in place and that the Company is able to comply with the internal control requirements under the Listing Rules.

(7) NON-COMPLIANCE OF CHAPTER 14/14A AND THE RELEVANT TERMS OF THE TRANSACTIONS

(A) Transactions between Mr. Jin Weiguo and the Group

In respect of Issue 4, one of the non-controlling shareholders, Mr Jin Weiguo, holds 10% in Shanxi Huameiao and thus was a connected person of the Company. As such, the following transactions between Mr. Jin Weiguo and the Group constituted connected transactions:–

1. In 2011, the Group acquired a total of 80% of the shares of Shanxi Huameiao. Pursuant to the acquisition agreement in respect of the acquisition of Shanxi Huameiao, the sellers of the shares (i.e. the current non-controlling shareholders) were required to assume all liabilities of Shanxi Huameiao as at the date of completion or 31 December 2011 (in the total amount of RMB495.5 million). The non-repayment by Mr. Jin Weiguo of the said liabilities constituted a connected transaction;

2. As mentioned in Section (2) (Issue 4) above, according to the Agreed Arrangement of the Historical Debts of Shanxi Huameiao signed by all shareholders dated 12 March 2014, the amount due from the non-controlling shareholders was confirmed to be RMB621,826,846.58 and the Group has agreed with the non-controlling shareholders on a repayment schedule for the said amount to be paid by 3 instalments. Such agreement relating to Mr. Jin Weiguo's repayment of the above liabilities to the Group also constituted a connected transaction;

3. Pursuant to the acquisition agreement in respect of the acquisition of Shanxi Huameiao, a total of RMB13,879,000 of personal dividend income tax for the periods from 2011 to 2013 was paid by the Group on behalf of Mr Jin Weiguo. The payment of the personal dividend income tax by the Group on behalf of Mr. Jin Weiguo and/or the subsequent non-repayment of the same by Mr. Jin Weiguo to the Group also constituted a connected transaction; and

4. The Company considers that the above advance to Mr. Jin Weiguo was not on normal commercial term given that the advance was interest free.

5. As mentioned in Section (2) (Issue 4) above, the non-controlling shareholders had transferred equipment and properties to the Group at the value of RMB339.8 million. The transfer of assets in partial settlement of the amount due from Mr. Jin Weiguo also constituted a connected transaction.

6. In the premises, the Company admits that there were breaches of the requirements for (1) issuing announcement and circular, (2) obtaining independent shareholders' approval, and (3) making disclosures in the annual report of the Company under Rules 35, 36, 46 and 49 of Chapter 14A of the Listing Rules.

As such, requirements under Chapter 14A for the above transactions with Mr. Jin Weiguo have not been fully complied with.

The non-compliance of the relevant requirements under Chapter 14A was due to the oversight of the particular circumstances by the management of the Group and/or the fact that the management of the Group was not well conversant with the Listing Rules. Such non-compliance was not intentional and not calculated to benefit Mr. Jin Weiguo or any persons. Further, the non-compliance was not prejudicial to the interests of the public shareholders of the Company.

Nevertheless, as mentioned in Section (4) hereinabove, once the non-compliance has been identified, the Group has immediately and reasonably adopted various remedial measures, including but not limited to arranging their Directors to attend training sessions conducted by the Company's legal advisers relating to, inter alia, the Listing Rules so as to minimize the chance of recurrence of similar non-compliance of the requirements under the Listing Rules in the future.

(B) The Acquisition of the 6 Mines by Shanxi Huameiao

In addition to all the aforesaid matters, the Group would also like to make additional disclosures in relation to the acquisition of the 6 Mines (as defined below) by Shanxi Huameiao. In view of the matters as set out in this section below, the Group's resumption of the acquisition of the 6 Mines during the period from late 2012 to mid-2013 might have constituted a "major transaction".

Chapter 14 of the Listing Rules deals with certain transactions, principally acquisitions and disposals, by a listed issuer. It describes how they are classified, the details that are required to be disclosed in respect of them and whether a circular and shareholders' approval are required. Pursuant to Rule 14.06, a major transaction is defined as a transaction or a series of transactions by a listed issuer where any percentage ratio (including assets ratio, profits ratio, revenue ratio, consideration ratio and equity capital ratio) is 5% or more, but less than 25%.

At the time when the Group, through its wholly-owned subsidiary, Guangfa Energy, acquired additional 48% equity interest of Shanxi Huameiao in or about October 2011, the assets of Shanxi Huameiao already consisted of its interests in the mining rights of the 6 Mines.

Shanxi Huameiao's interests in the 6 Mines were purchased in the first quarter of 2011. However, all the 6 Mines were small and had not been in operation at the material times.

The sequence of the acquisitions of the 6 Mines by Shanxi Huameiao is set out below:–

(i) 山西邦達神龍煤業有限公司

Shanxi Huameiao and Shangxi Bang Da Shen Long Coal Industry Company Limited (山西邦達神龍煤業有限公司) ("**Bang Da Shen Long**") entered into an agreement on or about 13 January 2011, pursuant to which Bang Da Shen Long assigned all its mining rights to Shanxi Huameiao. The agreement provided, inter alia, that the consideration for the said assignment of mining rights has been included in the consideration payable under the respective agreements entered into between Shanxi Huameiao and the two shareholders of Bang Da Shen Long, namely Shangxi Zhong Dian Fuel Company Limited (山西中電燃料有限公司) ("**Shanxi Zhong Dian**") and Wang Hong Yu (王紅玉), both dated 13 January 2011. Pursuant to the said agreements signed with the two shareholders, Shanxi Huameiao had to pay around RMB146.9 million to Shanxi Zhong Dian and RMB48 million to Wang Hong Yu respectively. The first instalment of RMB11.5 million was payable to Shanxi Zhong Dian within 10 days after Shanxi Huameiao received the approval from the relevant government department of the Shanxi Province in respect of the integration of Bang Da Shen Long by Shanxi Huameiao.

(ii) Shanxi Xin Zhou Hua Ji Coal Company Limited (山西忻州華基煤業有限公司)

On or about 8 March 2011, Shanxi Huameiao entered into an agreement with Shanxi Xin Zhou Shenchi Xin Long Coal Company Limited (山西忻州神池興隆煤業有限公司) ("**Xin Long**"), Shanxi Xin Zhou Hua Ji Coal Company Limited (山西忻州華基煤業有限公司) ("**Hua Ji**"), and Zuo Yun Province Dian Wan Town Xi Gou Economic Cooperative (左雲縣店灣鎮西溝經濟合作社) ("**Xi Gou Economic Cooperative**"), pursuant to which Xin Long, Hua Ji and Xi Gou Economic Cooperative agreed to assign their mining rights, which were originally belong to Hua Ji, to Shanxi Huameiao at the consideration of RMB143 million. The first instalment of RMB100 million was payable within 5 working days from the date of the agreement.

(iii) Shanxi Xin Zhou Heng Jiang Coal Company Limited (山西忻州衡江煤業有限公司)

On or about 9 March 2011, Shanxi Huameiao entered into an agreement with Shanxi Xin Zhou Heng Jiang Coal Company Limited (山西忻州衡江煤業有限公司) ("**Heng Jiang**"), pursuant to which Heng Jiang assigned all its mining rights to Shanxi Huameiao at the consideration of RMB112 million. The first instalment of RMB30 million was payable within 3 working days from the date of the agreement.

(iv) ***Shanxi Xin Zhou Hong Sen Coal Company Limited (山西忻州鴻森煤業有限公司)***

On or about 9 March 2011, Shanxi Huameiao entered into an agreement with Shanxi Xin Zhou Hong Sen Coal Company Limited (山西忻州鴻森煤業有限公司) ("**Hong Sen**"), pursuant to which Hong Sen assigned all its mining rights to Shanxi Huameiao at the consideration of RMB95 million. The first instalment of RMB30 million was payable within 5 working days from the date of the agreement.

(v) ***Shanxi Xin Zhou Ai Min Coal Company Limited (山西忻州愛民煤業有限公司)***

On or about 9 March 2011, Shanxi Huameiao entered into an agreement with Shanxi Xin Zhou Ai Min Coal Company Limited (山西忻州愛民煤業有限公司) ("**Ai Min**"), pursuant to which Ai Min assigned all its mining rights to Shanxi Huameiao at the consideration of RMB50 million. The first instalment of RMB30 million was payable within 5 working days from the date of the agreement.

(vi) ***Shanxi Xin Zhou Shen Cang Coal Company Limited (山西忻州神滄煤業有限公司)***

On or about 9 March 2011, Shanxi Huameiao entered into an agreement with Shanxi Xin Zhou Shen Cang Coal Company Limited (山西忻州神滄煤業有限公司) ("**Shen Cang**"), pursuant to which Shen Cang assigned all its mining rights to Shanxi Huameiao at the consideration of RMB40 million. The first instalment of RMB25 million was payable within 5 working days from the date of the agreement.

(all the 6 mines above are collectively known as "**the 6 Mines**")

(all of the agreements as mentioned hereinabove collectively known as "**the Acquisition Agreements**")

The above acquisitions did not constitute connected transactions since Bang Da Shen Long, Hua Ji, Xin Long, Xi Gou Economic Cooperative, Heng Jiang, Hong Sen, Ai Min and Shen Cang were not connected persons of the Company defined in Chapter 14A at the material time.

Pursuant to a legal opinion dated 11 November 2014 obtained by the Group from Zhonglun, the integration of coal mines in the Shanxi Province was subject to great uncertainties because of the ever-changing policy of the PRC government.

It is indeed evident that the Acquisition Agreements had already commonly provided, inter alia, that if the assignments of the relevant assets could not be proceeded due to a change in the government policy, Shanxi Huameiao had the right to request for full refunds of the payments by the vendors/original owners. As such, the Acquisition Agreements had essentially guaranteed that Shanxi Huameiao would not suffer any loss even where the acquisitions of the 6 Mines fell through as a result of any change in the government policy.

In or around May 2011, Shanxi Huameiao received a notice dated 18 March 2011 from the Office of the People's Government of the Shanxi Province (山西省人民政府辦公廳), pursuant to which the People's Government of the Shanxi Province notified the People's Government of some of the cities in the Shanxi Province (including Xin Zhou) that in respect of the integration of coal mines in the Shanxi Province, they should wait for the further review of and/or approval by the People's Government of the Shanxi Province before taking any actions as set out in the minutes issued by Shanxi Province Integration of Coal Industry Work Leading Group (山西省煤礦企業兼併重組整合工作領導組) ("**Shanxi Integration Leading Group**") earlier in 2011. The management of Shanxi Huameiao considered that the said notice was in effect indicating that there would be a change in government policy in relation to the integration of coal mines in the Shanxi Province, including but not limited to a change as to which company would become the subject company for the integration of the coal mines (整合主體) ("**the Integration Company**"). At that point in time, the management of Shanxi Huameiao took the view that its acquisitions of the 6 Mines should have been treated as abandoned and Shanxi Huameiao would thus be able to request for full refunds of the payments by the vendors/original owners pursuant to the Acquisition Agreements.

On 8 August 2011, the People's Government of the City of Xin Zhou issued a request titled <關於變更神池縣煤礦企業兼并重組整合主體的請示> to the Shanxi Integration Leading Group, pursuant to which the People's Government of the City of Xin Zhou requested that the role of the Integration Company should be taken up by Shanxi Xin Zhou Shen Da Energy Group Company Limited (山西忻州神達能源集團有限公司) (which is a company beneficially owned by the government) ("**Shen Da Energy**"), instead of Shanxi Huameiao. The said request further reinforced the view of the management of Shanxi Huameiao that Shanxi Huameiao would not be able to become the Integration Company.

The fact that the integration of coal mines was subject to great uncertainties because of the change in the government policy from time to time (especially in view of above documents issued by the governmental authorities suggesting that Shanxi Huameiao might not be able to take up the role of the Integration Company) had plainly made Shanxi Huameiao (and also the Group) unable to assess the viability and/or feasibility of the acquisitions of the interests in the 6 Mines, and the (potential) economic value of its interests in the 6 Mines, if any, at the material times. More importantly, at the same time, Shanxi Huameiao's interests had been fully protected by the Acquisition Agreements in the situation that the acquisitions of the 6 Mines fell through as a result of any change in government policy. In the premises, at the material times, the management of Shanxi Huameiao had reasonably and justifiably came to a view that its acquisitions of the 6 Mines had effectively been abandoned and Shanxi Huameiao would be able to request for, and could simply await, full refunds of the payments by the vendors/original owners in due course.

Against the above background, the Group did not consider that Shanxi Huameiao's aforesaid abandoned acquisitions of the 6 Mines were material nor constituted notifiable transactions at the relevant times (including the times when the Group issued the two Circulars dated 30 June 2011 and 8 December 2011 respectively).

Subsequently, on or about 5 May 2012, Shanxi Integration Leading Group issued a reply titled <關於山西忻州宏遠煤業有限公司等礦井申請調整變更重組整合方案有關事項的函复> and confirmed that Shenchi Province Shen Tai Energy Investment Company Limited (神池縣神泰能源投資有限公司) ("**Shen Tai Energy**"), which is a company set up and solely owned by the government (instead of Shanxi Huameiao or Shen Da Energy) would be the Integration Company.

In other words, the entity of the Integration Company had been:–

(1) Changed from Shanxi Huameiao to Shen Da Energy (as of August 2011); and

(2) Changed again from Shen Da Energy (as of August 2011) to Shen Tai Energy (as of 5 May 2012), due to the government policy within 2 years or so. This can sufficiently show the great uncertainties surrounding the coal merging, integration and reorganization at the material times due to the ever-changing government policy in the PRC.

In view of the above developments and change of the government policy in the PRC, the management of the Group then decided that Shenchi Shen Da Energy Investment Company Limited (神池神達能源投資有限公司) ("**Shen Da Company**"), a wholly owned subsidiary of the Company, should take over Shanxi Huameiao's interest in the 6 Mines and should cooperate with Shen Tai Energy for the merging, integration and reorganization of the 6 Mines according to the directions of the government of Shanxi Province.

Pursuant to the directions of the government of Shanxi Province, Bang Da Shen Long was subsequently integrated to form Hongyuan coal mine. Hua Ji and Heng Jiang were subsequently integrated to form Xin Long. Hong Sen, Ai Min and Shen Cang were subsequently closed down.

On or about 23 November 2012, Shen Tai Energy and Shen Da Company entered into two assignment agreements (出資權益轉讓協議書), pursuant to which Shen Da Company assigned 51% of its equity interests in Hongyuan coal mine and Xin Long to Shen Tai Energy. As a result, Shen Tai Energy had 51% equity interests while Shen Da Company had 49% interests in both Hongyuan coal mine and Xin Long.

However, according to the two agreements subsequently entered into between Shen Tai Energy and Shen Da Company in respect of the internal operation of the two entities (企業內部經營協議) executed on or about 7 March 2013 and 7 May 2013 respectively:–

(1) All the daily production and operation of both Hongyuan coal mine and Xin Long would be managed by Shen Da Company;

(2) Shen Tai Energy had given up all its shareholder's rights, such as the right to receive dividends, the right to make decisions on important matters and the right to select members of the management, etc. for both Hongyuan coal mine and Xin Long;

(3) The consideration of Shen Tai Energy's purchases of 51% equity interests in both Hongyuan coal mine and Xin Long would be settled and financed by the two non-interest-bearing loans granted by Shen Da Company to Shen Tai Energy.

(4) If and when the policy of the government of Shanxi Province permits that Shen Da Company holds or controls all the equity interests in Hongyuan coal mine and Xin Long, Shen Tai Energy would transfer all these equity interests to Shen Da Company at a consideration of not more than the then outstanding balances of the aforesaid non-interest-bearing loans.

As such, under the above arrangements, Shen Tai Energy in essence merely holds the 51% equity interests in both Hongyuan coal mine and Xin Long as a nominee for Shen Da Company. At all material times, Shen Da Company remains the beneficial owner of these 51% interests held by Shen Tai Energy (and thus it is the 100% beneficial owner of the entire equity interests in both Hongyuan coal mine and Xin Long).

Although the aforesaid assignment agreements and the two agreements in respect of the internal operation of the two entities had been signed between Shen Tai Energy and Shen Da Company, it was not until 2 April 2013 and 14 May 2013 that Xin Long and Hongyuan coal mine obtained their business licence (企業法人營業執照) respectively. Indeed, before the business licences of both Xin Long and Hongyuan coal mine were issued, the Group took the view that despite the signing of the said agreements, the merging, integration and reorganization of the 6 Mines were still not yet completed and were subject to great uncertainties because of the ever-changing policy of the government.

The view of the Group's management aforesaid is consistent with the disclosure made in the financial statements of the Company for the year ended 31 December 2013, in which it was stated that the Group completed the establishment of two companies, Hongyuan coal mine and Xin Long, during the first half year of 2013 and both of them are now treated as 2 subsidiaries wholly owned by Shen Da Company.

Nevertheless, upon reflection, the management of the Group considers that the subsequent revival of the earlier abandoned acquisition of the 6 Mines due to the change of the government policy in the PRC and the Group's resumption of the acquisition of the 6 Mines during the period from late 2012 to mid-2013 as aforesaid might have constituted a major transaction since the total consideration for the acquisition of the 6 Mines in the sum of RMB634.9 million exceeded 25% but less than 100% of the Company's market capitalization at the material times. As such, the Company might be in breach of the requirements for issuing announcement and circular, and obtaining shareholders' approval under Rules 34, 38A and 40 of Chapter 14.

The written shareholders' approval for the acquisition was, could and/or should have been obtained from a closely allied group of shareholders who together hold more than 50% in nominal value of the shares of the Company giving the right to attend and vote at any general meeting to approve the acquisition. In this connection, the following shareholders could and/or should have constituted a "closely allied group of shareholders":–

Name	**Position in the Company**	**No. of shares held**	**% of the issued share capital of the Company**
Mr. XU Jihua	Chairman and Executive Director	1,199,696,000	57.8
Ms. WANG Jianfei	Chief Executive Officer and Executive Director	100,000,000	4.8
Mr. WENG Li	Executive Director	6,000,000	0.3
Ms. LIU Xiaomei	Executive Director	1,200,000	0.1
	Total:	**1,306,896,000**	**63**

No shareholder would be required to abstain from voting on the acquisition if the Company were to convene a general meeting for the approval of the acquisition.

The aforesaid closely allied group of shareholders had not dealt in the shares of the Company at the material times.

As a matter of fact, the changes of the identities of the Integration Company, the Company's subsequent resumption of its acquisition of the interests in the 6 Mines, the closing down of three mines out of the 6 Mines, the integration of the remaining three mines to form Hongyuan coal mine and Xin Long respectively, the Company's setting up of Shen Da Company for the purposes of the acquisition and Shen Da Company's entering into several agreements with Shen Tai Energy for governing, inter alia, the operation and ownership of Hongyuan coal mine and Xin Long aforesaid, etc., were all done and/or implemented pursuant to the directions and/or guidance given by the governmental authorities in the PRC from time to time. It was thus rather beyond the ability of the management of the Company to determine, assess and/or even predict whether, how and when these or any one of these incidents or events would or were to take place.

Therefore, at the material times, the management of the Company had genuine and real difficulties to assess or predict the possible outcome of such previously abandoned acquisition of the 6 Mines and its possible impact on the Company's financial position and/or compliance with the relevant disclosure requirements under Chapter 14 of the Listing Rules, if any. Such serious uncertainties had not been resolved and cleared until the business licences of both Xin Long and Hongyuan coal mine were issued in April and May 2013 respectively.

The Company's default in compliance with the relevant disclosure requirements under Chapter 14, if any, is merely due to the oversight on the part of the management of the Company and/or the fact that the management of the Group was not well conversant with the Listing Rules and has nothing to do with integrity of any its senior management staff. Such non-compliance was not intentional and not calculated to benefit any persons. Further, the non-compliance was not prejudicial to the interests of the public shareholders of the Company.

Further, as mentioned above, the written shareholders' approval for the acquisition could have been obtained from the closely allied group of shareholders who together hold more than 50% in nominal value of the shares of the Company. As such, the Group could secure the shareholders' approval as required under Chapter 14 in any event.

Nevertheless, as mentioned in Section (4) hereinabove, once the non-compliance has been identified, the Group has immediately and reasonably adopted various remedial measures, including but not limited to arranging their Directors to attend training sessions conducted by the Company's legal advisers relating to, inter alia, the Listing Rules so as to minimize the chance of recurrence of similar non-compliance of the requirements under the Listing Rules in the future.

By Order of the Board of
China Qinfa Group Limited
XU Jihua
Chairman

Guangzhou, 31 March 2015

As of the date of this announcement, the Board comprises Mr. XU Jihua, Ms. WANG Jianfei, Mr. WENG Li, Mr. XU Da, Mr. MA Baofeng and Mr. BAI Tao as the executive Directors, and Mr. HUANG Guosheng, Mr. LAU Sik Yuen and Mr. XING Zhiying, as the independent non-executive Directors.