**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)**

## FINAL RESULTS
## FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors refer to the profit alert announcement of the Company dated 5 March 2018 and set forth below the final results of the Group for the year ended 31 December 2017:

- Revenue was RMB3,005.7 million in 2017, representing an increase of 319.7% from RMB716.2 million in 2016.
- Coal handling and trading volume and commercial coal production volume in 2017 were approximately 7.06 million tonnes and 4.32 million tonnes respectively, representing an increase of 232.6% and 225.4% as compared to 2016.
- Gross profit margin in 2017 was 22.8%. As compared with gross profit margin of 5.1% in 2016, the gross profit margin increase was mainly due to improvement in average selling prices of thermal coal.
- Profit attributable to equity shareholders of the Company for the year increased to RMB3,158.3 million in 2017, as compared with loss attributable to equity shareholders of the Company of RMB330.5 million in 2016.
- Basic earnings per share of the Company was RMB127 cents in 2017, representing an increase of RMB140 cents as compared with basic loss per share of RMB13 cents in 2016.
- Diluted earnings per share of the Company was RMB121 cents in 2017, representing an increase of RMB134 cents as compared with diluted loss per share of RMB13 cents in 2016.

The Board does not recommend the payment of final dividends for the year 2017.

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 2017 with comparative figures for the year ended 31 December 2016 as follows:

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
*For the year ended 31 December 2017*

| | *Notes* | **2017** *RMB'000* | 2016 *RMB'000* |
|---|---|---|---|
| **Revenue** | *5* | **3,005,671** | 716,187 |
| Cost of sales | | **(2,319,043)** | (679,684) |
| **Gross profit** | | **686,628** | 36,503 |
| Other income, gains and losses | *6* | **195,771** | (55,962) |
| Distribution expenses | | **(51,908)** | (15,993) |
| Administrative expenses | | **(178,989)** | (189,339) |
| Reversal of impairment losses, net | *7(b)* | **4,448,149** | 604,173 |
| Other expenses | | **(34,498)** | (59,460) |
| **Results from operating activities** | | **5,065,153** | 319,922 |
| Finance income | | **205** | 984 |
| Finance costs | | **(378,917)** | (447,939) |
| **Net finance costs** | | **(378,712)** | (446,955) |
| **Profit/(loss) before taxation** | *7(a)* | **4,686,441** | (127,033) |
| Income tax expense | *8* | **(962,091)** | (189,694) |
| **Profit/(loss) for the year** | | **3,724,350** | (316,727) |
| **Other comprehensive (loss)/income** | | | |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Foreign currency translation differences for foreign operations | | **(13,822)** | 24,524 |
| Item that was reclassified to profit or loss: | | | |
| Foreign currency translation differences reclassified to profit or loss upon disposal of subsidiaries | | **(180)** | – |
| **Other comprehensive (loss)/income for the year, net of tax** | | **(14,002)** | 24,524 |
| **Total comprehensive income/(loss) for the year** | | **3,710,348** | (292,203) |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

*For the year ended 31 December 2017*

| | Notes | **2017** *RMB'000* | 2016 *RMB'000* |
|---|---|---|---|
| **Profit/(loss) for the year attributable to:** | | | |
| Equity shareholders of the Company | | **3,158,349** | (330,542) |
| Non-controlling interests | | **566,001** | 13,815 |
| **Profit/(loss) for the year** | | **3,724,350** | (316,727) |
| **Total comprehensive income/(loss) for the year attributable to:** | | | |
| Equity shareholders of the Company | | **3,144,347** | (306,018) |
| Non-controlling interests | | **566,001** | 13,815 |
| **Total comprehensive income/(loss) for the year** | | **3,710,348** | (292,203) |
| **Earnings/(loss) per share attributable to the equity shareholders of the Company during the year** | *9* | | |
| Basic earnings/(loss) per share | | **RMB127 cents** | (RMB13 cents) |
| Diluted earnings/(loss) per share | | **RMB121 cents** | (RMB13 cents) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2017*

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **4,683,766** | 2,614,793 |
| Coal mining rights | | **4,417,366** | 2,292,588 |
| Lease prepayments | | **4,933** | 5,073 |
| Interest in an associate | | **–** | – |
| | | **9,106,065** | 4,912,454 |
| **Current assets** | | | |
| Inventories | | **99,155** | 49,652 |
| Trade and bill receivables | 11 | **782,884** | 392,342 |
| Prepayments and other receivables | | **229,495** | 281,158 |
| Pledged and restricted deposits | | **294** | 2,113 |
| Cash and cash equivalents | | **80,349** | 24,713 |
| | | **1,192,177** | 749,978 |
| **Current liabilities** | | | |
| Trade payables | 12 | **(949,950)** | (981,827) |
| Other payables | | **(2,765,989)** | (2,946,743) |
| Borrowings | 13 | **(6,045,885)** | (6,043,271) |
| Tax payable | | **(282,638)** | (242,050) |
| | | **(10,044,462)** | (10,213,891) |
| **Net current liabilities** | | **(8,852,285)** | (9,463,913) |
| **Total assets less current liabilities** | | **253,780** | (4,551,459) |
| **Non-current liabilities** | | | |
| Other payables | | **(174,603)** | (67,717) |
| Accrued reclamation obligations | | **(105,280)** | (96,458) |
| Deferred tax liabilities | | **(1,178,514)** | (205,673) |
| | | **(1,458,397)** | (369,848) |
| **Net liabilities** | | **(1,204,617)** | (4,921,307) |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)**
*At 31 December 2017*

| | *Notes* | **2017** *RMB'000* | 2016 *RMB'000* |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | | **211,224** | 211,224 |
| Perpetual subordinated convertible securities | | **156,931** | 156,931 |
| Deficit | | **(2,302,131)** | (5,447,702) |
| **Total deficit attributable to equity shareholders of the Company** | | **(1,933,976)** | (5,079,547) |
| **Non-controlling interests** | | **729,359** | 158,240 |
| **Total deficit** | | **(1,204,617)** | (4,921,307) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## 31 December 2017

### 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 Unit Nos. 2201 to 2208, level 22, South Tower, Poly International Plaza, No. 1 Pazhou Avenue East, Haizhu District, Guangzhou City, the People's Republic of China (the "**PRC**").

The principal activities of the Company and its subsidiaries (together, the "**Group**") are coal mining, purchases and sales, filtering, storage, blending of coal in the PRC and shipping transportation.

#### 1.2 Basis of preparation

***(a) Statement of compliance***

These consolidated 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 applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and the Hong Kong Companies Ordinance.

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 consolidated financial statements.

***(b) Basis of measurement***

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

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

*(c) Going concern*

As at 31 December 2017, the Group's current liabilities exceed its current assets by approximately RMB8,852,285,000 and capital deficiency of RMB1,204,617,000. As at 31 December 2017, borrowings and accrued interest amounting to an aggregate amount of RMB2,805,712,000 and RMB435,551,000 respectively were not renewed or rolled over upon maturity. The non-payment of loan principal and interests in accordance with the scheduled repayment dates caused the banks and other borrowing creditors having the rights to call for immediate repayment of all borrowings and their respective interest. In this connection, certain borrowings with scheduled repayment terms over one year totalling RMB1,499,842,000 have been classified as current liabilities.

As at the date of this announcement, the Group has not obtained waivers from the relevant banks on these cross default clauses, and these banks have not taken any action against the Group to demand immediate repayment except for as disclosed in Note 15(a)(iv).

In addition, as at 31 December 2017, there were several pending litigations mainly requesting repayment of long outstanding payables with interest against the Group, as set out in Note 15(a).

These conditions indicate the existence of a material uncertainty which may cast significant doubt on 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 2017 and subsequently thereto up to the date of this announcement. In order to improve the Group's financial position, 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 this announcement, but not limited to, the followings:

(i) The Group applies cost control measures in cost of sales, administrative expenses and capital expenditures;

(ii) The Group is maximising its sales efforts including seeking long term orders from power plants and coal trading companies in the PRC with a view to improving operating cash flows. Considering the stability of coal market and steady coal prices, the Group is expected to generate operating cash inflows in coming years from its existing production facilities continuously;

(iii) In relation to those bank loans that have not been renewed or rolled over upon maturity or those bank loans that became immediately repayable under the cross default clauses, the Group is in the process of negotiating with the relevant banks to extend the repayment and renew the loans and to obtain waivers from the lenders for the due payment pursuant to the relevant cross default clauses;

(iv) For borrowings which will be maturing before 31 December 2018, the Group will actively negotiate with the banks before they fall due to secure their renewals so as to ensure that the necessary funds to meet the Group's working capital and financial requirements in the future will continue to be met. The directors of the Company do not expect to experience significant difficulties in renewing most of these short-term borrowings upon their maturities and there is no indication that these bank lenders will not renew the existing short-term borrowings upon the Group's request. The directors of the Company have evaluated the relevant facts available to them and are of the opinion that the Group would be able to renew such borrowings upon maturity; and

(v) The Group is actively negotiating with the plaintiffs for settlement of the court cases. During the year ended 31 December 2017, the Group successfully reached agreements with certain plaintiffs at PRC courts on settlement plans over 40 cases with an aggregate amount of RMB188,321,000 that will be repaid by monthly installment. The aggregate amount to be settled before 31 December 2018 amounted to RMB45,600,000. The directors of the Company are of the view that the Group will be able to reach settlement plans for the remaining claims for varies plaintiffs without significant impact on the Group's cash flow in the next twelve months.

On the basis of the successful implementation of the measures described above in the foreseeable future 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 the Group's financial obligations as they fall due for the twelve months from 31 December 2017. Accordingly, the consolidated financial statements of the Group have been prepared on the 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 carrying amounts of the Group's assets to their recoverable amounts, to provide for any further liabilities that may arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

***(d) Significant judgements and estimates***

The preparation of consolidated financial statements requires the directors of the Company to make judgements, estimates and assumptions that affect the application of accounting policies and 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 for 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.

Judgements made by management in the application of IFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are described as follows:

*(i) Impairment losses for trade and bill receivables*

Impairment losses for trade and bill receivables are assessed and provided based on management's regular review of ageing analysis and evaluation of collectability. A considerable level of judgement is exercised by the management when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the impairment losses for bad and doubtful debts would affect the consolidated statement of comprehensive income in future years. At 31 December 2017, the carrying amount of the Group's trade and bill receivables was RMB782,884,000 (2016: RMB392,342,000).

*(ii) Depreciation*

Other than the mining structures, property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual values. The management periodically reviews changes in technology and industry conditions, asset retirement activity and residual values to determine adjustments to estimated remaining useful lives and depreciation rates. Actual economic lives may differ from estimated useful lives. Periodic reviews could result in a change in depreciable lives and therefore depreciation expenses in future periods. At 31 December 2017, the carrying amount of the Group's property, plant and equipment, other than the mining structures and assets under construction, was RMB1,978,755,000 (2016: RMB1,135,629,000).

*(iii) Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of distributing and selling products of similar nature. It could change significantly as a result of competitor's actions in response to industry cycles or other changes in market condition. Management assesses the estimations at each reporting date. At 31 December 2017, the carrying amount of the Group's inventories was RMB99,155,000 (2016: RMB49,652,000).

*(iv) Coal reserves*

Engineering estimates of the Group's coal reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated coal reserves can be designated as "proved" and "probable". Proved and probable coal reserve estimates are updated on a regular basis and have taken into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable coal reserves also changes as adverse changes in prices and cost levels would affect the cost effectiveness of mining the coal and hence may cause reclassifications from reserves to resources categories. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation and amortisation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation and amortisation expenses and impairment loss. Depreciation and amortisation rates are determined based on estimated proved and probable coal reserve quantity (the denominator) and capitalised costs of mining structures and coal mining rights (the numerator). The capitalised cost of mining structures are depreciated and coal mining rights are amortised based on the units of coal produced. At 31 December 2017, the carrying amounts of the Group's mining structures recognised in property, plant and equipment and the Group's coal mining rights were RMB1,733,293,000 (2016: RMB737,652,000) and RMB4,417,366,000 (2016: RMB2,292,588,000) respectively.

*(v)* *Obligations for reclamation*

The estimation of the liabilities for final reclamation and mine closure involves the estimates of the amount and timing for the future cash spending as well as the discount rate used for reflecting current market assessments of the time value of money and the risks specific to the liability. The Group considers various factors, including future production volume and development plan, the geological structure of the mining regions and reserve volume, to determine the scope, amount and timing of reclamation and mine closure works to be performed. Determination of the effect of these factors involves judgements from the Group and the estimated liabilities may turn out to be different from the actual expenditure incurred. The discount rate used by the Group may also be altered to reflect the changes in the market assessments of the time value of money and the risks specific to the liability, such as changes of the borrowing rate and inflation rate in the market. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), revisions to the obligations will be recognised. At 31 December 2017, the carrying amount of the Group's accrued reclamation obligations was RMB105,280,000 (2016: RMB96,458,000).

*(vi)* *Impairment of non-financial assets*

The Group assesses at each reporting date whether there is any indication that non-financial assets with definite lives may be impaired or that an impairment loss recognised in prior periods for such non-financial assets may no longer exist or may have decreased. If any such indication exists, the Group estimates the recoverable amount of the assets in accordance with the accounting policy. In assessing whether there is any indication that non-financial assets may be impaired or that impairment loss may have reversed, the Group considers indications from both internal and external sources of information such as evidence of obsolescence or decline in economic performance of the assets, changes in market conditions and economic environment. These assessments are subjective and require management's judgements and estimations.

## 2. CHANGES IN ACCOUNTING POLICIES

In the preparation of the consolidated financial statements for the year ended 31 December 2017, the Group has applied, for the first time, the following amendments issued by the IASB.

| | |
|---|---|
| IAS 7 Amendments | Disclosure Initiative |
| IAS 12 Amendments | Recognition of Deferred Tax Assets for Unrealised Losses |
| Amendments to IFRSs | Annual Improvements to IFRSs 2014 – 2016 Cycle |

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 prepared or presented. However, additional disclosure has been included to satisfy the new disclosure requirements introduced by the amendments to IAS 7 Statement of cash flows: Disclosure Initiative, which require entities to provide disclosures that enable user of the financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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 NOT YET ADOPTED

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective in these consolidated financial statements.

| | | **Effective for accounting periods beginning on or after** |
|---|---|---|
| IFRS 10 and IAS 28 Amendments | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined* |
| Amendments to IFRSs | Annual Improvements to IFRSs 2014 – 2016 Cycle | 1 January 2018 |
| IAS 40 Amendments | Transfers of Investment Property | 1 January 2018 |
| IFRS 2 Amendments | Classification and Measurement of Share-based Payment Transactions | 1 January 2018 |
| IFRS 4 Amendments | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts | 1 January 2018 |
| IFRS 9 | Financial Instruments | 1 January 2018 |
| IFRS 15 | Revenue from Contracts with Customers | 1 January 2018 |
| IFRS 15 Amendments | Clarifications to IFRS 15 Revenue from Contracts with Customers | 1 January 2018 |
| IFRIC – Interpretation 22 | Foreign Currency Transactions and Advance Consideration | 1 January 2018 |
| Amendments to IFRSs | Annual Improvements to IFRSs 2015 – 2017 Cycle | 1 January 2019 |
| IFRS 9 Amendments | Prepayment Features with Negative Compensation | 1 January 2019 |
| IFRS 16 | Leases | 1 January 2019 |
| IFRIC – Interpretation 23 | Uncertainty over Income Tax Treatments | 1 January 2019 |
| IFRS 17 | Insurance Contracts | 1 January 2021 |

* On 17 December 2015, the IASB issued "Effective Date of Amendments to IFRS 10 and IAS 28". This update defers the effective date of the amendments in "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" that the IASB issued in September 2014. Early application of these amendments continues to be permitted.

The Group is in the process of making an assessment of what the impact of these amendments and new standards 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 except for the following:

**IFRS 9 Financial Instruments**

IFRS 9 has introduced new requirements for a) classification and measurement of financial assets; b) impairment of financial assets; and c) general hedge accounting.

Specifically, with regard to the classification and measurement of financial assets, IFRS 9 requires all recognised financial assets that are within the scope of IFRS 9 to be subsequently measured at amortised cost or fair value. Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of each of the subsequent accounting periods. Debt investments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. Further, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss and that cumulative fair value changes will not be reclassified to profit or loss upon derecognition of the investment. The Group has assessed that its financial assets currently measured at amortised cost will continue with their respective classification and measurements upon the adoption of IFRS 9.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss. The Group currently does not have any financial liabilities designated at fair value through profit or loss and therefore this new requirement will not have any impact on the Group on adoption of IFRS 9.

With regard to impairment of financial assets, IFRS 9 has adopted an expected credit loss model, as opposed to an incurred credit loss model required under IAS 39. In general, the expected credit loss model requires an entity to assess the change in credit risk of the financial asset since initial recognition at each reporting date and to recognise the expected credit loss depending on the degree of the change in credit risk. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. Based on a preliminary assessment, the directors of the Company expect that the adoption of IFRS 9 is unlikely to result in significant impact on the Group's financial performance.

With regard to the general hedge accounting requirements, IFRS 9 retains the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced. The Group currently does not apply any hedge accounting and therefore this new requirement will not have any impact on the Group on adoption of IFRS 9.

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, IFRS 15 introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company expect that the adoption of IFRS 15 is unlikely to result in significant impact on the Group's financial performance but it may affect related disclosures made in the Group's consolidated financial statements.

**IFRS 16 Leases**

Under IFRS 16 a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. This will typically produce a front-loaded expense profile (whereas operating leases under IAS 17 would typically have had straight-line expenses) as an assumed linear depreciation of the right-of-use asset and the decreasing interest on the liability will lead to an overall decrease of expense over the reporting period.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate.

As with IFRS 16's predecessor, IAS 17, lessors classify leases as operating or finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease.

For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

***Recognition exemptions***

Instead of applying the recognition requirements of IFRS 16 described above, a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term or another systematic basis for the following two types of leases:

– leases with a lease term of 12 months or less and containing no purchase options – this election is made by class of underlying asset; and

– leases where the underlying asset has a low value when new (such as personal computers or small items of office furniture) – this election can be made on a lease-by-lease basis.

The directors of the Company anticipate that the application of IFRS 16 in the future may affect amounts reported and related disclosure. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until the Group performs a detail review.

## 4. SEGMENT REPORTING

### (a) Segment results, assets and liabilities

The Group has two operating and reportable segments which are the Group's strategic business units as follows:

Coal business: Coal mining, purchases and sales, filtering, storage and blending of coal in the PRC.

Shipping transportation: Time charter and voyage charter of vessels.

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 basis:

The measure used for reporting segment profit/(loss) is adjusted profit/(loss) before net finance costs and income tax expense. Items not specifically attributable to individual segments, such as unallocated head office and corporate expenses are further adjusted.

Segment assets include all tangible assets, coal mining rights, lease prepayments, interest in an associate and current assets with the exception of other corporate assets. Segment liabilities include trade payables, other payables attributable to activities of the individual segments, accrued reclamation obligations and 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 | | Total | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Revenue from external customers | **2,857,163** | 608,469 | **148,508** | 107,718 | **3,005,671** | 716,187 |
| Inter-segment revenue | **–** | – | **20,130** | – | **20,130** | – |
| **Reportable segment revenue** | **2,857,163** | 608,469 | **168,638** | 107,718 | **3,025,801** | 716,187 |
| **Reportable segment profit/(loss) before taxation** | **5,036,222** | 590,622 | **40,811** | (262,627) | **5,077,033** | 327,995 |
| Depreciation and amortisation | **221,964** | 88,146 | **19,404** | 29,788 | **241,368** | 117,934 |
| (Reversal of impairment)/ impairment losses on property, plant and equipment | **(2,087,848)** | (396,451) | **–** | 184,854 | **(2,087,848)** | (211,597) |
| Reversal of impairment losses on coal mining rights | **(2,206,456)** | (371,199) | **–** | – | **(2,206,456)** | (371,199) |
| Reversal of impairment losses on trade receivables, net | **(147,436)** | (13,568) | **–** | – | **(147,436)** | (13,568) |
| Reversal of impairment losses on prepayments and other receivables, net | **(6,409)** | (7,809) | **–** | – | **(6,409)** | (7,809) |
| Recovery of bad debts previously written off | **(8,403)** | – | **–** | – | **(8,403)** | – |
| Wavier of management fee payables and safety supervision fee payables | **(160,753)** | – | **–** | – | **(160,753)** | – |
| Net (gain)/loss on disposal of property, plant and equipment | **(1,454)** | (404) | **–** | 70,929 | **(1,454)** | 70,525 |
| **Reportable segment assets** | **10,413,230** | 5,745,978 | **434,901** | 428,635 | **10,848,131** | 6,174,613 |
| Addition to non-current assets | **164,753** | 149,821 | **310** | 3,207 | **165,063** | 153,028 |
| **Reportable segment liabilities** | **(10,417,611)** | (10,454,739) | **(927,113)** | (1,015,360) | **(11,344,724)** | (11,470,099) |

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

***Revenue***

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Total of reportable segments revenue | **3,025,801** | 716,187 |
| Elimination of inter-segment revenue | **(20,130)** | – |
| Consolidated revenue | **3,005,671** | 716,187 |

***Profit/(loss) before taxation***

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Total of reportable segments profit before taxation | **5,077,033** | 327,995 |
| Unallocated head office and corporate expenses | **(11,880)** | (8,073) |
| Net finance costs | **(378,712)** | (446,955) |
| Consolidated profit/(loss) before taxation | **4,686,441** | (127,033) |

***Assets***

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Total of reportable segments assets | **10,848,131** | 6,174,613 |
| Elimination of inter-segment receivables | **(611,511)** | (522,604) |
| Unallocated assets | **61,622** | 10,423 |
| Consolidated total assets | **10,298,242** | 5,662,432 |

***Liabilities***

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Total of reportable segments liabilities | **11,344,724** | 11,470,099 |
| Elimination of inter-segment payables | **(1,308,551)** | (1,349,211) |
| Tax payable | **282,638** | 242,050 |
| Deferred tax liabilities | **1,178,514** | 205,673 |
| Unallocated liabilities | **5,534** | 15,128 |
| Consolidated total liabilities | **11,502,859** | 10,583,739 |

**(c) Geographic information**

At 31 December 2017, the Group's total assets are primarily dominated by assets handling its coal business and shipping transportation business. The coal is sold primarily to the PRC domestic customers and investments in all coal mines are physically located in the PRC. Therefore, related assets 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 areas. Accordingly, geographical segment information is only presented for revenue, which is based on the geographical location of customers.

***Revenue from external customers***

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| PRC | **2,927,911** | 641,359 |
| Other countries | **77,760** | 74,828 |
| Total | **3,005,671** | 716,187 |

**(d) Information about major customers**

During the year, revenue derived from the following customers in coal business segment with whom transactions have exceeded 10% of the Group's revenue are as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Customer A | **360,310** | N/A |
| Customer B | **320,011** | N/A |
| Customer C | **N/A** | 155,610 |
| Customer D | **N/A** | 87,535 |

Revenue from customers A and B for the year ended 31 December 2016 and revenue from customers C and D for the year ended 31 December 2017 contributed less than 10% of the Group's revenue for the respective year.

**5. REVENUE**

Revenue for the year represents the sales of coal and charter hire income.

The amount of each significant category of revenue recognised during the year is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Sales of coal | **2,857,163** | 608,469 |
| Charter hire income | **148,508** | 107,718 |
| | **3,005,671** | 716,187 |

## 6. OTHER INCOME, GAINS AND LOSSES

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| Government subsidies | *(i), (iii)* | **30,352** | 2,479 |
| Foreign exchange (loss)/gain, net | | **(5,052)** | 7,716 |
| Net losses on disposal of subsidiaries | *(ii)* | **(3,025)** | – |
| Net gain/(loss) on disposal of property, plant and equipment | *(iii)* | **1,454** | (70,525) |
| Waiver of management fee payables and safety supervision fee payables | *(iv)* | **160,753** | – |
| Recovery of bad debts previously written off | | **8,403** | – |
| Sublease income | | **297** | – |
| Others | | **2,589** | 4,368 |
| | | **195,771** | (55,962) |

*Notes:*

(i) During the year ended 31 December 2017, the Group received unconditional subsidies from local government as recognition of the Group's contribution to the development of local economy and demolition of one vessel in the preceding year (Note (iii)). During the year ended 31 December 2016, the Group received unconditional subsidies from local government as recognition of the Group's contribution to the development of local economy.

(ii) On 31 December 2017, the Group disposed of eleven subsidiaries of the Group to independent third parties for an aggregate of cash consideration of United States dollars ("USD") 5. The subsidiaries were dormant in nature and had no significant impact on the results and cash flows of the Group for the year ended 31 December 2017.

(iii) During the year ended 31 December 2017, the Group obtained government subsidy of RMB30,213,000 (2016: RMB30,019,000), in respect of demolition of two vessels during the year ended 31 December 2016 in accordance with "Implementation Plan for Early Retirement and Replacement of Obsolete and Worn-out Transportation Vessels And Singlehull Oil Tankers"《老舊運輸船舶和單殼油輪提前報廢更新實施方案》and "Administrative Measure For The Special Subsidies Given By The Central Finance To Encourage Retirement And Replacement Of Obsolete and Worn-out Transportation Vessels And Single-hull Oil Tankers"《老舊運輸船舶和單殼油輪報廢更新中央財政補助專項資金管理辦法》jointly promulgated by the Ministry of Finance, the Ministry of Transport, the Development and Reform Commission, and the Ministry of Industry and Information Technology of China ("Vessel Demolition Subsidy"). During the year ended 31 December 2017, the government subsidy of RMB30,213,000 has been included in government subsidies (Note (i)). During the year ended 31 December 2016, after taking into account the government subsidy compensation of RMB30,019,000, the net loss on demolition of the two vessels was RMB70,929,000 and has been included in net loss on disposal of property, plant and equipment.

(iv) On 31 December 2017, a PRC state-owned enterprise, who is responsible for providing management services and safety supervision to Shanxi Xinzhou Shenchi Xinglong Coal Co., Ltd. ("Xinglong Coal") and Shanxi Xinzhou Shenchi Hongyuan Coal Co., Ltd. ("Hongyuan Coal"), has waived its amounts due from the Group in total of approximately RMB160,753,000 and such gain has been accounted for as waiver of management fee payables and safety supervision fee payables during the year.

## 7. PROFIT/(LOSS) BEFORE TAXATION

### (a) Profit/(loss) before taxation is arrived at after charging:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Cost of inventories *(Note (i))* | **2,208,013** | 675,625 |
| Minimum lease payments under operating lease: | | |
| – properties | **2,452** | 14,581 |
| – vessels | **43,283** | 4,734 |
| Depreciation of property, plant and equipment | **159,589** | 96,513 |
| Amortisation of coal mining rights | **81,678** | 21,319 |
| Amortisation of lease prepayments | **140** | 140 |
| Property, plant and equipment written-off | **5,318** | 2,090 |
| Auditor's remuneration | | |
| – audit services | **1,972** | 1,852 |
| – non-audit services | **700** | 1,130 |
| Management fee and safety supervision fee | **–** | 48,090 |
| Employee benefit expenses (excluding directors' and chief executive's remuneration) | | |
| – Salaries, allowances and benefits in kind | **334,717** | 132,547 |
| – Contribution to retirement benefit schemes | **13,303** | 5,260 |
| – Share-based payments | **973** | 5,232 |
| | **348,993** | 143,039 |

*Note:*

(i) Cost of inventories included RMB421,379,000 (2016: RMB180,418,000) relating to employee benefit expenses, depreciation for property, plant and equipment and amortisation of coal mining rights which amounts are also included in the respective total amounts disclosed separately above for each of these types of expenses.

### (b) Reversal of impairment losses, net

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Reversal of impairment losses on property, plant and equipment, net | **(2,087,848)** | (211,597) |
| Reversal of impairment losses on coal mining rights | **(2,206,456)** | (371,199) |
| Reversal of impairment losses on trade receivables, net | **(147,436)** | (13,568) |
| Reversal of impairment losses on prepayments and other receivables, net | **(6,409)** | (7,809) |
| | **(4,448,149)** | (604,173) |

## 8. INCOME TAX EXPENSE

Income tax expense in the consolidated statement of comprehensive income represents:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current tax expense | | |
| – PRC Corporate Income Tax | **7,945** | 9,288 |
| – Over-provision of PRC Corporate Income Tax in prior years | **(18,695)** | (2,515) |
| Deferred tax | **972,841** | 182,921 |
| Income tax expense | **962,091** | 189,694 |

(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 (2016: Nil).

(ii) No provision for Hong Kong Profits Tax has been made for the subsidiaries located in Hong Kong as these subsidiaries did not have any assessable profits subject to Hong Kong Profits Tax during the year (2016: Nil).

(iii) Provision for the PRC Corporate Income Tax was based on the statutory rate of 25% (2016: 25%) of the assessable profits of subsidiaries which carried on businesses in the PRC.

## 9. EARNINGS/(LOSS) PER SHARE

**Basic earnings/(loss) per share**

The calculations of basic earnings/(loss) per share is based on the profit/(loss) attributable to ordinary equity shareholders of the Company and the weighted average number of ordinary shares in issue during the year.

The calculations of basic earnings/(loss) per share attributable to ordinary equity shareholders of the Company for the years ended 31 December 2017 and 2016 are based on the following data:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit/(loss) for the year attributable to equity shareholders of the Company | **3,158,349** | (330,542) |
| Less: Distribution relating to perpetual subordinated convertible securities classified as equity | **–** | (5,030) |
| Profit/(loss) for the year attributable to ordinary equity shareholders of the Company used in calculating basic earnings/(loss) per share | **3,158,349** | (335,572) |
| Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share | **2,493,413,985** | 2,493,413,985 |

**Diluted earnings/(loss) per share**

The calculations of diluted earnings/(loss) per share attributable to ordinary equity shareholders of the Company for the years ended 31 December 2017 and 2016 are based on the following data:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit/(loss) for the year attributable to ordinary equity shareholders of the Company used in calculating basic earnings/(loss) per share | **3,158,349** | (335,572) |
| Add: Distribution saving relating to perpetual subordinated convertible securities classified as equity | **–** | N/A |
| Adjusted profit/(loss) for the year attributable to ordinary equity shareholders of the Company used in calculating diluted earnings/(loss) per share | **3,158,349** | (335,572) |
| Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share | **2,493,413,985** | 2,493,413,985 |
| Adjustments for calculation of diluted earnings/(loss) per share: Perpetual subordinated convertible securities | **118,000,000** | N/A |
| Adjusted weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share | **2,611,413,985** | 2,493,413,985 |

For the year ended 31 December 2017, the computation of diluted earnings per share does not assume the exercise the Company's outstanding share options since the exercise prices of these options were higher than the average market price of shares for the year ended 31 December 2017 and hence the share options were not dilutive.

For the year ended 31 December 2016, as the Company's outstanding share options and perpetual subordinated convertible securities had an anti-dilutive effect to the diluted loss per share calculation, the conversion of these above potential ordinary shares is not assumed in the computation of diluted loss per share.

## 10. DIVIDENDS

The directors of the Company do not recommend the payment of any dividends to its ordinary shareholders for the year ended 31 December 2017 (2016: Nil).

## 11. TRADE AND BILL RECEIVABLES

| | 2017 | 2016 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade and bill receivables | **1,034,231** | 794,171 |
| Less: impairment | **(251,347)** | (401,829) |
| | **782,884** | 392,342 |

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:

| | 2017 | 2016 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Within 2 months | **339,148** | 242,172 |
| Over 2 months but within 6 months | **350,501** | 9,002 |
| Over 6 months but within 1 year | **1,610** | 72 |
| Over 1 year but within 2 years | **3,509** | 54,158 |
| Over 2 years *(Note)* | **88,116** | 86,938 |
| | **782,884** | 392,342 |

*Note:* As at 31 December 2017, trade receivables aged over 2 years amounting to RMB87,664,000 (2016: RMB79,860,000) were due from customers which the Group has trade and other payable balances with. Based on past experience and repayment history of the trade debtors, the directors of the Company believe that no impairment allowance is necessary in respect of these balances.

Credit terms granted to customers mainly range from 0 to 60 days (2016: 0 to 60 days) depending on customers' relationship with the Group, their creditworthiness and past settlement record.

The ageing is counted from the date when trade and bill receivables are recognised.

## 12. TRADE PAYABLES

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

| | 2017 | 2016 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Within 1 year | **295,919** | 130,559 |
| Over 1 year but within 2 years | **345,694** | 828,322 |
| Over 2 years | **308,337** | 22,946 |
| | **949,950** | 981,827 |

## 13. BORROWINGS

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **Bank loans** | | | |
| – Secured | *(i)* | **788,825** | 5,043,520 |
| – Unsecured | *(ii)* | **1,017,222** | 962,681 |
| | | **1,806,047** | 6,006,201 |
| Other borrowings | *(iii)* | **4,239,838** | 37,070 |
| Total borrowings | | **6,045,885** | 6,043,271 |

Interest payables on the borrowings are included in other payables.

As 31 December 2017, secured bank loans of RMB641,326,000 and other borrowings of RMB2,164,386,000 were not renewed or rolled over upon maturity and carried interest at rates ranging from 4.75% to 6.83% per annum. As at 31 December 2017, these borrowings are secured by coal mining rights with a carrying amount of RMB1,392,654,000, property, plant and equipment with a carrying amount of RMB221,627,000, inventories with a carrying amount of RMB2,896,000. These borrowings are also secured by Fortune Pearl International Limited's ("Fortune Pearl", the ultimate holding company of the Company) equity interest in the Company and the Group's equity interest in Shanxi Shuozhou Pinglu District Huameiao Chongsheng Coal Co., Ltd. ("Chongsheng Coal"), Xinglong Coal, Hongyuan Coal, Super Grace Enterprises Limited ("Super Grace") and Oriental Wise Group Limited ("Oriental Wise") and guaranteed by the Company, certain subsidiaries of the Company, related parties and Mr. Xu Jihua ("Mr. Xu"), the controlling shareholder. In addition, bank deposits of RMB171,000 was restricted for use as a result of the bank borrowings were not renewed or rolled over upon maturity.

As 31 December 2016, secured bank loans of RMB672,289,000, unsecured bank loans of RMB269,850,000 and other borrowings of RMB17,090,000 were not renewed or rolled over upon maturity and carried interest at rates ranging from 4.75% to 12.96% per annum. As at 31 December 2016, these borrowings are secured by coal mining rights with a carrying amount of RMB994,151,000, property, plant and equipment with a carrying amount of RMB407,274,000, lease prepayments with a carrying amount of RMB5,073,000, guaranteed by the Company, certain subsidiaries of the Company, related parties, Mr. Xu and a former director. In addition, bank deposits of RMB1,939,000 was restricted for use as a result of the bank borrowings were not renewed or rolled over upon maturity.

During the year ended 31 December 2017, several banks assigned their bank loans due from the Group amounting to RMB4,239,838,000 and interest and penalty interest due from the Group amounting to RMB490,089,000 to asset management companies in the PRC.

Bank loans and other borrowings amounting to RMB1,499,842,000 (2016: RMB2,473,678,000) in aggregate due for repayment after one year which contain a cross default clause that demands immediate repayment when there is default in any bank loans repayment had become repayable on demand and hence are classified as current liabilities.

Bank loans due for repayment, based on the scheduled repayment terms set out in the loan agreements and without taking into account the effect of any repayment on cross default clause are as follows:

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Within 1 year or on demand | **1,333,657** | 3,532,523 |
| Over 1 year but within 2 years | **324,890** | 1,118,336 |
| Over 2 years but within 5 years | **147,500** | 1,355,342 |
| | **1,806,047** | 6,006,201 |

Other borrowings due for repayment, based on the scheduled repayment terms set out in the loan agreements and without taking into account the effect of any repayment on cross default clause are as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 1 year or on demand | **3,212,386** | 37,070 |
| Over 1 year but within 2 years | **1,027,452** | – |
| | **4,239,838** | 37,070 |

The Group's total borrowings are secured by the following assets:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Property, plant and equipment | **1,373,638** | 1,110,714 |
| Coal mining rights | **4,417,366** | 2,292,588 |
| Lease prepayments | **–** | 5,073 |
| Inventories | **2,896** | 28,509 |
| Trade and bill receivables | **–** | 33,365 |

As at 31 December 2017, the Group's total borrowings are also secured by other receivables of a related company of which Mr. Xu is the shareholder, a property held by Mr. Xu, Fortune Pearl's equity interest in the Company and the Group's equity interest in Shanxi Huameiao Energy Group Co., Ltd. ("Huameiao Energy"), Shanxi Shuozhou Pinglu District Huameiao Xingtao Coal Co., Ltd. ("Xingtao Coal"), Shanxi Shuozhou Pinglu District Huameiao Fengxi Coal Co., Ltd. ("Fengxi Coal"), Chongsheng Coal, Xinglong Coal, Hongyuan Coal, Shuozhou Guangfa Energy Investment Co., Ltd. ("Shuozhou Guangfa"), Super Grace and Oriental Wise. As at 31 December 2017, total borrowings of RMB6,045,885,000 were guaranteed by the Company, certain subsidiaries of the Company, related parties and/or Mr. Xu.

As at 31 December 2016, the Group's total borrowings are also secured by other receivables of a related company of which Mr. Xu is the shareholder, a property held by Mr. Xu, a property held by Mr. Xu Da, the executive director of the Company, Fortune Pearl's equity interest in the Company and the Group's equity interest in Huameiao Energy, Xingtao Coal, Fengxi Coal, Chongsheng Coal, Xinglong Coal, Hongyuan Coal, Shuozhou Guangfa, Super Grace and Oriental Wise. As at 31 December 2016, total borrowings of RMB6,033,401,000 were guaranteed by the Company, certain subsidiaries of the Company, related parties, Mr. Xu and/or a former director.

*Notes:*

(i) Secured bank loans bear interest at rates ranging from 4.35% to 7.28% (2016: 4.35% to 7.28%) per annum as at 31 December 2017.

(ii) Unsecured bank loans bear interest at rates ranging from 4.35% to 7.20% (2016: 4.35% to 8.10%) per annum as at 31 December 2017.

(iii) Other borrowings bear interest at rates ranging from 4.75% to 7.01% (2016: 12.00% to 13.50%) per annum as at 31 December 2017.

## 14. CAPITAL COMMITMENTS

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Property, plant and equipment | **114,228** | 45,692 |

## 15. CONTINGENT LIABILITIES

### (a) Outstanding litigations

Up to the date of this announcement, the following legal proceedings are still outstanding.

***(i) Litigation claims relating to the performance of the contract execution between Liaoning Zhonghuitong Asset Management Limited ("Zhonghuitong") and Xinglong Coal and Huameiao Energy***

On 29 November 2012, Xinglong Coal acquired certain coal mining machineries at a consideration of RMB94,708,000. On 27 June 2013, Xinglong Coal settled the purchase of machineries by way of bill payables of RMB94,708,000 which was guaranteed by Zhonghuitong. Xinglong Coal eventually repaid the bill payables of RMB59,021,000 and failed to honor its remaining obligation of RMB35,687,000. As a guarantor, Zhonghuitong settled the principal and interest of the bill payables of RMB35,687,000 on behalf of Xinglong Coal. During the year ended 31 December 2015, Zhonghuitong applied to the Liaoning Shenyang Municipal Intermediate People's Court to order Xinglong Coal and Huameiao Energy to repay RMB35,687,000, late penalty charges of RMB3,788,000 and interest charges of RMB6,888,000, totalling RMB46,363,000, in addition to the court litigation costs. The interest payment was calculated on the basis of 0.05% per day from 28 June 2014 until the settlement. An aggregate amount of RMB46,363,000 had already been recognised as payables to Zhonghuitong included in other payables in the consolidated statement of financial position as at 31 December 2015.

During the year ended 31 December 2016, pursuant to the judgements of the courts in the PRC, the Group was ordered to make immediate repayment of payables to the plaintiffs, with additional corresponding legal costs of RMB279,000, which have been recognised in the consolidated financial statements for the year ended 31 December 2016.

During the year ended 31 December 2017, the Group successfully reached an agreement with Zhonghuitong on a monthly instalment settlement plan for a period of 29 months. According to the settlement plan, late penalty charges of RMB3,788,000 and interest of RMB6,888,000 were waived. As a result of the foregoing, the Group reversed late penalty charges of RMB3,788,000 and interest charges of RMB6,880,000 in the consolidated financial statements for the year ended 31 December 2017.

***(ii) Litigation claims relating to unsettled property, plant and equipment contract sums with several suppliers of the Group***

As at 31 December 2015, there were several litigation claims initiated by the suppliers against the Group to demand immediate repayment of overdue payables in relation to purchase of machineries with an aggregate amount of RMB132,206,000 and the late penalty charges of RMB6,605,000 and corresponding legal costs of RMB108,000. An aggregate amount of RMB138,919,000 had already been recognised as payables to these suppliers included in other payables in the consolidated statement of financial position as at 31 December 2015.

During the year ended 31 December 2016, pursuant to the judgements of the courts in the PRC, the Group was ordered to make immediate repayment of payables of RMB137,118,000 to the plaintiffs. During the year ended 31 December 2017, the Group successfully reached an agreement with certain plaintiffs at a PRC court on a settlement plan with an aggregate amount of RMB26,551,000 that will be repaid by monthly installment.

During the year ended 31 December 2017, pursuant to the judgements of the courts in the PRC, the Group was ordered to make immediate repayment of payables of RMB2,206,000 to another two plaintiffs.

*(iii)* ***Litigation claims relating to unsettled considerations in relation to the acquisition of coal mining rights of Xinglong Coal mine and Hongyuan Coal mine***

During the year ended 31 December 2015, there were litigation claims initiated by two of the previous owners (the "Previous Owners") of Xinglong Coal Mine and Hongyuan Coal Mine against the Group to demand immediate repayment of the unsettled considerations with an aggregate amount of RMB51,338,000 in relation to the acquisitions of coal mining rights of Xinglong Coal Mine and Hongyuan Coal Mine in 2013. Pursuant to the judgements of the Shanxi Shuozhou Municipal Intermediate People's Court dated 20 April 2015 and 10 December 2015, the Group was ordered to pay the Previous Owners the unsettled consideration of RMB51,338,000, the late penalty charges and interest charges of RMB3,000,000 and corresponding legal costs of RMB350,000. On 23 July 2015 and 4 January 2016, the Group lodged appeal applications to the Shanxi Provincial Higher People's Court. The amount of RMB54,688,000 had already been recognised as payables to the Previous Owners included in other payables in the consolidated statement of financial position as at 31 December 2015.

During the year ended 31 December 2016, the Group successfully reached an agreement with one of the Previous Owners on a settlement plan with an aggregate amount of RMB13,000,000 that would be repaid by monthly installment of RMB1,000,000. Accordingly, such litigation claim was released.

Pursuant to the judgement of the Shanxi Province High People's Court dated 12 October 2017, the Group was ordered to make immediate repayment of payable to another Previous Owner, with additional late penalty charges and interest charges of RMB3,000,000 and corresponding legal costs of RMB248,000. As a result of the foregoing, the Group further recognised the corresponding legal costs of RMB248,000 in the consolidated financial statements for the year ended 31 December 2017.

During the year ended 31 December 2016, another previous owner of Hongyuan Coal filed a lawsuit against the Group to demand immediate repayment of the unsettled considerations of RMB87,423,000 and the late penalty charges and interest charges of RMB14,487,000 in relation to the acquisitions of coal mining rights of Hongyuan Coal Mine. The amount of RMB87,423,000 had already been recognised as payables to this previous owner included in other payables in the consolidated statement of financial position as at 31 December 2016. As a result of the foregoing, the Group further recognised the late penalty charges and interest charges of RMB14,487,000 in the consolidated financial statements for the year ended 31 December 2016.

Pursuant to the judgement of the Shanxi Province High People's Court dated 16 June 2017, the Group was ordered to make immediate repayment of payable to this previous owner, with additional corresponding legal costs and interest charges. As a result of the foregoing, the Group further recognised the late penalty charges, interest charges and corresponding legal costs of RMB7,303,000 in aggregate in the consolidated financial statements for the year ended 31 December 2017.

*(iv)* ***Litigation claims relating to default of repayment of bank borrowings***

In 2015, a bank filed a lawsuit in Zhuhai Municipal Intermediate People's Court against the Group to demand immediate repayment of the defaulted bank borrowings of RMB148,882,000 and interest charges of RMB328,000 respectively. The principal of RMB148,882,000 and respective interest charges of RMB328,000 had already been recognised as borrowings and accrued expenses included in other payables respectively in the consolidated statement of financial position as at 31 December 2015.

In 2016, another bank filed lawsuit in Shanxi Province High People's Court against the Group to demand immediate repayment of the defaulted bank borrowings of RMB492,444,000 and interest charges of RMB13,068,000 respectively. The principal of RMB492,444,000 and respective interest charges of RMB13,068,000 had already been recognised as borrowings and accrued expenses included in other payables respectively in the consolidated statement of financial position as at 31 December 2016.

Pursuant to the judgements, several bank accounts of the Group were frozen for one year from the date of the judgements and the coal mining rights of the Group and two properties of the Group's related companies were frozen for three years from the date of judgement. In addition, the Group was ordered to make immediate repayment of the aforesaid balances.

In 2017, two banks filed lawsuit in Zhuhai Municipal Intermediate People's Court against the Group to demand immediate repayment of the bank borrowings of RMB210,771,000 and interest charges of RMB11,110,000 respectively. The principal of RMB210,771,000 and respective interest charges of RMB11,110,000 had already been recognised as borrowings and accrued expenses included in other payables respectively in the consolidated statement of financial position as at 31 December 2017. Up to the date of this announcement, these litigation claims are still in progress.

The Group is still in the process of negotiating with these four banks to renew its loans outstanding.

***(v) Litigation claims relating to the performance of the contract execution between Heilongjiang HengJiu Construction Limited ("HengJiu") and Chongsheng Coal and Fengxi Coal***

During the year ended 31 December 2016, there were litigation claims initiated by HengJiu against the Group in relation to payables for down-hole construction with an aggregate amount of RMB77,350,000 which had already been included in other payables in the consolidated statement of financial position. The Group was requested to make immediate repayment of overdue portion of the payables of an aggregate amount of RMB30,000,000 that was overdue.

Pursuant to the judgements dated 12 August 2016, Heilongjiang Provincial Jixi Municipal Intermediate People's Court took the view that the litigation claims were not under its jurisdiction. Therefore, the litigation claims were referred to Shanxi Provincial Shuozhou Municipal Pinglu People's Court.

As a result of the foregoing, the Group recognised the late penalty charges of RMB9,000,000 in the consolidated financial statements for the year ended 31 December 2016.

Pursuant to the judgements issued by Shanxi Provincial Shuozhou Municipal Pinglu People's Court dated 1 August 2017, the Group was ordered to make immediate repayment of overdue portion of the payables of an aggregate amount of RMB44,400,000 and the late penalty charges of RMB13,860,000 and corresponding legal costs of RMB322,000. As a result of the foregoing, the Group further recognised the late penalty charges and corresponding legal costs of RMB5,182,000 in the consolidated financial statements for the year ended 31 December 2017.

***(vi) Litigation claims relating to the performance of the contract execution between Yu Lin Zhong Kuang Wan Tong Construction Limited Company ("Yu Lin Zhong Kuang") and Xinglong Coal and Hongyuan Coal***

During the year ended 31 December 2016, there was a litigation claim initiated by Yu Lin Zhong Kuang against the Group to demand immediate repayment of overdue payable in relation to construction of coal mining infrastructure. The amount of RMB101,323,000 had already been recognised as payable to this supplier included in other payables in the consolidated statement of financial position as at 31 December 2016.

Pursuant to the judgement issued by Shanxi Provincial Xinzhou City Intermediate People's Court dated 9 January 2017, the Group was ordered to make immediate repayment of payable of RMB130,769,000, which including the aforesaid payable to this supplier of RMB101,323,000 and late penalty charges of RMB16,345,000 and interest of RMB13,101,000. As a result of the foregoing, the Group further recognised the late penalty charges of RMB16,345,000 and interest of RMB13,101,000 in the consolidated financial statements for the year ended 31 December 2016.

On 22 February 2017, the Group appealed to Shanxi Provincial High People's Court. Pursuant to the judgement dated 21 July 2017, Shanxi Provincial High People's Court concluded that in the absence of reliable evidence on the valuation of construction work performed by the plaintiff, the original judgement was overturned and a retrial was ordered. Up to the date of this announcement, the retrial has yet been arranged. In the opinion of the directors of the Company, no further provision for these litigation claims was required to be made in the consolidated financial statements for the year ended 31 December 2017.

*(vii)* ***Litigation claim relating to the performance of the contract execution Beijing Zhongkuang Wantong Technology Development Company Limited ("Beijing Zhongkuang") and Huameiao Energy and Hongyuan Coal***

During the year ended 31 December 2017, there was a litigation claim initiated by Beijing Zhongkuang against the Group to demand immediate repayment of overdue payable in relation to production of coal and maintenance of coal mining system with an aggregate amount of RMB10,547,000 and late penalty charges of RMB2,084,000. The amount of RMB10,547,000 had already been recognised as payable to this supplier included in other payables in the consolidated statement of financial position as at 31 December 2017.

Pursuant to the judgement of the Shenchi County People's Court dated 20 December 2017, the Group was ordered to make immediate repayment of payable to Beijing Zhongkuang, with additional late penalty charges of RMB2,084,000. As a result of the foregoing, the Group further recognised the late penalty charges of RMB2,084,000 in the consolidated financial statements for the year ended 31 December 2017. Subsequently, the Group appealed to Shanxi Provincial High People's Court. Up to the date of this announcement, the appeal has yet been concluded. In the opinion of the directors of the Company, no further provision for this litigation claim was required to be made in the consolidated financial statements for the year ended 31 December 2017.

Other than the disclosure of above, as at 31 December 2017, the Group was not involved in any other material litigation or arbitration. As far as the Group was aware, the Group had no other material litigation or claim which was pending or threatened against the Group. As at 31 December 2017, the Group was the defendant of certain non-material litigations, and also a party to certain litigations arising from the ordinary course of business. The likely outcome of these contingent liabilities, litigations or other legal proceedings cannot be ascertained at present, but the directors of the Company believe that any possible legal liability which may be incurred from the aforesaid cases will not have any material impact on the financial position of the Group.

**(b) Financial guarantees issued**

As at the end of the reporting period, the Group has issued the guarantees to certain banks in respect of borrowings made by Tongmei Qinfa (Zhuhai) Holdings Co., Ltd. ("Tongmei Qinfa"), an associate of the Group. Under the guarantee, the Group that is a party to the guarantee are jointly and severally liable for any of the borrowings of Tongmei Qinfa from those banks.

As at 31 December 2017, the directors of the Company do not consider it probable that a claim will be made against the Group under any of the guarantees. The maximum liability of the Group at 31 December 2017 under the guarantees issued is a portion of the outstanding amount of the borrowings of Tongmei Qinfa amounting to RMB656,832,000 (2016: RMB640,600,000).

## 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 of coal in the PRC and shipping transportation business. During the year ended 31 December 2017, the Group continued to focus on these business activities and expanded its integrated coal supply chain through upward vertical integration.

## BUSINESS REVIEW

### Termination of Disposal of the Group's Coal Business and Shipping Business in the PRC

As set out in the announcement of the Company dated 14 July 2016, the Group entered into a conditional sale and purchase agreement dated 25 April 2016 (as supplemented by a supplemental agreement dated 11 July 2016) with Bo Hai Investment Limited (the "**Purchaser**"), pursuant to which the Group proposed to dispose of entire issued equity interest in Hong Kong Qinfa International Trading Limited and its subsidiaries (the "**Disposal Group**") to the Purchaser. As disclosed in the Company's announcement dated 30 April 2017, as at 30 April 2017, save that the condition relating to the approval of the independent shareholders to the entry of the agreement and the transaction contemplated thereunder at an extraordinary general meeting had been fulfilled, other conditions precedent had not been fulfilled.

As the conditions precedent contained in the agreement were not satisfied or otherwise waived on or before the long stop date, the Group and the Purchaser had entered into a letter of termination dated 30 April 2017 with the effect of terminating the agreement.

### Full resumption of coal business

In 2017, the Group restarted its original coal procurement channels and successfully exploited a procurement channel in Inner Mongolia. The total purchase of coal in 2017 amounted to 2,834,000 tonnes, of which 857,000 tonnes for foreign trade and 1,977,000 tonnes for domestic trade.

### Enhanced control on implementation of financial budget and tax planning and informatisation construction

The Group is fully implementing control on capital budget, arrange funds reasonably and improve tax planning capability this year. The Group promotes its informatisation construction by updating office system, coal transportation and sales management system and human resources system, so as to improve the Group's informatisation and enhance office efficiency and transparency. The Group's governance structure will be clearer with significantly strengthened management and control system, and a three-level governance structure will be clearly established to enhance management control of resources.

As of 31 December 2017, the Group owned and operated five coal mines in the PRC. The table sets forth certain information about these coal mines.

| | Location | Ownership | Site area *(sq. km)* | Production capacity *(million tonnes)* | Operation status |
|---|---|---|---|---|---|
| Huameiao Energy – Xingtao Coal | Shuozhou Shanxi | 80% | 4.3 | 1.5 | Under operation |
| Huameiao Energy – Fengxi Coal | Shuozhou Shanxi | 80% | 2.4 | 0.9 | Under operation |
| Huameiao Energy – Chongsheng Coal | Shuozhou Shanxi | 80% | 2.9 | 0.9 | Under operation |
| Xinglong Coal | Xinzhou Shanxi | 100% | 4.0 | 0.9 | Under development (Temporarily suspended) |
| Hongyuan Coal | Xinzhou Shanxi | 100% | 4.1 | 0.9 | Under operation (Temporarily suspended) |

The Group engaged an independent mineral industry consultant to estimate the total coal reserves and resources as of 30 June 2016 in accordance with the JORC code.

## 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 |
|---|---|---|---|
| Seam | 4 | 9 | 9 |
| Moisture (%) | 9.13-12.11% | 2.07-2.90% | 8.70-11.84% |
| Ash (%) | 21.07-29.94% | 18.36-30.42% | 21.25-23.85% |
| Sulfur (%) | 0.76-1.81% | 0.31-0.84% | 1.78-2.40% |
| Volatile Matter (%) | 21.96-27.49% | 19.90-29.49% | 27.54-28.88% |
| Energy Content (MJ/kg) | 17.30-18.13 | 17.08-22.03 | 20.36-22.25 |

## OPERATING DATA

### Reserves and Resources

| | Huameiao Energy – Xingtao Coal | Huameiao Energy – Fengxi Coal | Huameiao Energy – Chongsheng Coal | Xinglong Coal | Hongyuan Coal | Total |
|---|---|---|---|---|---|---|
| **Reserves** | | | | | | |
| Reserves as of 1 January 2017 (Mt) | | | | | | |
| – Proven reserves | 62.71 | 16.43 | 29.18 | 22.49 | 30.16 | 160.97 |
| – Probable reserves | 12.26 | 27.43 | 19.51 | 9.53 | 1.17 | 69.90 |
| Total reserves as of 1 January 2017 (Mt) | 74.97 | 43.86 | 48.69 | 32.02 | 31.33 | 230.87 |
| *Less:* Total raw coal production for the year (Mt) | (2.77) | (1.90) | (1.98) | n.a. | n.a. | (6.65) |
| **Reserves as of 31 December 2017 (Mt)** | **72.20** | **41.96** | **46.71** | **32.02** | **31.33** | **224.22** |
| **Resources** | | | | | | |
| Resources as of 1 January 2017 (Mt) | 111.35 | 67.99 | 72.39 | 45.96 | 41.78 | 339.47 |
| *Less:* Total raw coal production for the year (Mt) | (2.77) | (1.90) | (1.98) | n.a. | n.a. | (6.65) |
| **Resources as of 31 December 2017 (Mt)** | **108.58** | **66.09** | **70.41** | **45.96** | **41.78** | **332.82** |

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

| | **Year ended 31 December** | |
|---|---|---|
| | **2017** | 2016 |
| **Raw coal production volume** | ***('000 tonnes)*** | *('000 tonnes)* |
| Huameiao Energy – Xingtao Coal | **2,767** | 417 |
| Huameiao Energy – Fengxi Coal | **1,898** | 722 |
| Huameiao Energy – Chongsheng Coal | **1,984** | 905 |
| Total | **6,649** | 2,044 |

| | **Year ended 31 December** | |
|---|---|---|
| | **2017** | 2016 |
| **Commercial coal production volume (Note)** | ***('000 tonnes)*** | *('000 tonnes)* |
| Huameiao Energy – Xingtao Coal | **1,798** | 271 |
| Huameiao Energy – Fengxi Coal | **1,234** | 469 |
| Huameiao Energy – Chongsheng Coal | **1,289** | 588 |
| Total | **4,321** | 1,328 |

*Note:* Per the competent person's report issued on 30 September 2011, 31 May 2013 and 25 July 2016, the volume of commercial coal produced by Huameiao Energy is calculated by a yield rate of 65% raw coal.

**Exploration, Mining and Development Expenses**

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

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Materials and consumables | **85,157** | 32,489 |
| Staff cost | **199,054** | 54,103 |
| Other direct cost | **44,329** | 33,442 |
| Overhead and others | **361,264** | 106,259 |
| Evaluation fee | **1,347** | 1,321 |
| Total | **691,151** | 227,614 |

**FINANCIAL REVIEW**

**Revenue**

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Coal business | **2,857,163** | 608,469 |
| Shipping transportation | **148,508** | 107,718 |
| | **3,005,671** | 716,187 |

*Coal business*

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***'000 tonnes*** | *'000 tonnes* |
| Coal Handling and Trading Volume of Coal Business | **7,062** | 2,123 |

During the year ended 31 December 2017, the volume of the Group's coal handling and trading recorded a 232.6% increase as compared with 2016. The coal selling prices during the year ended 31 December 2017 were in range between RMB201 per tonne and RMB650 per tonne, which were less fluctuated when compared to the range between RMB88 per tonne and RMB626 per tonne in 2016.

The average coal selling price and the average monthly coal handling and trading volume for each of the three years ended 31 December 2017 are set forth in the table below:

| | **Year ended 31 December** | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| Average selling price *(RMB per tonne)* | **405** | 287 | 309 |
| Average monthly coal handling and trading volume *('000 tonnes)* | **589** | 177 | 329 |

The Group sells blended coal which is sourced solely from 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 revenue from coal business by industry segment during the years ended 31 December 2017 and 2016:

| | **Year ended 31 December** | | | |
|---|---|---|---|---|
| | **2017** | | 2016 | |
| | **Revenue** *RMB'000* | **Percentage of revenue** *% of total* | Revenue *RMB'000* | Percentage of revenue *% of total* |
| Power plants | **1,641,106** | **57.5** | 199,329 | 32.8 |
| Coal traders | **1,115,412** | **39.0** | 396,042 | 65.1 |
| Cement plants and others* | **100,645** | **3.5** | 13,098 | 2.1 |
| Total | **2,857,163** | **100.0** | 608,469 | 100.0 |

* Others mainly represented large State-owned coal suppliers.

*Shipping transportation*

The segment revenue for shipping transportation from external customers for the year ended 31 December 2017 was RMB148.5 million as compared with RMB107.7 million for the same period in 2016. The Group has recorded 37.9% increase in shipping transportation revenue principally because of increase in freight rates and charter hire rates during the year.

**Cost of Sales**

Cost of sales of the Group in 2017 amounted to RMB2,319.0 million, representing an increase of 241.2% compared with RMB679.7 million in 2016. The increase was due to the increase in coal handling and trading volume during the year of 2017.

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

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB million*** | *RMB million* |
| Cost of coal purchased | **898.5** | 262.3 |
| Cost of coal transportation | **621.1** | 54.4 |
| Cost of self-produced coal | **689.9** | 252.3 |
| Materials, fuel, power | **85.1** | 32.5 |
| Staff costs | **199.1** | 54.1 |
| Depreciation and amortisation | **222.3** | 83.2 |
| Others | **183.4** | 82.5 |
| Other costs | **–** | 11.1 |
| Total cost of sales of coal business segment | **2,209.5** | 580.1 |

The Group purchases coal mainly from the PRC market. The following table sets forth information regarding the Group's origins of coal based on sales volume and revenue in 2017 and 2016:

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2017** | | 2016 | |
| **Origins of coal** | **Sales volume** | **Revenue** | Sales volume | Revenue |
| | ***'000 tonnes*** | ***RMB'000*** | *'000 tonnes* | *RMB'000* |
| China | **6,205** | **2,631,073** | 2,123 | 608,469 |
| Oversea | **857** | **226,090** | – | – |
| Total | **7,062** | **2,857,163** | 2,123 | 608,469 |

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 PRC domestic coal suppliers and has developed business relationships with the majority of them over a period of not less than three years. This enables the Group to obtain a reliable supply of quality coal.

**Gross Profit**

The Group's gross profit was RMB686.6 million during the year ended 31 December 2017 as compared with gross profit of RMB36.5 million during the same period in 2016. Under the circumstances of improvement in average selling prices of thermal coal, the Group increased the scale of coal handling and trading volume to generate gross profit of the Group.

**Other Income, Gains and Losses**

During the year ended 31 December 2017, the Group's other income, gains and losses amounted to a net gain of RMB195.8 million, representing an increase of approximately of RMB251.8 million, as compared with a net loss of RMB56.0 million in 2016. The increase in other income, gains and losses in 2017 was mainly due to the one-off gain arising from the waiver of management fee payables and safety supervision fee payables. On 31 December 2017, a PRC state-owned enterprise, who is responsible for providing management services and safety supervision to Xinglong Coal and Hongyuan Coal, has waived its amounts due from the Group in total of approximately RMB160.8 million and such gain has been accounted for as waiver of management fee payables and safety supervision fee payables during the year.

**Distribution Expenses**

Distribution expenses increase by 224.6% to RMB51.9 million for the year ended 31 December 2017, as compared with RMB16.0 million in 2016. The increase in distribution expenses was in line with the increase in coal handling and trading volume during the year.

**Administrative Expenses**

During the year ended 31 December 2017, the Group's administrative expenses amounted to RMB179.0 million, representing a decrease of 5.5%, as compared with RMB189.3 million in 2016. The slight decrease was mainly attributable to the Group has further launched a series of cost saving controls during the year to reduce the administrative expenses.

**Other Expenses**

During the year ended 31 December 2017, the Group's other expenses amounted to RMB34.5 million, representing a decrease of 42.0%, as compared with RMB59.5 million in 2016.

**Net Finance Costs**

Net finance costs of the Group in 2017 amounted to RMB378.7 million, representing a decrease of RMB68.3 million or 15.3%, as compared with RMB447.0 million in 2016. The decrease was mainly due to decrease of bank interest rate in 2017.

**Profit Attributable to Equity Shareholders**

Profit attributable to equity shareholders of the Company during the year ended 31 December 2017 was RMB3,158.3 million, representing an increase of approximately of RMB3,488.8 million as compared with loss of RMB330.5 million in the same period in 2016. The increase in profit attributable to equity shareholders of the Company was mainly attributable to the reversal of impairment loss on property, plant and equipment and coal mining rights, and the improvement on the operating results.

## 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 at 31 December 2017, the Group recorded net current liabilities of RMB8,852.3 million.

The Group has taken initiative to enhance the financial flexibility by diversifying the funding bases and obtain medium term loans to replace short term loans. The Group is currently negotiating with financial institutions to renew and extend bank borrowings and consider ways to improve the Group's working capital. As of 31 December 2017, the cash and cash equivalents of the Group amounted to RMB80.3 million (2016: RMB24.7 million), representing an increase of 225.1%.

As at 31 December 2017, the total bank and other borrowings of the Group were RMB6,045.9 million (2016: RMB6,043.3 million), which were classified as current liabilities. As a result of the non-payment of loan principal and interests of RMB2,805.7 million and RMB435.6 million respectively, borrowings amounting to RMB1,499.8 million (2016: RMB2,473.7 million) due for repayment after one year which contain a cross default clause that demands immediate repayment when there is default in any bank loans repayment are classified as current liabilities. The bank and other borrowings carried interest at rates ranging from 4.35% to 7.28% (2016: 4.35% to 13.50%) per annum.

As at 31 December 2017, the Group had total banking facilities of RMB1,806.0 million (2016: RMB6,136.4 million), of which RMB1,806.0 million (2016: RMB6,006.2 million) were utilised. During the year ended 31 December 2017, several banks assigned their bank loans due from the Group amounting to RMB4,239.8 million to asset management companies in the PRC. As a result, total banking facilities as at 31 December 2017 decreased.

As at 31 December 2017, the Group's cash and cash equivalents, except amount of RMB1.4 million in United States dollars ("**USD**") and amount of RMB0.6 million in HKD, were held in RMB. All the Group's bank and other borrowings were made in RMB.

The gearing ratio (calculated as borrowings netted off sum of cash and cash equivalents and pledged and restricted deposits divided by total assets) of the Group as at 31 December 2017 was 57.9% (2016: 106.3%). The decrease in gearing ratio was mainly due to increase of total assets as a result of reversal of impairment losses on property, plant and equipment, coal mining rights, trade receivables and prepayments and other receivables.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group's cash and cash equivalents are held predominately in RMB 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 2017, the Group's assets in an aggregate amount of RMB5,794.0 million (2016: RMB3,470.4 million) in forms of property, plant and equipment, coal mining rights, lease prepayments, inventories, trade and bill receivables and bank deposits were pledged to banks for credit facilities granted to the Group.

## CONTINGENT LIABILITIES

Except for certain matters disclosed in the Note 15 to the consolidated financial statements in this announcement, the Group did not have any material contingent liabilities as at 31 December 2017.

## FINAL DIVIDEND FOR THE YEAR ENDED 31 DECEMBER 2017

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

## EMPLOYEES AND REMUNERATION

As of 31 December 2017, the Group employed 2,027 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.

Subsidiaries of the Company established in the PRC are also subject to central pension scheme operated by the local municipal government. In accordance with the relevant national and local labour and social welfare laws and regulations, subsidiaries of the Company 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. Subsidiaries of the Company incorporated in Hong Kong have participated in mandatory provident fund scheme, if applicable, in accordance with Mandatory Provident Fund Schemes Ordinance.

Moreover, as disclosed in the prospectus of the Company dated 19 June 2009, the Company adopted a pre-IPO share option scheme and a post-IPO share option scheme in June 2009 to incentivise and retain staff members who have made contribution to the success of the Group. The Directors believe that the compensation packages offered by the Group to its staff are competitive in comparison with market standards and practices.

## BUSINESS OUTLOOK

In 2018, based on an internal market-oriented mechanism, the Group targets to achieve "higher volume and revenue as well as quality and efficiency enhancement" by focusing on an integrated operation of "production, transportation, sales and trade" to expand its industrial chain and improve its supply chain, and build development drivers with resources to achieve quality development.

### Strengthening application of new processes and new technologies and promoting coal mine standardisation to provide better technical support for production

The Group will engage advanced technicians, increase its investment, research and development and use of production equipment and technology, and establish a standard construction management and control system to expand standardisation construction to the frontline departments. The Group will improve the awareness of standardisation among coal mine workers to form standardised code of conduct and achieve scientific management by keeping standard for anything, anywhere, anytime by anyone. The Group will make great efforts to develop quality standards by focusing on highlighted project for quality standardisation, and promote the overall development of quality standardisation work.

**Improving material supply management system to regulate material management, reduce overall costs and promote material supply value chain management**

The Group will establish a material management and control mode and business process effecting unified management and centralised implementation, with clearly-defined responsibilities assigned to functions at different levels. The Group will also establish a scientific standard supplier management system to improve procurement efficiency and reduce procurement costs. The Group will build a highly shared material supply information platform to ensure reasonable inventory and reduce capital occupation to improve operating efficiency.

**Strengthening financial planning, consolidating construction of investment and financing channels, and enhancing financial analysis capability to facilitate business development**

The Group will actively expand the financing platform and various financing channels, and establish fully-functional investment management system to strengthen the overall investment management capabilities. The Group will strengthen assets management by revitalising the existing assets and effectively managing and utilising assets to improve its operating efficiency, and improve its financial analysis and decision-making capabilities by evaluating its business and financial position to better support its operating decision-making.

**Improving human resources system, and strengthening its support and steering functions in our operations**

The Group will gradually adjust its organisational structure according to the changes in the objectives and business development to achieve a streamlined and efficient management model with balanced authority and responsibility as well as separated implementation and supervision. Moreover, based on the objectives and business requirements, the Group will continue to optimise and enhance its human resources management system, organisational development, recruitments, remuneration packages and etc., so as to improve its core talent development scheme.

**Timely monitoring industry trends and actively seeking merger and acquisition opportunities**

The Group will make dynamic adjustment to the product structure based on market demand and customer orientation to maximize their values. The Group will monitor industrial development in a timely manner, strengthen the integration of upstream resources, seek coal mine merger and acquisition opportunities, with an aim to enrich the quality of the Company to meet market and customer demand and generate higher efficiency.

## CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions in the 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 2017.

## 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 2017.

## SCOPE OF WORK OF THE AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, Moore Stephens CPA Limited, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Moore Stephens CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants, and consequently no assurance has been expressed by Moore Stephens CPA Limited on the preliminary announcement.

## EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Group's audited consolidated financial statements for the year ended 31 December 2017.

> In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.
>
> **MATERIAL UNCERTAINTY RELATED TO GOING CONCERN**
>
> We draw attention to Note 1.2(c) to the consolidated financial statements, which highlights that the Group had net current liabilities of RMB8,852,285,000 and capital deficiency of RMB1,204,617,000. As at 31 December 2017, the borrowings and accrued interest amounting to an aggregate amount of RMB2,805,712,000 and RMB435,551,000 respectively were not renewed or rolled over upon maturity. The non-payment of loan principal and interests in accordance with the scheduled repayment dates caused the banks and other borrowing creditors having the rights to call for immediate repayment of all borrowings and their respective interest. As at 31 December 2017, the borrowings classified as current liabilities included certain borrowings with scheduled repayment terms over one year amounting to RMB1,499,842,000. In addition, as at 31 December 2017, there were several outstanding litigations against the Group mainly requesting the Group to repay certain payables with interest immediately as set out in Note 15(a).

These conditions, along with other matters as set forth in Note 1.2(c) to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt over the Group's ability to continue as a going concern. Our opinion is not modified in respect of these matters.

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

During the year ended 31 December 2017, 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 2017 (the "**Annual Report**") 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.

## CLOSURE OF THE REGISTER OF MEMBERS

The annual general meeting of the Company will be held on Wednesday, 27 June 2018. To determine the eligibility of the shareholders of the Company to attend the annual general meeting to be held on Wednesday, 27 June 2018, the register of members will be closed from Friday, 22 June 2018 to Wednesday, 27 June 2018, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the annual general meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration not later than 4 p.m. on Thursday, 21 June 2018.

By order of the Board
**China Qinfa Group Limited**
**XU Da**
*Chairman*

Guangzhou, 27 March 2018

*As at the date of this announcement, the Board comprises Mr. XU Da, Mr. BAI Tao, Ms. WANG Jianfei, Mr. FUNG Wai Shing and Mr. LIU Jinghong as the executive Directors and Mr. HUANG Guosheng, Mr. LAU Sik Yuen and Mr. XING Zhiying as the independent non-executive Directors.*